

December 18, 2012

Ms. Laurie A. Smith, Administrative Services Officer
City of Modesto
1010 Tenth Street
Modesto, CA 95354

Dear Ms. Smith:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 20, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Modesto Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 31, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 20, 2012. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on November 26, 2012.

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 item being disputed.

- Item No. 1 and 2 - Certificates of Participation and Reimbursement Agreement totaling \$32.7 million. Finance is no longer denying the Items. Finance originally denied the Items because it appeared that the payment is pledged with lease payments from the City of Modesto. Therefore, the items must be paid using "Other" sources, and not Redevelopment Property Tax Trust Fund (RPTTF) money. Upon review of the documentation provided by the Agency, we concur that the reimbursement agreement was entered in at the time of issuance and solely for the purpose of securing or repaying the indebtedness obligations. Therefore, the Items are enforceable obligations.
- Item 7 – City loan in the amount of \$145,000. Finance continues to deny this Item. 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. This shall remain the case until and unless a finding of completion is issued by the Department of Finance and the oversight board makes a finding that the loan was for legitimate redevelopment purposes. (HSC section 34191.4 (b)) Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding on this ROPS. It is our understanding that the Agency understands our position.
- Administrative costs funded by RPTTF exceed the allowance by \$16,855. HSC section 34171(b) limits administrative costs to three percent of property tax allocated to the

successor agency or \$250,000, whichever is greater for the fiscal year. As a result, the Agency's administrative cost allowance is capped at \$250,000 for the fiscal year. In the period July through December of 2012, \$125,000 of administrative allowance was used, leaving \$125,000 available for the January through June 2013 period. Therefore, \$16,855 of the claimed \$141,855 is denied. Item 6 continues to be reclassified to an administrative cost and was used to arrive at the denied allowance.

The Agency's maximum approved RPTTF distribution for the reporting period is: \$195,989 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 3,289,762
Less: Six-month total for item(s) denied or reclassified as administrative cost	
Item No. 6*	5,312
Item No. 7	50,000
Total approved RPTTF for enforceable obligations	<u>\$ 3,234,450</u>
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	<u>125,000</u>
Total RPTTF approved:	\$ 3,359,450
* Reclassified as administrative cost	
Administrative Cost Calculation	
Total RPTTF for the period July through December 2012	\$ 1,722,780
Total RPTTF for the period January through June 2013	3,234,450
Total RPTTF for fiscal year 2012-13:	\$ 4,957,230
Allowable administrative cost for fiscal year 2012-13 (Greater of 3% or \$250,000)	250,000
Administrative allowance for the period of July through December 2012	125,000
Allowable RPTTF distribution for administrative cost for ROPS III:	\$ 125,000

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS III form the estimated obligations and actual payments associated with the January through June 2012 period. The amount of RPTTF approved in the above table will be adjusted by the county auditor-controller to account for differences between actual payments and past estimated obligations. Additionally, these estimates and accounts are subject to audit by the county auditor-controller and the State Controller.

The amount available from the RPTTF is the same as the property tax increment that was available prior to 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 successor agency in the RPTTF.

Except for items disallowed as noted above, Finance is not objecting to the remaining items listed in your ROPS III. Obligations deemed not to be enforceable shall be removed from your ROPS. This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2013. 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 questioned on this ROPS or a preceding ROPS.

Ms. Laurie Smith
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Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Daniele Brandon, Analyst, at (916) 445-1546.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Steve Szalay', with a stylized flourish extending downwards and to the left.

STEVE SZALAY
Local Government Consultant

cc: Mr. Stephen Christensen, Acting Budget Manager, City of Modesto
Ms. Lauren Klein, CPA, Auditor-Controller, Stanislaus County
California State Controller's Office