

**Oversight Board for
Redevelopment Agency
Successor Agency (RASA) for
City of Sacramento**

10**Meeting Date:** 12/16/2013**Report Type:** Communications**Title:** Report Regarding Communications from the State Department of Finance and State Controller**Recommendation:** Receive and file.**Contact:** Leslie Fritzsche, (916) 808-5450, RASA staff person and Senior Project Manager, Economic Development, City of Sacramento**Presenter:** Leslie Fritzsche, RASA Staff person, (916) 808-5450**Issue:**

On November 6th, RASA staff received a Final Determination letter from the State Department of Finance (DOF) regarding the Recognized Obligation Payment Schedule for January – June 2014. In the letter (included as Attachment 1) DOF denied \$19,237,000 in requested funds. The majority of that amount was funds sought to pay debt service on existing bond obligations.

DOF proposes to disallow \$16,440,863 in RPTTF from the January property tax distribution for RASA to hold as reserves in order to make the RASA bond debt service payment in the June – December 2014 period; thereby requiring RASA to rely solely on the June property tax distribution to fully pay these debts. DOF's position is based on its claim that the bond covenants do not require an early allocation of funds, and its belief that a sufficient amount will be available in the upcoming June distribution to cover both the debt service and the other enforceable obligation payments in the next ROPS cycle, July–December 2014.

DOF also disallowed allocations of bond funds for 14th Avenue and Third Avenue Plaza citing that there was not an existing construction contract for the use of these funds. The last major item denied was the inclusion of the funding for the 700 Block of K Street which they continued to dispute as an enforceable obligation.

Staff outlined the inaccuracy of DOF's statements and assumptions on these matters in the letter form request for a Meet and Confer which is included as Attachment 2. The

Meet and Confer was held on November 19, 2013 and they have indicated that we will have a written determination from them no later than December 17, 2013.

Attachments:

1. DOF Final Determination letter dated November 6, 2013 regarding January – June 2014 Recognized Obligation Payment Schedule
2. RASA letter requesting Meet and Confer re: DOF's determination on January – June 2014 Recognized Obligation Payment Schedule



EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

November 6, 2013

Ms. Leslie Fritzsche, Senior Project Manager
 City of Sacramento
 915 I Street
 Sacramento, CA 95814

Dear Ms. Fritzsche:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the Sacramento City Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 24, 2013 for the period of January through June 2014. Finance has completed its review of your ROPS 13-14B, 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 for the reasons specified:

- Item Nos. 7, 9, 31, 33, 89, 93, 97, 99, 101, 103, 105, 107, 109, 189, 192, 244, 246, 248, 252, 283, 288, 290, 292, 294, 296, 298, and 300 – Various debt service payment reserves totaling \$16,440,863. The Agency requested Redevelopment Property Tax Trust Fund (RPTTF) funding, in the amount of \$16,440,863, for debt service payments due during the July through December 2014 (ROPS 14-15A) period for smoothing purposes.

HSC section 34171 (d) (1) (A) allows agencies to hold a reserve for debt service payments when required by the bond indenture, or when the next property tax allocation will be insufficient to pay all obligations due for the next payment due in the following half of the calendar year. Based on our review of the bond indentures, we did not note any requirement to create such reserves. Additionally, based on the history of the Agency's RPTTF distributions, it is our understating that the next property tax allocation will be sufficient to pay debt service due for these bonds during the ROPS 14-15A period.

Therefore, the debt service payment reserves requested for the following bonds are not eligible for RPTTF funding as specified below:

- Item No. 7 – 2006 65th Street Capital Improvement Revenue Bond (CIRB) Series A in the amount of \$77,313.
- Item No. 9 – 2006 65th Street CIRB Series B in the amount of \$191,323.

