



October 7, 2012

Mr. Richard Warne, City Manager
Twentynine Palms Successor Agency
6136 Adobe Road
Twentynine Palms, CA 92277

Dear Mr. Warne:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the Twentynine Palms Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 23, 2012 for the period of January through June 2013. Finance has completed its review of your ROPS III, which may have included obtaining clarification for various items. Our review disclosed the improper transfer of the Agency's bond proceeds as follows:

Item Nos. 1 and 2 – 2011 Tax Allocation Bonds Series A and B totaling \$30.4 million. The Series A and B Bonds were issued to fund Project Phoenix. Although principal and interest payments due on those bonds are enforceable, the transfer of bond proceeds without an enforceable obligation is unallowable.

It is our understanding that in May 2012 the Agency transferred the bond proceeds and spending authority to the City of Twentynine Palms (City) to allow Project Phoenix to go forward. On April 27, 2012, Finance issued a letter to inform the Agency about our review results of the Agency's ROPS for the periods January through June 2012 and July through December 2012. In our letter, Finance denied Project Phoenix, totaling \$11.6 million bond proceeds because there were no contracts in place prior to June 28, 2011. HSC section 34177.3 (c) prohibits the successor agency from transferring revenues or powers to any other public entity except pursuant to enforceable obligation on an approved ROPS. Any such transfers of authority or revenues are "void". Therefore, the Agency is required to reverse the improper transfer and recover the bond funds from the City.

As authorized in HSC section 34177.3 (c), the State Controller may audit any transfer of authority or revenues prohibited and may order the prompt return of any money from the receiving party.

Please further be advised that pursuant to HSC section 31479.6 (h)(1)(A), Finance could request the Board of Equalization and the county auditor-controller to offset the sales and use tax and property tax allocations, respectively, to the City, if the Agency fails to recover the bond funds from the City.

Furthermore, the following item was reclassified as administrative cost: Item 3 – Agreed Upon Procedures Audit in the amount of 10,000. Although this reclassification increased administrative costs to \$135,000, the administrative cost allowance has not been exceeded.

Except as noted above, Finance is approving all items listed in your ROPS III at this time. If you disagree with the determination with respect to your ROPS III, 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 Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$786,273 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 661,273
Less: Six-month total for item reclassified as administrative cost Item No. 3	\$ 10,000
Total approved RPTTF for enforceable obligations	\$ 651,273
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	\$ 135,000
Total RPTTF approved:	\$ 786,273

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS III form the estimated obligations and actual payments associated with the January through June 2012 period. The amount of RPTTF approved in the above table will be adjusted by the county auditor-controller to account for differences between actual payments and past estimated obligations. Additionally, these estimates and accounts are subject to audit by the county auditor-controller and the State Controller.

Please refer to the ROPS III schedule that was used to calculate the approved RPTTF amount:

<http://www.dof.ca.gov/redevelopment/ROPS/ROPS III Forms by Successor Agency/>.

All items listed on a future ROPS are subject to a subsequent review. An item included on a future ROPS may be denied even if it was not questioned from the preceding ROPS.

The amount available from the RPTTF is the same as the 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.

Mr. Richard Warne
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Please direct inquiries to Nichelle Thomas, Supervisor or Susana Medina Jackson, Lead Analyst at (916) 445-1546.

Sincerely,

A handwritten signature in black ink, appearing to read 'Steve Szalay', with a long horizontal stroke extending to the left.

STEVE SZALAY
Local Government Consultant

cc: Mr. Ron Peck, Finance Director, City of Twentynine Palms
Ms. Vanessa Doyle, Auditor Controller Manager, San Bernardino County