



REVISED 2

August 19, 2013

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

Dear Mr. Valenzuela:

Subject: Recognized Obligation Payment Schedule

This letter supersedes California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS 13-14A) letter dated May 23, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Los Angeles, a Designated Local Authority and Successor Agency to the Community Redevelopment Agency (Agency) submitted a ROPS 13-14A to Finance on February 28, 2013 for the period of July through December 2013. 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 May 6, 2013 and a Meet and Confer determination letter was issued on May 23, 2013.

Subsequent to the May 23, 2013 ROPS 13-14A Meet and Confer determination letter, technical issues were brought to our attention requiring the reclassification of certain administrative items from a funding source of Redevelopment Property Tax Trust Fund (RPTTF) to a funding source of Other. Specifically, for the ROPS 13-14A period, the following items totaling \$1,611,303 are authorized to be paid for with Other funding sources by the specified amounts:

| ROPS<br>13-14<br>Item # | Payee                               | Amount             |
|-------------------------|-------------------------------------|--------------------|
| 128                     | Employees                           | \$22,100           |
| 129                     | CPS Human Resources Services        | 13,600             |
| 133                     | Arbitration Services                | 7,750              |
| 134                     | Employees                           | 5,022              |
| 139                     | Employees                           | 620                |
| 292                     | Anthem Blue Cross HMO               | 2,918              |
| 395                     | Employees                           | 240,181            |
| 150                     | Jill Klein                          | 15,000             |
| 236                     | General Supplies and Misc. Services | 18,412             |
| 355                     | GIS Planning, Inc.                  | 96,700             |
| 245                     | Charter Holdings, Inc.              | 1,134,000          |
| 248                     | 3055 Wilshire LLC                   | 55,000             |
|                         | <b>Total</b>                        | <b>\$1,611,303</b> |

All other adjustments identified in our May 23, 2013 ROPS 13-14A determination letter continue to be upheld. Specifically, Finance's May 23, 2013 ROPS 13-14A determination letter noted the following with regards to the items being disputed:

- Item No. 164 – Predevelopment and construction loan in the amount of \$2.7 million is not an enforceable obligation. This item was originally denied by Finance because the agreement was executed on June 28, 2011. HSC section 34163 (b) prohibits a redevelopment agency (RDA) from entering into a contract with any entity after June 27, 2011.

The Agency contends the item is an enforceable obligation as it was approved by the former RDA Board on May 19, 2011, and the City Council on June 24, 2011, although the actual agreement was not signed until June 28, 2011. Additionally, Finance did not deny the item in prior ROPS reviews or during the Housing Asset Transfer review. Although Finance did not deny this item during prior ROPS periods, HSC section 34179 (h) allows Finance to eliminate or modify any item on a ROPS schedule prior to its approval. Therefore, this line item is not an enforceable obligation and not eligible for RPTTF funding.

- Item No. 260 – Previously disallowed administrative items from ROPS I, II, and III totaling \$6.6 million were partially denied. Finance approved \$5,539,318 in our letter dated April 14, 2013, but continued to deny \$1,071,476. According to information provided during the Meet and Confer, the \$1,071,476 was composed of \$103,511 for project implementation costs and \$967,965 for vacant office leases. The Agency contends that these are not administrative costs and should be funded by RPTTF.

It is our understanding project implementation costs in the amount of \$103,511 were paid during the January through June 2012 and July through December 2012 periods. While Finance agrees these costs are project-specific and should not be considered administrative costs, the request for RPTTF to fund these costs is denied. Per HSC section 34177 (l) (1) (E), RPTTF may be used to fund these costs, but only to the extent no other funding source is available. Therefore, as these obligations have already been paid by other funds available at the time, the request for \$103,511 in RPTTF now to cover these obligations is denied.

Additionally, the Agency stated it is actively trying to sublease and market its vacant offices; therefore, lease costs in the amount of \$967,965 are necessary to entice sub-lessees and buyers. Additionally, they are currently relocating central operations to another office space at which point the existing lease obligation will be funded with the administrative cost allowance. Finance disagrees that lease payments should be classified as administrative costs only when the Agency occupies the space. The Agency is responsible to fund these costs whether they occupy the space or not, thus lease payments are considered administrative costs regardless of occupancy. Therefore, this line item remains classified as an administrative cost, and is not eligible for RPTTF funding on this ROPS.

- Item No. 304 – Disposition, Development, and Loan Agreement (Agreement) in the amount of \$2.5 million. This item was originally denied by Finance because the agreement was executed on July 24, 2012. HSC section 34163 (b) prohibits a redevelopment agency (RDA) from entering into a contract with any entity after June 27, 2011. Finance no longer objects to this item; during the Meet and Confer process the Agency provided the correct

Agreement, signed and executed on March 8, 2011. Therefore, this item is an enforceable obligation and eligible for RPTTF funding.

