

May 16, 2014

Mr. Douglas Dumhart, Community Development Director
City of La Palma
7822 Walker Street
La Palma, CA 90623

Dear Mr. Dumhart:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 1, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of La Palma Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on March 13, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 1, 2014. 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 April 11, 2014.

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. 3 and 4 – City of La Palma (City) loan repayments totaling \$344,795 are not allowed at this time. The Agency received a Finding of Completion on April 18, 2013. As such, the Agency may place loan agreements between the former redevelopment agency (RDA) and sponsoring entity on the ROPS, as an enforceable obligation, provided the oversight board makes a finding the loan was for legitimate redevelopment purposes per HSC section 34191.4 (b) (1). Additionally, HSC section 34191.4 (b) (2) (A) specifies this repayment to be equal one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in the fiscal year 2012-13 base year.

According to the Orange County Auditor-Controller's (CAC) report, the ROPS residual pass-through amount distributed to the taxing entities for fiscal year 2012-13 and 2013-14 are \$1,395,753 and \$1,269,027, respectively. Pursuant to the repayment formula outlined in HSC section 34191.4 (b) (2) (A), the maximum repayment amount authorized for fiscal year 2014-15 is \$0. Therefore, these loan repayments are not eligible for funding on this ROPS. The Agency may be eligible for additional funding beginning ROPS 15-16A.

During the Meet and Confer process, the Agency contended that property tax disbursements made between July 1, 2011, and December 31, 2011, should not have

been applied to the ROPS I and II disbursements thereby increasing the amount of residuals. To determine the base year residuals totaling \$1,395,753, Finance used the amounts reported by the CAC as being disbursed for ROPS II and III, which were \$927,375 and \$468,378, respectively. Therefore, we maintain our previous calculation; the Agency is not eligible for funding on this ROPS.

- During our review, which may have included obtaining financial records, Finance initially determined the Agency possesses funds that should be used prior to requesting funding from the RPTTF. Pursuant to HSC section 34177 (I) (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. Finance initially determined that the January through June 2013 (ROPS III) prior period adjustment (PPA) applicable to the ROPS 13-14B period was \$530,268. As a result, an excess PPA of \$371,218 remained available for funding enforceable obligations in the ROPS 14-15A period as a Reserve Balance. Therefore, Finance had approved the use of Reserve Balances in the amount of \$149,677 for obligations. Based on further review, during the Meet and Confer process, Finance no longer determines that the Agency possesses additional funds and no longer reclassifies items to Reserve Balances.

During the Meet and Confer process, the Agency contended that the ROPS III PPA was incorrect and that the funds were not available. The Agency provided the actual expenditures for the ROPS III period, which differed from the amounts originally reported on the PPA form submitted during the ROPS 13-14B period. The following ROPS III items and amounts were the actual expenditures within the Finance approved amounts:

- Item No. 1 – 1993 Tax Allocation Bonds (TAB) in the amount of \$297,845.
- Item No. 2 – 2001 Tax Allocation Refunding Bonds in the amount of \$370,916.
- Item No. 6 – AB 1484 Required Audit in the amount of \$7,000.
- Item No. 7 – Annual External Audit in the amount of \$8,400.
- Item No. 9 – TAB Fees in the amount of \$6,530.
- Item No. 15 – 1999 Ground Lease Agreement in the amount of \$110,000.
- Administrative cost allowance in the amount of \$144,035.

The total allowable expenditures for the ROPS III period should have been \$944,726, as detailed above. The Agency received a \$1,033,710 distribution from the RPTTF for ROPS III, which should have resulted in a PPA of \$88,984 (\$1,033,710 - \$944,726) instead of the \$530,268 that was self-reported by the Agency. For the ROPS 13-14B period, Finance approved \$159,050 to be expended from the RPTTF and determined that \$530,268 was available from the self-reported PPA; therefore, no additional RPTTF funds were distributed. Since the PPA should have been \$88,984, the ROPS 13-14B period was unfunded in the amount of \$70,066 (\$159,050 - \$88,984). Pursuant to the priority of payments in HSC section 34183 (a) (2) and (3), the unfunded amount should have been the administrative cost allowance. Therefore, Finance will increase the RPTTF distribution in ROPS 14-15A by \$70,066 to fully fund administrative cost allowance approved in the ROPS 13-14B period.

To the extent the Agency incurred expenditures above the ROPS III approved amounts, the Agency should list those items and amounts on a subsequent ROPS for review.

In addition, per Finance's letter dated April 1, 2014, we continue to deny the following items not contested by the Agency during the Meet and Confer:

- Item No. 7 – Annual External Audit costs in the amount of \$7,000. Although enforceable, this type of service is considered a general administrative cost and has been reclassified.
- Item No. 15 – 1999 Ground Lease Agreement in the amount of \$4,840,000. It is our understanding the property associated with this item has been transferred to the City following Finance's review of the Housing Asset Transfer (HAT). Therefore, this item is no longer an obligation of the Agency and is not eligible for RPTTF funding.

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. The amount of RPTTF approved in the table below includes the prior period adjustment self-reported by the Agency. 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. Any proposed CAC adjustments were not received in time for inclusion in this letter. Therefore, the amount of RPTTF approved in the table below only includes the prior period adjustment 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 14-15A. The Agency's maximum approved RPTTF distribution for the reporting period is \$350,243 as summarized in the following table:

Approved RPTTF Distribution	
For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	611,472
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations	\$ 736,472
Total RPTTF requested for non-administrative obligations	611,472
<u>Denied Items</u>	
Item No. 3	(212,142)
Item No. 4	(132,653)
Item No. 15	(110,000)
	(454,795)
<u>Adjustment for Unfunded ROPS 13-14B Item</u>	
Administrative Cost Allowance	70,066
	70,066
Total RPTTF for non-administrative obligations	\$ 226,743
<u>Cash Balances - Items reclassified to other funding sources</u>	
Item No. 7	(7,000)
	(7,000)
Total RPTTF authorized for non-administrative obligations	\$ 219,743
Total RPTTF requested for administrative obligations	125,000
<u>Reclassified Item</u>	
Item No. 7	7,000
	132,000
Total RPTTF authorized for administrative obligations	\$ 132,000
Total RPTTF authorized for obligations	\$ 351,743
ROPS 13-14A prior period adjustment	(1,500)
Total RPTTF approved for distribution	\$ 350,243

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

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

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2014. This determination only applies 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

Mr. Douglas Dumhart
May 16, 2014
Page 5

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 Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Michael Solorza, Finance Director, City of La Palma
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office