



April, 27, 2012

Douglas Dumhart, Community Development Director
City of La Palma
7822 Walker Street
La Palma, CA 90623

Dear Mr. Douglas Dumhart:

Pursuant to Health and Safety Code (HSC) section 34177 (l) (2) (C), the City of La Palma Successor Agency submitted a Recognized Obligation Payment Schedule (ROPS) to the California Department of Finance (Finance) on April 12, 2012 for the period January 2012 to June 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 Period

- Item No. 3 - Loans in the amount of \$3,951,291. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the entity 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. It is our understanding that these loans were not made in the first two years of the former RDA's existence.
- Item No. 39 – Housing program costs in the amount of \$18,000 are not enforceable obligations because no contracts have been executed.
- Item Nos. 30, 32 through 8, and 40 – Administrative costs of \$4,568. HSC section 34171 (b) limits fiscal year 2011-12 administrative cost allowance to five percent of the property tax allocated to the successor agency or \$250,000, whichever is greater. Five percent of the property tax allocated to the City equated to approximately \$42,066. Therefore, \$4,568 of the claimed \$254,568 is not allowed.

July through December 2012 Period

- Item No. 3 - Loans in the amount of \$3,951,291. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the entity 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.
- Item No.16 – Housing program costs in the amount of \$18,000 are not enforceable obligations because no contracts have been executed.
- HSC section 34171 (b) limits fiscal year 2012-13 administrative cost allowance to three percent of the property tax allocated to the successor agency or \$250,000, whichever is greater. Three percent of the property tax allocated is \$12,208. Therefore, the

administrative cost allowance for 2012-13 is \$250,000. Administrative costs claimed from July to December 2012 totaled \$104,165. However, we noted additional line items that should be counted towards the administrative cap allowance. The following line items should have been considered administrative costs:

Page	Item #	Project Name/Debt Obligation	Amount
1	#9	Denni Street Phase II DDA	\$37,500
1	#10	Denni Street Phase II DDA	\$37,500
1	#11	Denni Street Phase I DDA	\$19,380
1	#12	Denni Street Phase I DDA	\$24,000
1	#13	Seasons Senior Apartments	\$1,710
1	#14	Seasons Senior Apartments	\$2,400
1	#15	5410-14 La Palma Ave	\$2,280
1	#17	Property Tax Services	\$1,800
1	#18	Financial Services	\$3,000
		TOTAL	\$ 129,570

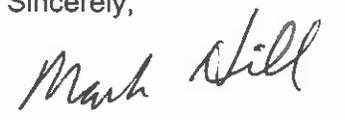
Therefore, La Palma Successor agency's total half year administrative cost totals \$233,735 out of an annual budget of \$250,000.

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.

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

Sincerely,


MARK HILL
Program Budget Manager

cc: Mr. Frank Davies, Administrative Manager, Auditor Controller Orange County