DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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May 18, 2012

Art Gallucci, City Manager
City of Cerritos
P.O. BOX 3130
Cerritos, CA 90703

Dear Mr. Gallucci:

Pursuant to Health and Safety Code (HSC) section 34177 (l) (2) (C), the City of Cerritos Successor Agency submitted a Recognized Obligation Payment Schedule (ROPS) to the California Department of Finance (Finance) on May 4, 2012 for the period January through June 2012 and July through December 2012. Finance staff contacted you for clarification of items listed in the ROPS.

HSC section 34171 (d) lists enforceable obligation (EO) characteristics. Based on a sample of line items reviewed and application of the law, the following do not qualify as EOs:

**January through June 2012 ROPS:**

- Page 1, line item 6 and page 2, line item 9 as shown below in the amount of $77.5 million. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the redevelopment agency (RDA) and the former RDA are not enforceable unless the loan agreements were entered into within the first two years of the date of the creation of the RDA.

| Line Item No. | Page | Description | Amount |
|---|---|---|---|
| 6 | 1 | Loan from City of Cerritos | $ 30,844,472 |
| 9 | 2 | Loan from City of Cerritos | 46,644,988 |
| | | Total | $ 77,489,460 |

- Page 3, various line items as shown below totaling $920 million. Conditions of the disposition and development agreement have not been met (i.e. the developer's equity account has not been established, the ground lease agreement has not been executed, and project costs are estimates without executed contracts) and there has been no activity concerning this agreement in the past four years.

| Line Item No. | Page | Description | Amount |
|---|---|---|---|
| 3 | 3 | Cuesta Villas - Obligation for Public Improvements | $ 200,000 |
| 4 | 3 | Cuesta Villas - Relocation Expenses | 1,000,000 |
| 5 | 3 | Cuesta Villas - Initial Trust Fund Deposit | 100,000 |
| 6 | 3 | Cuesta Villas - Ongoing Trust Fund Deposit | 48,000,000 |

| Line Item No. | Page | Description | Amount |
|---|---|---|---|
| 7 | 3 | Cuesta Villas Affordable Housing Project | 10,000 |
| 8 | 3 | Base Ground Lease Rent | 837,227,738 |
| 11 | 3 | Plan Check & Fees | 500,000 |
| 12 | 3 | Construction Inspections | 400,000 |
| 13 | 3 | Senior Center Maintenance | 18,595,060 |
| 14 | 3 | Park Maintenance | 13,947,000 |
| 15 | 3 | Vintage Cerritos Senior Housing | - |
| | | Total | $ 919,979,798 |

- Administrative cost exceeds allowance by $580,438 of the $955,755 claimed. HSC section 34171 (b) limits administrative expenses to five percent of property tax allocated to the successor agency or $250,000, whichever is greater. Five percent of the property tax allocated is $375,317. Therefore, $580,438 of the claimed $955,755 is not an EO. The following are considered administrative costs:

| Line Item No. | Page | Description | Amount |
|---|---|---|---|
| 10 | 1 | Legal Services | $ 92,500 |
| 11 | 1 | Dissolution/Successor Agency – Contract Staff | 53,450 |
| 13 | 1 | Operation Cost Pursuant to 34171(d)(1)(F) | 5,935 |
| 14 | 1 | Employee Costs (Staff Time Hours Spent for Successor Agency) | 135,484 |
| 12 | 2 | Legal Services | 157,500 |
| 13 | 2 | Dissolution/Successor Agency – Contract Staff | 91,010 |
| 15 | 2 | Operation Cost Pursuant to 34171(d)(1)(F) | 6,805 |
| 16 | 2 | Employee Costs (Staff Time Hours Spent for Successor Agency) | 347,879 |
| 20 | 3 | Employee Costs (Staff Time Hours Spent for Successor Agency) | 65,192 |
| | | Total | $ 955,755 |

**<u>July through December 2012 ROPS:</u>**

- Page 1, line item 6 and page 2, line item 9 as shown below in the amount of $54.8 million. 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 the loan agreements were entered into within the first two years of the date of the creation of the RDA.

