

May 16, 2014

Ms. Lorry Hempe, Public Works Special Projects Manager
City of Lynwood
11330 Bullis Road
Lynwood, CA 90262

Dear Ms. Hempe:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 4, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Lynwood Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on February 18, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 4, 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 16, 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 item being disputed.

- Item Nos. 7 and 93 – Debt service reserves payments in the amount of \$794,160. Finance no longer denies these items. Our review indicates that the bond indenture for the 2013 refunding bonds requires that the funds from June 1st of the current calendar year be set aside for the March 1st payment due in the following calendar year. The indenture also states that this provision applies to all parity debt which includes the 2011A bond. HSC section 34171 (d) (1) (A) allows successor agencies to hold a reserve for debt service payments when required by the bond indenture. Therefore these items are enforceable obligations and are eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding on this ROPS.
- Item Nos. 20 through 24 – Obligations related to the Rogel v. LRA settlement agreement totaling \$18,382,850. Finance continues to deny this item. These items represent various costs related to implementing the 2013 settlement agreement. Finance previously determined that the 2013 settlement agreement amends the original 2009 settlement agreement; however, HSC section 34163 (c) prohibits a redevelopment agency from amending or modifying existing agreements, obligations, or commitments with any entity for any purpose after June 27, 2011.

During the Meet and Confer process, the Agency claims that the 2009 settlement agreement represents a pre-AB x1-26 obligation of the former RDA to build inclusionary and replacement housing pursuant HSC section 33413. However, the provisions of HSC

section 33413, including the obligations imposed, depend on the allocation of tax increment and was rendered inoperative upon the passing of dissolution law (ABx-1 26 and AB 1484), as explicitly stated in HSC section 34189.

Additionally, the Agency states they were required to carry out the requirements of the settlement, including hiring a consultant to prepare an advisory housing report to determine the former RDA's obligation to build inclusionary and replacement housing. Upon completion, the housing advisory report would be filed into a subsequent court judgment. In April 23, 2013, upon completion of the housing report, the court issued its judgment and now imposes the obligations on the successor agency. However, pursuant to HSC section 34177.3, the Agency lacked the authority to proceed with the amendment of the 2009 settlement agreement and create new enforceable obligations resulting from the amendment. We further note, the Agency did not provide any other information indicating the amounts requested are related to an enforceable obligation existing prior to June 27, 2011. Therefore, no enforceable obligation exists and this line item is not eligible for RPTTF funding.

- Claimed administrative costs exceed the allowance by \$65,000. HSC section 34171 (b) limits fiscal year 2014-15 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 \$250,000 in administrative expenses. Although \$290,000 is claimed for administrative cost, Item No. 42 for Agency Counsel in the amount of \$25,000 is considered an administrative expense and should be counted toward the cap. Therefore, \$65,000 of excess administrative cost is not allowed.

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 items denied in whole or in part as enforceable obligations that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15A. The Agency's maximum approved RPTTF distribution for the reporting period is \$2,501,108 as summarized on the next page:

Approved RPTTF Distribution	
For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	3,197,376
Total RPTTF requested for administrative obligations	290,000
Total RPTTF requested for obligations	\$ 3,487,376
Total RPTTF requested for non-administrative obligations	3,197,376
<u>Denied Items</u>	
Item No. 20	(200,000)
Item No. 21	(100,000)
Item No. 22	(83,333)
Item No. 24	(50,000)
	<u>(433,333)</u>
<u>Reclassified Item</u>	
Item No. 42	(25,000)
	<u>(25,000)</u>
Total RPTTF authorized for non-administrative obligations	\$ 2,739,043
Total RPTTF requested for administrative obligations	290,000
<u>Reclassified Item</u>	
Item No. 42	25,000
Total RPTTF for administrative obligations	\$ 315,000
Administrative costs in excess of the cap	(65,000)
Total RPTTF authorized for administrative obligations	\$ 250,000
Total RPTTF authorized for obligations	\$ 2,989,043
ROPS 13-14A prior period adjustment	(487,935)
Total RPTTF approved for distribution	\$ 2,501,108

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 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 14-15A 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 14-15B.

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: Ms. Sarah Withers, City Manager, City of Lynwood
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County
California State Controller's Office