

November 14, 2014

Ms. Linda Padilla-Smyth, Economic Development & Housing Manager
City of La Habra
201 East La Habra Boulevard
La Habra, CA 90631

Dear Ms. Padilla-Smyth:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of La Habra Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to the California Department of Finance (Finance) on October 1, 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. 4 – 1998 Certificate of Participation (COP) B/C Debt Service Interest in the amount of \$184,202 is partially approved. According to the debt service schedule provided, the amount due in the current period is only \$78,308. Insufficient documentation was provided to support the excess \$105,894 claimed. The Agency provided documentation that indicated the excess amount was owed to the City of La Habra (City) from a COP payment made by the City in September of 2011 pursuant to an existing City Agency COP Loan Agreement. The Agency also provided a calculation for the outstanding loan amount owed to the City through June 30, 2015. Although the documents appear to indicate the payment was made by the City, it does not show a corresponding reduction in the loan amount to show the amount to be repaid by the Agency in the ROPS 14-15B period. Furthermore, interest on the loan to the City was not reduced to reflect a payment made in the ROPS 14-15B period. To the extent the Agency can provide suitable documentation, such as an amended loan and outstanding interest calculation, to support the requested funding, the Agency may be able to obtain Redevelopment Property Tax Trust Funds (RPTTF) on future ROPS.
- Item Nos. 5 and 6 – 1998 COP B/C Bond Obligation Loan Agreements totaling \$517,006 are not allowed. It is our understanding the Agency and City entered into a loan agreement to allow the City to make payments on behalf of the Agency, when, at the Agency's discretion, there were insufficient tax revenues to make the COP payments. However, Finance has approved sufficient RPTTF to enable the Agency to make the COP payments without City assistance. Based on documentation provided to Finance, it also appears the Agency only pays the outstanding interest amount owed to the City.

Remaining funds are then used to pay other contracts and administrative costs instead of the COPs or the principal amounts owed to the City per the loan agreement.

Pursuant to HSC section 34183 (a) (2), agencies are required to pay enforceable obligations on a priority basis. To the extent the Agency does not receive the entire amount of RPTTF authorized in a given period, the Agency is required to pay bonds first, then other enforceable obligations, and finally, administrative costs. Additionally, per HSC section 34167 (a), agencies shall not take any actions that would further deplete the corpus of their funds regardless of the original funding source. Therefore, these items are not eligible for RPTTF funding.

- Item No. 18 – Low and Moderate Income Housing Fund (LMIHF) loan repayment for purposes of the Supplemental Educational Revenue Augmentation Fund (SERAF) in the amount of \$616,925 is not allowed.

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, there were no residual amounts distributed to the taxing entities for fiscal year 2012-13 and 2013-14. Therefore, pursuant to the repayment formula, the maximum repayment amount authorized for fiscal year 2014-15 is zero. Therefore, the LMIHF loan repayment is not allowed on this 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. HSC section 34186 (a) also specifies prior period adjustments self-reported by successor agencies are subject to review 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 review of the Agency's self-reported prior period adjustment.

The amount of RPTTF approved in the below table includes excess prior period adjustment (PPA) of \$249,173. The current approved RPTTF is insufficient to allow for the prior period adjustment of \$652,252 during this ROPS period. Pursuant to HSC section 34177 (I) (1) (E), agencies are required to use all available funding sources prior to RPTTF for payment of enforceable obligations. As the Agency will possess cash balances that are available to pay approved obligations, the Agency should request the use of these cash balances prior to requesting RPTTF on future ROPS.

Except for 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. 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 zero 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	1,558,064
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS	\$ 1,683,064
Total RPTTF requested for non-administrative obligations	1,558,064
<u>Denied Items</u>	
Item No. 4	(184,202)
Item No. 5	(427,993)
Item No. 6	(43,865)
Item No. 18	(616,925)
	(1,272,985)
Total RPTTF authorized for non-administrative obligations	\$ 285,079
Total RPTTF requested for administrative obligations	125,000
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 410,079
ROPS 13-14B prior period adjustment (PPA)	(659,252)
Excess PPA	249,173
Total RPTTF approved for distribution	0

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 Agency was unable to support the amounts reported. The beginning balances and revenues for Other Funds and RPTTF could not be supported by the Agency’s 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 Nichelle Thomas, Supervisor or Alexander Watt, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

cc: Mr. John Balderas, Senior Accountant, City of La Habra
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office