



REVISED

December 26, 2012

Mr. Steve Valenzuela, Chief Financial Officer  
CRA/LA – A Designated Local Authority  
1200 West 7<sup>th</sup> Street, 2F  
Los Angeles, CA 90017

Dear Mr. Valenzuela:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 11, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Los Angeles CRA/LA Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 29, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 11, 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 28, 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.

In regards to items that may have been entered or reentered into, the Agency contends those items are enforceable obligations because the Agency was authorized to enter or reenter into the agreements by resolution of the duly appointed Oversight Board. While HSC section 34178 (a) and 34180 (h) authorizes successor agencies to enter or reenter into agreements, any agreement entered or reentered into cannot conflict with the requirements set forth in HSC 34171 (d), as ABx1 26 did not specifically carve out an exception to the definition of an enforceable obligation nor did HSC section 34178 (a) or 34180 (h) notwithstanding HSC section 34171 (d). Therefore, the Oversight Board had no legal basis to approve an action that directly conflicted with and violated the definition of an enforceable obligation. Even if Finance did not object to the specific Oversight Board actions authorizing the Agency to enter or reenter into agreements, the statute as a whole prohibits such an action from being validated if it conflicts with the definition of an enforceable obligation. Additionally, Finance has clearly defined authority under HSC section 34177 and 34179 (h) to review any items on ROPS to determine whether or not successor agencies are responsible for the obligation listed on their ROPS. Even if an Oversight Board approved an action that created an enforceable obligation, Finance has the authority to review the enforceable obligation for compliance with HSC section 34171 (d) or for compliance with any other statutory requirements contained in Chapter 26, statutes of 2012 (AB 1484). At no time can an Oversight Board action eliminate Finance's authority to review an enforceable obligation as part of a ROPS review.

- Items Nos. 100 through 109 – Agreements between the City of Los Angeles (City) and the Agency totaling \$12.7 million. Finance continues to deny the items. Finance denied the items as HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the redevelopment agency (RDA) and the former RDA are not enforceable obligations. Therefore, the items are not enforceable obligations and not eligible for funding.

However, successor agencies will be eligible to expend bonds issued prior to January 1, 2011, once a finding of completion is received per 34191.4 (c). Those obligations should be reported on a subsequent ROPS. Although we note that pursuant to HSC section 34191.4 (c), successor agencies that have been issued a finding of completion by Finance will be allowed to use excess proceeds from bonds issued prior to December 31, 2010, for the purposes for which the bonds were issued. Successor Agencies are required to defease or repurchase on the open market for cancellation any bonds that cannot be used for the purpose they were issued or if they were issued after December 31, 2010.

Additionally, to the extent some of the items are valid loan agreements, HSC section 34191.4 (b) may cause these items to be enforceable in future ROPS periods upon receiving a Finding of Completion from Finance.

- Items Nos. 110 through 115 – Loans totaling \$21.2 million. Finance no longer objects to Items 110, 111, 112, 114, and 115; however, Finance continues to deny Item 113 at this time. The Agency contends the items are enforceable obligations because the City advanced federal Community Development Block Grant (CDBG) funds to the former RDA to fund rehabilitation loans to eligible low and moderate income households and for other activities. For Items 110, 111, 112, 114, and 115, Finance was provided with agreements loaning CDBG funds and associated promissory notes that indicated the former RDA will be the party responsible for payment on the loans. The promissory notes were entered into at the time of the agreements and for the purpose of repaying the loans. Therefore, Items 110, 111, 112, 114, and 115 are enforceable obligations pursuant to HSC section 34171 (d) (2). For Item 113, to the extent the item is a valid loan agreement, HSC section 34191.4 (b) may cause the item to be enforceable in future ROPS periods upon receiving a Finding of Completion from Finance. Therefore, the item is currently not an enforceable obligation.
- Items Nos. 116 through 119 and 122 through 124 – Grants totaling \$15.4 million. Finance continues to deny the items. It is our understanding that these items relate to various grant agreements with matching funds. Furthermore, we understand that the Oversight Board approved the transfer of these former RDA grants to the City in order to implement these grants.

