



December 17, 2014

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

Dear Ms. Fortune:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 14, 2014. 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 14-15B) to Finance on October 2, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 14, 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 December 11, 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 No. 9 – Professional Services in the amount of \$20,000. Finance no longer denies this item. Finance initially denied this item because the professional consultant services agreement between the former Redevelopment Agency (RDA) and Ace Weed Abatement, Inc., dated April 12, 2011, terminated on June 30, 2014. During the Meet and Confer process, the Agency provided a new Weed Abatement Services Agreement that will be entered into with Cal Dreamscape Landscape Company for the maintenance of various properties prior to disposition. Therefore, this item is an enforceable obligation. Additionally, Finance notes that the payee of this item should be changed to Cal Dreamscape Landscape Company.
- Item No. 29 – Stater Brothers OPA in the amount of \$750,000. This item was not denied during the initial review process. During the Meet and Confer process, the Agency requested to increase this item from \$150,000 in Reserve Balances to \$411,250 in Reserve Balances due to a larger upcoming payment in ROPS 14-15B. Therefore, based on additional information provided, Finance is increasing Item No. 29 by \$261,250. As such, Item 29 is approved for a total of \$411,250 from Reserve Balances.
- Item No. 40 – 2011A Tax Allocation Bond Funded Project in the amount of \$480,000 is not allowed. Finance continues to deny this item. The Agency requests Bond Proceeds

to fund the Michigan Street Improvements Phase 2 Project. HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011. Further, HSC section 34177.3 (a) states successor agencies shall lack the authority to create new enforceable obligations. It is our understanding that contracts for these line items were awarded after June 27, 2011. In addition, the Agency is requesting the use of 2011 Tax Allocation Bond Funds for this project. HSC section 34191.4 (c) (2) (B) requires these proceeds to be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation. During the Meet and Confer process, the Agency continued to object to Finance's determination; however, additional information was not provided. Therefore, this line item is not an enforceable obligation and is not eligible for Bond Proceeds funding.

- Item No. 44 – Property Management Implementation Plan in the amount of \$25,000. Finance no longer denies this item. Finance initially denied this item because no documentation was provided to support the amount claimed. During the Meet and Confer process, the Agency provided an Agreement for Consultant Services to be entered into with Kosmont & Associates, Inc. for services related to the disposition of properties. Therefore, this item is an enforceable obligation.
- Item No. 46 – Remediation Work in the amount of \$25,000 is not allowed. Finance continues to deny this item. Finance initially denied this item as it was our understanding that contracts for this item have not yet been awarded. HSC section 34177.3 (a) states successor agencies shall lack the authority to create new enforceable obligations, unless it is in compliance with an enforceable obligation existing prior to June 28, 2011. During the Meet and Confer process, the Agency contended 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 approved, Finance cannot determine if these proposed costs will be necessary or if they are reasonable. Furthermore, the Agency did not provide any documents indicating these costs are required pursuant to an enforceable obligation existing prior to June 28, 2011. Therefore, this item is not an enforceable obligation and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should 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. The Agency provided financial records that shows available Reserve Balances totaling \$1,507,351.

During the Meet and Confer process, the Agency contended that these funds were restricted as part of the Other Funds and Accounts (OFA) Due Diligence Review (DDR) for the Economic Development Agreement with Stater Brothers Market. While Finance did not require the Agency to remit these funds to the county auditor-controller (CAC) for distribution to the affected taxing entities, Finance did not allow the Agency to retain these funds as being legally or contractually dedicated or restricted for the funding of an enforceable obligation pursuant to HSC section 34179.5 (c) (5) (D). Furthermore, the Economic Development Agreement does not require the Agency to maintain funds in a separate account for payment on the agreement. Therefore, these funds are available

for use and the funding sources for the following items have been reclassified to Reserve Balances in the amounts specified below:

