

December 17, 2014

Ms. Lorry Hempe, Public Works Special Projects Manager
City of Lynwood
11330 Bullis Road
Lynwood, CA 90262

Dear Ms. Hempe:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 7, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Lynwood 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 7, 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. 7, 93 and 95 – Reserves for debt service payments totaling \$1,744,160. 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 total \$1,744,160 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 Nos. 20 through 24 – Obligations related to the Rogel v. LRA settlement agreement totaling \$18,432,850. Finance continues to deny these items. These items were previously denied by Finance in our ROPS 14-15A determination letter and later upheld through the ROPS 14-15A Meet and Confer process. The Agency has not provided any new information or documentation to support these items.

The 2009 settlement agreement represents a pre-AB x1-26 obligation of the former redevelopment agency (RDA) to build inclusionary and replacement housing pursuant HSC

section 33413. However, the provisions of HSC section 33413, including the obligations imposed, depend on the allocation of tax increment and was rendered inoperative upon the passing of dissolution law (ABx-1 26 and AB 1484), as explicitly stated in HSC section 34189.

The Agency also contends that they were required to carry out the requirements of the settlement, including hiring a consultant to prepare an advisory housing report to determine the former RDA's obligation to build inclusionary and replacement housing. Upon completion, the housing advisory report would be filed into a subsequent court judgment. In April 23, 2013, upon completion of the housing report, the court issued its judgment and now imposes the obligations on the Agency. However, pursuant to HSC section 34177.3, the Agency lacked the authority to proceed with the amendment of the 2009 settlement agreement and create new enforceable obligations resulting from the amendment. We further note, the Agency did not provide any other information indicating the amounts requested are related to an enforceable obligation existing prior to June 27, 2011. Therefore, no enforceable obligation exists and these line items are not eligible for RPTTF funding.

- Claimed administrative costs exceed the allowance by \$300,000. HSC section 34171 (b) limits fiscal year 2014-15 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 County Auditor-Controller's Office distributed \$250,000 for the July through December 2014 period, thus leaving a balance of zero available for the January through June 2015 period. Therefore, \$300,000 of excess administrative cost is not allowed.
- During the Due Diligence Review (DDR), Finance ordered agencies to remit to the County Auditor-Controller (CAC) unencumbered cash balances. Our records indicate the Agency has yet to remit the ordered sums. As a result, pursuant to HSC section 34179.6 (h) (2), Finance directed the CAC to withhold \$87,898 from the Agency's ROPS 13-14B RPTTF distribution. It is expected that the Agency allocates the amount withheld by the CAC to the payment of enforceable obligations. Therefore, the Agency's ROPS should reflect the reduction to the outstanding obligation balances in the subsequent ROPS submittals.

During the meet and confer, the Agency claims these funds are not available because they were part of the cash balance at June 30, 2012 and were paid out shortly after June 30, 2012 for items approved on the January through June 2012 ROPS (ROPS I). In addition, the Agency claims that the RPTTF distribution was decreased for the January through June 2014 (ROPS 13-14B) period due to this withhold. Our review indicates that the Agency received all available RPTTF for ROPS 13-14B despite the amount withheld. Additionally, because the Agency's request to review the Agency's prior cash balances is beyond the scope of our ROPS 14-15B review, Finance will continue to work with the Agency to resolve the issue.

- 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. During the meet and confer, the Agency requested Finance to reverse the prior period adjustment reported by the CAC. However, the CAC maintains the prior period adjustment amount is accurate and necessary.

In addition, per Finance's letter dated November 7, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

The Agency replaced Item No. 12 with a new obligation on this ROPS. Item No. 12 was for consultant services hired to calculate pass through payment owed by the Agency. The new obligation is for the actual pass through payment owed to the Lynwood Unified School District. For consistency purposes, Item No. 12 was restored to the original format listed on the ROPS template and the new obligation was assigned to the next available sequential number as follows:

- Item No. 97 – Pass Through Payments for FY2010 and 2011 to Lynwood Unified School District.

Except for the items denied, 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 \$2,515,542 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	3,697,123
Total RPTTF requested for administrative obligations	300,000
Total RPTTF requested for obligations on ROPS	\$ 3,997,123
Total RPTTF requested for non-administrative obligations	3,697,123
Denied Items	
Item No. 20	(500,000)
Item No. 21	(100,000)
Item No. 22	(83,333)
Item No. 23	(50,000)
Item No. 24	(100,000)
	(833,333)
Total RPTTF authorized for non-administrative obligations	\$ 2,863,790
Total RPTTF requested for administrative obligations	300,000
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(300,000)
Total RPTTF authorized for administrative obligations	\$ 0
Total RPTTF authorized for obligations	\$ 2,863,790
ROPS 13-14B prior period adjustment	(348,248)
Total RPTTF approved for distribution	\$ 2,515,542

Administrative Cost Cap Calculation	
Total RPTTF for 14-15A (July through December 2014)	2,739,043
Total RPTTF for 14-15B (January through June 2015)	2,863,790
Total RPTTF for fiscal year 2014-2015	5,602,833
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or \$250,000)	250,000
Administrative allowance for 14-15A (July through December 2014)	250,000
Allowable RPTTF distribution for administrative cost for ROPS 14-15B	0
Total RPTTF administrative obligations after Finance adjustments	0
Administrative costs in excess of the cap	\$ (300,000)

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. The Agency was able to support the amounts reported except for the RPTTF cash on hand. Finance will continue to work with the Agency after the ROPS 14-15B review period to resolve any remaining issues as described above. If it is determined the Agency possesses additional 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),

Ms. Lorry Hempe
December 17, 2014
Page 5

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. Sarah Withers, City Manager, City of Lynwood
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County
California State Controller's Office