DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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May 17, 2016

Mr. Jason Simpson, Director of Administrative Services
City of Lake Elsinore
130 South Main Street
Lake Elsinore, CA 92530

Dear Mr. Simpson:

Subject: 2016-17 Annual Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 12, 2016. Pursuant to Health and Safety Code (HSC) section 34177 (o) (1), the City of Lake Elsinore Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period of July 1, 2016 through June 30, 2017 (ROPS 16-17) to Finance on February 1, 2016. Finance issued a ROPS determination letter on April 12, 2016. 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 27, 2016.

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. 20 – Housing Fund Loan in the total outstanding amount of $26,194,304. Finance continues to deny this item. Additional information provided by the Agency during the Meet and Confer did not support that this item is and enforceable obligation. Therefore, as stated in our December 17, 2014 and May 15, 2015 Meet and Confer letters to the Agency:

  > Our review indicates that in 1995 the Lake Elsinore Public Financing Authority (Authority) issued 1995 Series A and B tax allocation bonds to repay a portion of prior loans and to finance low and moderate income housing and other redevelopment activities. In addition, the Authority and the former redevelopment agency (RDA) concurrently entered into a loan agreement for the use of the Authority's bond funds. Per the loan, after the bonds were issued, the Authority loaned the bond funds to the RDA's Low and Moderate Income Housing Fund (LMIHF). Subsequently, pursuant to the loan agreement, the RDA used those funds in RDA Project Area I, Project Area II, and Project Area III (collectively "Interfund Loans"). The Agency is requesting Redevelopment Property Tax Trust Funds (RPTTF) to repay the three Interfund Loans to the LMIHF.

The Agency claims the Interfund Loans qualify as enforceable obligations under various subsections under HSC section 34171(d)(1). However, based on our review, the alleged obligation to repay the Interfund Loans originates from an agreement between the Authority and the former RDA. The Authority is included in the City of Lake Elsinore's (City) comprehensive annual financial report, which identifies the Authority as a component unit of the City and states that the City is financially accountable for the component units. As a result, under HSC section 34167.10 the Authority is considered to be the City for purposes of Dissolution Law. Under HSC section 34171 (d) (2) agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable obligations. Thus, the agreement between the Authority and the former RDA is not an enforceable obligation pursuant to HSC section 34171 (d) (2).

Although HSC section 34171 (d) (2) provides that written agreements between the former RDA and its creator that were entered into at the time of issuance, but in no event later than December 31, 2010, of the indebtedness obligations and solely for the purpose of securing or repaying those indebtedness obligations, may be deemed enforceable obligations, the loan agreement was not entered into solely for the purpose of securing or issuing the 1995 bonds. Therefore, the loan agreement is not an enforceable obligation, and this item is not eligible for RPTTF funding.

Finally, we note that the denial of this item does not affect the repayment of the bonds as Finance has approved the debt services payments related to these bonds on Items No. 1 and 2.

In addition, per Finance's letter dated April 12, 2016, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 28 –The claimed administrative costs exceed the allowance by $82,010. HSC section 34171 (b) (3) limits the fiscal year 2016-2017 Administrative 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 $323,342 for the fiscal year. Although $405,352 is claimed for administrative cost, only $323,342 is available pursuant to the cap. Therefore, $82,010 of excess administrative cost is not allowed.

- Item No. 43 – Housing Authority Administrative Cost in the total outstanding amount of $600,000 is not allowed. Finance continues to deny this item. 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 RDA elected to not assume the housing functions and that the housing functions were transferred to a local housing authority in the territorial jurisdiction of the RDA. Here, however, the City of Lake Elsinore (City) elected to be the housing successor to the RDA and retained the housing assets by submitting the housing asset transfer form to Finance on August 1, 2012. Therefore, the Agency is not eligible for the housing successor administrative costs allowance of $450,000 in RPTTF funding requested for ROPS 16-17.

Except for the items denied in whole or in part, Finance is not objecting to the remaining items listed on your ROPS 16-17.

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 $11,051,067 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

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 Evelyn Suess, Dispute Resolution Supervisor, or Daisy Rose, Analyst, at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Program Budget Manager

cc: Mr. Grant Yates, Executive Director, City of Lake Elsinore
Ms. Pam Elias, Chief Accountant Property Tax Division, Riverside County

## Attachment

| Approved RPTTF Distribution<br>For the period of July 2016 through June 2017 | ROPS A Period | ROPS B Period | Total |
|---|---|---|---|
| Requested RPTTF (excluding administrative obligations) | $ 7,056,624 | $ 6,455,101 | $ 13,511,725 |
| Requested Administrative RPTTF | 211,699 | 193,653 | $ 405,352 |
| **Total Requested RPTTF on ROPS 16-17** | 7,268,323 | 6,648,754 | **$ 13,917,077** |
| **Total RPTTF requested** | 7,056,624 | 6,455,101 | **13,511,725** |
| Denied Items | | | |
| Item No. 20 | (375,000) | (1,959,000) | (2,334,000) |
| Item No. 43 | (375,000) | (75,000) | (450,000) |
| | (750,000) | (2,034,000) | (2,784,000) |
| **Total RPTTF authorized** | 6,306,624 | 4,421,101 | **$ 10,727,725** |
| **Total Administrative RPTTF requested** | 211,699 | 193,653 | **405,352** |
| Administrative costs in excess of the cap (see Admin Cost Cap table below) | 0 | (82,010) | (82,010) |
| **Total Administrative RPTTF authorized** | 211,699 | 111,643 | **$ 323,342** |
| **Total RPTTF approved for distribution** | 6,518,323 | 4,532,744 | **$ 11,051,067** |

| Administrative Cost Allowance Cap Calculation | |
|---|---|
| Actual RPTTF distributed for fiscal year 2015-16 | $ 11,114,808 |
| Less sponsoring entity loan and Administrative RPTTF | 336,743 |
| Actual RPTTF distributed for 2015-16 after adjustment | 10,778,065 |
| Administrative Cap for 2016-17 per HSC section 34171 (b) | 323,342 |
| ROPS 16-17 Administrative RPTTF after Finance adjustments | 405,352 |
| **Administrative Cost Allowance in excess of the cap** | **$ (82,010)** |