AB1484/ ABx1 26 requires agencies to expeditiously wind down the affairs of the dissolved RDAs and provides successor agencies with limited authority only to the extent needed to implement the wind down of RDA affairs and perform under enforceable obligations. As of June 27, 2011, RDAs were prohibited from creating any new obligations and engaging in any new redevelopment. As of February 1, 2012, the RDA's authority was suspended and the RDA ceased to exist. Any transfers of the RDA's powers to a third party were also impacted by the prohibitions and the dissolution. Since the RDA no longer had the power to take out or make new loans, receive new grants unless approved by an oversight board action, or engage in any other activity to create obligations as of June 27, 2011, these powers could no longer be transferred to a

third party, including the City. Thus, any specific obligations, whether by the RDA or a third party acting on behalf of the RDA, that did not exist as of June 27, 2011, are not enforceable obligations on the successor agency within the meaning of HSC section 34171 (d) (1).

Receiving a grant in and of itself is not an enforceable obligation. The grant has to be specific enough to obligate the Agency to perform. Any grant funding received by the Agency that is not tied to a specific approved enforceable obligation, and where the Agency cannot or is not authorized to fulfill the former RDAs requirements, should be returned to the grantor. Because HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011, the ability of a successor agency to fulfill grant requirements will be significantly limited if not eliminated, as most grant agreements are discretionary and are not specific enough to obligate activities. To the extent a grant cannot be utilized, it is typically returned to the grantor.

As it relates to these grant items, no grant agreements or grant applications have been provided to Finance that would justify these items as an enforceable obligation of the Agency. Information has not been provided that would demonstrate whether reassignment of the grants to the City is even allowable under the terms of the grants. Moreover, HSC section 34177.3 (c) prohibits the transfer of the revenues, which would include grant receipts, to another entity, except pursuant to an enforceable obligation. The Agency indicates that HSC section 34180 (e) allows for the transfer of the grants to the City. However, HSC section 34180 (e) authorizes the Agency, with oversight board approval, to accept new grants under specified conditions. That section does not provide authority to transfer previously received grants to other entities. Additionally, the Agency indicates that HSC section 34180 (h) allows the Agency to enter into an agreement to assign these grants to the city. However, HSC section 34180 (h) only allows a successor agency to enter into an agreement related to the furtherance of an approved and existing enforceable obligation (any agreement entered into may be subject to the administrative cost cap). The Agency has yet to demonstrate that the grants are enforceable obligations; therefore, this section does not apply.

To the extent the Agency can substantiate in the future that the grants listed create a valid enforceable obligation they may relist the item on a future ROPS for consideration. However, as it stands currently, insufficient information has been provided and these items are not approved for payment.

- Items Nos. 120, 121, 125, and 126 – Various agreements or contracts totaling \$1.2 million. Finance no longer objects to Items 125 and 126; however, Finance continues to deny Items 120 and 121 at this time. Finance was unable to verify the amount remaining on the AECOM contract. Until we can verify that the executed contract was between the former RDA and a third party and there is an amount that is left to be paid on the contract, Items 120 and 121 are not eligible for payment. The information provided in the Meet and Confer binder did not include a copy of the executed contract. Items 120 and 121 may be listed on the subsequent ROPS for reconsideration.

According to the Agency, Item 125 is related to a required assessment on Agency owned property that is contained within Business Improvement Districts. The Agency is required to pass the assessment along to the Business Improvement Districts themselves, which are typically made up of local businesses and property owners. Absent any additional information, Finance believes that this represents a payment

obligation imposed by state law pursuant to 34171 (d) (1) (c). Therefore, Item 125 is an enforceable obligation. Once the Agency disposes of the property, this obligation should be alleviated.

Item 126 is a past due payment related to a permit for a specific project. The funding source is bond proceeds. Finance is no longer objecting to the item.

