DEPARTMENT OF FINANCE

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November 3, 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 14-15B) to the California Department of Finance (Finance) on September 19, 2014 for the period of January 1 through June 30, 2015. Finance has completed its review of your ROPS 14-15B, which may have included obtaining clarification for various items.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

- Item No. 19 – Adjustment to Redevelopment Obligation Retirement Fund Shortfall of funding from Auditor Controller for June 2013 in the amount of $87,924 is not allowed. The Agency requested and was authorized for this shortfall in ROPS 13-14A. During ROPS 13-14A, the Agency did not receive full distribution and was in shortfall again. The shortfall requested for ROPS 13-14A period with Item No. 20 on ROPS 13-14B already includes the $87,924 amount and should not be requested twice. Therefore, this amount is not eligible for funding.

- Item No. 31 – ROPS 14-15A Administrative Fee distribution shortfall in the amount of $50,328 is not allowed. Pursuant to HSC section 34177 (l) (1) (E), Redevelopment Property Tax Trust Funds (RPTTF) may be used as a funding source, but only to the extent no other funding source is available. The Agency contends that this amount is from the ROPS 13-14B shortfall. The Agency demonstrated on their Cash Balance form and with additional related notes that other sources of funds were used to pay for the distribution shortfall of ROPS 13-14B. For that reason, this item is no longer eligible for RPTTF funding.

- Item No. 8 – Perma JPA Annual Insurance Costs in the amount of $12,250. This item is considered a general administrative cost. The $7,000 requested has been reclassified. This reclassification increased the requested administrative costs to $132,000.

  Consequently, claimed administrative costs exceed the allowance by $7,000. HSC section 34171 (b) limits fiscal year 2014-15 administrative expenses to three

percent of property tax allocated to the successor agency or $250,000, whichever is greater. As a result, the Agency is eligible for $250,000 in administrative expenses. The Marin County Auditor-Controller's Office distributed $125,000 administrative costs for the July through December 2014 period, thus leaving a balance of $125,000 available for the January through June 2015 period. Although $125,000 is claimed for administrative cost, Item No. 8 for Perma JPA Annual Insurance in the amount of $7,000 is considered an administrative expense and should be counted toward the cap. Therefore, $7,000 of excess administrative cost is not allowed

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2014 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 and Finances' proposed changes to it. Finance noted that the Available RPTTF for Non-Admin approved obligations should have included the prior period adjustment from ROPS III of $57,157. After including $57,157 additional RPTTF funds available, the Agency's Prior Period Adjustment would be increased from $0 to $57,157. Therefore, the Agency should work with CAC to resolve the PPA differences.

Except for the item denied in whole or in part or the item that has been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15B. If you disagree with the determination with respect to any items on your ROPS 14-15B, 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 $2,994,140 as summarized in the Approved RPTTF Distribution Table below:

| Approved RPTTF Distribution<br>For the period of January through June 2015 | | |
|---|---|---|
| Total RPTTF requested for non-administrative obligations | | 3,071,549 |
| Total RPTTF requested for administrative obligations | | 125,000 |
| **Total RPTTF requested for obligations on ROPS** | **$** | **3,196,549** |
| | | |
| **Total RPTTF requested for non-administrative obligations** | | **3,071,549** |
| Denied Item | | |
| Item No. 19 | | (87,924) |
| Item No. 31 | | (50,328) |
| | | (138,252) |
| Reclassified Item | | |
| Item No. 8 | | (7,000) |
| | | (7,000) |
| | | |
| **Total RPTTF authorized for non-administrative obligations** | **$** | **2,926,297** |
| | | |
| **Total RPTTF requested for administrative obligations** | | **125,000** |
| Reclassified Item | | |
| Item No. 8 | | 7,000 |
| | | 7,000 |
| Administrative costs in excess of the cap (see Admin Cost Cap table below) | | (7,000) |
| **Total RPTTF authorized for administrative obligations** | **$** | **125,000** |
| | | |
| **Total RPTTF authorized for obligations** | **$** | **3,051,297** |
| Self-reported ROPS 13-14B prior period adjustment (PPA) | | 0 |
| Finance adjustment to ROPS 13-14B PPA | | (57,157) |
| Total ROPS 13-14B PPA | | (57,157) |
| **Total RPTTF approved for distribution** | **$** | **2,994,140** |

| Administrative Cost Cap Calculation | | |
|---|---|---|
| Total RPTTF for 14-15A (July through December 2014) | | 1,386,730 |
| Total RPTTF for 14-15B (January through June 2015) | | 2,374,915 |
| Less approved unfunded obligations from prior periods | | 0 |
| **Total RPTTF for fiscal year 2014-2015** | | **3,761,645** |
| Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or $250,000) | | 250,000 |
| Administrative allowance for 14-15A (July through December 2014) | | 125,000 |
| **Allowable RPTTF distribution for administrative cost for ROPS 14-15B** | | **125,000** |
| Total RPTTF administrative obligations after Finance adjustments | | 132,000 |
| **Administrative costs in excess of the cap** | **$** | **(7,000)** |

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 14-15B review, Finance requested financial records to support the cash balances reported by the Agency; however, the beginning balances for Bonds, Reserves, Other, and RPTTF could not be supported by the Agency's supplied financial records. As a result, Finance will continue to work with the Agency after the ROPS 14-15B 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 15-16A.

Please refer to the ROPS 14-15B 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 January 1 through June 30, 2015. 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 the 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 agency in the RPTTF.

Pursuant to HSC section 34177 (a) (3), only those payments listed on an approved ROPS may be made by the successor agency from the funds specified in the ROPS. However, if for whatever reason the Agency needs to make payments for approved obligations from another funding source, HSC section 34177 (a) (4) requires the Agency to first obtain oversight board approval.

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 Chikako Takagi-Galamba, Manager or Beliz Chappuie, Supervisor at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Acting Program Budget Manager

cc: Mr. Martin Magana, City Manager, Desert Hot Springs
Ms. Pam Elias, Chief Accountant Property Tax Division, Riverside County
California State Controller's Office