DEPARTMENT OF FINANCE

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December 18, 2012

Mr. Emilio Ramirez, Development Director
City of Riverside
3900 Main Street, 5th Floor
Riverside, CA 92522

Dear Mr. Ramirez:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 14, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Riverside Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 30, 2012 for the period of January 1 through June 14, 2013. Finance issued its determination related to those enforceable obligations on October 20, 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 20, 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.

In regards to the Amended and Restated Cooperation Agreement between the City of Riverside and the Agency, HSC section 34178 (a) and 34180 (h) authorizes successor agencies to reenter into agreements. However, any agreement reentered into cannot conflict with the requirements set forth in HSC 34171 (d), as ABx1 26 did not specifically carve out an exception to the definition of an enforceable obligation nor did HSC section 34178 (a) or 34180 (h) notwithstand HSC section 34171 (d). Therefore, the Oversight Board had no legal basis to approve an action that directly conflicted with and violated the definition of an enforceable obligation. Even if Finance did not object to the specific Oversight Board actions authorizing the Agency to reenter into agreements, the statute as a whole prohibits such an action from being validated if it conflicts with the definition of an enforceable obligation. Additionally, Finance has clearly defined authority under HSC section 34177 and 34179 (h) to review any items on a Recognized Obligation Payment Schedule (ROPS) to determine whether or not successor agencies are responsible for the obligation listed on their ROPS. Even if an Oversight Board approved an action that created an enforceable obligation, Finance has the authority to review the enforceable obligation for compliance with HSC section 34171 (d) or for compliance with any other statutory requirements contained in Chapter 26, statutes of 2012 (AB 1484). At no time can an Oversight Board action eliminate Finance's authority to review an enforceable obligation as part of a ROPS review. Therefore, the following items are not enforceable obligations.

- Various items in the amount of $13.6 million of bond proceeds. Finance continues to deny the items below at this time. Finance denied the items as HSC section 34163 (b) prohibits a redevelopment agency (RDA) from entering into a contract with any entity after June 27, 2011. The following items had no contracts in place prior to June 27, 2011, and therefore are not enforceable obligations.

Item	Project Name	Total Outstanding Debt
9	BNSF Quiet Zones	$ 159,908
16	Arlington Park Childcare	4,500,000
25	BNSF Quiet Zones	327,469
28	Villegas Park Improvements	3,200,000
125	BNSF Quiet Zones	351,066
137	Gould and Gramercy Street Improvements	500,000
138	Gould and Gramercy Street Improvements	40,109
139	Gould and Gramercy Street Improvements	750
154	Camp Anza Officers Club	1,800,000
155	Camp Anza Officers Club	266,760
156	Collett Street Expansion	2,500,000
	Total Amount	$13,646,062

The Agency contends the items are enforceable obligations because in March 2011, the City and the former RDA entered into a Cooperation, Implementation and Funding Agreement, which required the former RDA to fund the construction of specified projects within the six redevelopment project areas and that the City would be required to assist the former RDA in the implementation of specified projects. However, 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 not eligible for bond funding at this time. However, successor agencies will be eligible to expend bonds issued prior to January 1, 2011, once a Finding of Completion is received from Finance per 34191.4 (c). Those obligations should be reported on a subsequent ROPS.

- Various items – City Loans in the amount of $18.6 million of Redevelopment Property Tax Trust Fund (RPTTF). Finance continues to deny the items below at this time. Finance denied the items as HSC section 34171 (d) (2) states that loans between the City that created the RDA and the RDA are not enforceable obligations. Per HSC section 34171 (d) (2), loan agreements entered into between the RDA and the city, county, or city and county that created it, within two years of the date of creation of the RDA, or solely for the purpose of securing or repaying indebtedness obligations may be deemed to be enforceable obligations. 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 an enforceable obligations and not eligible for RPTTF funding.

Item	Project Name	Total Outstanding Debt
84	City loan entered into on April 1, 2008	$ 167,191
87	City loan entered into on August 1, 2009	4,429,072
88	City loan entered into on September 1, 2010	1,260,456
89	City Riverside Public Utilities reimbursement agreement entered into on March 1, 2011	1,083,033
90	City Riverside Public Utilities Reimbursement Agreement entered into on March 1, 2011 - Dwntwn	7,284,003
91	City loan entered into on May 1, 2007 - Dwntwn	4,343,216
	Total Amount	$18,566,971

Furthermore, Finance determined that administrative costs claimed for RPTTF exceed the allowance by $292,477. HSC section 34171 (b) limits the 2012-13 administrative expenses to three percent of property tax allocated to the Agency or $250,000, whichever is greater. Additionally, Items 161, 162, and 165 were reclassified as administrative costs. Finance continues to reclassify the items as administrative costs.

Amount administrative costs for fiscal year 2012-13	$ 943,414
Administrative costs claimed for July through December 2012	503,706
Administrative costs claimed for January through June 2013	732,815
Overage	$ 292,477

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.

Although the Agency contends Item 161 is for the annual audit required per HSC section 34177 (n), no additional documents were provided to support this statement. Therefore, the item is reclassified as an administrative cost.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is: $15,118,244 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013		
Total RPTTF funding requested for obligations	$	19,927,171
Less: Six-month total for items denied or reclassified as administrative cost		
Item No. 84		167,191
Item No. 87		200,755
Item No. 88		54,803
Item No. 89		45,124
Item No. 90		303,176
Item No. 91		4,343,216
Item No. 162**		35,000
Item No. 163**		25,000
Item No. 166**		75,000
Total approved RPTTF for enforceable obligations	$	14,677,906
Plus: Allowable RPTTF distribution for administrative cost for ROPS III		440,338
Total RPTTF approved:	$	15,118,244

** Reclassified as administrative cost

Administrative Cost Calculation		
Total RPTTF for the period July through December 2012	$	16,769,212
Total RPTTF for the period January through June 2013		14,677,906
Total RPTTF for fiscal year 2012-13:	**$**	**31,447,118**
Allowable administrative cost for fiscal year 2012-13 (Greater of 3% or $250,000)		943,414
Administrative allowance for the period of July through December 2012		503,076
Allowable RPTTF distribution for administrative cost for ROPS III:	**$**	**440,338**

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. Al Zelinka, Community Development Director, City of Riverside
Ms. Pam Elias, Chief Accountant, Property Tax Division, Riverside County Auditor Controller
California State Controller's Office