



April 10, 2015

Mr. Art Gallucci, City Manager
City of Cerritos
18125 Bloomfield Avenue
Cerritos, CA 90703

Dear Mr. Gallucci:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Cerritos Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to the California Department of Finance (Finance) on February 25, 2015 for the period of July 1, 2015 through December 31, 2015. Finance has completed its review of your ROPS 15-16A, 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. 4 and 20 – Magnolia Power Project B Series 2003 Lease Revenue Bonds Payments totaling \$19,202,842 continues to be denied. These items were previously denied by Finance in our ROPS 13-14B, 14-15A, and 14-15B final determination letters. It is our understanding; the Agency executed a Cooperative Agreement with the City on June 23, 2005 which binds the Agency to the Bond Indenture. However, the agreement was not executed at the time of the issuance of the Bond Indenture. The Agency requested funding for these items pending the ruling of future litigation on the matter.

Pursuant to HSC section 34171 (d) (2), 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 purpose of the Cooperative Agreement is for securing or repaying indebtedness obligations, it was not entered into at the time of issuance of the indebtedness obligations. Therefore, these items are not enforceable obligations and are not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item Nos. 43 and 45 – City loan repayments totaling \$41,266,007 continues to be denied. These items were previously denied by Finance in our ROPS III, 13-14A, 13-14B, and 14-15A final determination letters. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the redevelopment agency (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. These loans agreements were issued after the first two years of the former RDA's creation and are not associated with the issuance of debt. The Agency requested funding for these items pending the ruling of future litigation on the matter, however, these items are not enforceable obligations and are not eligible for RPTTF funding at this time.

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

- Item Nos. 44 and 46 – Of the requested Low and Moderate Income Housing Fund (LMIHF) loan repayments for purposes of the Supplemental Educational Revenue Augmentation Fund (SERAF) for the 2014-15 fiscal year, \$802,575 of the \$2,814,589 requested 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 year. According to the County Auditor-Controller's (CAC) report, the amount distributed to the taxing entities for fiscal year 2012-13 and 2014-15 are \$8,696,763 and \$12,720,790, respectively. Therefore, pursuant to the repayment formula, the maximum repayment amount authorized for fiscal year 2014-15 is \$2,012,014. Therefore, of the \$2,814,589 requested for these LMIHF loan repayments, \$802,575 of excess amount is not allowed.

Per the Agency's request, Item No. 44 has been reduced by \$240,773 and Item No. 46 has been reduced by \$561,802, totaling \$802,575.

- HSC section 34176 (e) (6) (B) authorizes loans or deferrals owed to the LMIHF to be repaid starting in fiscal year 2013-14, subject to the formula outlined in HSC section 34191.4 (b) (2) (A). The Agency's LMIHF loans associated with SERAF are identified as Item Nos. 44 and 46 on the Agency's ROPS. The Agency was approved and provided \$2,814,589 towards the fiscal year 2013-14 LMIHF loan repayments in our April 7, 2014 ROPS 14-15A determination letter. Further, per the above bullet, Finance is approving \$2,012,014 towards the fiscal year 2014-15 LMIHF loan repayments.

Finance intends to fully comply with the writ of mandate issued by the Sacramento County Superior Court in case number 34-2013-80001503 when the Agency requests the estimated fiscal year 2015-16 LMIHF loan repayments. A request for these amounts was absent from the ROPS 15-16A submitted by the Agency, but can be requested on the Agency's ROPS 15-16B.

- Claimed administrative costs exceed the allowance by \$165,536. HSC section 34171 (b) limits the fiscal year 15-16 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. The Agency is requesting \$614,260 for administrative costs. However, it is our understanding; the total authorized Redevelopment Property Tax Trust Fund (RPTTF) for non-administrative obligations in the amount of \$15,465,632 includes Item No. 23, in the amount of \$540,784. It is our understanding the Agency did not use the distributed funding in ROPS III, 13-14A, 13-14B and 14-15A and this non-use has been appropriately accounted for through the Prior Period Adjustment. However, this item's share of administrative allowance has been previously funded and the Agency reports to

have fully expended the administrative costs associated with this line item in ROPS III, 13-14A, and 13-14B.

