



December 17, 2013

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

Dear Ms. Kundig:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 6, 2013. 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 Finance on September 24, 2013 for the period of January through June 2014. Finance issued a ROPS determination letter on November 6, 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 15, 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. 2 – City of Redlands (City) Loan for Enforceable Obligations in the amount of \$1,003,264. Finance continues to partially deny this item. The City and the Agency entered into a 10-year loan agreement on July 26, 2012 for \$3,157,400 to assist the Agency in the payment of enforceable obligations not funded by Redevelopment Property Tax Trust Fund (RPTTF) funds for the Recognized Obligation Payment Schedule (ROPS) for the July through December 2012 (ROPS II) period. However, our review indicates the Agency received \$1,958,561 of the approved \$3,157,400 in RPTTF funding and used the distribution to make the July 2012 True Up Payment demanded in accordance with HSC section 34183.5 (b) (2) (A). The True-Up payments represents the difference between the amount of property tax distribution in January 2012 and actual approved enforceable obligations for the January through June 2012 ROPS period (ROPS I). Therefore, the use of the RPTTF provided for the ROPS II to make the True-Up payment was not allowed.

The Agency is permitted to recover part of the loan for the actual RPTTF shortage less the payment claimed on the ROPS for the January through June 2013 (ROPS III) period in the amount of \$1,038,839 (\$3,157,400 - \$1,958,561 - \$160,000). This is the actual approved "Outstanding Debt or Obligation" and will be decreased over time as payments are made.

In addition, the loan agreement is a ten year agreement without a payment schedule permitting payment only when sufficient tax allocation is available. The Agency will only be permitted to receive \$55,000 in RPTTF for the ROPS 13-14A period to repay this loan. This amount represents the remaining allowable outstanding balance of the loan, \$1,038,839, divided by the remaining ROPS periods of the loan term, 19 (e.g. 10 years x two ROPS per fiscal year). The Agency claims the agreement does not require repayment over ten years and to be consistent with wind-down activities, it wishes to pay back the loan as soon as possible; however, the Agency also has bond debt service payments that will require approximately ten years to repay. In addition, the Agency filed a claim of insufficient funds with the County Auditor Controller for the ROPS for ROPS 13-14A; therefore, approving the entire amount at this time is not feasible.

- Item No. 12 – Lance, Sol & Lunghard Auditing Services. Finance no longer believes a reclassification is needed; however, the amount should be reduced to \$2,534. Per HSC section, 34177, Agencies are required to cause a post audit of the financial transactions and records of the Agency at least annually by a certified public accountant. Our review indicates that the Agency entered into a contract with the City and a third party to conduct a city-wide annual audit. Per the documentation provided by the Agency, the Agency's annual portion of the costs for 2013/14 and 2014/15 is \$2,534 each year. Therefore, this item is an enforceable obligation eligible for \$2,534 in RPTTF outside of the administrative cost allowance the remaining \$2,466 (\$5,000 - \$2,534) is denied.
- Item No. 26 – Various Consultant Costs in the amount of \$30,000. Finance continues to deny this item at this time. The amounts requested for the six month period consists of multiple third party vendors after Finance's determination on the Agency's Long-Range Property Management Plan (LRPMP). During the Meet and Confer process, the Agency provided support for the estimate of the amount, which includes the estimated costs related to commercial property brokerage fees, appraisal fees, and title reports that would occur after the LRPMP is approved by Finance. However, since the Agency's LRPMP has not been reviewed or approved, Finance cannot determine if these proposed costs will be necessary or if they are reasonable. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding at this time. Once the Agency's LRPMP has been approved by Finance, the Agency should request RPTTF funding on a ROPS to implement the LRPMP.
- Item No. 38 – City Loan for Legal Services in the amount of \$75,000 is partially denied. Finance continues to believe this adjustment is necessary. The Agency is permitted to receive \$3,947 in RPTTF each ROPS period to repay this City loan. The Agency believes the entire amount should be repaid to the City if sufficient RPTTF is available. Per section 3.1 of the agreement entered into between the Agency and the City on July 26, 2012, the Agency promises to repay the loan from the City with interest over ten years. The first installment was due during the January through June 2013 ROPS period, if sufficient tax allocation was available. Subsequent installments are to be paid over multiple ROPS cycles as sufficient funds are available with the unpaid balance to be paid no later than July 26, 2022.

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.

The Agency's maximum approved RPTTF distribution for the reporting period is \$3,189,850 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
<u>Denied Items</u>	
Item No. 2	(948,264)
Item No. 12	(2,466)
Item No. 26	(10,000)
Item No. 38	(71,053)
	<u>(1,031,783)</u>
Total RPTTF approved for non-administrative obligations	3,143,837
Total RPTTF requested for administrative obligations	125,000
<u>Reclassified to Other Fund Balance Items</u>	
Item No. 15	(68,837)
Item No. 16	(200)
Item No. 17	(4,500)
Item No. 18	(5,000)
Item No. 19	(450)
	<u>(78,987)</u>
Total RPTTF for administrative obligations	46,013
Total RPTTF approved for obligations	3,189,850
ROPS III prior period adjustment	-
Total RPTTF approved for distribution	\$ 3,189,850

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/.

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 Suess, Dispute Resolution Supervisor, or Danielle Brandon, 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