

December 17, 2014

Mr. Jason Simpson, Director of Administrative Services
City of Lake Elsinore
130 South Main Street
Lake Elsinore, CA 92530

Dear Mr. Simpson:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 13, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Elsinore 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 13, 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 2, 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. 20 – Housing Fund Loan in the amount of \$26,642,210. Finance continues to deny this item. Finance previously denied this item as sufficient documentation was not provided. Further review indicates that in 1995 the Lake Elsinore Public Financing Authority (Authority) issued 1995 Series A and B tax allocation bonds to repay a portion of prior loans and to finance low and moderate income housing and other redevelopment activities. In addition, the Authority and the former redevelopment agency (RDA) concurrently entered into a loan agreement for the use of the Authority's bond funds. Per the loan, after the bonds were issued, the Authority loaned the bond funds to the RDA's Low and Moderate Income Housing Fund (LMIHF). Subsequently, pursuant to the loan agreement, the RDA used those funds in RDA Project Area I, Project Area II, and Project Area III (collectively "Interfund Loans"). The Agency is requesting Redevelopment Property Tax Trust Funds (RPTTF) to repay the three Interfund Loans to the LMIHF.

The Agency claims the Interfund Loans qualify as enforceable obligations under various subsections under HSC section 34171(d)(1). However, based on our review, the alleged obligation to repay the Interfund Loans originates from an agreement between the Authority and the former RDA. The Authority is included in the City of Lake Elsinore's (City) comprehensive annual financial report (CAFR), which identifies the Authority as a

component unit of the City and states that the City is financially accountable for the component units. As a result, under HSC section 34167.10 the Authority is considered to be the City for purposes of Dissolution Law. Under HSC section 34171 (d) (2) agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable obligations. Thus, the agreement between the Authority and the former RDA is not an enforceable obligation pursuant to HSC section 34171 (d) (2).

Although HSC section 34171 (d) (2) provides that written agreements between the former RDA and its creator that were 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, the loan agreement was not entered solely for the purpose of securing or issuing the 1995 bonds. Therefore, the loan agreement is not an enforceable obligation, and this item is not eligible for RPTTF funding.

- Claimed administrative costs exceed the allowance by \$41,001. 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. The Riverside Auditor-Controller's Office distributed \$166,004 administrative costs for the July through December 2014 period, thus leaving a balance of \$136,975 available for the January through June 2015 period. Although \$177,975 was claimed for administrative cost, only \$136,975 is available pursuant to the cap. Therefore, \$41,001 of excess administrative cost is not allowed.

In addition, per Finance's letter dated November 13, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

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 (ROPS 13-14B). 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 review of the Agency's self-reported prior period adjustment and Finance's proposed changes to it. Finance noted that for Item Nos. 1, 2, 3, 4, 5, the Agency did not include the bond reserves approved and funded for each item in RPTTF Expenditures, Non-Admin, Actual column. Since these funds are encumbered for the ROPS13-14B period, the reserves funded should be included under the Non-Admin, Actual column. After including the bond reserve amounts, the Agency's prior period adjustment would be reduced from \$1,364,769 to \$19,769. Therefore, the Agency should work with CAC to resolve the PPA differences.

Except for the item denied in whole or in part or Finance adjustments to the Prior Period Adjustment page, 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 \$4,683,066 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	5,932,522
Total RPTTF requested for administrative obligations	177,976
Total RPTTF requested for obligations on ROPS	\$ 6,110,498
Total RPTTF requested for non-administrative obligations	5,932,522
<u>Denied Item</u>	
Item No. 20	(1,366,662)
Total RPTTF authorized for non-administrative obligations	\$ 4,565,860
Total RPTTF requested for administrative obligations	177,976
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(41,001)
Total RPTTF authorized for administrative obligations	\$ 136,975
Total RPTTF authorized for obligations	\$ 4,702,835
ROPS 13-14B prior period adjustment (PPA)	(1,364,769)
Proposed Finance adjustment to Item No. 1	162,500
Proposed Finance adjustment to Item No. 2	295,000
Proposed Finance adjustment to Item No. 3	595,000
Proposed Finance adjustment to Item No. 4	242,500
Proposed Finance adjustment to Item No. 5	50,000
Total ROPS 13-14B PPA	(19,769)
Total RPTTF approved for distribution	\$ 4,683,066

Administrative Cost Cap Calculation	
Total RPTTF for 14-15A (July through December 2014)	5,533,450
Total RPTTF for 14-15B (January through June 2015)	4,565,860
Less approved unfunded obligations from prior periods	0
Total RPTTF for fiscal year 2014-2015	10,099,310
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or \$250,000)	302,979
Administrative allowance for 14-15A (July through December 2014)	166,004
Allowable RPTTF distribution for administrative cost for ROPS 14-15B	136,975
Total RPTTF administrative obligations originally requested	177,976
Administrative costs in excess of the cap	\$ 41,001

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 Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

cc: Mr. Grant Yates, Executive Director, City of Lake Elsinore
Ms. Pam Elias, Chief Accountant Property Tax Division, Riverside County
California State Controller's Office