

October 27, 2014

Mr. David A. Klug, Redevelopment Manager
City of Pasadena
100 North Garfield Avenue, Room S116
Pasadena, CA 91103

Dear Mr. Klug:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Pasadena Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to the California Department of Finance (Finance) on September 12, 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. 1 – Pension obligation bond pursuant to Senate Bill 481 in the amount of \$39,653,667 continues to be denied at this time. This item has previously been denied in ROPS III, 13-14A, 13-14B and 14-15A determination letters. The Agency requested \$39,653,667 on this ROPS and previously provided an order granting preliminary injunction in favor of the City, however a final judgment on the merits has not been made. To reiterate Finance's position, we note the following:
 - The bonds were entered into by the City of Pasadena (City) to fund police and fire pensions and not entered into by the redevelopment agency (RDA) to fund redevelopment projects, as required by HSC section 34171 (e).
 - The original and amended reimbursement agreements are between the RDA and the City, and therefore not enforceable pursuant to HSC section 34171 (d) (2). HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the RDA and the sponsoring entity are not enforceable obligations unless they meet a limited exception which states, in part, that agreements entered into solely for the purpose of securing or repaying the sponsoring entity's debt may be enforceable. This exception does not apply here. The original reimbursement agreements and their amendments are separate and were not entered into for the security or repayments of the City's bonds or concurrent with the bond issuances. Therefore, they do not qualify as an exception to HSC section 34171 (d) (2).

- SB 481 passed in 1987 and added HSC section 33608, authorizing the RDA to enter into an agreement allowing the revenues from the reimbursement agreement to fund the police and fire retirement fund of the City. In 1999, the City sold bonds to replenish its Fire and Pension Retirement Fund (Fund). While the bond documents state that the City expected to use reimbursement agreement revenues to repay the bonds, the City specifically did not pledge the revenues to bond holders. Instead, the City pledged its general fund for the repayment of the bonds. The City then obtained a validation action declaring that the City had the authority to reassign the SB 481 receipts to pay the principal and interest of the bonds. This validation agreement did not validate the reimbursement agreements, but instead the Fund's assignment of SB 481 receipts back to the City to pay for the bonds. Therefore, the reimbursement agreements were not validated and still not enforceable pursuant to HSC section 34171 (d) (2).

The Agency contends the item is an enforceable obligation because the 1986 Reimbursement Agreement, which among other things obligates the former RDA to make annual payments of former tax increment to the City for debt service on the Pension Bonds, has been validated by the Legislature through Senate Bill 481 and was also validated by a 1999 court judgment. However, for the reasons stated above, the item continues to be denied and not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item No. 37 – Engineering costs in the amount of \$7,500 is denied. The total contracted amount with Overland, Pacific, and Cutler for the 6-month period is \$62,500. According to the Agency, the contract covers the requested engineering costs for this line item. However, the total contracted amount of \$62,500 was also explained by the Agency to have covered appraisal service costs totaling \$25,000 under Item No. 32, and right of way costs totaling \$37,500 under Item No. 35. As such, this item is in excess of the \$62,500 allowed by the contract, and is not eligible for RPTTF funding.
- Item Nos. 58 through 61 – Housing administrative costs totaling \$75,000 are not enforceable obligations. Pursuant to HSC section 34171 (p), the housing successor administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the redevelopment agency (RDA) elected to not assume the housing functions and that the housing functions were transferred to a local housing authority in the territorial jurisdiction of the RDA. Here, however, the City of Pasadena (City) elected to be the housing successor to the RDA and retained the housing assets by submitting the housing asset transfer form to Finance on August 1, 2012. Therefore, the City is not eligible for the housing successor administrative costs allowance of \$75,000.
- Item Nos. 62 and 63 – Parking structure operating costs in the amount of \$4,959,808. Finance previously disallowed various parking structures for transfer as governmental use properties to the City of Pasadena in its July 18, 2014 oversight board determination letter for Resolution No. 9. It is our understanding the parking structures that relate to these two line items generate revenue that is used to pay for all costs associated with the parking structures. As such, these items are not eligible for RPTTF funding, since the revenues generated from the operation of the parking structures should continue to be used for any costs incurred. Therefore, the requested \$4,742,505 and \$217,303 in RPTTF funding has been reclassified to Other Funds funding.

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. The Agency confirmed it possesses available Bond Proceeds funding totaling \$597,697.

Therefore, with the Agency's concurrence, the funding source for the following item has been reclassified to Bond Proceeds and in the amount specified below:

- Item No. 21 – 1993 Refunding Certificate of Participation. The Agency requests \$1,973,750 of RPTTF; however, Finance is reclassifying \$597,697 to Bond Proceeds. This item is an enforceable obligation for the ROPS 14-15B period. However, the obligation does not require payment from property tax revenues and the Agency has \$597,697 in available Bond Proceeds. Therefore, Finance is approving RPTTF in the amount of \$1,376,053 and the use of Bond Proceeds in the amount of \$597,697, totaling \$1,973,750.

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. 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 \$1,313,373 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	47,018,872
Total RPTTF requested for administrative obligations	125,001
Total RPTTF requested for obligations on ROPS	\$ 47,143,873
Total RPTTF requested for non-administrative obligations	47,018,872
<u>Denied Items</u>	
Item No. 1	(39,653,667)
Item No. 37	(7,500)
Item No. 58	(25,625)
Item No. 59	(25,625)
Item No. 60	(5,000)
Item No. 61	(18,750)
	(39,736,167)
<u>Reclassified Items</u>	
Item No. 62	(4,742,505)
Item No. 63	(217,303)
	(4,959,808)
Total RPTTF for non-administrative obligations	2,322,897
<u>Cash Balances - Item reclassified to other funding sources</u>	
Item No. 21	(597,697)
Total RPTTF authorized for non-administrative obligations	\$ 1,725,200
Total RPTTF requested for administrative obligations	125,001
Total RPTTF authorized for administrative obligations	\$ 125,001
Total RPTTF authorized for obligations	\$ 1,850,201
ROPS 13-14B prior period adjustment	(536,828)
Total RPTTF approved for distribution	\$ 1,313,373

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 the amount of bond proceeds available. Therefore, as noted above, Finance has reclassified the available cash balances of \$597,697 that was supported by the Agency's records. 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>

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 Cindie Lor, Supervisor or Hugo Lopez, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

cc: Mr. Robert Ridley, Controller, City of Pasadena
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County
California State Controller's Office