

May 16, 2014

Ms. Diana De Anda, Finance Director
City of Loma Linda
25541 Barton Road
Loma Linda, CA 92354

Dear Ms. De Anda:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 15, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Loma Linda Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on March 3, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 15, 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 30, 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 Nos. 15, and 28 through 32 – City of Loma Linda Loans totaling \$23,949,755. Finance continues to deny these City loans. We note that the Agency did not provide any additional information or documentation for these items during the meet and confer. Therefore, as previously determined, pursuant to HSC section 34171 (d) (2), loan agreements entered into between the redevelopment agency (RDA) and the city, county, or city and county that created it, within two years of the date of creation of the RDA, may be deemed to be enforceable obligations. This loan agreement was entered into in 1979, within the first two years of the date of creation; however, various advances or loans were made from 1999 through 2010, which is after the first two years of creation. Furthermore, the agreement does not specify dollar amounts to be loaned or advanced or specific repayment terms.

Finance has not issued a Finding of Completion (FOC) to the Agency; therefore, the provisions of HSC section 34171 apply. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable obligations. Additionally, Finance denied this obligation as an inclusion to the ROPS for the period January through June 2014 as determined in the letter dated December 17, 2013. Therefore, these line items are not enforceable obligations and are not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

Upon receiving a FOC from Finance, and after the oversight board makes a finding the loans were for legitimate redevelopment purposes, HSC section 34191.4 (b) may cause this item to be enforceable in future ROPS periods.

- Item Nos. 16, 33 through 35, 37 and 38 – City Lease Revenue Refunding Bonds totaling \$2,241,341. Finance continues to deny these items. We note that the Agency did not provide any additional information or documentation for these items during the meet and confer. Therefore, as previously determined, this bond is secured by revenues consisting primarily of lease payments to be made by the City to the Loma Linda Public Financing Authority. There is no requirement for the Agency to fund this bond through tax increment. However, this item is approved for funding from Other Funds; specifically, the lease payments made by the City. Additionally, Finance denied this obligation as an inclusion to the ROPS for the period July through December 2013 and January through June 2014, upheld through the Meet and Confer process in our letters dated May 17, 2013 and December 17, 2013. Therefore, these items are not eligible for RPTTF funding.
- Item Nos. 17 through 20 – Debt service payments totaling \$735,000 for payments due during the January through June 2015 period. Finance continues to deny these items. According to the bond indentures, the bonds have a first lien on all tax revenues in a bond year. The bond year is defined as July 2nd through July 1st of the following year. The Agency's next debt service payment this bond year is due to the trustee five days before the actual due date of the debt service payment on January 1, 2015. The amount for this payment was approved as Items 1 through 4 on this ROPS. HSC section 34171 (d) (1) (A) only allows successor agencies to hold a reserve for debt service payments when required by the 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. Finance has determined the request for bond reserves at this time is not pursuant to the bond indenture and is therefore not permitted.
- Item No. 39 – Housing Entity Administrative Cost Allowance in the amount of \$750,000. Finance continues to deny this item. Finance denied this item because pursuant to HSC section 34171 (p), the housing entity administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the redevelopment agency (RDA) elected to not assume the housing functions. Because the housing entity to the former RDA of the City of Loma Linda (City) is the City-formed Housing Authority (Authority), and the Authority operates under the control of the City, the Authority is considered the City under Dissolution Law (ABx1 26 and AB 1484).

The Agency contends that the City elected not to retain the housing functions, but rather the housing functions were assigned to the Authority, as a separate public entity from the City, pursuant to HSC section 34176 (b) and should therefore be eligible for the housing entity administrative allowance. However, pursuant to HSC section 34167.10 (a), the definition of "city" includes, but is not limited to, any reporting entity of the city for purposes of its comprehensive annual financial report (CAFR), any component unit of the city, or any entity controlled by the city or for which the city is financially responsible or accountable. HSC section 34167.10 (a) defines "city" for purposes of all of Dissolution Law, which includes HSC section 34171, as amended by AB 471, and HSC section 34176. The Authority is included in the City's CAFR, which

identifies the Authority as a component unit of the City and states that the City is financially accountable for the component units.

