



December 17, 2013

Ms. Tina Olson, Finance Director
City of Pittsburg
65 Civic Avenue
Pittsburg, CA 94565

Dear Ms. Olson:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 13, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Pittsburg Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to Finance on September 30, 2013, for the period of January through June 2014. Finance issued a ROPS determination letter on November 13, 2013. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on November 26, 2013.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of the specific items being disputed.

- Item No. 1 – Retirement Pension Bonds in the amount of \$27,000. Finance continues to deny this item. Finance initially denied this item as it was our understanding the City of Pittsburg (City) issued Series 2006 Taxable Pension Funding Bonds and the former redevelopment agency (RDA) was not a party to the issuance. During the Meet and Confer, the Agency contends that a Cooperative Agreement was entered into in 2006 between the former RDA and the City that requires the former RDA to compensate the City for administrative expenses and the debt service is an administrative expense. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable obligations. Although an exception is allowed under HSC section 34171 (d) (2), which states that written agreements entered into at the time of issuance, but in no event later than December 31, 2010, of indebtedness obligations, and solely for the purpose of securing or repaying those indebtedness obligations may be deemed enforceable obligations. However, the Cooperative Agreement is not solely for the purpose of securing or repaying indebtedness obligations. Therefore, the payment of debt service on the City's Pension Bonds is not an enforceable obligation, and is not eligible for Other Funds on this ROPS.

- Item No. 27 – Pre-funding a portion of August 2013 Senior Bonds in the amount of \$11,315,104. Finance no longer denies this item. According to information provided by the Agency, these items include pre-funding for various bond debt service payments due during the 2014-15 fiscal year. HSC section 34171 (d) (1) (A) allows agencies to hold a reserve for debt service payments when required by the bond indenture, or when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the following half of the calendar year. Finance initially denied the item because based on our review of the bond indentures, we did not note any requirement to create such reserves. During the Meet and Confer process, the Agency stated that the indentures require all available revenue to be set aside as soon as they are available until sufficient funds to make the entire annual debt service payments are held in reserve. Based upon further review, this requirement is included for the 1999, 2002, and 2003 bonds. Therefore, the amount requested from the RPTTF to be held in reserve totaling \$11,315,104 is approved.

Finance notes that pursuant to HSC section 34183 (a) (2) (A), debt service payments have first priority for payment from distributed RPTTF funding. As such, the additional \$11,315,104 requested to be held in reserve should be transferred upon receipt to the bond trustee(s) along with the amounts approved for the other ROPS 13-14B debt service payments prior to making any other payments on approved ROPS items. Any requests to fund these items again on the ROPS 14-15A period will be denied unless insufficient RPTTF is received to satisfy both the debt service payments due during the ROPS 13-14B period and the reserve amounts requested in ROPS 13-14B for the ROPS 14-15A debt service payments.

- Item Nos. 56 through 58 – Various Bond Fees totaling \$6,170,000. Finance no longer denies these items. According to the Agency, these items are pre-funding for various bond fees due during the 2014-15 fiscal year. HSC section 34171 (d) (1) (A) allows agencies to hold a reserve for debt service payments when required by the bond indenture, or when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the following half of the calendar year. Finance initially denied the item because based on our review of the bond indentures, we did not note any requirement to create such reserves. During the Meet and Confer process, the Agency contended that the indenture for the 2004A bonds requires all parity obligations associated with the bonds to be pre-funded for two years of debt service expenses. Based upon further review, these costs are associated with the 2004A bonds and this requirement is included in the 2004A bond indenture. Therefore, the amount requested from the RPTTF to be held in reserve totaling \$6,170,000 is approved.

Finance notes that pursuant to HSC section 34183 (a) (2) (A), debt service payments have first priority for payment from distributed RPTTF funding. As such, the additional \$6,170,000 requested to be held in reserve should be transferred upon receipt to the bond trustee(s) along with the amounts approved for the other ROPS 13-14B debt service payments prior to making any other payments on approved ROPS items. Any requests to fund these items again on the ROPS 14-15A period will be denied unless insufficient RPTTF is received to satisfy both the debt service payments due during the ROPS 13-14B period and the reserve amounts requested in ROPS 13-14B for the ROPS 14-15A debt service payments.

- During our review, which may have included obtaining financial records, Finance initially determined the Agency possesses funds that should be used prior to requesting RPTTF. Pursuant to HSC section 34177 (I) (1) (E), the RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. The Agency identified the use of Other Funds in ROPS 13-14B totaling \$292,662 for items that were either denied or reclassified as administrative costs. The funding source for the following items were initially reclassified to Other Funds and in the amounts specified below:
 - Item No. 6 – 2003 Tax Allocation Bonds in the amount of \$100,581,312. The Agency requested \$1,752,650 for the ROPS 13-14B period. However, because the Agency's request for funding certain items had been disallowed or initially reclassified, Other Funds in the amount of \$292,662 were initially applied to this obligation.
 - Item Nos. 28 through 47 for various administrative costs totaling \$347,591. The Agency requested \$81,929 of RPTTF and \$265,662 of Other Funds to fund these administrative costs; however, Finance had initially reclassified \$265,662 to RPTTF.

During the Meet and Confer process, the Agency provided the Tenth Supplemental Indenture to the 2004A bonds, which created an administrative reserve fund in Article IV. This fund is solely for the purpose of paying administrative costs upon receipt of written requisition specifying the amount to be transferred, the payee, and the purpose for which the payment is being made. As such, Finance will not be changing the funding sources originally identified by the Agency for Item Nos. 6 and 28 through 47.

In addition, per Finance's letter dated November 13, 2013, we continue to deny the following items not contested by the Agency during the Meet and Confer:

- Item No. 20 – 2006 Supplemental Tax Allocation Bonds Series C in the amount of \$1,600. Although total Redevelopment Property Tax Trust Fund (RPTTF) requested is \$978,454, only \$976,854 for the interest is due during the ROPS 13-14B period. Therefore, the RPTTF requested has been adjusted by \$1,600, (\$978-454-\$976,854).
- Item No. 80 – Deferred Letter of Credit (LOC) fees in the amount of \$830,603. According to the Agency, this item relates to LOC fees due December 29, 2014. HSC section 34177 (b) allows reserves required for indentures, trust indentures, or similar documents governing the issuance of outstanding (RDA) bonds. The statute does not currently recognize all anticipated obligations for the next ROPS periods, thus, the creation of reserves for such items is not permissible. Therefore, this line item is not eligible for RPTTF funding.

Pursuant to HSC section 34186 (a), successor agencies were required to report the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. The amount of RPTTF approved in the table below includes the prior period adjustment that was self-reported by the Agency. 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. 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 prior period adjustment that was self-reported by the Agency.

Except for the items denied in whole or in part as enforceable obligations or for the items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 13-14B. The Agency's maximum approved RPTTF distribution for the reporting period is \$43,683,825 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	45,805,423
Total RPTTF requested for administrative obligations	139,129
Total RPTTF requested for obligations	\$ 45,944,552
Total RPTTF requested for non-administrative obligations	45,805,423
<u>Denied Items</u>	
Item No. 20	(1,600)
Item No. 80	(830,603)
Total RPTTF approved for non-administrative obligations	44,973,220
Total RPTTF for administrative obligations	139,129
Total RPTTF approved for obligations	45,112,349
Self-Reported ROPS III prior period adjustment (PPA)	(1,428,524)
Total RPTTF approved for distribution	\$ 43,683,825

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/).

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 section 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 Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Maria Aliotti, Redevelopment Manager, City of Pittsburg
Mr. Bob Campbell, Auditor-Controller, Contra Costa County
California State Controller's Office