- Item No. 1 – 2011 Tax Allocation Bonds. The Agency requests \$409,823 from RPTTF; however, Finance is reclassifying \$409,823 to Reserve Balances.
- Item No. 2 – 2011 Tax Allocation Bonds. The Agency requests \$184,340 from RPTTF; however, Finance is reclassifying \$184,340 to Reserve Balances.
- Item No. 3 – Trustee Fees. The Agency requests \$1,000 from RPTTF; however, Finance is reclassifying \$1,000 to Reserve Balances.
- Item No. 5 – Repayment of Debt Service. The Agency requests \$234,000 from RPTTF; however, Finance is reclassifying \$234,000 to Reserve Balances.
- Item No. 9 – Professional Services. The Agency requests \$10,000 from RPTTF; however, Finance is reclassifying \$10,000 to Reserve Balances.
- Item No. 10 – Professional Services. The Agency requests \$1,250 from RPTTF; however, Finance is reclassifying \$1,250 to Reserve Balances.
- Item No. 16 – Professional Services. The Agency requests \$12,000 from RPTTF; however, Finance is reclassifying \$12,000 to Reserve Balances.
- Item No. 31 – Professional Services. The Agency requests \$80,000, from RPTTF; however, Finance is reclassifying \$80,000 to Reserve Balances.
- Item No. 32 – Professional Services. The Agency requests \$13,000 from RPTTF; however, Finance is reclassifying \$13,000 to Reserve Balances.
- Item No. 33 – Professional Services. The Agency requests \$9,500 from RPTTF; however, Finance is reclassifying \$9,500 to Reserve Balances.
- Item No. 34 – Professional Services. The Agency requests \$3,000 from RPTTF; however, Finance is reclassifying \$3,000 to Reserve Balances.
- Item No. 36 – Professional Services. The Agency requests \$5,000 from RPTTF; however, Finance is reclassifying \$5,000 to Reserve Balances.
- Item No. 38 – Professional Services. The Agency requests \$2,500 from RPTTF; however, Finance is reclassifying \$2,500 to Reserve Balances.
- Item No. 44 – Property Management Implementation Plan. The Agency requests \$25,000 from RPTTF; however, Finance is reclassifying \$25,000 to Reserve Balances.

These items are enforceable obligations for the ROPS 14-15B period. However, the obligations do not require payment from property tax revenues and the Agency has \$1,507,351 in available Reserve Balances. Therefore, Finance is approving \$990,413 in Reserve Balances for these obligations.

- 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. The amount of RPTTF approved in the table below reflects the prior period adjustment self-reported by the Agency. HSC section 34186 (a) also specifies prior period adjustments self-reported by successor agencies are subject to review by CAC and the State Controller. Proposed CAC adjustments were not received in time for inclusion in this letter; therefore, the amount of RPTTF approved in the table below only reflects the prior period adjustment self-reported by the Agency.

The amount of RPTTF approved in the table above includes excess prior period adjustment funds in the amount of \$78,820. The current approved RPTTF is insufficient to allow for the prior period adjustments of \$78,820 during this ROPS period. The Agency should apply the remaining funds prior to requesting RPTTF on future ROPS.

During the Meet and Confer process, the Agency contended that since the Reserve Balances items were being reclassified to in the preceding section were restricted, these funds would be needed to fund ROPS 14-15B obligations. However, Finance has determined that the Reserve Balances are not restricted and the excess prior period adjustment in the amount of \$78,820 should be applied to items prior to requesting RPTTF on future ROPS.

Except for items denied in whole or in part or items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15B. The Agency's maximum approved RPTTF distribution for the reporting period is \$0 as summarized in the Approved RPTTF Distribution Table on the following page:

| Approved RPTTF Distribution | |
|------------------------------------------------------------------|---------------------|
| For the period of January through June 2015 | |
| Total RPTTF requested for non-administrative obligations | 890,413 |
| Total RPTTF requested for administrative obligations | 125,000 |
| Total RPTTF requested for obligations on ROPS | \$ 1,015,413 |
| Total RPTTF requested for non-administrative obligations | 890,413 |
| <u>Denied Item</u> | |
| Item No. 46 | (25,000) |
| | (25,000) |
| Total RPTTF for non-administrative obligations | 865,413 |
| <u>Cash Balances - Items reclassified to Reserve Balances</u> | |
| Item No. 1 | (409,823) |
| Item No. 2 | (184,340) |
| Item No. 3 | (1,000) |
| Item No. 5 | (234,000) |
| Item No. 9 | (10,000) |
| Item No. 10 | (1,250) |
| Item No. 44 | (25,000) |
| | (865,413) |
| Total RPTTF authorized for non-administrative obligations | 0 |
| Total RPTTF requested for administrative obligations | 125,000 |
| <u>Reclassified Items</u> | |
| Item No. 16 | (12,000) |
| Item No. 31 | (80,000) |
| Item No. 32 | (13,000) |
| Item No. 33 | (9,500) |
| Item No. 34 | (3,000) |
| Item No. 36 | (5,000) |
| Item No. 38 | (2,500) |
| | (125,000) |
| Total RPTTF authorized for administrative obligations | 0 |
| Total RPTTF authorized for obligations | \$0 |
| ROPS 13-14B prior period adjustment | (78,820) |
| Excess PPA | 78,820 |
| Total RPTTF approved for distribution | \$0 |

Please refer to the ROPS 14-15B 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 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 Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

cc: Mr. Kenneth J. Henderson, Interim City Manager, City of Grand Terrace
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office