

May 15, 2015

Ms. Carlos Jaramillo, Deputy Director of Community & Economic Development
City of La Habra
201 East La Habra Boulevard
La Habra, CA 90631

Dear Ms. Jaramillo:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 14, 2015. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of La Habra Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to Finance on March 2, 2015, for the period of July through December 2015. Finance issued a ROPS determination letter on April 14, 2015. Subsequently, the Agency requested a Meet and Confer session on one or more of the determinations made by Finance. The Meet and Confer session was held on April 29, 2015.

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 determinations being disputed.

- Item Nos. 3 and 4 – 1998 Certificates of Participation (COP) Series B and C Debt Service Principal and Interest payments totaling \$6,250,646. Finance continues to deny these items. Finance initially denied these items because the Official Statement for the 1998 Refunding COP, Series B and C specifically states that the "Loan Payments are not pledged by the City of La Habra (City) as security for its obligation to pay Lease Payments and, thus, are not available to pay principal and interest with respect to the Certificates. The City will deposit Loan Payments when and if received into the general fund of the City." Furthermore, the Loan Agreement between the City and former RDA is not an enforceable obligation because HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the sponsoring entity and the former RDA are not enforceable obligations. During the Meet and Confer process, the Agency contended that these items are enforceable obligations meeting the exception in HSC section 34171 (d) (2).

HSC section 34171 (d) (2) specifically states that "for purposes of this part, "enforceable obligation" does not include any agreements, contracts, or arrangements between the city, county, or city and county that created the redevelopment agency and the former redevelopment agency." However, 34171 (d) (2) does provide an exception by going on to state that "written agreements entered into (1) at the time of issuance, but in no event

later than December 31, 2010, of indebtedness obligations, and (2) solely for the purpose of securing or repaying those indebtedness obligations may be deemed enforceable obligations for purposes of this part.” In order for an agreement between the City and former RDA to be considered an enforceable obligation it must meet both requirements of this exception.

We understand that Item Nos. 3 and 4 consist of the principal and interest payments in the amounts of \$325,000 and \$78,308, respectively, due on August 15, 2015, for the 1998 Refunding COP issued by the La Habra Civic Improvement Authority. The Loan Agreement dated September 15, 1998 (Loan Agreement), between the City and the former RDA, was entered into at the time of issuance of indebtedness obligations (1998 COP Series B & C dated September 15, 1998), and therefore meets the first requirement of the exception in HSC section 34171 (d) (2). However, the Loan Agreement does not meet the second requirement of the exception in HSC section 34171 (d) (2) because the Loan Agreement does not indicate that it was solely for the purpose of securing or repaying the indebtedness obligations. The Loan Agreement was entered into for multiple purposes including the former RDA borrowing amounts for the purpose of raising funds to advance refund and discharge of the 1992 Loans and to reimburse the City for its lease revenue payments on the 1998 COPs. Additionally, the Official Statement for the 1998 Refunding COP specifically states that the “Loan Payments are not pledged by the City as security for its obligation to pay Lease Payments and, thus, are not available to pay principal and interest with respect to the Certificates. The City will deposit Loan Payments when and if received into the general fund of the City.” Because the Loan Agreement does not meet both requirements of the exception in HSC section 34171 (d) (2), these items are not enforceable obligations and are not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item Nos. 34 and 35 – ROPS 14-15A PPA Shortfall totaling \$369,743. Finance continues to deny these items. Finance initially denied these items because it was our understanding the Agency was requesting funding for Item Nos. 3 and 4, which were subsequently denied by Finance as enforceable obligations. During the Meet and Confer process, the Agency contended that these are previously unfunded obligations due to a shortfall in RPTTF funding. During the ROPS 14-15A period, Finance authorized \$1,600,939 and according to the Orange County Auditor-Controller distribution report, the Agency received \$1,228,253, which resulted in a potential shortfall totaling \$372,686. However, the Agency only reported \$1,228,253 in actual expenditures on the Prior Period Adjustment form for the ROPS 14-15A period. As a result, the Agency did not incur a shortfall of funding since actual expenditures were equal to the RPTTF funding received. Therefore, this item is not an enforceable obligation.

In addition, per Finance’s letter dated April 14, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 16 – Owner Participation Agreement Marketplace Property Tax in the amount totaling \$423,149 is partially allowed. As outlined in Finance’s determination letter dated December 17, 2014, the Agency had funds from the ROPS 13-14B period in the amount of \$659,252. This prior period adjustment (PPA) was used to offset the amount of RPTTF claimed by the Agency in the ROPS 14-15B period. Because only \$410,079 was allowed for expenditure in the ROPS 14-15B period, \$249,173 remained as excess PPA for use in the ROPS 15-16A period.

Additionally, the Agency was only able to support expenditures in the amount of \$380,801 for this item. Therefore, Finance is approving the use of Reserve Balances from the excess PPA in the amount of \$249,173, Other Funds in the amount of \$42,348, and RPTTF in the amount of \$89,280, for a total of \$380,801.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 15-16A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 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 review of the Agency's self-reported prior period adjustment.

Except for the items denied in whole or in part or for the items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 15-16A. The Agency's maximum approved RPTTF distribution for the reporting period is \$951,523 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution	
For the period of July through December 2015	
Total RPTTF requested for non-administrative obligations	1,891,095
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS	\$ 2,016,095
Total RPTTF requested for non-administrative obligations	1,891,095
<u>Denied Items</u>	
Item No. 3	(325,000)
Item No. 4	(78,308)
Item No. 16	(42,348)
Item No. 34	(310,000)
Item No. 35	(59,743)
	(815,399)
<u>Reclassified Item</u>	
Item No. 16	(249,173)
Total RPTTF authorized for non-administrative obligations	\$ 826,523
Total RPTTF requested for administrative obligations	125,000
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 951,523
ROPS 14-15A prior period adjustment	0
Total RPTTF approved for distribution	\$ 951,523

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 15-16A review, Finance requested financial records to support the cash balances reported by the Agency; however, the Agency was unable to support the amounts reported. The beginning balances for Reserve Balances, Other Funds, and RPTTF could not be supported by the Agency's financial records. As a result, Finance will continue to work with the Agency after the ROPS 15-16A review period to properly identify the Agency's cash balances. If it is determined the Agency possesses 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 15-16B.

Please refer to the ROPS 15-16A 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 July 1 through December 31, 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 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) 445-3274.

Sincerely,



JUSTYN HOWARD
Program Budget Manager

cc: Mr. John Balderas, Senior Accountant, City of La Habra
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office

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