



May 16, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 21, 2014. 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 Finance on March 19, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 21, 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 item being disputed.

- The Agency's administrative cost of \$131,468 was reduced by \$32,867 to \$98,601. Finance maintains this adjustment is appropriate. ROPS 14-15A was not submitted to Finance until March 19, 2014, 16 days past the deadline to submit. Pursuant to HSC 34177 (m) (1), successor agencies shall submit an oversight board-approved ROPS to Finance electronically, and in a manner provided for by Finance. HSC section 34177 (m) (2) states that 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. During the Meet and Confer, the Agency claims it submitted the ROPS to Finance via email on March 5, 2014; however, Finance specifically required successor agencies to submit the ROPS using the Redevelopment Agency Dissolution Web Application (RAD App), which was developed solely for the purpose of submitting ROPS. Because the Agency did not submit the ROPS in the manner provided for by Finance, we continue to apply the 25 percent reduction to the Agency's administrative cost allowance for this ROPS period.

In addition, per Finance's letter dated April 21, 2014, we continue to deny the following items not contested by the Agency during the Meet and Confer:

- 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.

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.

Except for the 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 \$4,460,305 as summarized in the following table:

Approved RPTTF Distribution	
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
<u>Denied Item</u>	
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 Penalty (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>

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 Danielle Brandon, 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