DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

November 7, 2013

Mr. Joe Guzzetta, City Manager
City of Twentynine Palms
6136 Adobe Road
Twentynine Palms, CA 92277

Dear Mr. Guzzetta:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Twentynine Palms Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 26, 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 does not qualify as an enforceable obligation for the reason specified:

- Item No. 2 – 2011 Series B Tax Allocation Bonds in the amount of $750. The Agency requested $109,142, however, the total amount due during ROPS 13-14B is $108,392. The Agency requested the amount for this period on a prior period payment, in error. Therefore, the excess, $750 ($109,142-$108,392) is not an enforceable obligation and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

Additionally, the administrative costs claimed are within the fiscal year administrative cap pursuant to HSC section 34171 (d). However, Finance notes the oversight board has approved an amount that appears excessive, given the number and nature of the other obligations listed in the ROPS. HSC section 34179 (i) requires the oversight board to exercise a fiduciary duty to the taxing entities. Therefore, Finance encourages the oversight board to apply adequate "oversight" when evaluating the administrative resources required to successfully wind-down the Agency.

During our review, which may have included obtaining financial records, Finance determined the Agency does not possess 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. Upon reconciliation of the balances permitted to be retained for future enforceable obligations from the Other Funds and Accounts Due Diligence Review (DDR), it was determined the Agency is not in possession of excess reserves in the amount of $10,011 as self-reported. As such, Finance is reclassifying the $10,011 requested

Reserve Funds for Item No. 4 to Administrative RPTTF. The total authorized Administrative RPTTF for Item No. 4 is $125,000.

For funding sources other than RPTTF, Finance made adjustments and/or reclassifications to the Prior Period Adjustments form to ensure consistency with the funding sources and amounts approved by Finance. HSC Section 34177 (a) (3) states that the Agency can only make payments listed on the ROPS, from the funds listed and authorized by Finance. In addition, adjustments were made to the Fund Balances form based upon information provided by the Agency during our review. Although these adjustments and/or reclassifications have no effect on the amount of RPTTF the Agency receives, they will affect the Agency's fund balances for the funds sources involved.

Based upon a review of the Agency's Prior Period Adjustment form the following adjustments were made:

- Item No. 3 – Agreed Upon Procedures Audit in the amount of $10,000. Finance authorized $10,000 in Admin RPTTF; however, the Agency indicated authorization of $10,000 from RPTTF, and actual expenditures totaled $10,000. Finance adjusted the authorized funding source in the amount of $10,000 and actual expenditures in the amount of $13,460 to reflect Administrative RPTTF instead of Non-Administrative RPTTF. The total actual expenditures as stated in the Agency's self-reported Prior Period Adjustment form remain unadjusted.

Based upon a review of the Fund Balances form, the following adjustments were made:

- Beginning Available Fund Balance (Actual 01/01/13), Bonds Issued on or after January 1, 2011 should be $8,206,488. Based upon information provided in the DDR dated June 30, 2012, there are proceeds in the amount of $7,406,486 and required reserves in the amount of $800,002 for the 2011 Tax Allocation Bonds. Accordingly, Retention of Available Fund Balance (Actual 06/30/13) and (Estimated 12/31/13), Bonds Issued on or after January 1, 2011 has been changed to $800,002 to reflect the retention of bond reserves going forward.

- Beginning Available Fund Balance (Actual 01/01/13), Non-Admin RPTTF in the amount of $35,021 should be $15,057. Pursuant to the DDR, the Agency was permitted to retain RPTTF distributed from the CAC in the amounts of $576,216 for the July through December 2012 (ROPS II) period and $15,057 for the January through June 2013 (ROPS III) period. The Agency's self-reported Prior Period Adjustment form for ROPS II indicates the entirety of the $576,216 retained for the period was expended. Therefore, the only balance remaining on January 1, 2013 was the $15,057 retained for ROPS III.

- Revenue/Income (Actual 06/30/12), Non-Admin RPTTF in the amount of $646,216 should be $636,216 and Admin RPTTF in the amount of $125,000 should be $135,000. This is pursuant to the CAC's RPTTF distribution allocation, which was in accordance with the amounts authorized for each funding source in Finance's December 18, 2012 determination letter.

- Expenditures for ROPS III Enforceable Obligations (Actual 06/30/12), Non-Admin RPTTF in the amount of $674,676 should be $661,216 and Admin RPTTF in the amount

of $121,550 should be $135,010. This is a result of result of Finance's adjustments to the authorized and actual expenditures from Non-Admin RPTTF, as explained above.

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 the item denied in whole or in part as an enforceable obligation and for the item that has 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 $554,773 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014		
Total RPTTF requested for non-administrative obligations		430,523
Total RPTTF requested for administrative obligations		114,989
Total RPTTF requested for obligations	**$**	**545,512**
Total RPTTF requested for non-administrative obligations		**430,523**
Denied Items		
Item No. 40		(750)
		(750)
Total RPTTF approved for non-administrative obligations		**429,773**
Total RPTTF requested for administrative obligations		**114,989**
Reclassified Items		
Item No. 4		10,011
		10,011
Total RPTTF for administrative obligations		**125,000**
Total RPTTF approved for obligations		**554,773**
ROPS III prior period adjustment		-
Total RPTTF approved for distribution	**$**	**554,773**

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. Matt McCleary, Interim Community Development Director, City of Twentynine Palms
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office