



November 2, 2015

Mr. David A. Klug, Redevelopment Manager  
City of Pasadena  
100 North Garfield Avenue, Room S116  
Pasadena, CA 91103

Dear Mr. Klug:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m) (1) (A), the City of Pasadena Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period January 1 through June 30, 2016 (ROPS 15-16B) to the California Department of Finance (Finance) on September 25, 2015. Finance has completed its review of the ROPS 15-16B.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

- Item No. 1 – Pension obligation bond pursuant to Senate Bill 481 in the amount of \$40,119,645 continues to be denied. This item has previously been denied in ROPS III, 13-14A, 13-14B, 14-15A, 14-15B, and 15-16A determination letters. The Agency requested \$40,119,645 on this ROPS and previously provided an order granting preliminary injunction in favor of the City, however a final judgment on the merits has not been made. To reiterate Finance's position, we note the following:
  - The bonds were entered into by the City of Pasadena (City) to fund police and fire pensions and not entered into by the redevelopment agency (RDA) to fund redevelopment projects, as required by HSC section 34171 (e).
  - The original and amended reimbursement agreements are between the RDA and the City, and therefore not enforceable pursuant to HSC section 34171 (d) (2). HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the RDA and the sponsoring entity are not enforceable obligations unless they meet a limited exception which states, in part, that agreements entered into solely for the purpose of securing or repaying the sponsoring entity's debt may be enforceable. This exception does not apply here. The original reimbursement agreements and their amendments are separate and were not entered into for the security or repayments of the City's bonds or concurrent with the bond issuances. Therefore, they do not qualify as an exception to HSC section 34171 (d) (2).

- SB 481 passed in 1987 and added HSC section 33608, authorizing the RDA to enter into an agreement allowing the revenues from the reimbursement agreement to fund the police and fire retirement fund of the City. In 1999, the City sold bonds to replenish its Fire and Pension Retirement Fund (Fund). While the bond documents state that the City expected to use reimbursement agreement revenues to repay the bonds, the City specifically did not pledge the revenues to bond holders. Instead, the City pledged its general fund for the repayment of the bonds. The City then obtained a validation action declaring that the City had the authority to reassign the SB 481 receipts to pay the principal and interest of the bonds. This validation agreement did not validate the reimbursement agreements, but instead the Fund's assignment of SB 481 receipts back to the City to pay for the bonds. Therefore, the reimbursement agreements were not validated and still not enforceable pursuant to HSC section 34171 (d) (2).

The Agency contends the item is an enforceable obligation because the 1986 Reimbursement Agreement, which among other things obligates the former RDA to make annual payments of former tax increment to the City for debt service on the Pension Bonds, has been validated by the Legislature through Senate Bill 481 and was also validated by a 1999 court judgment. However, for the reasons stated above, the item continues to be denied and not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item No. 14 – Housing set aside in the amount of \$2,400,000 continues to be denied. This item was previously denied in ROPS III, ROPS III Meet and Confer, ROPS 14-15B, and ROPS 15-16A determination letters. The requirement to set aside 20 percent of RDA tax increment for low and moderate income housing purposes ended with the passing of the redevelopment dissolution legislation, making the set aside aspect of the reimbursement agreement dated July 7, 1986 no longer operational. Further, the reimbursement agreement is between the RDA and the City, making it unenforceable pursuant to HSC section 34178 (a). Even if the reimbursement agreement were operative, the funds repaid would be unencumbered. HSC section 34177 (d) requires unencumbered funds to be remitted to the county auditor-controller for distribution to the taxing entities. This was accomplished through the due diligence review process pursuant to HSC section 34179.5 and 34179.6. Therefore, this line item is not an enforceable obligation and will not be eligible for RPTTF funding.
- Item No. 31 – Legal services in the amount of \$140,000. Although general legal fees are enforceable, these types of services requested are considered general administrative cost and have been reclassified.
- Claimed administrative costs exceed the allowance by \$140,000. HSC section 34171 (b) (2) limits fiscal year 2015-2016 administrative expenses to three percent of distributed RPTTF in the preceding fiscal year or \$250,000, whichever is greater. As a result, the Agency is eligible for \$250,000 in administrative expenses. The Los Angeles County Auditor-Controller distributed \$125,000 administrative costs for the July through December 15-16A period, thus leaving a balance of \$125,000 available for the January through June 15-16B period. Although \$125,000 is claimed for administrative cost, Item No. 31 for Legal Services in the amount of \$140,000 is considered an administrative expense and should be counted toward the cap. Therefore, \$140,000 of excess administrative cost allowance is not allowed.

