DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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May 15, 2015

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

Dear Ms. Kundig:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated March 23, 2015, 2015. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Redlands Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to Finance on February 20, 2015, for the period of July through December 2015. Finance issued a ROPS determination letter on March 23, 2015, 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 07, 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. 4 – 2003 A Tax Allocation Refunding Bonds debt service payment in the amount of $806,325. The Agency requested $806,325 from RPTTF; however, Finance is reclassifying $125,000 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 $125,000 in available Other Funds. Therefore, Finance is approving RPTTF in the amount of $681,325 and the use of Other Funds in the amount of $125,000, totaling $806,325.

- Item Nos. 13, 14, 17, 21, 24, and 29 through 37 – Various Administrative Costs totaling $121,563. The Agency requested $121,563 from Other Funds for these items. However, Finance is reclassifying $121,563 to the Administrative Cost Allowance. These items are enforceable obligations for the ROPS 15-16A period, and the Oversight Board approved these costs to be paid from the Agency's Administrative Cost Allowance, not Other Funds.

  In addition, although not identified in our previous letter, Item Nos. 7 and 8 totaling $3,437 should also be reclassified from Other Funds to the Administrative Cost Allowance. Therefore, Finance is approving Administrative RPTTF in the amount of $125,000 for Item Nos. 7, 8, 21, 13, 14, 17, 21, 24, and 29 through 37.

- Item No. 39 – Housing Entity Administrative Cost Allowance in the amount of $600,000. Finance continues to deny this item. During the Meet and Confer process the Agency

did not provide additional documentation to support this item is an enforceable obligation. Therefore, as previously determined, the Agency requested funding for this item in anticipation that a Housing Asset Transfer form will be submitted to Finance for review and approval during the ROPS 15-16A period. However, the Agency may be able to obtain RPTTF funding for this item on a future ROPS once it is determined the Agency has housing assets that are eligible for transfer to the designated Housing Successor.

Finance continues to deny this item 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 and the housing successor have not submitted a Housing Asset Transfer form (HAT) or any Oversight Board actions for Finance's review demonstrating a transfer of asset(s) was contemplated or has occurred; therefore, we are unable to confirm the number, nature, and transfer of, housing assets by the Agency to the housing successor. To the extent the Agency can provide documentation to support the transfer of 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 for housing administration costs payable to the housing successor.

In addition, per Finance's letter dated March 23, 2015, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 3 – 1998 A Tax Allocation Refunding Bonds payment totaling $1,842,819 has been adjusted. Although the Agency requested $143,137 from the Redevelopment Property Tax Trust Fund (RPTTF), Finance is reducing the requested amount by $82,750 as follows:

  The Agency requested, and Finance approved, RPTTF funding for the entire 2015 annual bond-debt service for Item Nos. 3 through 5 on ROPS 14-15B. It is our understanding the Agency received insufficient RPTTF for ROPS 14-15B obligations; although Finance approved RPTTF in the amount of $4,577,811, the San Bernardino County Auditor-Controller distributed $3,325,574, leaving a shortfall of $1,252,237 ($4,577,811 - $3,325,574).

  To account for the shortfall, the Agency is requesting the $1,334,987 on ROPS 15-16A for Item Nos. 3 through 5. The amount requested is higher than the actual shortfall by $82,750 ($1,334,987 - $1,252,237). Therefore, the excess of $82,750 is not allowed and is not eligible for RPTTF funding on this ROPS.

- Item No. 6 – Fiscal Agent Fees in the amount of $26,250 is partially approved. The Agency provided trustee invoices indicating approximately $12,600 is due each fiscal year. Additionally, the Agency has included a request to fund $3,850, which remained unpaid from the 2014-15 fiscal year. To the extent the Agency can provide additional trustee invoices to support the requested funding, the Agency may be able to obtain additional RPTTF funding on future ROPS. Therefore, Finance has adjusted the request from $26,500 to $16,450 ($12,600 + $3,850).

In addition, Finance noted the following during our review:

- On the ROPS 14-15A Prior Period Adjustment worksheet, the Agency expended Reserve Balances without Finance's authorization for the following items:

  Reserve Balances totaling $2,974,810 – Item No. 3, $1,812,181; Item No. 4, $788,959; and Item No. 5, $373,670.

  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 15-16A period to ensure that authorization is consistent with expenditures for the approved enforceable obligations. As these Reserve Balances 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.

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 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 $1,182,065 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		1,603,514
Total RPTTF requested for administrative obligations		0
Total RPTTF requested for obligations on ROPS	**$**	**1,603,514**
Total RPTTF requested for non-administrative obligations		**1,603,514**
Denied Item		
Item No. 3		(82,750)
Item No. 6		(9,800)
Item No. 39		(225,000)
		(317,550)
Reclassified Items		
Item No. 4		(125,000)
		(125,000)
Total RPTTF authorized for non-administrative obligations	**$**	**1,160,964**
Total RPTTF requested for administrative obligations		**0**
Reclassified Items		
Item No. 7		2,717
Item No. 8		720
Item No. 13		1,200
Item No. 14		1,686
Item No. 17		7,750
Item No. 21		2,400
Item No. 24		1,350
Item No. 29 though 37		107,177
Total RPTTF authorized for administrative obligations	**$**	**125,000**
Total RPTTF authorized for obligations	**$**	**1,285,964**
ROPS 14-15A prior period adjustment		(103,899)
Total RPTTF approved for distribution	**$**	**1,182,065**

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