

October 29, 2012

Mr. Allen Falleri
City of Willits
111 E. Commercial Street
Willits, CA 95490

Dear Mr. Falleri:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Willits Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on September 20, 2012 for the period of January through June 2013. Finance has completed its review of your ROPS III, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following do not qualify as enforceable obligations:

- Item Nos. 7 and 8 – City loans from 1983 totaling \$501,690 are not enforceable obligations. The Agency was created in 1983 and while there are exceptions recognizing loans between the City and the Agency as enforceable obligations, no repayment schedules were provided. HSC section 34171 (d) (1) (B) allows loans to be enforceable only if they are legally required to be repaid pursuant to a required repayment schedule or other mandatory loan terms. Therefore, these loans are not enforceable obligations at this time. Upon receiving a finding of Completion from Finance, HSC section 34191.4 (b) may cause these items to be enforceable in future ROPS periods.
- Claimed administrative costs exceed the allowance by \$11,000. HSC section 34171 (b) limits fiscal year 2012-13 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 \$250,000 in administrative expenses. The Mendocino County Auditor Controller's Office distributed \$125,000 of administrative costs for the July through December 2012 period, thus leaving a balance of \$125,000 available for the January through June 2013 period. Although \$125,000 is claimed for administrative cost, Items No. 4 and 6 for audit and legal fees totaling \$11,000 are considered administrative expenses and should be counted toward the cap. Therefore, \$11,000 of excess administrative cost is not allowed.

Except for items denied in whole or in part as enforceable obligations as noted above, Finance is approving the remaining items listed in your ROPS III. If you disagree with the determination with respect to any items on your ROPS III, 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 Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is: \$216,674 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 604,364
Less: Six-month total for items reclassified as administrative cost	
Item 4*	5,000
Item 6*	6,000
Item 7	422,481
Item 8	79,209
Total approved RPTTF for enforceable obligations	\$ 91,674
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	125,000
Total RPTTF approved:	\$ 216,674

* Reclassified as administrative cost

Administrative Cost Calculation	
Total RPTTF for the period July through December 2012	\$ 351,600
Total RPTTF for the period January through June 2013	91,674
Total RPTTF for fiscal year 2012-13:	\$ 443,274
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.

Please refer to the ROPS III schedule that was used to calculate the approved RPTTF amount:

<http://www.dof.ca.gov/redevelopment/ROPS/ROPS III Forms by Successor Agency/>.

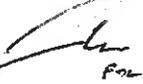
All items listed on a future ROPS are subject to a subsequent review. An item included on a future ROPS may be denied even if it was not questioned from the preceding ROPS.

Mr. Falleri
October 29, 2012
Page 3

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.

Please direct inquiries to Kylie Le, Supervisor or Brian Dunham, Lead Analyst at (916) 445-1546.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Szalay", with a long, sweeping underline that extends to the left.

STEVE SZALAY
Local Government Consultant

cc: Ms. Joanne Cavallari, Finance Director, City of Willits
Ms. Meredith J. Ford, Mendocino County Auditor-Controller