



December 17, 2013

Mr. Steven Dobrenen, Finance Director
City of Cudahy
P.O. Box
Cudahy, CA 90201

Dear Mr. Dobrenen:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 22, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Cudahy Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to Finance on October 17, 2013, for the period of January through June 2014. Finance issued a ROPS determination letter on November 22, 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 held on December 6, 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.

- Prior period adjustment in the amount of \$335,407. Finance continues to make the adjustment as ordered by the Los Angeles County Auditor Controller. During the Meet and Confer, the Agency requested to retain the amount as it anticipates a funding shortfall for debt service payments during the 2014 to 2016 fiscal years. The Agency stated that its 2011 bond indenture requires all housing revenues for the years 2010-11 through 2015-16 be deposited with the Trustee in a secondary reserve. The Agency stated they currently have \$1,231,712 in this secondary reserve fund although they estimate that \$1,405,528 is required. However, based on our review, the Agency's estimate is based on an inaccurate calculation as it uses gross Redevelopment Property Tax Trust Fund receipts, and not housing revenues.

Finance notes that the indenture requires only housing revenues to be deposited in the reserve account; however, due to the redevelopment dissolution, housing revenues no longer exist. Due to the requirement in the 2011 housing bond indenture, the Agency should calculate the 20 percent set-aside amount generated in the housing project area and request this amount on future ROPS in order to satisfy the reserve requirement through 2015-16.

- Claimed administrative costs exceed the allowance by \$85,000. HSC section 34171 (b) limits the fiscal year 2013-14 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. The Los Angeles Auditor Controller's Office distributed \$ 210,000 for the July through December 2013 period, thus leaving a balance of \$40,000 available for the January through June 2014 period. Although \$125,000 is claimed for administrative cost, only \$40,000 is available pursuant to the cap. Therefore, \$85,000 of excess administrative cost is not allowed.

In addition, Finance reduced the Agency's administrative cost allowance by 25 percent or \$10,000. Finance continues to make this adjustment. During the Meet and Confer, the Agency requested a waiver on the administrative allowance reduction. The Agency stated that they experienced difficulty in convening an Oversight Board meeting in order to have the ROPS reviewed and approved. However, as stated above, the Agency submitted their ROPS 13-14B on October 17, 2013. Per HSC section 34177 (m), the ROPS for this period was due no later than October 4, 2013. Pursuant to HSC 34177 (m) (2), the Agency's administrative cost allowance shall be reduced by a maximum of 25 percent for the ROPS period if the ROPS is not submitted within ten days of the due date. As such, \$40,000 of administrative expenses pursuant to the cap has been reduced by \$10,000 to \$30,000.

In addition, per Finance's letter dated November 22, 2013, we continue to deny the following items not contested by the Agency during the Meet and Confer:

- Item No. 6 – 2011A Tax Allocation Bond debt service payment in the amount of \$910,224 is partially denied. It is our understanding the Agency requested the incorrect amount on the ROPS. Per discussion with Agency staff, the \$910,224 requested for the upcoming six month period should be \$173,815. As a result, the Redevelopment Property Tax Trust Fund (RPTTF) requested for this item is reduced by \$736,409.

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 item denied in whole or in part as enforceable obligation, 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 \$1,195,001 as summarized on the following page:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	2,236,817
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations	\$ 2,361,817
Total RPTTF requested for non-administrative obligations	2,236,817
<u>Denied Items</u>	
Item No. 6	(736,409)
Total RPTTF approved for non-administrative obligations	1,500,408
Total RPTTF requested for administrative obligations	125,000
Total RPTTF for administrative obligations	125,000
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)	30,000
Total RPTTF approved for obligations	1,530,408
ROPS III prior period adjustment	(335,407)
Total RPTTF approved for distribution	\$ 1,195,001
Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	1,816,202
Total RPTTF for 13-14B (January through June 2014)	1,500,408
Total RPTTF for fiscal year 2013-14	3,316,610
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or \$250,000)	250,000
Administrative allowance for 13-14A (July through December 2013)	210,000
Allowable RPTTF distribution for administrative cost pursuant to cap	40,000
25% administrative cost reduction pursuant to HSC 34177 (m) (2)	(10,000)
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	30,000

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/.

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 Derk Symons, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Cheryl Murase, Principal, City of Cudahy
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office