



December 17, 2013

Mr. Donald Cavier, Finance Director
Sacramento County
801 12th Street
Sacramento, CA 95814

Dear Mr. Cavier:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated October 31, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the Sacramento County Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to Finance on September 19, 2013, for the period of January through June 2014. Finance issued a ROPS determination letter on October 31, 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 13, 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 Nos. 1, 3, 5, 7, 9, 11, 13, 15, 17, 19, and 21 – Various Tax Allocation Bonds totaling \$3,215,232, payable from Redevelopment Property Tax Trust Fund (RPTTF) funds, and \$176,415 (for Item No. 21) payable from Reserve Funds. Finance no longer denies the retention of RPTTF for bond debt service due in the next period. Finance initially denied these items as the Agency has not demonstrated a need to retain reserves pursuant to HSC section 34171 (d)(1)(A). During the Meet and Confer, the Agency requested the full fiscal year 2014 debt service payments on ROPS 13-14B and provided bond indentures which identifies that the Agency's bonds are secured by a pledge of and first lien on all of the Agency's tax revenues. Pursuant to HSC section 34171 (d) (1) (A) reserves are allowed 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. Therefore, for this period, Finance approves the distribution of \$3,215,232 from RPTTF and \$176,415 (for Item No. 21 only) from Reserve Funds.

Finance notes that pursuant to HSC section 34183 (a) (2) (A), debt service payments have first priority for payment from distributions received from the RPTTF. As such, the additional \$3,215,232 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 Nos. 23, 25, and 27 through 30 – California Infrastructure and Economic Development Bank (CIEDB) loans totaling \$11,334,033, payable from Other Funds. Finance approves the retention of Other Funds for bond debt service due in the next period. Initially, the items were denied because the Agency is requesting funding for payments due July through December 2014; however, during the meet and Confer, the Agency requested their entire annual debt service payment during the ROPS13-14A period. The Agency contended that the source of the funds loaned to the Agency were tax exempt funds issued by the CIEDB and the Agency entered into a Tax Allocation Loan Agreement which pledged the Agency's tax revenues. Our review of the documentation provided indicates that the repayment of the CIEDB loans are indeed secured by a pledge of and first lien on the Agency's tax revenues. Therefore, Finance approves the distribution of Other Funds in the amount of \$636,082 this period.
- Item 104 – Tax Increment Rebate in the amount of \$697,398, payable from Reserve Funds. Finance continues to deny this item. Finance initially denied this item due to insufficient documentation to support the distribution of requested payment amount. During the Meet and Confer, the Agency stated that they have not received a request for payment from the developer; however, the agency wishes to have contingent funds available in case of a request. During our review of the documentation provided by the Agency, we identified that Section 2.1.6 of the 2006 McClellan Air Field Base Redevelopment Project Area Owner Participation Agreement states that the Agency shall pay the Developer the Tax Increment payment each year on or before August 31 for the applicable year. Therefore, even if the Developer submits a request for payment during the ROPS 13-14B period, the Agency will be able to request this payment on ROPS 14-15A and receive funding prior to the payment due date of August 31st. We note, however, the Agency requested, and was approved, for Reserve Funds funding for this item during ROPS 13-14A. Should a funding need arise, the Agency already has authority to fund this item through December 31, 2013. Therefore, this line item is not eligible for funding this period.
- Item Nos. 115, 117, 119, 121, 123, 125, and 127 - Various Construction costs totaling \$16,535,730 payable from Bond Funds. Finance partially approves these items. Initially, these items were denied because the Agency had not entered into contracts. During the Meet and confer, we identified that the Agency received a Finding of Completion on July 16, 2013. Pursuant to HSC 34191.4, the Agency can now utilize proceeds derived from bonds issued prior to January 1, 2011 and is authorized to enter into contracts to expend the bond funds in a manner consistent with the original bond covenants. During the Meet and Confer, the agency identified seven projects in which they intend to spend bond proceeds. The Agency stated they only plan to expend a total of \$340,000 during the ROPS 13-14B period. Therefore, Finance approves the expenditure of \$340,000 in bond funds during the ROPS 13-14B period for the following items:
 - Item No. 121 in the amount of \$240,000
 - Item No. 123 in the amount of \$50,000
 - Item No. 125 in the amount of \$50,000