| Line Item No. | Page | Description | Amount |
|---|---|---|---|
| 6 | 1 | Loan from City of Cerritos | $ 32,978,586 |
| 9 | 2 | Loan from City of Cerritos | 21,853,151 |
| | | Total | $ 54,831,737 |

- Page 3, various line items as shown below totaling $920 million. Conditions of the disposition and development agreement have not been met (i.e. the developer's equity account has not been established, the ground lease agreement has not been

executed, and project costs are estimates without executed contracts) and there has been no activity concerning this agreement in the past four years.

| Line Item No. | Page | Description | Amount |
|---|---|---|---|
| 3 | 3 | Cuesta Villas - Obligation for Public Improvements | $ 200,000 |
| 4 | 3 | Cuesta Villas - Relocation Expenses | 1,000,000 |
| 5 | 3 | Cuesta Villas - Initial Trust Fund Deposit | 100,000 |
| 6 | 3 | Cuesta Villas - Ongoing Trust Fund Deposit | 48,000,000 |
| 7 | 3 | Cuesta Villas Affordable Housing Project | 10,000 |
| 8 | 3 | Base Ground Lease Rent | 837,227,738 |
| 11 | 3 | Plan Check & Fees | 500,000 |
| 12 | 3 | Construction Inspections | 400,000 |
| 13 | 3 | Senior Center Maintenance | 18,595,060 |
| 14 | 3 | Park Maintenance | 13,947,000 |
| 15 | 3 | Vintage Cerritos Senior Housing | - |
| | | Total | $ 919,979,798 |

- Administrative cost exceeds allowance by $786,567 of the $1,242,795 claimed. HSC section 34171 (b) limits administrative expenses to three percent of property tax allocated to the successor agency or $250,000, whichever is greater. Three percent of the property tax allocated is $456,228. The following are considered administrative costs:

| Line Item No. | Page | Description | Amount |
|---|---|---|---|
| 10 | 1 | Legal Services | $ 44,400 |
| 11 | 1 | Dissolution/Successor Agency – Contract Staff | 64,140 |
| 12 | 1 | Oversight Board Insurance and Administration | 10,000 |
| 13 | 1 | Operation Cost Pursuant to 34171(d)(1)(F) | 7,122 |
| 14 | 1 | Employee Costs (Staff Time Hours Spent for Successor Agency) | 266,396 |
| 12 | 2 | Legal Services | 75,800 |
| 13 | 2 | Dissolution/Successor Agency – Contract Staff | 109,212 |
| 14 | 2 | Oversight Board Insurance and Administration | 10,000 |
| 15 | 2 | Operation Cost Pursuant to 34171(d)(1)(F) | 8,166 |
| 16 | 2 | Employee Costs (Staff Time Hours Spent for Successor Agency) | 580,488 |
| 20 | 3 | Employee Costs (Staff Time Hours Spent for Successor Agency) | 67,071 |
| | | Total | $ 1,242,795 |

As authorized by HSC section 34179 (h), Finance is returning your ROPS for your reconsideration. This action will cause the specific ROPS items noted above to be ineffective until Finance approval. Furthermore, items listed on future ROPS will be subject to review and may be denied as EOs.

If you believe we have reached this conclusion in error, please provide further evidence that the items questioned above meet the definition of an EO and submit to the following email address:

Redevelopment_Administration@dof.ca.gov

Finance may continue to review items on the ROPS in addition to those mentioned above and identify additional issues. We will provide separate notice if we are requesting further modifications to the ROPS. It is our intent to provide an approval notice with regard to each ROPS prior to the June 1 property tax distribution date.

Please direct inquiries to Evelyn Suess, Supervisor or Michael Barr, Lead Analyst at (916) 322-2985.

Sincerely,

Mark Hill

MARK HILL
Program Budget Manager

cc: Mr. Torrey Contreras, Director of Community Development, City of Cerritos
Ms. Kristina Burns, Program Specialist III, Los Angeles County