



December 17, 2014

Mr. Steven Lantsberger, Deputy Director of Economic Development
City of Hesperia
9700 Seventh Avenue
Hesperia, CA 92345

Dear Mr. Lantsberger:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 12, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Hesperia Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on September 29, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 12, 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 December 1, 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. 62, 64, and 65 – Loan Agreements with the City of Hesperia (City) totaling \$2,541,955. Finance no longer denies Item No. 62; however, Finance continues to deny Item Nos. 64 and 65 at this time. Pursuant to HSC section 34173 (h), sponsoring entity loans are limited to administrative costs and enforceable obligations approved by Finance, which remain unfunded after county auditor controller distributions. Finance initially denied these items as it was our understanding the identified loan amounts had either been previously funded or not tied to specific enforceable obligations in the ROPS period specified, or from funding sources other than Redevelopment Property Tax Trust Funds (RPTTF). Therefore, these loan agreements, and associated Oversight Board (OB) resolutions, were initially denied, as follows:
 - Item Nos. 62 and 65 – OB Resolution No. 2014-21, approving (I) a loan made by the City in the principal amount of \$275,856 to the Agency for specific Agency administrative costs, enforceable obligations, and/or project related expenses as delineated and approved by Finance on ROPS 13-14B; (II) the inclusion of the loan on the ROPS 14-15B and all subsequent ROPS as an enforceable obligation pursuant to HSC section 34173 (h) until it is retired; and (III) the loan agreement including the terms of the loan and repayment schedule.

Based on the review completed for Item No. 62 in ROPS 14-15A, Finance no longer denies the \$75,000 loan included in Item No. 62 on the current ROPS. Although this amount was approved for payment on ROPS 14-15A, the Agency had a shortfall in funding and stated that this item was not funded. Therefore, this item is an enforceable obligation to be funded from Other Funds in the amount of \$15,000 as requested.

Based on the review completed for Item No. 62 in ROPS 14-15A, Finance continues to deny the \$200,856 loan included in Item No. 65 on the current ROPS. During the Meet and Confer process, the Agency provided the same documents provided during the ROPS 14-15A Meet and Confer process. The Agency had previously provided a payroll history report as of February 19, 2014, and a general ledger as of February 24, 2014. However, the Agency did not provide any other documents to support the \$200,856 loan amount or which enforceable obligations that amount applies to on ROPS 13-14B. To the extent the Agency can provide documentation (e.g., accounting records, invoices of expenditures incurred, checks showing payment using City funds, and the line items approved on ROPS 13-14B) to support the full amount requested, the Agency may be able to obtain RPTTF funding on future ROPS.

- Item No. 64 – OB Resolution No. 2014-20, approving (I) a loan made by the City in the principal amount of \$2,266,099 to the Agency for specific Agency administrative costs, enforceable obligations, and/or project related expenses as delineated and approved by Finance on ROPS 13-14A and prior ROPS; (II) the inclusion of the loan on the ROPS 14-15B and all subsequent ROPS as an enforceable obligation pursuant to HSC section 34173 (h) until it is retired; and (III) the loan agreement including the terms of the loan and repayment schedule.

Based on the review completed for Item No. 48 in ROPS 14-15A, Finance continues to deny the \$2,266,099 loan included in Item No. 64 on the current ROPS. During the Meet and Confer process, the Agency provided the same documents provided during the ROPS 14-15A Meet and Confer process. The Agency had previously provided general ledgers for expenditures incurred by the Hesperia Community Development Commission and the Hesperia Housing Authority within each ROPS period. However, the Loan Agreement provided is between the City and the Agency and the payee listed on the ROPS is the City. To the extent the Agency can provide documentation (e.g., accounting records, invoices of expenditures incurred, checks showing payment using City funds, and the line items approved on each ROPS) to support the full amount requested was paid by the City, the Agency may be able to obtain RPTTF funding on future ROPS.

