



May 16, 2014

Ms. Tina Kundig, Director of Finance
City of Redlands
PO Box 3005
Redlands, CA 92373

Dear Ms. Kundig:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 2, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Redlands Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on February 26, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 2, 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 15, 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. 2 – City of Redlands (City) Loan for enforceable obligations totaling \$2,887,400 with \$948,058 requested for ROPS 14-15A. Finance continues to partially deny this item. As stated in Finance's May 17, 2013 and December 17, 2013 meet and confer determination letters to the Agency, the City of Redlands (City) and the Agency entered into a 10-year loan agreement for \$3,157,400 to assist the Agency in the payment of enforceable obligations not funded by Redevelopment Property Tax Trust Fund (RPTTF) funds for the Recognized Obligation Payment Schedule (ROPS) for the July through December 2012 (ROPS II) period. However, the Agency actually used part of the distribution or \$1,958,561 to make the July 2012 True Up Payment demanded in accordance with HSC section 34183.5 (b) (2) (A). The True-Up payments represents the difference between the amount of property tax distribution in January 2012 and actual approved enforceable obligations for the January through June 2012 ROPS period (ROPS I). Therefore, the use of the RPTTF provided for the ROPS II to make the True-Up payment was not allowed.

The Agency is permitted to recover part of the loan for the actual RPTTF shortage. This is equal to the amount of the loan less the amount spent on the July 2012 True Up Payment and less the payments claimed on the ROPS for the January through June 2013 (ROPS III) period, the ROPS for the July through December 2013 (ROPS 13-14A) period, and the ROPS for the January through June 2014 (ROPS 13-14B) period in the

amount of \$928,839 (\$3,157,400 - \$1,958,561 - \$160,000 - \$55,000 - \$55,000, respectively). This will be the actual approved "Outstanding Debt or Obligation".

In addition, the loan agreement is a ten year agreement without a payment schedule permitting payment only when sufficient tax allocation is available. The Agency will only be permitted to receive \$55,000 in RPTTF for the ROPS 14-15A period to repay this loan. This amount represents the remaining allowable outstanding balance of the loan, \$928,839, divided by the remaining ROPS periods of the loan term, 17 (e.g. 10 years x two ROPS per fiscal year). The Agency claims the agreement does not require repayment over ten years and to be consistent with wind-down activities, it wishes to pay back the loan as soon as possible; however, according to the documentation provided for Item 5 (below), the Agency also has bond debt service payments that will require approximately ten years to repay.

Therefore, for the reasons stated previously and above the Agency is permitted to receive \$55,000 in Redevelopment Property Tax Trust Funds (RPTTF) for the ROPS 14-15A period to repay this loan; the remaining \$893,058 (\$948,058 - \$55,000) is not eligible for RPTTF funding. Finance notes the previously approved "Outstanding Debt or Obligation" in the amount of \$1,038,839 was for the ROPS 13-14A period only, and the outstanding loan amount should decrease over time in accordance with the Agency's continuing loan payments. Based on Finance's approvals, the outstanding loan balance prior to ROPS 14-15A should be \$928,839 as stated above.

- Item Nos. 3 through 5 – Debt service reserves totaling \$564,669 for payments due January through June 2015. Finance continues to deny these items. HSC section 34171 (d) (1) (A) allows successor agencies to hold a reserve for debt service payments when required by the bond indenture or 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. The Agency claims that the reserves requested are required by the bond indenture. Our review of the bond indenture indicates that the Agency is required to deposit all of the tax revenue received in a Bond Year in a special fund until the amount in that special fund equals the amount due to the trustee for debt service payments due that Bond Year. The Bond Year is defined as August 2nd in any calendar year to August 1st in the following calendar year. The Agency requested and received RPTTF in ROPS 13-14B for payments due August 1, 2014. Therefore, Finance has determined that the Agency has received all debt service amounts due during the Bond Year as required by the bond indenture. Finance further determines that the amount requested on the ROPS 14-15A is not pursuant to the bond indenture and is not allowed at this time. The Agency will be eligible to receive debt service amounts for the next Bond Year beginning August 2nd with the distribution of RPTTF in the new Bond Year or January 2015.
- Item No. 28 – Torti Gallas and Partners Professional Services contract in the amount of \$69,360. Finance no longer denies this item; however we note that the total expenditure towards this item for both ROPS 13-14B and 14-15A shall not exceed \$69,360. Based on information provided by the Agency on the ROPS form, Finance previously determined that this obligation expires on June 30, 2014. During the meet and confer the Agency provided clarification that the expiration date listed on the ROPS was an estimate and that the contract itself expires when the project is complete. The Agency further explained that the final amount has not yet been invoiced and that the Agency is seeking authority to expend the funds when the invoice is actually received if not

received and paid in ROPS 13-14B. We also note that the unspent amount in each period will be reconciled through a future prior period adjustment pursuant to HSC section 34186 (a). Finally, the approval of this item does not have an effect on the administrative cost allowance.

- Item No. 38 – City Loan for Legal Services in the amount of \$71,252. Finance continues to partially deny this item. As stated in Finance's December 17, 2013 ROPS 13-14B meet and confer letter to the Agency, the Agency is permitted to receive \$3,947 in RPTTF each ROPS period to repay this City loan based on the 10-year loan agreement provided. Therefore, the Agency is permitted to receive \$3,947 in RPTTF for the ROPS 14-15A period to repay this loan; the remaining \$67,305 (\$71,252 - \$3,947) is not eligible for RPTTF funding at this time.

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 CAC and the State Controller. Any proposed CAC adjustments were not received in time for inclusion in this letter. Therefore, the amount of RPTTF approved in the table below only includes the prior period adjustment self-reported by the Agency, with the following adjustments made by Finance.

- The Agency's self-reported available RPTTF for the 13-14A period includes RPTTF distributed by the CAC in the amount of \$2,956,652 minus the Agency's negative cash balance in the amount of \$155,962. Finance determined the Agency's negative cash balance results from the Agency expending its own fund balances, without prior authorization from Finance, due to an RPTTF shortfall in the January through June 2013 (ROPS III) period. The Agency used this RPTTF to backfill the amount needed for unfunded obligations rather than obtaining a loan from the City or requesting reimbursement for the shortfall on a subsequent ROPS. The Agency is not permitted to use the RPTTF distributed from the CAC in the 13-14A period to backfill its negative fund balance. Therefore, the RPTTF amount available to fund obligations for the 13-14A period has been corrected to include the amount actually distributed by the CAC.

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 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 RPTTF distribution for the reporting period is \$148,066 as summarized below:

Total RPTTF requested for non-administrative obligations	1,704,060
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations	\$ 1,829,060
Total RPTTF requested for non-administrative obligations	1,704,060
<u>Denied Items</u>	
Item No. 2	(893,058)
Item No. 3	(342,819)
Item No. 4	(136,325)
Item No. 5	(85,525)
Item No. 38	(67,305)
	(1,525,032)
Total RPTTF authorized for non-administrative obligations	\$ 179,028
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 304,028
ROPS 13-14A prior period adjustment	(155,962)
Total RPTTF approved for distribution	\$ 148,066

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.

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Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Mike Nelson, Economic Development Manager, City of Redlands
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office