



October 30, 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 14-15B) to the California Department of Finance (Finance) on September 16, 2014 for the period of January 1 through June 30, 2015. Finance has completed its review of your ROPS 14-15B, which may have included obtaining clarification for various items.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

- Item Nos. 4 and 20 – Magnolia Power Project B Series 2003 Lease Revenue Bonds Payments in the amount of \$19,202,842 continues to be denied. These items were previously denied by Finance in our 13-14A, 13-14B and 14-15A determination letters. 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.

Pursuant to HSC section 34171 (d) (2), 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. 9 and 24 – Bond Fiscal Agent Fees totaling \$77,455 is partially denied. Although these items are enforceable obligations, the amount requested appears to be excessive. The Agency is requesting \$20,100 for Item No. 9 and \$35,225 for Item No. 24; however, invoices billed for the ROPS 14-15A period support amounts of \$2,048 for Item No. 9 and \$3,730 for Item No. 24. Therefore, \$2,048 is approved for Item No. 9

and \$3,730 is approved for Item No. 24. The excess amounts of \$18,052 and \$31,495, respectively, are denied and not eligible for RPTTF funding.

- Item Nos. 43 and 45 – City loan repayments totaling \$57,523,584 continues to be denied. These items were previously denied by Finance in our ROPS III, 13-14A, 13-14B and 14-15A final determination letters. 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.

- Item Nos. 48 and 49 – Debt Service Reserve Requirement, GASB 31 Funding totaling \$400,000. With the Agency's concurrence, the requested RPTTF funding amount for Item No. 48 has been reduced from \$100,000 to \$21,271 and Item No. 49 has been reduced from \$300,000 to \$42,838.
- Claimed administrative costs exceed the allowance by \$136,739. 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 \$602,625 in administrative expenses. The Los Angeles Auditor-Controller's Office distributed \$475,186 in administrative costs for the July through December 2014 period, thus leaving a balance of \$127,439 available for the January through June 2015 period. Although \$264,178 is claimed for administrative cost, \$136,739 of excess administrative cost is not allowed. Therefore, \$136,739 of excess administrative cost is not allowed.

Further, Finance notes that the calculation of the administrative costs allowance for the fiscal year was based on a percentage of total approved RPTTF, which did not include the requested RPTTF amount of \$640,784 for Item No. 23. This item was previously funded in ROPS III, 13-14A, 13-14B and 14-15A. It is our understanding the Agency did not use the distributed funding in ROPS III, 13-14A, and 13-14B, 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, 13-14A and 13-14B. As a result, \$640,784 was not included in total RPTTF when calculating the administrative costs allowance for the fiscal year.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2014 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.

The Agency's maximum approved RPTTF distribution for the reporting period is \$3,726,321 as summarized in the Approved RPTTF Distribution Table below:

<b>Approved RPTTF Distribution For the period of January through June 2015</b>	
Total RPTTF requested for non-administrative obligations	8,805,932
Total RPTTF requested for administrative obligations	264,178
<b>Total RPTTF requested for obligations on ROPS</b>	<b>\$ 9,070,110</b>
RPTTF adjustment to non-administrative obligations (Item No. 48 and 49)	(335,891)
RPTTF adjustment to administrative obligations	0
<b>Total RPTTF adjustments</b>	<b>\$ (335,891)</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>8,470,041</b>
<u>Denied Items</u>	
Item No. 4	(107,136)
Item No. 9	(18,052)
Item No. 20	(321,406)
Item No. 24	(31,495)
Item No. 43	(1,444,000)
Item No. 45	(2,300,000)
	(4,222,089)
<b>Total RPTTF authorized for non-administrative obligations</b>	<b>\$ 4,247,952</b>
<b>Total RPTTF requested for administrative obligations</b>	<b>264,178</b>
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(136,739)
<b>Total RPTTF authorized for administrative obligations</b>	<b>\$ 127,439</b>
<b>Total RPTTF authorized for obligations</b>	<b>\$ 4,375,391</b>
ROPS 13-14B prior period adjustment	(649,070)
<b>Total RPTTF approved for distribution</b>	<b>\$ 3,726,321</b>

<b>Administrative Cost Cap Calculation</b>	
Total RPTTF for 14-15A (July through December 2014)	16,480,323
Total RPTTF for 14-15B (January through June 2015)	4,247,952
Less Item No. 23 RPTTF requested amount	(640,784)
<b>Total RPTTF for fiscal year 2014-2015</b>	<b>20,087,491</b>
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or \$250,000)	602,625
Administrative allowance for 14-15A (July through December 2014)	475,186
<b>Allowable RPTTF distribution for administrative cost for ROPS 14-15B</b>	<b>127,439</b>
Total RPTTF administrative obligations after Finance adjustments	264,178
<b>Administrative costs in excess of the cap</b>	<b>\$ (136,739)</b>

Please refer to the ROPS 14-15B 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 January 1 through June 30, 2015. 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 the 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 agency in the RPTTF.

Pursuant to HSC section 34177 (a) (3), only those payments listed on an approved ROPS may be made by the successor agency from the funds specified in the ROPS. However, if for whatever reason the Agency needs to make payments for approved obligations from another funding source, HSC section 34177 (a) (4) requires the Agency to first obtain oversight board approval.

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 Cindie Lor, Supervisor or Hugo Lopez, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD  
Acting 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