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- Item No. 31 – 2003 Alkali Flat Tax Allocation Revenue Bond (TARB) Series C in the amount of \$407,586.
 - Item No. 33 – 2003 Alkali Flat TARB Series C in the amount of \$102,800.
 - Item No. 89 – 2005 Del Paso Refunding Revenue Bond (RRB) in the amount of \$192,475.
 - Item No. 93 – 2005 Del Paso RRB in the amount of \$593,509.
 - Item No. 97 – 2003 Del Paso TARB Series A in the amount of \$10,350.
 - Item No. 99 – 2006 Del Paso TARB Series A in the amount of \$136,201.
 - Item No. 101 – 2006 Del Paso TARB Series B in the amount of \$99,688.
 - Item No. 103 – 2003 Del Paso TARB Series A in the amount of \$75,819.
 - Item No. 105 – 2005 Del Paso RRB in the amount of \$213,766.
 - Item No. 107 – 2006 Del Paso TARB Series A in the amount of \$37,565.
 - Item No. 109 – 2006 Del Paso TARB Series B in the amount of \$100,710.
 - Item No. 189 – 1993 Merged Downtown TARB in the amount of \$8,510,926.
 - Item No. 192 – 1993 Merged Downtown TARB in the amount of \$2,884,075.
 - Item No. 244 – 2006 North Sacramento CIRB Series A in the amount of \$21,300.
 - Item No. 246 – 2003 North Sacramento TARB Series C in the amount of \$150,056.
 - Item No. 248 – 2006 North Sacramento CIRB Series B in the amount of \$225,073.
 - Item No. 252 – 2003 North Sacramento TARB Series C in the amount of \$46,275.
 - Item No. 283 – 2005 Oak Park RRB in the amount of \$115,275.
 - Item No. 288 – 1999 Oak Park RRB in the amount of \$145,837.
 - Item No. 290 – 2006 Oak Park TARB Series A in the amount of \$570,420.
 - Item No. 292 – 2005 Oak Park TARB Series A in the amount of \$174,500.
 - Item No. 294 – 2005 Oak Park TARB Series B in the amount of \$909,941.
 - Item No. 296 – 1999 Oak Park RRB in the amount of \$66,878.
 - Item No. 298 – 2006 Oak Park TARB Series A in the amount of \$254,995.
 - Item No. 300 – 2005 Oak Park TARB Series B in the amount of \$126,207.
- Item No. 37 – 14th Avenue Extension Project contract in the amount of \$2,209,150 funded by Reserve Funds. It is our understanding the Agency has not started the contracting process for this project. HSC section 34163 (b) prohibits a redevelopment agency (RDA) from entering a contract with any entity after June 27, 2011. Therefore, this item is not an enforceable obligation and is not eligible for Reserve Funds funding.
- Item Nos. 43, 46, 75, 79, 81 and 272 – Various bond funded projects totaling \$3,340,753 are not enforceable obligations at this time. The Agency received a Finding of Completion from Finance on September 20, 2013. However, it is our understanding the Agency has not started the contracting process for these projects. Therefore, the request to use bond proceeds for the following projects are not allowed:
 - Item No. 43 – 14th Avenue Extension Project in the amount of \$184,955.
 - Item No. 46 – 14th Ave Extension Project in the amount of \$1,381,906.
 - Item No. 75 – Del Paso Nuevo Project phases V and VI in the amount of \$168,646.
 - Item No. 79 – Del Paso Nuevo Project Phase VI in the amount of \$436,399.

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- Item No. 81 – Del Paso Nuevo Project Phases V and VI in the amount of \$692,505.
 - Item No. 272 – Broadway Streetscape/Third Avenue Plaza Project in the amount of \$476,342.
- Item Nos. 126, 128, 129, and 157 – 700 K Street Project related costs totaling \$248,975; \$162,291 funded by RPTTF, and \$86,684 funded by Reserve Funds. Because the 700 K Street project is not an enforceable obligation, project delivery, closing, and development costs associated with this project are also not enforceable obligations. Therefore, these line items are not enforceable obligations and are not eligible for RPTTF or Reserve Funds funding.
- Item Nos. 127, 154, and 159 – 700 K Street Project loans totaling \$3,600,000 million; \$2,573,542 funded by RPTTF, and \$1,026,458 funded by bond proceeds. The Agency's obligation to fund the project expired on June 30, 2013, as the developer did not meet the requirements to obtain new market tax credits. Therefore, these line items are not enforceable obligations and are not eligible for RPTTF or bond proceeds funding.
- Item No. 219 – 58 Arden Way Project Environmental Remediation Project Delivery Costs in the amount of \$30,808. Because the environmental remediation costs for the 58 Arden Way Project (Item No. 224) is not an enforceable obligation, the project delivery costs associated with this project is also not an enforceable obligation. Therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding.
- Item No. 224 – 58 Arden Way Project Environmental Remediation costs in the amount of \$45,500. The Agency requested that the 6-month amount for this obligation be increased from \$0 to \$45,500. This change increased total RPTTF requested for ROPS 13-14B by \$45,500. However, it is our understanding the contract for environmental remediation services was not awarded before June 27, 2011. HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011. Therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding.
- Item No. 386 – Housing Entity Administrative Allowance in the amount of \$150,000 funding by RPTTF. On Resolution No. 2013-0015, the oversight sight board approved the Agency's request to eliminate this item from ROPS 13-14B. Per the Agency's request, the amount requested for this obligation was changed from \$150,000 to \$0. This change decreased the total RPTTF requested for ROPS 13-14B by \$150,000.
- The Agency's claimed administrative costs exceed the allowance by \$455,475. HSC section 34171 (b) limits the fiscal year 2013-14 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. The Sacramento County Auditor Controller's Office distributed \$348,746 in administrative costs for the July through December 2013 period, thus leaving a balance of \$195,779 available for the January through June 2014 period. Although \$548,892 is claimed for administrative cost, only \$195,779 is available pursuant to the cap. Therefore, \$455,475 of excess administrative cost is not allowed.

