DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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October 23, 2013

Mr. Donald L. Parker, Finance Director
City of Montclair
5111 Benito Street
Montclair, CA 91763

Dear Mr. Parker:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Montclair Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 12, 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. 1 through 7 – Tax Allocation and Tax Refunding Bonds debt service totaling $2,573,063. The Agency requested Redevelopment Property Tax Trust Fund (RPTTF) funding for debt service payments due for both ROPS 13-14B and ROPS 14-15A (July through December 2014) periods. 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 for the next payment due in the following half of the calendar year. Based on our review of the bond indentures, we did not note any requirement to create such a reserve. Additionally, based on the history of the Agency's RPTTF distribution, it is our understanding that the next property tax allocation will be sufficient to pay debt service due for these bonds during the ROPS 14-15A period. Therefore, the debt service payments requested for the following bonds have been adjusted by the following amounts:

    - Item No. 1 – 1997 Taxable Tax Allocation Bonds in the amount of $22,560
    - Item No. 2 – 2007A Tax Allocation Refunding Bonds in the amount of $1,067,563
    - Item No. 3 – 2007B Taxable Tax Allocation Bonds in the amount of $217,898
    - Item No. 4 – 2004 Tax Allocation Bonds in the amount of $263,000
    - Item No. 5 – 2001 Tax Allocation Bonds in the amount of $545,355
    - Item No. 6 – 2006A Tax Allocation Bonds in the amount of $378,787
    - Item No. 7 – 2006B Tax Allocation Bonds in the amount of $77,900

  The Agency can request debt service payments due during the July through December 2014 on ROPS 14-15A.

- Item No. 44 – Edward Kotkin legal services contract in the amount of $5,000. This contract was denied by Finance in our letter dated September 30, 2013 as an inclusion to Oversight Board Resolution No. 13-06 review; the contract did not specify the time period for performance, and did not contain all of the elements required of a valid contract. Therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding.

- Agency claimed administrative costs exceed the allowance by $211,535 ($129,196 payable from Reserve funding, and $82,339 payable from RPTTF funding. 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 for the fiscal year 2013-14.

  The San Bernardino County Auditor Controller's Office distributed $250,000 for administrative costs to the Agency for the July through December 2013 period. Although $211,535 is claimed for administrative cost, only $250,000 is available for the entire fiscal year pursuant to the cap. Therefore, $211,535 of excess administrative cost is not allowed. Item No. 43 for the payments made towards the Administrative Cost Reimbursement Agreement in the amount of $82,339 is considered an administrative expense and should be counted toward the cap. Therefore, $82,339 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. The Agency provided financial records that displayed an available reserve balance totaling $129,196.

This reserve stems from funds allowed by Finance to fulfill enforceable obligations through the Due Diligence Review; however, it is our understanding these reserves are no longer necessary for those specified enforceable obligations. Although the Agency contends they should be allowed to use these reserve funds to cover administrative costs, excess administrative costs are unallowable per HSC 34171 (b), and the following items have priorities per the payment priority provisions of HSC 34183. Therefore, funding sources for the following items have been reclassified to reserve funding:

- Item No. 6 – 2006 Tax Allocation Bonds Series A in the amount of $91,196.
- Item No. 10 – Contract for Legal Services in the amount of $15,000
- Item No. 12 – Contract for Bond Trustee Services in the amount of $5,000.
- Item No. 14 – Contract for Bond Services in the amount of $3,000.
- Item No. 15 – Contract for Bond Services in the amount of $12,000.
- Item No. 23 – Contract for Professional Services in the amount of $3,000.

Pursuant to HSC Section 34186 (a), successor agencies were required to report the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. The amount of RPTTF approved in the table below includes the prior period adjustment that was self-reported by the Agency. 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. Any proposed CAC adjustments were not received in time for inclusion in this letter. Therefore, the amount of RPTTF approved in the table below includes only the prior period adjustment that was self-reported by the Agency.

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 $1,116,865 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014		
Total RPTTF requested for non-administrative obligations		3,906,463
Total RPTTF requested for administrative obligations		-
Total RPTTF requested for obligations	**$**	**3,906,463**
Total RPTTF requested for non-administrative obligations		**3,906,463**
Denied Items		
Item No. 1		22,560
Item No. 2		1,067,563
Item No. 3		217,898
Item No. 4		263,000
Item No. 5		545,355
Item No. 6		378,787
Item No. 7		77,900
Item No. 44		5,000
		2,578,063
Reclassified Items From RPTTF to Admin		
Item No. 43		82,339
Total RPTTF for non-administrative obligations		**1,246,061**
Reclassified Items - From RPTTF to Reserves		
Item No. 6		91,196
Item No. 10		15,000
Item No. 12		5,000
Item No. 14		3,000
Item No. 15		12,000
Item No. 23		3,000
		129,196
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)		**-**
Total RPTTF approved for obligations		**1,116,865**
ROPS III prior period adjustment		-
Total RPTTF approved for distribution	**$**	**1,116,865**

Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	2,685,783
Total RPTTF for 13-14B (January through June 2014)	1,246,061
Less approved unfunded obligations from prior periods	-
Total RPTTF for fiscal year 2013-14	**3,931,844**
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	**-**

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. Marilyn Staats, Deputy City Manager, City of Montclair
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office