



May 16, 2014

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

Dear Ms. Emmich:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 16, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Hawthorne Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on March 3, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 16, 2014. 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, 2014.

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. 10 – City/Agency General Fund Loan for the July 2012 through December 2012 (ROPS II) period in the amount of \$124,652. Finance no longer denies this item. Finance initially denied this item because OB Resolution No. 2014-15, approving an agreement for reimbursement of administrative and other expenses between the Agency and the City of Hawthorne (City) and authorizing repayment of a City loan in the amount of \$124,652 was denied in our letter dated April 15, 2014. It was Finance's initial understanding that the Agency received \$125,000 in Redevelopment Property Tax Trust Fund (RPTTF) funds for the shortfall related to Item No. 10 during the January 2013 through June 2013 (ROPS III) period. During the Meet and Confer process, the Agency contended that the amount received during the ROPS III period was not expended. Based on a review of the prior period adjustment reported by the county auditor-controller (CAC), the Agency did not expend the \$125,000 received during the ROPS III period for this item. As such, the City loan for the ROPS II administrative cost shortfall has not been paid to date. Therefore, this item is an enforceable obligation and is eligible for funding.
- Item No. 28 – City/Agency General Fund Loan for the ROPS II period in the amount of \$401,379. Finance no longer denies this item. Finance initially denied this item because OB Resolution No. 2014-18, approving an agreement for reimbursement of contractual obligation for tax increment rebates, was denied in our letter dated April 15, 2014. The

City loaned the Agency \$401,379 to pay the Oceangate Properties Tax Rebate contractual obligation for the ROPS II period. However, the obligation was not listed on ROPS II. Further, the Agency received all funding related to the ROPS II shortfall in the amount of \$1,601,121 for Item No. 16 – RPTTF shortfall during the ROPS 13-14A period. However, based on further review during the Meet and Confer process, the shortfall amount approved during the ROPS 13-14A period was related to Item Nos. 5 and 6 paid by the City during the ROPS II period. Furthermore, during the Meet and Confer process, the Agency provided the Tax Rebate Agreement, the calculation for the rebate, and the check showing the City made the payment during the ROPS II period. The Tax Rebate Agreement has been determined to be an enforceable obligation on ROPS 14-15A, Item No. 8; therefore, reimbursement to the City for the ROPS II payment is also an enforceable obligation. As such, this item is eligible for funding.

In addition, per Finance's letter dated April 16, 2014, we continue to deny the following items not contested by the Agency during the Meet and Confer:

- Item No. 8 – Tax rebates in the amount of \$5,400,000. While this obligation is an enforceable obligation, Finance's ROPS 13-14A Meet and Confer letter dated May 17, 2013 states \$510,975 is reasonable and eligible for funding. Therefore, \$39,025 is not approved for RPTTF funding on this ROPS.
- Item No. 22 – Fiscal Agent Fees for 1998 Tax Allocation Bond. The Agency inadvertently did not request funding for this item. Subsequent to the ROPS submittal, the Agency provided a letter from US Bank illustrating a \$2,200 annual fee. Therefore, Finance has increased the RPTTF amount by \$2,200.
- Item Nos. 26 and 27 – Fiscal Agent Fee payments totaling \$30,000 is partially denied. While these fees are enforceable obligations, the letters from US Bank illustrate the annual amount per line item is \$2,200 and \$2,750, respectfully. Therefore, the excess of \$25,050 is not an enforceable obligation and not eligible for RPTTF funding.

In addition, Finance noted the following:

The Agency deleted the obligations for Item Nos. 17 through 21 and replaced them with existing or new obligations on this ROPS. Although Item Nos. 18 through 21 have been retired and were excluded from the ROPS Detail form, these item numbers remain unavailable to use, as it is assigned to that specific retired obligation indefinitely. For consistency purposes between ROPS periods, Item Nos. 17 through 21 were restored to the original format listed on the ROPS template and the new or existing obligations were assigned sequential numbers as follows:

- Item No. 17 – Hawthorne Boulevard Property Fund
- Item No. 18 – Professional Services - Redevelopment/Successor Agency
- Item No. 19 – Professional Services - Redevelopment/Successor Agency
- Item No. 20 – Agency Professional Services – Finance
- Item No. 21 – Agency Professional Services – Legal
- Item No. 22 – Fiscal Agent Fees
- Item No. 23 – Fiscal Agent Fees
- Item No. 24 – Fiscal Agent Fees
- Item No. 25 – Fiscal Agent Fees
- Item No. 26 – Fiscal Agent Fees

- Item No. 27 – Fiscal Agent Fees
- Item No. 28 – City Agency General Fund Loan to cover Océangate Properties Tax Rebates

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2013 period. HSC section 34186 (a) also specifies prior period adjustments self-reported by successor agencies are subject to audit by the CAC and the State Controller. The amount of RPTTF approved in the table below includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Except for items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 14-15A. The Agency's maximum approved RPTTF distribution for the reporting period is \$3,398,968 as summarized below:

Approved RPTTF Distribution	
For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	3,711,607
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations	\$ 3,836,607
Agency requested adjustment to non-administrative obligations Item No. 22	2,200
Total Agency requested adjustments	\$ 2,200
Total RPTTF requested for non-administrative obligations	3,713,807
<u>Denied Item</u>	
Item No. 8	(39,025)
Item No. 26	(12,800)
Item No. 27	(12,250)
	(64,075)
Total RPTTF authorized for non-administrative obligations	\$ 3,649,732
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 3,774,732
ROPS 13-14A prior period adjustment	(375,764)
Total RPTTF approved for distribution	\$ 3,398,968

Pursuant to HSC section 34177 (l) (1) (E), agencies are required to use all available funding sources prior to RPTTF for payment of enforceable obligations. During the ROPS 14-15A review, Finance requested financial records to support the cash balances reported by the Agency; however, Finance was unable to reconcile the financial records to the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 14-15A review period to properly identify the Agency's cash balances. If it is determined the Agency possesses cash balances that are available to pay approved obligations, the Agency should request the use of these cash balances prior to requesting RPTTF in ROPS 14-15B.

Please refer to the ROPS 14-15A schedule that was used to calculate the approved RPTTF amount:

<http://www.dof.ca.gov/redevelopment/ROPS>

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2014. This determination only applies to items where funding was requested for the six-month period. 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 section 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 HSC section 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.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

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