



April 6, 2016

Mr. Vilko Domic, Director of Finance / City Treasurer
City of Commerce
2535 Commerce Way
Commerce, CA 90040

Dear Mr. Domic:

Subject: 2016-17 Annual Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (o) (1), the City of Commerce Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period July 1, 2016 through June 30, 2017 (ROPS 16-17) to the California Department of Finance (Finance) on January 28, 2016. Finance has completed its review of the ROPS 16-17.

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

- Item No. 2 – City loan in the amount of \$1,448,578 for the January 1, 2017 through June 30, 2017 (ROPS B) period. The Agency erroneously requested \$1,448,578 for the ROPS B period and wishes to reduce the Redevelopment Property Tax Trust Fund (RPTTF) amount to zero for the ROPS B period.
- Item Nos. 3, 43, and 44 – The total outstanding balance for various City Loans loan is overstated. Pursuant to HSC section 34191.4 (b) (3), 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 in the amount of \$7,720,507 includes miscalculated interest as well as repayments applied to interest prior to principal. Therefore, Finance has recalculated the total outstanding loan balance to be approximately \$6,493,200, and has reduced the outstanding loan balances reported on the Agency's ROPS Detail Form by \$1,227,307. Since the amount \$1,448,306 requested for the fiscal year does not exceed the repayment formula outlined in HSC section 34191.4 (b) (3) (A), Finance is approving the requested amount.

- Item No. 9 – Fiscal Agent Services in the amount of \$7,200 is partially approved. Of the \$7,200 requested, the Agency was able to support \$2,800. Therefore, the excess \$800 for the July 1, 2016 through December 31, 2016 (ROPS A) period and \$3,600 for the ROPS B period is not allowed. To the extent the Agency can provide suitable

documentation, such as vendor invoices to support the requested funding, the Agency may be able to obtain RPTTF funding in the future.

- Item No. 11 – Parcel Maintenance in the amount of \$60,266 is partially approved. Of the \$60,266 requested, the Agency was able to support only \$14,000 for the A period and indicated \$30,133 requested for the B period was in error. Therefore, the excess \$16,133 for the ROPS A period and \$30,133 for the ROPS B period is not allowed. To the extent the Agency can provide suitable documentation, such as vendor invoices to support the requested funding, the Agency may be able to obtain RPTTF funding in the future.
- Item No. 42 – City loan in the amount of \$1,376,149 for the ROPS B period. Per discussion with Agency staff, the requested RPTTF in the amount of \$1,376,149 was erroneously requested and the amount should be \$1,218,760. Therefore the requested amount is reduced by \$157,389 for the ROPS B period.

In addition, the total outstanding balance is overstated. Pursuant to HSC section 34191.4 (b) (3), 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 in the amount of \$7,334,224 includes miscalculated interest as well as repayments applied to interest prior to principal. Therefore, Finance has recalculated the total outstanding loan balance to be approximately \$6,204,726, and has reduced the outstanding loan balances reported on the Agency's ROPS Detail Form by \$1,129,498. Since the amount \$1,218,760 requested for the fiscal year does not exceed the repayment formula outlined in HSC section 34191.4 (b) (3) (A), Finance is approving the requested amount.

- Item No. 67 – Citadel DDA in the amount of \$200,000 is partially approved. The proposed work for this item is in accordance with a Department of Toxic Substances Control (DTSC) cleanup plan existing prior to June 27, 2011. During ROPS 13-14B Meet and Confer, the Agency estimated the continued monitoring and DTSC oversight would cost \$100,000 annually. Since \$100,000 was approved in ROPS 15-16B, funding for ROPS A period is not necessary. As such, only \$50,000 for ROPS B period is allowed. Therefore, the remaining \$150,000 is not allowed.
- Item No. 68 – Commerce Refuse to Energy Facility in the amount of \$25,000 is partially approved. The Agency requests \$25,000 of RPTTF for property maintenance related to remediation costs for the clean-up of certain properties. However, the Agency was able to support only \$12,500. As such, \$6,250 is approved for each ROPS A and B periods and the remaining \$12,500 is not approved.
- Item No. 75 – Testing for Toxic Substances. The Agency inadvertently omitted the funding request for this obligation. Per discussion with Agency staff, the funding request should be \$115,000 for the ROPS A period. As such, RPTTF funding has been increased by \$115,000.

- The claimed administrative costs exceed the allowance by \$250,000. HSC section 34171 (b) (3) limits the fiscal year 16-17 Administrative Cost Allowance (ACA) to three percent of actual distributed RPTTF in the preceding fiscal year or \$250,000, whichever is greater; not to exceed 50 percent of the distributed RPTTF in the preceding fiscal year. As a result, the Agency's maximum ACA is \$250,000 for the fiscal year 2016-17. Although \$500,000 is claimed for administrative cost, Item No. 62 for Legal costs in the amount of \$100,000 is considered an administrative cost and should be counted toward the cap. Therefore, \$350,000 of excess administrative cost allowance is not allowed.

