



March 18, 2013

Mr. Otis Ginoza, Deputy City Manager  
City of Lawndale  
14717 Burin Avenue  
Lawndale, CA 90260

Dear Mr. Ginoza:

Subject: Other Funds and Accounts Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Lawndale successor agency (Agency) submitted an oversight board approved Other Funds and Accounts (OFA) Due Diligence Review (DDR) to the California Department of Finance (Finance) on January 10, 2013. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Pursuant to HSC section 34179.6 (d), Finance has completed its review of your DDR, which may have included obtaining clarification for various items.

HSC section 34179.6 (d) authorizes Finance to adjust the DDR's stated balance of OFA available for distribution to the taxing entities. Based on our review of your DDR, the following adjustments were made:

- Cash transfers to the City of Lawndale on March 7, 2011 totaling \$6 million are denied. Per the amended and restated financing agreement dated March 7, 2011, the City Council and Agency authorized debt repayment of up to \$6 million to the City before the end of the fiscal year due to the abolishment of redevelopment agencies (RDA). They cite the uncertainty of the Agency's debt and, therefore, accelerated loan payments on four loans with the City. HSC section 34171 (d) (2) states agreements, contracts, or arrangements between the city, county, or city and county that created the redevelopment agency (RDA) and the former RDA are not enforceable obligations.

To protect assets of the former RDAs, HSC section 34167.5 gives the California State Controller's Office (Controller) the authority to claw back assets that were inappropriately transferred to the city, county, or any other public agency after January 1, 2011. In addition, HSC section 34179.6 (d) authorizes Finance to adjust the DDR in order to protect balances due to the affected taxing entities. As such, the amount available for distribution to taxing entities will be adjusted by \$6 million.

After the Agency receives a Finding of Completion from Finance, these loans may become enforceable and eligible to be repaid through the Recognized Obligation Payment Schedule (ROPS) process.

- Balances requested to be retained for fiscal year 2012-13 in the amount of \$2.1 million is partially denied. Included in this amount is \$680,079 of January through June 2013 Recognized Obligation Payment Schedule (ROPS III) expenditures that were approved with Redevelopment Property Tax Trust Fund (RPTTF) funding. Since the County Auditor Controller distributed RPTTF for approved ROPS III obligations on January 2, 2013, after the June 30, 2012 OFA balances delineated in the DDR, it is inappropriate for the Agency to retain current OFA balances for obligations that have already been funded through a separate process. Therefore, the OFA balances available for distribution to the taxing entities will be adjusted by \$680,079.

If you disagree with Finance’s adjusted amount of OFA balances available for distribution to the taxing entities, 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/](http://www.dof.ca.gov/redevelopment/meet_and_confer/)

The Agency’s OFA balance available for distribution to the affected taxing entities is \$3,867,380 (see table below).

<b>OFA Balances Available For Distribution To Taxing Entities</b>	
Available Balance per DDR:	\$ (2,812,699)
Finance Adjustments	
Add:	
Disallowed transfers:	\$ 6,000,000
Requested retained balance not supported:	680,079
<b>Total OFA available to be distributed:</b>	<b>\$ 3,867,380</b>

Absent a Meet and Confer request, HSC section 34179.6 (f) requires successor agencies to transmit to the county auditor-controller the amount of funds identified in the above table within five working days, plus any interest those sums accumulated while in the possession of the recipient. Upon submission of payment, it is requested you provide proof of payment to Finance within five business days.

If funds identified for transmission are in the possession of the successor agency, and if the successor agency is operated by the city or county that created the former redevelopment agency, then failure to transmit the identified funds may result in offsets to the city’s or the county’s sales and use tax allocation, as well as its property tax allocation. If funds identified for transmission are in the possession of another taxing entity, the successor agency is required to take diligent efforts to recover such funds. A failure to recover and remit those funds may result in offsets to the other taxing entity’s sales and use tax allocation or to its property tax allocation. If funds identified for transmission are in the possession of a private entity, HSC 34179.6 (h) (1) (B) states that any remittance related to unallowable transfers to a private party may also be subject to a 10 percent penalty if not remitted within 60 days.

Failure to transmit the identified funds will also prevent the Agency from being able to receive a finding of completion from Finance. Without a finding of completion, the Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4. Specifically, these provisions allow certain loan agreements between the former redevelopment agency (RDA) and the city, county, or city and county that created the RDA to be considered enforceable obligations. These provisions also allow certain bond proceeds to be used for the purposes in

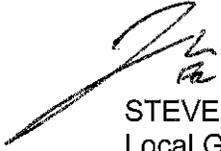
which they were sold and allows for the transfer of real property and interests into the Community Redevelopment Property Trust Fund once Finance approves the Agency's long-range property management plan.

In addition to the consequences above, willful failure to return assets that were deemed an unallowable transfer or failure to remit the funds identified above could expose certain individuals to criminal penalties under existing law.

Pursuant to HSC section 34167.5 and 34178.8, the California State Controller's Office (Controller) has the authority to claw back assets that were inappropriately transferred to the city, county, or any other public agency. Determinations outlined in this letter do not in any way eliminate the Controller's authority.

Please direct inquiries to Kylie Le, Supervisor or Brian Dunham, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY  
Local Government Consultant

cc: Mr. Wayne Schaller, Accounting Manager, City of Lawndale  
Ms. Kristina Burns, Manager, Los Angeles County Auditor-Controller's Office  
California State Controller's Office