

December 17, 2013

Ms. Veronica Tapia, Management Analyst II  
City of Palm Desert  
73-510 Fred Waring Drive  
Palm Desert, CA 92260

Dear Ms. Tapia:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated October 28, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Palm Desert Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to Finance on September 13, 2013, for the period of January through June 2014. Finance issued a ROPS determination letter on October 28, 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 November 7, 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. 176 – Project Area 1 reserve for debt service in the amount of \$300,000. Finance continues to deny this item. The Agency stated that reserve is needed to ensure bond debt service can be met when the tax increment cap is reached in 2021 before the debt is completely paid off. Finance initially denied the item as HSC section 34171 (d) (1) (A) states that a reserve may be held when required by the bond indenture or when the next property tax allocation will be insufficient to pay obligations due under provisions of the bond for the next payment due in the following half of the calendar year. However, AB 1484 does not authorize the creation of a reserve but for limited circumstances. Since the Agency's request to build a reserve, based on limitations in the former redevelopment agency's plan, is not authorized in statute, Finance denies the request. It is Finance's expectation that ABx1 26/AB 1484 allows enforceable obligations to be listed on the ROPS and payable out of available Redevelopment Property Tax Trust Fund (RPTTF) funds until such obligations have been satisfied. This item is not eligible for RPTTF funding.
- Item Nos. 3 and 4 – Tax Allocation Bonds Issue in the amount of \$1,200,000. During our initial review, which may have included obtaining financial records, Finance determined the Agency possessed 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 had requested and received \$1,200,000 under Item No. 176 for debt service reserves for Project Area No. 1 during ROPS 13-14A.

During the Meet and Confer process, the Agency contended that the \$1,200,000 was for a reserve to ensure that the bond debt service can continue to be paid when the tax increment cap is reached. However, as previously stated, it is Finance's expectation that ABx1 26/AB 1484 allows enforceable obligations to be listed on the ROPS and payable out of available RPTTF funds until such obligations have been satisfied. Additionally, the Agency completed a reconciliation of expenditures to the actual RPTTF distribution received for ROPS 13-14A on December 6, 2013, which showed approximately \$300,000 remaining, not \$1,200,000. This variance is due to the Agency not receiving the full amount of RPTTF funding approved by Finance due to insufficient funds being available. Therefore, Finance continues to reclassify RPTTF requested for debt service payments by applying \$300,000 to Item No. 3 and \$0 to Item No. 4.

In addition, per Finance's letter dated October 28, 2013, we continue to deny the following items not contested by the Agency during the Meet and Confer:

- Item Nos. 46-50, 103-105, 136-138, 171-172, 175, and 180-187 – Bond funded projects in the amount of \$104,267,445. A Finding of Completion was issued on May 15, 2013 and the Agency can now utilize proceeds derived from bonds issued prior to January 1, 2011 in a manner consistent with the original bond covenants. However, the Agency requested 100 percent of the total obligation for each of the projects listed. HSC section 34177 (I) (3) states that the Recognized Obligation Payment Schedule shall be forward looking to the next six months. The Agency agreed that the requests were for more than a six-month period and sent a revised schedule of estimated costs for the six months of \$24,355,000. Therefore, the total bond funding for these items has been adjusted by \$79,912,445 from the original request amount of \$104,267,445 to \$24,355,000.

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 table below 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. The Agency's maximum approved RPTTF distribution for the reporting period is \$21,630,822 as summarized on the following page:

<b>Approved RPTTF Distribution Amount For the period of January through June 2014</b>	
Total RPTTF requested for non-administrative obligations	21,881,497
Total RPTTF requested for administrative obligations	656,445
<b>Total RPTTF requested for obligations</b>	<b>\$ 22,537,942</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>21,881,497</b>
<u>Denied Items</u>	
Item No. 176	(300,000)
<u>Reclassified Items</u>	
Item No. 3	(300,000)
<b>Total RPTTF approved for non-administrative obligations</b>	<b>21,281,497</b>
<b>Total RPTTF approved for administrative obligations</b>	<b>656,445</b>
<b>Total RPTTF approved for obligations</b>	<b>21,937,942</b>
ROPS III prior period adjustment	(307,120)
<b>Total RPTTF approved for distribution</b>	<b>21,630,822</b>

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/)

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 section 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 Evelyn Sues, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD  
Assistant Program Budget Manager

cc: Ms. Janet Moore, Director of Housing, City of Palm Desert  
Ms. Pam Elias, Chief Accountant Property Tax Division, Riverside County  
Auditor-Controller  
California State Controller's Office