



April 26, 2013

Ms. Lani Emmich, Finance Manager
City of Hawthorne
4455 West 126th Street
Hawthorne, CA 90250

Dear Ms. Emmich:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Hawthorne Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14A) to the California Department of Finance (Finance) on March 12, 2013 for the period of July through December 2013. Finance has completed its review of your ROPS 13-14A, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following do not qualify as enforceable obligations:

- Item No. 4 – 2006 Tax Allocation Bond in the amount of \$2 million. Finance was unable to determine whether this item meets the definition of an enforceable obligation. No executed bond indenture was provided to support the amount claimed. Therefore, this item is not enforceable obligation at this time and not eligible for Redevelopment Property Tax Trust Funds (RPTTF) funding on the ROPS. Appropriate documentation and clarification should be provided to Finance during the meet and confer process.
- Item Nos. 5 and 6 – Special Tax Refunding Bonds totaling \$21.8 million. It is our understanding the bond indenture pledges “Special Tax Revenues” and not former tax increment for the payment of principal and interest on the bonds. Multiple attempts were made seeking clarification for the Agency’s request of RPTTF funding for these obligations; however, the Agency did not provide a response. Therefore, this item is not an enforceable obligation at this time and not eligible for RPTTF funding on the ROPS. Appropriate documentation and clarification should be provided to Finance during the meet and confer process.
- Item No. 8 – Oceangate Properties Tax rebates in the amount of \$912,351. Although this item is for redevelopment purposes, no documentation was provided to support the calculation of the tax rebates claimed. Multiple attempts were made seeking clarification however; the Agency did not provide a response. Therefore, this item is not an enforceable obligation at this time and not eligible for RPTTF funding on the ROPS. Appropriate documentation and clarification should be provided to Finance during the meet and confer process.

- Item No. 10 – City loan in the amount of \$124,652. It is our understanding per the description on the ROPS; this item is a loan for administrative expenses for the July through December 2012 ROPS II period. It is also our understanding the county auditor controller distributed zero funding for administrative costs for ROPS II and III. In general, Finance would accept this as an enforceable obligation. However, when Finance asked for further support, the Agency provided Resolution No. 7359, dated March 8, 2011 indicating approximately \$60 million was loaned to the Agency for project areas 1 and 2 during 1976. In addition the Agency provided the repayment schedule to Resolution no. 7359 dated March 8, 2011 indicating the loans were for project areas 1 and 2 and administrative expenses. Adequate support was not provided for Finance to accept this Item as an enforceable obligation.

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, unless issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. This loan was issued after the first two years of the former RDA's creation and is not associated with the issuance of debt. Therefore, this item is not an enforceable obligation. Upon receiving a Finding of Completion from Finance and after the oversight board makes a finding that the loan was for legitimate redevelopment purposes, HSC section 34191.4 (b) may cause this item to be enforceable in future ROPS periods. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding on this ROPS.

- Item No.15 – Hawthorne Boulevard Property Fund in the amount of \$39,211. It is our understanding this item is for maintenance of the former redevelopment agency's assets. Although the Agency provided a grant deed, no further documentation or explanation was provided to support the amount claimed. Therefore, this item is not an enforceable obligation at this time and not eligible for funding on the ROPS.

Except for item(s) denied in whole or in part as enforceable obligation(s), Finance is not objecting to the remaining items listed on your ROPS 13-14A. This determination applies only to items where funding was requested for the six month period. If you disagree with the determination with respect to any items on your ROPS 13-14A, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

http://www.dof.ca.gov/redevelopment/meet_and_confer/

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$3,343,179 as summarized below:

Approved RPTTF Distribution Amount	
For the period of July through December 2013	
Total RPTTF funding requested for obligations	\$ 7,130,488
Minus: Six-month total for items denied or reclassified as administrative cost	
Item 4	1,348,091
Item 5	661,875
Item 6	966,116
Item 8	912,354
Item 10	124,652
Item 15	24,221
Total approved RPTTF for enforceable obligations	\$ 3,093,179
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost	250,000
Minus: ROPS II prior period adjustment	-
Total RPTTF approved for distribution:	\$ 3,343,179

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2012 period. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. The amount of RPTTF approved in the above table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Please refer to the ROPS 13-14A schedule that was used to calculate the approved RPTTF amount:

[http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14A Forms by Successor Agency/](http://www.dof.ca.gov/redevelopment/ROPS/ROPS_13-14A_Forms_by_Successor_Agency/).

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 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 denied on this ROPS or a preceding ROPS. The only exception is for those items that have received a Final and Conclusive determination from Finance pursuant to HSC 34177.5 (i). Finance's review of items that have received a Final and Conclusive determination is limited to confirming the scheduled payments as required by the obligation.

The amount available from the RPTTF is the same as the amount of 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.

To the extent proceeds from bonds issued after December 31, 2010 exist and are not encumbered by an enforceable obligation pursuant to 34171 (d), HSC section 34191.4 (c)(2)(B) requires these proceeds be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation.

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Please direct inquiries to Kylie Le, Supervisor or Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Felice Lopez, Accounting Supervisor, City of Hawthorne
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office