

April 7, 2014

Mr. Art Gallucci, City Manager
City of Cerritos
18125 Bloomfield Avenue
Cerritos, CA 90703

Dear Mr. Gallucci:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Cerritos Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to the California Department of Finance (Finance) on February 25, 2014 for the period of July through December 2014. Finance has completed its review of your ROPS 14-15A, 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. 4 and 20 – Magnolia Power Project B Series 2003 Lease Revenue Bonds Payments in the amount of \$19,633,342. These items were previously denied by Finance in our 13-14A and 13-14B determination letters and later upheld through the ROPS 13-14A and 13-14B Meet and Confer process. It is our understanding the Agency executed a Cooperative Agreement with the City on June 23, 2005 which binds the Agency to the Bond Indenture. However, the agreement was not executed at the time of the issuance of the Bond Indenture. The Agency requested funding for these items pending the ruling of future litigation on the matter.

HSC section 34171 (d) (2) states 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. Although the purpose of the Cooperative Agreement is for securing or repaying indebtedness obligations, it was not entered into at the time of issuance of the indebtedness obligations. Therefore, these items are not enforceable obligations and are not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item Nos. 43 and 45 – City loan repayments in the amount of \$57,523,584. These items were previously denied by Finance in our ROPS determination letters and later upheld through the ROPS III, 13-14A and 13-14B Meet and Confer process. 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. These loans agreements were issued after the first two years of the former RDA's creation and are not associated with the issuance of debt. The Agency requested funding for these items pending the ruling of future litigation on the matter, however, these items are not enforceable obligations and are not eligible for RPTTF funding at this time.

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

- Claimed administrative costs exceed the allowance by \$130,385. 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 \$494,410 in administrative expenses. Although \$619,795 is claimed for administrative cost, Item Nos. 11 and 26 for the Agency's auditing services totaling \$5,000 is considered an administrative expense and should be counted toward the cap. Therefore, \$130,385 of excess administrative cost is not allowed.

In addition, the maximum allowed administrative costs are based on a percentage of approved RPTTF, which includes Item No. 23 – Cerritos Museum in the amount of \$640,784. This item was previously funded in ROPS III, 13-14A and 13-14B. It is our understanding; the Agency did not use the approved funding in ROPS III or ROPS 13-14A, and this non-use has been appropriately accounted for through the Prior Period Adjustment. However, this item's share of administrative allowance has been previously funded multiple times, and the Agency reports to have fully expending the administrative costs associated with this line item in ROPS III and ROPS 13-14A. As a result, a reduction of \$19,224 (3% of \$640,784) in administrative expenses is being applied during this ROPS period. Therefore, the Agency is now eligible for \$475,186 (\$494,410 - \$19,224) in administrative expenses.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2013 period. HSC section 34186 (a) also specifies 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 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 or items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15A. If you disagree with the determination with respect to any items on your ROPS 14-15A, 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 \$16,263,431 as summarized below:

Approved RPTTF Distribution	
For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	20,659,823
Total RPTTF requested for administrative obligations	619,795
Total RPTTF requested for obligations	\$ 21,279,618
Total RPTTF requested for non-administrative obligations	20,659,823
<u>Denied Items</u>	
Item No. 4	(107,625)
Item No. 20	(322,875)
Item No. 43	(1,444,000)
Item No. 45	(2,300,000)
	<u>(4,174,500)</u>
<u>Reclassified Items</u>	
Item No. 11	(2,500)
Item No. 26	(2,500)
	<u>(5,000)</u>
Total RPTTF authorized for non-administrative obligations	\$ 16,480,323
Total RPTTF requested for administrative obligations	619,795
<u>Reclassified Items</u>	
Item No. 11	2,500
Item No. 26	2,500
	<u>5,000</u>
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(130,385)
Administrative costs adjustment for Item No. 23	(19,224)
Total RPTTF authorized for administrative obligations	\$ 475,186
Total RPTTF authorized for obligations	\$ 16,955,509
ROPS 13-14A prior period adjustment	(692,078)
Total RPTTF approved for distribution	\$ 16,263,431

Administrative Cost Cap Calculation	
Total RPTTF authorized for non-administrative obligations	16,480,323
Percent allowed pursuant to HSC section 34171 (b)	3%
Total RPTTF allowable for administrative obligations	494,410
Total RPTTF administrative obligations after Finance adjustments	624,795
Administrative costs in excess of the cap	\$ (130,385)

Please refer to the ROPS 14-15A schedule that was used to calculate the approved RPTTF amount:

<http://www.dof.ca.gov/redevelopment/ROPS>

Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2014. This determination only applies 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 Kylie Oltmann, Supervisor or Hugo Lopez, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Denise Manoogian, Director of Administrative Services, City of Cerritos
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County
California State Controller's Office