



December 17, 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 November 14, 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 14-15B) to Finance on October 2, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 14, 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 November 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 Nos. 9 through 14, 51, 53 through 55, 152, 167, 170, 176, 195 through 197, and 199 – Various projects totaling \$14,800,727. Finance continues to deny these items at this time. Finance denied these items because the Agency has not yet received a Finding of Completion in compliance with HSC section 34179.7. Further, the Agency did not request the use of housing bond proceeds per 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. During the meet and confer process, the Agency claims that it provided the required 20-day notice. However, our review of the oversight board (OB) resolution provided by the Agency indicates the OB action was taken to transfer the housing assets of the former redevelopment agency, not to request the use of housing bond proceeds. The Agency also provided a staff report on the newly created housing successor;

however, this is not sufficient to establish the 20-day notice was provided to the Agency. Therefore, these items are not eligible for bond funding at this time.

- Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2014 period. HSC section 34186 (a) also specifies prior period adjustments self-reported by successor agencies are subject to review by the county auditor-controller (CAC) and the State Controller. During the meet and confer, the Agency provided additional support to the CAC prompting the CAC to reduce the prior period adjustment previously reported to Finance. Therefore, the amount of RPTTF approved in the table below includes the prior period adjustment resulting from the CAC's additional review and subsequent revision of the Agency's self-reported prior period adjustment.

In addition, per Finance's letter dated November 14, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 6 – Reserves for debt service payments totaling \$5,800,000. Finance notes that pursuant to HSC section 34183 (a) (2) (A), debt service payments have first priority for payment from distributed Redevelopment Property Tax Trust Fund (RPTTF) funding. As such, the \$5,800,000 requested to be held in reserve along with the amounts required for the current ROPS period should be transferred upon receipt to the bond trustee(s). The amounts approved for debt service payments on this ROPS are restricted for that purpose and are not authorized to be used for other ROPS items. Any requests to fund these debt service items again in the ROPS 15-16A period will be denied unless insufficient RPTTF was received to satisfy the approved annual debt service payments.
- Item 120 – Monthly Property Management and Maintenance totaling \$100,000 payable to State Water resources Control Board (SWRCB). Finance previously denied this item during ROPS 14-15A as it was determined to not be an obligation of the Agency. 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 due to a 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 \$4,500,000. Finance previously denied this item during ROPS 14-15A as it was determined to not be an obligation of the Agency. The Agency has previously stated the requested amount 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 RPTTF funding.

- Item No. 165 and 176 – Capital Improvements and Remediation Activities totaling \$1,950,000 are not enforceable obligations. Insufficient documentation was provided to support the amounts claimed. To the extent the Agency can provide suitable documentation, such as executed contracts, to support the requested funding, the Agency may be able to obtain RPTTF on future ROPS.
- Item Nos. 180 through 193, 198, and 201 through 203 – These items have been retired as they are duplicate requests of prior line items. Zero dollar amount is being approved for these items; however, the amounts requested for each have been moved to Item Nos. 9 through 14, 51, 53 through 55, 152, 167, 170, 120, 158, 165, 176, and 6 respectively.
- Item No. 200 – Housing administrative costs totaling \$150,000 are not enforceable obligations. HSC section 34176 (a) (1) states if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a redevelopment agency (RDA), all rights, powers, duties, obligations, and housing assets shall be transferred to the city, county, or city and county. Since the City of Compton assumed the housing functions, the administrative costs associated with these functions are the responsibility of the housing successor. Therefore, these items are not enforceable obligations and are not eligible for RPTTF funding on this ROPS.
- Claimed administrative costs exceed the allowance by \$507,636. 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. As a result, the Agency is allowed \$394,664 for fiscal year 2014-15 administrative expenses. The Los Angeles Auditor-Controller's Office distributed \$250,000 for administrative expenses for the July through December 2014 period, thus leaving a balance of \$144,664 available for the January through June 2015 period. Although \$412,300 is claimed for administrative cost, Item Nos. 8, 16, and 44 totaling \$240,000 are considered administrative expenses and should be counted toward the cap. Therefore, \$507,636 of excess administrative cost is not allowed.

Except for the items denied in whole or in part or items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15B. The Agency's maximum approved RPTTF distribution for the reporting period is \$7,549,128 as summarized in the Approved RPTTF Distribution Table on the next page:

<b>Approved RPTTF Distribution</b>	
<b>For the period of January through June 2015</b>	
Total RPTTF requested for non-administrative obligations	13,638,970
Total RPTTF requested for administrative obligations	412,300
<b>Total RPTTF requested for obligations on ROPS</b>	<b>\$ 14,051,270</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>13,638,970</b>
<b>Denied Items</b>	
Item No. 120	(50,000)
Item No. 158	(4,500,000)
Item No. 165	(50,000)
Item No. 176	(75,000)
Item No. 200	(150,000)
	<u>(4,825,000)</u>
<b>Reclassified Item</b>	
Item No. 16	(65,000)
	<u>(65,000)</u>
<b>Total RPTTF authorized for non-administrative obligations</b>	<b>\$ 8,748,970</b>
<b>Total RPTTF requested for administrative obligations</b>	<b>412,300</b>
<b>Reclassified Items</b>	
Item No. 8	135,000
Item No. 16	65,000
Item No. 44	40,000
	<u>240,000</u>
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(507,636)
<b>Total RPTTF authorized for administrative obligations</b>	<b>\$ 144,664</b>
<b>Total RPTTF authorized for obligations</b>	<b>\$ 8,893,634</b>
ROPS 13-14B prior period adjustment	(1,344,506)
<b>Total RPTTF approved for distribution</b>	<b>\$ 7,549,128</b>

<b>Administrative Cost Cap Calculation</b>	
Total RPTTF for 14-15A (July through December 2014)	4,406,500
Total RPTTF for 14-15B (January through June 2015)	8,748,970
<b>Total RPTTF for fiscal year 2014-2015</b>	<b>13,155,470</b>
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or \$250,000)	394,664
Administrative allowance for 14-15A (July through December 2014)	250,000
<b>Allowable RPTTF distribution for administrative cost for ROPS 14-15B</b>	<b>144,664</b>
Total RPTTF administrative obligations after Finance adjustments	652,300
<b>Administrative costs in excess of the cap</b>	<b>\$ (507,636)</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 14-15B review, Finance requested financial records to support the cash balances reported by the Agency; however, the Agency was unable to support the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 14-15B 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 15-16A.

Please refer to the ROPS 14-15B 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 January 1 through June 30, 2015. 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 the 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 agency in the RPTTF.

Pursuant to HSC section 34177 (a) (3), only those payments listed on an approved ROPS may be made by the successor agency from the funds specified in the ROPS. However, if for whatever reason the Agency needs to make payments for approved obligations from another funding source, HSC section 34177 (a) (4) requires the Agency to first obtain oversight board approval.

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  
Acting 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