

December 17, 2014

Mr. Ken Louie, Finance Director
City of Lawndale
14717 Burin Avenue
Lawndale, CA 90260

Dear Mr. Louie:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated October 21, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Lawndale Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on September 4, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on October 21, 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 October 27, 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. 33 through 35 – The total outstanding loan balances for the 2000 Cooperation Agreement, 2000 Financing Agreement, and 2001 Cooperation Agreement are overstated. Finance continues to maintain that the total outstanding balances for these items are overstated as they include miscalculated interest. Pursuant to the Agency, the accumulated interest was recalculated by using the Local Agency Investment Fund (LAIF) average annual interest rate that was applicable for each year the loans have been outstanding. However, HSC section 34191.4 requires the recalculation of the accumulated interest at a rate not to exceed the interest rate earned by funds deposited in the LAIF at the time the Oversight Board finds that the loan was for legitimate redevelopment purposes and is deemed an enforceable obligation. As such, Finance has recalculated the interest using the LAIF interest rate at the time the Agency's Oversight Board made the finding the loan was for legitimate redevelopment purposes and has reflected the reduction to the total outstanding balances in the ROPS 14-15B, as follows:
 - Item No. 33 – Finance has recalculated the total outstanding loan balance to be approximately \$4,500,000 and therefore has reduced the reported outstanding loan balance by approximately \$1,500,000.

- Item No. 34 – Finance has recalculated the total outstanding loan balance to be approximately \$7,300,000 and therefore has reduced the reported outstanding loan balance by approximately \$2,400,000.
- Item No. 35 – Finance has recalculated the total outstanding loan balance to be approximately \$4,400,000 and therefore, has reduced the reported outstanding loan balance by approximately \$1,100,000.

Since the amounts requested do not exceed the repayment formula outlined in HSC section 34191.4 (b) (2) (A), or the total outstanding balance owed, Finance is approving the amounts requested for Redevelopment Property Tax Trust Fund (RPTTF) funding in the ROPS 14-15B period.

- Item No. 38 – Housing administrative costs totaling \$150,000 is denied. Finance denied this item in the ROPS 14-15A letter dated May 16, 2014, and continues to deny this item because pursuant to HSC section 34171 (p), the housing entity administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the redevelopment agency (RDA) elected to not assume the housing functions. Because the housing entity to the former RDA of the City of Lawndale (City) is the City-formed Housing Authority (Authority), and the Authority operates under the control of the City, the Authority is considered the City under Dissolution Law (ABx1 26 and AB 1484).

The Agency contends that the City designated the Authority, as a separate legal entity from the City, to retain the housing functions pursuant to HSC section 34176 (b) (3) and should therefore be eligible for the housing entity administrative allowance. However, pursuant to HSC section 34167.10 (a), the definition of “city” includes, but is not limited to, any reporting entity of the city for purposes of its comprehensive annual financial report (CAFR), any component unit of the city, or any entity controlled by the city or for which the city is financially responsible or accountable. HSC section 34167.10 (a) defines “city” for purposes of all of Dissolution Law, which includes HSC section 34171, as amended by AB 471, and HSC section 34176. The Authority is included in the City’s CAFR, which identifies the Authority as a component unit of the City and states that the City is financially accountable for the component units.

Although the Authority is a separate legal entity from the City, HSC section 34167.10 (c) states that it shall not be relevant that the entity is formed as a separate legal entity. It should also be noted that HSC section 34167.10 (c) goes on to state that “the provisions of this section are declarative of existing law as the entities described herein are and were intended to be included within the requirements of this part [Part 1.8] and Part 1.85...and any attempt to determine otherwise would thwart the intent of these two parts.” Therefore, based on our review, the City, by way of the Authority, elected to retain the housing functions pursuant to HSC section 34176 (a) and is not eligible for \$150,000 of housing entity administrative allowance.

In addition, per Finance’s letter dated October 21, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 1 – 2009 Tax Allocation Bonds in the amount of \$527,194 is partially approved. Bond debt schedule support an interest payment of \$519,544. Agency agreed that the

excess amount of \$7,650 was requested in error. As such, the excess amount of \$7,650 is denied for RPTTF funding.

- Item No. 16 – The project name or debt obligation for this line is reported on the ROPS as “Item Withdrawn”. Since it appears the line item is not tied to a current obligation and has a zero outstanding balance, Finance has retired the line item.

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 (l) (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. Through reconciliation of the Agency’s cash balances and with the Agency’s concurrence, \$906,005 in Reserve Balances and \$46,848 in Other Funds, totaling \$952,853 was determined to be uncommitted and available cash balances.

Therefore, with the Agency’s concurrence, the funding source for the following items been reclassified to Reserve Balance and Other Funds and in the amounts specified below:

- Item No. 1 – 2009 Tax Allocation Bonds. The Agency’s requested amount was reduced to \$519,544, as noted above. Finance is reclassifying \$519,544 in RPTTF funding to \$46,848 in Other Funds and \$472,696 to Reserve Balance funding. The item is an enforceable obligation for the ROPS 14-15B period. Therefore, Finance is approving the use of \$46,848 in Other Funds and \$472,696 to Reserve Balance funding.
- Item Nos. 2, 13, 28, 33, 34, 35, 36 and 37 – Various obligations. The Agency requested a total of \$433,309 in RPTTF funding; however, Finance is reclassifying \$433,309 to Reserve Balance funding. These items are enforceable obligations for the ROPS 14-15B period. However, the obligations do not require payment from property tax revenues and the Agency has \$433,309 in available Reserve Balance funding. Therefore, Finance is approving the use of Reserve Balance in the amount of \$433,309.

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 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 the items denied in whole or in part 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 \$269,465 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	1,265,602
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS	\$ 1,390,602
Total RPTTF requested for non-administrative obligations	1,265,602
<u>Denied Items</u>	
Item No. 1	(7,650)
Item No. 38	(150,000)
	(157,650)
Total RPTTF for non-administrative obligations	1,107,952
<u>Cash Balances - Items reclassified to other funding sources</u>	
Item No. 1	(519,544)
Item No. 2	(26,293)
Item No. 13	(313,213)
Item No. 28	(47,600)
Item No. 33	(5,000)
Item No. 34	(5,000)
Item No. 35	(5,000)
Item No. 36	(26,203)
Item No. 37	(5,000)
	(952,853)
Total RPTTF authorized for non-administrative obligations	\$ 155,099
Total RPTTF requested for administrative obligations	125,000
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 280,099
ROPS 13-14B prior period adjustment	(10,634)
Total RPTTF approved for distribution	\$ 269,465

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 Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

cc: Mr. Perry Banner, Community Development Manager, City of Lawndale
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County
California State Controller's Office