DEPARTMENT OF FINANCE

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December 17, 2014

Ms. Veronica Tapia, Management Analyst II
City of Palm Desert
73-510 Fred Waring Drive
Palm Desert, CA 92260

Dear Ms. Tapia:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated October 28, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Palm Desert Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on September 18, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on October 28, 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 6, 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. 32, 86, 119, and 160 – Stipulated Judgment Case No. 51124 in the amount of $350,084,476 is denied. Both the Stipulated Judgment and the Cooperation Agreement between the Palm Desert Housing Authority and the former Redevelopment Agency (RDA) were previously denied on ROPS 14-15A as enforceable obligations. The agreement calls for housing proceeds to be used to fund this obligation. However, settlements awarding a percentage of tax increment to be set aside for low- and moderate-income housing purposes are not considered enforceable obligations. Pursuant to ABx1 26 and AB 1484, tax increment is no longer payable to the former RDA and therefore there is no obligation. During the Meet and Confer process, the Agency continued to object to Finance's determination; however, no new information was provided.

  Therefore, the following items and the amounts are not eligible for RPTTF funding:

  - Item No. 32 in the amount of $3,244,871.
  - Item No. 86 in the amount of $1,305,703.
  - Item No. 119 in the amount of $321,796.
  - Item No. 160 in the amount of $1,132,086.

- Item No. 174 – Buy down Subsidies for Low-Mod Housing in the amount of $5,000,000. Finance no longer denies this item. A Finding of Completion was issued on May 15, 2013, and the Agency can now utilize proceeds derived from bonds, issued prior to January 1, 2011, in a manner consistent with the original bond covenants. Finance initially denied this item as the documents provided were not sufficient to support the six-month expenditures. During the Meet and Confer process, the Agency provided Oversight Board Resolution No. OB-100 approving an agreement between the Agency and the Palm Desert Housing Authority to transfer $2,000,000 in the excess 2007 Tax Allocation Revenue Bond proceeds. Therefore, the Agency's request to expend bonds, issued prior to December 31, 2010, pursuant to HSC section 34191.4 (c) is approved.

In addition, per Finance's letter dated October 28, 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 $156,881.
  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 County Auditor-Controller's Office distributed $461,991 administrative costs for the July through December 2014 period, thus leaving a balance of $507,654 available for the January through June 2015 period. Although $690,488 is claimed for administrative cost, only $507,654 is available pursuant to the cap. Therefore, $156,881 of excess administrative cost is not allowed.

Review of ROPS 14-15B included Agency's Oversight Board (OB) Resolutions OB-090 and OB-091. OB resolution OB-090 authorized the Executive Director to approve contracts up to $25,000 per occurrence related to Agency property and disposition according to the Long-Range Property Management Plan and OB resolution OB-091 ratified the approvals authorized in OB-090. Finance approves the resolutions listed as Item No. 109 on the ROPS 14-15B.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting RPTTF. Pursuant to HSC section 34177 (l) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. According to the Cash Balance Page, the Agency possess $115,953 "Other" Funds to utilize on this ROPS.

Therefore, with the Agency's concurrence, the funding source for the following items have been reclassified to Other Funds and in the amounts specified below:

- Item 43 – Agency Owned Properties, property maintenance in the amount of $90,000 has been reclassified from RPTTF to Other.

- Item 189 – Project Area Administration in the amount of $25,953 has been reclassified to from Admin RPTTF to Other.

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 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 audit of the Agency's self-reported prior period adjustment.

Except for the items denied in whole or in part or item that has 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 $17,191,372 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		23,016,260
Total RPTTF requested for administrative obligations		690,488
Total RPTTF requested for obligations on ROPS	**$**	**23,706,748**
Total RPTTF requested for non-administrative obligations		**23,016,260**
Denied Items		
Item No. 32		(3,244,871)
Item No. 86		(1,305,703)
Item No. 119		(321,796)
Item No. 160		(1,132,086)
		(6,004,456)
Reclassified Items		
Item No. 43		(90,000)
		(90,000)
Total RPTTF authorized for non-administrative obligations	**$**	**16,921,804**
Total RPTTF requested for administrative obligations		**690,488**
Reclassified Items		
Item No. 189		(25,953)
Administrative costs in excess of the cap (see Admin Cost Cap table below)		(156,881)
Total RPTTF authorized for administrative obligations	**$**	**507,654**
Total RPTTF authorized for obligations	**$**	**17,429,458**
ROPS 13-14B prior period adjustment		(238,086)
Total RPTTF approved for distribution	**$**	**17,191,372**

Administrative Cost Cap Calculation		
Total RPTTF for 14-15A (July through December 2014)		15,399,707
Total RPTTF for 14-15B (January through June 2015)		16,921,804
Total RPTTF for fiscal year 2014-2015		**32,321,511**
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or $250,000)		969,645
Administrative allowance for 14-15A (July through December 2014)		461,991
Allowable RPTTF distribution for administrative cost for ROPS 14-15B		**507,654**
Total RPTTF administrative obligations requested		664,535
Administrative costs in excess of the cap	**$**	**(156,881)**

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. The Agency was able to support the amounts reported except for the beginning balances of Other Funds and RPTTF. Finance will continue to work with the Agency after the ROPS 14-15B review period to resolve any remaining issues as described above. If it is determined the Agency possesses additional 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: Ms. Janet Moore, Director of Housing, City of Palm Desert
Ms. Pam Elias, Chief Accountant Property Tax Division, Riverside County
California State Controller's Office