As demonstrated in the Administrative Cost Cap Calculation table below, \$540,784 is not eligible towards the administrative cost cap, thus reducing the three percent allocation to \$448,724. Although, \$614,260 is claimed for administrative cost, only \$448,724 is available pursuant to the cap. Therefore, \$165,536 of excess administrative costs is not allowed.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting RPTTF. Pursuant to HSC section 34177 (I) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. The Agency provided financial records that displayed available Other Funds totaling \$32,630.

Therefore, the funding source for the following item has been reclassified to Other Funds and in the amount specified below:

- Item No. 49 – Debt Reserve Requirement-GASB 31 Funding in the amount of \$37,422. The Agency requests \$37,422 of RPTTF; however, Finance is reclassifying \$32,630 to Other Funds. This item is an enforceable obligation for the ROPS 15-16A period. However, the obligation does not require payment from property tax revenues and the Agency has \$32,630 in available Other Funds. Therefore, Finance is approving RPTTF in the amount of \$4,792 and the use of Other Funds in the amount of \$32,630, totaling \$37,422.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 15-16A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2014 period. HSC section 34186 (a) also specifies prior period adjustments self-reported by successor agencies are subject to audit by the CAC and the State Controller. The amount of RPTTF approved in the table below includes the prior period adjustment resulting from the CAC's review of the Agency's self-reported prior period adjustment.

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 15-16A. If you disagree with the determination with respect to any items on your ROPS 15-16A, 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 \$14,815,120 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution	
For the period of July through December 2015	
Total RPTTF requested for non-administrative obligations	20,475,337
Total RPTTF requested for administrative obligations	614,260
Total RPTTF requested for obligations on ROPS	\$ 21,089,597
Total RPTTF requested for non-administrative obligations	20,475,337
<u>Denied Items</u>	
Item No. 4	(107,625)
Item No. 20	(322,875)
Item No. 43	(1,444,000)
Item No. 44	(240,773)
Item No. 45	(2,300,000)
Item No. 46	(561,802)
	(4,977,075)
	\$ 15,498,262
<u>Cash Balances - Item reclassified to Other Funds</u>	
Item No. 49	(32,630)
Total RPTTF authorized for non-administrative obligations	\$ 15,465,632
Total RPTTF requested for administrative obligations	614,260
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(165,536)
Total RPTTF authorized for administrative obligations	\$ 448,724
Total RPTTF authorized for obligations	\$ 15,914,356
ROPS 14-15A prior period adjustment	(1,099,236)
Total RPTTF approved for distribution	\$ 14,815,120

Administrative Cost Cap Calculation	
Total RPTTF for non-administrative obligations	15,498,262
Less: Administrative costs adjustment for Item No. 23	(540,784)
Total RPTTF for Non-Administrative obligations	14,957,478
Percent allowed pursuant to HSC section 34171 (b)	3%
Total RPTTF allowable for administrative obligations	448,724

Please refer to the ROPS 15-16A 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 July 1 through December 31, 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.

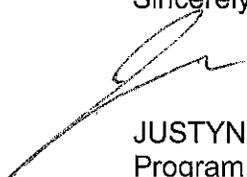
The amount available from the RPTTF is the same as the amount of property tax increment that was available prior to the enactment of ABx1 26 and AB 1484. This amount is not and never was an unlimited funding source. Therefore, as a practical matter, the ability to fund the items on the ROPS with property 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 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 Kylie Oltmann, Supervisor or Veronica Green, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Program Budget Manager

cc: Ms. Denise Manoogian, Director of Administrative Services, City of Cerritos
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County
California State Controller's Office