

December 17, 2015

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

Dear Mr. Mescher:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 4, 2015. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Avalon Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16B) to Finance on September 21, 2015, for the period of January 1 through June 30, 2016. Finance issued a ROPS determination letter on November 4, 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 November 17, 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 determination being disputed.

- Item No. 24 – Housing administrative cost allowance in the total outstanding amount of \$2,550,000. The Agency requests \$150,000 of administrative Redevelopment Property Tax Trust Fund (RPTTF) for the six-month period. Finance continues to deny this item. Finance denied this item because 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 (City) is the City-formed Housing Authority (Authority), the Authority operates under the control of the City and is considered the City under Dissolution Law (ABx1 26 and AB 1484).

The Agency contends that the City elected not to retain the housing functions, but the Authority, as a separate legal entity from the City, did elect to retain the housing functions pursuant to HSC section 34176 (b) 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, 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 controlled by the City because the City was involved in the formation of the Authority and they share common governing boards, which are factors for consideration when determining if an entity is controlled by the city pursuant to HSC section 34167.10 (b).

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 requested on ROPS 15-16B and the total outstanding amount of \$2,550,000 is not allowed.

In addition, per Finance's letter dated November 4, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 13 – Contract for Consulting Services for General Plan. Per the Agency's request, the six-month funding request of \$35,000 in 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.

- 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. The Agency's maximum approved RPTTF distribution for the reporting period is \$1,765,518 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution	
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
<u>Denied Items</u>	
Item No. 14	(20)
	(20)
<u>Reclassified Item</u>	
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
<u>Denied Item</u>	
Item No. 24	(150,000)
	(150,000)
<u>Reclassified Item</u>	
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>

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

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