- Item No. 69 – Housing Entity Administrative Cost Allowance in the amount of \$600,000, funded by Other Funds, is denied. 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 RDA of the 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 retain the housing functions pursuant to HSC section 34176 (b) 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.

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 \$600,000 of housing entity administrative allowance.

- In addition, the Agency requested various obligations to be funded by the Victor Valley Economic Development Authority (VVEDA) pass-through payments. However, the Agency will no longer receive payments from VVEDA as determined in our December 17, 2014 ROPS letter to VVEDA. Therefore, Finance continues to change the funding sources for the following items in the amounts specified below:
 - Item No. 43 – Appraisal Costs in the amount of \$5,000. The Agency requested \$5,000 from Other Funds; however, Finance changed the funding source to RPTTF. As such, the Agency's requested RPTTF has been increased by \$5,000.
 - Item No. 58 – Agency Administrative Cost Allowance (ACA) in the amount of \$135,505. The Agency requested \$135,505 from Other Funds. During our review, the Agency provided financial records that displayed available Other Funds totaling \$4,191. Therefore, Finance is approving RPTTF ACA in the amount of \$131,314, and the use of Other Funds in the amount of \$4,191, totaling \$135,505 for this item. As a result, the Agency's requested RPTTF ACA has been increased by \$131,314.
 - Item No. 60 – Audit Review costs in the amount of \$15,000. The Agency requested \$15,000 from Other Funds; however, Finance changed the funding source to RPTTF ACA. As such, the Agency's requested RPTTF ACA has been increased by \$15,000.

During the Meet and Confer process, the Agency contended that they had not been officially notified that these funds would not be forthcoming from VVEDA. Based on Finance's ROPS letter dated December 17, 2014, to VVEDA, the Agency will not be

receiving the pass-through payment. Therefore, Finance continues to reclassify the above items to RPTTF funding in the amounts specified.

In addition, per Finance's letter dated November 12, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 68 – Finance notes the Agency did not request funding for this item, relating to OB Resolution No. 2014-22. This resolution, which approves (i) a loan made by the City in the principal amount of \$54,207 to the Agency for specific Agency administrative costs, enforceable obligations, and/or project related expenses as delineated and approved by Finance on 14-15A, (ii) the inclusion of the loan on the ROPS 14-15B and all subsequent ROPS as an enforceable obligation pursuant to HSC section 34173(h) until it is retired, and (iii) the loan agreement including the terms of the loan and repayment schedule, is approved. However, the amount of the loan is subject to Finance review and approval on future ROPS.

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. The amount of RPTTF approved in the table below reflects 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. Proposed CAC adjustments were not received in time for inclusion in this letter; therefore, the amount of RPTTF approved in the table below only reflects the prior period adjustment self-reported by the Agency.

Except for the items denied in whole or in part or items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15B. The Agency's maximum approved RPTTF distribution for the reporting period is \$6,401,234 as summarized in the Approved RPTTF Distribution Table below:

Approved RPTTF Distribution	
For the period of January through June 2015	
Total RPTTF requested for non-administrative obligations	6,369,880
Total RPTTF requested for administrative obligations	0
Total RPTTF requested for obligations on ROPS	\$ 6,369,880
Total RPTTF requested for non-administrative obligations	6,369,880
<u>Reclassified Item</u>	
Item No. 43	5,000
Total RPTTF authorized for non-administrative obligations	\$ 6,374,880
Total RPTTF requested for administrative obligations	0
<u>Reclassified Items</u>	
Item No. 58	131,314
Item No. 60	15,000
	146,314
Total RPTTF authorized for administrative obligations	\$ 146,314
Total RPTTF authorized for obligations	\$ 6,521,194
ROPS 13-14B prior period adjustment	(119,960)
Total RPTTF approved for distribution	\$ 6,401,234

Please refer to the ROPS 14-15B 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 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 Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

cc: Ms. Anne Duke, Deputy Finance Director, City of Hesperia
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office