DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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November 3, 2014

Ms. Tina Kundig, Director of Finance
City of Redlands
P.O. Box 3005
Redlands, CA 92373

Dear Ms. Kundig:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Redlands Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to the California Department of Finance (Finance) on September 19, 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. 2 – City of Redlands (City) loan for enforceable obligations repayment is partially approved. The loan payment of $2,866,102 is being reduced by $5,311 to $2,860,791. The $5,311 represents the interest portion anticipated to be earned on the outstanding obligation from January through June 2015. To the extent any outstanding balance remains unpaid between January through June 30, 2015, the associated interest and the principal outstanding should be listed on a subsequent ROPS. Therefore, $5,311 is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding on this ROPS.

- Item No. 3 – 1998 A Tax Allocation Refunding Bonds is an enforceable obligation, however, the Agency incorrectly calculated the amount necessary for this period. Therefore, with the Agency's consent, the requested debt-service payment of $2,149,725 was increased by $35,912 to $2,185,637.

- Item No. 4 – 2003 A Tax Allocation Refunding Bonds is an enforceable obligation, however, the Agency incorrectly calculated the amount necessary for this period. Therefore, with the Agency's consent, the requested debt-service payment of $928,721 was decreased by $3,497 to $925,284.

- Item No. 5 – 2007 A Tax Allocation Bonds is an enforceable obligation, however, the Agency incorrectly calculated the amount necessary for this period. Therefore, with the Agency's consent, the requested debt-service payment of $462,322 was increased by $8,727 to $471,049.

- Item Nos. 22 and 23 – Employee/Administrative Costs totaling $26,986 are denied. It is our understanding the cumulative fiscal year 2014-2015 budget for these line items is $25,986. During ROPS 14-15A, the Agency requested, and Finance approved, a total of $26,986 for these obligations. Therefore, with the Agency's consent, these items are not eligible for RPTTF funding on this ROPS.

- Item No. 38 – Loan for Legal Services in the amount of $67,404 is partially approved. As stated in previous letters of determination, the Agency is permitted to receive $3,947 in RPTTF each ROPS period to repay the City loan, based on the 10-year loan agreement. Therefore, the Agency is permitted to receive $3,947 in RPTTF funding for the ROPS 14-15B period. The remaining $63,457 ($67,404 - $3,947) is not eligible for RPTTF funding at this time.

- Item No. 39 – Housing Entity Administrative Costs in the amount of $150,000 is not allowed at this time. Based on OB Resolution No. OB 2012-008, and Resolution No. 7111 of the City Council of the City of Redlands, the Agency elected to decline housing responsibilities. However, the Agency has not submitted a Housing Asset Transfer form (HAT); therefore, there is insufficient evidence to confirm the number, nature, and transfer of, housing assets by the Agency to the Housing Entity. To the extent the Agency can provide documentation to support the transfer of the housing assets, such as an OB approved HAT form to Finance, subject to review and approval, the Agency may be able to obtain RPTTF funding on future ROPS.

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 provided financial records that displayed available Reserve Balances totaling $2,004,422

Therefore, with the Agency's concurrence, the funding source for the following item has been reclassified to Reserve Balances:

- Item No. 3 – 1998 A Tax Allocation Refunding Bonds. The Agency requests $2,185,637 from RPTTF; however, Finance is reclassifying $2,004,422 to Reserve Balances. 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 $2,004,422 in available Reserve Balances. Therefore, Finance is approving RPTTF in the amount of $181,215 and the use of Reserve Balances in the amount of $2,004,422, totaling $2,860,791.

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. The amount of RPTTF approved in the table below reflects the prior period adjustment self-reported by the Agency.
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. Proposed CAC adjustments were not received in time for inclusion in this letter; therefore, the amount of RPTTF approved in the table below only reflects the prior period adjustment self-reported by the Agency.

In addition, Finance noted the following during our review:

- On the ROPS 13-14B Prior Period Adjustment worksheet, the Agency's expenditures exceeded Finance's authorization for the following items:

  - Reserve Balances totaling $619,810 – Item No. 3, $377,181; Item No. 4, $148,959; and Item No. 5, $93,670.

  - Other Funding totaling $4,353 – Item No 16, $200; Item No. 17, $3,910; and Item No. 19, $243.

  Per HSC section 34177 (a) (3), only those payments listed on ROPS may be made by the Agency from the funds specified on the ROPS. However, these items were determined to be enforceable obligations for the ROPS 14-15B period. Therefore, Finance is increasing the Agency's authorization for the ROPS 14-15B period to ensure that authorization is consistent with expenditures for the approved enforceable obligations. As these Reserve Balances and Other Funds were previously expended, the increase in authorization should not result in increased expenditures for the current ROPS period, but should merely allow the Agency to reconcile actual expenditures to the authorization.

  HSC sections 34177 (a) (4) and 34173 (h) provide mechanisms when Agency payments must exceed the amounts authorized by Finance. Please ensure the proper expenditure authority is received from your Oversight Board and Finance prior to making payments on enforceable obligations.

Except for the items denied in whole or in part or for the 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 $4,496,988 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		6,663,770
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations on ROPS	**$**	**6,788,770**
RPTTF adjustment to non-administrative obligations		41,142
Total RPTTF adjustments	**$**	**41,142**
Total RPTTF requested for non-administrative obligations		**6,704,912**
Denied Items		
Item No. 2		(5,311)
Item No.22		(16,986)
Item No. 23		(10,000)
Item No. 38		(63,457)
Item No. 39		(150,000)
		(245,754)
Total RPTTF non-administrative obligations		**6,459,158**
Cash Balances - Item reclassified to other funding sources		
Item No. 3		(2,004,422)
Total RPTTF authorized for non-administrative obligations	**$**	**4,454,736**
Total RPTTF requested for administrative obligations		**125,000**
Total RPTTF authorized for administrative obligations	**$**	**125,000**
Total RPTTF authorized for obligations	**$**	**4,579,736**
ROPS 13-14B prior period adjustment		(82,748)
Total RPTTF approved for distribution	**$**	**4,496,988**

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 beginning balance of the bond related funds and the ROPS 13-14 prior period adjustment excluded from the report. Therefore, as noted, Finance has reclassified the available cash balance of $2,004,422 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 Nichelle Thomas, Supervisor or Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Acting Program Budget Manager

cc: Mr. Mike Nelson, Economic Development Manager, City of Redlands
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office