



May 16, 2014

Ms. Leslie Fritzsche, Senior Project Manager
City of Sacramento
915 I Street
Sacramento, CA 95814

Dear Ms. Fritzsche:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 17, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Sacramento Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on March 3, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 17, 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 6, 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 items being disputed.

- Item No. 37 – 14th Avenue Extension Project contracts and project delivery costs totaling \$2,209,150 funded by Reserve Balances. Finance continues to deny this item. Finance denied the item because the bidding and contracting process had not yet started for the project; therefore, there are no enforceable obligations tied to this item. Agency contends these amounts were allowed for retention through the Other Funds and Accounts (OFA) Due Diligence Review (DDR). However, per Finance's letter to the Agency dated June 12, 2013, the funds were allowed for retention through the OFA DDR because the amount was approved on the ROPS II and ROPS III and the funds approved were part of the June 30, 2012 balance. To the extent those funds were not expended as intended during the period they were approved for, the item is subject to additional review in future ROPS. Finance reviewed the item on the ROPS 14-15A and determined it is not an enforceable obligation as further explained below.

The Agency contends that these funds were used to leverage a federal grant; however, documentation provided by the Agency demonstrates that the Agency and the City Council did not submit grant applications for the Federal grant until September 7, 2011. Pursuant to HSC section 34163 the former redevelopment agency did not have the authority to make commitments to any entity, including governmental entities, after June 27, 2011. Therefore, Item No. 37 (\$2,209,150 Reserve Balance) is not eligible for funding.

We note, the Agency received a Finding of Completion on September 20, 2013 and is now allowed to expend pre-2011 bond proceeds in a manner consistent with the bond covenant. Therefore, the transfer of pre-2011 bond proceeds for Item Nos. 43 and 46 (related to this item) is allowed once a bond expenditure agreement is approved by the oversight board and Finance. However, the use of pre-2011 bond proceeds shall constitute the creation of excess bond proceeds obligations to be paid from the excess bond proceeds pursuant to HSC section 34191.4 (c) (2), and does not allow for creation of new enforceable obligations from other funding sources. As such, the Agency cannot enter into new contracts to expend RPTTF or Reserves.

- Item No. 334 – Property Holding costs for properties located in the Stockton Project areas totaling \$42,000 funded by the Redevelopment Property Tax Trust Fund (RPTTF). Finance continues to deny this item. We note that during our original review the Agency confirmed it does not have any properties in this project area and concurred with removing this item from the ROPS. However, during the meet and confer, the Agency claims they are financially responsible for the properties in the project area based on resolutions issued by the Agency and the County of Sacramento; however, the Agency did not provide documentation supporting that this is an enforceable obligation of the Agency as defined in HSC section 34171 (d) . Therefore, this item is not eligible for RPTTF funding on this ROPS.

In addition, per Finance's letter dated April 17, 2014, we continue to deny the following items not contested by the Agency during the Meet and Confer:

- Item No. 19 – Property Holding costs for properties located in the Alkali Project area totaling \$7,000 funded by the Redevelopment Property Tax Trust Fund (RPTTF). It is our understanding the Agency does not have any properties in this project area. Therefore, with the Agency's consent, this item is not an enforceable obligations and is not eligible for RPTTF funding on this ROPS.
- Item Nos. 38, 43, and 46 – 14th Avenue Extension Project contracts and project delivery costs totaling \$1,591,861; funded by Bond Proceeds (\$1,566,861), and RPTTF (\$25,000). Finance originally denied these items because the bidding and contracting process had not yet started for the project.

The Agency received a Finding of Completion on September 20, 2013 and is now allowed to expend pre-2011 bond proceeds in a manner consistent with the bond covenant. Therefore, the transfer of pre-2011 bond proceeds (Item Nos. 43 and 46) may take place once a bond expenditure agreement is approved by the oversight board and Finance.

However, the authority to use pre-2011 bond proceeds does not also allow the Agency to create new enforceable obligations that encumber other funding sources. As such, the Agency cannot enter into new contracts to expend new RPTTF or reserves. Therefore, Item No. 38 (\$25,000 RPTTF funding) is not eligible for funding.

- Item Nos. 126, 128, and 129 – 700 K Street Project related costs totaling \$201,642, \$114,958 funded by RPTTF and \$86,684 funded by Reserve Balances. Finance continues to deny these items. Because the 700 K Street project is not an enforceable

obligation, project delivery, closing, and development costs associated with this project are also not enforceable obligations and are not eligible for funding.

- Item Nos. 127, 154, and 159 – 700 K Street Project loans totaling \$3,600,000; \$2,573,542 funded by RPTTF and \$1,026,458 funded by Bond Proceeds. Finance continues to deny these items. The Agency's obligation to fund the project expired on June 30, 2013, as the developer did not meet the requirements to obtain new market tax credits. Therefore, these line items are not enforceable obligations and are not eligible for funding.
- Item No. 222 – Environmental Remediation costs for the El Monte Triangle Remediation Project in the amount of \$643,359. It is our understanding the Agency's remaining obligation for this contract is only \$562,977. Therefore, the excess, \$80,382 (\$643,359-\$562,977) is not eligible for RPTTF funding.
- Item No. 224 – 58 Arden Way Project Environmental Remediation costs in the amount of \$45,500 funded by RPTTF. It is our understanding the contract for environmental remediation services was not awarded before June 27, 2011. HSC section 34163 (b) prohibits a redevelopment agency (RDA) from entering into a contract with any entity after June 27, 2011.

