DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
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November 13, 2013

Mr. John Dutrey, Housing Program Manager
City of Rialto
150 South Palm Avenue
Rialto, CA 92376

Dear Mr. Dutrey:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Rialto Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 30, 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. 11 through 17 – Various Tax Allocation Bonds Reserve totaling $2,773,437. The Agency is requesting to create a reserve for debt service payments due during the July through December 2014 period (ROPS 14-15A). 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 under the provisions of the bond 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 reserves. Additionally, based on the history of the Agency's RPTTF distributions, it is our understating the next property tax allocation will be sufficient to make debt service payments due for this item. Therefore, this item is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item No. 50 – Project Management costs in the amount of $65,567. The Agency is requesting funding for the ROPS 14-15A period for employee costs associated with managing housing projects. HSC section 34176 (a) (1) states if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a redevelopment agency (RDA), all rights, powers, duties, obligations, and housing assets shall be transferred to the city, county, or city and county. Since the Rialto Housing Authority assumed the housing functions, the administrative costs associated with these functions are the responsibility of the housing successor. Additionally, the Agency was unable to provide sufficient documentation to support the amounts claimed. Therefore, this line item is not an enforceable obligation and is not eligible for Other Funds on this ROPS.

- Item No. 63 – Cactus Basin #3 Agreement funded with $2,200,000 in bond proceeds. A Finding of Completion was issued on May 9, 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, it is our understanding that there are no contracts in place for this item, and the Agency was unable to provide other sufficient documentation to support the amounts claimed. Therefore, this line item is not eligible for bond proceeds funding on this ROPS.

- Item No. 84 – 2004 Housing HELP Loan in the amount of $1,300,000 is not an enforceable obligation of the Agency. It is our understanding the Agency is not a party to the loan agreement entered into on September 3, 2004 between the Rialto Housing Authority and the California Housing Finance Agency. It is also our understanding the Agency did not enter into a subsequent repayment agreement and made no commitment for the repayment of this loan. Therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding.

- Item No. 126 – Stradling, Yocca, Carlson and Rauth Legal Services in the amount of $50,000 is not an enforceable obligation of the Agency. It is our understanding this agreement entered into on February 1, 2012 is between the City of Rialto (City) and Stradling, Yocca, Carlson and Rauth, and the former redevelopment agency (RDA) is not a party to the contract. Additionally, there is no description of the work to be performed, and it appears the services are general in nature, and would be considered administrative services. Therefore, this line item is not an enforceable obligation, and is not eligible for Reserve Funds on this ROPS.

- Item No. 127 – Asset Dissolution services in the amount of $25,000. The Agency requested $50,000 for this item. However, it is our understanding the agreement between the Agency and Keyser Marston for long-range property management services obligates the Agency at a cost not to exceed $25,000. Therefore, the excess, $25,000 is not eligible for Reserve Funds on this ROPS.

- Item No. 128 – Audit Services in the amount of $25,000 is not an enforceable obligation of the Agency. It is our understanding the professional services agreement entered into on May 14, 2013 is between the City and White Nelsen Diehl Evans, LLC, and the Agency is not a party to the contract. Therefore, this line item is not an enforceable obligation, and is not eligible for Reserve Funds on this ROPS.

- Item Nos. 142 through 144 – Various Housing Successor costs totaling $96,000. The Agency is requesting funding for staffing and legal and contract services for the Housing Successor. HSC section 34176 (a) (1) states if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a redevelopment agency (RDA), all rights, powers, duties, obligations, and housing assets shall be transferred to the city, county, or city and county. Since the Rialto Housing Authority assumed the housing functions, the administrative costs associated with these functions are the responsibility of the housing successor. Therefore, these line items are not enforceable obligations and are not eligible for Reserve Funds on this ROPS.

- Item No. 146 – San Bernardino Avenue Alignment project funded with $3,000,000 in bond proceeds. It is our understanding the Dokken Engineering, Inc. agreement for environmental and civil engineering design services obligates the Agency at a cost not to

exceed $673,400. Therefore, the excess, $2,326,600 is not eligible for bond proceeds funding on this ROPS.

- Item No. 147 – Cedar Avenue Alignment Project funded with $700,000 in bond proceeds. The Agency was unable to provide sufficient documentation to support the amounts claimed. Therefore, this line item is not an enforceable obligation and is not eligible for bond proceeds funding on this ROPS.

- Item No. 149 – Affordable Housing Project in the amount of $7,175,328. It is our understanding that there is no valid contract in place. Additionally, it is our understanding the Agency has 2008 Series B Tax Allocation Housing Bonds issued specifically for housing purposes, those funds should be used first before the Agency requests funding from other sources. Therefore, this line item is not an enforceable obligation, and is not eligible for Reserve Funds on this ROPS.

- The Agency's claimed administrative costs exceed the allowance by $125,552. HSC section 34171 (b) limits the fiscal year 2013-14 administrative expenses to three percent of property tax allocated to the Agency or $250,000, whichever is greater. As a result, the Agency is eligible for $315,529 in administrative expenses. The San Bernardino Auditor-Controller's Office distributed $165,585 in administrative costs for the July through December 2013 period, thus leaving a balance of $149,944 available for the January through June 2014 period. Although $275,496 is claimed for administrative cost, only $149,944 is available pursuant to the cap. Therefore, $125,552 in 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 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, 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 $5,247,823 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014		
Total RPTTF requested for non-administrative obligations		9,183,202
Total RPTTF requested for administrative obligations		275,496
Total RPTTF requested for obligations	**$**	**9,458,698**
Total RPTTF requested for non-administrative obligations		**9,183,202**
Denied Items		
Item No. 11		(580,528)
Item No. 12		(260,314)
Item No. 13		(190,716)
Item No. 14		(310,151)
Item No. 15		(576,787)
Item No. 16		(474,294)
Item No. 17		(380,647)
Item No. 84		(1,300,000)
		(4,073,437)
Total RPTTF approved for non-administrative obligations		**5,109,765**
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)		**149,944**
Total RPTTF approved for obligations		**5,259,709**
ROPS III prior period adjustment		(11,886)
Total RPTTF approved for distribution	**$**	**5,247,823**
Administrative Cost Cap Calculation		
Total RPTTF for 13-14A (July through December 2013)		5,407,880
Total RPTTF for 13-14B (January through June 2014)		5,109,765
Total RPTTF for fiscal year 2013-14		**10,517,645**
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or $250,000)		315,529
Administrative allowance for 13-14A (July through December 2013)		165,585
Allowable RPTTF distribution for administrative cost for ROPS 13-14B		**149,944**

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. Robb Steel, Assistant to the City Administrator/Development Services Director, City of Rialto
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office