DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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May 15, 2015

Ms. Linda Daniels, Assistant City Manager
City of Rancho Cucamonga
10500 Civic Center Drive
Rancho Cucamonga, CA 91730

Dear Ms. Daniels:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated March 27, 2015. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Rancho Cucamonga Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to Finance on February 11, 2015, for the period of July through December 2015. Finance issued a ROPS determination letter on March 27, 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 8, 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 No. 42 – Northtown Housing Development Corporation (NHDC) Pledge Payment in the amount of $15,400,000 is not allowed. Finance continues to deny this item. During the Meet and Confer, the Agency contested Finance's denial of this item but did not provide any additional information that supports this item as an enforceable obligation as defined in HSC section 34171 (d).

  As we previously determined, pursuant to the August 1996 First Amended and Restatement of the Pledge Agreement (Pledge Agreement), the former Redevelopment Agency (RDA) pledged its 20 percent Low and Moderate Income Housing Fund (LMIHF) set-aside funds over a period of years to assist NHDC to acquire and develop affordable housing. In December 1997, the RDA financed its obligations to the NHDC by borrowing from Pacific Life Insurance through a loan agreement and promissory note. Per the debt service schedule, $700,000 is due from the RDA on March 15 and September 15 in each fiscal year. However, the requirement to set aside 20 percent of RDA tax increment for LMIHF purposes ended with the passing of redevelopment dissolution legislation.

  Paragraph 16 of the Promissory Note states that the RDA's obligation under the note is not a general obligation of the Agency if and to the extent no payment is made under this

note solely as a result of circumstances described in Section 3.8 of the First Amended and Restatement of the Pledge Agreement.

Section 3.8 of the First Amended and Restatement of the Pledge Agreement, 'State Preemption on Set-Aside Funds', states: In the event of a change in the law of the State of California which disallows or voids existing agreements such as this Agreement between a RDA and a non-profit housing entity and/or emergency or other legislation is adopted by the State of California (State) which allows the State to require a RDA to turn over to the State Set-Aside Funds irrespective of whether the same have been committed by contract to a non-profit housing development entity, and, as a result of such legislation, the Agency does not have sufficient Set-Aside Funds to honor its obligations under this Agreement, the parties acknowledge that the City of Rancho Cucamonga and the RDA shall not be obligated to honor the Pledge of Set-Aside Funds made in this Agreement from the respective General Fund of either entity. For these reasons, therefore, this item is not an enforceable obligation and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item No. 48 – California Housing Finance Agency (CHFA) loan payment in the amount of $3,905,400. Finance continues to deny this item. During the Meet and Confer, the Agency contested Finance's denial of this item but did not provide any additional information that supports this item as an enforceable obligation as defined in HSC section 34171 (d).

  As previously determined, the former RDA and a non-profit housing corporation entered into a Pledge Agreement wherein the RDA pledged housing set-aside funds to assist the non-profit to finance/acquire LMIHF activities. The non-profit entered into a loan agreement with California Housing Financing Authority (CHFA) for the construction of low and moderate income housing units. Under the Pledge Agreement, the RDA agreed to pledge on behalf of the non-profit to secure a loan. The agreement states that $340,000 shall be paid by the RDA to CHFA semi-annually.

  However, the Agency was unable to provide documentation to support the existence of the CHFA loan. Additionally, the requirement to set aside 20 percent of RDA tax increment for LMIHF purposes ended with the passing of the redevelopment dissolution legislation. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding on the ROPS.

- Claimed administrative costs exceed the allowance by $26,088. HSC section 34171 (b) limits the fiscal year 2015-16 administrative expenses to three percent of property tax allocated to the Agency or $250,000, whichever is greater. Although $579,167 is claimed for administrative cost, only $553,079 is available pursuant to the cap. Therefore, $26,088 of excess administrative cost is not allowed.

In addition, per Finance's letter dated March 27, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

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.

The Agency's maximum approved RPTTF distribution for the reporting period is $18,360,013 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		19,305,579
Total RPTTF requested for administrative obligations		579,167
Total RPTTF requested for obligations on ROPS	**$**	**19,884,746**
Total RPTTF requested for non-administrative obligations		**19,305,579**
Denied Item(s)		
Item No. 42		(700,000)
Item No. 48		(169,600)
		(869,600)
Total RPTTF authorized for non-administrative obligations	**$**	**18,435,979**
Total RPTTF requested for administrative obligations		**579,167**
Administrative costs in excess of the cap (see Admin Cost Cap table below)		(26,088)
Total RPTTF authorized for administrative obligations	**$**	**553,079**
Total RPTTF authorized for obligations	**$**	**18,989,058**
ROPS 14-15A prior period adjustment		(629,045)
Total RPTTF approved for distribution	**$**	**18,360,013**

Administrative Cost Cap Calculation		
Total RPTTF for non-administrative obligations		18,435,979
Percent allowed pursuant to HSC section 34171 (b)		3%
Total RPTTF allowable for administrative obligations		**553,079**
Total RPTTF administrative obligations after Finance adjustments		579,167
Administrative costs in excess of the cap	**$**	**(26,088)**

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 Danielle Brandon, Analyst, at (916) 445-3274.

Sincerely,

JUSTYN HOWARD
Program Budget Manager

cc: Ms. Tamara Layne, Finance Director, City of Rancho Cucamonga
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office