DEPARTMENT OF FINANCE

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November 8, 2013

Ms. Cynthia Fortune, Finance Manager
City of Grand Terrace
22795 Barton Road
Grand Terrace, CA 92313

Dear Ms. Cynthia Fortune:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Grand Terrace Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 26, 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. 26 and 27 – 2011 Tax Allocation Bond A and B totaling $1,135,033. The Agency placed this item on the ROPS as a placeholder for reserves to be held in the event they received insufficient property tax to fund debt service payments.
  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 under the provisions of the bond for the next payment due in the following half of the calendar year. Further, HSC 34183 (a) (2) specifies the priority in which property tax funds should be distributed; debt service payments hold first priority.

  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 property tax distributions, it is the next property tax allocation will be sufficient to make debt service payments due for this item. Therefore, these items are not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item No. 40 – Michigan Street Improvements Project in the amount of $480,000, funded by bond proceeds. Finance continues to deny this item; this item was denied as an inclusion to the ROPS for the period January through June 2013 and July through December 2013, later upheld through the Meet and Confer process in letters dated December 18, 2012 and May 17, 2013. HSC section 34163 (b) prohibits a redevelopment agency (RDA) from entering into a contract with any entity after June 27, 2011. It is our understanding contracts

for this line item were awarded after June 27, 2011. It is also our understanding these bonds were issued after December 31, 2010; 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. Therefore, this line item is not an enforceable obligation and is not eligible for bond proceeds funding.

- Item No. 44 – Property Management Implementation Plan in the amount of $50,000. The Agency requested $50,000; however, based on the agreement for consulting services provided, the maximum contract amount for this item is $12,000. Therefore, the excess, $38,000 ($50,000 - $12,000) is not an enforceable obligation and is not eligible for RPTTF funding.

- Item Nos. 45 and 46 – Various Remediation Services totaling $55,000. It is our understanding that contracts for these line items have not yet been awarded. HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011. Therefore, these line items are not enforceable obligations and are not eligible for RPTTF funding.

- Item No. 47 – Taxes on Agency Property in the amount of $12,709. According to documentation provided, the City of Grand Terrace is responsible for payment. Therefore, this line is not an obligation of the Agency and is not eligible for RPTTF funding.

- Claimed administrative costs exceed the allowance by $45,250. 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 $119,750 in administrative expenses. The San Bernardino County Auditor-Controller's Office distributed $130,250 in administrative costs for the July through December 2013 period, thus leaving a balance of $119,750 available for the January through June 2014 period. Although $125,000 is claimed for administrative cost, Item No. 16 – Legal Consulting in the amount of $40,000 is considered an administrative expense and should be counted toward the cap. Therefore, $45,250 of excess administrative cost is not allowed.

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 (l) (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. With the disallowance of Item Nos. 26 and 27, Agency financial records indicate available Reserve Funds totaling $1,135,033.

Therefore, the funding source for the following items have been reclassified to Reserve Funds and in the amounts specified below:

- Item Nos. 1 and 2 – 2011 Tax Allocation Bond Series A and B totaling $607,491. The Agency requested $607,491 of RPTTF; however Finance is reclassifying $607,491 to Reserve Funds. These items were determined to be enforceable obligations for the ROPS 13-14B period. However, these obligations do not require payment from current property tax revenues and the Agency has $607,491 available in Reserve Funds. Therefore, Finance is approving Reserve Funds in the amount of $607,491, and revising RPTTF to $0, totaling $607,491 for Items No. 1 and 2.

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 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 below table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Except for the 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 $255,819 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014		
Total RPTTF requested for non-administrative obligations		1,041,700
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations	**$**	**1,166,700**
Total RPTTF requested for non-administrative obligations		**1,041,700**
Denied Items		
Item No. 44		(38,000)
Item No. 45		(25,000)
Item No. 46		(30,000)
Item No. 47		(12,709)
		(105,709)
Total RPTTF before reclassification		**935,991**
Reclassified Items		
Item No. 1		(414,098)
Item No. 2		(193,393)
Item No. 16		(40,000)
		(647,491)
Total RPTTF approved for non-administrative obligations		**288,500**
Total RPTTF requested for administrative obligations		**125,000**
Reclassified Items		
Item No. 16		40,000
Total RPTTF for administrative obligations		**165,000**
Total RPTTF allowable for administrative obligations (See Administrative Cost Cap Calculation, below)		**119,750**
Total RPTTF approved for obligations		**408,250**
ROPS III prior period adjustment		(152,431)
Total RPTTF approved for distribution	**$**	**255,819**

Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	1,370,283
Total RPTTF for 13-14B (January through June 2014)	935,991
Total RPTTF for fiscal year 2013-14	**2,306,274**
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or $250,000)	250,000
Administrative allowance for 13-14A (July through December 2013)	130,250
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	**119,750**

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

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

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: Ms. Betsy Adams, City Manager, City of Grand Terrace
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office