



April 16, 2014

Ms. Linda Kelly, Program & Financial Specialist
City of Desert Hot Springs
65950 Pierson Boulevard
Desert Hot Springs, CA 92240

Dear Ms. Kelly:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Desert Hot Springs Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to the California Department of Finance (Finance) on March 4, 2014 for the period of July through December 2014. Finance has completed its review of your ROPS 14-15A, 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. 2 – 2008 Series A-1 Tax Allocation Bond debt service payment in the amount of \$2,192,650. The Agency requested \$1,349,125 from Redevelopment Property Tax Trust Fund (RPTTF) and \$843,525 in Other Funds totaling \$2,192,650. However, according to the debt service payment schedule, only \$1,653,825 is due during the ROPS 14-15A period. Additionally, during ROPS 13-14B, the Agency was approved for \$419,000 as reserves for the September 1, 2014 payment. Therefore, the total amount that the agency is allowed to obtain funding during the current period is \$1,234,825 (\$1,653,825 - \$419,000). Finance is approving the Other Funds requested in the amount of \$843,525 and RPTTF in the amount of \$391,300 (\$1,234,825 - \$843,525), thus adjusting the RPTTF funding request by \$957,825 (\$1,349,125 - \$391,300).
- Item No. 4 – 2006 Tax Allocation Bond debt service payment in the amount of \$399,342. Although total RPTTF requested is \$399,342, only \$328,227 is due during the ROPS 14-15A period. Therefore, the requested RPTTF funding is adjusted by \$71,115 (\$399,342 - \$328,227).
- Item No. 6 – 2009 Tax Allocation Bond debt service payment in the amount of \$328,796. Although total RPTTF requested is \$328,796, only \$292,530 is due during the ROPS 14-15A period. Therefore, the requested RPTTF funding is adjusted by \$36,266 (\$990,000-\$292,530).

- Item Nos. 24 through 26 – Debt service reserves totaling \$1,308,204 for payments due January through June 2015. HSC section 34171 (d) (1) (A) allows successor agencies to hold a reserve for debt service payments 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. Therefore, the request to fund payments due for the first half of the calendar year is not allowed.
- Item No. 27 – Housing Entity Administrative Cost Allowance in the amount of \$75,000. Pursuant to HSC section 34177 (p), the housing entity administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the redevelopment agency elected to not assume the housing functions. Because the housing entity to the former redevelopment agency of the City of Desert Hot Springs (City) is the City-formed Housing Authority (Authority) and the Authority operates under the control of the City, the Authority is considered the City under Dissolution Law pursuant to HSC section 34167.10. Therefore, \$75,000 of housing entity administrative allowance is not allowed.

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 provided financial records that displayed available Reserve Balances totaling \$186,534.

Therefore, with the Agency's concurrence, the funding source for the following items have been reclassified to Reserve Balances and in the amounts specified below:

- Item No. 1 – Trustee Fees for Wells Fargo Bank in the amount of \$8,500. The Agency requests \$8,500 of RPTTF; however Finance is reclassifying \$8,500 to Reserve Balances. This item is an enforceable obligation for the ROPS 14-15A period. This item is an enforceable obligation for the ROPS 14-15A period. However, the obligation does not require payment from property tax revenues and the Agency has \$8,500 in available Reserve Balances. Therefore, Finance is approving the use of Reserve Balances totaling \$8,500.
- Item No. 2 – 2008 Series A-1 Tax Allocation Bonds in the amount of \$2,192,650. The final finance approved RPTTF is \$391,300; however Finance is reclassifying \$58,213 to Reserve Balances. This item is an enforceable obligation for the ROPS 14-15A period. However, the obligation does not require payment from property tax revenues and the Agency has \$58,123 in available Reserve Balances. Therefore, Finance is approving RPTTF in the amount of \$333,087 (\$391,300-\$58,213) and the use of Reserve Balances in the amount of \$58,213, totaling \$391,300.
- Item No. 23 – ROPS 13-14B Administrative Fee in the amount of \$119,821. The Agency requests \$119,821 of RPTTF; however Finance is reclassifying \$119,821 to Reserve Balances. This item is an enforceable obligation for the ROPS 14-15A period. However, the obligation does not require payment from property tax revenues and the Agency has \$119,821 in available Reserve Balances. Therefore, Finance is approving the use of Reserve Balances totaling \$119,821.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2013 period. HSC section 34186 (a) also specifies 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 items denied in whole or in part as enforceable obligations or for the items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15A. If you disagree with the determination with respect to any items on your ROPS 14-15A, 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 \$1,511,730 as summarized below:

Approved RPTTF Distribution For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	4,021,674
Total RPTTF requested for administrative obligations	125,000
Total Requested RPTTF	\$ 4,146,674
Total RPTTF requested for non-administrative obligations	4,021,674
Denied Items	
Item No. 2	(957,825)
Item No. 4	(71,115)
Item No. 6	(36,266)
Item No. 24	(323,114)
Item No. 25	(146,265)
Item No. 26	(838,825)
Item No. 27	(75,000)
	(2,448,410)
Total RPTTF for non-administrative obligations	1,573,264
Cash Balances - Items reclassified to other funding sources	
Item No. 1	(8,500)
Item No. 2	(58,213)
Item No. 23	(119,821)
	(186,534)
Total RPTTF authorized for non-administrative obligations	\$ 1,386,730
Total RPTTF requested for administrative obligations	125,000
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 1,511,730
ROPS 13-14A prior period adjustment	0
Total RPTTF approved for distribution	\$ 1,511,730

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. During the ROPS 14-15A review, Finance requested financial records to support the cash 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 14-15A review period to properly identify the Agency's cash balances. If it is determined the Agency possesses cash balances that are available to pay approved obligations, the Agency should request the use of these cash balances prior to requesting RPTTF in ROPS 14-15B.

Please refer to the ROPS 14-15A schedule that was used to calculate the approved RPTTF amount:

<http://www.dof.ca.gov/redevelopment/ROPS>

Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 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 Beliz Chappuie, Supervisor or Susana Medina-Jackson, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Amy Aguer, Director of Administration and Finance, City of Desert Hot Springs
Ms. Pam Elias, Chief Accountant Property Tax Division, Riverside County
California State Controller's Office