- Item No. 156 – Put / Call Option Agreement in the amount of \$22 million. Finance continues to deny the item at this time. The Agency contends the item is an enforceable obligation because under the option agreement, if Broad Collection elects to “put” the parking facility to the Agency, the Agency has a non-contingent obligation to purchase the parking facility. The agreement also contains a “call” option whereby the Agency can elect to purchase the property from Broad Collection. We note that the “call” option is no longer viable, as the Agency can no longer exercise that discretionary option. However, should Broad Collection seek to “put” the parking facility to the Agency, the Agency is obligated to purchase the property. Broad Collection has five years following the date of issuance of a Certificate of Completion to exercise the “put” option. We note that the agreement does not require a reserve fund be established for payment should Broad Collection exercise their authority. Furthermore, the Agency has not demonstrated that they would have insufficient Redevelopment Property Tax Trust Fund (RPTTF) funding in the future to make such a payment should it become necessary. Finally, the law only allows the establishment of reserves for bond payments. This item is not a bond payment; therefore, maintaining a reserve is not allowed. Therefore, the item is currently not an enforceable obligation.
- Item No. 157 – Financial assistance payment to the developer in the amount of \$6 million. Finance continues to deny the item. The promissory note provided is not signed or dated; thus, Finance cannot determine if the document provided supports this item as an enforceable obligation. Moreover, the Agency indicated that the “Agreement for the Assignment, Assumption and Implementation of the Owner Participation Agreement” dated March 11, 2011, necessitates the payment of the \$6 million without an executed promissory note. Contrary to the Agency’s position, the “Agreement for the Assignment, Assumption and Implementation of the Owner Participation Agreement” states that the “...CRA/LA may pay the Office Financial Assistance in cash payment by delivering to Developer a check for good and sufficient funds.” This is a discretionary action that does not necessitate payment. Therefore, the item is not an enforceable obligation. To the extent the Agency can produce a properly executed promissory note, this item may be included on subsequent ROPS for reconsideration.
- Item No. 212 – Environmental Protection Agency grant match in the amount of \$240,000. Finance continues to deny the item at this time. Pursuant to HSC section 34180 (e), the Agency accepted a \$200,000 grant from the U.S. Environmental Protection Agency. According to an Agency memorandum provided during the Meet and Confer process, the grant award requires a \$40,000 match of funds. This match exceeds the 5 percent match level established in statute. As such, it requires oversight board approval. The documentation provided is a recommendation to the Oversight Board to approve the receipt of the grant and associated match. The actual Oversight Board resolution approving the action and an executed grant agreement were not provided. Therefore, the item is currently not an enforceable obligation. Once an executed resolution and grant agreement are provided, this item may be eligible for approval on the next ROPS. Finally, when listing this item on the next ROPS, the

Agency should list \$40,000 from RPTTF and \$200,000 from Other. The current ROPS listed the full amount, grant award plus the match, from RPTTF.

- Claimed administrative costs exceed the allowance by \$6,125,464. 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 \$2,374,972 for administrative expenses. The Los Angeles Auditor Controller's Office distributed \$686,346 of administrative costs for the July through December 2012 period, thus leaving \$1,688,626 available for the January through June 2013 period. Although \$2,599,802 is claimed for administrative costs, Finance continued to reclassify items as administrative costs totaling \$5,214,288. Therefore, \$6,125,464 of excess administrative cost is not allowed.

Items Nos. 127 through 141, 202, 216, 229, 234, 236, 238, 247 through 250, 253 and 256 continue to be reclassified as administrative costs and are included in the calculation above. The Agency contends the items are enforceable obligations for various reasons. However, based on our review of the information provided, and the description of services to be provided, Finance maintains that these items be reclassified as they do not fall into any of the following categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b):

- Any litigation expenses related to assets or obligations.
- Settlements and judgments.
- The costs of maintaining assets prior to disposition.
- 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.

