



May 16, 2014

Ms. Marie Essig, Finance Director
City of Fortuna
P.O. Box 545
Fortuna, CA 95540

Dear Ms. Essig:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 14, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Fortuna Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on March 2, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 14, 2014. 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 May 1, 2014.

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 item being disputed.

- Item No. 6 – Loan repayments in the amount of \$2,460,730. Finance no longer denies this item; however, pursuant to the repayment formula outlined in HSC section 34191.4 (b) (2) (A), the maximum repayment amount authorized for fiscal year 2014-15 is \$0. Pursuant to HSC section 34191.4 (b), loan agreements between the former redevelopment agency (RDA) and sponsoring entity may be placed on the ROPS if the agency has received a Finding of Completion and the agency's oversight board approves the loan as an enforceable obligation by finding the loan was for legitimate redevelopment purposes. The Agency received a Finding of Completion on November 6, 2013. However, Finance initially denied this item because the Agency's Oversight Board Resolution FOB 2014-02, finding the pre-dissolution loans between the City of Fortuna (City) and the former RDA were for legitimate redevelopment purposes, was denied. The Agency was unable to provide sufficient documentation to demonstrate an agreement was executed between the two parties relating to the loans.

During the Meet and Confer process, the Agency was able to locate and provided to Finance the original loan agreement and promissory note between the City and the former RDA dated June 1, 2001. Based on the accounting reports provided, only one payment was made on the loan, which would have been applied to the accrued interest per the terms of the loan and promissory note. Therefore, an outstanding principal balance remains on the loan and this item is eligible for funding.

According to the original Humboldt County Auditor-Controller's (CAC) report, the ROPS residual pass-through amounts distributed to the taxing entities for fiscal years 2012-13 and 2013-14 were \$173,080 and \$0, respectively. During the Meet and Confer process, the CAC indicated that the residuals were incorrectly reported and submitted the corrected amounts for fiscal years 2012-13 and 2013-14 in the amounts of \$376,073 and \$349,073, respectively. Pursuant to the repayment formula outlined in HSC section 34191.4 (b) (2) (A), the maximum repayment amount authorized for fiscal year 2014-15 is \$0. Therefore, this item is not eligible for funding on this ROPS.

We also reviewed Agency's Oversight Board (OB) Resolution FOB 2014-04 approving an agreement between the Agency and the City for the expenditure of Series 2007 bond proceeds. Finance approves the OB action and the transfer of the bond proceeds to the City, as listed as Item No. 5 on ROPS 14-15A.

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. The amount of Redevelopment Property Tax Trust Fund (RPTTF) approved in the table below includes the prior period adjustment self-reported by the Agency. 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. Any proposed CAC adjustments were not received in time for inclusion in this letter. Therefore, the amount of RPTTF approved in the table below only includes the prior period adjustment self-reported by the Agency.

Except for the item denied in whole or in part as enforceable obligation, Finance is not objecting to the remaining items listed on your ROPS 14-15A. The Agency's maximum approved RPTTF distribution for the reporting period is \$447,915 as summarized below:

Approved RPTTF Distribution	
For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	561,742
Total RPTTF requested for administrative obligations	0
Total RPTTF requested for obligations	\$ 561,742
Total RPTTF requested for non-administrative obligations	561,742
<u>Denied Item</u>	
Item No. 6	(113,827)
Total RPTTF authorized for non-administrative obligations	\$ 447,915
Total RPTTF authorized for administrative obligations	\$ 0
Total RPTTF authorized for obligations	\$ 447,915
ROPS 13-14A prior period adjustment	0
Total RPTTF approved for distribution	\$ 447,915

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. During the ROPS 14-15A review, Finance requested financial records to support the cash 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 14-15A

review period to properly identify the Agency's cash balances. If it is determined the Agency possesses cash balances that are available to pay approved obligations, the Agency should request the use of these cash balances prior to requesting RPTTF in ROPS 14-15B.

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

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

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

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Regan Candelario, City Manager, City of Fortuna
Mr. Joe Mellett, Auditor-Controller, Humboldt County
California State Controller's Office