- Item Nos. 116, 118, 120, 122, 124, 126, and 128 – Various Project Management costs totaling \$8,750 payable from RPTTF. Finance continues to deny these items. The Agency received a Finding of Completion on July 16, 2013. Finance notes that due to the Agency's request to reduce project costs requested for Items Nos. 115, 117, 119, and 127 for the ROPS period, the Agency also requested the related project delivery costs listed as 116, 118, 120, and 128 to be reduced to \$0. As related to Item Nos. 122, 124, and 128, the Agency requested a total of \$8,750 for project delivery costs. However, while the Agency is now authorized to expend excess pre-2011 bond proceeds under HSC section 34191.4 (c)(1), the use of excess bond proceeds does not constitute enforceable obligations as per HSC section 34171 and therefore, do not create further enforceable obligations. As such, the Agency's request to fund project management costs incidental to the use of excess bond proceeds is not eligible for funding out of RPTTF. Finance notes that to the extent allowable, the Agency should use available bond proceeds to fund project management costs and should request such funding on a ROPS.

In addition, per Finance's letter dated October 31, 2013, we continue to deny the following items not contested by the Agency during the Meet and Confer:

- Item Nos. 67 and 102 – Claimed administrative costs exceed the allowance by \$14,232. HSC section 34171 (b) limits the fiscal year 2013-14 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. The Sacramento County Auditor-Controller's Office (CAC) distributed \$139,232 for the July through December 2013 period, thus leaving a balance of \$110,768 available for the January through June 2014 period. Although \$125,000 is claimed for administrative cost, only \$110,768 is available pursuant to the cap. Therefore, \$14,232 of excess administrative cost is not allowed.
- Item 104 – Tax Increment Rebate in the amount of \$697,398, payable from Reserve Funds. The Agency was unable to provide adequate documentation to support the request for this period. Please note, however, the Agency requested, and was approved, for Reserve Funds funding for this item during ROPS 13-14A; should a funding need arise, the Agency already has authority to fund this item through December 31, 2013. Therefore, this line item is not eligible for Reserve Funds funding on this ROPS.
- Item No. 114 – Authority Administrative Allowance in the amount of \$150,000. The Agency's obligation for this item was dependent upon the adoption of AB 662. This bill was vetoed on October 13, 2013; therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting RPTTF. Pursuant to HSC section 34177 (l) (1) (E), 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 self-reported an unrestricted Other Funds balance of \$1,453,504 as of December 31, 2013 available to fund obligations during the ROPS 13-14B period.

Therefore, the funding sources for the following items have been reclassified to the following funding source and in the amounts specified below:

- Item Nos. 67 and 102 – Sacramento County and Sacramento Housing and Redevelopment Agency administrative allowances totaling \$125,000. However, as noted above, only \$110,768 is available pursuant to the administrative cost cap. Therefore, Finance is reclassifying \$56,808 for Item No. 67 and \$53,960 for Item No. 102 to Other Funds for a total reclassification of \$110,768.

Additionally, in Finance's Other Funds and Accounts Due Diligence Review (DDR) determination letter dated June 14, 2013, the Agency was directed to utilize excess interest earned on bond reserves totaling \$792,087 for debt service payments on subsequent ROPS prior to requesting RPTTF. Finance reminds the Agency to utilize the excess interest earned on bond reserves for debt service payments in the July through December 2014 (ROPS 14-15A) period prior to requesting RPTTF.

For funding sources other than RPTTF, Finance made adjustments and/or reclassifications to the Prior Period Adjustments form to ensure consistency with the funding sources and amounts approved by Finance. HSC Section 34177 (a) (3) states that the Agency can only make payments listed on the ROPS, from the funds listed and authorized by Finance. In addition, adjustments were made to the Fund Balances form based upon information provided by the Agency during our review. Although these adjustments and/or reclassifications have no effect on the amount of RPTTF the Agency receives, they will affect the Agency's fund balances for the funds sources involved.

