



May 16, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 11, 2014. 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 Finance on February 28, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 11, 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 30, 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 No. 3 – HUD Section 108 Loan in the amount of \$1,939,370. Finance continues to deny this item. Based on our review of the City of South Gate's (City) U.S. Department of Housing and Urban Development (HUD) Section 108 Loan Agreement dated September 8, 1999 and the Cooperation and Pledge Agreement dated July 28, 1999, the principal security for the loan guarantee is a pledge by the City of its current and future Community Development Block Grant (CDBG) funds. Our review indicates that the former redevelopment agency (RDA) pledged tax increment generated by the project, excluding amounts required to be set aside in the Low and Moderate Income Housing Fund (LMIHF), as secondary security for the HUD Section 108 Loan Agreement between the City and HUD in addition to the City's CDBG funding. However, Finance continues to deny this item as the Agency has neither claimed, nor demonstrated that CDBG funds will be insufficient to cover the loan payment and that the Agency is required to pay the full amount. To the extent the City anticipates and can demonstrate that CDBG funds, as principal security, will be insufficient to make the repayment on the HUD Section 108 loan in any particular period, it should direct the Agency to place the shortfall amount of the loan repayment on a future ROPS. For these reasons, this item is currently not an enforceable obligation and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding 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 being listed separately, 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.

During the meet and confer, the Agency disputes Finance's determination that the outstanding balance on the City loan is overstated due to miscalculated interest. As the amount requested does not exceed the maximum allowable for the fiscal year, we are approving the maximum amount of \$410,742. However, Finance will continue to work with the Agency to determine the total outstanding balance for the City loan. We note that 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).

In addition, per Finance's letter dated April 11, 2014, we continue to make the following adjustment not contested by the Agency during the Meet and Confer:

- 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. The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$3,392,788 as summarized in the following table:

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

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.

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