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During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that are required to be used prior to requesting RPTTF. Pursuant to HSC section 34177 (I) (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 Other Funds totaling \$433,755.

Therefore, with the Agency's concurrence, the funding source for the following items have been reclassified to Other Funds and in the amounts specified below:

- Item No. 35 – Administrative Costs in the amount of \$195,779. The Agency requested \$548,892 of RPTTF; however, Finance is reclassifying \$195,779 to Other Funds. This item was partially approved for RPTTF funding for the ROPS 13-14B period. However, the obligation does not require payment from property tax revenues and the Agency has \$433,755 in Other Funds. Therefore, Finance is approving zero RPTTF and the use of Other Funds in the amount of \$195,779 in Other Funds, totaling \$195,779 for this item.
- Item No. 384 – Securities Lending Program Liability in the amount of \$237,976. The Agency requested \$430,826 of RPTTF; however Finance is reclassifying \$237,976 to Other Funds. This item was determined to be an enforceable obligation for the ROPS 13-14B period. However, the obligation does not require payment from property tax revenues and the Agency has \$433,755 in Other Funds. Therefore, Finance is approving RPTTF in the amount of \$192,850 and the use of Other Funds in the amount of \$237,976, totaling \$430,826 for this item.

Through Resolution No. 2013-0015, the Oversight Board approved the Agency's modifications to the Fund Balance Form. Per the Agency's request, the following changes have been made to the Fund Balance form:

- Bond proceeds beginning available fund balance as of January 1, 2013 for issuances on or before December 31, 2010 was changed from \$24,655,271 to \$24,599,503. Further, Finance increased the beginning balance by additional \$3,068,488 to include the cash with fiscal agent amounts. As a result, the beginning available fund balance as of January 1, 2013 for issuances on or before December 31, 2010 should be \$27,667,991. However, because the Agency is allowed to reserve the cash with fiscal agent balance as required by the bond indentures, the increase in the amount \$3,068,488 to the beginning balance will not increase the available bond proceeds for expenditures.
- Revenues generated from bond proceeds for issuances on or before December 31, 2010 during the January through June 2013 ROPS (ROPS III) period were changed from \$0 to \$145,832 to include interests earned from the bond proceeds.
- Expenditures of bond proceeds for issuances on or before December 31, 2010 during the ROPS III period was changed from \$285,863 to \$539,056 to reflect the actual bond proceeds expenditure for the period.

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- Reserves beginning available fund balance as of January 1, 2013 were changed from \$10,575,201 to \$14,476,266 to reflect Finance's final determination regarding the Other Funds and Accounts (OFA) Due Diligence Report (DDR) review.
- Revenues for reserve balance during the ROPS III period were changed from \$0 to \$105,505 to reflect the recovery of disallowed transfers of Low and Moderate Income Housing Fund (LMIHF) as a result of Finance's LMIHF DDR review.
- Other Funds beginning available fund balance as of January 1, 2013 was changed from \$7,317,601 to \$2,712,626 to reflect Finance's final determination regarding the OFA DDR review.
- Revenues for Other Funds balance during the ROPS III period were changed from \$625,276 to \$948,917 to reflect the actual revenues generated in the period.
- RPTTF non-administrative expenditures for ROPS III period were changed from \$6,991,865 to \$6,647,696 to include the Agency's year-ending adjustments to related obligations. Accordingly, the retention of available fund balances for ROPS III was also changed from \$10,547,213 to \$10,707,740.
- RPTTF administrative expenditures for the ROPS III period were changed from \$821,332 to \$823,117 to include the Agency's year-ending adjustments to administrative costs.