- The Agency is not contesting Item Nos. 292 and 355; however, Finance continues to reclassify Item Nos. 128, 129, 133, 134, 139, 150, 236, 245, and 248 as general administrative expenses totaling \$1.4 million, as follows:
  - The Agency contends that Item Nos. 128, 129, 133, 134, and 150 are costs for 34 percent of staff working on project implementation. Finance acknowledges, in accordance with HSC section 34171 (b), that employee costs associated with work on specific project implementation activities are enforceable obligations and not considered part of the administrative cost cap. However, the Agency has identified these costs as transportation subsidies, the review/analysis of employee qualifications, arbitration services, and tuition reimbursement. Finance does not believe these costs qualify as project implementation activities. Therefore, Finance continues to reclassify these items as administrative costs subject to the administrative cost cap.
  - The Agency also contends items 236, 245, and 248 are asset predisposition costs. Finance acknowledges the costs of maintaining assets prior to disposition are considered enforceable obligations. The Agency states that vehicle costs in Item No. 236 are necessary for the transportation of staff to property assets for continuing maintenance. Because it cannot be adequately determined that these vehicles are used solely for that purpose, costs associated with these vehicles continue to be considered administrative costs. Additionally, the Agency states lease payments for vacant office space in Item Nos. 245 and 248 are related to the maintenance of assets. Because the Agency does not own the space it is leasing, the Agency does not have any maintenance costs associated with these assets. Therefore, Finance continues to reclassify these items as administrative costs, subject to the administrative cost cap.

The ROPS included a line item identified as "Propose ROPS 13-14A payments for items disallowed by DOF on ROPS 3" in the amount of \$6,986,922; \$6,786,922 funded from RPTTF and \$200,000 funded from Other Funds, a federal grant. The items were previously identified as Item Nos. 105, 118, 119, 155, and 210 in the current ROPS; however, per the Agency, these items were identified as 107, 120, 121, 157, and 212 in prior ROPS. Because the ROPS entry did not include contract dates, a payee, or even an item number, the requested RPTTF funding was not included in our letter dated April 14, 2013.

Finance has reviewed the Agency's request, now identified as Item No. 410, and have made the following determinations:

- Item No. 105 (107 on previous ROPS) – City of Los Angeles Agreement in the amount of \$93,538. HSC section 34171 (d) (2) states that written agreements entered into more than two years after the date of creation of the RDA are not enforceable obligations at this time. Upon receiving a Finding of Completion from Finance and after the oversight board makes a finding that the agreement was for legitimate redevelopment purposes, HSC section 34191.4 (b) may cause this item to be enforceable in future ROPS periods.
- Item No. 118 (120 on previous ROPS) – City of Los Angeles agreement in the amount of \$382,231. Finance denied the item as an enforceable obligation in our letter dated

December 26, 2012 because we were unable to verify an executed contract was in place, and the remaining outstanding obligation. The Agency stated they were no longer transferring the contract to the City and provided Finance with a contract between AECOM and the former RDA executed on June 30, 2010. However, according to section 5.C, the contract expired two years from the date of execution, or June 30, 2012. The Agency had the option to renew the contracts with AECOM, however, the option was exercised after June 27, 2011; HSC 34163 (c) prohibits RDA's from amending or modifying existing agreements, obligations, or commitments with any entity for any purpose after June 27, 2011. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.

- Item No. 119 (121 on previous ROPS) – City of Los Angeles agreement in the amount of \$471,153. Finance denied the item as an enforceable obligation in our letter dated December 26, 2012 because we were unable to verify an executed contract was in place and the amount left to be paid on the contract. The Agency stated they were no longer transferring the contract to the City and provided Finance with a contract between AECOM and the former RDA executed on March 9, 2011. However, according to section 5.C, the contract expired two years from the date of execution, or March 9, 2013. Additionally, section 5.B states that tasks to be performed by AECOM were to be completed within 12 months, presumably also from the date of execution. Costs incurred for this obligation should have been incurred and paid prior to March 9, 2013. The Agency had the option to renew the contracts with AECOM, however, the option was exercised after June 27, 2011; HSC 34163 (c) prohibits RDA's from amending or modifying existing agreements, obligations, or commitments with any entity for any purpose after June 27, 2011. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.
- Item No. 155 (157 on previous ROPS) – Financial Assistance payment to 5929 Sunset (Hollywood), LLC, in the amount of \$6 million. Finance no longer denies this item. Section 3.2.2.1 of the October 2007 Owner Participation Agreement (OPA) states that the Agency agrees to execute a promissory note in the amount of \$6 million for Office Financial Assistance after the Agreement Containing Covenants is recorded. The Agreement Containing Covenants was recorded on March 29, 2012. The Agency formally executed the Promissory Note on February 13, 2013, to disburse the \$6 million as required pursuant to the OPA. Therefore, this item is an enforceable obligation and is eligible for RPTTF funding.
- Item No. 210 (212 on previous ROPS) – Asset pre-disposition costs related to remediation in the amount of \$240,000. Pursuant to HSC section 34180 (e), the Agency accepted a grant from the U.S. Environmental Protection Agency. This item was previously denied because there was not executed grant agreement or the Oversight Resolution approving the receipt of the grant and associated match. During the Meet and Confer session, the Agency has provided an executed grant agreement with oversight board approval for site remediation costs; awarded on April 23, 2013; \$200,000 funded from Other Funds, and \$40,000 funded from RPTTF. Therefore, Finance no longer objects to this item, and therefore this item is eligible for \$200,000 other funding and \$40,000 RPTTF funding.

