



December 17, 2014

Ms. Cathleen Till, Finance Director
City of Lemon Grove
3232 Main Street
Lemon Grove, CA 91945

Dear Ms. Till:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 10, 2014. Pursuant to Health and Safety Code (HSC) section 34177. (m), the City of Lemon Grove 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 10, 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 November 24, 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. 13 – Lemon Grove Avenue Realignment contract in the total amount of \$2,019,700 in Bond Proceeds. Finance no longer denies this item. Finance initially denied this item as HSC section 34163 (b) prohibits a redevelopment agency (RDA) from entering into a contract with any entity after June 27, 2011. It is our understanding that contracts for this line item has not yet been awarded. During the Meet and Confer process, the Agency contended that this item is in furtherance of a 2010 Grant Agreement from the Department of Housing and Community Development (HCD). The HCD Grant Agreement identifies one of the funding sources for the project as the former RDA's capital improvement funds, which are the bond proceeds being requested. Therefore, this item is an enforceable obligation eligible for bond proceeds.
- Item No. 17 – City of Lemon Grove (City) Loan in the amount of \$350,000. Finance continues to deny this item. Pursuant to HSC section 34173 (h), the City that authorized the creation of the Agency may loan funding to the Agency for enforceable obligations or administrative costs; however, Finance initially denied this item because the loan is subject to Oversight Board (OB) approval and Finance had yet to receive an OB action submitted through the required process for this City/Agency loan.

Health and Safety Code section 34179 (h) provides that notification regarding OB actions be provided in a manner of Finance's choosing. Finance requires OB actions to be submitted electronically to reddevelopment_administration@dof.ca.gov. In addition, approved OB resolutions, that have been signed, must be emailed individually (one resolution with supporting documents per email) to Finance and in PDF format unless otherwise specified. Additionally, the subject line should be clear as to what is being submitted and what the resolution is approving. Only OB resolutions that have been approved and signed by the board and emailed individually to Finance (in PDF format) will be considered for Finance's review.

The Agency submitted OB Resolution No. 2014-08 approving the loan between the City and the Agency to Finance on October 28, 2014; however, Finance denied this OB action on December 10, 2014. The Agency had proposed to use a \$1,266,703 loan from the City to pay for the July 12, 2012 true-up payment in the amount of \$350,000 and a shortfall for the August 2012 bond debt service payment in the amount of \$916,703.

Pursuant to HSC section 34183.5, the July 2012 true-up payment required agencies to remit excess tax increment to the county auditor-controller stemming from the January through June 2012 ROPS period. Since the Agency should have already possessed the funds necessary to make the true-up payment, this portion of the loan in the amount of \$350,000 is not necessary and was not approved.

The Agency claimed the remaining \$916,703 of the City loan is necessary to cover a shortfall in Redevelopment Property Tax Trust Fund (RPTTF) funding for the July through December 2012 ROPS period. However, the Agency was distributed \$954,240 of the \$1,418,877 that was approved, leaving a shortfall of only \$464,637. The Agency will need to adjust the loan amount to match the actual shortfall for the period. In addition, the Agency will need to identify the line items and obligations related to the actual shortfall amount. Furthermore, the resolution states the loan was to cover bond debt service payments; however, pursuant to HSC section 34183 (a) (2), these payments should have been made first before making payments on non-debt service obligations. Therefore, this portion of the loan was also not approved.

Therefore, this item is not an enforceable obligation at this time and is not eligible for RPTTF funding.

In addition, per Finance's letter dated November 10, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Claimed administrative costs exceed the allowance by \$5,100. HSC section 34171 (b) limits fiscal year 2014-2015 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 San Diego Auditor-Controller's (CAC) Office distributed \$130,100, thus leaving a balance of \$119,900 available for the January through June 2015 period. Although \$125,000 is claimed for administrative cost, only \$119,900 is available pursuant to the cap. Therefore, \$5,100 of excess administrative cost is not allowed

In addition, the following discrepancy was noted during our review:

- Item No. 27 – Refinance 2014 Tax Allocation Bonds in the requested amount of \$115,153 should be increased to adequately fund this obligation. The Agency has erroneously underfunded the February 1, 2015 bond payment by \$6,347. With Agency concurrence, Finance has adjusted the original request of RPTTF from \$115,153 to \$121,500 during the ROPS 14-15B period. In addition, this item was incorrectly identified as Refinance 2004 Bond and should have been Refunded 2014 Bond.

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 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.

Except for the items denied in whole or in part, 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 \$509,793 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	925,710
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS	\$ 1,050,710
RPTTF adjustment to non-administrative obligations	6,347
Total RPTTF adjustments	\$ 6,347
Total RPTTF requested for non-administrative obligations	932,057
<u>Denied Item</u>	
Item No. 17	(350,000)
Total RPTTF authorized for non-administrative obligations	\$ 582,057
Total RPTTF requested for administrative obligations	125,000
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(5,100)
Total RPTTF authorized for administrative obligations	\$ 119,900
Total RPTTF authorized for obligations	\$ 701,957
ROPS 13-14B prior period adjustment	(192,164)
Total RPTTF approved for distribution	\$ 509,793

Administrative Cost Cap Calculation	
Total RPTTF for 14-15A (July through December 2014)	1,379,198
Total RPTTF for 14-15B (January through June 2015)	582,057
Total RPTTF for fiscal year 2014-2015	1,961,255
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)	130,100
Allowable RPTTF distribution for administrative cost for ROPS 14-15B	119,900
Total RPTTF administrative obligations after Finance adjustments	125,000
Administrative costs in excess of the cap	\$ (5,100)

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. Graham Mitchell, City Manager, City of Lemon Grove
Mr. Jon Baker, Senior Auditor and Controller Manager, San Diego County
California State Controller's Office