



May 16, 2014

Mr. Marc Puckett, Assistant Town Manager - Finance & Admin
Town of Apple Valley
14975 Dale Evans Parkway
Apple Valley, CA 92307

Dear Mr. Puckett:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 11, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Apple Valley 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 11, 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 May 6, 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 Nos. 6 and 14 – Supplemental Educational Revenue Augmentation Fund loans totaling \$777,273 are not allowed. Finance continues to deny these items at this time. HSC section 34191.4 (b) (2) (A) allows 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. Further, HSC section 34171 (d) (1) (G) requires the Oversight Board (OB) to approve a repayment schedule for the repayment of the amounts borrowed. However, no OB action approving the repayment schedule has been submitted. Once the OB approves the loan and loan repayment schedule, and the corresponding OB action is approved by Finance, the Agency may request funding for this item on future ROPS. Therefore, these line items are not eligible for Other Funds and Redevelopment Property Tax Trust Fund (RPTTF) funding at this time.
- Item No. 29 – Redevelopment Agency (RDA) Obligations paid via Advanced Funds in the amount of \$3,281,514. Finance continues to deny this item. The Agency provided contracts and agreements between the City of Apple Valley and third parties; however, these agreements are not enforceable obligations as defined in HSC section 34171 (d).

During the meet and confer, the Agency did not provide any additional documentation to support that these items are enforceable obligations. However, the Agency did provide

several promissory notes between the City and the former RDA dating back to 1996. The Agency requested Finance to review these loans in place of the denied City contracts. We note the loans are not related to the line item on the ROPS 14-15A. Nonetheless, based on our review, these notes are not enforceable obligations. HSC section 34171 (d) (2) states that loan agreements entered into between the RDA and the city, county, or city and county that created it are not enforceable obligations. Therefore, this item is denied and not eligible for funding.

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 items:
 - Item Nos. 7 and 16 – HELP loan from Other Funds in the amount of \$307,527.
 - Item No. 17– Personnel Services from Other Funds in the amount of \$30,870.
 - Item No. 25 – Contract Services from Other Funds in the amount of \$20,450.
 - Item No. 26 – Legal from Other Funds in the amount of \$1,503.

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, these items were 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, 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 \$945,051 as summarized in the following table:

Approved RPTTF Distribution	
For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	4,451,608
Total RPTTF requested for administrative obligations	150,463
Total RPTTF requested for obligations	\$ 4,602,071
Total RPTTF requested for non-administrative obligations	4,451,608
<u>Denied Items</u>	
Item No. 14	(375,506)
Item No. 29	(3,281,514)
	(3,657,020)
Total RPTTF authorized for non-administrative obligations	\$ 794,588
Total RPTTF requested for administrative obligations	150,463
Total RPTTF authorized for administrative obligations	\$ 150,463
Total RPTTF authorized for obligations	\$ 945,051
ROPS 13-14A prior period adjustment	0
Total RPTTF approved for distribution	\$ 945,051

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 Sues, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Orlando Acevedo, Economic Development Manager, Town of Apple Valley
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office