DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

May 11, 2012

Bryan Cook, Assistant City Manager/Director of Finance
City of South Gate
8650 California Avenue
South Gate, CA 90280-3075

Dear Mr. Cook:

Pursuant to Health and Safety Code (HSC) section 34177 (l) (2) (C), the City of South Gate (City) Successor Agency submitted a Recognized Obligation Payment Schedule (ROPS) to the California Department of Finance (Finance) on April 30, 2012 for the periods January through June 2012 and July through December 2012. Finance staff contacted you for clarification of items listed in the ROPS.

HSC section 34171 (d) lists enforceable obligations (EO) characteristics. Based on a sample of items reviewed and application of the law, the following items do not qualify as (EO).

January through June 2012 ROPS

- Item Nos. 3 and 4 – Loan for $3,062,595 and City Advance for $3,031,933. HSC section 34171 (d) (2) states that loans between the entity that created the redevelopment agency (RDA) and the former RDA are only enforceable if made within the first two years of the RDA's existence. The RDA was established in 1973. The promissory notes issued by the RDA in favor of the City and the loan agreements were made subsequent to the first two-year period. Therefore, neither the loan nor the advance is an EO.

- Item No. 5 – 2002 Certificate of Participation (COP) Series A and B of $25,342,688. RDA owns the 21 properties within the City. South Gate Public Financing Authority executed the COPs, which is an entity of the City. The COPs appear to be the liability of the City and not the RDA. Therefore, the COPs are not EOs.

- Item Nos. 10 through 20 – Administrative expenses of $584,265. The HSC section 34171 (b) limits the 2011-12 administrative cost allowance to five percent of the property tax allocated to the successor agency or $250,000, whichever is greater. The City is allowed $250,000 for administration costs. Therefore, $584,265 of the claimed $834,265 is not allowed.

- Item No. 21 – Environmental Cleanup of $500,000. Per the City, no contract has been entered for this project. Because there was no contract in place prior to the June 28, 2011 date, this item is not an EO.

- Item No. 22 – Bonds and COPs Reserves of $4,221,208. "Reserve" requirements are already sufficiently funded for Item Nos. 1 and 2 as noted in the Comprehensive Annual Financial Report. City agreed to remove this duplicate item from the ROPS.

July through December 2012 ROPS

- Item Nos. 3 and 4 – Loan for $3,062,595 and City Advance for $3,031,933. HSC section 34171 (d) (2) states that loans between the entity that created the redevelopment agency (RDA) and the former RDA are only enforceable if made within the first two years of the RDA's existence. The RDA was established in 1973. The promissory note issued by the RDA in favor of the City and the loan agreement were made subsequent to the first two-year period. Therefore, neither the loan nor the advance is an EO.

- Item No. 5 – 2002 COP Series A and B of $25,342,688. RDA owns the 21 properties within the City. South Gate Public Financing Authority executed the COPs, which is an entity of the City. The City is making lease payments to the RDA for the use of certain real property and the improvements. The COPs should be the liability of the City and not the RDA. Therefore, the COPs are not EOs.

- Item Nos. 10 through 20 – Administrative expenses of $463,805. The HSC section 34171 (b) limits the 2011-12 administrative cost allowance to three percent of the property tax allocated to the successor agency or $250,000, whichever is greater. The City is allowed $250,000 for administration costs. Therefore, $463,805 of the claimed $713,805 is not allowed.

- Item No. 21 – Environmental Cleanup of $500,000. Per the City, no contract has been created for this project. Because there was no contract in place prior to the June 28, 2011 date, this item is not an EO.

- Item No. 22 – Bonds and COPs Reserves of $4,221,208. "Reserve" requirements are already sufficiently funded for Item Nos. 1 and 2 as noted in the Comprehensive Annual Financial Report. City agreed to remove this duplicate item off the ROPS.

As authorized by HSC section 34179 (h), Finance is returning your ROPS for your reconsideration. This action will cause the ROPS items noted above to be ineffective until Finance approval. Furthermore, items listed on future ROPS will be subject to review and may be denied as EOs.

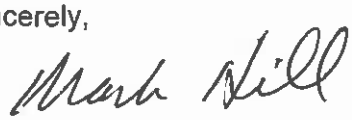
Department of Finance may continue to review items on the ROPS in addition to those mentioned above and identify additional issues. We will provide separate notice if we are requesting further modifications to the ROPS. It is our intent to provide an approval notice with regard to each ROPS prior to the June 1 property tax distribution date.

If you believe we have reached this conclusion in error, please provide further evidence that the items questioned above meet the definition of an EO and submit to the following email address:

Redevelopment_Administration@dof.ca.gov

Please direct any inquiries to Chikako Takagi-Galamba, Supervisor or Wendy Griffe, Lead Analyst at (916) 322-2985.

Sincerely,



MARK HILL
Program Budget Manager

cc: Mr. George Troxcil, City Manager, City of South Gate
Mr. Steve Lefever, Community Development Director, City of South Gate
Ms. Nellie Ruiz, City Staff Senior Attorney, City of South Gate
Mr. Raul Salinas, City Attorney, City of South Gate
Ms. Kristina Burns, Program Specialist III, Office of the Los Angeles County Auditor
Mr. Jim Simon, City Consultant, RSG, Inc.
Ms. Jane Carlson, Consultant, RSG, Inc.
Ms. Celeste Brady, Successor Agency Counsel, Stradling, Yocca, Carlson & Rauth, P.C.