DEPARTMENT OF FINANCE

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October 30, 2013

Mr. Lewis Humphries, Finance Director
City of Newman
938 Fresno Street
Newman, CA 95360

Dear Mr. Humphries:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Newman Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 24, 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 Nos. 2 and 3 – Loan Repayments totaling $743,301 to the City of Newman and the Low-and-Moderate Income Housing Fund (LMIHF). The Agency received a Finding of Completion on April 3, 2013. As such, the Agency may place loan agreements between the former redevelopment agency and sponsoring entity on the ROPS, as an enforceable obligation, provided the oversight board makes a finding that the loan was for legitimate redevelopment purposes per HSC section 34191.4 (b)(1). However HSC section 34176 (e)(6)(B) specifies loan or deferral repayments to the LMIHF shall not be made prior to the 2013-2014 fiscal year. While ROPS 13-14B falls within fiscal year 2013-14, the repayment of these loans are subject to the repayment formula outlined in HSC section 34191.4(b)(2)(A).
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> HSC section 34191.4(b)(2)(A) allows this repayment to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through distributed to the taxing entities in the 201-13 base year. Since the formula does not allow for estimates, the Agency must wait until the ROPS residual pass-through distributions are known for fiscal year 2013-14 before requesting funding for this obligation. Therefore, these items are not eligible for funding at this time.

Pursuant to HSC Section 34186 (a), successor agencies were required to report the estimated obligations and actual payments (prior period adjustments (PPA) associated with the January through June 2013 period. The amount of Redevelopment Property Tax Trust Fund (RPTTF)

approved in the table below includes the PPA that was self-reported by the Agency. HSC Section 34186 (a) also specifies that the PPAs self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. Any proposed CAC adjustments were not received in time for inclusion in this letter. Therefore, the amount of RPTTF approved in the table below includes only the PPA that was self-reported by the Agency with the following adjustment:

> The ROPS 13-14B review template was set to compute the PPA on a line-item basis. Finance reviewed the PPA for the administrative costs to ensure the adjustment is made only if the Agency's total administrative expenses were under the total authorized administrative allowance. Therefore, the ROPS III prior period adjustment for administrative cost was adjusted by $2,869. This adjustment was necessary to account for the administrative costs approved by Finance and to recognize the three percent, or $250,000 administrative cost allowance authorized by HSC section 34171 (b).

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 $205,008 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014		
Total RPTTF requested for non-administrative obligations		910,864
Total RPTTF requested for administrative obligations		91,000
Total RPTTF requested for obligations	**$**	**1,001,864**
Total RPTTF requested for non-administrative obligations		**910,864**
Denied Items		
Item No. 2		(372,069)
Item No. 3		(371,232)
		(743,301)
Total RPTTF approved for non-administrative obligations		**167,563**
Total RPTTF requested for administrative obligations		**91,000**
Total RPTTF approved for administrative obligations		**91,000**
Total RPTTF approved for obligations		**258,563**
Self-Reported ROPS III prior period adjustment (PPA)		(56,424)
Adjustment to ROPS III PPA		2,869
Total ROPS III PPA		(53,555)
Total RPTTF approved for distribution	**$**	**205,008**

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/.

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: Mr. Michael Holland, City Manager, City of Newman
Ms. Lauren Klein, Auditor-Controller, County of Stanislaus
California State Controller's Office