



May 17, 2013

Ms. Tina Kundig, Director of Finance
City of Redlands
P.O. Box 3005
Redlands, CA 92373

Dear Ms. Kundig:

Subject: Recognized Obligation Payment Schedule.

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 6, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Redlands Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14A) to Finance on February 21, 2013 for the period of July through December 2013. Finance issues a ROPS determination letter on April 6, 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 May 6, 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 items being disputed.

- Item No. 2 – Loan for Enforceable Obligations in the amount of \$2,997,400. Finance partially denies this item. The City of Redlands (City) and the Agency entered into a 10-year loan agreement for \$3,157,400 to assist the Agency in the payment of enforceable obligations not funded by Redevelopment Property Tax Trust Fund (RPTTF) funds for the Recognized Obligation Payment Schedule (ROPS) for the July through December 2012 (ROPS II) period. However, our review indicates the Agency received \$1,958,561 of the approved \$3,157,400 in RPTTF funding and used the distribution to make the July 2012 True Up Payment demanded in accordance with HSC section 34183.5 (b) (2) (A). The True-Up payments represents the difference between the amount of property tax distribution in January 2012 and actual approved enforceable obligations for the January through June 2012 ROPS period (ROPS I). Therefore, the use of the RPTTF provided for the ROPS II to make the True-Up payment is not allowed.

The Agency will be permitted to recover part of the loan for the actual RPTTF shortage less the payment claimed on the ROPS for the January through June 2013 (ROPS III) period in the amount of \$1,038,839 (\$3,157,400 - \$1,958,561 - \$160,000). This will be the actual approved "Outstanding Debt or Obligation".

In addition, the loan agreement is a ten year agreement without a payment schedule permitting payment only when sufficient tax allocation is available. The Agency will only

be permitted to receive \$55,000 in RPTTF for the ROPS 13-14A period to repay this loan. This amount represents the remaining allowable outstanding balance of the loan, \$1,038,839, divided by the remaining ROPS periods of the loan term, 19 (e.g. 10 years x two ROPS per fiscal year). The Agency claims the agreement does not require repayment over ten years and to be consistent with wind-down activities, it wishes to pay back the loan as soon as possible; however, according to the documentation provided for Item 5 (below), the Agency also has bond debt service payments that will require approximately ten years to repay. In addition, the Agency filed a claim of insufficient funds with the County Auditor Controller for the upcoming ROPS for July through December 2013 (ROPS 13-14A); therefore, approving the entire amount at this time is not feasible.

- Item No. 5 – 2007 Tax Allocation Bonds (TABS) in the amount of \$2,940,000. Finance no longer denies this item. The Agency claims it originally provided the wrong payment schedule for this item when Finance requested supporting documentation. The payment schedule previously provided was for bonds issued by the City, as Taxable Pension Funding Bonds for Police, Fire, and Miscellaneous. During the Meet and Confer process, the Agency provided a payment schedule for the 2007 A TABS. This schedule materially traces to the 2007 Series A TABS; therefore, Finance no longer denies this item.

- Administrative costs as noted below:

Item 13 – Legal Services totaling \$24,000. Finance continues to classify this item as an administrative cost. The Agency claims this contract is for legal services relating to the dissolution of the former redevelopment agency and continuing assistance with successor agency activities. The Agency believes HSC section 34171 (f) permits the Agency to enter contracts for administration or operation of the successor agency. HSC section 34171 allows litigation expenses related to assets or obligations to be funded with property tax outside the administrative cap. However, Item 13 relates to general legal representation and not specifically to bringing or contesting a legal action in court; therefore, this item is considered an administrative cost.

Item 15 – Lease of Office Space totaling \$271,686. Finance continues to classify this item as an administrative cost. The Agency believes this item is an enforceable obligation and should not count towards the Administrative cost cap. However, lease of office space for the operation of the Agency is an administrative cost.

Claimed administrative costs exceed the allowance by \$24,861. HSC section 34171 (b) limits fiscal year 2013-14 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. Although \$204,824 is claimed for administrative cost, Item No. 13, a legal services contract in the amount of \$1,200, and Item No. 15, a lease for office space in the amount of \$68,837, are considered administrative expenses (totaling \$70,037) and should be counted towards the cap. Therefore, \$24,861 ($\$204,824 + \$70,037 - \$250,000$) of excess administrative cost is not allowed.

Except for items disallowed as noted above, Finance is not objecting to the remaining items listed in 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.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$3,973,730 as summarized below:

Approved RPTTF Distribution Amount For the period of July through December 2013	
Total RPTTF funding requested for obligations	\$ 6,736,167
Minus: Six-month total for items denied or reclassified as administrative cost	
Item 2	2,942,400
Item 13*	1,200
Item 15*	68,837
Total approved RPTTF for enforceable obligations	<u>\$ 3,723,730</u>
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost	<u>250,000</u>
Minus: ROPS II prior period adjustment	<u>-</u>
Total RPTTF approved:	\$ 3,973,730

*Reclassified as administrative cost

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 that was self-reported by the Agency and the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment. Please refer to the worksheet used by the CAC to determine the audited prior period adjustment for the Agency:

<http://www.dof.ca.gov/redevelopment/ROPS/view.php>

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/>

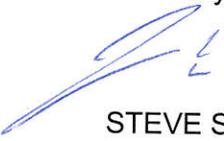
This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2013. Finance's determination is effective for this time period only and should not be conclusively relied upon for future periods. All items listed on a future ROPS are 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 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.

Ms. Tina Kundig
May 17, 2013
Page 4

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Mike Nelson, Economic Development Manager, City of Redlands
Ms. Vanessa Doyle, Auditor Controller Manager, County of San Bernardino
California State Controller's Office