



May 15, 2015

Ms. Jacquelyn Acosta, Finance Director
City of South Gate
8560 California Avenue
South Gate, CA 90280

Dear Ms. Acosta:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 06, 2015. 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 15-16A) to Finance on February 25, 2015, for the period of July through December 2015. Finance issued a ROPS determination letter on April 06, 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 – HUD Section 108 Loan in the amount of \$ 1,655,275 is denied. Finance continues to deny this obligation. As stated in Finance's original determination the primary security of the loan is listed as Community Development Block Grant (CDBG) funds and based on information provided by the Agency, the CDBG fund allocations available to the City are sufficient to cover the debt.

More specifically, 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. 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 ROPS 14-15B 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.

- Item Nos. 17 – City Agency General Fund Loan in the amount of \$293,014. Finance continues to deny this item. The documentation provided by the Agency during the Meet and Confer did not support that this item is an enforceable obligation as defined in HSC section 34171 (d). Therefore, as previously determined, 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.
- Item No. 23 – City Agency Loan in the amount of \$54,093. Finance continues to deny this item. The documentation provided by the Agency during the Meet and Confer did not support that this item is an enforceable obligation as defined in HSC section 34171 (d). This item is a loan to cover a RPTTF shortfall for the ROPS 14-15B debt service payment on the HUD Section 108 Loan. This loan was denied in the OB Resolution No. 2015-01 determination letter dated March 4, 2015. As such, this item is not eligible for RPTTF funding.
- Prior Period Adjustment (PPA) totaling \$42,034. During the Meet and Confer, the agency requested that the PPA be reduced to \$0. This is not allowed. The agency claims that these funds were needed during the January through June 2015 (ROPS 14-15B) period. Per HSC section 34177 (a) (3), only those payments listed on ROPS may be made by the Agency from the funds specified on the ROPS. Based on review of the amount approved in the ROPS 14-15B Meet and Confer letter to the Agency dated December 17, 2014 and the ROPS 14-15B distribution report provided by the county auditor-controller (CAC), the Agency received all approved RPTTF for ROPS 14-15B. Additionally, we note that on the ROPS 15-16A Cash Balances worksheet prepared by the Agency indicates that the PPA identified in the ROPS 14-15B Meet and Confer letter was available for use in the ROPS 14-15B period. Finally, the Agency did not provide support that the OB considered or took an action to change the funding source for any items listed on the ROPS 14-15B. Therefore, the Agency's request to reduce the PPA to \$0 is denied.

HSC sections 34177 (a) (4) and 34173 (h) provide mechanisms when Agency payments must exceed the amounts authorized by Finance. Please ensure the proper expenditure authority is received from your Oversight Board and Finance prior to making payments on enforceable obligations.

In addition, per Finance's letter dated April 06, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

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 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 \$3,817,981 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	4,376,215
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS	\$ 4,501,215
Total RPTTF requested for non-administrative obligations	4,376,215
Denied Items	
Item No. 3	(294,093)
Item No. 17	(293,014)
Item No. 23	(54,093)
	(641,200)
Total RPTTF authorized for non-administrative obligations	\$ 3,735,015
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 3,860,015
ROPS 14-15A prior period adjustment	(42,034)
Total RPTTF approved for distribution	\$ 3,817,981

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: 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