Although the Authority is a separate legal entity from the City, HSC section 34167.10 (c) states that it shall not be relevant that the entity is formed as a separate legal entity. It should also be noted that HSC section 34167.10 (c) goes on to state that "The provisions of this section are declarative of existing law as the entities described herein are and were intended to be included within the requirements of this part [Part 1.8] and Part 1.85...and any attempt to determine otherwise would thwart the intent of these two parts." Therefore, based on our review, the City, by way of the Authority, elected to retain the housing functions pursuant to HSC section 34176 (a) and is not eligible for \$75,000 of housing entity administrative allowance.

In addition, per Finance's letter dated April 15, 2014, we continue to deny the following items not contested by the Agency during the Meet and Confer:

- Item No. 5 – Anixter Participation Agreement in the amount of \$89,891. The Agency submitted documentation which displays Reserve Balances totaling \$70,110 retained from the Reserve Balances authorized for this item in the January through June 2014 (ROPS 13-14B) period. However, the Agency erred in the amount requested for this obligation. Therefore, with the Agency's concurrence, Finance has adjusted the requested amount by \$19,781, approving the use of Reserve Balances in the amount of \$70,110 (\$89,891-\$19,781).

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting Redevelopment Property Tax Trust Fund (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 displayed available Other Funds totaling \$1,689.

Therefore, with the Agency's concurrence, the funding source for the following item has been reclassified to Other Funds and in the amount specified below:

- Item No. 4 – Housing Tax Allocation Bond debt service payment in the amount of \$345,544. The Agency requests \$345,544 of RPTTF; however Finance is reclassifying \$1,689 to Other Funds. This item is an enforceable obligation for the ROPS 14-15A period. Therefore, Finance is approving RPTTF in the amount of \$343,855 and the use of Other Funds in the amount of \$1,689, totaling \$345,544.

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 item:
 - Item No. 4 – 2008 Housing Tax Allocation Bond debt service from Other Funds in the amount of \$16,054.

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, the item was 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 or for the item that have been reclassified, 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 \$1,187,971 as summarized below:

| Approved RPTTF Distribution | |
|---|---------------------|
| For the period of July through December 2014 | |
| Total RPTTF requested for non-administrative obligations | 7,377,837 |
| Total RPTTF requested for administrative obligations | 125,000 |
| Total RPTTF requested for obligations | \$ 7,502,837 |
| Total RPTTF requested for non-administrative obligations | 7,377,837 |
| <u>Denied Items</u> | |
| Item No. 15 | (718,378) |
| Item No. 16 | (174,650) |
| Item No. 17 | (290,000) |
| Item No. 18 | (67,500) |
| Item No. 19 | (235,000) |
| Item No. 20 | (142,500) |
| Item No. 28 | (753,213) |
| Item No. 29 | (722,388) |
| Item No. 30 | (721,281) |
| Item No. 31 | (720,175) |
| Item No. 32 | (719,276) |
| Item No. 33 | (174,650) |
| Item No. 34 | (174,650) |
| Item No. 35 | (174,650) |
| Item No. 37 | (174,650) |
| Item No. 38 | (174,650) |
| Item No. 39 | (150,000) |
| | (6,287,611) |
| Total RPTTF for non-administrative obligations | 1,090,226 |
| <u>Cash Balances - Item reclassified to other funding sources</u> | |
| Item No. 4 | (1,689) |
| | (1,689) |
| Total RPTTF authorized for non-administrative obligations | \$ 1,088,537 |
| Total RPTTF authorized for administrative obligations | \$ 125,000 |
| Total RPTTF authorized for obligations | \$ 1,213,537 |
| ROPS 13-14A prior period adjustment | (25,566) |
| Total RPTTF approved for distribution | \$ 1,187,971 |

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

Ms. Diana De Anda

May 16, 2014

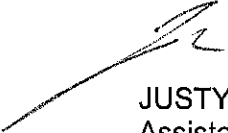
Page 6

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 Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD

Assistant Program Budget Manager

cc: Ms. Diane Hadland, DHA Consulting, City of Loma Linda
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office