



December 17, 2013

Mr. Vilko Domic, Director of Finance / City Treasurer
City of Commerce
2535 Commerce Way
Commerce, CA 90040

Dear Mr. Domic:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 14, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Commerce Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to Finance on September 30, 2013, for the period of January through June 2014. Finance issued a ROPS determination letter on November 14, 2013. 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 scheduled for December 2, 2013.

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. 67 – Citadel DDA for groundwater monitoring and site assessment in the amount of \$500,000. Finance no longer denies \$50,000 of this item. Finance initially denied this item as it was our understanding that contracts have not yet been awarded. HSC section 34163 (b) prohibits a redevelopment agency (RDA) from entering into a contract with any entity after June 27, 2011. However, HSC section 34173 (f) allows for any existing cleanup plans and the liability limits authorized under the Polanco Act shall be transferred to the successor agency. The proposed work for this item is in accordance with a Department of Toxic Substances Control (DTSC) cleanup plan existing prior to June 27, 2011. The Agency estimates the continued monitoring and DTSC oversight will cost \$100,000 annually over the next five years. As such, \$50,000 would be needed for each 6-month period. Therefore, this item is an enforceable obligation and is eligible for \$50,000 in Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Claimed administrative costs exceed the allowance by \$261,234. HSC section 34171 (b) limits fiscal year 13-14 administrative expenses to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$436,842 in administrative expenses. The Los Angeles County Auditor Controller's Office distributed \$250,000 for the July through December 13-14A

period, thus leaving a balance of \$186,842 available for the ROPS 13-14B period. Although \$233,076 is claimed for administrative costs, Item Nos. 50, 60, and 62 for consulting services and legal expenses totaling \$215,000 are considered administrative expenses and should be counted towards the cap since they do not fall into any of the following categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b):

- o Any litigation expenses related to assets or obligations.
- o Settlements and judgments.
- o The costs of maintaining assets prior to disposition.
- o Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs.

The Agency contends the Item Nos. 60 and 62 should be separate enforceable obligations to carry out the Long Range Property Management Plan (LRPMP); however, Finance has not reviewed and approved the LRPMP submitted. As such, Finance cannot determine if these proposed costs will be necessary or if they are reasonable. Once the Agency's LRPMP has been approved by Finance, the Agency may request RPTTF funding on a ROPS to implement the LRPMP. Therefore, these items continue to be reclassified as administrative costs at this time and \$261,234 of excess administrative cost is not allowed.

In addition, per Finance's letter dated November 14, 2013, we continue to deny the following items not contested by the Agency during the Meet and Confer:

- Item No. 26 – HCD Note in the amount of \$236,000. This note was not listed or approved on the Agency's Housing Asset Transfer form. In addition, it is not evident this is even an obligation of the Agency. Pursuant to HSC section 34176 (a) (1), if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a RDA, all rights, powers, duties, obligations, and housing assets shall be transferred to the city, county, or city and county. Since the City of Commerce assumed the housing functions, the costs associated with this line item are the responsibility of the housing successor. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding.
- Item No. 65 – Property Tax Audit Services in the amount of \$20,000 is not an obligation of the Agency. It is our understanding these agreements entered into on May 3, 1994 are between the City of Commerce and HDL Coren and Cone, and the Agency is not a party to the contract. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. HSC Section 34186 (a) also specifies that the 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 below table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Except for the items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 13-14B. The Agency's maximum approved RPTTF distribution for the reporting period is \$7,185,461 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	7,573,722
Total RPTTF requested for administrative obligations	233,076
Total RPTTF requested for obligations	\$ 7,806,798
Total RPTTF requested for non-administrative obligations	7,573,722
<u>Denied Items</u>	
Item No. 26	(236,000)
Item No. 65	(20,000)
Item No. 67	(50,000)
	<u>(306,000)</u>
<u>Reclassified Items</u>	
Item No. 50	(40,000)
Item No. 60	(100,000)
Item No. 62	(75,000)
	<u>(215,000)</u>
Total RPTTF approved for non-administrative obligations	7,052,722
Total RPTTF requested for administrative obligations	233,076
<u>Reclassified Items</u>	
Item No. 50	40,000
Item No. 60	100,000
Item No. 62	75,000
	<u>215,000</u>
Total RPTTF for administrative obligations	448,076
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)	186,842
Total RPTTF approved for obligations	7,239,564
ROPS III prior period adjustment	(54,103)
Total RPTTF approved for distribution	\$ 7,185,461
Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	7,508,682
Total RPTTF for 13-14B (January through June 2014)	7,052,722
Total RPTTF for fiscal year 2013-14	14,561,404
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or \$250,000)	436,842
Administrative allowance for 13-14A (July through December 2013)	250,000
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	186,842

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. Beginning with the ROPS 13-14B period, Finance required successor agencies to identify fund balances for various types of funds in its possession. During our ROPS 13-14B review, Finance requested financial records to support the fund balances reported by the Agency; however, Finance was unable to

reconcile the financial records to the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 13-14B review period to properly identify the Agency's fund balances. If it is determined the Agency possesses fund balances that are available to pay approved obligations, the Agency should request the use of these fund balances prior to requesting RPTTF in ROPS 14-15A.

Please refer to the ROPS 13-14B schedule that was used to calculate the approved RPTTF amount:

[http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14B Forms by Successor Agency/](http://www.dof.ca.gov/redevelopment/ROPS/ROPS_13-14B_Forms_by_Successor_Agency/).

This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2014. This determination applies only 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 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 Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Josh Brooks, Assistant Director of Finance, City of Commerce
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office