

May 16, 2014

Ms. Barbara Boswell, Finance Director  
City of Lancaster  
44933 Fern Avenue  
Lancaster, CA 93534

Dear Ms. Boswell:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated March 27, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Lancaster Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on February 24, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on March 27, 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 14, 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 item being disputed.

- Item No. 270 – Reserve RPTTF for February 2015 Debt Service in the amount of \$696,372. Finance no longer denies this item. We initially denied this item as it was our understanding that the Agency is requesting reserves in anticipation of a future shortfall in the next half of the fiscal year; however, HSC section 34171 (d) (1) (A) allows successor agencies to hold a reserve for debt service payments only 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, a request to fund payments due for the *first half* of the calendar year is not allowed.

During the meet and confer process, the Agency contended that the indentures require all available revenue to be set aside as soon as they are available until sufficient funds to make the entire annual debt service payments are held in reserve. Based on a review of the Loan Agreements between the former Redevelopment Agency and the Lancaster Financing Authority, who is the named party on the indentures as the issuer of the bonds, the Agency is required to deposit all of the tax revenues received in any bond year (February 2 in one calendar year to February 1 of the succeeding calendar year) in the Special Fund equal to the aggregate amount required to be transferred to the trustee for the annual debt service, which are the interest and principal amounts due. The current bond year would consist of the payments due on August 1, 2014, and February 1, 2015. Therefore, this request is in accordance with a bond indenture requirement as

allowed under HSC section 34171 (d) (1) (A) and is eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

Finance notes that pursuant to HSC section 34183 (a) (2) (A), debt service payments have first priority for payment from distributed RPTTF funding. As such, the additional \$696,372 requested to be held in reserve should be transferred upon receipt to the bond trustee(s) along with the amounts approved for the other ROPS 14-15A debt service payments prior to making any other payments on approved ROPS items. Any requests to fund these items again in the ROPS 14-15B period will be denied unless insufficient RPTTF is received to satisfy both the debt service payments due during the ROPS 14-15A period and the reserve amounts requested in ROPS 14-15A for the ROPS 14-15B debt service payments.

In addition, per Finance's letter dated March 27, 2014, we continue to deny the following item not contested by the Agency during the Meet and Confer:

- Claimed administrative costs exceed the allowance by \$1,316. HSC section 34171 (b) limits the fiscal year 2014-15 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. Although \$331,000 is claimed for administrative cost, only \$329,684 is available pursuant to the cap. Therefore, \$1,316 of excess administrative cost is not allowed.

In addition, Finance notes the following:

- Item Nos. 8 through 12 – Loan certification debt service requirement totaling \$1,853,302. The Agency requested RPTTF to replenish reserves to meet the 125% debt ratio coverage requirement. Based upon our review, the loan agreements for the bonds listed below do require all tax revenues to be deposited until the 125% debt ratio coverage requirement is covered. Therefore, the debt service payments requested for the following bonds were approved as follows:
  - Item No. 8 – in the amount of \$841,400
  - Item No. 9 – in the amount of \$33,359
  - Item No. 10 – in the amount of \$233,516
  - Item No. 11 – in the amount of \$344,714
  - Item No. 12 – in the amount of \$400,313

Pursuant to HSC section 34183 (a) (2) (A), debt service payments have first priority for payment from distributed RPTTF funding. As such, the additional \$1,853,302 requested to be held in reserve along with the amounts previously requested should be used to meet the debt service requirements. The amounts approved for debt service payments on this ROPS are restricted for that purpose and are not authorized to be used for other ROPS items.

- Per HSC section 34177 (a) (3), only those payments listed on ROPS may be made by the Agency from the funds specified on the ROPS. However, these items were determined to be enforceable obligations for the ROPS 14-15A period. Therefore, Finance is increasing the Agency's authorization for the ROPS 14-15A period to ensure that authorization is consistent with expenditures for the approved enforceable obligations. As these Other Funds were previously expended, the increase in authorization should not result in increased expenditures, but should merely allow the

Agency to reconcile actual expenditures to the authorization. The increase includes Other Funds for Item No. 85 Lease Payment- Cardlock in the amount of \$425,848, Item No. 221 Automall Sign Agreement in the amount of \$257, Item No. 223 Legal services in the amount of \$39,481, and Item No. 233 Administrative Costs in the amount of \$224,290. This is for informational purposes and will not affect your ROPS 14-15A spending authority.

HSC sections 34177 (a) (4) and 34173 (h) provide mechanisms when Agency payments must exceed the amounts authorized by Finance. Please ensure the proper expenditure authority is received from your Oversight Board and Finance prior to making payments on enforceable obligations.

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, Finance is not objecting to the remaining items listed on your ROPS 14-15A. The Agency's maximum approved Redevelopment Property Tax Trust Fund distribution for the reporting period is \$11,364,668 as summarized below:

<b>Approved RPTTF Distribution</b>	
<b>For the period of July through December 2014</b>	
Total RPTTF requested for non-administrative obligations	11,034,984
Total RPTTF requested for administrative obligations	331,000
<b>Total RPTTF requested for obligations</b>	<b>\$ 11,365,984</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>11,034,984</b>
<b>Total RPTTF authorized for non-administrative obligations</b>	<b>\$ 11,034,984</b>
<b>Total RPTTF requested for administrative obligations</b>	<b>331,000</b>
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(1,316)
<b>Total RPTTF authorized for administrative obligations</b>	<b>\$ 329,684</b>
<b>Total RPTTF authorized for obligations</b>	<b>\$ 11,364,668</b>
ROPS 13-14A prior period adjustment	0
<b>Total RPTTF approved for distribution</b>	<b>\$ 11,364,668</b>

<b>Administrative Cost Cap Calculation</b>	
Total RPTTF authorized for non-administrative obligations	11,034,984
Less: 13-14A and 13-14B Authorized RPTTF Shortfall Item No. 271	(45,503)
<b>Total ROPS 14-15A non-admin RPTTF obligations</b>	<b>10,989,481</b>
Percent allowed pursuant to HSC section 34171 (b)	3%
<b>Total RPTTF allowable for administrative obligations</b>	<b>329,684</b>

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 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 Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD  
Assistant Program Budget Manager

cc: Ms. Pam Statsmann, Assistant Finance Director, City of Lancaster  
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County  
California State Controller's Office