Pursuant to HSC Section 34186 (a), successor agencies were required to report the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. The amount of RPTTF approved in the table below includes the prior period adjustment that was self-reported by the Agency. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. However due to the form changes requested by the Agency, the prior period adjustment report Finance received from the CAC was incomplete. Therefore, the amount of RPTTF approved in the table below includes only the prior period adjustment self-reported by the Agency.

Through Resolution No. 2013-0015, the Oversight Board approved the Agency's modifications to the Prior Period Adjustments form. Per the Agency's request, various changes have been made to the Prior Period Adjustment form to include the Agency's year-ending adjustments (see Exhibit A). As a result, the total actual expenditures for the following funding sources have been changed by the amounts specified below:

- RPTTF non-administrative expenditures were decreased by \$183,642 from \$17,539,078 to \$17,355,435.
- RPTTF administrative expenditures were increased by \$1,845 from \$821,332 to \$823,177.
- Bond proceeds expenditures were increased by \$253,193 from \$285,863 to \$539,056.

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Except for items denied in whole or in part as enforceable obligations or for items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 13-14B. If you disagree with the determination with respect to any items on your ROPS 13-14B, 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 \$4,761,513 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF originally requested for non-administrative obligations	25,868,075
Plus: Changes to RPTTF as requested by the Agency	
Item No. 224	45,500
Item No. 386	(150,000)
Total RPTTF requested for non-administrative obligations	25,763,575
Total RPTTF requested for administrative obligations	651,254
Total RPTTF requested for obligations	\$ 26,414,829
Total RPTTF requested for non-administrative obligations	25,763,575
Denied Items*	19,237,600
Reclassified Items – From RPTTF to Other Funds	
Item No. 384	237,976
	237,976
Total RPTTF approved for non-administrative obligations	6,287,999
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)	195,779
Reclassified Items – From RPTTF to Other Funds	
Item No. 35	195,779
	195,779
Total RPTTF for administrative obligations	0
Total RPTTF approved for obligations	6,287,999
ROPS III prior period adjustment	(1,526,486)
Total RPTTF approved for distribution	\$ 4,761,513
Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	11,624,870
Total RPTTF for 13-14B (January through June 2014)	6,525,975
Less approved unfunded obligations from prior periods	-
Total RPTTF for fiscal year 2013-14	18,150,845
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or \$250,000)	544,525
Administrative allowance for 13-14A (July through December 2013)	348,746
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	195,779

*Refer to Exhibit B for an itemized list of denied items

Please refer to the ROPS 13-14B schedule that was used to calculate the approved RPTTF amount:

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[http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14B Forms by Successor Agency/](http://www.dof.ca.gov/redevelopment/ROPS/ROPS%2013-14B%20Forms%20by%20Successor%20Agency/).

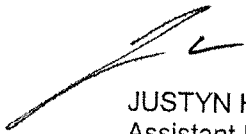
Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2014. This determination applies only to items where funding was requested for the six month period. Finance's determination is effective for this 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 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 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.

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 Susana Medina Jackson, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Dennis Kauffman, Accounting Manager, Sacramento City
Mr. Carlos Valencia, Senior Accounting Manager, Sacramento County
California State Controller's Office

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Exhibit A
Changes to Prior Period Payment Adjustments Form

