



May 17, 2013

Ms. Karen Johnston, Assistant Director of Finance
City of Palmdale
38300 Sierra Highway, Suite D
Palmdale, CA 93550

Dear Ms. Johnston:

Subject: Recognized Obligation Payment Schedule

This letter supersedes California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS 13-14A) letter dated April 13, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Palmdale Successor Agency (Agency) submitted a ROPS 13-14A to Finance on February 28, 2013 for the period of July through December 2013. 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 April 25, 2013.

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 items being disputed.

- Item No. 156 – Reimbursement Agreement between the City of Palmdale (City) and the Agency for services rendered totaling \$44 million is not an enforceable obligation at this time. Finance originally denied this item because agreements, contracts, or arrangements between the city that created the redevelopment agency (RDA) and the former RDA are not enforceable, unless issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. This agreement was issued after the first two years of the former RDA's creation and is not associated with the issuance of debt.

The Agency contends the 1975 Cooperation Agreement was entered into within the first two years of the RDA's creation. 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, may be deemed to be enforceable obligations. The loan agreement was entered into within the first two years of the date of creation; however, the agreement does not specify dollar amounts loaned, advanced, or repayment terms.

Upon receipt of a Finding of Completion from Finance and after the oversight board makes a finding the loan was for legitimate redevelopment purposes, HSC section 34191.4 (b) may cause these items to be enforceable and become eligible for funding on

future ROPS. Therefore, this item is currently not an enforceable obligation, and not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding on this ROPS.

- Item No. 157 – Redevelopment Impact Fee in the amount of \$86 million is not an enforceable obligation. Finance originally denied this item because City Council Resolution 2013-026 enforcing the ordinance was not passed until 2013. Pursuant to HSC section 34171 (d) (1), this line item does not meet the definition of an enforceable obligation. Further, 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, unless issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders.

The Agency contends the ordinance adopted by the City is pursuant to state law and, therefore, fees required per city ordinance are an obligation of state law. HSC section 34171 (d) (1) (C) states payments required by the federal government, preexisting obligations to the state or obligations imposed by state law, or enforceable payments required in connection with the Agency's employees, are enforceable obligations. Although the City may follow state law and adopt an ordinance imposing a fee, it becomes an obligation imposed by City ordinance, not state law. Pursuant to HSC section 34171 (d) (1), this line item does not meet the definition of an enforceable obligation and is not eligible for RPTTF funding.

- The Agency disputes the County Auditor-Controller (CAC) adjustment in the amount of \$419,173. After consulting with the CAC, it was determined the adjustment amount was calculated in error; according to the CAC, the prior period adjustment amount should be \$0. The amount of RPTTF funding approved for distribution has been adjusted accordingly.

Furthermore, the Agency does not agree with Finance's determination to change the funding source from Other to RPTTF for the following items:

- Transit Village Townhome Project – Item Nos. 75 and 158, totaling \$2,723,442. Although Finance recognizes these items as enforceable obligations, the Agency is requesting to retain Low and Moderate Income Housing Funds (LMIHF) to pay for these obligations, rather than approved RPTTF. Finance previously denied the retention of LMIHF funds in our letter dated December 15, 2012. The Agency contends the bank and developer may withdraw from the project if funding is not assured as evidenced by retention of these funds.

Finance obtained a cash flow analysis from the Agency. According to the analysis, the Agency expects to receive sufficient funds to cover debt service payments, as well as other obligations, through 2014. Because the Agency receives sufficient funding to meet their debt service obligations, and has not shown an immediate funding source is necessary for the continuation of this project, these items will continue to be approved for RPTTF funding which may be claimed on ROPS as costs are expected to occur. Therefore, Finance continues to deny the retention and use of LMIHF funds for these line items and approved these items funded with RPTTF.

Except for items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 13-14A. 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 July through December 2013. Finance’s determination is effective for this time period only and should not be conclusively relied on 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 denied on this ROPS or a preceding ROPS.

The Agency’s maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$12,035,897 as summarized below:

Approved RPTTF Distribution Amount For the period of July through December 2013	
Total RPTTF funding requested for obligations	\$ 11,992,580
Add: Six-month total for items reclassified as RPTTF:	2,723,442
Minus: Six-month total for items denied or reclassified as administrative cost	
Item 156	1,096,010
Item 157	1,869,565
Total approved RPTTF for enforceable obligations	\$ 11,750,447
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost	285,450
Minus: ROPS II prior period adjustment	-
Total RPTTF approved for distribution:	\$ 12,035,897

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2012 period. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. The amount of RPTTF approved in the above table includes the prior period adjustment resulting from the CAC’s audit of the Agency’s self-reported prior period adjustment.

Please refer to the ROPS 13-14A schedule that was used to calculate the approved RPTTF amount:

[http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14A Forms by Successor Agency/.](http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14A Forms by Successor Agency/)

This is Finance’s final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 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 denied on this ROPS or a preceding ROPS. The only exception is for those items that have received a Final and Conclusive determination from Finance pursuant to HSC 34177.5 (i). Finance’s review of items that have received a Final and Conclusive determination 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 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.

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To the extent proceeds from bonds issued after December 31, 2010 exist and are not encumbered by an enforceable obligation pursuant to 34171 (d), HSC section 34191.4 (c)(2)(B) requires these proceeds be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation.

Please direct inquiries to Nichelle Thomas, Supervisor or Alex Watt, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Hamed Jones, Budget Manager, City of Palmdale
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office