



April 9, 2014

Ms. Veronica Tapia, Management Analyst II
City of Palm Desert
73-510 Fred Waring Drive
Palm Desert, CA 92260

Dear Ms. Tapia:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Palm Desert Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to the California Department of Finance (Finance) on February 28, 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 Nos. 10, 62, 109, and 143 – L/M Housing Fund Loans totaling \$17,821,288. The Agency received a Finding of Completion on May 15, 2013. As such, the Agency may place Supplemental Educational Revenue Augmentation Fund (SERAF) loan agreements and other loan agreements between the former redevelopment agency and sponsoring entity on the ROPS, as an enforceable obligation per HSC section 34191.4 (b) (1). Additionally, HSC section 34191.4 (b) (2) (A) specifies this repayment to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through distributed to the taxing entities in the fiscal year 2012-13 base year.

According to the County Auditor-Controller's report, the ROPS residual pass-through amount distributed to the taxing entities for fiscal year 2012-13 and 2013-14 are \$5,413,539 and \$1,253,455, respectively. Pursuant to the repayment formula outlined in HSC section 34191.4 (b) (2) (A), the maximum repayment amount authorized for fiscal year 2014-15 is zero. Therefore, the loan repayments requested are not eligible for funding on this ROPS. The Agency may be eligible for additional funding beginning ROPS 15-16A.

The denial amount for each line item is listed below:

- Item No. 10 for \$285,086
- Item No. 62 for \$102,573
- Item No. 109 for \$26,501

- Item No. 143 for \$72,574
- Items Nos. 31, 85, 118, and 159 – Vested Pension Obligation CalPERS totaling \$3,025,084. The Agency requested a total of \$1,336,120 of unfunded pension liability on this ROPS. Although this item is considered an enforceable obligation, the amount requested exceeds the six month obligation. HSC section 34177 (l) (3) defines the ROPS as forward looking to the next six months. Based on the obligation schedule provided by the Agency, the unfunded pension liability allocated over five years results in ten bi-annual payments of \$336,120. Therefore, \$336,120 of unfunded pension obligation is an enforceable obligation payable on ROPS 14-15A. The remaining balance of \$1,000,000 is not eligible for RPTTF funding at this time.

The partial denial for each item is listed below:

- Item No. 31 is partially denied for \$634,966 and is approved for \$213,425.
- Item No. 85 is partially denied for \$169,894 and is approved for \$57,105.
- Item No. 118 is partially denied for \$46,169 and is approved for \$15,518.
- Item No. 159 is partially denied for \$148,971 and is approved for \$50,072.
- Item Nos. 32, 86, 119, and 160 – Stipulated Judgment Case No. 51124 in the amount of \$350,084,476. Both the Stipulated Judgment and the Cooperation Agreement between the Palm Desert Housing Authority and the former Redevelopment Agency (RDA) calls for housing proceeds to be used to fund this obligation. With the dissolution, housing funds including set aside funds are no longer available from Redevelopment Property Tax Trust Funds (RPTTF) to pay for Low-Mod housing projects.

HSC section 34176 requires that, “all rights, powers, duties, obligations and housing assetsshall be transferred” to the new housing entity. This transfer of “duties and obligations” necessarily includes the transfer of statutory obligations; to the extent any continue to be applicable. To conclude that such costs should be on-going enforceable obligations of the successor agency could require a transfer of tax increment for life – directly contrary to the wind down directive.

The following items are not eligible for RPTTF as follows:

- Item No. 32 in the amount of \$2,164,589.
- Item No. 86 in the amount of \$572,104
- Item No. 119 in the amount of \$159,735.
- Item No. 160 in the amount of \$502,886.
- Claimed administrative costs exceed the allowance by \$146,582. HSC section 34171 (b) limits the fiscal year 2014-15 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. Although \$608,573 is claimed for administrative cost, only \$461,991 is available pursuant to the cap. Therefore, \$146,582 of excess administrative cost is not allowed.

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 the items denied in whole or in part as enforceable obligations, 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 Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$15,510,208 as summarized below:

Approved RPTTF Distribution	
For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	20,285,759
Total RPTTF requested for administrative obligations	608,573
Total RPTTF requested for obligations	\$ 20,894,332
Total RPTTF requested for non-administrative obligations	20,285,759
Denied Items	
Item No. 10	(285,086)
Item No. 31	(634,966)
Item No. 32	(2,164,593)
Item No. 62	(102,573)
Item No. 85	(169,894)
Item No. 86	(572,104)
Item No. 109	(26,501)
Item No. 118	(46,169)
Item No. 119	(159,735)
Item No. 143	(72,574)
Item No. 159	(148,971)
Item No. 160	(502,886)
	(4,886,052)
Total RPTTF authorized for non-administrative obligations	\$ 15,399,707
Total RPTTF requested for administrative obligations	608,573
	608,573
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(146,582)
Total RPTTF authorized for administrative obligations	\$ 461,991
Total RPTTF authorized for obligations	\$ 15,861,698
ROPS 13-14A prior period adjustment	(351,490)
Total RPTTF approved for distribution	\$ 15,510,208

Administrative Cost Cap Calculation	
Total RPTTF authorized for non-administrative obligations	15,399,717
Percent allowed pursuant to HSC section 34171 (b)	3%
Total RPTTF allowable for administrative obligations	461,991
Total RPTTF administrative obligations after Finance adjustments	608,573
Administrative costs in excess of the cap	\$ (146,582)

Pursuant to HSC section 34177 (I) (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 fund 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 fund balances. If it is determined the Agency

possesses fund balances that are available to pay approved obligations, the Agency should request the use of these fund 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>

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 Beliz Chappuie, Supervisor or Susana Medina Jackson, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Janet Moore, Director of Housing, City of Palm Desert
Ms. Pam Elias, Chief Accountant Property Tax Division, Riverside County
Auditor-Controller
California State Controller's Office