DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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November 6, 2013

Ms. Tina Kundig, Director of Finance
City of Redlands
PO Box 3005
Redlands, CA 92373

Dear Ms. Kundig:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Redlands Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 24, 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 No. 2 – City of Redlands (City) Loan for Enforceable Obligations in the amount of $1,003,264. Finance partially denies this item. During the Meet and Confer process for the July through December 2013 (ROPS 13-14A) period, Finance established an approved "Outstanding Debt or Obligation" in the amount of $1,038,839 for this item, and an approved semi-annual payment of $55,000 for the 10-year loan agreement between the Agency and the City. Therefore, the Agency is permitted to receive $55,000 in Redevelopment Property Tax Trust Fund (RPTTF) for the ROPS 13-14B period to repay this loan. Finance notes the previously approved "Outstanding Debt or Obligation" in the amount of $1,038,839 was for the ROPS 13-14A period only, and the outstanding loan amount should decrease over time in accordance with the Agency's continuing loan payments.

- Item No. 12 – Lance, Sol & Lunghard Auditing Services. Although enforceable, the type of auditing services requested in the amount of $5,000 is considered a general administrative cost and has been reclassified. The administrative cost allowance has not been exceeded.

- Item No. 26 – Various Consultant Costs in the amount of $30,000. The Agency was unable to provide sufficient documentation to support the amount claimed. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding on this ROPS.

- Item No. 38 – City Loan for Legal Services in the amount of $75,000 is partially denied. Based on the 10-year loan agreement provided, the Agency is permitted to receive $3,947 in RPTTF each ROPS period to repay this City loan.

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 available Other Fund balances totaling $78,987 as of June 30, 2013, which is available to fund enforceable obligations in the ROPS 13-14B period.

Therefore, with the Agency's concurrence, the funding source for the following items have been reclassified to Other Funds funding source and in the amounts specified below:

- Item Nos. 15 through 19 – Office Space Leasing administrative costs totaling $82,237. The Agency requested $82,237 of administrative cost allowance; however Finance is reclassifying $78,987 to Other Funds. Therefore, Finance is approving administrative cost allowance in the amount of $3,250 for Item No. 17 and the use of Other Funds totaling $78,987 for the remainder of Item No. 17 as well as the entirety of Item Nos. 15, 16, 18, and 19.

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 items denied in whole or in part as enforceable obligations and 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 $3,192,316 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	4,175,620
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations	**$ 4,300,620**
Total RPTTF requested for non-administrative obligations	**4,175,620**
Denied Items	
Item No. 2	(948,264)
Item No. 26	(10,000)
Item No. 38	(71,053)
	(1,029,317)
Reclassified Items	
Item No. 12	(5,000)
	(5,000)
Total RPTTF approved for non-administrative obligations	**3,141,303**
Total RPTTF requested for administrative obligations	**125,000**
Reclassified Items	
Item No. 12	5,000
	5,000
Reclassifed to Other Fund Balance Items	
Item No. 15	(68,837)
Item No. 16	(200)
Item No. 17	(4,500)
Item No. 18	(5,000)
Item No. 19	(450)
	(78,987)
Total RPTTF for administrative obligations	**51,013**
Total RPTTF approved for obligations	**3,192,316**
ROPS III prior period adjustment	-
Total RPTTF approved for distribution	**$ 3,192,316**

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/.

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: Mr. Mike Nelson, Economic Development Manager, City of Redlands
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office