



December 17, 2014

Mr. Steve Valenzuela, Chief Executive Officer & CFO
City of Los Angeles Designated Local Authority
448 South Hill Street, 12/F
Los Angeles, CA 90013

Dear Mr. Valenzuela:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 4, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Los Angeles Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on September 24, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 4, 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 13, 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. 449 through 457 – Supplemental Educational Revenue Augmentation Fund loan repayments totaling \$4,839,730 in Reserve Balance and Other Funds funding was not allowed. Finance continues to deny funding for these items at this time. Finance initially denied these items as no OB action approving repayment schedules had been submitted pursuant to HSC section 34171 (d) (1) (G), which requires the Oversight Board (OB) to approve repayment schedules for the repayment of the amounts borrowed.

During the Meet and Confer process, the Agency provided the OB approved repayment schedules for the loans. However, HSC section 34191.4 (b) (2) (A) limits these repayments to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through distributed to the taxing entities in the fiscal year 2012-13 base. According to the Los Angeles County Auditor-Controller's (CAC) report, the ROPS residual pass-through amount distributed to the taxing entities for fiscal year 2012-13 and 2013-14 are \$138,508,464 and \$127,477,599, respectively. Pursuant to the repayment formula outlined in HSC section 34191.4 (b) (2) (A), the maximum repayment amount authorized for fiscal year 2014-15 is \$0. Therefore, these line items are not eligible for Reserve Balance and Other Funds at this time.

In addition, per Finance's letter dated November 4, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item Nos. 447 and 448 – Bond Expenditure Agreements totaling \$86,369,175 is partially denied. The Agency requested to reduce the initial request for Bonds Proceeds totaling \$87,396,000 for Item Nos. 447 and 448, to \$42,892,410 for Item No. 447 and \$43,476,765 for Item No. 448, for a newly requested combined total of \$86,369,175. The Agency received a Finding of Completion on September 10, 2013, and can now utilize proceeds derived from bonds issued prior to January 1, 2011 (pre-2011 bond proceeds) in a manner consistent with the original bond covenants.

Pursuant to Oversight Board Resolution No. OB 14-14, the Agency agreement with the City of Los Angeles (City) to transfer excess pre-2011 bond proceeds in the amount of \$86,369,175 obligates the City to expend and maintain excess bond proceeds in accordance with the bond covenants. As required by HSC section 34191.4 (c) (2) (A), the Agency is listing the excess bond proceeds on ROPS 14-15B. However, it is our understanding \$2,297,279 of this total is from bonds that are no longer outstanding and the requirements of the bond covenants no longer exist. Therefore, Finance is approving \$84,071,896 of the excess bond proceeds for transfer to the City and denying a total of \$2,297,279 as follows:

- Item No. 447 – Of the requested \$42,892,410, \$253,447 in Bond Proceeds is denied.
- Item No. 448 – Of the requested \$43,476,765, \$2,043,832 in Bond Proceeds is denied.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting Redevelopment Property Tax Trust Fund (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. It is our understanding the Agency possesses a total of \$2,297,279 in excess bond proceeds derived from bonds that are no longer outstanding and no longer have bond covenant restrictions on their use.

Therefore, the funding source for the following item has been reclassified to Bond Proceeds in the amount specified below:

- Item No. 12 – Wilshire Center/Koreatown Series B debt service payment in the amount of \$3,082,038. The Agency requests \$3,082,038 of RPTTF; however, Finance is reclassifying \$2,297,279 to Bond Proceeds. This item is an enforceable obligation for the ROPS 14-15B period. However, the obligation does not require payment from property tax revenues and the Agency has \$2,297,279 in available Bond Proceeds. Therefore, Finance is approving RPTTF in the amount of \$784,759 and the use of Bond Proceeds in the amount of \$2,297,279, totaling \$3,082,038.

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 or the item that has 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 \$63,399,172 as summarized in the Approved RPTTF Distribution Table below:

Approved RPTTF Distribution For the period of January through June 2015	
Total RPTTF requested for non-administrative obligations	73,492,716
Total RPTTF requested for administrative obligations	0
Total RPTTF requested for obligations on ROPS	\$ 73,492,716
Total RPTTF requested for non-administrative obligations	73,492,716
<u>Reclassified Item</u>	
Item No. 12	(2,297,279)
Total RPTTF authorized for non-administrative obligations	\$ 71,195,437
Total RPTTF requested for administrative obligations	\$ 0
Total RPTTF authorized for administrative obligations	\$ 0
Total RPTTF authorized for obligations	\$ 71,195,437
ROPS 13-14B prior period adjustment	(7,796,265)
Total RPTTF approved for distribution	\$ 63,399,172

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. De Dinh, Acting Senior Accountant, City of Los Angeles Designated Local Authority
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County
California State Controller's Office