DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

May 15, 2015

Mr. Perry Banner, Community Development Manager
City of Lawndale
14717 Burin Avenue
Lawndale, CA 90260

Dear Mr. Banner:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 6, 2015. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Lawndale Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to Finance on February 25, 2015, for the period of July through December 2015. Finance issued a ROPS determination letter on April 6, 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 21, 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 Nos. 33 through 36 – Total outstanding loan balances for the 2000 Cooperation Agreement, 2000 Financing Agreement, 2001 Cooperation Agreement, and 2009 Loan Agreement are overstated. Finance continues to maintain that the total outstanding balances for these agreements are overstated as they include miscalculated interest. Pursuant to HSC section 34191.4 (b) (2), the recalculation of the accumulated interest from loan origination is not to exceed the interest rate earned by funds deposited in the Local Agency Investment Fund (LAIF). The total outstanding balances for Item Nos. 33 through 36 include miscalculated interest as the Agency used the wrong LAIF rate. During the Meet and Confer process, the Agency contended that the accumulated interest should be recalculated by using the annual average LAIF interest rate that was applicable for each year the loans have been outstanding. However, the accumulated interest on the loan should be recalculated using the LAIF interest rate at the time when the Agency's Oversight Board makes a finding the loan was for legitimate redevelopment purposes. Since the amount requested for ROPS 15-16A does not exceed the repayment formula outlined in HSC section 34191.4 (b) (2) (A), Finance is approving the amount requested.

- Item No. 38 – Housing administrative cost allowance pursuant to AB 471 in the amount of $150,000. Finance continues to deny this item. Pursuant to HSC section 34171 (p),

the housing entity administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the redevelopment agency (RDA) elected to not assume the housing functions. Because the housing entity to the former RDA of the City of Lawndale (City) is the City-formed Housing Authority (Authority), and the Authority operates under the control of the City, the Authority is considered the City under Dissolution Law (ABx1 26 and AB 1484).

The Agency contends that the City designated the Authority, as a separate legal entity from the City, to retain the housing functions pursuant to HSC section 34176 (b) (3) and should therefore be eligible for the housing entity administrative allowance. However, pursuant to HSC section 34167.10 (a), the definition of "city" includes, but is not limited to, any reporting entity of the city for purposes of its comprehensive annual financial report (CAFR), any component unit of the city, or any entity controlled by the city or for which the city is financially responsible or accountable. HSC section 34167.10 (a) defines "city" for purposes of all of Dissolution Law, which includes HSC section 34171, as amended by AB 471, and HSC section 34176. The Authority is included in the City's CAFR, which identifies the Authority as a component unit of the City and states that the City is financially accountable for the component units.

Although the Authority is a separate legal entity from the City, HSC section 34167.10 (c) states that it shall not be relevant that the entity is formed as a separate legal entity. It should also be noted that HSC section 34167.10 (c) goes on to state that "the provisions of this section are declarative of existing law as the entities described herein are and were intended to be included within the requirements of this part [Part 1.8] and Part 1.85...and any attempt to determine otherwise would thwart the intent of these two parts." Therefore, based on our review, the City, by way of the Authority, elected to retain the housing functions pursuant to HSC section 34176 (a) and is not eligible for $150,000 of housing entity administrative allowance.

In addition, per Finance's letter dated April 6, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item Nos. 10, 30, and 32 – Various obligations totaling $4,898,320. Per the Agency, the funding requests for the 6-month period are overstated and need to be reduced as follows:
    - Item No. 10 – Lawndale Community Center in the amount of $500,000 funded with Bond Proceeds. Per the Agency's request, Bond Proceeds has been reduced by $200,000. As such, $300,000 of Bond Proceeds has been approved for this obligation.
    - Item No. 30 – Property Management, Relocation, & Right of Way in the amount of $80,000. This obligation is funded with Bond Proceeds in the amount of $25,000 and Redevelopment Property Tax Trust Fund (RPTTF) in the amount of $55,000. Per the Agency's request, Bond Proceeds has been reduced by $10,000 and RPTTF by $22,000. As such, $15,000 of Bond Proceeds and $33,000 of RPTTF has been approved for this obligation.
    - Item No. 32 – Bond Cooperation Agreement in the amount of $4,318,320 funded with Bond Proceeds. Per the Agency's request, Bond Proceeds has been

reduced by $2,318,320. As such, $2,000,000 of Bond Proceeds has been approved for this obligation.

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. The Agency's maximum approved RPTTF distribution for the reporting period is $1,597,194 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		1,710,194
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations on ROPS	**$**	**1,835,194**
Total RPTTF requested for non-administrative obligations		**1,710,194**
Denied Items		
Item No. 30		(22,000)
Item No. 38		(150,000)
		(172,000)
Total RPTTF authorized for non-administrative obligations	**$**	**1,538,194**
Total RPTTF authorized for administrative obligations	**$**	**125,000**
Total RPTTF authorized for obligations	**$**	**1,663,194**
ROPS 14-15A prior period adjustment		(66,000)
Total RPTTF approved for distribution	**$**	**1,597,194**

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. The Agency was not able to support the amounts reported. 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 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 15-16B.

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 Mary Halterman, Analyst, at (916) 445-3274.

Sincerely,

JUSTYN HOWARD
Program Budget Manager

cc: Mr. Ken Louie, Finance Director, City of Lawndale
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County
California State Controller's Office