



December 17, 2014

Ms. Tina Kundig, Director of Finance  
City of Redlands  
P.O. Box 3005  
Redlands, CA 92373

Dear Ms. Kundig:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 3, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Redlands Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on September 19, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 3, 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 November 17, 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. 3 – 1998 A Tax Allocation Refunding Bonds is an enforceable obligation, however, the requested debt-service payment of \$2,149,725 was increased by \$35,912 to \$2,185,637. Finance maintains this adjustment is necessary as explained below.
- Item No. 4 – 2003 A Tax Allocation Refunding Bonds is an enforceable obligation, however, the requested debt-service payment of \$928,781 is increased by \$13,869 to \$942,650. Finance adjusted the previous determination as further explained below.
- Item No. 5 – 2007 A Tax Allocation Bonds is an enforceable obligation, however, the requested debt-service payment of \$462,322 was increased by \$8,727 to \$471,049. Finance maintains this adjustment is necessary as explained below.

Pursuant to HSC section 34171 (d) (2) (A), a reserve for debt service may for be held for a future payment when required by the bond indenture. The bond indentures provided by the Agency for the 1998 A and 2003 A Tax Allocation Refunding Bonds and the 2007 Tax Allocation Bonds state that these bonds have a first lien on the tax revenues. As such, the Agency must set aside all tax revenues received in the Bond Year until such

time as the amount is equal to the amount required for the debt service due in that Bond Year. The Bond Year is defined as the day immediately following August 1 in any calendar year to August 1 of the next following calendar year. Based on the bond indentures, Finance has determined that the first tax revenues available to the Agency in the current Bond Year is the January 2 Redevelopment Property Tax Trust Fund (RPTTF) distribution. Therefore, for the ROPS 14-15B, the Agency is eligible to receive RPTTF for its interest payments due February 1, 2015 and its principal and interest payments due August 1, 2015, as presented in the table below. We note that the amounts in the table were obtained from the debt service schedules provided by the Agency.

Bond Issuance	February 1, 2015 Payment	August 1, 2015 Payment	Total Annual Payment
1998 A Tax Allocation Refunding Bonds	\$342,818	\$1,842,819	\$2,185,637
2003 A Tax Allocation Refunding Bonds	\$136,325	\$806,325	\$942,650
2007 Tax Allocation Bonds	\$85,524	\$385,525	\$471,049

- Item No. 38 – Loan for Legal Services in the amount of \$67,404. Finance now approves this item. The Agency was previously only permitted to receive \$3,947 in RPTTF funding for the ROPS 14-15B period. As stated in Finance’s December 17, 2013 ROPS 13-14B and May 17, 2014 ROPS 14-15B letters to the Agency, the Agency was permitted to receive \$3,947 in RPTTF each ROPS period to repay this City loan based on the 10-year loan agreement provided. Additional new information provided by the Agency during the meet and confer indicates that the Agency may receive the amount requested to pay the amount of the loan in full. Therefore, the amount requested or \$67,404 is approved for RPTTF funding.
- Item No. 39 – Housing Entity Administrative Costs in the amount of \$150,000 is not allowed at this time. Finance continues to deny this item at this time. Based on OB Resolution No. OB 2012-008 and Resolution No. 7111 of the City Council of the City of Redlands, the Agency elected to decline housing responsibilities. However, the Agency and the housing successor have not submitted a Housing Asset Transfer form (HAT) or any Oversight Board actions for Finance’s review demonstrating a transfer of asset(s) was contemplated or has occurred; therefore, we are unable to confirm the number, nature, and transfer of, housing assets by the Agency to the housing successor. To the extent the Agency can provide documentation to support the transfer of housing assets, such as an OB approved HAT form to Finance, subject to review and approval, the Agency may be able to obtain RPTTF funding on future ROPS for housing administration costs payable to the housing successor.

In addition, per Finance’s letter dated November 3, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 2 – City of Redlands (City) loan for enforceable obligations repayment is partially approved. The loan payment of \$2,866,102 is being reduced by \$5,311 to \$2,860,791. The \$5,311 represents the interest portion anticipated to be earned on the outstanding obligation from January through June 2015. To the extent any outstanding balance remains unpaid between January through June 30, 2015, the associated interest and the principal outstanding should be listed on a subsequent ROPS. Therefore, \$5,311 is not eligible for RPTTF funding on this ROPS.