Item No	Description	Approved Funding Source	Original Amount	Revised Amount	Net Change
5	Banc of America Public Capital Corporation Payment	RPTTF non-administrative	7,470	-	(7,470)
20	Banc of America Public Capital Corporation Payment	RPTTF non-administrative	7,307	-	(7,307)
47	Property Holding Costs	RPTTF non-administrative	8	-	(8)
48	Banc of America Public Capital Corporation Payment	RPTTF non-administrative	18,568	-	(18,568)
82	Property Holding Costs	RPTTF non-administrative	1,096	1,088	(8)
83	Banc of America Public Capital Corporation Payment	RPTTF non-administrative	10,311	-	(10,311)
116	Banc of America Public Capital Corporation Payment	RPTTF non-administrative	30,844	-	(30,844)
158	Property Holding Costs	RPTTF non-administrative	48	22	(26)
160	Property Holding Costs	RPTTF non-administrative	43,515	43,490	(25)
161	Banc of America Public Capital Corporation Payment	RPTTF non-administrative	32,113	-	(32,113)
228	Property Holding Costs	RPTTF non-administrative	-	2,137	2,137
231	Banc of America Public Capital Corporation Payment	RPTTF non-administrative	17,989	-	(17,989)
271	Property Holding Costs	RPTTF non-administrative	-	26	26
277	Banc of America Public Capital Corporation Payment	RPTTF non-administrative	25,585	-	(25,585)
305	Banc of America Public Capital Corporation Payment	RPTTF non-administrative	488	-	(488)
319	Banc of America Public Capital Corporation Payment	RPTTF non-administrative	2,186	-	(2,186)
337	Banc of America Public Capital Corporation Payment	RPTTF non-administrative	32,877	-	(32,877)
Total Changes to RPTTF Non-Administrative Expenditures					(183,642)
35	Administrative Costs	RPTTF Administrative	809,943	811,788	1,845
Total Changes to RPTTF Administrative Expenditures					1,845
78	Construction Costs	Bond Proceeds	169,462	139,946	(29,516)
79	Construction Costs	Bond Proceeds	-	293,000	293,000
229	Consultant for Del Paso Project	Bond Proceeds	10,291	-	(10,291)
Total Changes to Bond Proceeds Expenditures					253,193

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**Exhibit B
Denied Items**

Item No	Amount
Item No. 7	\$77,313
Item No. 9	191,323
Item No. 31	407,586
Item No. 33	102,800
Item No. 89	192,475
Item No. 93	593,509
Item No. 97	10,350
Item No. 99	136,201
Item No. 101	99,688
Item No. 103	75,819
Item No. 105	213,766
Item No. 107	37,565
Item No. 109	100,710
Item No. 126	16,979
Item No. 127	1,654,767
Item No. 128	40,500
Item No. 154	918,775
Item No. 157	104,812
Item No. 189	8,510,926
Item No. 192	2,884,075
Item No. 219	15,404
Item No. 224	45,500
Item No. 244	21,300
Item No. 246	150,056
Item No. 248	225,073
Item No. 252	46,275
Item No. 283	115,275
Item No. 288	145,837
Item No. 290	570,420
Item No. 292	174,500
Item No. 294	909,941
Item No. 296	66,878
Item No. 298	254,995
Item No. 300	126,207
Total Denied Items	\$19,237,600

City of Sacramento
Redevelopment Agency
Successor Agency (RASA)

November 13, 2013

SENT BY E-MAIL

Nichelle Thomas, Supervisor
Susana Medina Jackson, Lead Analyst
State Department of Finance
915 L Street
Sacramento CA 95814-3706

RE: Recognized Obligation Payment Schedule 13-14B; January – June 2014
– Request for Meet and Confer

Dear Ms. Thomas and Ms. Jackson:

The City of Sacramento (City), in its capacity as the Redevelopment Agency Successor Agency (RASA) for the dissolved Redevelopment Agency of the City of Sacramento (Agency), hereby submits a Meet and Confer request regarding the Department of Finance's (DOF) determination dated November 6, 2013, for the Recognized Obligation Payment Schedule (ROPS) 13-14B for the period January – June 2014. Provided below is information and the basis for RASA's disagreement with DOF's determination for certain ROPS line items, which are in the same order as set forth in DOF's letter. We respectfully ask for a reconsideration of these items.

1. **Debt Service Reserves; Item Nos. 7, 9, 31, 33, 89, 93, 97, 99, 101, 103, 105, 107, 109, 189, 192, 244, 246, 248, 252, 283, 288, 290, 292, 294, 296, and 300**

DOF proposes to disallow \$16,440,863 in RPTTF from the January property tax distribution for RASA to hold as reserves in order to make the RASA bond debt service payment in the June – December 2014 period; thereby requiring RASA to rely solely on the June property tax distribution to fully pay these debts. DOF's position is based on its claim that the bond covenants do not require an early allocation of funds, and its belief that a sufficient amount will be available in the upcoming June distribution to cover both the debt service and the other enforceable obligation payments in the next ROPS cycle, July–December 2014. For the reasons set out below, DOF's statement and assumption are not accurate.

