

April 7, 2015

Ms. Karen Johnston, Assistant Director of Finance
City of Palmdale
38300 Sierra Highway, Suite D
Palmdale, CA 93550

Dear Ms. Johnston:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Palmdale Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to the California Department of Finance (Finance) on March 3, 2015 for the period of July 1, 2015 through December 31, 2015. Finance has completed its review of your ROPS 15-16A, 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 determination:

- Item No. 169 – Housing administrative cost allowance pursuant to AB 471 amount of \$150,000. 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 of Palmdale (City) is the City-formed Housing Authority (Authority) the Authority operates under the control of the City. Therefore, \$150,000 of housing successor administrative allowance from Redevelopment Property Tax Trust Fund (RPTTF) is not allowed.

In addition, Finance made the following determination:

- The maximum allowed administrative costs are based on a percentage of approved RPTTF, which includes Item Nos. 160 through 164. These items were previously funded in ROPS 14-15A and it is our understanding the Agency did not use the distributed funding in 14-15A, and this non-use has been appropriately accounted for through the Prior Period Adjustment. However, the share of administrative allowance for these line items has already been funded on prior ROPS, and the Agency reports to have fully expended the administrative costs associated with these line items. As a result, \$176,000 was not included in total RPTTF when calculating the administrative costs allowance for the ROPS 15-16A period. As demonstrated in the Administrative Cost Cap Calculation table below, \$176,000 is not eligible towards the administrative cost

cap, thus reducing the three percent allocation to \$167,998. As a result, the Agency is eligible for \$250,000.

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 provided financial records that displayed available Other Funds totaling \$365,000.

Therefore, the funding source for the following item has been reclassified to Other Funds and in the amount specified below:

- Item No. 14 – 2010 Tax Allocation Notes in the amount of \$1,375,330. The Agency requests \$1,375,330 of RPTTF; however, Finance is reclassifying \$365,000 to Other Funds. This item is an enforceable obligation for the ROPS 15-16A period. However, the obligation does not require payment from property tax revenues and the Agency has \$365,000 in available Other Funds. Therefore, Finance is approving RPTTF in the amount of \$1,010,330 and the use of Other Funds in the amount of \$365,000, totaling \$1,375,330.

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.

In addition, Finance noted the following:

- On the ROPS 14-15A Prior Period Adjustment worksheet, the Agency's expenditures exceeded Finance's authorization for the following items:
 - Other Funds totaling \$13,394 – Item Nos. 30, 32, 59, and 61.

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 14-15A period. Therefore, Finance is increasing the Agency's authorization for the ROPS 14-15A period to ensure that authorization is consistent with expenditures for the approved enforceable obligations. As these Other Funds were previously expended, the increase in authorization should not result in increased expenditures, 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 item 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 15-16A. If you disagree with the determination with respect to any items on your ROPS 15-16A, 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 \$4,934,321 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	5,925,937
Total RPTTF requested for administrative obligations	250,000
Total RPTTF requested for obligations on ROPS	\$ 6,175,937
Total RPTTF requested for non-administrative obligations	5,925,937
<u>Denied Item</u>	
Item No. 169	(150,000)
	\$ 5,775,937
<u>Cash Balances - Item reclassified to Other Funds</u>	
Item No. 14	(365,000)
Total RPTTF authorized for non-administrative obligations	\$ 5,410,937
Total RPTTF authorized for administrative obligations	\$ 250,000
Total RPTTF authorized for obligations	\$ 5,660,937
ROPS 14-15A prior period adjustment	(726,616)
Total RPTTF approved for distribution	\$ 4,934,321

Administrative Cost Cap Calculation	
Total RPTTF for non-administrative obligations prior to Cash Balance Reclass	5,775,937
Less: Administrative costs adjustment for Item Nos. 160 through 164	(176,000)
Total RPTTF for Non-Administrative obligations	5,599,937
Percent allowed pursuant to HSC section 34171 (b)	3%
Fiscal Year 15-16 Admin RPTTF	167,998
Administrative Cost Allowance Available for the 15-16 Fiscal Year	250,000
Authorized Administrative RPTTF expenditures	\$ 250,000

Please refer to the ROPS 15-16A 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 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 Kylie Oltmann, Supervisor or Veronica Green, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Program Budget Manager

cc: Mr. Hamed Jones, Budget Manager, City of Palmdale
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County
California State Controller's Office