DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

October 29, 2013

Mr. Greg Franklin, Director of Administrative Services
City of Yucaipa
34272 Yucaipa Boulevard
Yucaipa, CA 92399

Dear Mr. Franklin:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Yucaipa Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 18, 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. 52 - Sorenson Engineering contract in the amount of $447,545, payable from Bond Funds has been adjusted by $437,930 to $9,615. After performing a reconciliation of the Agency's Fund Balances report, it was discovered the Agency only has $9,615 available in bond funds. Finance cannot approve expenditures in excess of available bond funds. With the cooperation of the Agency, it was determined that the remaining bond funds would be applied to this obligation. Therefore, this item is approved for Bond Funds funding in the amount of $9,615.

- Item Nos. 53 and 54 – Completion of Dunlap Drain and Façade Improvements projects totaling $349,318, payable from Bond Funds, are not approved. The Agency requested bond funds, however; the Agency does not possess sufficient bond funds to satisfy the obligations. The remaining available bond funds were applied to the Sorenson Engineering contract, Item No. 52, above. Therefore, these items are not eligible for Bond Funds funding.

- Item Nos. 55 and 56 – City of Yucaipa (City) Loan and Low and Moderate Income Housing Fund Loan repayments totaling $772,961 are not allowable at this time. The Agency received a Finding of Completion on May 7, 2013. As such, the Agency may place loan agreements between the former redevelopment agency and sponsoring entity on the ROPS, as an enforceable obligation, provided the oversight board makes a finding that the loan was for legitimate redevelopment purposes pursuant to

HSC section 34191.4 (b) (1). However, HSC section 34176 (e) (6) (B) specifies loan repayments shall not be made prior to the 2013-14 fiscal year. While ROPS 13-14B falls within fiscal year 2013-14, the repayment of the city loan is subject to the repayment formula outlined in HSC section 34191.4 (b) (2) (A).

HSC section 34191.4 (b) (2) (A) allows this repayment to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through distributed to the taxing entities in the 2012-13 base year. Since the formula does not allow for estimates, the Agency must wait until the ROPS residual pass-through distributions are known for fiscal year 2013-14 before requesting funding for this obligation. Therefore, the Agency may be able to request funding beginning with ROPS 14-15A.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting Redevelopment Property Tax Trust Fund (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 identified available Other Funds totaling $4,354 on its ROPS. Therefore, with the Agency's concurrence, the funding source for the following items has been reclassified to Other Funds in the amounts specified below:

- Item No. 47 – Tax Allocation Bond Trustee Services in the amount of $1,354. The Agency requests $3,000 from RPTTF; Finance is reclassifying $1,354 to Other Funds. This item was determined to be an enforceable obligation for the ROPS 13-14B period. However, the obligation does not require payment from property tax revenues and the Agency has $1,354 in Other Funds. Therefore, Finance is approving $1,646 in RPTTF and the use of Other Funds in the amount of $1,354 for this obligation.

- Item No. 48 – Tax Allocation Bond Disclosure Services in the amount of $3,000. The Agency requests $3,000 from RPTTF; Finance is reclassifying the entire amount payable from Other Funds. This item was determined to be an enforceable obligation for the ROPS 13-14B period. However, the obligation does not require payment from property tax revenues and the Agency has $1,354 in Other Funds. Therefore, Finance is approving $3,000 from Other Funds for this obligation.

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 Fund Balances form, the following adjustments were made:

- Bonds Issued on or before December 31, 2010 in the amount of $2,191,581 has been revised to $2,959,663. The Agency omitted bond reserves in the amount of $768,082 as reflected in the Agency's Other Funds and Accounts Due Diligence Review (OFA DDR) as of June 30, 2012. Accordingly, the Beginning Available Fund Balance (Actual-

January 1, 2013), RPTTF balances retained for bond reserves has been reduced to zero and the Retention of Available Fund Balance (Actual- June 30, 2013), Bonds Issued on or before December 31, 2010, has been revised to $768,082 to reflect the retention of the bond reserves going forward. This amount, while increasing the total Bonds Fund held at June 30, 2013, does not increase the available Bond Funds the Agency can spend.

Additionally, the Agency stated an expenditure of $145,739 was omitted from both the Prior Period Payments form and the Fund Balances form during the ROPS January through June 2013 period. The expenditure was for Item No. 16 – Hillcrest Construction Contract, approved during the Meet and Confer. Therefore, the available balance beginning in ROPS 13-14A has been revised to $2,045,842 ($2,959,663-768,082-145,739). Additionally the Agency was authorized to spend $2,036,227 during the ROPS 13-14A period, leaving a total of $9,615 ($2,045,842-2,036,227) in available Bond Funds. As directed by the Agency these remaining bond proceeds were applied to Item No. 52 – Sorenson Engineering contract, as previously stated.

- Beginning Available Fund Balance (Actual-January 1, 2013), OFA DDR balances retained for approved enforceable obligations in the amount of $1,006,488 has been revised to $837,973. The amount has been adjusted by $228,515 to reflect the amount remitted to the affected taxing entities as calculated by the DDR, and should not have been included in the beginning balance. As such, Expenditures for 13-14A Enforceable Obligations (Estimate-December 31, 2013, OFA DDR balances retained for approved enforceable obligations has been reduced to zero.

Pursuant to HSC Section 34186 (a), successor agencies were required to report the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. The amount of RPTTF approved in the below table includes the prior period adjustment that was self-reported by the Agency. 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. Any proposed CAC adjustments were not received in time for inclusion in this letter. Therefore, the amount of RPTTF approved in the below table includes only the prior period adjustment that was self-reported by the Agency.

Except for items denied in whole or in part as enforceable obligations or 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 $250,538 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014		
Total RPTTF requested for non-administrative obligations		415,373
Total RPTTF requested for administrative obligations		124,999
Total RPTTF requested for obligations	**$**	**540,372**
Total RPTTF requested for non-administrative obligations		**415,373**
Denied Items		
Item No. 55		(165,852)
Item No. 56		(41,463)
		(207,315)
Reclassified Items		
Item No. 47		(1,354)
Item No. 48		(3,000)
		(4,354)
Total RPTTF approved for non-administrative obligations		**203,704**
Total RPTTF for administrative obligations		**124,999**
Total RPTTF approved for obligations		**328,703**
ROPS III prior period adjustment		(78,165)
Total RPTTF approved for distribution	**$**	**250,538**

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 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. Dustin Gray, Accounting Manager, City of Yucaipa
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office