



December 17, 2013

Ms. Cynthia Fortune, Finance Manager
City of Grand Terrace
22795 Barton Road
Grand Terrace, CA 92313

Dear Ms. Cynthia Fortune:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 8, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Grand Terrace Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to Finance on September 26, 2013, for the period of January through June 2014. Finance issued a ROPS determination letter on November 8, 2013. 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 November 25, 2013.

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. 26 and 27 – 2011 Tax Allocation Bond A and B totaling \$1,135,033. Finance continues to deny these items. The Agency placed these items on the ROPS as a placeholder for reserves to be held in the event they received insufficient property tax to fund debt service payments. HSC section 34171 (d) (1) (A) allows 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. Further, HSC section 34183 (a) (2) specifies the priority in which property tax funds should be distributed and debt service payments hold first priority.

Based on our review of the bond indentures, we did not note any requirement to create such reserves. Additionally, based on the history of the Agency's property tax distributions, the property tax allocations have been sufficient to make the debt service payments due for these items. Therefore, these items are not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item No. 40 – Michigan Street Improvements Project in the amount of \$480,000, funded by bond proceeds. Finance continues to deny this item. This item was denied as an inclusion to the ROPS for the period January through June 2013 and July through

December 2013, which was later upheld through the Meet and Confer letters dated December 18, 2012, and May 17, 2013. HSC section 34163 (b) prohibits a redevelopment agency (RDA) from entering into a contract with any entity after June 27, 2011. It is our understanding contracts for this line item were awarded after June 27, 2011. It is also our understanding these bonds were issued after December 31, 2010; 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. Therefore, this line item is not an enforceable obligation and is not eligible for bond proceeds funding.

- Item Nos. 45 and 46 – Various Remediation Services totaling \$55,000. Finance continues to deny these items at this time. Finance initially denied these items as it was our understanding that contracts for these line items have not yet been awarded. HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011. The Agency contends that the long range property management plan (LRPMP) submitted includes properties to be sold and in order to prepare the properties for sale, these remediation services are needed. However, because the Agency's LRPMP has not been reviewed or approved, Finance cannot determine if these proposed costs will be necessary or if they are reasonable. Therefore, these line items are not enforceable obligations and are not eligible for RPTTF funding at this time.
- Item No. 47 – Taxes on Agency Property in the amount of \$12,709. Finance no longer denies this item. Finance initially denied the item as documentation provided states the City of Grand Terrace is responsible for payment. However, during the Meet and Confer process, the Agency provided the Quitclaim Deeds for the two parcels showing the Agency as the current owner of the properties. Additionally, the Agency also provided tax documents for one additional parcel in the amount of \$33,814 due January 2014. Therefore, this item is an obligation of the Agency and is eligible for RPTTF funding. Furthermore, Finance is increasing the requested RPTTF amount by \$33,814 for the additional parcel identified.
- Claimed administrative costs exceed the allowance by \$45,250. HSC section 34171 (b) limits fiscal year 2013-2014 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 \$119,750 in administrative expenses. The San Bernardino County Auditor-Controller's Office distributed \$130,250 in administrative costs for the July through December 2013 period, thus leaving a balance of \$119,750 available for the January through June 2014 period. Although \$125,000 is claimed for administrative cost, Item No. 16 – Legal Consulting in the amount of \$40,000 should be counted toward the cap since it does not fall into any of the following categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b):
 - Any litigation expenses related to assets or obligations.
 - Settlements and judgments.
 - The costs of maintaining assets prior to disposition.
 - Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs.

Therefore, \$45,250 of excess administrative cost is not allowed.

In addition, per Finance's letter dated November 8, 2013, we continue to deny the following item not contested by the Agency during the Meet and Confer process:

- Item No. 44 – Property Management Implementation Plan in the amount of \$50,000. The Agency requested \$50,000; however, based on the agreement for consulting services provided, the maximum contract amount for this item is \$12,000. Therefore, the excess, \$38,000 (\$50,000 - \$12,000) is not an enforceable obligation and is not eligible for RPTTF funding.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that are required to be used prior to requesting RPTTF. Pursuant to HSC section 34177 (I) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. With the disallowance of Item Nos. 26 and 27, Agency financial records indicate available Reserve Funds totaling \$1,135,033.

Therefore, the funding source for the following items have been reclassified to Reserve Funds and in the amounts specified below:

- Item Nos. 1 and 2 – 2011 Tax Allocation Bond Series A and B totaling \$607,491. The Agency requested \$607,491 of RPTTF; however, Finance is reclassifying \$607,491 to Reserve Funds. These items were determined to be enforceable obligations for the ROPS 13-14B period. However, these obligations do not require payment from current property tax revenues and the Agency has \$607,491 available in Reserve Funds. Therefore, Finance is approving Reserve Funds in the amount of \$607,491, and revising RPTTF to \$0, totaling \$607,491 for Items No. 1 and 2.

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. HSC Section 34186 (a) also specifies that the 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 below table 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 or for items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 13-14B. The Agency's maximum approved RPTTF distribution for the reporting period is \$302,342 as summarized on the following page:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	1,075,514
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations	\$ 1,200,514
Total RPTTF requested for non-administrative obligations	1,075,514
<u>Denied Items</u>	
Item No. 44	(38,000)
Item No. 45	(25,000)
Item No. 46	(30,000)
	(93,000)
Total RPTTF before reclassification	982,514
<u>Reclassified Items</u>	
Item No. 1	(414,098)
Item No. 2	(193,393)
Item No. 16	(40,000)
	(647,491)
Total RPTTF approved for non-administrative obligations	335,023
Total RPTTF requested for administrative obligations	125,000
<u>Reclassified Items</u>	
Item No. 16	40,000
Total RPTTF for administrative obligations	165,000
Total RPTTF allowable for administrative obligations (See Administrative Cost Cap Calculation, below)	119,750
Total RPTTF approved for obligations	454,773
ROPS III prior period adjustment	(152,431)
Total RPTTF approved for distribution	\$ 302,342
Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	1,370,283
Total RPTTF for 13-14B (January through June 2014)	935,991
Total RPTTF for fiscal year 2013-14	2,306,274
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or \$250,000)	250,000
Administrative allowance for 13-14A (July through December 2013)	130,250
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	119,750

Please refer to the ROPS 13-14B schedule that was used to calculate the approved RPTTF amount:

[http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14B Forms by Successor Agency/.](http://www.dof.ca.gov/redevelopment/ROPS/ROPS%2013-14B%20Forms%20by%20Successor%20Agency/)

This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2014. This determination applies only 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: Ms. Betsy Adams, City Manager, City of Grand Terrace
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office