



April 27, 2012

Graham Mitchell, City Manager
City of Lemon Grove
3232 Main Street
Lemon Grove, CA 91945

Dear Mr. Mitchell:

Pursuant to Health and Safety Code (HSC) section 34177 (l) (2) (C), the City of Lemon Grove Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS) to the California Department of Finance (Finance) on April 14, 2012 for the periods 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 items review and application of the law, the following do not qualify as EOs:

January through June 2012 ROPS:

- Various projects totaling \$495,412. The documents provided show contracts or agreements between the City of Lemon Grove (City) and a third party. These items are the City's contracts and are therefore, not EOs of the Agency.

Item No.	Page	Project Name	Amount
1	1	Lemon Grove Ave Realignment	\$350,000
5	1	Lemon Grove Ave Realignment	14,050
9	1	Main Street Promenade	130,000
13	1	Main Street Promenade	1,362
TOTAL			\$495,412

- Item 4, page 2 - Loan totaling \$3.2 million. The documents provided showed contracts or agreements between the City and the Agency. 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.

- Various projects totaling \$5.7 million. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. Contracts for the following line items were executed after June 27, 2011 or documentation provided does not show an EO was established.

Item No.	Page	Project Name	Amount
3	1	Lemon Grove Ave Realignment	\$60,000
6	1	Main Street Promenade	1,000
8	1	Lemon Grove Avenue Realignment	4,000,000
10	1	Main Street Promenade	1,546,850
11	1	Main Street Promenade	86,447
TOTAL			\$5,694,297

- Administrative cost claimed exceeds allowance by \$50,594. HSC section 34171 (b) limits administrative expenses to five percent of property tax allocated to the successor agency or \$250,000, whichever is greater. Therefore, the administrative cost allowance will be \$250,000. The following items are considered administrative expenses:

Item No.	Page	Project Name	Amount
16	1	Legal Council	\$35,345
17	1	Urban Futures	2,000
7	2	Urban Futures	5,250
5	2	Project Manager	8,000
1	3	City Admin Overhead	195,882
2	3	Legal Counsel	51,240
3	3	Financial Auditing Services	2,877
Subtotal:			\$300,594
Less Admin Allowance (Greater of 5% or \$250,000):			250,000
Total Disallowed Administrative Costs:			\$50,594

July through December 2012 ROPS:

- Various projects totaling \$501,380. The documents provided showed contracts or agreements between the City and a third party. These items are the City's contracts and are therefore, not EOs of the Agency.

Item No.	Page	Project Name	Amount
1	2	Lemon Grove Avenue Realignment	\$350,000
5	2	Main Street Promenade	60,000
8	1	Main Street Promenade	60,000
9	1	Main Street Promenade	30,000
11	1	Main Street Promenade	1,380
TOTAL			\$501,380

- Item 4, page 1 - Loan totaling \$3.2 million. The documents provided showed contracts or agreements between the City and the Agency. 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.
- Various projects totaling \$5.2 million. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. Contracts for the following line items were executed after June 27, 2011 or documentation provided does not show an EO was established.

Item No.	Page	Project Name	Amount
4	2	Lemon Grove Realignment	\$4,000,000
6	2	Main Street Promenade	1,246,850
TOTAL			\$5,246,850

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 inquiries to Evelyn Suess, Supervisor or Douglas Evans, Lead Analyst at (916) 322-2985.

Sincerely,



MARK HILL
Program Budget Manager

cc: Mr. Juan Perez, Auditor and Controller Manager, San Diego County