



December 18, 2012

Mr. David A. Klug, Redevelopment Manager
City of Pasadena
100 N. Garfield Avenue, Room S116
Pasadena, CA 91101

Dear Mr. Klug:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 5, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Pasadena Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 21, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 5, 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 7, 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 No. 1 – Pension obligation bonds pursuant to Senate Bill (SB) 481 in the amount of \$38.8 million. Finance continues to deny the item. Finance denied the item as the SB 481 payments are not enforceable obligations and not eligible for Redevelopment Property Tax Fund (RPTTF) funding for the following reasons:
 - 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 34171 (d) (2).

- o 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 is not an enforceable obligation.

- Item No. 14 – Housing set aside in the amount of \$800,000. Finance continues to deny the item. Although no funding was requested for this purpose in ROPS III, Finance denied the item as 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 will be accomplished through the due diligence review process pursuant to HSC section 34179.5 and 34179.6. The Agency contends the item is an enforceable obligation because the former RDA's obligation to deposit funds into the Low and Moderate Income Housing Fund (LMIHF) that was imposed by the 1987 Amendment to the 1986 Reimbursement Agreement is a contractual obligation that was validated by the Legislature and the courts and that exists independent of the statutory obligation to deposit housing set aside funds that was imposed on RDAs. However, the reimbursement agreements between the City and RDA are no longer enforceable per HSC section 34178 (a). Additionally, the Agency contends the item is an enforceable obligation because deposits into LMIHF that are required to be made under the Reimbursement Agreement are pledged for the payment of debt service on housing bonds issued by the former RDA in September 1996. However, the 1996 Housing Tax Allocation Bonds are not reported on the ROPS and no payments are due. Therefore, this line item is not an enforceable obligation and will not be eligible for RPTTF funding.
- Item No. 16 through 20 – Promissory Notes between the City and Agency totaling \$2.2 million. Finance continues to deny the items at this time. Finance denied the items as the City originally issued certificates of participation (COPs) in 1996 and later entered into promissory note agreements with the Agency in 2011 as a means to repay the

COPs. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the former RDA are not enforceable obligations. Additionally, HSC section 34171(e) states that certificates of participation must be issued or delivered by the RDA. The Agency contends the items are enforceable obligations because the former RDA's obligation to use former tax increment to repay the City's advance of proceeds from the 1996 COPs, thereby providing the source of funds for the City's payments to the Certificate holders; and in 2011 the former RDA issued a promissory note to the City to further evidence its obligation to make such payments. However, the agreement was not entered into at the time of issuance solely for the purpose of securing or repaying those indebtedness obligations as required per HSC section 34171 (d) (2). Finance has not issued a Finding of Completion to the Agency; therefore, the provisions of HSC section 34171 apply. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable obligations. Therefore, the line items are currently not enforceable obligations.

- Item No. 21 – Promissory Notes between the City and Agency totaling \$12.9 million. Finance no longer objects to the item. Finance denied the item as the City originally issued refunding certificates of participation in 1986 and later entered into promissory note agreements with the Agency in 2011. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the former RDA are not enforceable obligations. Additionally, HSC section 34171(e) states that certificates of participation must be issued or delivered by the RDA. The Agency contends the item is an enforceable obligation because the former RDA's obligation to use former tax increment to repay the City's use of proceeds from the 1986 Refunding COPs to develop parking facilities in the Old Pasadena Redevelopment Project Area is an integral and necessary part of this indebtedness obligation; and in 2011 the former RDA issued a promissory note to the City to further evidence its obligation to make such payments. The City and the RDA entered into a Reimbursement and Repayment Agreement on October 1, 1986, which was for the repayment of the Certificates of Participation issued by the City on October 1, 1986. Per HSC section 34171 (d) (2), agreements entered into between the city, county, or city and county that created the RDA and the former RDA at the time of issuance solely for the purpose of securing or repaying those indebtedness obligations are allowable. Therefore, the item is an enforceable obligation.
- Item No. 23 and 24 – Contracts between the City and the Agency totaling \$26.6 million. Finance continues to deny the items at this time. Finance denied the items as HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable obligations. The Agency contends the items are enforceable obligations because the former RDA's repayment of advances from the Community Development Block Grant (CDBG) and Section 108 loan guarantee program funds is a requirement imposed by the federal government. However, the agreement was not entered into solely for the purpose of securing or repaying indebtedness obligations as required per HSC section 34171 (d) (2). Finance has not issued a Finding of Completion to the Agency; therefore, the provisions of HSC section 34171 apply. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable obligations. Therefore, the items are currently not enforceable obligations.

