

December 17, 2014

Mr. Steven Dobrenen, Finance Director
City of Cudahy
5220 Santa Ana Street
Cudahy, CA 90201

Dear Mr. Dobrenen:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 11, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Cudahy Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on September 30, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 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 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. 2 and 4 through 7 – Reserves for debt service payments totaling \$632,500. Of the total \$1,340,418 requested, \$632,500 was requested as reserves for debt service payments due in the second half of the calendar year. Finance notes that pursuant to HSC section 34183 (a) (2) (A), debt service payments have first priority for payment from distributed RPTTF funding. As such, the \$632,500 requested to be held in reserve along with the amounts required for the current ROPS period should be transferred upon approval and 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 Nos. 26 and 27 – Professional Services and Legal Counsel totaling \$275,000. Finance previously reclassified these items as administrative costs; however, after additional review, Finance now denies these items. During the Meet and Confer process, the Agency contends the costs are necessary to comply with mandates set forth in the State Controller Office's (SCO) Asset Transfer Review Report (Report) dated April 15, 2014. Per the SCO's Report, the former redevelopment agency transferred assets in April 2011 totaling approximately \$21 million to the Cudahy Economic

Development Commission (EDC). Upon the transfer of these assets, the EDC entered into various agreements to sell and/or develop the assets. The Agency claims that in order to return the assets to the Agency, the contracts for the sale and/or development of the assets must be canceled. The Agency claims that Item No. 26 for professional costs and Item No. 27 for legal costs are associated with canceling those contracts and transferring those assets back to the Agency so they can be placed on the Long Range Property Management Plan (LRPMP). However, these properties were inappropriately transferred to the EDC. Therefore, the liabilities incurred or created during the time the properties were owned and operated by the EDC are the responsibility of the EDC and do not constitute an enforceable obligation of the Agency under HSC section 34171 (d). If and when the properties are transferred back to the Agency, the Agency may be eligible for RPTTF to prepare the LRPMP. Additionally, Finance notes that to the extent the Agency incurs administrative costs to transfer these properties back to the Agency, the Agency may expend its administrative cost allowance to satisfy the obligations.

- Claimed administrative costs no longer exceed the allowance by \$275,000. HSC section 34171 (b) limits fiscal year 2014-2015 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. The Los Angeles Auditor-Controller's Office distributed \$125,000, thus leaving a balance of \$125,000 available for the January through June 2015 period. Finance initially determined that administrative costs were exceeded as a result of Finance's reclassification of Item Nos. 26 and 27; however, because the items are now denied, the Agency's original requested amount of \$125,000 is within the administrative cost cap.

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. The amount of RPTTF approved in the table below includes the prior period adjustment resulting from the CAC's review of the Agency's self-reported prior period adjustment.

Except for the 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 \$1,556,080 as summarized in the Approved RPTTF Distribution Table on the following page:

Approved RPTTF Distribution For the period of January through June 2015	
Total RPTTF requested for non-administrative obligations	1,717,388
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS	\$ 1,842,388
Total RPTTF requested for non-administrative obligations	1,717,388
Denied Items	
Item No. 26	(100,000)
Item No. 27	(175,000)
	(275,000)
Total RPTTF authorized for non-administrative obligations	\$ 1,442,388
Total RPTTF requested for administrative obligations	125,000
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 1,567,388
ROPS 13-14B prior period adjustment	(11,308)
Total RPTTF approved for distribution	\$ 1,556,080

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: Ms. Cheryl Murase, Principal, City of Cudahy
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County
California State Controller's Office