Pursuant to HSC section 34186 (a) (1), the Agency was required to report on the ROPS 15-16B form the estimated obligations versus actual payments (prior period adjustment) associated with the January through June 2015 period (ROPS 14-15B). HSC section 34186 (a) (1) also specifies the prior period adjustment self-reported by the Agency is subject to review by the county auditor-controller (CAC). The amount of RPTTF approved in the table on the following page includes the prior period adjustment resulting from the CAC's review of the Agency's self-reported prior period adjustment.

In addition, Finance noted on the Agency's ROPS 14-15B prior period adjustment worksheet, the Agency's expenditures exceeded Finance's authorization for the following items:

- Bond Proceeds totaling \$3,102 – Item No. 4, \$2,124; Item No. 7, \$708; and Item No. 21, \$270.

Per HSC section 34177 (a) (3), only those payments listed on a ROPS may be made by the Agency from the funds specified on the ROPS up to the amount authorized by Finance. HSC sections 34177 (a) (4) and 34173 (h) (1) 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 items denied in whole or in part, Finance is not objecting to the remaining items listed on your ROPS 15-16B. If you disagree with Finance's determination with respect to any items on your ROPS 15-16B, except for those items which are the subject of litigation disputing Finance's previous or related determinations, 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/](http://www.dof.ca.gov/redevelopment/meet_and_confer/)

The Agency's maximum approved RPTTF distribution for the reporting period is \$2,133,821 as summarized in the Approved RPTTF Distribution table on the next page:

<b>Approved RPTTF Distribution</b>	
<b>For the period of January through June 2016</b>	
Total RPTTF requested for non-administrative obligations	44,889,916
Total RPTTF requested for administrative obligations	125,000
<b>Total RPTTF requested for obligations on ROPS 15-16B</b>	<b>\$ 45,014,916</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>44,889,916</b>
<u>Denied Items</u>	
Item No. 1	(40,119,645)
Item No. 14	(2,400,000)
	(42,519,645)
<u>Reclassified Item</u>	
Item No. 31	(140,000)
<b>Total RPTTF authorized for non-administrative obligations</b>	<b>\$ 2,230,271</b>
<b>Total RPTTF requested for administrative obligations</b>	<b>125,000</b>
<u>Reclassified Item</u>	
Item No. 31	140,000
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(140,000)
<b>Total RPTTF authorized for administrative obligations</b>	<b>\$ 125,000</b>
<b>Total RPTTF authorized for obligations</b>	<b>\$ 2,355,271</b>
ROPS 14-15B prior period adjustment	(221,450)
<b>Total RPTTF approved for distribution</b>	<b>\$ 2,133,821</b>

<b>Administrative Cost Cap Calculation</b>	
Total RPTTF for 15-16A (July through December 2015)	773,240
Total RPTTF for 15-16B (January through June 2016)	2,230,271
<b>Total RPTTF for fiscal year 2015-2016</b>	<b>3,003,511</b>
Administrative cost cap for fiscal year 2015-16 (Greater of 3% of Total RPTTF or \$250,000)	250,000
Administrative allowance for ROPS 15-16A (July through December 2015)	(125,000)
<b>Remaining administrative cost cap for ROPS 15-16B</b>	<b>125,000</b>
ROPS 15-16B administrative obligations after Finance adjustments	(265,000)
<b>Administrative costs in excess of the cap</b>	<b>\$ (140,000)</b>

On the ROPS 15-16B form, the Agency reported cash balances and activity for the period January 1 through December 31, 2015. Finance will perform a review of the Agency's self-reported cash balances on an ongoing basis. Please be prepared to submit financial records and bridging documents to support the cash balances reported upon request. If it is determined the Agency possesses cash balances that are available to pay approved obligations, HSC section 34177 (I) (1) (E) requires these balances be used prior to requesting RPTTF.

Please refer to the ROPS 15-16B schedule used to calculate the total RPTTF approved for distribution:

<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 January 1 through June 30, 2016. This determination only applies to items when 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 ROPS periods. All items listed on a future ROPS are subject to review and may be denied even if it was not denied on this ROPS or a preceding ROPS. The only exception is for items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). Finance's review of Final and Conclusive items 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 available prior to the enactment of the redevelopment dissolution statutes. 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.

Please direct inquiries to Kylie Oltmann, Supervisor, or Nicole Prisakar, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD  
Program Budget Manager

cc: Mr. Robert Ridley, Controller, City of Pasadena  
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County