- Item No. 27 through 30 – Costs to monitor and manage affordable housing totaling \$108,237. Finance continues to deny the items. Finance denied the items as HSC section 34176 (a) (1) states if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a redevelopment agency, all rights, powers, duties, obligations and housing assets shall be transferred to the city, county, or city and county. Since the City assumed the housing functions, the administrative costs associated with these functions are the responsibility of the housing successor. The Agency contends the items are enforceable obligations because the costs of carrying out the former RDA's obligation to monitor and enforce affordability covenants are contractual and statutory obligations of the former RDA and HSC section 34176 (a) (1) excepts from the transfer to the housing successor "enforceable obligations retained by the successor agency," which includes the successor agency's obligation to assure that funds are made available to pay the cost of carrying out the former RDA's housing obligations. However, the City assumed the housing functions and the administrative costs associated with these functions are the responsibility of the housing successor. Furthermore, the contracts provided for the monitoring services are between the City and various third parties and the former RDA is not a party to the agreements prior to June 27, 2011. Therefore, the line items are not enforceable obligations and not eligible for RPTTF funding.
- Item No. 31 through 33 – Costs for legal and other general service costs totaling \$450,000 are considered administrative expenses and should be counted toward the cap. Finance continues to reclassify \$20,000 of Item 32 as an administrative cost and denies the remaining amounts for Items 31 through 33 as enforceable obligations. The Agency contends the items are enforceable obligations and should not be reclassified as administrative costs because legal and consulting contracts are enforceable obligations created for the purpose of winding down the former RDA. The contracts provided for Items 31 and 33 are between the City and various third parties, not the Agency. Since the Agency is not a party to the contracts, the items are neither enforceable obligations nor should they be reclassified as administrative costs. For Item 32, one purchase order totaling \$20,000 for title consulting and engineering support services was provided. The services do not fall into any of the categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b); therefore, \$20,000 is reclassified as an administrative cost. The remaining \$130,000 for Item 32 was not supported and should not be reclassified as an administrative cost or considered an enforceable obligation.

In addition, per Finance's ROPS letter dated October 5, 2012, the following items not disputed by the Agency continue to be denied:

- Claimed administrative costs exceed the allowance by \$22,853. 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. As a result, the Agency is eligible for \$499,056 in administrative expenses. The Los Angeles Auditor Controller's Office did not distribute administrative costs for the July through December 2012 period, thus leaving a balance of \$499,056 available for the January through June 2013 period. Although \$501,909 is claimed for administrative costs, \$20,000 of Item 32 for title consulting and engineering support services is considered an administrative cost and should be counted toward the cap. Therefore, \$22,853 of excess administrative cost is not allowed.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is: \$3,262,432 as summarized in the following table:

Approved RPTTF Distribution Amount For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 17,629,054
Less: Six-month total for item(s) denied or reclassified as administrative cost	
Item No. 1	12,500,000
Item No. 14*	0
Item No. 16	49,966
Item No. 17	298,647
Item No. 18	22,954
Item No. 19	40,378
Item No. 20	40,378
Item No. 23	1,065,791
Item No. 24	289,327
Item No. 27	29,744
Item No. 28	29,930
Item No. 29	11,063
Item No. 30	37,500
Item No. 31	250,002
Item No. 32**	150,000
Item No. 33	49,998
Total approved RPTTF for enforceable obligations	\$ 2,763,376
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	499,056
Total RPTTF approved:	\$ 3,262,432

* No payments requested for the reporting period

** \$20,000 reclassified as administrative cost

Administrative Cost Calculation	
Total RPTTF for the period July through December 2012	\$ 13,871,818
Total RPTTF for the period January through June 2013	2,763,376
Total RPTTF for fiscal year 2012-13:	\$ 16,635,194
Allowable administrative cost for fiscal year 2012-13 (Greater of 3% or \$250,000)	499,056
Administrative allowance for the period of July through December 2012	0
Allowable RPTTF distribution for administrative cost for ROPS III:	\$ 499,056

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: Mr. Robert Ridley, Controller, City of Pasadena
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office