Bond Covenants

Bond covenants (as outlined in the indentures, loan agreements and other legal documents) specify that the tax increment revenues for each project area are pledged as security for the project area bond debt service payments. In addition, that pledge has priority and must be met before any other enforceable obligations are paid. These bond covenants include three requirements:

Nichelle Thomas and Susana Medina Jackson
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- Totality – Tax revenues are defined as all revenues from a project area.
- Seniority – The pledge of those tax revenues is a senior pledge.
- Capacity – Tax revenues must be collected up to the amount required to meet the debt service coverage each year before being available for other lawful purposes.

In other words, these covenants require that **all** available revenues be **first** set aside until they are **sufficient** to meet the entire debt service coverage requirement. Representative samples of these covenant provisions are provided as attachments to this letter (Attachment 1). All of the bond indentures and loan agreements were provided to DOF on July 25, 2013 following DOF's June 20, 2013 request.

These bond covenants require the successor agency to draw down revenues from the first distribution (ROPS 13-14B) to cover the debt service. The covenants actually require that all of the revenues from the first distribution be set aside for the total annual bond payments, even if that would result in insufficient funding to make payment for all of the other enforceable obligations.

Timing and Sufficiency

The County's property tax collection and distribution process results in approximately two-thirds of the total amount collected for each fiscal year being available on the first distribution date in January, with the remaining one-third available on the second distribution date in June.

However, RASA's bond debt payments follow an opposite pattern. Less than 20% is due in the period covered by the first distribution (January to June), while over 80% is due in the period covered by the second distribution (July to December).

Therefore, to meet the bond covenant payment priority requirement and to insure that there are sufficient revenues collected and set aside to make the debt service payments in the second half of the year, revenues from the first distribution must be drawn down and combined with the second distribution to make the payments when due. The tax revenues received by RASA from the second distribution have not been sufficient to fully cover the bond payments as well as the other obligations listed on the ROPS. An attachment to this letter (Attachment 2) sets out the prior tax distribution amounts compared to the required debt service payments.

Although the total amounts to be distributed during each fiscal year would be the same (leading to the same amount to be distributed to the taxing entities for that fiscal year), the timing of the distribution matters from the perspective of meeting bond covenants.

Statutory Obligation

AB1x26 requires successor agencies and DOF to insure that winding down of redevelopment agencies does not "give rise to an event of default under any of the documents governing enforceable obligations" and that "pledges of revenues

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associated with enforceable obligations of the former redevelopment agencies are to be honored." (see Health and Safety Code Sections 34174 and 34175).

Bond rating agencies and investors have indicated concerns regarding successor agencies' cash flow. RASA periodically receives requests regarding its cash flow position in regards to current tax revenue collection and the availability of funds being reserved for July–December 2014 bond debt service payments. RASA has, to-date, taken a reasonable and prudent approach in balancing the requirements of the bond documents outlined above, the other enforceable obligation payments, and requirements of AB1x 26 and AB1484. If DOF's determination, which limits the ability of RASA to fulfill the bond covenants, remains unchanged, RASA will be required to disclose to such agencies and investors that RASA may be unable to make its debt service payments when due.

For all of the foregoing reasons, DOF should allow RASA to draw down funds from the first distribution during the ROPS 13-14B period to hold for bond debt service obligations to comply with the bond covenants and to insure that adequate revenues will be available to make all of the enforceable obligation payments due during the next ROPS period to avoid defaults.

2. 14th Avenue Extension Project; Item No. 37

Even though the Other Funds Due Diligence Review has been completed and was approved by DOF on June 12, 2013, DOF is now disputing \$2,209,150 held as reserve for the 14th Avenue Extension Project. In accordance with the audit procedures and the dissolution law regarding Agency liabilities, these funds were set aside for this project in order to meet the federal grant match requirements. Health and Safety Code (H&S) Section 34171(d)(1)(C) defines "enforceable obligation" as including: "Payments required by the federal government," Also, S&H Section 34175 provides that "...pledges of revenues associated with enforceable obligations of the former redevelopment agencies are to be honored."

