



December 17, 2014

Mr. Rene L. Mendez, City Manager
City of Gonzales
P O Box 647
Gonzales, CA 93926

Dear Mr. Mendez:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated October 31, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Gonzales Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on September 23, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on October 31, 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 13, 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. 15 – Long-Term Property Management costs in the amount of \$25,000 was not allowed. Finance no longer denies this item. Finance initially denied this item as the Agency was unable to provide documentation to support the amounts claimed. During the Meet and Confer process, the Agency provided the methodology used to estimate the 6-month amount requested. Therefore, this item is an enforceable obligation and is eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item No. 18 – Loan from the City of Gonzales (City) for RPTTF Shortfall in the amount of \$804,538 was denied. Finance continues to deny this item. The Agency submitted Oversight Board Resolution No. OB-2014-08, approving a loan agreement between the City and the Agency for enforceable obligations pursuant to HSC 34173 (h). HSC section 34173 (h) permits the City to loan funds to the Agency for administrative costs, enforceable obligations, and project-related costs. However, Finance initially denied this item as the Agency was unable to provide any documentation to support the amounts requested or to support that the loan was necessary.

During the Meet and Confer process, the Agency provided additional documentation detailing the amounts received and expended during each of the ROPS periods. Based on a review of the information provided, the Agency received sufficient funding from

July 2011 through June 2014 to fund all enforceable obligations and should have \$350,123 remaining from all RPTTF distributions. The Agency's reported shortfall in funding occurred due to the Agency repaying a 2011 Year-End City loan in the amount of \$431,166 in July 2011, making various payments on the City's 2011 Lease Revenue Bonds totaling \$608,969, and over expending on administrative costs totaling \$61,397.

2011 Year-End City Loan

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.

The Agency received a Finding of Completion on June 4, 2013. However, the oversight board has not approved the 2011 Year-End City loan or made a finding that the 2011 Year-End City loan was for legitimate redevelopment purposes. Therefore, this portion of the item is not eligible for funding at this time. Once the oversight board approves the 2011 Year-End City Loan as an enforceable obligation by finding the loan was for legitimate redevelopment purposes and the corresponding OB action is approved by Finance, the Agency may request funding for this portion of the item on future ROPS.

City's 2011 Lease Revenue Bonds

Under the Lease Agreement and Indenture of Trust, the City is to make semi-annual payments for the principal and interest on the 2011 Lease Revenue Bonds. Under the Reimbursement Agreement the former Redevelopment Agency (RDA) was to reimburse the City for these payments. HSC section 34171 (d) (2) states that written 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 Reimbursement Agreement is solely for the purpose of securing or repaying indebtedness obligations, it was entered into after December 31, 2010. Therefore, this portion of the item does not meet the exception defined in HSC section 34171 (d) (2).

Excess Administrative Costs

HSC section 34171 (b) limits fiscal year 2014-2015 administrative expenses to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. Therefore, the excess administrative costs included in this item are not an enforceable obligation.

Remaining RPTTF Distributions

Of the \$350,123 remaining from all RPTTF distributions, \$37,193 is already accounted for by the self-reported ROPS 13-14B prior period adjustment. Therefore, there is \$312,930 (\$350,123 - \$37,193) remaining that should also be available. However, the Agency contends that a portion of the Other Funds included in the reconciliation were City funds used to pay for the City's 2011 Lease Revenue Bonds and should not be included in the adjustments made to determine the remaining RPTTF distributions. As

such, Finance will continue to work with the Agency to determine actual cash balances that should be available and accepts the Agency's self-reported prior period adjustment amount, as further discussed below. However, to the extent the Agency has remaining funds available, the Agency should request the use of these cash balances prior to requesting RPTTF in ROPS 15-16A pursuant to HSC section 34177 (l) (1) (E).

In addition, per Finance's letter dated October 31, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 5 – Continuing Disclosure Fees in the amount of \$91,100 is partially approved. The Agency requests \$3,000; however, Finance is adjusting the request by \$900. The Agency provided documentation which indicates \$900 of the \$3,000 requested is the sole responsibility of the City of Gonzales. Therefore, the excess \$900 is not an enforceable obligation and is not eligible for RPTTF funding.
- Item No. 6 – Security Servicing Fees in the amount of \$151,000 is partially approved. The Agency requests \$6,000; however, Finance is adjusting the request by \$2,350. The Agency provided invoices which indicate the annual trustee fees for the 2003 Tax Allocation Bonds and 2011 Tax Allocation Refunding Bonds are \$2,000 and \$1,650, respectively. Therefore, the difference, \$2,350 (\$6,000 - \$2,000 - \$1,650) is not an enforceable obligation and is not eligible for RPTTF funding.
- The administrative costs claimed are within the fiscal year administrative cap pursuant to HSC section 34171 (b). However, 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.

In addition, Finance noted the following during our review:

- On the ROPS 13-14B Prior Period Adjustment worksheet, the Agency's expenditures exceeded Finance's authorization for the following item:
 - Bond Proceeds – Item No. 1, \$11,971

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, this item was determined to be enforceable obligation 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 expenditure for the approved enforceable obligation. As the Bond Proceeds was 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.

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, Finance accepted the prior period adjustment (PPA) 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. The Agency's maximum approved RPTTF distribution for the reporting period is \$404,758 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	1,437,669
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS	\$ 1,562,669
Total RPTTF requested for non-administrative obligations	1,437,669
Denied Items	
Item No. 5	(900)
Item No. 6	(2,350)
Item No. 18	(804,538)
	(807,788)
Total RPTTF authorized for non-administrative obligations	\$ 629,881
Total RPTTF requested for administrative obligations	125,000
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 754,881
ROPS 13-14B prior period adjustment	(37,193)
Total ROPS 13-14B PPA	(37,193)
Total RPTTF approved for distribution	\$ 717,688

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. The Agency was able to support the amounts reported except for various revenues and expenditures reported in the Bonds and Other Funds columns. As a result, no item has been reclassified. Finance will continue to work with the Agency after the ROPS 14-15B review period to resolve any remaining issues as described above. If it is determined the Agency possesses additional 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>

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: Mr. Thomas Truskowski, Community Development Director, City of Gonzales
Ms. Julie Aguero, Auditor Controller Analyst II, Monterey County
California State Controller's Office