

December 17, 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 November 13, 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 15-16B) to Finance on October 01, 2015, for the period of January 1 through June 30, 2016. Finance issued a ROPS determination letter on November 13, 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 30, 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. 13 – The total outstanding balance for the City/RDA Loan Repayment is overstated. The Agency contends that Finance has incorrectly recalculated the interest on the outstanding loan balance. However, pursuant to HSC section 34191.4 (b) (3), any interest on the remaining principal amount of the loan that was previously unpaid after the original effective date of the loan shall be recalculated from the date of origination of the loan on a quarterly basis, at a simple interest rate of three percent and repayments shall be applied first to principal, and second to interest. The total outstanding balance for Item No. 13 includes miscalculated interest as well as repayments applied to interest prior to principal.

First, Agency claims that the effective date of the loan is the date the loan agreement was entered into. However, the effective date of the loan is the date the funds were provided to the Agency. It is illogical that the Agency should owe interest for the two-year period of time before it received any funds from the City, as no loan of monies actually occurred. The Agency also contends that the principle balance used to recalculate interest dating back from the origination of the loan is incorrect. However, HSC section 34191.4 (b) (3), provides that any interest on the "remaining principal" amount of the loan that was previously unpaid after the original effective date of the loan shall be recalculated from the date of origination of the loan on a quarterly basis, at a simple interest rate of three percent and repayments shall be applied first to principal,

and second to interest. Therefore, Finance has recalculated the total outstanding loan balance (approximately \$2,795,214) based on the remaining principal amount, and has reduced the outstanding loan balance reported on the Agency's ROPS Detail Form by \$424,426. Since the amount requested for ROPS 15-16B does not exceed the repayment formula outlined in HSC section 34191.4 (b) (3) (A), Finance is approving the requested six-month amount.

- Item No. 26 – Remediation costs for Agency owned property in the amount of \$1,100,000. Finance continues to deny this item. The Agency contends that this remediation is required by the Los Angeles Regional Water Quality Control Board (LAWQCB). However, our review indicates that the on May 28, 2015 the LAWQCB sent a Directive to the City of South Gate (City) to take corrective action in response to unauthorized underground storage tank release.

During the meet and confer the Agency provided a letter dated July 9, 2015 from the City to the LAWQCB denying ownership of the property. We note that the July 9, 2015 letter does not in any way create an enforceable obligation that must be fulfilled by the Agency. Moreover, to our knowledge the LAWQCB has not provided a response to the letter sent by the City, nor have they directed the Agency to do anything at all. Furthermore, it is unclear whether any direction to the Agency would even constitute an enforceable obligation, as any order would be issued after June 28, 2011. Therefore, because there is no directive that the Agency do anything Finance cannot determine whether an enforceable obligation currently exists or would even exist in the future, and as such, this item is not an enforceable obligation or eligible for funding in this ROPS. We also note that The Agency provided an estimate of the remediation costs over a period of time. However, the estimate provided was address to the City and are insufficient to support the requested amount.

In addition, per Finance's letter dated November 13, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 17 – City Agency Loan in the amount of \$293,014 is not an enforceable obligation. It is our understanding this is shortfall loan to cover ROPS 14-15A debt service payment on the HUD Section 108 Loan which was denied in Oversight Board (OB) Resolution No. 2014-05 determination letter dated October 31, 2014. As such, this item is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item No. 23 – City Agency Loan in the amount of \$54,093 is not an enforceable obligation. It is our understanding this is a shortfall loan to cover ROPS 14-15B debt service payment on the HUD Section 108 Loan, which was denied in OB Resolution No. 2015-01 determination letter dated March 4, 2015. As such, this item is not eligible for RPTTF funding.
- Item No. 24 – Litigation costs in the amount of \$50,000 have been reclassified to the administrative cost allowance (ACA), and therefore, claimed administrative costs exceed the allowance by \$50,000. Pursuant to HSC section 34171 (d) (1) (F) (i), legal expenses related to civil actions, including writ proceeding, contesting the validity of the dissolution law, or challenging acts taken pursuant to the dissolution law shall only be payable out of the ACA.

Additionally, HSC section 34171 (b) (2) limits fiscal year 2015-16 administrative expenses to three percent of the RPTTF funds allocated to the Redevelopment Obligation Retirement Fund for the fiscal year or \$250,000. The Los Angeles County Auditor-Controller distributed \$125,000 administrative costs for the July through December 2015 period, thus leaving a balance of \$125,000 available for the January through June 2016 period. Although \$125,000 is claimed for ACA, Item No. 24 for litigation cost in the amount of \$50,000 is considered general administrative cost and should be counted toward the cap. Therefore, \$50,000 of excess administrative cost is not allowed.

- Item No. 25 – City Agency Loan in the amount of \$294,093 is not an enforceable obligation. It is our understanding this is shortfall loan to cover ROPS 15-16A debt service payment on the HUD Section 108 Loan, which was denied in OB Resolution No. 2015-04 determination letter dated October 5, 2015. As such, this item is not eligible for RPTTF funding.
- Item No. 29 – Past payments for the HUD Section 108 Loan in the amount of \$641,200 is not an enforceable obligation. It is our understanding this item is a duplicate of Item Nos. 17, 23, and 25, which as described above, are also denied. With the passage of Senate Bill 107, HSC section 34171 (d) (2) lists HUD Section 108 loans as enforceable obligations; however, Finance denied Item Nos. 17, 23, and 25 using the applicable statutes at the time. There is not a retroactive component to the revisions made to HSC section 34171 (d) (2). As such, the request for past payments for HUD Section 108 Loan is not eligible for RPTTF funding.

Pursuant to HSC section 34186 (a) (1), 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) (1) also specifies the prior period adjustment self-reported by the Agency is subject to review by the county auditor-controller (CAC). 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 or the item that has 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 \$3,281,146 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	5,612,577
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS 15-16B	\$ 5,737,577
Total RPTTF requested for non-administrative obligations	5,612,577
Denied Items	
Item No. 17	(293,014)
Item No. 23	(54,093)
Item No. 25	(294,093)
Item No. 26	(1,100,000)
Item No. 29	(641,200)
	<u>(2,382,400)</u>
Reclassified Item	
Item No. 24	(50,000)
Total RPTTF authorized for non-administrative obligations	\$ 3,180,177
Total RPTTF requested for administrative obligations	125,000
Reclassified Item	
Item No. 24	50,000
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(50,000)
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 3,305,177
ROPS 14-15B prior period adjustment	(24,031)
Total RPTTF approved for distribution	\$ 3,281,146

Administrative Cost Cap Calculation	
Total RPTTF for 15-16A (July through December 2015)	3,735,015
Total RPTTF for 15-16B (January through June 2016)	3,180,177
Total RPTTF for fiscal year 2015-2016	6,915,192
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)	(125,000)
Remaining administrative cost cap for ROPS 15-16B	125,000
ROPS 15-16B administrative obligations after Finance adjustments	(175,000)
Administrative costs in excess of the cap	\$ (50,000)

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 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