DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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December 23, 2013 REVISED

Ms. Karin Schnaider, Finance Director
City of Sierra Madre
252 West Sierra Madre Boulevard
Sierra Madre, CA 91024

Dear Ms. Schnaider:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated December 13, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Sierra Madre Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to Finance on November 22, 2013, for the period of January through June 2014. Finance issued a ROPS determination letter on December 13, 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 December 17, 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 Nos. 8 and 9 – Redevelopment Property Tax Trust Fund (RPTTF) funding shortfall totaling $131,275 for the ROPS 13-14A period. Finance continues to deny these items as they are not enforceable obligations pursuant to HSC section 34171 (d)(1). Therefore, these items are not eligible for RPTTF funding.

- During the Meet and Confer, the Agency contested the Los Angeles County Auditor Controller's (CAC) Prior Period Adjustment (PPA) for the July through December 2012 (ROPS II). The Agency explained that for the ROPS II period, they only received $262,154 in distribution from the RPTTF from the CAC while the CAC reported the Agency received $428,700. The Agency staff stated that because of this misstatement, the Agency has been penalized with a $166,546 Prior Period Adjustment for the ROPS II period.

  Based on further review during the Meet and Confer, the Agency did not properly request to retain sufficient funds in the Other Funds and Accounts (OFA) Due Diligence Review (DDR) for the ROPS II and the January through June 2013 ROPS (ROPS III) to account for ROPS II enforceable obligations, as well as the CAC Prior Period Adjustments for the ROPS II and ROPS I periods. Therefore, the Agency remitted those funds to the CAC for distribution to the taxing entities, which resulted in a funding

shortfall. A reduction in the amount of $262,154 for the ROPS III Prior Period Adjustment was approved by the CAC which reduced the amount of the Prior Period Adjustment to $92,425 as reflected in the chart below. However, based upon further discussion with the CAC, the request for additional funds to offset the ROPS II adjustment in the amount of $131,275 continues to be denied. Pursuant to HSC section 34181 (a) the CAC has the authority to identify the differences between actual payments and past estimated obligations and make the appropriate adjustment to the amount of RPTTF distributed to the Agency. This shortfall will be addressed during the July through December 2014 (ROPS 14-15A) period.

- Finance continues to make this adjustment. During the Meet and Confer, the Agency requested a waiver on the administrative allowance reduction. The Agency stated that they submitted their ROPS 13-14A in a timely manner on September 30, 2013. Finance notes that Per HSC section 34177 (m), the ROPS must be prepared in the manner provided for by Finance. Upon initial review of the submitted ROPS, it was identified that the Fund Balance Form and the Prior Period Adjustment Form was incomplete and the ROPS was returned to the Agency and the Oversight Board on October 1, 2013. Per HSC section 34177 (m), the ROPS for this period was due no later than October 4, 2013. As stated above, the Agency did not submit a corrected ROPS 13-14B until November 22, 2013. Pursuant to HSC 34177 (m) (2), the Agency's administrative cost allowance shall be reduced by a maximum of 25 percent for the ROPS period if the ROPS is not submitted within ten days of the due date. As such, $108,000 of administrative expenses pursuant to the cap continues to be reduced by $27,000 to $81,000.

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 item that has been partially 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. Since your ROPS was submitted over a month past the due date, time is of the essence. The Agency's maximum approved RPTTF distribution for the reporting period is $63,575 as summarized on the following page:

Approved RPTTF Distribution Amount For the period of January through June 2014		
Total RPTTF requested for non-administrative obligations		206,275
Total RPTTF requested for administrative obligations		108,000
Total RPTTF requested for obligations	**$**	**314,275**
Total RPTTF requested for non-administrative obligations		**206,275**
Denied Items		
Item No. 8		(39,030)
Item No. 9		(92,245)
Total RPTTF approved for non-administrative obligations		**75,000**
Total RPTTF requested for administrative obligations		**108,000**
Total RPTTF for administrative obligations		**108,000**
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)		**81,000**
Total RPTTF approved for obligations		**156,000**
ROPS III prior period adjustment		(92,425)
Total RPTTF approved for distribution	**$**	**63,575**
Administrative Cost Cap Calculation		
Total RPTTF for 13-14A (July through December 2013)		192,761
Total RPTTF for 13-14B (January through June 2014)		75,000
Total RPTTF for fiscal year 2013-14		**267,761**
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)		112,000
Allowable RPTTF distribution for administrative cost pursuant to cap		**138,000**
Requested RPTTF for administrative obligations		**108,000**
25% administrative cost reduction pursuant to HSC 34177 (m) (2)		(27,000)
Approved RPTTF distribution for administrative cost for ROPS 13-14B		**81,000**

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 Derk Symons, Analyst, at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Elaine Aguilar, City Manager, City of Sierra Madre
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office