DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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April 10, 2015

Mr. Johnny Ford, Executive Director
City of Compton
205 South Willowbrook Avenue
Compton, CA 90220

Dear Mr. Ford:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Compton 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. 6 – Debt service reserves in the amount of $5,800,000 for a payment due in the July through December 2016 period is not allowed. HSC section 34171 (d) (1) (A) allows successor agencies to hold a reserve for debt service payments when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the following half of the calendar year. Therefore, the request to fund a payment due in the July through December 2016 period is not allowed.

- Item Nos. 9 through 14, 51, 53, 54, 55, 152, 167, 170, and 176 – Various projects totaling $12,250,724 funded with Bond Proceeds. Finance continues to deny these items because the Agency has not received a Finding of Completion and Finance has not received assurance from bond counsel the commitments are consistent with bond covenants as set forth in HSC section 34176 (g). Therefore, these items are not eligible for bond funding at this time.

- Item No. 120 – Project Management Costs totaling $100,000 payable to State Water Resources Control Board (SWRCB). Finance previously denied this item during ROPS 14-15B as it was determined not to be an obligation of the Agency. The Agency previously claimed this item was for remediation costs associated with a previously approved project. Our review of the documentation provided by the Agency indicated this item is due to a notice to the City from SWRCB requiring the City to submit a work-plan for investigation of soil and groundwater on a specific property. However, the Agency did not provide documentation supporting the property is owned by the Agency

or that the Agency has an obligation to perform the required actions. Therefore, this item is not an enforceable obligation as defined in HSC section 34171 (d) and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF).

- Item No. 158 – Prior City General Fund Obligation and Liabilities totaling $4,500,000. Finance previously denied this item during ROPS 14-15B as it was determined not to be an obligation of the Agency. The Agency has previously stated the requested amount is for repayment to the City of Compton (City) for certain tax allocation bonds issued. The Compton Public Finance Authority (Authority) issued 1987 Series A Revenue Bonds on November 1, 1987 to, among other things, make a loan of the bond proceeds to the former redevelopment agency (RDA). The Agency claims that in accordance with the issued bonds, the former RDA entered into a Reimbursement and Repayment Agreement (Agreement) for Services with the City and the Authority on November 17, 1987. Based on our review, the Agreement did not obligate the former RDA to make payments to the City in relation to the 1987 bonds issued, but rather, the agreement provides that the Authority will reimburse the City and RDA for certain services and facilities made available by the City and the RDA.

  We note that the Authority is comprised of the City and the former RDA. HSC section 34171 (d) (2) states that loan agreements entered into between the RDA and the city, county, or city and county that created it, within two years of the date of creation of the RDA, or solely for the purpose of securing or repaying indebtedness obligations may be deemed to be enforceable obligations. While the Agreement was entered into at the same time the bonds were issued, the Agreement is not solely for the purpose of issuing the bonds. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding.

- Item Nos. 165 and 176 – Capital Improvements and Remediation Activities totaling $1,925,000 funded with RPTTF are not enforceable obligations. Insufficient documentation was provided to support the amounts claimed. To the extent the Agency can provide suitable documentation, such as executed contracts, to support the requested funding, the Agency may be able to obtain RPTTF on future ROPS.

- Claimed administrative costs exceed the allowance by $618,850.
  HSC section 34171 (b) limits the fiscal year 2015-16 administrative expenses to three percent of property tax allocated to the Agency or $250,000, whichever is greater. As a result, the Agency is eligible for $250,000 in administrative expenses. Although $533,850 is claimed for administrative cost, Item Nos. 8, 16, 20, and 44 totaling $335,000 are considered administrative expenses and should be counted toward the cap. Therefore, $618,850 of excess administrative cost is not allowed.

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 or items that have been reclassified, 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 $5,588,970 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		15,878,970
Total RPTTF requested for administrative obligations		533,850
Total RPTTF requested for obligations on ROPS	**$**	**16,412,820**
Total RPTTF requested for non-administrative obligations		**15,878,970**
Denied Items		
Item No. 6		(5,800,000)
Item No. 120		(50,000)
Item No. 158		(4,500,000)
Item No. 165		(50,000)
Item No. 176		(75,000)
		(10,475,000)
Reclassified Items		
Item No. 16		(65,000)
Total RPTTF authorized for non-administrative obligations	**$**	**5,338,970**
Total RPTTF requested for administrative obligations		**533,850**
Reclassified Items		
Item No. 8		135,000
Item No. 16		65,000
Item No. 20		95,000
Item No. 44		40,000
		335,000
Administrative costs in excess of the cap (see Admin Cost Cap table below)		(618,850)
Total RPTTF authorized for administrative obligations	**$**	**250,000**
Total RPTTF authorized for obligations	**$**	**5,588,970**
ROPS 14-15A prior period adjustment		0
Total RPTTF approved for distribution	**$**	**5,588,970**

Administrative Cost Cap Calculation		
Total RPTTF authorized for non-administrative obligations		5,338,970
Percent allowed pursuant to HSC section 34171 (b)		3%
Total RPTTF allowable for administrative obligations		160,169
(Greater of 3% or $250,000)		**250,000**
Total RPTTF administrative obligations after Finance adjustments		868,850
Administrative costs in excess of the cap	**$**	**(618,850)**

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, Finance was unable to reconcile the financial records to the amounts reported. 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 Brian Dunham, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Program Budget Manager

cc: Dr. Kofi Sefa-Boakye, Director of Redevelopment, City of Compton
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County
California State Controller's Office