



November 7, 2014

Ms. Inez Kiriu, Finance Director
City of Galt
380 Civic Drive
Galt, CA 95632

Dear Ms. Kiriu:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Galt Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to the California Department of Finance (Finance) on September 26, 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 No. 35 – Professional Services Project delivery costs funded with \$6,671,509 in Bond Proceeds is not allowed. Finance continues to deny this item. HSC section 34163 (b) prohibits a redevelopment agency (RDA) from entering into a contract with any entity after June 27, 2011. It is our understanding that contracts for these line items were not awarded prior to June 28, 2011.

Additionally, it is also our understanding these bonds were issued after December 31, 2010. HSC section 34191.4 (c) (2) (B) requires these proceeds to be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation.

- Item No. 37 – Housing Successor Entity Administrative Allowance in the amount of \$600,000 is not an enforceable obligation. Finance continues to deny this item. HSC section 34176 (a) (1) states if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a RDA, all rights, powers, duties, obligations, and housing assets shall be transferred to the city, county, or city and county. Since the City of Galt (City) assumed the housing functions, the administrative costs associated with these functions are the responsibility of the housing successor. Therefore, this item is not enforceable obligations and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item No. 38 – Debt Service Payment Reserves in the amount of \$384,867 is not allowed. HSC section 34171 (d) (1) (A) permits a reserve to be held when required by the bond indenture or when the next property tax allocation will be insufficient to pay all obligations due under the provision of the bonds for the next payment due in the

following half of the calendar year. The Agency provided a cash flow report depicting a possible cash shortfall in future ROPS periods in the absence of holding additional reserves. However, a review of past RPTTF distribution reports from the Sacramento County Auditor-Controller's Office indicates the Agency has always received funding to make required debt service payments. Therefore, the creation of reserves is unnecessary, and this item is not eligible for RPTTF funding.

- Item No. 39 – 2011 City Loan Consolidation in the amount of \$4,919,987 is not an enforceable obligation. It is our understanding the former RDA and the City entered into a loan consolidation agreement on May 3, 2011. It is also our understanding the oversight board (OB) adopted Resolution No. 2012-07-OB on June 28, 2012, authorizing the execution of a loan consolidation agreement between the former RDA and the City. Because the OB is established to provide oversight function over the affairs of the Agency and not those of the former RDA, it is not appropriate for the OB to approve a loan consolidation agreement that was entered into at a time the OB was not in existence.

Additionally, HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the 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. This loan was issued after the first two years of the former RDA's creation and is not associated with the issuance of debt. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding on the ROPS.

Upon receiving a Finding of Completion from Finance and after the oversight board makes a finding the loan was for legitimate redevelopment purposes, HSC section 34191.4 (b) may cause these items to be enforceable in future ROPS periods.

- Claimed administrative costs exceed the allowance by \$4,024. HSC section 34171 (b) limits the fiscal year 2014-2015 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. The Sacramento County Auditor-Controller's Office distributed \$23,735 administrative costs for the July through December 2014 period, thus leaving a balance of \$226,265 available for the January through June 2015 period. Although \$230,289 is claimed for administrative cost, only \$226,265 is available pursuant to the cap. Therefore, \$4,024 of excess administrative cost is not allowed.

Further, Finance notes the oversight board has approved an amount that appears excessive, given the number and nature of the obligations listed on the ROPS. HSC section 34179 (i) requires the oversight board to exercise a fiduciary duty to the taxing entities. Therefore, Finance encourages the oversight board to apply adequate oversight when evaluating the administrative resources required to successfully wind-down the Agency.

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.

Based on our review of the Prior Period Adjustment Form, Finance notes that the Agency spent \$20,709 from Bond Proceeds on project related costs during the period January through June 2014 without authorization. It is also our understanding these bonds were issued after December 31, 2010. HSC section 34191.4 (c) (2) (B) requires these proceeds to be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation.

In addition, Finance noted the following during our review of the ROPS 13-14B Prior Period Adjustment worksheet:

- The Agency's Other Funds expenditures totaling \$14,927 exceeded Finance's authorization for Item No. 1, \$1,500; Item No. 2, \$1,500; and Item No. 24, \$11,927.

Per HSC section 34177 (a) (3), only those payments listed on ROPS may be made by the Agency from the funds specified on the ROPS. However, these items were determined to be enforceable obligations for the ROPS 14-15B period. Therefore, Finance is increasing the Agency's authorization for the ROPS 14-15B period to ensure that authorization is consistent with expenditures for the approved enforceable obligations. As these Other Funds were previously expended, the increase in authorization should not result in increased expenditures for the current ROPS period, but should merely allow the Agency to reconcile actual expenditures to the authorization.

HSC sections 34177 (a) (4) and 34173 (h) provide mechanisms when Agency payments must exceed the amounts authorized by Finance. Please ensure the proper expenditure authority is received from your Oversight Board and Finance prior to making payments on enforceable obligations.

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 \$1,100,344 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	2,082,955
Total RPTTF requested for administrative obligations	230,289
Total RPTTF requested for obligations on ROPS	\$ 2,313,244
Total RPTTF requested for non-administrative obligations	2,082,955
<u>Denied Items</u>	
Item No. 37	(75,000)
Item No. 38	(384,867)
Item No. 39	(748,694)
	(1,208,561)
Total RPTTF authorized for non-administrative obligations	\$ 874,394
Total RPTTF requested for administrative obligations	230,289
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(4,024)
Total RPTTF authorized for administrative obligations	\$ 226,265
Total RPTTF authorized for obligations	\$ 1,100,659
ROPS 13-14B prior period adjustment.	(315)
Total RPTTF approved for distribution	\$ 1,100,344

Administrative Cost Cap Calculation	
Total RPTTF for 14-15A (July through December 2014)	1,106,334
Total RPTTF for 14-15B (January through June 2015)	874,394
Total RPTTF for fiscal year 2014-2015	1,980,728
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or \$250,000)	250,000
Administrative allowance for 14-15A (July through December 2014)	23,735
Allowable RPTTF distribution for administrative cost for ROPS 14-15B	226,265
Total RPTTF administrative obligations after Finance adjustments	230,289
Administrative costs in excess of the cap	\$ (4,024)

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 Nichelle Thomas, Supervisor or Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

cc: Ms. Michelle Neeley, Accounting Manager, City of Galt
Mr. Ben Lamera, Assistant Auditor-Controller, Sacramento County
California State Controller's Office