DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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April 14, 2015

Mr. Chris Woidzik, Interim Finance Director
City of Avalon
309 West 4th Street
Santa Ana, CA 92701

Dear Mr. Woidzik:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Avalon Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to the California Department of Finance (Finance) on March 3, 2015 for the period of July 1, 2015 through December 31, 2015. Finance has completed its review of your ROPS 15-16A, which may have included obtaining clarification for various items.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

- Item No. 11 – Legal Services in the amount of $2,000,000. It is our understanding, the legal services are associated with several Bond funded projects, such as the Pebble Beach Project, identified as Item No. 6. The Agency requested funding from Redevelopment Property Tax Trust Fund (RPTTF). However, it is also our understanding that this cost is an expense needed for the support of the project that is being funded with bond proceeds. Since this project is funded with bond proceeds, the cost associated with this project should also be funded with bond proceeds. Therefore, $50,000 requested for this line item is not eligible for RPTTF and has been reclassified to Bond Proceeds.

- Item No. 16 – Continuing Bond Disclosure and Bond Arbitrage in the amount of $12,500 is partially approved. Although $12,500 is requested for the six-month period, the documents provided by the Agency only supported $3,350. Therefore, the excess $9,150 is not eligible for RPTTF funding.

- Item No. 24 – Housing administrative cost allowance pursuant to AB 471 in the amount of $75,000. Finance continues to deny this obligation. Pursuant to HSC section 34171 (p), the housing successor administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the redevelopment agency elected to not assume the housing functions. Because the housing successor to the former redevelopment agency of the City of Avalon (City) is the City-formed Housing Authority (Authority) the Authority operates

under the control of the City. Therefore, $75,000 of housing successor administrative allowance from RPTTF is not allowed.

The administrative costs claimed are within the fiscal year administrative cap pursuant to HSC section 34171 (d). However, Finance notes the oversight board has approved an amount that appears excessive, given the number and nature of the other obligations listed in the ROPS. HSC section 34179 (i) requires the oversight board to exercise a fiduciary duty to the taxing entities. Therefore, Finance encourages the oversight board to apply adequate oversight when evaluating the administrative resources required to successfully wind-down the Agency.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 15-16A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 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 review of the Agency's self-reported prior period adjustment.

Except for the items denied in whole or in part, Finance is not objecting to the remaining items listed on your ROPS 15-16A. If you disagree with the determination with respect to any items on your ROPS 15-16A, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

http://www.dof.ca.gov/redevelopment/meet_and_confer/

The Agency's maximum approved RPTTF distribution for the reporting period is $1,827,117 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution For the period of July through December 2015		
Total RPTTF requested for non-administrative obligations		1,915,877
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations on ROPS	**$**	**2,040,877**
Total RPTTF requested for non-administrative obligations		**1,915,877**
Denied Items		
Item No. 16		(9,150)
Item No. 24		(75,000)
		(84,150)
Reclassified Item		
Item No. 11		(50,000)
Total RPTTF authorized for non-administrative obligations	**$**	**1,781,727**
Total RPTTF authorized for administrative obligations	**$**	**125,000**
Total RPTTF authorized for obligations	**$**	**1,906,727**
ROPS 14-15A prior period adjustment		(79,610)
Total RPTTF approved for distribution	**$**	**1,827,117**

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 15-16A review, Finance requested financial records to support the cash balances reported by the Agency; however, the Agency was unable to support the amounts reported. The beginning balances for Bond Funds, Other Funds, and RPTTF could not be supported by the Agency's financial records. As a result, Finance will continue to work with the Agency after the ROPS 15-16A 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 15-16B.

Please refer to the ROPS 15-16A schedule that was used to calculate the approved RPTTF amount:

http://www.dof.ca.gov/redevelopment/ROPS

Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 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 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 Kylie Oltmann, Supervisor or Veronica Green, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Program Budget Manager

cc: Ms. Suzy Kim, Associate, City of Avalon
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County
California State Controller's Office