



December 18, 2012

Ms. Betty Jo Garcia, Finance Director
City of Avalon
410 Avalon Canyon Road
Avalon, CA 90704

Dear Ms. Garcia:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 3, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Avalon Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 21, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 3, 2012. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on November 14, 2012.

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 items being disputed.

Finance initially determined that claimed administrative costs exceed the allowance by \$158,322. HSC section 34171 (b) limits the fiscal year 2012-13 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$250,000 for administrative expenses. The Los Angeles Auditor Controller's Office did not distribute administrative costs for the July through December 2012 period, thus leaving \$250,000 available for the January through June 2013 period. Although \$125,000 is claimed for administrative cost, Item Number 11 for legal representation totaling \$43,350 and Item Number 18 for permitted administrative expenses totaling \$239,972 are considered administrative expenses and should be counted toward the cap. Therefore, \$158,322 of excess administrative cost is not allowed.

As discussed in more detail below, Finance continues to reclassify Item 11 as an administrative cost and denies Item 18 as an enforceable obligation and as an administrative cost. Therefore, requested administrative costs total \$168,350, which is within the administrative cap for the January through June 2013 period:

- The Agency contends Item 11 is an enforceable obligation because HSC Section 34171 (b) also provides that "employee costs associated with work on specific project implementation activities, including, but not limited to construction inspection, project management, or actual construction, shall be considered project-specific costs and shall

not constitute administrative costs." However, the legal costs are associated with a third party contract and not an employee of the Agency. HSC section 34171 (b) allows litigation expenses related to assets or obligations to be funded with property tax outside the administrative cap. Since Item 11 relates to general legal representation and not specifically to bringing or contesting a legal action in court, it is considered an administrative expense and subject to the cap.

- The Agency contends Item 18 is an enforceable obligation because the costs are "Permitted Administrative Expense" payments to the City of Avalon pursuant to Section 1.12 of the 2003 Amendment No. 1 to the Tax Sharing Agreement. However, Section 9 of the Agreement states the County Auditor-Controller shall administer the Agreement. Since this is a pass through agreement, the payments should not be listed on the ROPS. Therefore, Item 18 is neither an enforceable obligation nor an administrative cost.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is: \$956,168 as summarized below:

Approved RPTTF Distribution Amount	
For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 1,071,140
Less: Six-month total for item(s) denied or reclassified as administrative cost	
Item 11*	43,350
Item 18	239,972
Total approved RPTTF for enforceable obligations	\$ 787,818
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	168,350
Total RPTTF approved:	\$ 956,168

* Reclassified as an administrative cost.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS III form the estimated obligations and actual payments associated with the January through June 2012 period. The amount of RPTTF approved in the above table will be adjusted by the county auditor-controller to account for differences between actual payments and past estimated obligations. Additionally, these estimates and accounts are subject to audit by the county auditor-controller and the State Controller.

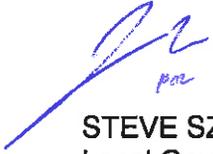
The amount available from the RPTTF is the same as the property tax increment that was available prior to enactment of ABx1 26 and AB 1484. This amount is not and never was an unlimited funding source. Therefore, as a practical matter, the ability to fund the items on the ROPS with property tax is limited to the amount of funding available to the successor agency in the RPTTF.

Except for items disallowed as noted above, Finance is not objecting to the remaining items listed in your ROPS III. Obligations deemed not to be enforceable shall be removed from your ROPS. This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2013. Finance's determination is effective for this time period only and should not be conclusively relied upon for future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not questioned on this ROPS or a preceding ROPS.

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Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Ken Lee, Senior Associate, RSG, Inc.
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office