DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

April 8, 2016

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

Dear Mr. Klug:

Subject: 2016-17 Annual Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (o) (1), the City of Pasadena Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period July 1, 2016 through June 30, 2017 (ROPS 16-17) to the California Department of Finance (Finance) on January 29, 2016. Finance has completed its review of the ROPS 16-17.

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 $40,360,206 continues to be denied. This item has previously been denied in ROPS III, 13-14A, 13-14B, 14-15A, 14-15B, 15-16A, and 15-16B determination letters. 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, ROPS 15-16A, and ROPS 15-16B 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. 33 – Professional services for environmental costs totaling $25,000 are not approved. It is our understanding the professional services includes the transition screening process, geotechnical soil studies, asbestos, lead-based paint and other building and land inspections. HSC section 34177.3 (b) states, except as required by an enforceable obligation, the work of winding down does not include planning, redesign or design, demolition, alteration, or construction, construction financing, site remediation, site development or improvement, land clearances and seismic retrofits. As such, the environmental costs concerning this line item are not an obligation of the Agency and therefore are not allowed.

- Item No. 36 – Title and Escrow fees in the amount of $25,000 have been reclassified to Other Funds. While these costs are enforceable, they do not require payment from property tax revenues and can be funded with proceeds from sale of property.

- Item No. 64 – Outside Bond Counsel Professional Services fees in the amount of $60,000 are not approved. It is our understanding that the services provided by Sidley Austin, LLP are related to disposition of Agency owned properties. Finance approved Agency's LRPMP on December 29, 2015. The properties pertaining to this item were approved for transfer to the City for government use, therefore the consulting services costs are no longer an obligation of the Agency and not eligible for RPTTF funding.

- Item Nos. 65, 66, and 72 through 77 – Various City loans in the total outstanding balance of $1,916,006 are not allowed. These City loans were denied in our OB determination letter dated March 22, 2016. The Agency provided City Resolutions to substantiate the loans for Item Nos. 65, 66, 72, and 74 through 77. However, these were unsigned and the corresponding RDA Resolutions were not provided. Without signatures and the corresponding RDA Resolutions or loan agreements, it is not evident there was a loan of money or a promise to repay. Likewise, for Item No. 73, the Agency provided a signed City Resolution; however, the corresponding RDA Resolution was not provided. Therefore, these loans are not considered enforceable obligations at this time and not eligible for funding.

- The claimed administrative costs exceed the allowance by $280,000. HSC section 34171 (b) (3) limits the fiscal year 2016-2017Administrative Cost Allowance (ACA) to three percent of actual distributed RPTTF in the preceding fiscal year or $250,000, whichever is greater; not to exceed 50 percent of the distributed RPTTF in the preceding fiscal year. As a result, the Agency's maximum ACA is $250,000 for the fiscal year 2016-2017. Although $250,000 is claimed for administrative cost, Item No. 31 for legal services in the amount of $280,000 is considered an administrative cost and should be counted toward the cap. Therefore, $280,000 of excess administrative cost allowance is not allowed.

Except for the items denied in whole or in part or the items that have been adjusted, Finance is not objecting to the remaining items listed on your ROPS 16-17. If you disagree with Finance's determination with respect to any items on your ROPS 16-17, 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/

On the ROPS 16-17 form, the Agency reported cash balances and activity for the period of July 1, 2015 through June 30, 2016. Finance performs a review of the Agency's self-reported cash balances on an ongoing basis. 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 enforceable obligations, HSC section 34177 (l) (1) (E) requires these balances to be used prior to requesting RPTTF.

The Agency's maximum approved RPTTF distribution for the reporting period is $5,077,334 as summarized in the Approved RPTTF Distribution Table on Page 5 (See Attachment).

