



May 16, 2014

Mr. G. Harold Duffey, Executive Director  
City of Compton  
205 South Willowbrook Avenue  
Compton, CA 90220

Dear Mr. Duffey:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 16, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Compton Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on March 3, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 16, 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 April 24, 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 17 – Project Implementation Costs totaling \$130,000. Finance no longer reclassifies this as an administrative cost. In December 2005 the RDA entered into a disposition and development agreement (DDA) with a third party to cause the redevelopment of residential and commercial land. Under that DDA the Agency must convey the land to the developer after vacating the streets and oversee the project. Pursuant to HSC section 34171 (b), administrative costs shall exclude employee costs associated with work on specific project implementation activities, including project management. Therefore, Finance has determined this is an enforceable obligation and should not be included administrative costs counting towards the administrative cost cap.
- Item No. 55 – Bond funded project totaling \$500,000. Finance continues to deny this item. Pursuant to HSC section 34176 (a) (1), if the city elects to retain the authority to perform the housing functions previously performed by the former redevelopment agency (RDA), all rights, powers, duties, obligations, and housing assets shall be transferred to the city. The property located at 950 Alondra Blvd. was transferred to the housing successor on May 10, 2012. Therefore this is not an enforceable obligation of the Agency.

We note that the Agency is requesting the use of bond proceeds for this item; however, the Agency has not yet received a Finding of Completion in compliance with 34179.7. To the extent the Agency is requesting the use of housing bond proceeds, the housing successor can follow the process set forth in HSC section 34176 (g), which authorizes the housing successor to designate the use of and commit bond proceeds that remain after the satisfaction of enforceable obligations that have been approved in a ROPS and that are consistent with the bond covenants. The proceeds must have been derived from bonds that were issued for the purposes of affordable housing and issued prior to December 31, 2010. To initiate this process, the housing successor is required to provide notice to the successor agency of any designations of use or commitments of funds that it wishes to make at least 20 days before the deadline for submission of the ROPS to the Oversight Board. These commitments and designations will not be considered valid or binding until they are included in and approved and valid ROPS. However, the housing successor did not provide notice to the Agency of any designations of use or commitments of funds that it wishes to make at least 20 days before the deadline for submission of the ROPS to the Oversight Board. Therefore, the item is not eligible for bond funding at this time.

- Item 120 – Monthly Property Management and Maintenance totaling \$100,000 payable to State Water resources Control Board (SERCB). Finance previously reclassified this item as an administrative cost; however, this item is not an obligation of the Agency and is therefore denied. The Agency claims that this item is for remediation costs associated with a previously approved project. Our review of the documentation provided by the Agency indicates that this item is associated notice to the City from SWRCB requiring the City to submit a work-plan for investigation of soil and groundwater on a specific property. However, the Agency did not provide documentation supporting the property is owned by the Agency or that the Agency has an obligation to perform the required actions. Therefore, this item is not an enforceable obligation as defined in HSC section 34171 (d) and is not eligible for RPTTF.
- Item No. 158 – Prior City General Fund Obligation and Liabilities totaling \$10,000,000. Finance continues to deny this item. During the meet and confer, the Agency stated that the requested \$8,000,000 in the ROPS 14-15A is for repayment to the City of Compton (City) for certain tax allocation bonds issued. The Compton Public Finance Authority (Authority) issued 1987 Series A Revenue Bonds on November 1, 1987 to, among other things, make a loan of the bond proceeds to the former redevelopment agency (RDA). The Agency claims that in accordance with the issued bonds, the former RDA entered into a Reimbursement and Repayment Agreement (Agreement) for Services with the City and the Authority on November 17, 1987. Based on our review, the Agreement did not obligate the former RDA to make payments to the City in relation to the 1987 bonds issued, but rather, the agreement provides that the Authority will reimburse the City and RDA for certain services and facilities made available by the City and the RDA.

We note that the Authority is comprised of the City and the former RDA. HSC section 34171 (d) (2) states that loan agreements entered into between the RDA and the city, county, or city and county that created it, within two years of the date of creation of the RDA, or solely for the purpose of securing or repaying indebtedness obligations may be deemed to be enforceable obligations. While the Agreement was entered into at the same time the bonds were issued, the Agreement is not solely for the purpose of issuing the bonds. Therefore, this item is not an enforceable obligation and not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item No. 174 – Escrow Deposit totaling \$25,000 in Other Funds. Finance continues to deny this item. It is our understanding that the RDA entered into an Exclusive Negotiation Agreement (ENA) with a third party (Developer) on September 29, 2006. Per the ENA the Developer was to submit a deposit of \$50,000 concurrently with execution of the ENA. The Agency claims that the agreement fell through and that they must now refund the \$25,000 deposit to the Developer. However, per Section 1.7 of the ENA, the deposit is non-refundable. Therefore, there is no obligation pursuant to HSC section 34171 (d) for the Agency to refund the deposit.
- Claimed administrative costs exceed the allowance by \$259,850. HSC section 34171 (b) limits the fiscal year 2014-15 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. Although \$509,850 is claimed for administrative cost, the Agency is only eligible to expend \$250,000 during ROPS 14-15A. Therefore, \$259,850 of excess administrative cost is not allowed.