On June 14, 2011, prior to the enactment of AB 1x26, the Agency pledged \$3.5 million in tax increment revenues for the 14th Avenue Extension Project, a portion of which were the reserves with the remaining amount being bond proceeds (see Attachment 3). In reliance on the Agency's action, on December 15, 2011, the Sacramento Area Council of Governments (SACOG), which administers federal funding for transportation projects in this region, approved an initial \$4 million in federal funding for the project (see application in Attachment 4 and SACOG approval as Attachment 5).

The total project cost for the three phases is \$19.3 million and SACOG's Metropolitan Transportation Improvement Program (MTIP) includes all three phases. SACOG's action was based on the Agency's pledge that the local match for this project was allocated and in place. The MTIP can only include projects that have funding committed to meet the Federal Highway Administration's requirements that the MTIP be "financially constrained," meaning that the 20% grant match requirement has been met. The local

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grant match is a legal obligation imposed by the federal government. (see Attachment 6).

3. Contracting Process for Bond Funded Projects; Item Nos. 43, 46, 75, 79, 81 and 272

RASA included \$3,340,753 in unencumbered bond funds for projects which had been planned for implementation prior to enactment of the dissolution law. Because RASA received the Finding of Completion on September 20, 2013, staff included this amount for five projects on the ROPS for the January – June 2014 period. By placing these on the ROPS, we are ensuring that the funds will be available and we can begin the contract process. This is a matter of timing for the 14th Avenue Extension Project for in order to meet the federal grant requirements we need to initiate the bidding process as soon as possible. In addition, preparing contracts now for work initiation in the first part of the year will likely result in lower costs due to a more favorable bidding climate in the winter and more reliable construction weather in the spring and summer months.

DOF is proposing to disallow this funding claiming that RASA has not started the contracting process. RASA, as a separate legal entity from the City and Housing Authority, has no authority to enter into contracts for these improvement projects. The City and the Housing Authority can't start the bidding process until DOF approves the ROPS which sets out the budget for these projects.

In order to begin the process, we need to ensure that the funds are available since it would be irresponsible for a local agency to solicit bids and proceed with contract discussions before funds were set aside for a project. In addition, the agency has to meet certain deadlines to award the contract once bids are submitted. With DOF approval of bond funding for these projects on the ROPS, the work could start as early as February and contract payments would be made in compliance with the California Public Contract Code. Payments for the work would be disbursed within the ROPS 13-14B period.

The contracting process will follow the requirements outlined in H&S Sections 34177.3(c), 34180(h) and 34191.4(c)(2)(A), which require that for allocation of unencumbered bond funds for new projects: (1) the oversight board has to allocate that funding on a ROPS, (2) the ROPS must be approved by the DOF, (3) the oversight board has to make a finding that project is consistent with the bond covenants, and (4) the oversight board has to authorize RASA to transfer those funds to the entity that will implement the project.

In summary, DOF must first approve the ROPS before the project bidding and contracting process can commence. With our Finding of Completion and oversight board approval of the ROPS, we request that the funding for these projects be allowed to remain on the ROPS so we can proceed with project implementation and expend funds for projects in accordance with the bond covenants, as allowed in the dissolution law.

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4. 700 K Street Project; Item Nos. 126, 127, 128, 129, 154, and 159

DOF has disallowed funding on ROPS 13-14B for the planned 700 K Street Project based on its belief that the Agency's obligation to fund the project expired in June of 2013, based on DOF's interpretation of the Agency agreement. RASA disputes that finding and this matter is now in litigation (Case No. 34-2013-80001637). RASA understands that DOF's determination on ROPS 13-14B is based on its same position as ROPS 13-14A. RASA continues to object to DOF's determination on these items.

5. Ray Stone Property Management Contract; Item No. 157

DOF's denial of funding for the 700 K Street Project included reference to line item 157 in the amount of \$104,812. These funds are for a property management contract to monitor and secure the 13 buildings located within the 700 and 800 blocks of K and L Streets. DOF previously reviewed this contract and approved it as a proper property holding and maintenance cost. A copy of DOF's March 5, 2013 letter is enclosed as Attachment 7. DOF's final letter of July 12, 2013, denying expenditures for the 700 K Street project, did not encompass line item 157. Therefore, disallowing payments for this contract on line item No. 157 was in error.

