



May 16, 2014

Mr. Mark Alvarado, Administrative Services Director
City of Monrovia
415 South Ivy Avenue
Monrovia, CA 91016

Dear Mr. Alvarado:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 4, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Monrovia Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on March 13, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 4, 2014. 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 17, 2014.

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. 89 – Debt service reserves totaling \$2,862,955 due January through June 2015. Finance continues to deny this item. Finance denied this item as 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, a request to fund payments due for the *first half* of the calendar year is not allowed. During the Meet and Confer process, the Agency contended that the bond indentures require that a six-month bond reserve be set aside each ROPS period. However, based on a review of the bond indentures provided, the requirement to request a reserve on the ROPS states “to the extent necessary, the amounts to be held by the Successor Agency as a reserve until the next six-month period, as contemplated by paragraph (1) (A) of subdivision (d) of Section 34171 of the Dissolution Act, that are necessary to provide payment...when the next property tax allocation is projected to be insufficient.” The requirement in the bond indentures is specifically related to the requirement as stated in HSC section 34171 (d) (1) (A) and only to the extent necessary if the property tax allocation is projected to be insufficient, which the Agency has not shown. Therefore, as previously stated, a request to fund payments due for the *first half* of the calendar year is not allowed.

- Item No. 93 – Administrative cost allowance pursuant to AB 471 in the amount of \$150,000. Finance continues to deny this item. Finance denied this item because 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 (RDA) elected to not assume the housing functions. Because the housing entity to the former redevelopment agency of the City of Monrovia (City) is the City-formed Housing Authority (Authority), the Authority operates under the control of the City and is considered the City under Dissolution Law (ABx1 26 and AB 1484).

The Agency contends that the Authority, as a separate legal entity from the City, did elect to retain the housing functions pursuant to HSC section 34176 (b) (2) and should therefore be eligible for the housing entity administrative allowance. However, pursuant to HSC section 34167.10 (a), the definition of “city” includes, but is not limited to, any reporting entity of the city for purposes of its comprehensive annual financial report (CAFR), any component unit of the city, or any entity controlled by the city or for which the city is financially responsible or accountable. HSC section 34167.10 (a) defines “city” for purposes of all of Dissolution Law, which includes HSC section 34171, as amended by AB 471, and HSC section 34176. The Authority is included in the City’s CAFR, which identifies the Authority as a component unit of the City.

Although the Authority is a separate legal entity from the City, HSC section 34167.10 (c) states that it shall not be relevant that the entity is formed as a separate legal entity. It should also be noted that HSC section 34167.10 (c) goes on to state that “the provisions of this section are declarative of existing law as the entities described herein are and were intended to be included within the requirements of this part [Part 1.8] and Part 1.85...and any attempt to determine otherwise would thwart the intent of these two parts.” Therefore, based on our review, the City, by way of the Authority, elected to retain the housing functions pursuant to HSC section 34176 (a) and is not eligible for \$150,000 of housing entity administrative allowance.

In addition, per Finance’s letter dated April 4, 2014, we continue to deny the following item not contested by the Agency during the Meet and Confer:

- Item No. 48 – Monrovia Area Partnership (MAP) in the amount of \$140,500 is not an enforceable obligation. It is our understanding the Agency wishes to fund these MAP grants with 2011 Housing Bond proceeds. However, HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. It is our understanding that the contract for this item was awarded after June 27, 2011.

It is also our understanding these bonds were issued after December 31, 2010. HSC section 34191.4 (c) (2) (B) requires these proceeds to be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation.

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.

Except for items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 14-15A. The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$4,713,334 as summarized below:

Approved RPTTF Distribution For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	7,428,089
Total RPTTF requested for administrative obligations	298,200
Total RPTTF requested for obligations	\$ 7,726,289
Total RPTTF requested for non-administrative obligations	7,428,089
<u>Denied Items</u>	
Item No. 89	(2,862,955)
Total RPTTF authorized for non-administrative obligations	\$ 4,565,134
Total RPTTF requested for administrative obligations	298,200
<u>Denied Item</u>	
Item No. 93	(150,000)
Total RPTTF authorized for administrative obligations	\$ 148,200
Total RPTTF authorized for obligations	\$ 4,713,334
Total ROPS 13-14A PPA	0
Total RPTTF approved for distribution	\$ 4,713,334

Pursuant to HSC section 34177 (l) (1) (E), agencies are required to use all available funding sources prior to RPTTF for payment of enforceable obligations. During the ROPS 14-15A review, Finance requested financial records to support the cash balances reported by the Agency; however, Finance was unable to reconcile the financial records to the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 14-15A review period to properly identify the Agency's cash balances. If it is determined the Agency possesses cash balances that are available to pay approved obligations, the Agency should request the use of these cash balances prior to requesting RPTTF in ROPS 14-15B.

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

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

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 Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Buffy Bullis, Finance Division Manager, City of Monrovia
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County
California State Controller's Office