DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

April 21, 2014

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

Dear Mr. Kung:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Vernon Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to the California Department of Finance (Finance) on March 19, 2014 for the period of July through December 2014. Finance has completed its review of your ROPS 14-15A, 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 does not qualify as an enforceable obligation for the reasons specified:

- Item No. 24 – ROPS III RPTTF Shortfall in the amount of $1,628,896 is partially denied. It is our understanding; the Agency had a shortfall for ROPS III in the amount of $2,563,270. The Agency requested $2,628,602 for the shortfall on ROPS 13-14A, identified as Item No. 16; however, the County-Auditor Controller (CAC) distributed only $2,417,129. However, of this amount $89,700 was expended on Item No. 3 – 2005 bond payment, thus resulting in $2,327,429 available to fund the ROPS III shortfall. As such, only $235,841 ($2,563,270 - $2,327,429) remains unfunded for the ROPS III shortfall. Therefore, of the $1,628,896 requested, only $235,841 is approved. The $1,393,055 excess requested for the ROPS III funding shortfall is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item No. 27 – 4528 Bandini Boulevard appraisal in the amount of $5,000. The Agency received its Finding of Completion on April 17, 2013 and approval of the LRPMP on October 9, 2013. The property located at 4528 Bandini Boulevard has been approved on the LRPMP for transfer to the City or Caltrans for governmental use. Properties transferred for governmental use do not require an appraisal. As such, this is not an enforceable obligation and not eligible for RPTTF funding.

- ROPS 14-15A was not submitted to Finance until March 19, 2014, 16 days past the deadline to submit. Pursuant to HSC 34177 (m) (2), if the Agency does not submit a ROPS within ten days of the deadline, the Agency's administrative allowance shall be

reduced by 25 percent. Therefore, the administrative cost of $131,468 has been reduced by $32,867 ($131,468 x 25% = $32,867) to $98,601.

In addition, Finance noted the following:

- The Agency lists spending $11,941,873 for Item No. 26 – Bond Reserve Escrow in the ROPS 13-14A Prior Period Adjustment form; despite the fact this obligation was never approved on the ROPS. The Bond Reserve Escrow consists of proceeds obtained from sale of property, the proceeds of which were approved to be used for enforceable obligations through the Agency's LRPMP. It is our understanding, these funds were transferred to an escrow account and will eventually be used to defease the Agency's bond debt. Instead of listing the $11,941,873 in the Prior Period Adjustment form, the Agency should report the proceeds held in escrow on the Cash Balance form in the "Other Funds" column under Retention of Available Cash Balance. The funds in the escrow account should continue to be reported in this manner until they are actually used to pay for enforceable obligations, at which time, the spending authority should be obtained through the ROPS process.

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 county auditor-controller (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.

The Agency's maximum approved RPTTF distribution for the reporting period is $4,460,305 as summarized below:

| **Approved RPTTF Distribution<br>For the period of July through December 2014** | | |
|---|---|---|
| Total RPTTF requested for non-administrative obligations | | 5,759,759 |
| Total RPTTF requested for administrative obligations | | 131,468 |
| **Total RPTTF requested for obligations** | **$** | **5,891,227** |
| | | |
| **Total RPTTF requested for non-administrative obligations** | | **5,759,759** |
| Denied Item | | |
| Item No. 24 | | (1,393,055) |
| Item No. 27 | | (5,000) |
| | | (1,398,055) |
| **Total RPTTF authorized for non-administrative obligations** | **$** | **4,361,704** |
| | | |
| **Total RPTTF requested for administrative obligations** | | **131,468** |
| Less: Administrative Penatlty (25%) | | (32,867) |
| **Total RPTTF authorized for administrative obligations** | **$** | **98,601** |
| | | |
| **Total RPTTF authorized for obligations** | **$** | **4,460,305** |
| ROPS 13-14A prior period adjustment | | 0 |
| **Total RPTTF approved for distribution** | **$** | **4,460,305** |

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

Absent a Meet and Confer, 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 Kylie Oltmann, Supervisor or Veronica Green, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Assistant Program Budget Manager

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