Based upon a review of the Fund Balances form, the following adjustments were made:

- Beginning Available Fund Balance (Actual 01/01/13), Bonds Issued on or before December 31, 2010 in the amount of \$18,421,371 should be \$24,765,855. Required bond reserves in the amount of \$6,524,484 were not included in the beginning balance as reflected in the Agency's DDR dated June 30, 2012. Accordingly, Retention of Available Fund Balance (Actual 06/30/13) and (Estimated 12/31/13), Bonds Issued on or before December 31, 2010 has been revised to \$6,524,484 to reflect the retention of the bond reserves going forward.
- Beginning Available Fund Balance (Actual 01/01/13), Other in the amount of \$1,246,679 should be \$2,381,542. This is based on the addition of excess bond reserves derived from interest earned in the amount of \$1,134,863 to the existing Other Funds balance of \$1,246,679. The Agency submitted bond trustee statements which displayed a total balance of \$1,134,863 now held as excess bond reserves. As detailed above, the excess reserves should be utilized to fund debt service payments on ROPS 14-15A.
- Beginning Available Fund Balance (Actual 01/01/13), Non-Admin RPTTF in the amount of \$3,542,841 and Admin RPTTF in the amount of \$159,000 should both be zero. in the amount of \$481,578 should be \$445,955 pursuant to the ROPS 13-14A prior period adjustment.
- Revenue/Income (Actual 06/30/13), Non-Admin RPTTF distributed from the County Auditor-Controller (CAC) was actually \$4,889,547, and not \$4,889,646 as reported by the Agency.
- Expenditures for ROPS III Enforceable Obligations (Actual 06/30/13), Due Diligence Review balances retained for EOs in the amount of \$506,439 should be \$511,439. This is based on the reserve balance expended during ROPS III per the Agency's self-reported

form minus the amount which was retained as a reserve for ROPS 13-14A debt service payments (\$2,604,829 – \$2,093,390).

- Per the Agency's self-reported prior period adjustment form, Expenditures for ROPS III Enforceable Obligations (Actual 06/30/13), Non-Admin RPTTF are \$1,061,043 and Retention of Available Fund Balance (Actual 06/30/13), Non-Admin RPTTF is \$3,815,725. Accordingly, Expenditures for ROPS 13-14A Enforceable Obligations (Estimated 06/30/13), RPTTF balances retained for bond reserves had been adjusted to \$3,815,725 to reflect the actual amount of RPTTF retained from ROPS III.

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 CAC and the State Controller. The amount of RPTTF approved in the table below includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Except for items denied in whole or in part as enforceable obligations and for item 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 \$3,182,210 as summarized on the following page:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	3,373,982
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations	\$ 3,498,982
Total RPTTF requested for non-administrative obligations	3,373,982
<u>Denied Items</u>	
Item No. 114	(150,000)
Item No. 122	(6,250)
Item No. 124	(1,250)
Item No. 126	(1,250)
	(158,750)
Total RPTTF approved for non-administrative obligations	3,215,232
Total RPTTF requested for administrative obligations	125,000
Total allowable funding for administrative obligations (see Admin Cost Cap table below)	125,000
<u>Items Reclassified to Other Funding</u>	
Item No. 67	(56,808)
Item No. 102	(53,960)
	(110,768)
<u>Denied Admin RPTTF</u>	
Item No. 67	(726)
Item No. 102	(727)
	(1,453)
Total RPTTF approved for obligations	3,228,011
ROPS III prior period adjustment	(45,801)
Total RPTTF approved for distribution	\$ 3,182,210
Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	2,193,144
Total RPTTF for 13-14B (January through June 2014)	3,215,232
Less approved unfunded obligations from prior periods	
Total RPTTF for fiscal year 2013-14	5,408,376
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)	139,232
Allowable total funding for administrative cost for ROPS 13-14B	110,768

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/>.

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 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: Mr. Ben Lamera, Assistant Auditor-Controller, Sacramento County
Mr. Carlos Valencia, Senior Accounting Manager, Sacramento County
California State Controller's Office