

November 17, 2014

Ms. Anita Agramonte, Finance Director
City of Colton
650 North La Cadena Drive
Colton, CA 92324

Dear Ms. Agramonte:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Colton Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to the California Department of Finance (Finance) on October 7, 2014 for the period of January 1 through June 30, 2015. Finance has completed its review of your ROPS 14-15B, which may have included obtaining clarification for various items.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

- Item No. 2 – 1999 Tax Allocation Bonds Debt Service Payment has been adjusted as follows. The Agency requests \$172,629; however, the debt service schedule provided shows the interest payment due on March 1, 2015 is only \$169,180. Therefore, the excess amount of \$3,447 (\$172,629 - \$169,182) is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding on this ROPS.
- Item Nos. 54 and 55 – 2005 and 2007 West Valley Project Area Loans totaling \$3,627,033. The Agency received a Finding of Completion on May 16, 2013. As such, the Agency may place loan agreements between the former redevelopment agency and sponsoring entity on the ROPS, as an enforceable obligation, provided the oversight board makes a finding the loan was for legitimate redevelopment purposes pursuant to SC 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 San Bernardino 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 \$3,412,141 and \$2,946,349, 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 \$0. Therefore, these loan repayments are not eligible for funding on this ROPS. The Agency may be eligible for funding beginning ROPS 15-16A.

Further, Finance notes that repayment of the 2005 West Valley Project Area Loan can only be made from the proceeds of the sale of two of the Agency's properties included in the Agency's Long-Range Property Management Plan (LRPMP). Therefore, repayment of this loan can only commence after the Agency's LRPMP has been approved and the identified properties have been sold.

- Item No. 57 1999 Tax Allocation Bonds Debt Service Payment has been adjusted as follows. The Agency only requested \$287,629, however, the debt service payment due is \$289,179. Therefore, with the Agency's concurrence, Finance increased the debt service payment amount by \$1,550 (\$287,629 - \$289,179).

The administrative costs claimed are within the fiscal year administrative cap pursuant to HSC section 34171 (b). However, Finance notes the oversight board has approved an amount that appears excessive, given the number and nature of the obligations listed on the ROPS. HSC section 34179 (i) requires the oversight board to exercise a fiduciary duty to the taxing entities. Therefore, Finance encourages the oversight board to apply adequate oversight when evaluating the administrative resources required to successfully wind-down the Agency.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2014 period. Based on our review of the Agency's prior period adjustment reporting, the Agency inappropriately used distributed RPTTF for non-approved ROPS items. Pursuant to HSC section 34177 (a) (3), only those payments listed in the ROPS may be made by the successor agency and only from the funds specified in the ROPS. Furthermore, pursuant to HSC section 34178 (a), the Agency or oversight board is not allowed to restore funding for an obligation that was denied by Finance.

The Agency incorrectly expended unauthorized Non-Admin RPTTF amounts totaling \$4,250 as follows:

- Item No. 8 – \$1,250
- Item No. 27 – \$3,000.

As a result of our review, Finance is hereby adjusting the prior period adjustment reported on the ROPS 14-15B form by \$4,250 to accurately reflect only those payments that were authorized by Finance on the Agency's ROPS 13-14B. The total prior period adjustment, as calculated by Finance is \$240,057.

Additionally, 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 review of the Agency's self-reported prior period adjustment, as adjusted by Finance.

Except for items denied in whole or in part, Finance is not objecting to the remaining items listed on your ROPS 14-15B. If you disagree with the determination with respect to any items on your ROPS 14-15B, 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 RPTTF distribution for the reporting period is \$4,033,849 as summarized in the Approved RPTTF Distribution Table below:

Approved RPTTF Distribution	
For the period of January through June 2015	
Total RPTTF requested for non-administrative obligations	5,704,836
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS	\$ 5,829,836
RPTTF adjustment to non-administrative obligations	1,550
RPTTF adjustment to administrative obligations	0
Total RPTTF adjustments	\$ 1,550
Total RPTTF requested for non-administrative obligations	5,706,386
<u>Denied Item</u>	
Item No. 2	(3,447)
Item No. 55	(1,554,033)
	(1,557,480)
Total RPTTF for non-administrative obligations	4,148,906
Total RPTTF authorized for non-administrative obligations	\$ 4,148,906
Total RPTTF requested for administrative obligations	125,000
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 4,273,906
Self-reported ROPS 13-14B prior period adjustment (PPA)	(235,807)
Finance adjustment to ROPS 13-14B PPA	(4,250)
Total ROPS 13-14B PPA	(240,057)
Total RPTTF approved for distribution	\$ 4,033,849

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 14-15B review, Finance requested financial records to support the cash balances reported by the Agency; however, the Agency was unable to support the amounts reported. The beginning balances for Bond Proceeds, Reserve Balances, Other Funds, and RPTTF could not be supported by the Agency's financial records. As a result, Finance will continue to work with the Agency after the ROPS 14-15B 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 15-16A.

Please refer to the ROPS 14-15B 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 January 1 through June 30, 2015. 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.

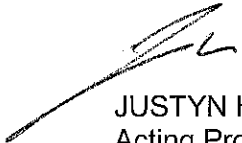
The amount available from the RPTTF is the same as the amount of property tax increment that was available prior to the enactment of ABx1 26 and AB 1484. This amount is not and never was an unlimited funding source. Therefore, as a practical matter, the ability to fund the items on the ROPS with property tax is limited to the amount of funding available to the agency in the RPTTF.

Pursuant to HSC section 34177 (a) (3), only those payments listed on an approved ROPS may be made by the successor agency from the funds specified in the ROPS. However, if for whatever reason the Agency needs to make payments for approved obligations from another funding source, HSC section 34177 (a) (4) requires the Agency to first obtain oversight board approval.

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 Nichelle Thomas, Supervisor or Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

cc: Ms. Altheia Franklin, Senior Accountant. City of Colton
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office