



November 4, 2014

Ms. Susie Holmes, Finance Director
City of Willits
111 East Commercial Street
Willits, CA 95490

Dear Ms. Holmes:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Willits Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to the California Department of Finance (Finance) on September 24, 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. 10 – 2002 Tax Allocation Bonds debt service payment reserve in the amount of \$404,648 is partially denied. HSC section 34171 (d) (1) (A) allows for reserves when required by the bond indenture or when the next property tax allocation will be insufficient to pay for all obligations due under the provisions of the bond for the next payment due in the following half of the calendar year. The Agency requested \$141,287 in Reserve Balance and \$263,361 in Redevelopment Property Tax Trust Fund (RPTTF) for a total of \$404,648 for a payment reserve to be used during the ROPS 15-16A period. However, review of the debt service schedule shows the total payment required during the period is \$328,324. Therefore, Finance is approving \$141,287 in Reserve Balance and \$263,361 in RPTTF for a total of \$328,324 (\$141,287 + 263,361). As such, the remaining \$76,324 (\$404,648 - \$328,324) is not eligible for RPTTF funding on this ROPS.

Finance notes that pursuant to HSC section 34183 (a) (2) (A), debt service payments have first priority for payment from distributed RPTTF funding. As such, the \$328,324 requested to be held in reserve along with the amounts required for the current ROPS period should be transferred upon receipt to the bond trustee(s). The amounts approved for debt service payments on this ROPS are restricted for that purpose and are not authorized to be used for other ROPS items. Any requests to fund these debt service items again in the ROPS 15-16A period will be denied unless insufficient RPTTF was received to satisfy the approved annual debt service payments.

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.

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 and adjusted by Finance. During our review, Finance increased the Available Admin RPTTF by \$88,474 from \$36,526 to \$125,000, to reflect the amount distributed by the Mendocino County Auditor-Controller. As such, Finance adjusted the agency reported prior period adjustment on the ROPS 14-15B by \$88,474 from \$9,048 to \$97,522.

Except for the item 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 \$236,839 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	348,734
Total RPTTF requested for administrative obligations	60,000
Total RPTTF requested for obligations on ROPS	\$ 408,734
Total RPTTF requested for non-administrative obligations	348,734
<u>Denied Item</u>	
Item No. 10	(74,373)
Total RPTTF authorized for non-administrative obligations	\$ 274,361
Total RPTTF requested for administrative obligations	60,000
Total RPTTF authorized for administrative obligations	\$ 60,000
Total RPTTF authorized for obligations	\$ 334,361
Self-reported ROPS 13-14B prior period adjustment (PPA)	(9,048)
Finance adjustment to ROPS 13-14B PPA	(88,474)
Total ROPS 13-14B PPA	(97,522)
Total RPTTF approved for distribution	\$ 236,839

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 Other Funds. 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>

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 Veronica Green, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

cc: Ms. Catherine Masiello, Senior Accountant, City of Willits
Ms. Meredith J. Ford, Auditor-Controller, Mendocino County
California State Controller's Office