In addition, per Finance's letter dated April 16, 2014, we continue to make the following adjustments not contested by the Agency during the Meet and Confer:

- Item No. 6 – Funding for Capital Appreciation Bonds 1995C in the amount of \$5,000,000. The Agency was distributed \$5,800,000 during ROPS 13-14B for the annual debt service payment due August 1, 2014 and is now requesting \$5,000,000 in reserves for the payment due August 1, 2015. HSC section 34171 (d) (1) (A) only allows successor agencies to hold a reserve for debt service payments when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the *following half* of the calendar year. Therefore, the request to fund the payment due the *first half* of the calendar year is not an enforceable obligation and not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding on this ROPS.
- Item Nos. 7, 9, 10, and 11 – Project Implementation and Management Costs for the MLK Transit Center, Parking Structure, and Meta Housing projects totaling \$385,000. These items were previously denied during ROPS 13-14A and 13-14B. Finance continues to deny these items. The Agency has not provided documentation to support the estimated employee costs associated with these projects. Therefore, these items are not enforceable obligations and not eligible for bond funding on this ROPS.
- Item Nos. 51, 53, 54, 151, 152, 167, 168, 170, 171, 177, 178, and 179 – Bond funded projects are not enforceable obligations at this time. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. It is our understanding that contracts for these line items were awarded after June 27, 2011 or have not been awarded. Pursuant to HSC section 34191.4 (c), your request to use bond funds for these obligations may be allowable once the Agency receives a Finding of Completion from Finance.
- Item No. 133 – Project Management Assistance in the amount of \$25,000 funded with reserve balance. This item was previously denied during ROPS 13-14B and Finance continues to deny this item. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. It is our understanding

the contract for this line item was awarded after this date. Therefore, this item is not an enforceable obligation and not eligible for Reserve and administrative cost funding on this ROPS.

- Item Nos. 163, 165, 173, and 176 – Capital Improvements, Escrow Deposits, and Demolition Activities totaling \$175,000. Insufficient documentation was provided to support the amounts claimed for these items. Therefore, these items are not enforceable obligations and not eligible for RPTTF and Other funding on this ROPS.
- Item No. 169 – 1995C Bond Reserve Requirement in the amount of \$3,000,000. The current reserve requirement is equal to the annual debt service payment of \$5,800,000 according to the 1995C Official Statement. Bank statements provided by the Agency confirm \$5,800,000 is currently in the reserve fund. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding on this ROPS.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2013 period. 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. The amount of RPTTF approved in the table below 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 or for the items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15A. The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$30,116 as summarized below:

<b>Approved RPTTF Distribution</b>	
<b>For the period of July through December 2014</b>	
Total RPTTF requested for non-administrative obligations	20,411,616
Total RPTTF requested for administrative obligations	509,850
<b>Total RPTTF requested for obligations</b>	<b>\$ 20,921,466</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>20,411,616</b>
<u>Denied Items</u>	
Item No. 6	(5,000,000)
Item No. 120	(50,000)
Item No. 158	(8,000,000)
Item No. 163	(50,000)
Item No. 165	(50,000)
Item No. 169	(3,000,000)
Item No. 176	(75,000)
	<u>(16,225,000)</u>
<b>Total RPTTF authorized for non-administrative obligations</b>	<b>\$ 4,186,616</b>
<b>Total RPTTF requested for administrative obligations</b>	<b>509,850</b>
<u>Denied Item</u>	
Item No. 133	(5,000)
	<u>(5,000)</u>
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(259,850)
<b>Total RPTTF authorized for administrative obligations</b>	<b>\$ 250,000</b>
<b>Total RPTTF authorized for obligations</b>	<b>\$ 4,436,616</b>
ROPS 13-14A prior period adjustment	(4,406,500)
<b>Total RPTTF approved for distribution</b>	<b>\$ 30,116</b>

<b>Administrative Cost Cap Calculation</b>	
Total RPTTF authorized for non-administrative obligations	4,186,616
Percent allowed pursuant to HSC section 34171 (b)	3%
<b>Total RPTTF allowable for administrative obligations</b>	<b>125,598</b>
<b>(Greater of 3% or \$250,000)</b>	<b>250,000</b>
Total RPTTF administrative obligations after Finance adjustments	509,850
<b>Administrative costs in excess of the cap</b>	<b>\$ (259,850)</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 14-15A review, Finance requested financial records to support the cash 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 14-15A review period to properly identify the Agency's cash balances. If it is determined the Agency possesses 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 14-15B.

Please refer to the ROPS 14-15A 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 July 1 through December 31, 2014. 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 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 Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD  
Assistant Program Budget Manager

cc: Dr. Kofi Sefa-Boakye, Director of Redevelopment, City of Compton  
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County  
California State Controller's Office