



May 17, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 08, 2016. 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 of July 1, 2016 through June 30, 2017 (ROPS 16-17) to Finance on January 29, 2016. Finance issued a ROPS determination letter on April 08, 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 21, 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. 33 – Professional services for environmental costs totaling \$25,000. Finance continues to deny this item. Finance previously denied this item because the professional services includes the transition screening process, geotechnical soil studies, asbestos, lead-based paint and other building and land inspections. During the Meet and Confer the Agency contended that these costs are required for the winding down the former Redevelopment Agency. The Agency also provided an agreement with Converse Consulting (Consultants) and a Legal services agreement. However, the Agency did not provide Exhibit A for either agreement which constitutes the Scope of Services for each. Furthermore, the Agency did not provide a basis for the estimated amount requested. Therefore, based on the information available, Finance has concluded that the amount requested pertains to activities such as site remediation and planning. Pursuant to HSC section 34177.3 (b), except required by an enforceable obligation, the work of winding down the redevelopment agency does not include site development, site remediation, improvement, or planning. Therefore, this item is not enforceable obligation at this time and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item No. 64 – Outside Bond Counsel Professional Services fees in the amount of \$60,000. Finance continues to deny this item. The Agency requested a Meet and Confer on this item but rescinded that request in an email dated April 22, 2016.

Therefore, as previously determined, 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. Finance continues to deny these items. We note that these City loans were also denied in our OB determination letter dated March 22, 2016 which found that while the Agency provided City resolutions, the resolutions were unsigned and the corresponding former redevelopment agency (RDA) resolutions were not provided. During the Meet and Confer the Agency contested that the HSC 34191.4 (b) does not require that the City loans be proven by signed documents, and only requires the loans existed. However, the Agency did not provide any additional information to substantiate the loans. Without signatures and the corresponding RDA resolutions or loan agreements, it is not evident there was a loan of money with a repayment schedule or a promise to repay. Therefore, these loans are not considered enforceable obligations at this time and not eligible for funding on this ROPS. To the extent the Agency can provide additional information to substantiate these loans, an Oversight Board action can be resubmitted to Finance for review.
- The claimed administrative costs exceed the allowance by \$280,000. 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 \$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. During the Meet and Confer, the Agency contested these costs are legal expenses related to assets or obligations and not regular legal expenses. However, the documentation provided the Agency was a general legal agreement between the City of Pasadena and a third party, the Agency is not a party to the agreement. In addition, the Agency did not provide any additional information to support these costs are related to any assets or obligations. Therefore, Finance continues to reclassify \$280,000 as administration costs, resulting in excess administrative cost of \$280,000.

The Agency also contested Item No. 1 during the Meet and Confer. However, pursuant to HSC section 34177 (m) (1), items that are the subject of litigation disputing Finance's previous or related determination are not eligible for meet and confer. As a result, we continue to make the following determination:

- 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.

In addition, per Finance's letter dated April 08, 2016, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- 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. 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.

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.

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>

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 Satveer Ark, 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**

<b>Approved RPTTF Distribution</b>			
<b>For the period of July 2016 through June 2017</b>			
	<b>ROPS A Period</b>	<b>ROPS B Period</b>	<b>Total</b>
Requested RPTTF (excluding administrative obligations)	\$ 47,452,397	\$ 2,441,149	\$ 49,893,546
Requested Administrative RPTTF	125,000	125,000	250,000
<b>Total RPTTF requested for obligations on ROPS 16-17</b>	<b>47,577,397</b>	<b>2,566,149</b>	<b>\$ 50,143,546</b>
<b>Total RPTTF Requested</b>	<b>47,452,397</b>	<b>2,441,149</b>	<b>49,893,546</b>
<u>Denied Items</u>			
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)
<u>Reclassified Items</u>			
Item No. 31	(140,000)	(140,000)	(280,000)
Item No. 36	(12,500)	(12,500)	(25,000)
	(152,500)	(152,500)	(305,000)
<b>Total RPTTF authorized</b>	<b>2,581,185</b>	<b>2,246,149</b>	<b>4,827,334</b>
<b>Total Administrative RPTTF requested</b>	<b>125,000</b>	<b>125,000</b>	<b>250,000</b>
<u>Reclassified Item</u>			
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)
<b>Total Administrative RPTTF authorized</b>	<b>250,000</b>	<b>0</b>	<b>\$ 250,000</b>
<b>Total RPTTF approved for distribution</b>	<b>2,831,185</b>	<b>2,246,149</b>	<b>\$ 5,077,334</b>

<b>Administrative Cost Allowance Cap Calculation</b>	
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
<b>Administrative Cost Allowance in excess of the cap</b>	<b>\$ (280,000)</b>