DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

December 18, 2012

Mr. Chuck Dantuono
Director of Administrative Services
City of Highland
27215 Base Line
Highland, CA 92346

Dear Mr. Dantuono:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 12, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Highland Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 29, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 12, 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 28, 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 12 – Athletic Center Equipment Lease in the amount of $80,752 funded by Redevelopment Property Tax Trust Fund (RPTTF). Finance continues to deny this item. The lease for equipment is between the City of Highland and a third party. The Agency provided a staff report and minutes from the Redevelopment Agency (RDA) and City Council Joint Regular Meeting; however, neither of these documents conclusively supports this item as an enforceable obligation of the former RDA and the Agency stated no resolutions were executed for this item. In addition, the documentation provided does not support the amount listed as the outstanding obligation or the amount due during the ROPS III period. According to the documents provided, the total lease is $55,546 with $1,539 monthly payments and expires in April 2013; therefore neither the total amount outstanding, $80,752, nor the $10,094 requested for the ROPS III period are supported. Therefore, this item is not an enforceable obligation.

- Item 19 – Public Works Project in the amount of $24,000 funded by RPTTF. Finance continues to deny this item. The former RDA is not a party to the contract. The Agency provided minutes from the RDA and City Council Joint Regular Meeting discussing the item; however, this document alone does not conclusively support this item as an enforceable obligation of the former RDA and the Agency stated no resolutions were executed for this item.

- Items 24 through 34, 36 through 43, and 45 – Bond Proceeds. Finance continues to deny these items at this time. HSC 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. Contracts have not yet been awarded for these projects.

    - Item Nos. 24 through 34, 36 through 43 and 45 – Construction contracts using Bond Proceeds totaling $34,781,865.

    - Items 49, 54, 57, 59, 61, 64, and 70 – Capital Improvements totaling $462,305 using 2004A and 2007 Bond Proceeds.

  Assuming the excess bond proceeds requested for use were issued prior to January 1, 2011, upon receiving a Finding of Completion from Finance, HSC section 34191.4 (b) may cause these items to be enforceable in future ROPS periods.

- Item No. 63 – Contract with Griffith Company in the amount of $1.4 million funded by Bond Proceeds. Finance continues to deny this item at this time. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. Per HSC section 34191.4 (c) (1), upon receiving a Finding of Completion from Finance, bond proceeds derived from bonds issued on or before December 31, 2010 may be used for the purposes for which the bonds were issued.

- Item No. 87 – Neighborhood Pride Grant Program Contract Administration in the amount of $13,416 funded by the Low and Moderate Income Housing Fund. Finance continues to deny this item. Maintenance and/or administrative costs associated with the former RDA's previous housing functions are not enforceable obligations. Upon the transfer of the former RDA's housing functions to the new housing entity, HSC section 34176 requires that, "all rights, powers, duties, obligations and housing assets, ...shall be transferred" to the new housing entity. This transfer of "duties and obligations" necessarily includes the transfer of any on-going maintenance and administrative costs. To conclude that such costs should be on-going enforceable obligations of the successor agency is directly contrary to the wind down directive in ABx1-26/AB1484.

  Item 16 – Professional Services Contract in the amount of $15,000. Finance reclassified this item as administrative costs counting towards the administrative cost cap. The Agency contends the item is an enforceable obligation because the services are required by law. Finance agrees the Agency's costs related to the Due Diligence Reviews may be enforceable to the extent administrative cost funds are not available. In addition, the Agency requested the amount be adjusted from $15,000 to $26,000 based on a change in the contract amount. The approved amount has been reflected in the RPTTF distribution table below.

- Items 1 through 3 – Debt Service payment in the amount of $3,948,160 million for the following bonds:

    - Item 1 – 2007 Tax Allocation Bonds in the amount of $2,612,700
    - Item 2 – 2004A Tax Allocation Bonds in the amount of $1,047,180
    - Item 3 – 2004B Tax Allocation Bonds in the amount of $288,280

The Agency did not request funding for these items on ROPS III because it had adequate funds on hand to make the debt service payments; however, the Agency was required to return the excess funds during the July true-up impairing its ability to make the required debt service payments. Subsequently, during the Meet and Confer, the Agency requested the amounts on the ROPS III be amended to include the amounts needed to make debt service payments due during the ROPS III period. Finance reviewed these items and deems them to be enforceable obligations. Consequently, Finance is approving the debt service payments for the items noted above and the approved amounts are reflected in the RPTTF distribution table below.

In addition, per Finance's ROPS letter dated October 12, 2012, the following items not disputed by the Agency continue to be reclassified:

- Administrative cost claimed exceeds the allowance by $65,933. HSC section 34171 (b) limits the fiscal year 2012-13 administrative expenses to three percent of property tax allocated to the successor agency or $250,000, whichever is greater. Because items 6 through 9, and 13 were reclassified, the allowable administrative costs were adjusted accordingly.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is: $6,093,056 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013		
Total RPTTF funding requested for obligations	$	6,068,083
Less: Six-month total for items denied or reclassified as administrative cost		
Item 6*		12,125
Item 7*		12,125
Item 8*		10,000
Item 9*		6,683
Item 12		10,094
Item 13*		25,000
Item 19		24,000
Total approved RPTTF for enforceable obligations	$	5,968,056
Plus: Allowable RPTTF distribution for administrative cost for ROPS III		125,000
Total RPTTF approved:	$	6,093,056

*Reclassified adadministrative cost

Administrative Cost Calculation		
Total RPTTF for the period July through December 2012	$	236,027
Total RPTTF for the period January through June 2013		5,968,056
Total RPTTF for fiscal year 2012-13:	**$**	**6,204,083**
Allowable administrative cost for fiscal year 2012-13 (Greater of 3% or $250,000)		250,000
Administrative allowance for the period of July through December 2012		125,000
Allowable RPTTF distribution for administrative cost for ROPS III:	**$**	**125,000**

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 Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Terry Rhodes, Senior Accountant, City of Highland
Ms. Vaness Doyle, Auditor Controller Manager, County of San Bernardino
California State Controller's Office