



December 18, 2012

Ms. Maida Alcantara, Finance Director
City of Signal Hill
2175 Cherry Avenue
Signal Hill, CA 90755

Dear Ms. Alcantara:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 8, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Signal Hill Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 24, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 8, 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 26, 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 No. 19 – CarMax Deposit totaling \$6,004,000. Finance continues to approve the item at this time. It is our understanding that CarMax is terminating the agreement with the Agency. It is our understanding that there is a dispute regarding the deposit and whether that amount should be returned to CarMax, less any amount for non-performance. Unfortunately, Finance cannot weigh in on this matter. We recommend the Agency seeks legal advice from their attorney regarding the situation. Additionally, we must inform the Agency that the property in question cannot be sold at this time in order to help resolve the termination of the agreement and continue the development of the property with a new auto dealer. Upon receiving a finding of completion from Finance, and pursuant to the Agency's approved Long-Range Property Management Plan, the Agency will be able to dispose of the property.
- Items Nos. 53 through 55, 57 through 61, and 63 – Affordable Housing Development/Replacement Housing Obligations. Finance did not review these items for the upcoming ROPS III period. As such, they continue to be approved at this time. The Agency had requested whether we would continue to approve these items if listed on future ROPS. Finance has flagged these items and will conduct a review during the next ROPS submittal. Once that review is done we will be able to inform you regarding the enforceability of the items.

However, we do note that generally speaking obligations associated with the former RDA's previous statutory housing obligations are not enforceable obligations. Upon the transfer of the former RDA's housing functions to the new housing entity, HSC section 34176 requires that "all rights, powers, duties, obligations and housing assets...shall be transferred" to the new housing entity. This transfer of "duties and obligations" necessarily includes the transfer of statutory obligations; to the extent any continue to be applicable. To conclude that such costs should be on-going enforceable obligations of the successor agency could require a transfer of tax increment for life – directly contrary to the wind down directive in ABx1-26/AB1484.

- Item Nos. 72 through 85 – Civic Center Phase I Construction. Finance continues to approve the items. This is a bond funded project that has been approved by Finance. At this time, Finance does not anticipate that variances, differences between estimates and actuals, in the close out costs of the project would be denied in the future.

In addition, per Finance's determination letter dated October 8, 2012, the following items were not being disputed by the Agency and continue to be denied:

- Item No. 10, 11, 12 and 13 – Although enforceable, the types of services requested totaling \$138,500 are considered general administrative services and have been reclassified.
- Item No. 21 and 22 – City loans totaling \$11.2 million. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the redevelopment agency (RDA) and the former RDA are not enforceable, unless issued within two years of the Agency's creation date or for issuance of indebtedness to third-party investor or bondholders. The Agency was established in 1974; therefore, these loans are not enforceable obligations at this time. Upon receiving a finding of Completion from Finance, HSC section 34191.4 (b) may cause these items to be enforceable in future ROPS periods.
- Item 86 – Bond related construction costs in the amount of \$7.3 million. It is our understanding that contracts are not in place for this line item. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. Therefore this item is not an enforceable obligation and not eligible for bond funding. Upon receiving a Finding of Completion from Finance, this item may become enforceable pursuant to HSC section 34191.4 (c). Until then they are not enforceable obligations and not authorized for payment.
- Item No. 87 and 88 – Bond funded projects totaling \$110,819. It is our understanding that contracts are not in place for these line items. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. It is also our understanding that the entity assuming the housing functions did not undergo the requirements outlined in HSC section 34175 (g) which allows for the expenditure of housing bond proceeds provided certain processes are followed. Upon receiving a finding of completion from Finance, these items may become enforceable pursuant to HSC section 34191.4 (c). Until then, they are not enforceable obligations and not authorized for payment.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is: \$7,399,418 as summarized below:

| Approved RPTTF Distribution Amount For the period of January through June 2013 | |
|---|---------------------|
| Total RPTTF funding requested for obligations | \$ 7,183,901 |
| Less: Six-month total for item(s) denied or reclassified as administrative cost | |
| Item 10 - Reclassified as administrative cost | 8,000 |
| Item 11 - Reclassified as administrative cost | 3,500 |
| Item 12 - Reclassified as administrative cost | 120,000 |
| Item 13 - Reclassified as administrative cost | 7,000 |
| Total approved RPTTF for enforceable obligations | \$ 7,045,401 |
| Plus: Allowable RPTTF distribution for administrative cost for ROPS III | 354,017 |
| Total RPTTF approved: | \$ 7,399,418 |

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. Kenneth Farfsing, City Manager, City of Signal Hill
Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office