6. 58 Arden Way Remediation Contract and Project Delivery Costs; Item Nos. 219 and 244

DOF is disallowing funding on the ROPS to complete remediation of prior Agency property based on its claim that such work is not an enforceable obligation. DOF also requested review of the oversight board's action to approve the remediation contract (Resolution No. 2013-014).

The oversight board approval of the \$45,500 contract and placement of this amount on ROPS 13-14B is based on the September 23, 2013 letter from the Central Valley Regional Water Quality Control Board (CVRWQCB) (see Attachment 8). The CVRWQCB letter references its Technical Reporting Order No. R5-2011-0819, dated October 19, 2011, issued to the Agency to complete remediation of the property at 58 Arden Way. The letter states that the successor agency is in violation of the order for not conducting semi-annual groundwater monitoring, collecting soil vapor samples, and preparing a Human Health Risk Assessment Report. The Agency had been undertaking investigation and remediation of this site since its acquisition and work has been on-going over the past 10 years. The contract work is needed to complete the remediation and obtain site closure to comply with this order.

H&S Code Section 34173(f) provides that existing clean-up plans shall be transferred to the successor agency and Section 34171(d)(1)(C) defines "enforceable obligations" as including "pre-existing obligations to the state or obligations imposed by state law..." The CVRWQCB order was issued under the Porter Cologne Water Quality Control Act found at California Water Code Section 13000 et seq. Therefore, we do not believe that DOF has the authority to disallow funding for this enforceable obligation.

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Contaminated properties were acquired by redevelopment agencies statewide to eliminate blight under the Polanco Act (H&S Section 33459 et seq.), which was enacted in 1990, and the agencies funded remediation as required by the state regulatory agencies. Continuing that work to complete remediation of such sites is likely an issue for all successor agencies. If DOF has made arrangements with the regulatory agencies, including the Water Quality Control Board and the State Department of Toxic Substances Control, with regard to addressing successor agencies duties for contaminated properties and funding for remediation to comply with state law, we request copies of such correspondence.

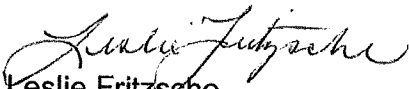
7. Administrative Allowance

The impact of disallowing the draw in January of \$16.4 million of RPTTF to hold as reserve to pay the bond debt service payments in the second half of the year results in a reduction of RASA's administrative allowance for the 2013-14 fiscal year by \$455,475, as set out in the table on page 6 of DOF's letter. DOF proposes to reduce the amount of RPTTF requested for the administrative allowance ROPS 13-14B from \$651,254 to \$195,779. Because we believe DOF must change its determination with regard to the amount of RPTTF that is to be drawn down during the ROPS 13-14B period for bond debt service, DOF will also need to make an adjustment to the amount of the administrative allowance for this same period.

I can be reached at (916) 808-5450 or lfritzsche@cityofsacramento.org. If you are unable to reach me, please contact Dennis Kauffman at (916) 808-5843 or dkauffman@cityofsacramento.org.

We hope this letter and the attachment provides you additional information which will lead to a revised determination on these issues. We look forward to working with you through the Meet and Confer process.

Sincerely,


 Leslie Fritzsche
 Senior Project Manager

cc: John F. Shirey, City Manager
 Leyne Milstein, Director of Finance, City of Sacramento
 Mr. Carlos Valencia, Senior Accounting Manager, Sacramento County
 California State Controller's Office

Enclosures:

- Attachment 1 - Bond covenant excerpts
- Attachment 2 - Available tax revenues and debt service payments
- Attachment 3 - Agency and City Resolutions and IPA 14th Ave Project Funding
- Attachment 4 - 14th Ave Project Application to SACOG
- Attachment 5 - SACOG's 14th Ave Project CMAQ Funding Approval

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Attachment 6 - Federal CMAQ Grant and MTIP Requirements and Excerpts
Attachment 7 - DOF Letter of March 5, 2013 Approving Ray Stone Contract
Attachment 8 - CVRWQCB Letter of September 23, 2013 regarding 58 Arden Way