DEPARTMENT OF FINANCE

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December 18, 2012

Mr. Bernie Simon, Financial Director
City of Grand Terrace
22795 Barton Road
Grand Terrace, CA 92313

Dear Mr. Simon:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 19, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Grand Terrace Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on September 4, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 19, 2012. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on November 15, 2012.

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 item being disputed.

- Item Nos. 17 through 25 – 2011A TABS Bond Projects in the amount of $13 million; bond proceeds. Finance continues to deny the items. Finance denied the items as HSC section 31463(b) prohibits an agency from entering into a contract after June 27, 2011. It is our understanding that contracts for these items were awarded after June 27, 2011 or have not been awarded. The Agency identified that Finance had originally stated these were 2001 bonds rather than 2011 bonds and requested further clarification on the use of bond funds. We note that pursuant to HSC section 34191.4 (c), successor agencies that have been issued a Finding of Completion by Finance will be allowed to use excess proceeds from bonds issued prior to December 31, 2010 for the purposes for which the bonds were issued. Successor Agencies are required to defease or repurchase on the open market for cancellation any bonds that cannot be used for the purpose they were issued or if they were issued after December 31, 2010. The bond proceeds requested for use were issued in June 15, 2011. Therefore, this item is not an enforceable obligation.

- Item No. 30 – Residual receipts in the amount of $3 million from LMIHF. Finance continues to deny the item. Finance denied the item as HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the redevelopment agency (RDA) and the former RDA are not enforceable unless the agreements were entered into within the first two years of the date of the creation of the

RDA. This shall remain the case until and unless a finding of completion is issued by the Department of Finance and the oversight board makes a finding that the loan was for legitimate redevelopment purposes. The Agency contends the item is an enforceable obligation because HSC section 34171 (d) (3) exempts low and moderate housing agreements from being void. However, the section cited is related to contracts or agreements to perform services or provide funding outside of redevelopment project areas, unless it is for the provision of housing. The code section does not exempt all housing agreements from being void. Therefore, HSC section 34171 (d) (2) applies and the item is not an enforceable obligation.

- Item 6 – Professional Services in the amount of $13,878 and Item 7 – Consulting Services in the amount of $5,160 were reclassified as administrative costs. The Agency contends the items are enforceable obligations because they are related to wind down activities or promoting business in the city. However, the items do not fall into any of the following categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b):

    - Any litigation expenses related to assets or obligations.
    - Settlements and judgments.
    - The costs of maintaining assets prior to disposition.
    - Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs.

  Therefore, we continue to consider these items as administrative costs and should be included within the administrative cost allowance.

In addition, per Finance's ROPS letter dated October 19, 2012, the following items not disputed by the Agency continue to be denied:

- Item No. 4 – A loan between City and Zion Bank in the amount of $2.2 million payable from Redevelopment Property Tax Trust Fund. Documentation provided obligated the Agency to the City for 1997 Certificate of Participations. As the former RDA is neither a party to the contract nor responsible for payment of the contract, this line item is not an enforceable obligation.

- Item No. 28 – Supplemental Education Revenue Augmentation Fund (SERAF) Loan from the Low and Moderate Income Housing Fund (LMIHF) in the amount of $448,636. HSC section 34176 (e) (6) (B) states that loan or deferral repayments shall not be made prior to the 2013-14 fiscal year.

- Administrative cost claimed exceeded the allowance by $19,038. HSC section 34171(b) limits fiscal year 2012-13 administrative expenses to three percent of property tax allocated to the successor agency or $250,000 whichever is greater. Therefore, $19,038 of excess administrative costs claimed is not allowed. As noted above, the following items were reclassified as administrative costs:

    - Item 6 – Professional Services in the amount of $13,878
    - Item 7 – Consulting Services in the amount of $5,160

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is: $1,196,536 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013		
Total RPTTF funding requested for obligations	$	1,092,998
Less: Six-month total for items denied or reclassified as administrative cost		
Item 4		127,424
Item 6*		13,878
Item 7*		5,160
Total approved RPTTF for enforceable obligations	$	946,536
Plus: Allowable RPTTF distribution for administrative cost for ROPS III		250,000
Total RPTTF approved:	$	1,196,536

*Reclassified as administrative cost

Administrative Cost Calculation		
Total RPTTF for the period July through December 2012	$	1,437,405
Total RPTTF for the period January through June 2013		946,536
Total RPTTF for fiscal year 2012-13:	**$**	**2,383,941**
Allowable administrative cost for fiscal year 2012-13 (Greater of 3% or $250,000)		250,000
Administrative allowance for the period of July through December 2012		250,000
Allowable RPTTF distribution for administrative cost for ROPS III:		**$0**

* Reclassified as administrative costs

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS III form the estimated obligations and actual payments associated with the January through June 2012 period. The amount of RPTTF approved in the above table will be adjusted by the county auditor-controller to account for differences between actual payments and past estimated obligations. Additionally, these estimates and accounts are subject to audit by the county auditor-controller and the State Controller.

The amount available from the RPTTF is the same as the property tax increment that was available prior to 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 successor agency in the RPTTF.

Except for items disallowed as noted above, Finance is not objecting to the remaining items listed in your ROPS III. Obligations deemed not to be enforceable shall be removed from your ROPS. This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2013. 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 questioned on this ROPS or a preceding ROPS.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Betsy Adams, City Manager
Ms. Vanessa Doyle, Auditor Controller Manager, County of San Bernardino
California State Controller's Office