- Item Nos. 22 and 23 – Employee/Administrative Costs totaling \$26,986 are denied. It is our understanding the cumulative fiscal year 2014-2015 budget for these line items is \$25,986. During ROPS 14-15A, the Agency requested, and Finance approved, a total of \$26,986 for these obligations. Therefore, with the Agency's consent, these items are not eligible for RPTTF funding on this ROPS.

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 (l) (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 Reserve Balances totaling \$2,004,422.

Therefore, with the Agency's concurrence, the funding source for the following item has been reclassified to Reserve Balances:

- Item No. 3 – 1998 A Tax Allocation Refunding Bonds. The Agency requests \$2,185,637 from RPTTF; however, Finance is reclassifying \$2,004,422 to Reserve Balances. This item is an enforceable obligation for the ROPS 14-15B period. However, the obligation does not require payment from property tax revenues and the Agency has \$2,004,422 in available Reserve Balances. Therefore, Finance is approving RPTTF in the amount of \$181,215 and the use of Reserve Balances in the amount of \$2,004,422, totaling \$2,860,791.

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 audit by the county auditor-controller (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.

In addition, Finance noted the following during our review:

- On the ROPS 13-14B Prior Period Adjustment worksheet, the Agency's expenditures exceeded Finance's authorization for the following items:
  - Reserve Balances totaling \$619,810 – Item No. 3, \$377,181; Item No. 4, \$148,959; and Item No. 5, \$93,670.
  - Other Funding totaling \$4,353 – Item No 16, \$200; Item No. 17, \$3,910; and Item No. 19, \$243.

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, these items were determined to be enforceable obligations for the ROPS 14-15B period. Therefore, Finance is increasing the Agency's authorization for the ROPS 14-15B period to ensure that authorization is consistent with expenditures for the approved enforceable obligations. As these Reserve Balances and Other Funds were previously expended, the increase in authorization should

not result in increased expenditures for the current ROPS period, 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 the items denied in whole or in part or for the item that has 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 \$4,577,811 as summarized in the Approved RPTTF Distribution Table below:

<b>Approved RPTTF Distribution</b>	
<b>For the period of January through June 2015</b>	
Total RPTTF requested for non-administrative obligations	6,663,770
Total RPTTF requested for administrative obligations	125,000
<b>Total RPTTF requested for obligations on ROPS</b>	<b>\$ 6,788,770</b>
RPTTF adjustment to non-administrative obligations	58,508
<b>Total RPTTF adjustments</b>	<b>\$ 58,508</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>6,722,278</b>
<u>Denied Items</u>	
Item No. 2	(5,311)
Item No. 22	(16,986)
Item No. 23	(10,000)
Item No. 39	(150,000)
	(182,297)
<b>Total RPTTF non-administrative obligations</b>	<b>6,539,981</b>
<u>Cash Balances - Item reclassified to other funding sources</u>	
Item No. 3	(2,004,422)
<b>Total RPTTF authorized for non-administrative obligations</b>	<b>\$ 4,535,559</b>
<b>Total RPTTF requested for administrative obligations</b>	<b>125,000</b>
<b>Total RPTTF authorized for administrative obligations</b>	<b>\$ 125,000</b>
<b>Total RPTTF authorized for obligations</b>	<b>\$ 4,660,559</b>
ROPS 13-14B prior period adjustment	(82,748)
<b>Total RPTTF approved for distribution</b>	<b>\$ 4,577,811</b>

Pursuant to HSC section 34177 (l) (1) (E), agencies are required to use all available funding sources prior to RPTTF for payment of enforceable obligations. During the ROPS 14-15B review, Finance requested financial records to support the cash balances reported by the Agency. The Agency was able to support the amounts reported except beginning balance of the bond related funds and the ROPS 13-14 prior period adjustment excluded from the report. Therefore, as noted, Finance has reclassified the available cash balance of \$2,004,422 that was supported by the Agency's records. Finance will continue to work with the Agency after the ROPS 14-15B review period to resolve any remaining issues as described above. If it is determined the Agency possesses additional cash balances that are available to pay approved obligations, the Agency should request the use of these cash balances prior to requesting RPTTF in ROPS 15-16A.

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

Sincerely,



JUSTYN HOWARD  
Acting Program Budget Manager

cc: Mr. Mike Nelson, Economic Development Manager, City of Redlands  
Ms. Linda Santillano, Property Tax Manager, San Bernardino County  
California State Controller's Office