DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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December 18, 2012

Ms. Terri Marsh, Director of Administrative Services
City of Stanton
7800 Katella Ave
Stanton, CA 90680

Dear Ms. Marsh:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 5, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Stanton Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 22, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 5, 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 7, 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. 10, 12, 15 through 23, 30, 39, and 43 – Various Tina-Pacific Neighborhood Rehabilitation projects totaling $2.6 million Redevelopment Property Tax Trust Fund (RPTTF) funding and $6.3 million bond funds. Finance continues to deny the items. Finance denied the items as HSC section 34163 (b) prohibits a redevelopment agency (RDA) from entering into a contract with any entity after June 27, 2011. Contracts for these items were executed after June 27, 2011; therefore, these items, and any resulting commitments, are not enforceable obligations. The Agency contends the items are enforceable obligations because the former RDA and Housing Authority have purchased 25 of 40 properties and the former RDA issued a bond to pay for the acquisition of the 15 properties not yet purchased. However, all of the contracts provided are either after June 27, 2011, or between the City of Stanton (City) and a third party, not the former RDA. HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011, and the Agency is not obligated to pay contracts of the City. Therefore, the items are not enforceable obligations.

  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. The bond proceeds requested for use were issued in March 2011.

- Item No. 24 – Affordability Covenant Extension in the amount of $2 million. Finance continues to deny this item. Finance denied this time as HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011. The Agency contends these items are related to its obligations to obtain and extend affordability covenants on affordable housing. However, 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. Therefore, this item is not an enforceable obligation.

- Item No. 29 – Replacement Housing Obligation for $13 million, no funding identified. Finance continues to deny the item. Finance denied the item as HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011. There is no contract in place for this item. The Agency contends the item is an enforceable obligation because nothing in the dissolution bills affected or repealed the obligation to provide replacement housing for low- and moderate-income housing which was removed as part of a redevelopment project. 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. Therefore, this item is not an enforceable obligation.

- Item No. 37 – Option Agreement with the City of Stanton for $12.5 million, no funding identified. Finance continues to deny the item. Finance denied the item as HSC section 34163 (e) prohibits the RDA from acquiring real property by any means for any purpose. In addition, HSC section 34163 (f) prohibits the RDA from transferring, assigning, vesting, or delegating any of its assets to any entity. The Agency contends the item is an enforceable obligation because the former RDA granted the City an option to purchase certain parcels of property from the RDA on February 8, 2011 for consideration and the options were properly extended. However, the agreement is between the former RDA and the City. 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 not an enforceable obligation.

- Item No. 38 – Stanton Central Park construction contract in the amount of $8.8 million in bond funds. Finance continues to deny the item at this time. Finance denied the item as HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011. There is no contract in place for this item. The Agency contends the item is an enforceable obligation because funding for a new community park was made possible through a $19 million dollar tax exempt bond issued in 2010. However, no contracts were in place prior to June 27, 2011. Therefore, the item is not eligible for bond funding at this time. 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.

- Item No 40 – Option Agreement with the City of Stanton in the amount of $6.3 million of other funds. Finance continues to deny the item. Finance denied the item as HSC section 34163 (e) prohibits the RDA from acquiring real property by any means for any purpose. In addition, HSC section 34163 (f) prohibits the RDA from transferring, assigning, vesting, or delegating any of its assets to any entity. The Agency contends the item is an enforceable obligation because the former RDA granted the City an option to purchase certain parcels of property from the RDA on February 8, 2011 for consideration and the options were properly extended. However, the agreement is between the former RDA and the City. 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 not an enforceable obligation.

- Item No. 42 – Cooperative Agreement with the City of Stanton in the amount of $16.2 million, no funding identified. Finance continues to deny the item. Finance denied the item as HSC section 34163 (b) prohibits an RDA from entering into a contract with any entity after June 27, 2011. The Agency contends the item is an enforceable obligation because this agreement was entered into in January 2011. However, the agreement is between the former RDA and the City. 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, the item is not an enforceable obligation.

- The following items were reclassified as administrative costs:

    - Item No. 7 – Jones & Mayer legal services in the amount of $90,000.
    - Item No. 9 – Audit contract with White, Nelson, Diehl, Evans in the amount of $280,000.
    - Item No. 31 – PERMA Liability insurance coverage in the amount of $45,156.
    - Item No. 32 – Unemployment and Workers Compensation insurance with PERMA and the State of California in the amount of $20,520.

  Finance continues to reclassify the items as administrative costs. Although this reclassification increased administrative costs to $238,469, the administrative cost allowance has not been exceeded. The Agency contends the items are enforceable obligations because the services referenced are all for professional services and insurance which are specifically related to dissolution and wind-down activities by the Agency as required law, and as permitted to be incurred for these purposes. However, the Agency did not provide any additional documents indicating that the items 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.

Therefore, the items are reclassified as administrative costs.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is $4,102,935 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013		
Total RPTTF funding requested for obligations	$	4,871,054
Less: Six-month total for item(s) denied or reclassified as administrative cost		
Item 7*		24,000
Item 9*		10,000
Item 12		426,000
Item 15		12,000
Item 16		60,000
Item 17		90,000
Item 18		42,000
Item 19		8,400
Item 20		9,000
Item 21		120,000
Item 22		24,000
Item 23		102,387
Item 30		18,040
Item 31*		22,578
Item 32*		20,520
Item 43		17,663
Total approved RPTTF for enforceable obligations	$	3,864,466
Plus: Allowable RPTTF distribution for administrative cost for ROPS III		238,469
Total RPTTF approved:	$	4,102,935

* 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 Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Mr. Omar Dadabhoy, Community Development Director, City of Stanton
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office