



December 17, 2014

Ms. Marlene Murphey, Executive Director
City of Fresno
2344 Tulare Street, Suite 200
Fresno, CA 93721

Dear Ms. Murphey:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 6, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Fresno Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on September 22, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 6, 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 November 21, 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. 34 – Property Sale/Disposition of Agency Properties in the amount of \$315,630. Finance continues to deny \$108,000 of this item. During the initial review, the Agency provided documentation to support estimated costs in the amount of \$207,630. However, Finance initially denied \$108,000 for this item because the Agency did not provide documents to support \$55,000 in tenant relocation costs or \$53,000 for hazardous material surveys and abatement and construction management costs. During the Meet and Confer process, the Agency provided representative examples of the projected expenses. However, because the Agency's Long-Range Property Management Plan has not been approved, Finance cannot determine if these proposed costs will be necessary or if they are reasonable. Furthermore, HSC section 34177.3 (a) prohibits a successor agency from entering into a contract with any entity after June 27, 2011, except in compliance with an enforceable obligation existing prior to June 28, 2011. The Agency did not provide any documents indicating these costs are required pursuant to an enforceable obligation existing prior to June 28, 2011. Therefore, \$108,000 (\$315,630 - \$55,000 - \$53,000) is not an enforceable obligation and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

Finance notes this item contains more than one contract and more than one payee. On future ROPS, the Agency must list each contract as a separate obligation with its own

item number and list them in sequential order. Pursuant to HSC section 34177 (m) (1), the Agency is required to complete the ROPS in a manner provided by Finance. Future ROPS not completed in a manner provided by Finance may be rejected in its entirety and returned to the oversight board for reconsideration.

- The Agency received a Finding of Completion on June 2, 2014. The Agency submitted Oversight Board Resolution OB-19 to approve 68 loans between the City of Fresno (City) and the former Redevelopment Agency (RDA) as enforceable obligations and made a finding that the loans were for legitimate redevelopment purposes. Finance issued a determination on October 29, 2014, approving 12 loans and denying the remaining 56 loans. As such, the Agency may place the 12 loan agreements between the former RDA and sponsoring entity that were approved by Finance on the ROPS for repayment. 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 \$3,120,757 and \$11,563,120 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 \$4,221,182. Therefore, only \$4,221,182 of the outstanding loan amounts will be eligible for funding on this ROPS. The Agency may request additional loan repayments beginning ROPS 15-16A.

During the Meet and Confer process, the Agency requested to increase the loan repayments in order to receive the maximum amount allowed pursuant to HSC section 34191.4 (b) (a) (A). In order to reach the maximum repayment amount authorized for fiscal year 2014-15, Item Nos. 49, 57, 64, 82 through 85, and 95 will be repaid in full and Item No. 81 will be partially repaid.

- Item Nos. 46, 49, 57, 64, 81 through 85, 89, 95, and 96 – The total outstanding loan balances for Item Nos. 49, 57, 81 through 85, 89, 95, and 96 are overstated. The Agency recalculated the accumulated interest by using the LAIF interest rate that was applicable for each year the loan has been outstanding. Pursuant to HSC section 34191.4 (b) (2), the recalculation of the accumulated interest from loan origination is not to exceed the interest rate earned by funds deposited in the LAIF. However, HSC section 34191.4 requires the recalculation of the accumulated interest at a rate not to exceed the interest rate earned by funds deposited in the LAIF at the time the Oversight Board finds that the loan was for legitimate redevelopment purposes and is deemed an enforceable obligation. As such, Finance has recalculated the interest using the LAIF interest rate at the time the Agency's Oversight Board made the finding the loan was for legitimate redevelopment purposes and has reflected the reduction to the loan's total outstanding balance in ROPS 14-15B as follows:
 - Item No. 46 – Finance agrees with the Agency's outstanding balance of \$714,414; however, this item is approved for \$0 at this time. Since the Agency has received the maximum repayment amount authorized for fiscal year 2014-15 pursuant to the repayment formula outlined in

HSC section 34191.4 (b) (2) (A), this loan will be reconsidered for payment in ROPS 15-16.

