

May 16, 2014

Mr. Emilio Ramirez, Development Director
Riverside City
3900 Main Street, 3rd Floor
Riverside, CA 92522

Dear Mr. Ramirez:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 10, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the Riverside City Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on February 27, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 10, 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 28, 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. 192 – Housing Administrative Cost Allowance in the amount of \$289,687. Finance continues to deny this item. Finance denied this item because pursuant to HSC section 34171 (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 (RDA) elected to not assume the housing functions. Because the housing entity to the former redevelopment agency of the City of Riverside (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 (ABx1 26 and AB 1484).

The Agency contends that the City elected not to retain the housing functions, but the Authority, as a separate legal entity from the City, did elect to retain the housing functions pursuant to HSC section 34176 (b) (3) and should therefore be eligible for the housing entity administrative allowance. However, pursuant to HSC section 34167.10 (a), the definition of "city" includes, but is not limited to, any reporting entity of the city for purposes of its comprehensive annual financial report (CAFR), any component unit of the city, or any entity controlled by the city or for which the city is financially responsible or accountable. HSC section 34167.10 (a) defines "city" for purposes of all of Dissolution Law, which includes HSC section 34171, as amended by AB 471, and HSC section 34176. The Authority is included in the City's CAFR, which

identifies the Authority as a component unit of the City and states that the City is financially accountable for the Authority.

Although the Authority is a separate legal entity from the City, HSC section 34167.10 (c) states that it shall not be relevant that the entity is formed as a separate legal entity. It should also be noted that HSC section 34167.10 (c) goes on to state that "the provisions of this section are declarative of existing law as the entities described herein are and were intended to be included within the requirements of this part [Part 1.8] and Part 1.85...and any attempt to determine otherwise would thwart the intent of these two parts." Therefore, based on our review, the City, by way of the Authority, elected to retain the housing functions pursuant to HSC section 34176 (a) and is not eligible for \$289,687 of housing entity administrative allowance.

In addition, per Finance's letter dated April 10, 2014, we continue to deny the following items not contested by the Agency during the Meet and Confer:

- Item No. 18 – Auto Center Business Improvement District Agreement in the amount of \$800,000. This item was previously denied. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. It is our understanding that the contract for this line item was awarded after June 27, 2011. Therefore, this item is not an enforceable obligation and not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item Nos. 84 and 87 through 91 – City loan repayments in the amount of \$10,383,616 are not allowed at this time. 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 fiscal year 2012-13 base year.

According to the County Auditor-Controller's report, the amount distributed to the taxing entities for fiscal year 2012-13 and 2013-14 are \$5,618,776 and \$13,713,000, respectively. Therefore, pursuant to the repayment formula, the maximum repayment amount authorized for fiscal year 2014-15 is \$4,047,112. Furthermore, pursuant to HSC section 34191.4 (b) (2) (B) repayments received by the city, county or city and county that formed the Agency shall be first used to retire any outstanding amounts borrowed and owed to the Low and Moderate Income Housing Fund, which was requested in Item No. 187. Therefore, repayment on the remaining loans is not allowed at this time. The Agency may request funding for these loans on a future ROPS.

- Item No. 187 - Low and Moderate Income Housing Fund (LMIHF) loan repayment for purposes of the Supplemental Educational Revenue Augmentation Fund (SERAF) in the amount of \$4,702,227 payable from Reserve funding.

As noted above, the maximum loan repayment amount authorized for fiscal year 2014-15 is \$4,047,112. Therefore, of the \$4,702,227 is requested for LMIHF loan repayment, \$655,115 of excess amount is not allowed at this time. The Agency may request funding for the remainder of the loan on the next ROPS.

- Administrative costs claimed exceed the allowance by \$329,199. 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 \$877,752 is claimed for administrative costs, only \$548,553 is available pursuant to the three percent limit. Therefore, \$329,199 of the excess administrative cost 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 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 \$830,586 and Other Balances totaling \$1,892,572.

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

- Item No. 78 – 2007 Series C Tax Exempt Tax Allocation Bonds in the amount of \$1,298,369. The Agency requested \$1,298,369 of RPTTF; however, Finance is reclassifying \$1,298,369 to Other Funds. This item is an enforceable obligation for the ROPS 14-15B period. However, the obligation does not require payment from property tax revenues and the Agency has \$1,892,572 in available Other Balances. Therefore, Finance is approving RPTTF in the amount of \$0 and the use of Other Balances in the amount of \$1,298,369.
- Item No. 122 – 2007 Series C Tax Exempt Tax Allocation Bonds in the amount of \$1,430,869. The Agency requested \$1,430,869 of RPTTF; however, Finance is reclassifying \$594,203 to Other Funds and \$830,586 to Reserve Balances. This item is an enforceable obligation for the ROPS 14-15B period. However, the obligation does not require payment from property tax revenues and the Agency has \$1,892,572 in available Other Balances and \$830,586 in Reserve Available Balances. Therefore, Finance is approving RPTTF in the amount of \$6,080 and the use of Other Balances in the amount of \$594,203 and Reserve Balances in the amount of \$830,586, in total amount of \$1,430,869.

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 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 \$14,526,780 as summarized in the following table:

Approved RPTTF Distribution For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	29,258,397
Total RPTTF requested for administrative obligations	877,752
Total RPTTF requested for obligations	\$ 30,136,149
Total RPTTF requested for non-administrative obligations	29,258,397
<u>Denied Items</u>	
Item No. 18	(300,000)
Item No. 84	(329,072)
Item No. 87	(4,122,786)
Item No. 88	(1,125,454)
Item No. 89	(53,693)
Item No. 90	(360,751)
Item No. 91	(4,391,860)
Item No. 192	(289,687)
	(10,973,303)
Total RPTTF for non-administrative obligations	18,285,094
<u>Cash Balances - Items reclassified to other funding sources</u>	
Item No. 78	(1,298,369)
Item No. 122	(1,424,789)
	(2,723,158)
Total RPTTF authorized for non-administrative obligations	\$ 15,561,936
Total RPTTF requested for administrative obligations	877,752
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(329,199)
Total RPTTF authorized for administrative obligations	\$ 548,553
Total RPTTF authorized for obligations	\$ 16,110,489
ROPS 13-14A prior period adjustment	(1,583,709)
Total RPTTF approved for distribution	\$ 14,526,780

Administrative Cost Cap Calculation	
Total RPTTF for non-administrative obligations (prior to reclassification)	18,285,094
Percent allowed pursuant to HSC section 34171 (b)	3%
Total RPTTF allowable for administrative obligations	548,553
Total RPTTF administrative obligations after Finance adjustments	877,752
Administrative costs in excess of the cap	\$ (329,199)

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: Mr. Al Zelinka, Community Development Director, Riverside City
Ms. Pam Elias, Chief Accountant Property Tax Division, Riverside County
California State Controller's Office