



April 22, 2016

Ms. Teresa Binkley, Finance Director
City of Taft
209 East Kern Street
Taft, CA 93268

Dear Ms. Binkley:

Subject: Oversight Board Action Determination

The City of Taft Successor Agency (Agency) notified the California Department of Finance (Finance) of its January 28, 2016 Oversight Board (OB) Resolution on March 7, 2016. Pursuant to Health and Safety Code (HSC) section 34179 (h), Finance has completed its review of the OB action.

Based on our review and application of the law, the Agency's OB Resolution No. 2016-14 approving reinstatement and repayment of certain loans between the former Taft Redevelopment Agency (RDA) and the City of Taft (City), and finding the loans were for legitimate redevelopment purposes, is partially approved.

The Agency claims the City loans were used in the following manner:

Promissory Note No.	Loan Description	Principal Amount
16	Purchase of Property	\$ 308,839
17	Purchase of Property	\$ 1,420,832
18	Purchase of Property	\$ 168,127
20	Supplemental Educational Revenue Augmentation Fund (SERAF) Payment	\$ 50,000
21	SERAF Payment and Operation Expense	\$ 26,000
23	Operation Expense	\$ 250,000
Total		\$ 2,457,798

Although the Agency provided RDA and City Resolutions as well as Promissory Notes, only Promissory Note Nos. 17 and 18, totaling \$1,588,959 can be substantiated as enforceable obligations in accordance with HSC section 34191.4 (b) (2) (B). Specifically, former RDA Resolution Nos. 112-08 and 110-08 and title documents pertaining to 1) Union Pacific and Sunset Yards and 2) Union Pacific and Sunset Right of Ways support that these were loans for the purchase of real property. Therefore, Promissory Note Nos. 17 and 18 totaling \$1,588,959 contemplated in OB Resolution No. 2016-14 are approved.

The Agency received a Finding of Completion on September 12, 2014. As a result of the OB finding the loan was for valid redevelopment purposes and Finance's approval that the

\$1,588,959 loan is eligible for repayment, the Agency may now place the approved loans on a Recognized Obligation Payment Schedule (ROPS). However, the repayment amount of the City loan is subject to the repayment formula outlined in HSC section 34191.4 (b) (3).

In addition, HSC section 34191.4 (b) (3) requires any interest on the remaining principal amount of the loan that was previously unpaid after the original effective date of the loan to be recalculated from the date of origination of the loan on a quarterly basis, at a simple interest rate of three percent. Moneys repaid shall be applied first to the principal, and second to the interest. This will supersede any existing interest rates in the previous loan agreements. Therefore, the repayment amounts of the Agreement are subject to Finance's review and approval on subsequent ROPS.

The remaining City loans, comprised of Promissory Note Nos. 16, 20, 21, and 23 totaling \$868,839 could not be substantiated as meeting the definition of a loan pursuant to HSC section 34191.4 (b) (2). Therefore, these loans are not approved at this time as summarized below:

Promissory Note No.	Loan Description	Principal Amount Not Approved
16	Purchase of Property	\$ 308,839
20	SERAF Payment	\$ 50,000
21	SERAF Payment and Operation Expense	\$ 260,000
23	Operation Expense	\$ 250,000
Total		\$ 868,839

As referenced in the promissory notes, the Cooperation Agreement (Agreement) between the RDA and the City dated December 17, 1985 states the RDA agrees to reimburse the City for services rendered and for costs incurred on the RDA's behalf. Under dissolution law, reimbursements for City services would not be considered a loan eligible for repayment. Therefore, Promissory Note Nos. 21 and 23 related to operation expenses are not approved. Specifically, HSC section 34191.4 (b) (2) (A) defines a loan as a loan of money. Any advances that were not specifically a loan of moneys are not eligible for repayment unless HSC section 34191.4 (b) (2) (B) or (C) has been met.

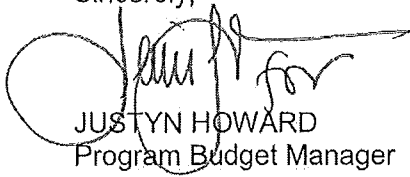
Furthermore, the RDA and City Resolutions and Promissory Notes provided were not specific and therefore, the purpose of the loans could not be determined. Without further supporting documentation, such as title documents for the purchase of property pertaining to Promissory Note No. 16 or resolutions specifying the loans were for SERAF payments pertaining to Promissory Note Nos. 20 and 21, it is not evident there was an actual exchange of money. In addition, general ledgers detailing the purpose of each loan activity were not provided. To the extent the Agency can show evidence that advances made to the Agency pursuant to the Agreement were an actual exchange of money, these specific advances may be considered an enforceable obligation. Until then, the repayment of the remaining outstanding principal amount of \$868,839 is not approved at this time.

In the event the OB desires to amend the portion of the resolution not approved by Finance, Finance is returning it to the board for reconsideration. However, the Agency can move forward with the portion of the resolution approved by Finance.

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

Sincerely,



JUSTYN HOWARD
Program Budget Manager

cc: Mr. Craig Jones, City Manager, City of Taft
Ms. Mary B. Bedard, Auditor-Controller, Kern County