



November 6, 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) (1) (A), the City of Cerritos Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period January 1 through June 30, 2016 (ROPS 15-16B) to the California Department of Finance (Finance) on September 29, 2015. Finance has completed its review of the ROPS 15-16B.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

- Item No. 4 – Magnolia Power Project B Series 2003 Lease Revenue Bonds Payments totaling \$19,202,842 continues to be denied. This item was previously denied in ROPS 13-14B, 14-15A, and 14-15B final determination letters. The Agency requests \$430,500 for the six-month period. 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. Therefore, the requested \$430,500 in Redevelopment Property Tax Trust Fund (RPTTF) is denied.
- Item No. 43 – City loan repayments totaling \$41,266,007 continues to be denied. This item was previously denied in ROPS III, 13-14A, 13-14B, and 14-15A final determination letters. The Agency requests \$3,744,000 for the six-month period. 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 No. 44 – Low and Moderate Income Housing Fund (LMIHF) loan repayment for purposes of the Supplemental Educational Revenue Augmentation Fund (SERAF) in the amount of \$1,800,000 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. Pursuant to the repayment formula, the maximum repayment amount authorized for fiscal year 2015-16 is \$2,012,014. Finance approved the requested maximum repayment amount during ROPS 15-16A for SERAF loans, therefore, the requested \$1,800,000 of excess loan repayment is not eligible for funding on this ROPS. The Agency may be eligible for additional funding in a subsequent fiscal year.

- Item No. 50 – Unfunded pension liability totaling \$6,713,223. Although this item is considered an enforceable obligation, Finance has determined that the repayment over a 30 year period does not comply with the spirit of HSC section 34177 (h) to expeditiously wind down the affairs of the Agency. A reasonable payment schedule for the \$6,713,223 in unfunded pension liabilities allocated over a period of five years results in ten bi-annual payments of \$671,322. Therefore, the requested amount of \$568,417 has been increased by \$102,905 payable on this ROPS. The remaining balance of \$6,041,901 should continue to be placed on future ROPS until the obligation is retired.
- Item No. 51 – Unfunded retiree healthcare liability totaling \$555,602. Although this item is considered an enforceable obligation, Finance has determined that the repayment over a 30 year period does not comply with the spirit of HSC section 34177 (h) to expeditiously wind down the affairs of the Agency. A reasonable payment schedule for the \$555,602 in unfunded retiree healthcare liabilities allocated over a period of five years results in ten bi-annual payments of \$55,560. Therefore, the requested amount of \$44,774 has been increased by \$10,786 payable on this ROPS. The remaining balance of \$500,042 should continue to be placed on future ROPS until the obligation is retired.
- Claimed administrative costs exceed the allowance by \$192,024. HSC section 34171 (b) (2) limits fiscal year 2015-16 administrative expenses to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$557,827 in administrative expenses. The Los Angeles Auditor-Controller's Office distributed \$448,724 for the July through December 2015 period, thus leaving a balance of \$109,103 available for the ROPS 15-16B period. However, the Agency has requested \$301,127 in administrative costs for ROPS 15-16B period. Therefore, \$192,024 of excess administrative cost is not allowed.

Pursuant to HSC section 34186 (a) (1), the Agency was required to report on the ROPS 15-16B form the estimated obligations versus actual payments (prior period adjustment) associated with the January through June 2015 period (ROPS 14-15B). HSC section 34186 (a) (1) also

specifies the prior period adjustment self-reported by the Agency is subject to review by the CAC. The amount of Redevelopment Property Tax Trust Fund (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, Finance is not objecting to the remaining items listed on your ROPS 15-16B. If you disagree with Finance's determination with respect to any items on your ROPS 15-16B, except for those items which are the subject of litigation disputing Finance's previous or related determinations, 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 \$3,679,412 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution For the period of January through June 2016	
Total RPTTF requested for non-administrative obligations	10,037,551
Total RPTTF requested for administrative obligations	301,127
Total RPTTF requested for obligations on ROPS 15-16B	\$ 10,338,678
RPTTF adjustment to non-administrative obligations	113,691
Total RPTTF adjustments	\$ 113,691
Total RPTTF requested for non-administrative obligations	10,151,242
<u>Denied Items</u>	
Item No. 4	(430,500)
Item No. 43	(3,744,000)
item No. 44	(1,800,000)
	(4,174,500)
Total RPTTF authorized for non-administrative obligations	\$ 4,176,742
Total RPTTF requested for administrative obligations	301,127
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(192,024)
Total RPTTF authorized for administrative obligations	\$ 109,103
Total RPTTF authorized for obligations	\$ 4,285,845
ROPS 14-15B prior period adjustment	(606,433)
Total RPTTF approved for distribution	\$ 3,679,412

Administrative Cost Cap Calculation	
Total RPTTF for 15-16A (July through December 2015)	15,498,262
Total RPTTF for 15-16B (January through June 2016)	4,176,742
Less approved unfunded obligations from prior periods	(1,080,780)
Total RPTTF for fiscal year 2015-2016	18,594,224
Administrative cost cap for fiscal year 2015-16 (Greater of 3% of Total RPTTF or \$250,000)	557,827
Administrative allowance for ROPS 15-16A (July through December 2015)	(448,724)
Remaining administrative cost cap for ROPS 15-16B	109,103
ROPS 15-16B administrative obligations after Finance adjustments	(301,127)
Administrative costs in excess of the cap	\$ (192,024)

On the ROPS 15-16B form, the Agency reported cash balances and activity for the period January 1 through December 31, 2015. Finance will perform a review of the Agency's self-reported cash balances on an ongoing basis. Please be prepared to submit financial records and bridging documents to support the cash balances reported upon request. If it is determined the Agency possesses cash balances that are available to pay approved obligations, HSC section 34177 (l) (1) (E) requires these balances be used prior to requesting RPTTF.

Please refer to the ROPS 15-16B schedule used to calculate the total RPTTF approved for distribution:

<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, 2016. This determination only applies to items when 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 ROPS periods. All items listed on a future ROPS are subject to review and may be denied even if it was not denied on this ROPS or a preceding ROPS. The only exception is for items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). Finance's review of Final and Conclusive items 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 available prior to the enactment of the redevelopment dissolution statutes. 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.

Please direct inquiries to Kylie Oltmann, Supervisor, or Nicole Prisakar, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Program Budget Manager

Mr. Art Gallucci
November 6, 2015
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cc: on the following page
Ms. Denise Mancoogian, Director of Administrative Services, City of Cerritos
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County