



December 17, 2015

Ms. Sophie L. Smith, Economic Development Division Head
City of Victorville
14343 Civic Drive
Victorville, CA 92392

Dear Ms. Smith:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 10, 2015. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Victorville Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16B) to Finance on September 29, 2015, for the period of January 1 through June 30, 2016. Finance issued a ROPS determination letter on November 10, 2015. Subsequently, the Agency requested a Meet and Confer session on one or more of the determinations made by Finance. The Meet and Confer session was held on November 30, 2015.

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 determinations being disputed.

- Item Nos. 7 and 8 – Foxborough Rail Property Maintenance Costs totaling \$105,400 for ROPS 15-16B and total outstanding obligation in the amount of \$4,489,805 are not allowed. During the Meet and Confer, the Agency claimed it is responsible for railroad track maintenance and repairs for railroad tracks that lie on land owned by the City of Victorville (City). However, the Agency has no interest in the property and no right to enter the property to conduct, or cause to be conducted, any track maintenance and repairs for the railroad tracks. Any agreement between the City and the Agency for this purpose would be prohibited and invalid under RDA Dissolution law.

The Agency further claimed that the Industry Track Agreement (Agreement) between the former redevelopment agency (RDA) and Burlington Northern and Santa Fe Railway Company remains an enforceable obligation despite the City's ownership of the underlying property. However, we find that the Agreement is not an enforceable obligation as it violates public policy and RDA Dissolution law as it appears to continue in perpetuity. More specifically, per Section 3 of the Agreement, the term of the Agreement began one month after its date and automatically continues until terminated by either party providing a 30-day notice to the other party; there is no other defined end date for the contract. HSC section 34177 (h) requires the Agency to expeditiously wind down the affairs of the RDA and HSC section 34177 (e) requires the Agency to dispose

of assets expeditiously and in a manner aimed at maximizing value. The continuation of the Agreement by the City and Agency for the purpose of maintaining property now owned by the City, utilizing funds that would otherwise be distributed to the affected taxing entities, runs contrary to the public policy and purpose of the RDA Dissolution law.

We note that to the extent the City, as owner of the property, wishes to continue the Agreement, Section 12 of the Agreement allows the Agency to assign the Agreement to the City as opposed to terminating the Agreement. As a result, Finance has determined that funding for these line items is no longer necessary, and this item is not eligible for Redevelopment Property Tax Trust Funds (RPTTF).

- Item No. 48 – Unfunded Redevelopment Agency (RDA) Employee Liabilities in the amount of \$249,494. Finance no longer denies this item. This obligation is in relation to accrued sick leave and vacation benefits of former RDA employees. The Agency provided documentation to demonstrate the amount of sick leave and vacation benefits that had been accrued by former RDA employees at the time of its dissolution. Therefore, this item is an enforceable obligation and is eligible for RPTTF funding. Upon payment of the \$249,949 obligation, this item should be retired on the future ROPS.

In addition, per Finance's letter dated November 10, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

Finance notes the Agency made significant changes to the payee with regards to Item No. 20. Therefore, the Agency should retire Item No. 20 and create a new line item as Item No. 49 to reflect the changes to the item.

Pursuant to HSC section 34186 (a) (1), the Agency was required to report on the ROPS 15-16B form the estimated obligations versus actual payments (prior period adjustment) associated with the January through June 2015 period (ROPS 14-15B). HSC section 34186 (a) (1) also specifies the prior period adjustment self-reported by the Agency is subject to review by the county auditor-controller (CAC). Proposed CAC adjustments were not received in time for inclusion in this letter; therefore, the amount of Redevelopment Property Tax Trust Fund (RPTTF) approved in the table below only reflects the Agency's self-reported prior period adjustment, as adjusted by Finance.

During our review of Agency's self-reported prior period adjustment, Finance noted the Agency reported incorrect amounts of Available RPTTF for the ROPS 14-15B. The Agency reported Available RPTTF in the amount of \$3,871,134 for enforceable obligations and \$163,842 for administrative expenses, for a total of \$4,034,976. However, the Agency received RPTTF in the amount of \$3,871,134 by the CAC. The Agency also had a \$1,098,530 prior period adjustment from the ROPS 13-14B period, for total Available RPTTF in the amount of \$4,969,664.

The Agency reported Actual RPTTF expenditures for enforceable obligations and administrative expenses in the amount of \$4,835,475. In addition, the Agency exceeded the authorized amount of RPTTF for Item No. 3 in the amount of \$5,252. To the extent the Agency exceeds the RPTTF amount authorized on any item, the amount of the over-expenditure does not offset the prior period adjustment. Therefore, the Agency has \$139,441 in remaining RPTTF that should be used as a prior period adjustment during the ROPS 15-16B period.

In addition, Finance noted the Agency's expenditures exceeded Finance's authorization for the following items:

- Other Funds totaling \$40,914 – Item No. 12, \$12,486; Item No. 13, \$12,382; Item No. 14, \$1,665; and Item No. 27, \$14,381.

Per HSC section 34177 (a) (3), only those payments listed on a ROPS may be made by the Agency from the funds specified on the ROPS up to the amount authorized by Finance. HSC sections 34177 (a) (4) and 34173 (h) (1) 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 the items denied in whole or in part, Finance is not objecting to the remaining items listed on your ROPS 15-16B. The Agency's maximum approved RPTTF distribution for the reporting period is \$6,290,600 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution For the period of January through June 2016	
Total RPTTF requested for non-administrative obligations	6,285,441
Total RPTTF requested for administrative obligations	250,000
Total RPTTF requested for obligations on ROPS 15-16B	\$ 6,535,441
Total RPTTF requested for non-administrative obligations	6,285,441
<u>Denied Item</u>	
Item No. 7	(5,400)
Item No. 8	(100,000)
	(105,400)
Total RPTTF authorized for non-administrative obligations	\$ 6,180,041
Total RPTTF requested for administrative obligations	250,000
Total RPTTF authorized for administrative obligations	\$ 250,000
Total RPTTF authorized for obligations	\$ 6,430,041
Self-reported ROPS 14-15B prior period adjustment (PPA)	(46,784)
Finance adjustment to ROPS 14-15B PPA	(92,657)
Total ROPS 14-15B PPA	(139,441)
Total RPTTF approved for distribution	\$ 6,290,600

On the ROPS 15-16B form, the Agency reported cash balances and activity for the period January 1 through December 31, 2015. Finance will perform a review of the Agency's self-reported cash balances on an ongoing basis. Please be prepared to submit financial records and bridging documents to support the cash balances reported upon request. If it is determined the Agency possesses cash balances that are available to pay approved obligations, HSC section 34177 (l) (1) (E) requires these balances be used prior to requesting RPTTF.

Please refer to the ROPS 15-16B schedule used to calculate the total RPTTF approved for distribution:

<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, 2016. This determination only applies to items when 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 ROPS periods. All items listed on a future ROPS are subject to review and may be denied even if it was not denied on this ROPS or a preceding ROPS. The only exception is for items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). Finance's review of Final and Conclusive items 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 available prior to the enactment of the redevelopment dissolution statutes. 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.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-3274.

Sincerely,



JUSTYN HOWARD
Program Budget Manager

cc: Mr. Keith C. Metzler, Assistant City Manager, City of Victorville
Ms. Linda Santillano, Property Tax Manager, San Bernardino County