



November 8, 2013

Mr. Brad Raulston, Executive Director
National City
1243 National City Boulevard
National City, CA 91950

Dear Mr. Raulston:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the National City Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 26, 2013 for the period of January through June 2014. Finance has completed its review of your ROPS 13-14B, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following do not qualify as enforceable obligations for the reasons specified:

- Item No. 65 – Aquatic Center Improvements in the amount of \$2,137,561 funded with bond proceeds is not an enforceable obligation at this time. Pursuant to HSC section 34191.4 (c), your request to use bond funds for these obligations may be allowable once the Agency receives a Finding of Completion from Finance.
- Item Nos. 86 – Loans totaling 420,000 from Sewer Fund. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the redevelopment agency (RDA) and the former RDA are not enforceable, unless issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. This loan was issued after the first two years of the former RDA's creation and is not associated with the issuance of debt. Therefore, this item is not an enforceable obligation and not eligible for Redevelopment Property Tax Trust Funds (RPTTF).

Upon receiving a Finding of Completion from Finance, and after the oversight board makes a finding the loan was for legitimate redevelopment purposes, HSC section 34191.4 (b) may cause this item to be enforceable in future ROPS periods.

- Item No. 99 – Community Youth Athletic Center v. Community Development Commission Litigation in the amount of \$2,000,000. HSC section 34171 (d) defines enforceable obligations and does not recognize reserves set aside as enforceable obligations other than for bond indebtedness. As the Agency appealed the decision and

a final decision has not been entered by the court as required by HSC section 34171 (d) (1) (D), pending court rulings do not meet the definition of an enforceable obligation. Therefore, the \$2,000,000 requested for reserve balances is not enforceable and not eligible for funding at this time. Once a final decision has been entered by the court, the Agency may request the necessary funding for this item in the appropriate ROPS period.

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. The amount of RPTTF approved in the below table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Except for the items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 13-14B. If you disagree with the determination with respect to any items on your ROPS 13-14B, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

http://www.dof.ca.gov/redevelopment/meet_and_confer/

The Agency's maximum approved RPTTF distribution for the reporting period is \$7,155,513 as summarized on next page:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	9,527,938
Total RPTTF requested for administrative obligations	506,989
Total RPTTF requested for obligations	\$ 10,034,927
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Total RPTTF requested for non-administrative obligations	9,527,938
<u>Denied Items</u>	
Item No. 86	(420,000)
Item No. 99	(2,000,000)
Total RPTTF approved for non-administrative obligations	7,107,938
Total RPTTF requested for administrative obligations	506,989
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)	377,431
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Total RPTTF approved for obligations	7,485,369
ROPS III prior period adjustment	(329,856)
Total RPTTF approved for distribution	\$ 7,155,513
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Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	7,371,242
Total RPTTF for 13-14B (January through June 2014)	7,107,938
Less approved unfunded obligations from prior periods	(1,898,158)
Total RPTTF for fiscal year 2013-14	\$ 12,581,022
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Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or \$250,000)	377,431
Administrative allowance for 13-14A (July through December 2013)	0
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	\$ 377,431

Pursuant to HSC section 34177 (l) (1) (E), agencies are required to use all available funding sources prior to RPTTF for payment of enforceable obligations. Beginning with the ROPS 13-14B period, Finance required successor agencies to identify fund balances for various types of funds in its possession. During our ROPS 13-14B review, Finance requested financial records to support the fund balances reported by the Agency; however, Finance was unable to reconcile the financial records to the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 13-14B review period to properly identify the Agency's fund balances. If it is determined the Agency possesses fund balances that are available to pay approved obligations, the Agency should request the use of these fund balances prior to requesting RPTTF in ROPS 14-15A.

Please refer to the ROPS 13-14B schedule that was used to calculate the approved RPTTF amount:

[http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14B Forms by Successor Agency/.](http://www.dof.ca.gov/redevelopment/ROPS/ROPS_13-14B_Forms_by_Successor_Agency/)

Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2014. This determination

applies only to items where funding was requested for the six month period. Finance's determination is effective for this time period only and should not be conclusively relied upon for future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not denied on this ROPS or a preceding ROPS. The only exception is for those items that have received a Final and Conclusive determination from Finance pursuant to HSC 34177.5 (i). Finance's review of items that have received a Final and Conclusive determination is limited to confirming the scheduled payments as required by the obligation.

The amount available from the RPTTF is the same as the amount of property tax increment that was available prior to enactment of ABx1 26 and AB 1484. This amount is not and never was an unlimited funding source. Therefore, as a practical matter, the ability to fund the items on the ROPS with property tax is limited to the amount of funding available to the successor agency in the RPTTF.

To the extent proceeds from bonds issued after December 31, 2010 exist and are not encumbered by an enforceable obligation pursuant to HSC section 34171 (d), HSC section 34191.4 (c)(2)(B) requires these proceeds be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation.

Please direct inquiries to Wendy Griffe, Supervisor or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Denise Davis, Executive Secretary, National City
Mr. Jon Baker, Senior Auditor and Controller Manager, San Diego County
California State Controller's Office