- Claimed administrative costs exceed the allowance by \$1,792,503. HSC section 34171 (b) limits the fiscal year 2013-14 administrative expense to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$2,315,588 for administrative expenses. Although \$2,736,969 is claimed for administrative costs, Item Nos. 128, 129, 133, 134, 139, 150, 236, 245, 248, 292, and 355 totaling \$1,371,122 are considered general administrative expenses and should be counted toward the cap. Therefore, \$1,792,503 of excess administrative cost is not allowed.

In addition, per Finance's ROPS letter dated April 14, 2013, the following items continue to be denied and were not contested by the Agency:

- Item No. 95 – Parking Management expenses in the amount \$5 million. The Agency requested \$2.5 million on this ROPS. Based on the supporting documents provided, it is our understanding the requested amount is excessive. The invoices indicate approximately \$250,000 per month is due to Parking Concepts Inc., totaling \$1.5 million for a 6 months period. Therefore, \$990,000 is not an enforceable obligation and not eligible for RPTTF funding.
- Item Nos. 157, 306, 347, 388, 390, and 391 totaling \$4.5 million are not enforceable obligations. The Agency requested these line items to be removed from the ROPS. Therefore, these line items are not enforceable obligations and not eligible for RPTTF funding.
- Item No. 308 – North Hollywood Commons project in the amount of \$15.8 million. The Agency requested \$812,392 on this ROPS. Through review of supporting documents, only \$779,548 was supported for this item. As a result, the Agency requested \$32,844 in funding reduction for this line item. Therefore, \$32,844 is not an enforceable obligation and not eligible for RPTTF funding on the ROPS.

Except for items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 13-14A. 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 July through December 2013. Finance's determination is effective for this time period only and should not be conclusively relied on 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.

This revised letter does not change the total RPTTF approved in our May 23, 2013 ROPS 13-14A Meet and Confer determination letter, which totaled \$85,723,056 for the ROPS 13-14A period before taking into consideration the ROPSII prior period adjustments. The Agency's maximum approved RPTTF distribution for the reporting period is \$70,331,277 as summarized below:

| <b>Approved RPTTF Distribution Amount<br/>For the period of July through December 2013</b> |                      |
|--|----------------------|
| Total RPTTF funding requested for obligations  | \$ 91,232,287        |
| Minus: Six-month total for items denied or reclassified as administrative cost             |                      |
| Item 128*  | 22,100               |
| Item 129*  | 13,600               |
| Item 133*  | 7,750                |
| Item 134*  | 5,022                |
| Item 139*  | 620                  |
| Item 150*  | 15,000               |
| Item 157   | 1,119,000            |
| Item 164   | 2,742,157            |
| Item 236*  | 18,412               |
| Item 245*  | 1,134,000            |
| Item 248*  | 55,000               |
| Item 260   | 1,071,476            |
| Item 292*  | 2,918                |
| Item 308   | 32,844               |
| Item 347   | 341,525              |
| Item 355*  | 96,700               |
| Item 388   | 80,333               |
| Item 390   | 200,000              |
| Item 391   | 100,640              |
| Item 410   | 946,922              |
| Total approved RPTTF for enforceable obligations   | <u>\$ 83,226,268</u> |
| Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost                     | <u>2,496,788</u>     |
| Minus: ROPS II prior period adjustment   | <u>(15,391,779)</u>  |
| <b>Total RPTTF approved for distribution:</b>  | <b>\$ 70,331,277</b> |

\*Reclassified as administrative cost

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%2013-14A%20Forms%20by%20Successor%20Agency/)

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.

This is Finance's final determination related to the enforceable obligations reported on your ROPS 13-14A. Please direct inquiries to Zachary Stacy, Manager, or Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY  
Local Government Consultant

cc: Ms. Daisy Pan, Special Projects Officer, CRA/LA – Designated Local Authority  
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller  
California State Controller's Office