ROPS distributions will occur twice annually, one distribution for the July 1, 2016 through December 31, 2016 (ROPS A period), and one distribution for the January 1, 2017 through June 30, 2017 (ROPS B period) based on Finance's approved amounts. Since Finance's

determination is for the entire ROPS 16-17 period, the Agency is authorized to receive up to the maximum approved RPTTF through the combined ROPS A and B period distributions.

On the ROPS 16-17 form, the Agency was not required to report the estimated obligations versus actual payments (prior period adjustment) associated with the July 1, 2015 through December 31, 2015 period (ROPS 15-16A). The Agency will report actual payments for ROPS 15-16A and ROPS 15-16B on the ROPS 18-19 form pursuant to HSC section 34186 (a) (1). A prior period adjustment will be applied to the Agency's future RPTTF distribution. Therefore, the Agency should retain any difference in unexpended RPTTF.

Please refer to the ROPS 16-17 schedule used to calculate the total RPTTF approved for distribution:

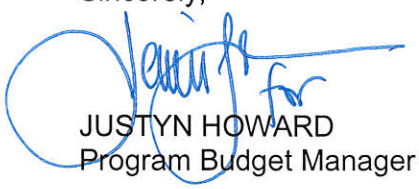
http://www.dof.ca.gov/redevelopment/ROPS

Absent a Meet and Confer, this is Finance's determination related to the enforceable obligations reported on your ROPS for the period July 1, 2016 through June 30, 2017. This determination only applies to items when funding was requested for the 12-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

Attachment

Approved RPTTF Distribution For the period of July 2016 through June 2017	ROPS A Period	ROPS B Period	Total
Requested RPTTF (excluding administrative obligations)	$ 47,452,397	$ 2,441,149	$ 49,893,546
Requested Administrative RPTTF	125,000	125,000	250,000
Total RPTTF requested for obligations on ROPS 16-17	**47,577,397**	**2,566,149**	**$ 50,143,546**
Total RPTTF Requested	47,452,397	2,441,149	49,893,546
Denied Items			
Item No. 1	(40,360,206)	0	(40,360,206)
Item No. 14	(2,400,000)	0	(2,400,000)
Item No. 33	(12,500)	(12,500)	(25,000)
Item No. 64	(30,000)	(30,000)	(60,000)
Item No. 65	(234,063)	0	(234,063)
Item No. 66	(460,625)	0	(460,625)
Item No. 72	(22,842)	0	(22,842)
Item No. 73	(99,625)	0	(99,625)
Item No. 74	(106,650)	0	(106,650)
Item No. 75	(619,950)	0	(619,950)
Item No. 76	(234,063)	0	(234,063)
Item No. 77	(138,188)	0	(138,188)
	(44,718,712)	(42,500)	(44,761,212)
Reclassified Items			
Item No. 31	(140,000)	(140,000)	(280,000)
Item No. 36	(12,500)	(12,500)	(25,000)
	(152,500)	(152,500)	(305,000)
Total RPTTF authorized	**2,581,185**	**2,246,149**	**4,827,334**
Total Administrative RPTTF requested	**125,000**	**125,000**	**250,000**
Reclassified Item			
Item No. 31	140,000	140,000	280,000
Total Administrative RPTTF after Finance adjustments	265,000	265,000	530,000
Administrative costs in excess of the cap (see Administrative Cost Allowance Cap table below)	(15,000)	(265,000)	(280,000)
Total Administrative RPTTF authorized	**250,000**	**0**	**$ 250,000**
Total RPTTF approved for distribution	**2,831,185**	**2,246,149**	**$ 5,077,334**

Administrative Cost Allowance Cap Calculation	
Actual RPTTF distributed for fiscal year 2015-16	$ 2,745,332
Less sponsoring entity loan and Administrative RPTTF	250,000
Actual RPTTF distributed for 2015-16 after adjustment	2,495,332
Administrative Cap for 2016-17 per HSC section 34171 (b)	250,000
ROPS 16-17 Administrative RPTTF after Finance adjustments	530,000
Administrative Cost Allowance in excess of the cap	**$ (280,000)**