



April 10, 2015

Mr. Sage Sangiacomo, Assistant City Manager
City of Ukiah
300 Seminary Ave
Ukiah, CA 95482

Dear Mr. Sangiacomo:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Ukiah Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to the California Department of Finance (Finance) on February 26, 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. 2, 3, 4, 5, and 6 – Various Tax Allocation Bonds, debt service payments. The Agency requested Reserve Balances totaling \$1,513,303 and Redevelopment Property Tax Trust Funds (RPTTF) totaling \$1,453,893 for these items. However, the amounts requested did not agree with the corresponding amounts listed on the bond debt-service schedules. Finance contacted the Agency for confirmation, and to date, has not received a response to our inquiries. To the extent the Agency can provide proper documentation to support the six-month estimated expenditures, such as a description of how the amounts were calculated, funding may be approved on this ROPS period. Finance will continue to work with the Agency to obtain the necessary documentation.
- Item No. 22 – Contracts between the City of Ukiah (City) and the Agency totaling \$6,000,000. Finance continues to deny this item. Finance denied the item as 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. The Agency contends the contracts are enforceable obligations because the City/Agency agreement was approved by the Oversight Board and not objected to by Finance before AB 1484 amended HSC Section 34178(a), effective June 28, 2012, and on June 20, 2012, the City and the Agency entered the Restated Funding Agreement, which restated and amended a funding agreement originally entered between the City and the former RDA on March 8, 2011. However, Finance disagrees with the Agency's contention that it re-entered into the City/Agency agreement. As stated in the Sacramento Superior Court decision denying the City and Agency's petition for writ of mandate on this issue, the

City/Agency agreement was never re-entered and cannot be deemed to be an enforceable obligation.

Additionally, while HSC section 34178 (a) and 34180 (h) authorizes successor agencies to reenter into agreements, any agreement reentered into cannot conflict with the requirements set forth in HSC 34171 (d), as ABx1 26 did not specifically carve out an exception to the definition of an enforceable obligation nor did HSC section 34178 (a) or 34180 (h) notwithstanding HSC section 34171 (d). Therefore, the Oversight Board had no legal basis to approve an action that directly conflicted with and violated the definition of an enforceable obligation. Even if Finance did not object to the specific Oversight Board actions authorizing the Agency to reenter into agreements, the statute as a whole prohibits such an action from being validated if it conflicts with the definition of an enforceable obligation.

Additionally, Finance has clearly defined authority under HSC section 34177 and 34179 (h) to review any items on ROPS to determine whether or not successor agencies are responsible for the obligation listed on their ROPS. Even if an Oversight Board approved an action attempting to create an enforceable obligation, Finance has the authority to review the purported obligation for compliance with HSC section 34171 (d) or for compliance with any other statutory requirements contained in Chapter 26, statutes of 2012 (AB 1484). At no time can an Oversight Board action eliminate Finance's authority to review an alleged enforceable obligation as part of a ROPS review.

Furthermore, to the extent the item was to be funded with bond proceeds, we note that pursuant to HSC section 34191.4 (c), successor agencies that have been issued a Finding of Completion by Finance will be allowed to use excess proceeds from bonds issued prior to December 31, 2010 for the purposes for which the bonds were issued. Successor Agencies have no authority to use excess proceeds from bonds issued after December 31, 2010 and should defease or repurchase on the open market for cancellation any bonds that cannot be used for the purpose they were issued or if they were issued after December 31, 2010. The bond proceeds requested for use were issued in March 2011. Therefore, the items are not enforceable obligations.

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 Redevelopment Property Tax Trust Fund (RPTTF) approved in the table below only reflects the prior period adjustment self-reported by the Agency.

However, Finance determined the Agency incorrectly entered \$1,271,873 as the Available Non-Admin RPTTF amount instead of \$1,208,620, and \$33,339 as the Available Admin RPTTF instead of \$0. The Agency's Total Available of \$1,206,620 minus the authorized actual expenditures of \$1,134,130 leaves the correct prior period adjustment of \$74,490 (\$1,208,620-\$1,134,130).

The Agency's maximum approved RPTTF distribution for the reporting period is \$146,710 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	1,650,093
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS	\$ 1,775,093
Total RPTTF requested for non-administrative obligations	1,650,093
<u>Denied Items</u>	
Item No. 2	(611,445)
Item No. 4	(378,600)
Item No. 6	(463,848)
Item No. 22	(100,000)
	<u>(1,553,893)</u>
Total RPTTF authorized for non-administrative obligations	\$ 96,200
Total RPTTF requested for administrative obligations	125,000
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 221,200
ROPS 14-15A prior period adjustment	(74,490)
Total RPTTF approved for distribution	\$ 146,710

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 15-16A review, Finance requested financial records to support the cash balances reported by the Agency. The Agency was able to support the amounts reported except the amounts reported in reserve balance. Finance will continue to work with the Agency after the ROPS 15-16A 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 15-16B.

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

Sincerely,



JUSTYN HOWARD
Program Budget Manager

cc: Ms. Jane Chambers, City Manager, City of Ukiah
Mr. Lloyd Weer, Auditor-Controller, Mendocino County
California State Controller's Office