- Item No. 49 – Finance has recalculated the total outstanding loan balance to be \$1,539 and has reduced the reported outstanding loan balance by \$66,160. Therefore, \$1,539 will be repaid in this ROPS, the remaining \$969 requested will be denied, and the item will be considered retired.
- Item No. 57 – Finance has recalculated the total outstanding loan balance to be \$2,303 and has reduced the reported outstanding loan balance by \$30,590. Therefore, the amount requested will be increased by \$1,187 and \$2,303 will be repaid in this ROPS and the item will be considered retired.
- Item No. 64 – Finance agrees with the Agency's outstanding balance of \$714,414. Therefore, \$714,414 will be repaid in this ROPS and the item will be considered retired.
- Item No. 81 – Finance has recalculated the current total outstanding loan balance to be \$2,055,260 and has reduced the reported outstanding loan balance by \$3,894,002. Due to the maximum repayment amount authorized for fiscal year 2014-15, the amount requested will be increased by \$1,138,887 and \$1,376,732 will be paid in this ROPS. The remaining loan balance of \$678,528 will be reconsidered for payment in ROPS 15-16.
- Item No. 82 – Finance has recalculated the total outstanding loan balance to be \$951,480 and has reduced the reported outstanding loan balance by \$1,284,324. Therefore, the amount requested will be increased by \$862,219 and \$951,480 will be repaid in this ROPS and the item will be considered retired.
- Item No. 83 – Finance has recalculated the total outstanding loan balance to be \$158,250 and has reduced the reported outstanding loan balance by \$215,479. Therefore, the amount requested will be increased by \$143,496 and \$158,250 will be repaid in this ROPS and the item will be considered retired.
- Item No. 84 – Finance has recalculated the total outstanding loan balance to be \$21,144 and has reduced the reported outstanding loan balance by \$57,919. Therefore, the amount requested will be increased by \$18,181 and \$21,144 will be repaid in this ROPS and the item will be considered retired.
- Item No. 85 – Finance has recalculated the total outstanding loan balance to be \$789,600 and has reduced the reported outstanding loan balance by \$835,525. Therefore, the amount requested will be increased by \$724,774 and \$789,600 will be repaid in this ROPS and the item will be considered retired.
- Item No. 89 – Finance has recalculated the total outstanding loan balance to be \$4,507,068 and has reduced the reported outstanding loan balance by \$18,165,959. However, this item is approved for \$0 at this time. Since the Agency has received the maximum repayment amount authorized for fiscal

year 2014-15 pursuant to the repayment formula outlined in HSC section 34191.4 (b) (2) (A), this loan will be reconsidered for payment in ROPS 15-16.

- Item No. 95 – Finance has recalculated the total outstanding loan balance to be \$205,720 and therefore, has reduced the reported outstanding loan balance by \$72,277. Therefore, the amount requested will be increased by \$191,797 and \$205,720 will be repaid in this ROPS and the item will be considered retired.
- Item No. 96 – Finance has recalculated the total outstanding loan balance to be \$1,481,455 and has reduced the reported outstanding loan balance by \$306,968. However, this item is approved for \$0 at this time. Since the Agency has received the maximum repayment amount authorized for fiscal year 2014-15 pursuant to the repayment formula outlined in HSC section 34191.4 (b) (2) (A), this loan will be reconsidered for payment in ROPS 15-16.
- Item Nos. 42 through 45, 47, 48, 50 through 56, 58 through 63, 65 through 80, 86 through 88, 90 through 94, and 97 through 109 – City loan repayments continue to be denied at this time. Pursuant to HSC section 34191.4 (b), loan agreements between the former redevelopment agency and sponsoring entity may be placed on the ROPS if the following requirements are met: (1) The Agency has received a Finding of Completion; and (2) The Agency's oversight board approves the loan as an enforceable obligation by finding the loan was for legitimate redevelopment purposes.

Oversight Board Resolution OB-19 was submitted to Finance to approve 68 loans between the City and the former RDA as enforceable obligations and made a finding that the loans were for legitimate redevelopment purposes. However, 56 loans were denied in our letter dated October 29, 2014. Finance initially denied these loans because the Agency was unable to provide support for these loans including promissory notes, loan amounts, and properly executed loan agreements.

