DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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April 12, 2013

Gil Rojas, Director of Finance
City of Escondido Successor Agency
201 North Broadway
Escondido, CA 92025

Dear Mr. Rojas:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Escondido Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14A) to the California Department of Finance (Finance) on February 27, 2013 for the period of July through December 2013. Finance has completed its review of your ROPS 13-14A, 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 obligation(s):

- Item No. 1 – 1992 Revenue & Capital Appreciation Bonds in the amount of $2,240,000 is partially denied. Although total Redevelopment Property Tax Trust Fund (RPTTF) requested is $2,240,000, only $1,892,518 is needed to satisfy the obligation for ROPS 13-14A. The Agency holds reserves for the bonds in the amount of $347,482. The final maturity date for the bonds is September 1, 2013. HSC 34171 (d) (1) (A) states that a reserve may be held when required by the bond indenture or when the next property tax allocation will be insufficient to pay all obligations due in the following six-month period. The Agency was unable to provide documentation to support the need for reserves beyond the maturity of the bonds. Further, HSC section 34177 (l) (1) states that RPTTF may be requested only to the extent that no other funding source is available. Therefore, Item No. 1 is partially denied for the use of RPTTF in the amount of $347,482. Finance is approving the use of reserve funds for this item in the amount of $347,482.

- Item No. 26 – Loan Repayment to General Fund in the amount of $500,000. 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.

- Item No. 10 – Employee Costs - Admin. Fees in the amount of $286,364 are partially denied. Claimed administrative costs exceed the allowance by $25,424. HSC section 34171 (b) limits fiscal year 2013-14 administrative expenses to three percent of property tax allocated to the Agency or $250,000, whichever is greater. The Agency claims $286,364 in administrative costs for ROPS 13-14A. However, due to the items denied by Finance, three percent of the property tax allocated to the Agency equals $260,940. Therefore, $25,424 of excess administration costs is not allowed.

Except for items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 13-14A. This determination applies only to items where funding was requested for the six month period. If you disagree with the determination with respect to any items on your ROPS 13-14A, 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: $8,958,931 as summarized below:

Approved RPTTF Distribution Amount		
For the period of July through December 2013		
Total RPTTF funding requested for obligations	$	9,545,473
Minus: Six-month total for items denied or reclassified as administrative cost		
Item 1		347,482
Item 26		500,000
Total approved RPTTF for enforceable obligations	$	8,697,991
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost		260,940
Minus: ROPS II prior period adjustment		-
Total RPTTF approved for distribution:	**$**	**8,958,931**

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2012 period. 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. The amount of RPTTF approved in the above table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

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

http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14A Forms by Successor Agency/.

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 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 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 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 Wendy Griffe, Supervisor or Derk Symons, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Joan Ryan, Finance Manager, City of Escondido
Mr. Juan Perez, Senior Auditor and Controller Manager, County of San Diego
California State Controller's Office