

May 15, 2015

Ms. Judy Holwell, Project Manager
City of Lemoore
119 Fox Street
Lemoore, CA 93245

Dear Ms. Holwell:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 12, 2015. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Lemoore Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to Finance on March 2, 2015, for the period of July through December 2015. Finance issued a ROPS determination letter on April 12, 2015. Subsequently, the Agency requested a Meet and Confer session on one or more of the determinations made by Finance. The Meet and Confer session was held on April 23, 2015.

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 determinations being disputed.

- Item No. 30 – Purchase of City General Fund Receivable due from Golf Course in the amount of \$356,346 is not an enforceable obligation. Finance continues to deny this item. Finance initially denied this item because the Agency was not able to provide sufficient documentation to support the amounts claimed. The documents provided by the Agency did not show evidence of an executed agreement or contract for this item.

During the Meet and Confer process, the Agency contended that in June 2005, the former Redevelopment Agency (RDA) and the City of Lemoore (City) entered into an agreement for the former RDA to purchase the General Fund Receivable that was due from the Golf Course Fund to the General Fund. However, the Agency only provided agenda items approved by the former RDA's Board and the City Council as support for this arrangement. Per HSC section 34171 (d) (2), "enforceable obligation" does not include any agreements, contracts, or arrangements between the former RDA and the city that created it, unless a loan agreement was entered into between the former RDA and the city that created it, within two years of the date of creation of the former RDA, or solely for the purpose of securing or repaying indebtedness obligations may be deemed to be enforceable obligations. The arrangement for the General Fund Receivable purchase does not meet either exception in HSC section 34171 (d) (2). Therefore, this item is not an enforceable obligation and not eligible for funding.

Furthermore, since this item is not related to a loan agreement entered into between the former RDA and the city that created it for legitimate redevelopment purposes, the post compliance provisions defined in HSC section 34191.4 (b) (1) does not apply.

- Item Nos. 31– Housing administrative costs totaling \$75,000 is not an enforceable obligation. Finance continues to deny this item. Finance denied this item because pursuant to HSC section 34171 (p), the housing entity administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the RDA elected to not assume the housing functions. Because the housing entity to the former RDA of the City is the City-formed Housing Authority (Authority), and the Authority operates under the control of the City, the Authority is considered the City under Dissolution Law (ABx1 26 and AB 1484).

The Agency contends that the former RDA transferred the housing assets to the Authority, as a separate legal entity from the City, which retained the housing functions pursuant to HSC section 34176 (b) and should therefore be eligible for the housing entity administrative allowance. However, pursuant to HSC section 34167.10 (a), the definition of “city” includes, but is not limited to, any reporting entity of the city for purposes of its comprehensive annual financial report (CAFR), any component unit of the city, or any entity controlled by the city or for which the city is financially responsible or accountable. HSC section 34167.10 (a) defines “city” for purposes of all of Dissolution Law, which includes HSC section 34171, as amended by AB 471, and HSC section 34176. The Authority is included in the City’s CAFR, which identifies the Authority as a component unit of the City and states that the City is financially accountable for the component units.

Although the Authority is a separate legal entity from the City, HSC section 34167.10 (c) states that it shall not be relevant that the entity is formed as a separate legal entity. It should also be noted that HSC section 34167.10 (c) goes on to state that “the provisions of this section are declarative of existing law as the entities described herein are and were intended to be included within the requirements of this part [Part 1.8] and Part 1.85...and any attempt to determine otherwise would thwart the intent of these two parts.” Therefore, based on our review, the City, by way of the Authority, elected to retain the housing functions pursuant to HSC section 34176 (a) and is not eligible for \$75,000 of housing entity administrative allowance.

In addition, per Finance’s letter dated April 12, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 23 – Annual audit fees totaling \$5,000 is not allowed. Agency is requesting funds for a possibility of an additional audit of the Agency. There are no expenditure contracts in place and requesting reserves for unknown contingencies is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding at this time. The Agency may request funding if the audit is required in the future.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting Redevelopment Property Tax Trust Fund (RPTTF). Pursuant to HSC section 34177 (l) (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 Reserve Balances of \$27,731.

Therefore, with the Agency's concurrence, the funding source for the following item has been reclassified to Reserve Balances in the amounts specified below:

- Item No. 3 – 2011 Bonds. The Agency requests \$439,656 of RPTTF; however, Finance is reclassifying \$27,731 to Other Funds. This item is an enforceable obligation for the ROPS 15-16A period and the Agency has \$27,731 in available Other Fund Balances. Therefore, Finance is approving RPTTF in the amount of \$411,925 and the use of Reserve Balances in the amount of \$27,731.

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 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 15-16A. The Agency's maximum approved RPTTF distribution for the reporting period is \$1,456,911 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 | 1,371,672 |
| Total RPTTF requested for administrative obligations | 250,000 |
| Total RPTTF requested for obligations on ROPS | \$ 1,621,672 |
| | |
| Total RPTTF requested for non-administrative obligations | \$ 1,371,672 |
| <u>Denied Items</u> | |
| Item No. 23 | (5,000) |
| Item No. 31 | (75,000) |
| | (80,000) |
| <u>Cash Balances - Item reclassified to Other Funds</u> | |
| Item No. 3 | (27,731) |
| | (27,731) |
| Total RPTTF authorized for non-administrative obligations | \$ 1,263,941 |
| Total RPTTF requested for administrative obligations | 250,000 |
| Total RPTTF authorized for administrative obligations | \$ 250,000 |
| Total RPTTF authorized for obligations | \$ 1,513,941 |
| ROPS 14-15A prior period adjustment | (57,030) |
| Total RPTTF approved for distribution | \$ 1,456,911 |

Please refer to the ROPS 15-16A 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 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 Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-3274.

Sincerely,



JUSTYN HOWARD
Program Budget Manager

cc: Ms. Cheryl Silva, Finance Director, City of Lemoore
Ms. Cassandra Mann, Property Tax Manager, Kings County
California State Controller's Office