Except for the items denied in whole or in part or the items that have been adjusted, Finance is not objecting to the remaining items listed on your ROPS 16-17. If you disagree with Finance's determination with respect to any items on your ROPS 16-17, except for those items which are the subject of litigation disputing Finance's previous or related determinations, 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/

On the ROPS 16-17 form, the Agency reported cash balances and activity for the period of July 1, 2015 through June 30, 2016. 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 our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting RPTTF. Therefore, with the Agency's concurrence, the funding source for the following item has been reclassified Other Funds and in the amount specified below:

Item No. 76 – Agreement for reimbursement of tax increment funds in the amount of \$1,938,287. The Agency requests \$1,938,287 in RPTTF; however Finance is reclassifying \$969,144 in the A period and \$107,856 in the B period to Other Funds. This item is an enforceable obligation for ROPS 16-17; however, the obligation does not require payment from property tax revenues. Therefore, Finance is approving RPTTF in the amount of \$861,287 and the use of Other Funds in the amount of \$1,077,000 totaling \$1,938,287.

The Agency's maximum approved RPTTF distribution for the reporting period is \$14,314,600 as summarized in the Approved RPTTF Distribution Table on Pages 5 (See Attachment).

ROPS distributions will occur twice annually, one distribution for the ROPS A period, and one distribution for the ROPS B period based on Finance's approved amounts. Since Finance's determination is for the entire ROPS 16-17 period, the Agency is authorized to receive up to the maximum approved RPTTF through the combined ROPS A and B period distributions.

On the ROPS 16-17 form, the Agency was not required to report the estimated obligations versus actual payments (prior period adjustment) associated with the July 1, 2015 through December 31, 2015 period (ROPS 15-16A). The Agency will report actual payments for ROPS 15-16A and ROPS 15-16B on the ROPS 18-19 form pursuant to HSC section 34186 (a) (1). A prior period adjustment will be applied to the Agency's future RPTTF distribution. Therefore, the Agency should retain any difference in unexpended RPTTF.

Please refer to the ROPS 16-17 schedule used to calculate the total RPTTF approved for distribution:

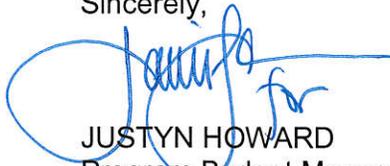
<http://www.dof.ca.gov/redevelopment/ROPS>

Absent a Meet and Confer, this is Finance's determination related to the enforceable obligations reported on your ROPS for the period July 1, 2016 through June 30, 2017. This determination only applies to items when funding was requested for the 12-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: Mr. Josh Brooks, Assistant Director of Finance, City of Commerce
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles Count

Attachment

Approved RPTTF Distribution			
For the period of July 2016 through June 2017			
	ROPS A Period	ROPS B Period	Total
Requested RPTTF (excluding administrative obligations)	\$ 8,918,270	\$ 8,027,463	\$ 16,945,733
Requested Administrative RPTTF	250,000	250,000	500,000
Total RPTTF requested for obligations on ROPS	9,168,270	8,277,463	\$ 17,445,733
Adjustment to Agency Requested RPTTF			
Item No. 2	0	(1,448,578)	(1,448,578)
Item No. 42	0	(157,389)	(157,389)
Item No. 75	115,000	0	115,000
Total RPTTF adjustments	115,000	(1,605,967)	(1,490,967)
Total RPTTF Requested	9,033,270	6,421,496	15,454,766
<u>Denied Items</u>			
Item No. 9	(800)	(3,600)	(4,400)
Item No. 11	(16,133)	(30,133)	(46,266)
Item No. 67	(100,000)	(50,000)	(150,000)
Item No. 68	(6,250)	(6,250)	(12,500)
	(123,183)	(89,983)	(213,166)
<u>Reclassified Items</u>			
Item No. 62	(50,000)	(50,000)	(100,000)
Item No. 76	(969,144)	(107,856)	(1,077,000)
	(1,019,144)	(157,856)	(1,177,000)
Total RPTTF authorized	7,890,943	6,173,657	\$ 14,064,600
Total Administrative RPTTF requested	250,000	250,000	500,000
<u>Reclassified Item</u>			
Item No. 62	50,000	50,000	100,000
Total Administrative RPTTF after Finance adjustments	300,000	300,000	600,000
Administrative costs in excess of the cap (see Administrative Cost Allowance Cap table below)	(50,000)	(300,000)	(350,000)
Total Administrative RPTTF authorized	250,000	0	\$ 250,000
Total RPTTF approved for distribution	8,140,943	6,173,657	\$ 14,314,600

Administrative Cost Allowance Cap Calculation	
Actual RPTTF distributed for fiscal year 2015-16	\$ 9,206,221
Less sponsoring entity loan and Administrative RPTTF	4,602,105
Actual RPTTF distributed for 2015-16 after adjustment	4,604,116
Administrative Cap for 2016-17 per HSC section 34171 (b)	250,000
ROPS 16-17 Administrative RPTTF after Finance adjustments	600,000
Administrative Cost Allowance in excess of the cap	\$ (350,000)