DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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November 4, 2015

Mr. Robert Mescher, Finance Director
City of Avalon
410 Avalon Canyon Road
PO Box 707
Avalon, CA 90704

Dear Mr. Mescher:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m) (1) (A), the City of Avalon Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period January 1 through June 30, 2016 (ROPS 15-16B) to the California Department of Finance (Finance) on September 21, 2015. Finance has completed its review of the ROPS 15-16B.

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

- Item No. 13 – Contract for Consulting Services for General Plan. Per the Agency's request, the six-month funding request of $35,000 in Redevelopment Property Tax Trust Fund (RPTTF) has been reduced to zero.

- Item No. 14 – Low and Moderate Income Housing Fund (LMIHF) loan repayment for purposes of the Supplemental Educational Revenue Augmentation Fund (SERAF) in the amount of $68,861 is partially allowed.

  HSC section 34191.4 (b) (2) (A) allows this repayment to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through distributed to the taxing entities in the fiscal year 2012-13 base year. According to the County Auditor-Controller's report, the amount distributed to the taxing entities for fiscal year 2012-13 and 2014-15 are $266,002 and $763,216, respectively. Therefore, pursuant to the repayment formula, the maximum repayment amount authorized for 2015-16 is $248,607. Finance approved the requested $179,766 for SERAF loan repayment during ROPS 15-16A, leaving $68,841 available for the ROPS 15-16B period. Since the Agency requested a total of $68,861, the $20 of excess loan repayment is not eligible for funding on this ROPS. The Agency may be eligible for additional funding in a subsequent fiscal year.

- Item No. 24 – Housing administrative cost allowance in the total outstanding amount of $2,550,000. The Agency requests $150,000 of administrative RPTTF for the six-month

period. This item was previously denied in our determination letter dated May 15, 2015 and 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 redevelopment agency of the City of Avalon is the City-formed Housing Authority (Authority), the Authority operates under the control of the City and is considered the City under Dissolution Law pursuant to HSC section 34167.10. Therefore, $150,000 of housing entity administrative allowance requested on ROPS 15-16B and the total outstanding amount of $2,550,000 is not allowed.

- Claimed administrative costs exceed the allowance by $66,000.
  HSC section 34171 (b) (2) limits fiscal year 2015-16 administrative expenses to three percent of property tax allocated to the successor agency or $250,000, whichever is greater. As a result, the Agency is eligible for $250,000 in administrative expenses. The Los Angeles Auditor-Controller's Office distributed $175,000, thus leaving a balance of $75,000 available for the January through June 2016 period. Although $275,000 is claimed for administrative cost, Item No. 24 is being denied and Item No. 10 for audit and accounting services in the amount of $6,000 and Item No. 11 for legal services in the amount of $10,000 are considered administrative expenses and should be counted towards the cap. Therefore, $66,000 of excess administrative cost is not allowed.

Pursuant to HSC section 34186 (a), the Agency was required to report on the ROPS 15-16B form the estimated obligations versus actual payments (prior period adjustment) associated with the January through June 2015 period (ROPS 14-15B). HSC section 34186 (a) also specifies the prior period adjustment self-reported by the Agency is subject to audit by the county auditor-controller (CAC) and the State Controller. The amount of RPTTF approved in the table at the next page 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 and items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 15-16B. If you disagree with Finance's determination with respect to any items on your ROPS 15-16B, 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 $1,765,518 as summarized in the Approved RPTTF Distribution table on the next page:

| Approved RPTTF Distribution<br>For the period of January through June 2016 | | |
|---|---|---|
| Total RPTTF requested for non-administrative obligations | | 1,765,934 |
| Total RPTTF requested for administrative obligations | | 275,000 |
| **Total RPTTF requested for obligations on ROPS 15-16B** | **$** | **2,040,934** |
| | | |
| RPTTF adjustment to non-administrative obligations | | (35,000) |
| **Total RPTTF adjustments** | **$** | **(35,000)** |
| | | |
| **Total RPTTF requested for non-administrative obligations** | | **1,730,934** |
| Denied Items | | |
| Item No. 14 | | (20) |
| | | (20) |
| Reclassified Item | | |
| Item No. 10 | | (6,000) |
| Item No. 11 | | (10,000) |
| | | (16,000) |
| **Total RPTTF authorized for non-administrative obligations** | **$** | **1,714,914** |
| | | |
| **Total RPTTF requested for administrative obligations** | | **275,000** |
| Denied Item | | |
| Item No. 24 | | (150,000) |
| | | (150,000) |
| Reclassified Item | | |
| Item No. 10 | | 6,000 |
| Item No. 11 | | 10,000 |
| | | 16,000 |
| | | |
| Administrative costs in excess of the cap (see Admin Cost Cap table below) | | (66,000) |
| **Total RPTTF authorized for administrative obligations** | **$** | **75,000** |
| | | |
| **Total RPTTF authorized for obligations** | **$** | **1,789,914** |
| ROPS 14-15B prior period adjustment | | (24,396) |
| **Total RPTTF approved for distribution** | **$** | **1,765,518** |

| Administrative Cost Cap Calculation | | |
|---|---|---|
| Total RPTTF for 15-16A (July through December 2015) | | 1,781,727 |
| Total RPTTF for 15-16B (January through June 2016) | | 1,714,914 |
| Less approved unfunded obligations from prior periods | | (138,663) |
| **Total RPTTF for fiscal year 2015-2016** | | **3,357,978** |
| | | |
| Administrative cost cap for fiscal year 2015-16 (Greater of 3% of Total RPTTF or $250,000) | | 250,000 |
| Administrative allowance for ROPS 15-16A (July through December 2015) | | (175,000) |
| **Remaining administrative cost cap for ROPS 15-16B** | | **75,000** |
| ROPS 15-16B administrative obligations after Finance adjustments | | (141,000) |
| **Administrative costs in excess of the cap** | **$** | **(66,000)** |

On the ROPS 15-16B form, the Agency reported cash balances and activity for the period January 1 through December 31, 2015. Finance will perform a review of the Agency's self-reported cash balances on an ongoing basis. Please be prepared to submit financial records

and bridging documents to support the cash balances reported upon request. If it is determined the Agency possesses cash balances that are available to pay approved obligations, HSC section 34177 (l) (1) (E) requires these balances be used prior to requesting RPTTF.

Please refer to the ROPS 15-16B schedule used to calculate the total RPTTF approved for distribution:

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 January 1 through June 30, 2016. This determination only applies to items when 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 ROPS periods. All items listed on a future ROPS are subject to review and may be denied even if it was not denied on this ROPS or a preceding ROPS. The only exception is for items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). Finance's review of Final and Conclusive items 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 available prior to the enactment of the redevelopment dissolution statutes. 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.

Please direct inquiries to Kylie Oltmann, Supervisor, or Zuber Tejani, 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