



December 18, 2012

Mr. Alex Kung, Assistant to the City Administrator
4305 Santa Fe Avenue
Vernon, CA 90058

Dear Mr. Kung:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 14, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Vernon Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 30, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 14, 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 October 30, 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.

- Items Nos. 7, 8, and 14 – Utility, security, and insurance costs in the amount of \$41,280. The Agency originally listed the items as administrative costs. The Agency requested Finance review the items to determine if they can be reclassified to be funded from the Redevelopment Property Tax Trust Fund (RPTTF) as opposed to the Administrative Allowance. The Agency contends these items are all costs associated with maintaining assets prior to distribution as permitted in HSC section 34171 (d) (1) (F). Therefore, Finance reclassified the items as enforceable obligations eligible for RPTTF.
- Item No. 12 – Bond Logistics in the amount of \$18,008. The Agency originally listed this item as an administrative cost. The Agency requested Finance review the items to determine if they can be reclassified to be funded from the RPTTF as opposed to the Administrative Allowance. It is Finance's position this item is an administrative cost and is included in the administrative cost cap. Therefore, Finance will not make the adjustment.
- Item No. 15 – Auditing fees in the amount of \$15,000. The Agency originally listed this item as an administrative cost. The Agency requested Finance review the items to determine if they can be reclassified to be funded from the RPTTF as opposed to the Administrative Allowance. The Agency contends the item is related to audit fees associated with the Due Diligence Review. It is Finance's position that these audits are only classified as administrative costs to the extent the administrative cost allowance has not been exceeded. In this case, the administrative cost cap has been exceeded;

therefore, this item will be classified as an enforceable obligation eligible for RPTTF funding.

- Administrative costs exceed the allowance by \$185,212. HSC section 34171 (b) limits fiscal year 2012-13 administrative expenses to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$288,388 in administrative expenses. The Los Angeles Auditor Controller's Office distributed \$250,000 for the July through December 2012 period, thus leaving a balance of \$38,388 available for the January through June 2013 period. Therefore, \$185,212 of the claimed \$250,000 is not allowed.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is: \$5,819,678 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 5,781,290
Less: Six-month total for item(s) denied or reclassified as administrative cost	0
Total approved RPTTF for enforceable obligations	<u>\$ 5,781,290</u>
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	<u>38,388</u>
Total RPTTF approved:	\$ 5,819,678

Administrative Cost Calculation	
Total RPTTF for the period July through December 2012	\$ 3,831,629
Total RPTTF for the period January through June 2013	5,781,290
Total RPTTF for fiscal year 2012-13:	\$ 9,612,919
Allowable administrative cost for fiscal year 2012-13 (Greater of 3% or \$250,000)	288,388
Administrative allowance for the period of July through December 2012	250,000
Allowable RPTTF distribution for administrative cost for ROPS III:	\$ 38,388

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 Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Gustavo Lamanna, Esq, Counsel to Successor Agency
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor Controller
California State Controller's Office