

May 15, 2015

Mr. Aldo E. Schindler, Director of Community Development
City of Downey
11111 Brookshire Avenue
Downey, CA 90241

Dear Mr. Schindler:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 09, 2015. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Downey Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to Finance on March 02, 2015, for the period of July through December 2015. Finance issued a ROPS determination letter on April 09, 2015. Subsequently, the Agency requested a Meet and Confer session on one or more of the determinations made by Finance. The Meet and Confer session was held on April 22, 2015.

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 determinations being disputed.

- Item No. 3 – Bob's Big Boy Owner Participation Agreement (OPA) in the total outstanding amount of \$125,000. Finance no longer denies the Agency's request to fund \$25,000 in ROPS 15-16A. Finance previously determined that the former redevelopment agency (RDA) entered into an OPA dated August 2008 with JKBBB, Inc., (Owner). Per the terms of the OPA, the RDA's rental payments under the sublease were to be paid to the Owner in advance, with the last payment to be paid within 15 days after the property improvement completion date. During the Meet and Confer the Agency claims that the ROPS request is based on Article 3 of the OPA whereas Finance's previous determination appears based on Article 2 of the OPA. Upon further review, Finance concurs with the Agency. Per Article 3.4 (b) (iii), the Agency must pay \$25,000 in eight annual payments starting the third year post completion. Therefore, Finance has determined this is an enforceable obligation and is eligible for Redevelopment Property Tax Trust Fund (RPTTF) on this ROPS.
- Item No. 4 – Chrysler & Jeep Dealership/OPA in the amount of \$192,475. Finance continues to reclassify this item to Other Funds. Finance previously determined that per OPA dated June 2010 is between the RDA and the Champion Dodge, LLC (Owner), on or before September 1 of each calendar year, the RDA shall pay the Owner the amount of available sales tax revenues (a prorata percentage) attributable to and received by the

City from the property. During the Meet and Confer the Agency contested that the obligation for this item is payable from RPTTF because the Agency does not have authority to receive and commit sales tax revenues and that the amount due is based on the sales tax received from the development and not the actual source of funds. However, section 4.1.2 (a) of the OPA states the following:

“... the City shall retain for payment to the Owner, a prorata percentage of the sales tax revenues attributable to and received by the City from the Property...”

Therefore, Finance has determined that the funding source for this item is the amount of sales tax over \$350,000 received by the City. Furthermore, the \$80,000 requested for this line item is not eligible for RPTTF and has been reclassified to Other Funds.

In addition, per Finance's letter dated April 09, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

The administrative costs claimed are within the fiscal year administrative cap pursuant to HSC section 34171 (b). However, Finance notes the oversight board has approved an amount that appears excessive, given the number and nature of the obligations listed on 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 Redevelopment Property Tax Trust Fund (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 for the item that has been reclassified, Finance is not objecting to the remaining items listed on your ROPS 15-16A.

The Agency's maximum approved RPTTF distribution for the reporting period is \$616,138 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	660,888
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS	\$ 785,888
Total RPTTF requested for non-administrative obligations	660,888
<u>Reclassified Item</u>	
Item No. 4	(80,000)
Total RPTTF authorized for non-administrative obligations	\$ 580,888
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 705,888
ROPS 14-15A prior period adjustment	(89,750)
Total RPTTF approved for distribution	\$ 616,138

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. 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>

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 Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-3274.

Sincerely,



JUSTYN HOWARD
Program Budget Manager

cc: Mr. Edward Velasco, Housing Manager, City of Downey
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County
California State Controller's Office