



November 8, 2013

Mr. Greg Wade, Deputy Director
City of Imperial Beach
825 Imperial Beach Boulevard
Imperial Beach, CA 91932

Dear Mr. Wade:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Imperial Beach Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 27, 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 below:

- Item No. 28 – Successor Agency Costs associated with the 2013 Tax Allocation Refunding Bonds (Refunding Bonds) in the total amount of \$50,000. In the stated Costs of Issuance as of September 12, 2013, there were only two exceptions noted as non-contingent costs: 1) \$19,000 payable to First Southwest Company and 2) \$25,500 payable to Fraser & Associates payable with Redevelopment Property Tax Trust Fund (RPTTF) if the Refunding Bonds do not close by February 28, 2014. As such, contingent costs related to the issuance of the Refunding Bonds are to be paid with the proceeds of the Refunding Bonds. Therefore, the Successor Agency Costs in the amount of \$50,000 should not be funded by RPTTF. This cost will be reclassified and should be paid with proceeds generated from Bond Refunding.
- Item Nos. 26 and 27 – Non-Contingent Professional Service Fees totaling \$44,500 (\$19,000 and \$25,500, respectively). Finance notes that if the deal for the Refunding Bonds is to close by February 28, 2014, the approved total amount of \$44,500 will require a funding source change from RPTTF to the Refunding Bonds proceeds as stated in the September 11, 2013 Staff Report to the Oversight Board of the Agency. If the deal does not close by this date, then the non-contingent fees with First Southwest and Fraser & Associates will continue to be approved with RPTTF during the ROPS 13-14B period.
- Item No. 29 – City of Imperial Beach (City) Loan Repayment in the total amount of \$3,738,100 is not allowed at this time. The Agency contends the city loan is an

enforceable obligation as it was issued within two years of the creation of the former Redevelopment Agency (RDA). However, Note 8 of the City's 2003 Comprehensive Annual Financial Report states funds loaned from the City totaling \$1,288,586 as of June 30, 2002 were satisfied during the fiscal year. Therefore, any amounts loaned within two years of the creation of the former RDA were satiated at that time. Subsequently, the City and the former RDA entered into a new loan agreement in the principal amount of \$3,738,100. As the new indebtedness amount of \$3,738,100 between the former RDA and the City was incurred during fiscal year 2002-03, it is subject to the repayment calculation set forth in HSC section 34191.4 (b) (1).

As the Agency received a Finding of Completion on April 12, 2013, the Agency may place loan agreements between the former redevelopment agency and sponsoring entity on the ROPS, as an enforceable obligation, provided the oversight board makes a finding that the loan was for legitimate redevelopment purposes per HSC section 34191.4 (b) (1). However, HSC section 34176 (e) (6) (B) specifies loan repayments to shall not be made prior to the 2013-14 fiscal year. While ROPS 13-14B falls within fiscal year 2013-14, the repayment of this City loan is subject to the repayment formula outlined in HSC section 34191.4 (b) (2) (A).

HSC section 34191.4 (b) (2) (A) allows this repayment to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through distributed to the taxing entities in the 2012-13 base year. Since the formula does not allow for estimates, the Agency must wait until the ROPS residual pass-through distributions are known for fiscal year 2013-14 before requesting funding for this obligation. Therefore, this item is not eligible for funding at this time.

- Claimed Administrative Costs exceed the allowance by \$25,832. HSC section 34171 (b) limits fiscal year 13-14 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 \$0 in administrative expenses as the San Diego Auditor-Controller (CAC) distributed \$250,000 during the July through December 2013 period. While Item No. 19 is for Oversight Board Costs in the amount of \$20,000 and Item No. 25 is for Financial Audit Costs in the amount of \$5,832, these costs are considered administrative expenses and should be counted toward the cap. Therefore, \$25,832 of excess administrative costs is not allowed.

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 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 the 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 \$187,813 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	4,006,750
Total RPTTF requested for administrative obligations	0
Total RPTTF requested for obligations	\$ 4,006,750
Total RPTTF requested for non-administrative obligations	4,006,750
<u>Denied Item</u>	
Item No. 29	(3,738,100)
<u>Reclassified Items</u>	
Item No. 19	(20,000)
Item No. 25	(5,832)
Item No. 28	(50,000)
Total RPTTF approved for non-administrative obligations	192,818
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)	0
Total RPTTF approved for obligations	192,818
ROPS III prior period adjustment	(5,005)
Total RPTTF approved for distribution	\$ 187,813
Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	3,026,016
Total RPTTF for 13-14B (January through June 2014)	192,818
Total RPTTF for fiscal year 2013-14	3,218,834
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)	250,000
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	0

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/](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 Wendy Griffe, Supervisor or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Andy Hall, Executive Director, City of Imperial Beach
Mr. Jon Baker, Senior Auditor and Controller Manager, San Diego County
California State Controller's Office