

November 17, 2014

Ms. Wendy Howard, Interim Finance Director
City of Eureka
531 K Street
Eureka, CA 95501

Dear Ms. Howard:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Eureka Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to the California Department of Finance (Finance) on October 3, 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. 13 and 14 – Supplemental Educational Revenue Augmentation Fund loan repayments totaling \$656,102 is not allowed.

HSC section 34191.4 (b) (2) (A) allows this repayment to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through distributed to the taxing entities in the fiscal year 2012-13 base. Further, HSC section 34171 (d) (1) (G) requires the Oversight Board (OB) to approve a repayment schedule for the repayment of the amounts borrowed. No OB action approving the repayment schedule has been submitted. Once the OB approves the loan and loan repayment schedule, and the corresponding OB action is approved by Finance, the Agency may request funding for this item on future ROPS. Therefore, these line items are not eligible for Other Funds and Redevelopment Property Tax Trust Fund (RPTTF) funding at this time.

- Item Nos. 52 and 56 – City loan repayments totaling \$17,951 is not allowed. The Agency received a Finding of Completion on April 12, 2013. As such, the Agency may place loan agreements between the former redevelopment agency and sponsoring entity on the ROPS, as an enforceable obligation, provided the oversight board makes a finding the loan was for legitimate redevelopment purposes per HSC section 34191.4 (b) (1). Additionally, HSC section 34191.4 (b) (2) (A) specifies this repayment to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through distributed to the taxing entities in the fiscal year 2012-13 base year.

According to the County Auditor-Controller's report, the ROPS residual pass-through amount distributed to the taxing entities for fiscal year 2012-13 and 2013-14 are \$1,527,633 and \$2,145,024, 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 \$308,696. Therefore, of the \$795,019 requested, \$486,323 (\$795,019 - \$308,696) of excess loan repayment is not eligible for funding on this ROPS. The Agency may be eligible for additional funding beginning ROPS 15-16A. Due to the Agency possessing nine different city loans, the following items were either not eligible for funding or received a reduced amount:

- Item No. 52 – Loan No. 50 Water Main Replacement in the amount of \$13,433 is not eligible for funding.
- Item No. 56 – Loan No. 193 Inner Channel Docks-Boardwalk Revitalization in the amount of \$125,484 is partially denied. The Agency has \$120,966 remaining from the maximum repayment amount. Therefore, the difference of \$4,518 (\$125,484-\$120,966) is not eligible for funding.
- The total outstanding principal balances for Item Nos. 53, 54, and 56 are overstated. Based on the documentation provided, Finance updated the outstanding loan balances to include repayments made prior to dissolution and then applied the Local Agency Investment Fund (LAIF) rate to the new balances. Therefore, the outstanding balances as of ROPS 14-15B period should be as follows:
 - Item No. 53 – Loan No. 55 Phase I- Third and C Street Reconstruction the outstanding balance on the loan should be approximately \$28,500 instead of \$177,240 as noted on ROPS Item Detail submitted to Finance.
 - Item No. 54 – Loan No. 56 Phase II- Third and C Street Reconstruction the outstanding balance on the loan should be approximately \$33,800 instead of the \$299,650 as noted on the ROPS Item Detail submitted to Finance.
 - Item No. 56 – Loan No. 193 Inner Channel Docks-Boardwalk Revitalization the outstanding balance on the loan should be approximately \$663,000 instead of the \$1,254,840 as noted on the ROPS Item Detail submitted to Finance.

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. The amount of RPTTF approved in the table below reflects 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. Proposed CAC adjustments were not received in time for inclusion in this letter; therefore, the amount of RPTTF approved in the table below only reflects the prior period adjustment self-reported by the Agency.

Except for items denied in whole or in part, Finance is not objecting to the remaining items listed on your ROPS 14-15B. If you disagree with the determination with respect to any items on your ROPS 14-15B, 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 \$1,848,971 as summarized in the Approved RPTTF Distribution Table below:

Approved RPTTF Distribution For the period of January through June 2015	
Total RPTTF requested for non-administrative obligations	2,411,897
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS	\$ 2,536,897
Total RPTTF requested for non-administrative obligations	2,411,897
<u>Denied Items</u>	
Item No. 13	(594,152)
Item No. 14	(61,950)
Item No. 52	(13,433)
Item No. 56	(4,518)
	(674,053)
Total RPTTF authorized for non-administrative obligations	\$ 1,737,844
Total RPTTF requested for administrative obligations	125,000
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 1,862,844
ROPS 13-14B prior period adjustment	(13,873)
Total RPTTF approved for distribution	\$ 1,848,971

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 14-15B review, Finance requested financial records to support the cash balances reported by the Agency; however, the Agency was unable to support the amounts reported. The beginning balances for Bond Proceeds and RPTTF could not be supported by the Agency's financial records. As a result, Finance will continue to work with the Agency after the ROPS 14-15B 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 15-16A.

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 Beliz Chappuie, Supervisor or Todd Vermillion, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

cc: Mr. Mike Knight, Assistant City Manager, City of Eureka
Mr. Joe Mellett, Auditor-Controller, Humboldt County
California State Controller's Office