

December 17, 2014

Ms. Misty Cheng, Interim Finance Director
City of South Gate
8560 California Avenue
South Gate, CA 90280

Dear Ms. Cheng:

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 South Gate Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on September 23, 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 17, 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. 3 and 16 – HUD Section 108 Loan in the amount of \$ 2,002,381 is denied. These items are duplicates; therefore, Item No. 16 has been retired and the amount requested for Item No. 16 has been added to Item No. 3. However, Finance continues to deny the items.

The Agency claims that the U.S. Department of Housing and Urban Development (HUD) Section 108 Loan Agreement (HUD 108 Loan) dated September 8, 1999 between the City of South Gate (City) and HUD is binding upon the Agency; however, the former redevelopment agency (RDA) is not a party to the HUD 108 Loan. We note that pursuant to the Agreement, the City was required to enter into the Cooperation and Pledge Agreement (Agreement) dated July 28, 1999. In the Agreement, the principal security for the HUD 108 Loan guarantee is a pledge by the City of its current and future Community Development Block Grant (CDBG) funds. The RDA pledged tax increment generated by the project, excluding amounts required to be set aside in the Low and Moderate Income Housing Fund (LMIHF), as secondary security for the HUD 108 Loan Agreement in addition to the City's CDBG funding. During the meet and confer, the Agency provided a funding breakdown to show how its fiscal year 2014-15 CDBG grant totaling \$1.8 million had been awarded to grantees and that no funds are available to pay the HUD 108 Loan. However, because the Agency is not a party to the HUD 108

Loan and the City received sufficient CDBG funds that are pledged as principal security for the HUD 108 Loan, Item No. 3 is not an enforceable obligation and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding on this ROPS.

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 No. 17 – City Agency General Fund Loan in the amount of \$293,014 is not an enforceable obligation. Oversight Board (OB) Resolution No. 2014-05, authorizing the Agency to enter into a loan agreement with the City to make a HUD Section 108 loan payment, was denied in our letter dated October 31, 2014. As such, this item is not eligible for RPTTF funding.

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 Funds (RPTTF). Pursuant to HSC section 34177 (I) (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. According to the Agency's Cash Balance Form, the Agency reported available Other Funds balances totaling \$1,858,846.

Therefore, the funding source for the following items has been reclassified to Other Balances and in the amounts specified below:

- Item No. 18 – Tax Allocation Revenue Refunding Bond Series 2014A debt service payment in the amount of \$770,267. The Agency requests \$770,267 from RPTTF; however, Finance is reclassifying the entire amount to Other Funds funding. 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 \$1,858,846 in available Other Funds. Therefore, Finance is approving use of Other Balances in the amount of \$770,267.
- Item No. 20 – Tax Allocation Revenue Refunding Bond Series 2014A debt service reserve in the amount of \$1,145,916. The Agency requests \$1,145,916 from RPTTF; however, Finance is reclassifying \$1,088,579 to Other Funds funding. 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 \$1,088,579 (\$1,858,846 - \$770,267) in available Other Funds. Therefore, Finance is approving RPTTF in the amount of \$57,337 and the use of Other Funds funding in the amount of \$1,088,579.

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 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 \$373,037 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	2,526,259
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS	\$ 2,651,259
Total RPTTF requested for non-administrative obligations	2,526,259
<u>Denied Items</u>	
Item No. 3	(54,093)
Item No. 17	(293,014)
	(347,107)
Total RPTTF for non-administrative obligations	2,179,152
<u>Cash Balances - Items reclassified to other funding sources</u>	
Item No. 18	(770,267)
Item No. 20	(1,088,579)
	(1,858,846)
Total RPTTF authorized for non-administrative obligations	\$ 320,306
Total RPTTF requested for administrative obligations	125,000
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 445,306
ROPS 13-14B prior period adjustment	(72,269)
Total RPTTF approved for distribution	\$ 373,037

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. Nellie Ruiz, Senior Accountant, City of South Gate
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County
California State Controller's Office