

April 11, 2014

Mr. Bryan Cook, Assistant City Manager  
City of South Gate  
8560 California Avenue  
South Gate, CA 90280

Dear Mr. Cook:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of South Gate Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to the California Department of Finance (Finance) on February 28, 2014 for the period of July through December 2014. Finance has completed its review of your ROPS 14-15A, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following do not qualify as enforceable obligation for the reasons specified:

- Item No. 3 – HUD Section 108 Loan in the amount of \$1,939,370 is not an obligation of the Agency. It is our understanding this agreement entered into on September 8, 1999 is between the City of South Gate (City) and the Housing and Urban Development, and the former redevelopment agency (RDA) is not a party to the contract. Therefore, this line item is not enforceable obligation and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) on this ROPS.
- Item No. 13 – City/RDA loan repayment should be increased by \$106,859. The Agency received a Finding of Completion on May 24, 2013. In addition, the Agency's Oversight Board (OB) Resolution 14-1 found the loan was for legitimate redevelopment purposes. As such, the Agency may place loan agreements between the former redevelopment agency and sponsoring entity on the ROPS, as an enforceable obligation.

Pursuant to the repayment formula outlined in HSC section 34191.4 (b) (2) (A), the maximum the Agency can request for fiscal year 2014-15 is \$410,742. The Agency has split their request for repayment of this City loan into three line items, Item Nos. 13-15. However, since Finance takes exception to Item Nos. 14 and 15, as noted below, Finance is increasing the amount requested for Item No. 13 by \$106,859, which includes interest, to fund the maximum amount allowed for this fiscal year.

The total outstanding balance for the City of South Gate loan is overstated. Pursuant to HSC section 34191.4 (b) (2), the recalculation of the accumulated interest from *loan origination* is not to exceed the interest rate earned by funds deposited in the Local Agency Investment Fund (LAIF). The total outstanding balance for this City loan includes miscalculated interest. The accumulated interest on the loan should be recalculated using the quarterly LAIF interest rate at the time when the Agency's OB made the finding the loan was for legitimate redevelopment purposes, which in this case is .26 percent.

Therefore, Finance has recalculated the total loan outstanding to be \$1,794,877 and has reduced the Agency's stated outstanding loan balance by \$1,593,203.

- Item No. 14 – City/RDA loan repayment (Interest) in the amount of \$83,102 is not allowed. As described above, the Agency has miscalculated interest which resulted in the total outstanding balance for this City loan to be overstated. Specifically, the Agency's calculated total outstanding principal balance of \$3,388,080 for Item No. 13 was not recalculated correctly from its origination using the .26 percent quarterly LAIF rate. Because of this miscalculation, Finance is denying Item No. 14 and has incorporated the accumulated interest earned at the .26 LAIF rate into Item No. 13.
- Item No. 15 – City/RDA Loan Repayment Transfer to Low and Moderate Income Housing Asset Fund (LMIHAF) in the amount of \$824,818 is denied. Per HSC section 34191.4 (b) (2) (C), payments to the LMIHAF are to be deducted from the City loan repayment. Therefore, this item is not a separate enforceable obligation but should be incorporated into Item No. 13.

In addition, Finance noted the following:

The Agency deleted the obligations for Item Nos. 10 through 12 and replaced it with existing or new obligations on this ROPS. Although Item Nos. 10 and 11 have been retired and were excluded from the ROPS Detail form, these item numbers remain unavailable to use, as it is assigned to that specific retired obligation indefinitely. For consistency purposes between ROPS periods, Item Nos. 10 through 12 were restored to the original format listed on the ROPS template and the new or existing obligations were assigned sequential numbers as follows:

- Item No. 10 – Due Diligence Reviews (AB 1484)
- Item No. 11 – ROPS II Fund Shortfall
- Item No. 12 – Property Disposition
- Item No. 13 – City/RDA Loan Repayment (principal)
- Item No. 14 – City/RDA Loan Repayment (interest)
- Item No. 15 – City/RDA Loan Repayment Transfer to Low and Moderate Income Housing Asset Fund

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting RPTTF. Pursuant to HSC section 34177 (I) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. The Agency's self-reported cash balance sheet indicates a receipt of a loan receivable (Other Funds) totaling \$1,000,000.

Therefore, the funding source for the following items have been reclassified to Other Funds and in the amounts specified below:

- Item No. 13 – City/RDA loan repayment Revolving Line of Credit in the amount of \$410,742. The Agency requests \$303,883 of RPTTF for this obligation. In addition, as noted above, Finance increased the expenditure authority for this item by \$106,859, for a total of \$410,742. Finance is reclassifying \$410,742 to Other Funds. This item is an enforceable obligation for the ROPS 14-15A period. However, the obligation does not require payment from property tax revenues and the Agency has \$1,000,000 in available Other Funds. Therefore, Finance is approving the use of Other Funds in the amount of \$410,742.
- Item No. 4 – 2002 COP Series A and B in the amount of \$589,258. The Agency requests \$905,350 of RPTTF; however, Finance is reclassifying \$589,258 to Other Funds. This item is an enforceable obligation for the ROPS 14-15A period. However, the obligation does not require full payment from property tax revenues and the Agency has \$589,258 (\$1,000,000 - \$410,742) in available Other Funds. Therefore, Finance is approving RPTTF in the amount of \$316,092 and the use of Other Funds in the amount of \$589,258 totaling \$905,350.

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 item denied in whole or in part as enforceable obligation or for the item that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15A. If you disagree with the determination with respect to any items on your ROPS 14-15A, 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 maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$3,392,788 as summarized below:

<b>Approved RPTTF Distribution For the period of July through December 2014</b>	
Total RPTTF requested for non-administrative obligations	4,612,206
Total RPTTF requested for administrative obligations	125,000
<b>Total RPTTF requested for obligations</b>	<b>\$ 4,737,206</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>4,612,206</b>
<u>Denied Items</u>	
Item No. 3	(293,014)
Item No. 14	(44,275)
Item No. 15	(87,040)
	(424,329)
<u>Adjustment to Items</u>	
Item No. 13	106,859
<b>Total RPTTF for non-administrative obligations</b>	<b>\$ 4,294,736</b>
<u>Cash Balances - Items reclassified to Other Funds</u>	
Item No. 4	(589,258)
Item No. 13	(410,742)
	(1,000,000)
<b>Total RPTTF authorized for non-administrative obligations</b>	<b>\$ 3,294,736</b>
<b>Total RPTTF authorized for administrative obligations</b>	<b>\$ 125,000</b>
<b>Total RPTTF authorized for obligations</b>	<b>\$ 3,419,736</b>
ROPS 13-14A prior period adjustment	(26,948)
<b>Total RPTTF approved for distribution</b>	<b>\$ 3,392,788</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>

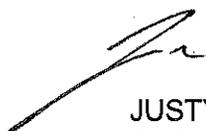
Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2014. This determination only applies to items where funding was requested for the six-month period. Finance's determination is effective for this 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 Kylie Oltmann, Supervisor or Veronica Green, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD  
Assistant Program Budget Manager

cc: Ms. Nellie Ruiz, Senior Accountant, City of South Gate  
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller  
California State Controller's Office