However, Items 204, 205, and 227 are no longer being reclassified as these items are specifically, not tangentially, related to the costs of maintaining assets prior to disposition. Additionally, Finance continues to reclassify \$1,427,315 of Item 262 as an administrative cost. It is our understanding that the remaining portion totaling \$4,888,490 is related to MOU requirements associated with the downsizing of the former RDA and the associated layoffs. Pursuant to HSC section 34171 (d) (1) (C), employee costs that are incurred to fulfill collective bargaining agreements related to layoffs or terminations of city employees who performed work directly on behalf of the former RDA is an enforceable obligation.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is: \$57,976,139 as summarized below:

| <b>Approved RPTTF Distribution Amount</b>                                       |               |
|---|---------------|
| <b>For the period of January through June 2013</b>                              |               |
| Total RPTTF funding requested for obligations                                   | \$ 86,660,053 |
| Less: Six-month total for item(s) denied or reclassified as administrative cost |               |
| Item 100  | 4,256,741     |
| Item 101  | 3,000,000     |
| Item 107  | 50,820        |
| Item 108  | 34,994        |
| Item 109  | 9,155         |
| Item 116  | 906,010       |
| Item 117  | 850,000       |
| Item 118  | 710,754       |
| Item 119  | 653,911       |
| Item 123  | 263,367       |
| Item 124  | 182,500       |
| Item 127*   | 1,395,000     |
| Item 128*   | 114,576       |
| Item 129*   | 41,247        |
| Item 130*   | 22,320        |
| Item 131*   | 15,500        |
| Item 132*   | 13,392        |
| Item 133*   | 9,300         |
| Item 134*   | 9,300         |
| Item 135*   | 9,300         |
| Item 136*   | 5,580         |
| Item 137*   | 2,790         |
| Item 138*   | 1,860         |
| Item 139*   | 930           |
| Item 140*   | 930           |
| Item 141*   | 651           |
| Item 202*   | 375,000       |
| Item 216*   | 140,000       |
| Item 229*   | 30,000        |
| Item 234*   | 13,073        |
| Item 236*   | 10,157        |
| Item 238*   | 8,102         |
| Item 247*   | 534,000       |
| Item 248*   | 250,000       |
| Item 249*   | 131,051       |
| Item 250*   | 52,914        |
| Item 253*   | 350,000       |
| Item 256*   | 250,000       |
| Item 262*   | 1,427,315     |

|   |                      |
|---|----------------------|
| Item 156  | 8,000,000            |
| Item 157  | 6,000,000            |
| Item 212  | 240,000              |
| Total approved RPTTF for enforceable obligations                        | <u>\$ 56,287,513</u> |
| Plus: Allowable RPTTF distribution for administrative cost for ROPS III | <u>1,688,626</u>     |
| <b>Total RPTTF approved:</b>  | <b>\$ 57,976,139</b> |

\*Reclassified as administrative cost

| <b>Administrative Cost Calculation</b>   |                      |
|--|----------------------|
| Total RPTTF for the period July through December 2012                              | \$ 22,878,216        |
| Total RPTTF for the period January through June 2013                               | 56,287,513           |
| <b>Total RPTTF for fiscal year 2012-13:</b>  | <b>\$ 79,165,729</b> |
| Allowable administrative cost for fiscal year 2012-13 (Greater of 3% or \$250,000) | 2,374,972            |
| Administrative allowance for the period of July through December 2012              | 686,346              |
| <b>Allowable RPTTF distribution for administrative cost for ROPS III:</b>          | <b>\$ 1,688,626</b>  |

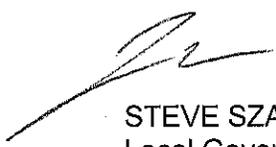
Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS III form the estimated obligations and actual payments associated with the January through June 2012 period. The amount of RPTTF approved in the above table will be adjusted by the county auditor-controller to account 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 Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



STEVE SZALAY  
 Local Government Consultant

cc: Mr. Nicholas Saponara, Acting Special Assistant to CFO, CRA/LA – Designated Local Authority  
 Ms. Kristina Burns, Manager, Los Angeles County Auditor-Controller's Office  
 California State Controller's Office