



December 17, 2014

Mr. Gary Parsons, Project Manager
City of Ridgecrest
100 West California Ave
Ridgecrest, CA 93555

Dear Mr. Parsons:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 5, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Ridgecrest 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 5, 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 17, 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. 18 – City loan to finance solar park in the amount of \$3,185,616 was denied. Finance continues to deny this item. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the redevelopment agency (RDA) and the former RDA are not enforceable. Finance initially denied this item because Finance's Oversight Board Resolution No.14-03 determination letter dated May 13, 2014, determined that sufficient documents were not provided to support the loan, such as an executed loan agreement, and the Agency did not provide any additional documents during the ROPS review.

During the Meet and Confer process, the Agency contended that the joint resolution of the Ridgecrest City Council (City) and the former RDA has the material terms for the loan and that the City and former RDA did not enter into a formal agreement. However, HSC section 34191.4 (b) (1) specifically states that "loan agreements entered into...shall be deemed to be enforceable obligations provided that the oversight board makes a finding that the loan was for legitimate redevelopment purposes." Without providing a loan agreement that was actually entered into, it is unclear how the oversight board could make such a finding. Additionally, only one vote was recorded on the joint resolution provided and it is unclear whether the joint resolution was passed by the City Council or the former RDA Board. Therefore, this item is not an enforceable obligation and not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Claimed administrative costs exceed the allowance by \$32,000. 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 Kern Auditor-Controller's Office distributed \$125,000 for the July through December 2014 period, thus leaving a balance of \$125,000 available for the January through June 2015 period (only for ROPS B series).

Although \$125,000 is claimed for the administrative cost, Item No. 12 for legal costs in the amount of \$32,000 is considered an administrative expense and should be counted toward the cap. During the Meet and Confer process, the Agency contended that legal costs should not be counted toward the administrative cap. HSC section 34171 (b) allows litigation expenses related to assets or obligations to be funded with property tax outside the administrative cap. However, Item No. 12 relates to general legal representation and not specifically to bringing or contesting a legal action in court; therefore, it is considered an administrative cost. Therefore, \$32,000 of excess administrative cost is not allowed.

The adjusted administrative costs are within the fiscal year administrative cap pursuant to HSC section 34171 (b). However, Finance notes the oversight board has approved an amount that appears excessive, given the number and nature of the obligations listed on the ROPS. HSC section 34179 (i) requires the oversight board to exercise a fiduciary duty to the taxing entities. Therefore, Finance encourages the oversight board to apply adequate oversight when evaluating the administrative resources required to successfully wind-down the Agency.

In addition, per Finance's letter dated November 5, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 11 – Project Management costs in the amount of \$70,379 is partially denied. Per the Memorandum of Understanding, Mr. Parsons' monthly compensation for services is not to exceed the monthly rate of \$11,500. Therefore, \$69,000 ($11,500 \times 6$) is approved and the excess \$1,379 is denied for RPTTF funding.
- Item No. 17 – The outstanding balance for the City of Ridgecrest (City) loan is overstated. Pursuant to HSC section 34191.4 (b) (2), the recalculation of the accumulated interest from loan origination is not to exceed the interest rate earned by funds deposited in the Local Agency Investment Fund (LAIF). The Agency's loan agreement uses a 2.5 percent interest rate. However, the accumulated interest on the loan should be recalculated using the quarterly LAIF interest rate at the time when the Agency's Oversight Board makes a finding the loan was for legitimate redevelopment purposes.

Finance has recalculated the total loan outstanding to be approximately \$202,760, and has therefore reduced the reported outstanding loan balance by \$17,240. As a result of the adjusted loan balance, the Agency's requested amount for this item is being reduced by \$17,240, to only approve the amount needed to fully fund and pay-off the loan on this ROPS.

- Item No. 28– 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 elected to not assume the housing functions. Because the housing successor to the former redevelopment agency of the City is the City-formed Housing Authority (Authority) and the Authority operates under the control of the City, the Authority is considered the City under Dissolution Law pursuant to HSC section 34167.10. Therefore, \$75,000 of housing successor administrative allowance is not allowed.

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.

Except for the items denied in whole or in part or item that have 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 \$2,651,677 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	3,602,395
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS	\$ 3,727,395
Total RPTTF requested for non-administrative obligations	3,602,395
<u>Denied Items</u>	
Item No. 11	(1,379)
Item No. 17	(17,240)
Item No. 18	(634,000)
Item No. 28	(75,000)
	(727,619)
<u>Reclassified Item</u>	
Item No. 12	(32,000)
Total RPTTF authorized for non-administrative obligations	\$ 2,842,776
Total RPTTF requested for administrative obligations	125,000
<u>Reclassified Item</u>	
Item No. 12	32,000
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(32,000)
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 2,967,776
ROPS 13-14B prior period adjustment	(316,099)
Total RPTTF approved for distribution	\$ 2,651,677

Administrative Cost Cap Calculation	
Total RPTTF for 14-15A (July through December 2014)	1,143,923
Total RPTTF for 14-15B (January through June 2015)	2,842,776
Total RPTTF for fiscal year 2014-2015	3,986,699
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)	125,000
Allowable RPTTF distribution for administrative cost for ROPS 14-15B	125,000
Total RPTTF administrative obligations after Finance adjustments	157,000
Administrative costs in excess of the cap	\$ (32,000)

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

Mr. Gary Parsons
December 17, 2014
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cc: Ms. Tess Sloan, Assistant Finance Director, City of Ridgecrest
Ms. Mary B. Bedard, Auditor-Controller, Kern County
California State Controller's Office