

December 17, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated October 27, 2014. 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 Finance on September 12, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on October 27, 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 No. 1 – Pension obligation bond pursuant to Senate Bill 481 in the amount of \$39,653,667 continues to be denied at this time. During the Meet and Confer process, the Agency continued to object to Finance's determination; however, no new information was provided. 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 of Pasadena (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 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 repayment 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 are 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 Nos. 62 and 63 – Parking structure operating costs in the amount of \$4,959,808. Finance continues to reclassify these items from RPTTF funding to Other Funds. 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. As such, Finance initially reclassified the requested \$4,742,505 and \$217,303 in RPTTF funding to Other Funds as it was 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.

During the Meet and Confer process, the Agency contended that the revenues generated are used to make payments on outstanding bonds that were issued in order to finance the construction of the parking structures and they are insufficient to cover the operating costs of the parking structures. The Agency also requested to increase the amount requested for Item No. 62 by an additional \$581,335 to \$5,323,840 for long-term debt payments; however, this request is denied because debt service payments were already included in the original estimate.

Based on the information provided by the Agency, the estimated annual revenues for the Plaza Las Fuentes Parking Structure are approximately \$2.4 million and the estimated annual expenditures are \$2.1 million. Therefore, additional RPTTF funding is not needed to cover the operating costs and Finance continues to reclassify funding to Other Funds.

Based on the information provided by the Agency, the estimated annual revenues for the Paseo Colorado Parking Structure are approximately \$4.5 million and the estimated annual expenditures are \$6.4 million, which includes personnel (\$101,660), services and supplies (\$3,370,882), internal services (\$129,008), debt service (\$1,320,000), and capital improvement projects (\$1,440,000). However, the debt service payments of \$660,000 per six-month period on the Pasadena Public Financing Authority's (Authority) Taxable Variable Rate Demand Lease Revenue Refunding Bonds, Series 2008, are the obligation of the City, not the Agency. The Official Statement specifically states that the Lease Payments to be made by the City pursuant to the Lease by and between the Authority and the City are payable by the City from its general fund. Additionally, the capital improvement projects are not eligible for payment because these costs are beyond routine maintenance and repairs that would be associated with maintaining the property in the current condition. As such, the estimated annual expenditures should be decreased by \$2,760,000 (\$1,320,000 + \$1,440,000). Therefore, additional RPTTF funding is not needed to cover the operating costs and Finance continues to reclassify funding to Other Funds.

In addition, per Finance's letter dated October 27, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- 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.

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. 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>

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.

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