



April 15, 2014

Ms. Diana De Anda, Finance Director
City of Loma Linda
25541 Barton Road
Loma Linda, CA 92354

Dear Ms. De Anda:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Loma Linda Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to the California Department of Finance (Finance) on March 3, 2014 for the period of July through December 2014. Finance has completed its review of your ROPS 14-15A, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following do not qualify as enforceable obligations for the reasons specified:

- Item No. 5 – Anixter Participation Agreement in the amount of \$89,891. The Agency submitted documentation which displays Reserve Balances totaling \$70,110 retained from the Reserve Balances authorized for this item in the January through June 2014 (ROPS 13-14B) period. However, the Agency erred in the amount requested for this obligation. Therefore, with the Agency's concurrence, Finance has adjusted the requested amount by \$19,781, approving the use of Reserve Balances in the amount of \$70,110 (\$89,891-\$19,781).
- Item Nos. 15, and 28 through 32 – City of Loma Linda Loans totaling \$23,949,755. Finance continues to deny these City loans. Pursuant to HSC section 34171 (d) (2), loan agreements entered into between the redevelopment agency (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. This loan agreement was entered into in 1979, within the first two years of the date of creation; however, various advances or loans were made from 1999 through 2010, which is after the first two years of creation. Furthermore, the agreement does not specify dollar amounts to be loaned or advanced or specific repayment terms.

Finance has not issued a Finding of Completion (FOC) 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. Additionally,

Finance denied this obligation as an inclusion to the ROPS for the period January through June 2014 as determined in the letter dated December 17, 2013. Therefore, these line items are not enforceable obligations and are not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

Upon receiving a FOC from Finance, and after the oversight board makes a finding the loans were for legitimate redevelopment purposes, HSC section 34191.4 (b) may cause this item to be enforceable in future ROPS periods.

- Item Nos. 16, 33 through 35, 37 and 38 – City Lease Revenue Refunding Bonds totaling \$2,241,341. Finance continues to deny these items. As previously determined, this bond is secured by revenues consisting primarily of lease payments to be made by the City to the Loma Linda Public Financing Authority. There is no requirement for the Agency to fund this bond through tax increment. However, this item is approved for funding from Other Funds; specifically, the lease payments made by the City. Additionally, Finance denied this obligation as an inclusion to the ROPS for the period July through December 2013 and January through June 2014, upheld through the Meet and Confer process in our letters dated May 17, 2013 and December 17, 2013. Therefore, these items are not eligible for RPTTF funding.
- Item Nos. 17 through 20 – Debt service payments totaling \$735,000 for payments due during the January through June 2015 period. HSC section 34171 (d) (1) (A) allows successor agencies to hold a reserve for debt service payments when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the following half of the *calendar* year. Therefore, the request to fund debt service due for the first half of the calendar year is not allowed.
- Item No. 39 – Housing Entity Administrative Cost Allowance in the amount of \$750,000. Pursuant to HSC section 34171 (p), the housing entity administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the redevelopment agency elected to not assume the housing functions. Because the housing entity to the former redevelopment agency is the City-formed Housing Authority (Authority) and the Authority operates under the control of the City, the Authority is considered the City under Dissolution Law pursuant to HSC section 34167.10. Therefore, \$750,000 of housing entity administrative allowance is not allowed.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting Redevelopment Property Tax Trust Fund (RPTTF). Pursuant to HSC section 34177 (l) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. The Agency provided financial records that displayed available Other Funds totaling \$1,689.

Therefore, with the Agency's concurrence, the funding source for the following item has been reclassified to Other Funds and in the amount specified below:

- Item No. 4 – Housing Tax Allocation Bond debt service payment in the amount of \$345,544. The Agency requests \$345,544 of RPTTF; however Finance is reclassifying \$1,689 to Other Funds. This item is an enforceable obligation for the ROPS 14-15A

period. Therefore, Finance is approving RPTTF in the amount of \$343,855 and the use of Other Funds in the amount of \$1,689, totaling \$345,544.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2013 period. HSC section 34186 (a) also specifies 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 table below includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

In addition, Finance noted the following during our review:

- On the ROPS 13-14A Prior Period Adjustment worksheet, the Agency's expenditures exceeded Finance's authorization for the following item:
 - Item No. 4 – 2008 Housing Tax Allocation Bond debt service from Other Funds in the amount of \$16,054.

Per HSC section 34177 (a) (3), only those payments listed on ROPS may be made by the Agency from the funds specified on the ROPS. However, the item was determined to be enforceable obligations for the ROPS 14-15A period. Therefore, Finance is increasing the Agency's authorization for the ROPS 14-15A period to ensure that authorization is consistent with expenditures for the approved enforceable obligations. As these Other Funds were previously expended, the increase in authorization should not result in increased expenditures, but should merely allow the Agency to reconcile actual expenditures to the authorization.

HSC sections 34177 (a) (4) and 34173 (h) provide mechanisms when Agency payments must exceed the amounts authorized by Finance. Please ensure the proper expenditure authority is received from your Oversight Board and Finance prior to making payments on enforceable obligations.

Except for items denied in whole or in part as enforceable obligations or for the item that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15A. If you disagree with the determination with respect to any items on your ROPS 14-15A, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

http://www.dof.ca.gov/redevelopment/meet_and_confer/

The Agency's maximum approved RPTTF distribution for the reporting period is \$1,187,971 as summarized below:

Approved RPTTF Distribution	
For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	7,377,837
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations	\$ 7,502,837
Total RPTTF requested for non-administrative obligations	7,377,837
<u>Denied Items</u>	
Item No. 15	(718,378)
Item No. 16	(174,650)
Item No. 17	(290,000)
Item No. 18	(67,500)
Item No. 19	(235,000)
Item No. 20	(142,500)
Item No. 28	(753,213)
Item No. 29	(722,388)
Item No. 30	(721,281)
Item No. 31	(720,175)
Item No. 32	(719,276)
Item No. 33	(174,650)
Item No. 34	(174,650)
Item No. 35	(174,650)
Item No. 37	(174,650)
Item No. 38	(174,650)
Item No. 39	(150,000)
	(6,287,611)
Total RPTTF for non-administrative obligations	1,090,226
<u>Cash Balances - Item reclassified to other funding sources</u>	
Item No. 4	(1,689)
	(1,689)
Total RPTTF authorized for non-administrative obligations	\$ 1,088,537
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 1,213,537
ROPS 13-14A prior period adjustment	(25,566)
Total RPTTF approved for distribution	\$ 1,187,971

Please refer to the ROPS 14-15A schedule that was used to calculate the approved RPTTF amount:

<http://www.dof.ca.gov/redevelopment/ROPS>

Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2014. This determination only applies to items where funding was requested for the six-month period. 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 section 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.

To the extent proceeds from bonds issued after December 31, 2010 exist and are not encumbered by an enforceable obligation pursuant to HSC section 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 Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Diane Hadland, DHA Consulting, City of Loma Linda
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office