During the initial review, the Agency provided additional documentation supporting Item Nos. 93 and 94. Based on the additional documents, these items may be enforceable obligations on a future ROPS once a revised Oversight Board determination is issued by Finance:

- Item No. 93 – Finance agrees with the Agency's outstanding balance of \$95,972; however, this item is approved for \$0 at this time. Since the Agency has received the maximum repayment amount authorized for fiscal year 2014-15 pursuant to the repayment formula outlined in HSC section 34191.4 (b) (2) (A), this loan will be reconsidered for payment in ROPS 15-16.
- Item No. 94 – Finance has recalculated the total outstanding loan balance to be \$641,493 and has reduced the reported outstanding loan balance by \$222,314. However, this item is approved for \$0 at this time. Since the Agency has received the maximum repayment amount authorized for fiscal year 2014-15 pursuant to the repayment formula outlined in HSC section 34191.4 (b) (2) (A), this loan will be reconsidered for payment in ROPS 15-16.

Finance continued to deny the 54 loans included in Item Nos. 42 through 45, 47, 48, 50 through 56, 58 through 63, 65 through 80, 86 through 88, 90 through 92, and 97 through 109. During the Meet and Confer process, the Agency provided additional documentation for the 54 City loans that were denied. Due to the maximum loan repayment amount authorized for fiscal year 2014-15 being reached, Finance agrees to work with the agency to review the enforceability of the denied loans in preparation for ROPS 15-16A. Therefore, Finance continues to deny Item Nos. 42 through 45, 47, 48, 50 through 56, 58 through 63, 65 through 80, 86 through 88, 90 through 92, and 97 through 109 at this time pending further review.

After Finance completes its review of the additional documentation provided, Finance will issue a revised Oversight Board Action letter related to determinations made on OB-19.

- The Agency's claimed administrative costs exceed the allowance by \$13,253. The Agency requested an administrative cost allowance of \$136,979 for the ROPS 14-15B period. HSC section 34171 (b) limits fiscal year 2014-15 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 \$373,726 in administrative expenses. The Fresno County Auditor-Controller's Office distributed \$250,000 of administrative costs for the July through December 2014 period, thus leaving a balance of \$123,726 available for the January through June 2015 period. Therefore, \$13,253 of excess administrative cost is not allowed.

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 review 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 the items denied in whole or in part or items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15B. The Agency's maximum approved RPTTF distribution for the reporting period is \$4,578,939 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	8,232,831
Total RPTTF requested for administrative obligations	136,979
Total RPTTF requested for obligations on ROPS	\$ 8,369,810
RPTTF adjustment to non-administrative obligations	3,769,567
Total RPTTF adjustments	\$ 3,769,567
Total RPTTF requested for non-administrative obligations	12,002,398
<u>Denied Items</u>	
Item No. 34	(108,000)
Item Nos. 42 through 54, 56, 58 through 63, 65 through 80, 86 through 94	(1,960,974)
Item Nos. 96 through 109	(1,982,876)
	(4,051,850)
Total RPTTF authorized for non-administrative obligations	\$ 7,950,548
Total RPTTF requested for administrative obligations	136,979
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(13,253)
Total RPTTF authorized for administrative obligations	\$ 123,726
Total RPTTF authorized for obligations	\$ 8,074,274
ROPS 13-14B prior period adjustment	(3,495,335)
Total RPTTF approved for distribution	\$ 4,578,939

Administrative Cost Cap Calculation	
Total RPTTF for 14-15A (July through December 2014)	4,506,999
Total RPTTF for 14-15B (January through June 2015)	7,950,548
Less approved unfunded obligations from prior periods	-
Total RPTTF for fiscal year 2014-2015	12,457,547
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or \$250,000)	373,726
Administrative allowance for 14-15A (July through December 2014)	250,000
Allowable RPTTF distribution for administrative cost for ROPS 14-15B	123,726
Total RPTTF administrative obligations after Finance adjustments	136,979
Administrative costs in excess of the cap	\$ (13,253)

Please refer to the ROPS 14-15B 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 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 Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

cc: Ms. Debra Barletta, Director of Finance, City of Fresno
Mr. George Gomez, Accounting Financial Manager, Fresno County
California State Controller's Office