DEPARTMENT OF FINANCE

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December 18, 2012

Mr. Douglas Dumhart, Community Development Director
City of La Palma
7822 Walker Street
La Palma, CA 90623

Dear Mr. Dumhart:

Subject: Recognized Obligation Payment Schedule Approval Letter

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated September 28, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of La Palma Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 15, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on September 28, 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 December 12, 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.

- Item Nos. 3 and 4 – Loan agreements, totaling $4.8 million. Finance continues to deny the items at this time. Finance denied the items as these agreements are between the City of La Palma and the former redevelopment agency (RDA). HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the former RDA are not enforceable. Per HSC section 34171 (d) (2), loan agreements entered into between the RDA and the city, county, or city and county that created it, within two years of the date of creation of the RDA, or solely for the purpose of securing or repaying indebtedness obligations may be deemed to be enforceable obligations. The Agency contends the items are enforceable obligations because they are an integral part of the financing arrangement with private third parties for redevelopment purposes. Finance has not issued a Finding of Completion to the Agency; therefore, the provisions of HSC section 34171 apply. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable obligations. Therefore, this item is currently not an enforceable obligation and not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Items 5, 6, and 7 – Reclassified items totaling $21,343. Finance reclassified these items as administrative costs counting towards the administrative cap. The Agency contends

these are project related items and should not be classified as costs counting towards the administrative cap. Finance reviewed the items and determined these costs are project related and mandated audit costs; therefore, HSC section 34171 (b) applies. This provision specifically excludes project costs from the administrative cost cap. It is Finance's position that audits required by ABx1 26 and AB 1484 should not be included as administrative costs. Therefore, these items are enforceable obligations. In addition, during the meet and confer process, the Agency requested an amendment to Item 6 for actual costs. That amendment is reflected in the total listed above.

- Items 8, 11, and 12, totaling $16,100 were previously reclassified as administrative costs. These obligations represent general administrative expenses. Finance continues to reclassify these items as administrative costs counting towards the administrative cost cap.

- Various items reclassified during ROPS II review:

  - Item 17 – Property Tax Services in the amount of $1,800. Finance reclassified this item as an administrative cost counting towards the administrative cost cap. Finance continues to reclassify this item as an administrative cost.

  - Items 8 through 15 and 18 – Administrative Costs in the amount of $127,770. Finance reclassified these items as administrative costs counting towards the administrative cap. The Agency contends these are project related items and should not be classified as costs counting towards the administrative cap. Finance reviewed the items and determined these costs are project related and mandated audit costs; therefore, HSC section 34171 (b) applies. This provision specifically excludes project costs from the administrative cost cap. It is Finance's position that audits required by ABx1 26 and AB 1484 should not be included as administrative costs. Therefore, these items are enforceable obligations.

- Administrative costs distributed to the Agency for the ROPS II total $233,735. Finance determined $127,770 of that was incorrectly reclassified as noted above; therefore, actual administrative costs for the ROPS II period totaled $105,965. On ROPS III, the Agency claimed what they believed to be the remaining administrative cost allowance, $17,000. After adjustments, the Agency is entitled to $144,035 in administrative costs for the ROPS III period.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is $1,033,710 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013		
Total RPTTF funding requested for obligations	$	1,102,975
Less: Six-month total for items denied or reclassified as administrative cost		
Item No. 3		0
Item No. 4		197,200
Item No. 8*		500
Item No. 11*		12,000
Item No. 12 *		3,600
Total approved RPTTF for enforceable obligations	$	889,675
Plus: Allowable RPTTF distribution for administrative cost for ROPS III		144,035
Total RPTTF approved:	$	1,033,710

*Reclassified as 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.

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

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Mr. Michael Solorza, Finance Director, City of La Palma
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office