In addition, Finance approved the transfer of the 58 Arden Way property to the Sacramento Housing Authority in the letter dated August 31, 2012 as an inclusion to the Housing Asset Transfer review. HSC section 34176 (a) (1) states if an entity assumes the authority to perform housing functions previously performed by a redevelopment agency, all rights, powers, duties, obligations, and housing assets shall be transferred to that entity. Because the Sacramento Housing Authority assumed the housing function, all obligations associated with these functions are the responsibility of the Sacramento Housing Authority, not the Agency. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.

- Item No. 273 – Broadway Triangle Project in the amount of \$914,693. Based on the documents provided, it is our understanding available bond proceeds for this project is only \$574,035. Therefore, the excess \$340,658 is not approved for Bond Proceeds funding.
- Claimed administrative costs exceed the allowance by \$86,652. HSC section 34171 (b) limits the fiscal year 2014-15 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. Although \$392,918 is claimed for administrative cost, only \$306,266 is available pursuant to the cap. Therefore, \$86,652 of excess administrative cost is not allowed.

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 (I) (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 provided financial records that displayed available balances totaling \$567,526, including \$283,738 Reserves and \$283,788 Other Funds.

Therefore, with the Agency's concurrence, the funding source for the following items has been reclassified to Reserve Balances or Other Funds and in the amounts specified below:

- Item No. 29 – Globe Mills Loan in the amount of \$339,644. The Agency requests \$339,644 from RPTTF; however, Finance is reclassifying \$283,738 to Reserves and \$33,788 to Other Funds. This item is an enforceable obligation for the ROPS 14-15A period. However, the obligation does not require payment from property tax revenues and the Agency has \$567,526 in available funds. Therefore, Finance is approving RPTTF in the amount of \$22,118, the use of Reserve Balances in the amount of \$283,738, and the use of Other Funds in the amount of \$33,788, totaling \$339,644 for this item.
- Item No. 385 – Property Disposition costs in the amount of \$150,000. The Agency requests \$150,000 from RPTTF; however, Finance is reclassifying \$150,000 to Other Funds. This item is an enforceable obligation for the ROPS 14-15B period. However, the obligation does not require payment from property tax revenues and the Agency has \$567,526 in available funds. Therefore, Finance is approving the use of Other Funds in the amount of \$150,000 for this item.
- Item No. 419 – Litigation Costs in the amount of \$100,000. The Agency requests \$100,000 from RPTTF; however, Finance is reclassifying \$100,000 to Other Funds. This item is an enforceable obligation for the ROPS 14-15B period. However, the obligation does not require payment from property tax revenues and the Agency has \$567,526 in available funds. Therefore, Finance is approving the use of Other Funds in the amount of \$150,000 for this item.

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 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 items denied in whole or in part as enforceable obligations or for items that have been reclassified, 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 \$9,670,929 as summarized in the following table:

| Approved RPTTF Distribution | |
|--|----------------------|
| For the period of July through December 2014 | |
| Total RPTTF requested for non-administrative obligations | 13,097,275 |
| Total RPTTF requested for administrative obligations | 392,918 |
| Total RPTTF requested for obligations | \$ 13,490,193 |
| Total RPTTF requested for non-administrative obligations | 13,097,275 |
| <u>Denied Items</u> | |
| Item No. 19 | (3,500) |
| Item No. 38 | (25,000) |
| Item No. 126 | (16,979) |
| Item No. 127 | (1,654,767) |
| Item No. 128 | (40,500) |
| Item No. 154 | (918,775) |
| Item No. 224 | (45,500) |
| Item No. 302 | (12,376) |
| Item No. 334 | (21,000) |
| | (2,738,397) |
| Total RPTTF for non-administrative obligations | 10,358,878 |
| <u>Cash Balances - Items reclassified to other funding sources</u> | |
| Item No. 29 | (317,526) |
| Item No. 385 | (150,000) |
| Item No. 419 | (100,000) |
| | (567,526) |
| Total RPTTF authorized for non-administrative obligations | \$ 9,791,352 |
| Total RPTTF requested for administrative obligations | 392,918 |
| Administrative costs in excess of the cap (see Admin Cost Cap table below) | (86,652) |
| Total RPTTF authorized for administrative obligations | \$ 306,266 |
| Total RPTTF authorized for obligations | \$ 10,097,618 |
| ROPS 13-14A prior period adjustment | (426,689) |
| Total RPTTF approved for distribution | \$ 9,670,929 |

| Administrative Cost Cap Calculation | |
|--|--------------------|
| RPTTF for non-administrative obligations | 10,358,878 |
| Less Item No. 386 approved Housing Entity ACA | 150,000 |
| Total RPTTF for non-administrative obligations | 10,208,878 |
| Percent allowed pursuant to HSC section 34171 (b) | 3% |
| Total RPTTF allowable for administrative obligations | 306,266 |
| Total RPTTF administrative obligations after Finance adjustments | 392,918 |
| Administrative costs in excess of the cap | \$ (86,652) |

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>

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

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Dennis Kauffman, Accounting Manager, City of Sacramento
Mr. Ben Lamera, Assistant Auditor-Controller, Sacramento County
California State Controller's Office