



October 23, 2013

Mr. David A. Klug, Redevelopment Manager
City of Pasadena
100 North Garfield Avenue, Room S116
Pasadena, CA 91103

Dear Mr. Klug:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Pasadena Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 16, 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 obligation for the reasons specified:

- Item No. 1 – Pension obligation bond pursuant to Senate Bill 481 in the amount of \$39,275,468. This item was previously denied in previous ROPS III and 13-14A determination letters, including the ROPS III and 13-14A Meet and Confer determination letters. Finance continues to deny this item. The Agency requested \$11 million on this ROPS and previously provided an order granting preliminary injunction in favor of the City, however a final judgment on the merits has not been made. To reiterate Finance's position, we note the following:
 - The bonds were entered into by the City of Pasadena (City) to fund police and fire pensions and not entered into by the redevelopment agency (RDA) to fund redevelopment projects, as required by HSC section 34171 (e).
 - The original and amended reimbursement agreements are between the RDA and the City, and therefore not enforceable pursuant to HSC section 34171 (d) (2). HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the RDA and the sponsoring entity are not enforceable obligations unless they meet a limited exception which states, in part, that agreements entered into solely for the purpose of securing or repaying the sponsoring entity's debt may be enforceable. This exception does not apply here. The original reimbursement agreements and their amendments are separate and were not entered into for the security or repayments of the City's bonds or concurrent with

the bond issuances. Therefore, they do not qualify as an exception to HSC section 34171 (d) (2).

- o SB 481 passed in 1987 and added HSC section 33608, authorizing the RDA to enter into an agreement allowing the revenues from the reimbursement agreement to fund the police and fire retirement fund of the City. In 1999, the City sold bonds to replenish its Fire and Pension Retirement Fund (Fund). While the bond documents state that the City expected to use reimbursement agreement revenues to repay the bonds, the City specifically did not pledge the revenues to bond holders. Instead, the City pledged its general fund for the repayment of the bonds. The City then obtained a validation action declaring that the City had the authority to reassign the SB 481 receipts to pay the principal and interest of the bonds. This validation agreement did not validate the reimbursement agreements, but instead the Fund's assignment of SB 481 receipts back to the City to pay for the bonds. Therefore, the reimbursement agreements were not validated and still not enforceable pursuant to HSC section 34171 (d) (2).

The Agency contends the item is an enforceable obligation because the 1986 Reimbursement Agreement, which among other things obligates the former RDA to make annual payments of former tax increment to the City for debt service on the Pension Bonds, has been validated by the Legislature through Senate Bill 481 and was also validated by a 1999 court judgment. However, for the reasons stated above, the item continues to be denied.

- Item No. 14 – Housing set aside in the amount of \$800,000. This item was previously denied in our ROPS III determination letter dated October 5, 2012. Our determination was further confirmed in our meet and confer letter dated December 18, 2012. Finance continues to deny this item. The requirement to set aside 20 percent of RDA tax increment for low and moderate income housing purposes ended with the passing of the redevelopment dissolution legislation, making the set aside aspect of the reimbursement agreement dated July 7, 1986 no longer operational. Further, the reimbursement agreement is between the RDA and the City, making it unenforceable pursuant to HSC section 34178 (a). Even if the reimbursement agreement were operative, the funds repaid would be unencumbered. HSC section 34177 (d) requires unencumbered funds to be remitted to the county auditor-controller for distribution to the taxing entities. This was accomplished through the due diligence review process pursuant to HSC section 34179.5 and 34179.6. Therefore, this line item is not an enforceable obligation and will not be eligible for RPTTF funding.
- Item No. 25 – City-wide wayfinding signage design services totaling \$18,484 is not an obligation of the Agency. It is our understanding the purchase order contract entered into on March 30, 2010 is between the City of Pasadena and Hunt Design Associates, Inc., and the former redevelopment agency (RDA) is not a party to the contract. Therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding on this ROPS.
- Claimed administrative costs exceed the allowance by \$459,209. HSC section 34171 (b) limits the fiscal year 2013-2014 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. The Los Angeles Auditor-Controller's Office distributed \$250,000 administrative costs for the July

through December 2013 period, thus leaving a balance of \$0 available for the January through June 2014 period. Although \$459,209 is claimed for administrative cost, there is no more available pursuant to the cap. Therefore, \$459,209 of excess administrative cost 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 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, 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 \$2,638,420 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	14,633,677
Total RPTTF requested for administrative obligations	459,209
Total RPTTF requested for obligations	\$ 15,092,886
Total RPTTF requested for non-administrative obligations	14,633,677
Denied Items	
Item No. 1	(11,000,000)
Item No. 14	(800,000)
Item No. 25	(18,484)
	<u>(11,818,484)</u>
Total RPTTF approved for non-administrative obligations	2,815,193
Total RPTTF requested for administrative obligations	459,209
Total RPTTF for administrative obligations	459,209
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)	0
Total RPTTF approved for obligations	2,815,193
ROPS III prior period adjustment	(176,773)
Total RPTTF approved for distribution	\$ 2,638,420
Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	1,339,445
Total RPTTF for 13-14B (January through June 2014)	2,815,193
Less approved unfunded obligations from prior periods	0
Total RPTTF for fiscal year 2013-14	4,154,638
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

Pursuant to HSC section 34177 (l) (1) (E), agencies are required to use all available funding sources prior to RPTTF for payment of enforceable obligations. Beginning with the ROPS 13-14B period, Finance required successor agencies to identify fund balances for various types of funds in its possession. During our ROPS 13-14B review, Finance requested financial records to support the fund balances reported by the Agency; however, Finance was unable to reconcile the financial records to the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 13-14B review period to properly identify the Agency's fund balances. If it is determined the Agency possesses fund balances that are available to pay approved obligations, the Agency should request the use of these fund balances prior to requesting RPTTF in ROPS 14-15A.

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%2013-14B%20Forms%20by%20Successor%20Agency/).

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 Kylie Le, Supervisor or Hugo Lopez, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Robert Ridley, Controller
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office