



May 16, 2014

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 the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 9, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Palmdale Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on February 27, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 9, 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 23, 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 item being disputed.

- Item No. 169 – Housing 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 Palmdale (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 City elected not to retain the housing functions, but the Authority, as a separate legal entity from the City, did elect to retain the housing functions pursuant to HSC section 34176 (b) (3) 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 and states that the City is financially accountable for the component units.

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, 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 9, 2014, we continue to deny the following items not contested by the Agency during the Meet and Confer:

- Claimed administrative costs exceed the allowance by \$4,514. HSC section 34171 (b) limits fiscal year 2014-15 administrative expenses to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$278,581 in administrative expenses. Although \$423,095 is claimed for administrative cost, Item Nos. 166 and 167 for Bond Covenant Compliance Consulting totaling \$10,000 are considered administrative expenses and should be counted towards the cap. Therefore, \$4,514 of excess administrative costs is not allowed.

As demonstrated in the table below, the Agency is eligible to receive 3 percent of total RPTTF authorized for non-administrative obligations for administrative expenses. As such, the Agency is allowed \$278,581 for administrative expenses. After Finance's adjustments for Item Nos. 166, 167, and 169, the total requested administrative expenses exceed the allowable amount by \$4,514. Therefore, \$4,514 is not allowed.

In addition, the maximum allowed administrative costs are based on a percentage of approved RPTTF, which includes Item Nos. 160 through 164 – Property disposition costs totaling \$502,941. These items were previously funded in ROPS 13-14A and 13-14B. It is our understanding the Agency did not use the approved funding in ROPS 13-14A, and this non-use has been appropriately accounted for through the Prior Period Adjustment. However, these items' share of administrative allowance has been previously funded multiple times, and the Agency reports to have fully expended the administrative costs associated with these line items in ROPS 13-14A. As a result, a reduction of \$15,088 (3 percent of \$502,941) in administrative expenses is being applied during this ROPS period. Therefore, the Agency is now eligible for \$263,493 (\$278,581 - \$15,088) in administrative expenses.

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. The Agency's maximum approved RPTTF distribution for the reporting period is \$8,493,458 as summarized below:

Approved RPTTF Distribution	
For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	12,046,020
Total RPTTF requested for administrative obligations	423,095
Total RPTTF requested for obligations	\$ 12,469,115
Total RPTTF requested for non-administrative obligations	12,046,020
<u>Reclassified Items</u>	
Item No. 166	(1,100)
Item No. 167	(8,900)
	(10,000)
Total RPTTF authorized for non-administrative obligations	\$ 12,036,020
Total RPTTF requested for administrative obligations	423,095
<u>Reclassified Items</u>	
Item No. 166	1,100
Item No. 167	8,900
	10,000
<u>Denied Item</u>	
Item No. 169	(150,000)
	(150,000)
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(4,514)
Administrative costs adjustment for Item Nos. 160 through 164	(15,088)
Total RPTTF authorized for administrative obligations	\$ 263,493
Total RPTTF authorized for obligations	\$ 12,299,513
ROPS 13-14A prior period adjustment	(3,806,055)
Total RPTTF approved for distribution	\$ 8,493,458

Administrative Cost Cap Calculation	
Total RPTTF authorized for non-administrative obligations	9,286,020
Percent allowed pursuant to HSC section 34171 (b)	3%
Total RPTTF allowable for administrative obligations	278,581
Total RPTTF administrative obligations after Finance adjustments	283,095
Administrative costs in excess of the cap	\$ (4,514)

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

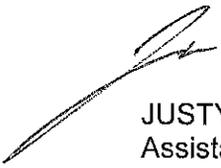
on a future ROPS are subject to a subsequent review and may be denied even if it was or was not denied on this ROPS or a preceding ROPS. The only exception is for those items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). Finance's review of 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: Mr. Hamed Jones, Budget Manager, City of Palmdale
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County
California State Controller's Office