



December 17, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 14, 2014. 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 Finance on October 1, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 14, 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 3, 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 No. 4 – 1998 Certificate of Participation (COP) B/C Debt Service Interest in the amount of \$184,202. Based on further review during the Meet and Confer process, Finance denies the entire amount requested for Item No. 4. Finance initially denied \$105,894 because insufficient documentation was provided to support this amount.

During the Meet and Confer process, the Agency contended that this item had been previously approved in a prior ROPS period. However, any previous determinations made on prior ROPS are only applicable for the six-month period covered by the approved ROPS, unless items have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). This item has not received a Final and Conclusive determination.

The Agency also contended that on August 15, 2011, the City of La Habra (City) paid \$105,895 of interest due on behalf of the Agency and was never paid back from the Agency. Per the Agency, the debt service payments were always paid by the City per the COP Loan Agreement dated September 15, 1998, and this item is the actual interest owed on the debt service schedule of the 1998 B/C Bonds. However, the Official Statement for the 1998 Refunding COP, Series B and C specifically states that the "Loan Payments are not pledged by the City as security for its obligation to pay Lease

Payments and, thus, are not available to pay principal and interest with respect to the Certificates. The City will deposit Loan Payments when and if received into the general fund of the City.”

HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the redevelopment agency (RDA) and the former RDA are not enforceable obligations. HSC section 34171 (d) (2) also goes on to state that written agreements entered into at the time of issuance, but in no event later than December 31, 2010, of indebtedness obligations, and solely for the purpose of securing or repaying those indebtedness obligations may be deemed enforceable obligations. Although the Loan Agreement was entered into at the time of issuance of the indebtedness obligations, it is not solely for the purpose of securing or repaying indebtedness obligations. Therefore, the Loan Agreement does not meet this exception and both the upcoming amount due and the past amount paid by the City on the 1998 Refunding COP as requested on this item are not enforceable obligations of the Agency and not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item Nos. 5 and 6 – 1998 COP B/C Bond Obligation Loan Agreements totaling \$517,006. Finance continues to deny these items. It was our understanding the former RDA and City entered into a Loan Agreement dated September 15, 1998, to allow the City to make payments on behalf of the former RDA, when, at the former RDA’s discretion, there were insufficient tax revenues to make the COP payments. During the Meet and Confer process, the Agency contended that the Loan Agreement specifically states that unpaid loan payments accrue interest at 6.5 percent and was paid when the former RDA had available tax increment. However, as previously stated for Item 4, the Official Statement for the 1998 Refunding COP, Series B and C specifically states that the “Loan Payments are not pledged by the City as security for its obligation to pay Lease Payments and, thus, are not available to pay principal and interest with respect to the Certificates. The City will deposit Loan Payments when and if received into the general fund of the City.” Therefore, as determined above, the Loan Agreement does not meet the exception pursuant to HSC section 34171 (d) (2) and the accrued interest on the principal and interest payments made by the City on the 1998 Refunding COPs are not enforceable obligations and not eligible for Other Funds or RPTTF funding.
- 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 (l) (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.

During the Meet and Confer process, the Agency contended that they did not exceed the total amount approved for the ROPS, but had reallocated the amounts between line items. However, pursuant to HSC section 34177 (a) (3), only those payments listed on the ROPS may be made by the successor agency from the funds specified on the ROPS. The Agency does not have the authority to reallocate between line items or exceed the amount approved by Finance on a specific line item. Therefore, Finance maintains the CAC's review of the Agency's self-reported prior period adjustment as originally reported.

In addition, per Finance's letter dated November 14, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- 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 \$0. Therefore, the LMIHF loan repayment is not allowed on this 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. The Agency's maximum approved RPTTF distribution for the reporting period is \$0 as summarized in the Approved RPTTF Distribution Table on the following page:

| <b>Approved RPTTF Distribution</b>                               |                     |
|--|---------------------|
| <b>For the period of January through June 2015</b>               |                     |
| Total RPTTF requested for non-administrative obligations         | 1,558,064           |
| Total RPTTF requested for administrative obligations             | 125,000             |
| <b>Total RPTTF requested for obligations on ROPS</b>             | <b>\$ 1,683,064</b> |
| <b>Total RPTTF requested for non-administrative obligations</b>  | <b>1,558,064</b>    |
| <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)         |
| <b>Total RPTTF authorized for non-administrative obligations</b> | <b>\$ 285,079</b>   |
| <b>Total RPTTF requested for administrative obligations</b>      | <b>125,000</b>      |
| <b>Total RPTTF authorized for administrative obligations</b>     | <b>\$ 125,000</b>   |
| <b>Total RPTTF authorized for obligations</b>                    | <b>\$ 410,079</b>   |
| ROPS 13-14B prior period adjustment (PPA)                        | (659,252)           |
| Excess PPA   | 249,173             |
| <b>Total RPTTF approved for distribution</b>                     | <b>0</b>            |

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>

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