



December 17, 2013

Mr. Robert Stewart, Redevelopment Administrator
City of Pleasant Hill
100 Gregory Lane
Pleasant Hill, CA 94523

Dear Mr. Stewart:

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 Pleasant Hill 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 December 2, 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 – 2002 Pleasant Hill Redevelopment Agency Tax Allocation Refunding Bonds in the amount of 340,585 Redevelopment Property Tax Trust Fund (RPTTF) funding. Initially we denied the request to hold debt service reserves for payments due in the next period. During the Meet and Confer, the Agency provided additional understanding as to their methodology of computing the amount requested on the ROPS for this item. The Agency has requested half of their annual payment. In addition to the debt service payment, the agency has added half of their annual bond disclosure fees; half of their annual bond trustee fees, and half of their estimated annual staff costs into the bond debt service payment request. Finance notes that the annual staff costs in the amount of \$10,707 does not fall into any of the following categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b):
 - Any litigation expenses related to assets or obligations.
 - Settlements and judgments.
 - The costs of maintaining assets prior to disposition.
 - Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs.

Therefore, the \$10,707 for staff costs will be added to the Agency's administrative cost calculation. The remaining \$329,878 (\$340,585 - \$10,707) will be approved for RPTTF distribution this period.

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 \$243,620 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 in 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 No. 2 – 2002 Pleasant Hill Downtown Community Facilities District No. 1 Bonds in the amount of \$9,375,044. Initially, this item was denied due to a lack of sufficient documentation provided to determine enforceability. During the Meet and Confer, the Agency provided a discussion as to the history of the 1991 Owners Participation Agreement (OPA) and the resulting issuance of the 2002 bond by the City of Pleasant Hill. Our review indicates that the former Pleasant Hill Redevelopment Agency (RDA) entered into a Pledge Agreement with the City where the former RDA pledged tax increment revenues as payment of the 2002 bond debt service. Therefore, the payment of the 2002 bond debt service is an enforceable obligation and 246,712 in RPTTF is approved this period. Finance notes that we plan to work with the Agency in the future to verify that amounts requested tie to the debt service schedules.
- Item No 11 – Projects Legal Services in the amount of \$19,364. Finance continues to reclassify this item as administrative expenses. The Agency contends the items are enforceable obligations because all of the services are required for implementation of specific projects that are enforceable obligations and are not administrative in nature. However, the legal services for Item No. 11 is not related to litigation expenses and does not fall into any of the following categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b):
 - Any litigation expenses related to assets or obligations.
 - Settlements and judgments.
 - The costs of maintaining assets prior to disposition.
 - Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs.

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:

- Claimed administrative costs exceed the allowance by \$65,295. HSC section 34171 (b) limits fiscal year 2013-14 administrative expenses to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$250,000 in administrative expenses. The Contra Costa County Auditor-Controller's Office distributed \$160,224 in administrative costs for the July through December 2013 period, thus leaving a balance of \$89,776 available for the January through June 2014 period. Although \$125,000 is claimed for administrative

cost, Item No. 1 – Pleasant Hill Tax Allocation Bonds in the amount of \$10,707 and item No. 11 – Burke, Williams, & Sorenson Legal Services in the amount of \$19,364 is considered an administrative expense and should be counted toward the cap. Therefore, \$65,295 of excess administrative cost is not allowed.

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 \$1,470,981 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	1,411,276
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations	\$ 1,536,276
Total RPTTF requested for non-administrative obligations	1,411,276
<u>Denied Items</u>	
<u>Reclassified Items</u>	
Item. No 1	(10,707)
Item No. 11	(19,364)
	(30,071)
Total RPTTF approved for non-administrative obligations	1,381,205
Total RPTTF requested for administrative obligations	125,000
<u>Reclassified Items</u>	
Item. No 1	(10,707)
Item No. 11	(19,364)
Total RPTTF for administrative obligations	105,636
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)	89,776
Total RPTTF approved for obligations	1,470,981
Self-Reported ROPS III prior period adjustment (PPA)	-
Total RPTTF approved for distribution	\$ 1,470,981
Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	1,925,890
Total RPTTF for 13-14B (January through June 2014)	1,035,108
Less approved unfunded obligations from prior periods	-
Total RPTTF for fiscal year 2013-14	2,960,998
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or \$250,000)	250,000
Administrative allowance for 13-14A (July through December 2013)	160,224
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	89,776

Pursuant to HSC section 34177 (I) (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%2013-14B%20Forms%20by%20Successor%20Agency/)

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 Derk Symons, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Mary McCarthy, Finance Manager, City of Pleasant Hill
Mr. Bob Campbell, Auditor-Controller, Contra Costa County
California State Controller's Office