DEPARTMENT OF FINANCE

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May 17, 2013

Mr. David A. Klug, Redevelopment Manager
City of Pasadena
100 North Garfield Avenue, Room S116
Pasadena, CA 91103

Dear Mr. Klug:

Subject: Recognized Obligation Payment Schedule

This letter supersedes California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS 13-14A) letter dated April 13, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Pasadena Successor Agency (Agency) submitted ROPS 13-14A to Finance for the period of July through December 2013. 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 April 30, 2013.

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. 57 – Pension obligation bond pursuant to Senate Bill 481 in the amount of $38,793,049. Finance continues to deny the item at this time. The Agency requested $11 million on this ROPS and provided an order granting preliminary injunction in favor of the City, however a final judgment on the merits has not been made. This item was previously denied in our ROPS III determination letter dated October 5, 2012. Our determination was further confirmed in our meet and confer letter dated December 18, 2012. To reiterate Finance's position, we note the following:

    - The bonds were entered into by the City of Pasadena (City) to fund police and fire pensions and not entered into by the redevelopment agency (RDA) to fund redevelopment projects, as required by HSC section 34171 (e).

    - The original and amended reimbursement agreements are between the RDA and the City, and therefore not enforceable pursuant to HSC section 34171 (d) (2). HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the RDA and the sponsoring entity are not enforceable obligations unless they meet a limited exception which states, in part, that agreements entered into solely for the purpose of securing or repaying the sponsoring entity's debt may be enforceable. This exception does not apply here. The original reimbursement agreements and their amendments are separate and were not entered into for the security or repayments of the City's bonds or concurrent with

the bond issuances. Therefore, they do not qualify as an exception to HSC section 34171 (d) (2).

- SB 481 passed in 1987 and added HSC section 33608, authorizing the RDA to enter into an agreement allowing the revenues from the reimbursement agreement to fund the police and fire retirement fund of the City. In 1999, the City sold bonds to replenish its Fire and Pension Retirement Fund (Fund). While the bond documents state that the City expected to use reimbursement agreement revenues to repay the bonds, the City specifically did not pledge the revenues to bond holders. Instead, the City pledged its general fund for the repayment of the bonds. The City then obtained a validation action declaring that the City had the authority to reassign the SB 481 receipts to pay the principal and interest of the bonds. This validation agreement did not validate the reimbursement agreements, but instead the Fund's assignment of SB 481 receipts back to the City to pay for the bonds. Therefore, the reimbursement agreements were not validated and still not enforceable pursuant to HSC section 34171 (d) (2).

The Agency contends the item is an enforceable obligation because the 1986 Reimbursement Agreement, which among other things obligates the former RDA to make annual payments of former tax increment to the City for debt service on the Pension Bonds, has been validated by the Legislature through Senate Bill 481 and was also validated by a 1999 court judgment. However, for the reasons stated above, the item continues to be denied.

- Item Nos. 58 through 61 – Housing administrative costs totaling $225,500 are not enforceable obligations. Finance continues to deny the item at this time. Finance denied the item as HSC section 34176 (a) (1) states if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a RDA, all rights, powers, duties, obligations, and housing assets shall be transferred to the city, county, or city and county. Since the City of Pasadena assumed the housing functions, the administrative costs associated with these functions are the responsibility of the housing successor. Therefore, these items are not enforceable obligations and not eligible for funding.

In addition, per Finance's ROPS letter dated April 13, 2013, the following items continue to be denied and were not contested by the Agency:

- Claimed administrative costs exceed the allowance by $134,244. HSC section 34171 (b) limits fiscal year 2013-2014 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. Therefore, $134,244 of claimed $384,244 is not an enforceable obligation.

  In addition, Finance notes the oversight board has approved an amount that appears excessive, given the number and nature of the other obligations listed in the ROPS. HSC section 34179 (i) requires the oversight board to exercise a fiduciary duty to the taxing entities. Therefore, Finance encourages the oversight board to apply adequate "oversight" when evaluating the administrative resources required to successfully wind-down the Agency.

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. 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 July through December 2013. Finance's determination is effective for this time period only and should not be conclusively relied on 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 Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is $1,390,007 as summarized below:

Approved RPTTF Distribution Amount		
For the period of July through December 2013		
Total RPTTF funding requested for obligations	$	12,452,195
Minus: Six-month total for items denied or reclassified as administrative cost		
Item 57		11,000,000
Item 58		35,613
Item 59		28,574
Item 60		11,063
Item 61		37,500
Total approved RPTTF for enforceable obligations	$	1,339,445
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost		250,000
Minus: ROPS II prior period adjustment		(199,438)
Total RPTTF approved for distribution:	**$**	**1,390,007**

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.

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 Chikako Takagi-Galamba, Manager or Anna Kyumba, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Mr. Robert Ridley, Controller, City of Pasadena
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office