



May 18, 2012

Lorry Hempe, Budget and Intergovernmental Relations Manager  
City of Lynwood  
11330 Bullis Road  
Lynwood, CA 90262

Dear Ms. Hempe:

Pursuant to Health and Safety Code (HSC) section 34177 (l) (2) (C), the City of Lynwood (City) Successor Agency submitted a Recognized Obligation Payment Schedule (ROPS) to the California Department of Finance (Finance) on May 8, 2012 for the period January through June 2012, and on May 7, 2012 for the period 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

- Form A, item 54 and Form B, item 7 in the amount of \$1.8 million for loans from the City to the former redevelopment agency (RDA). HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the 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 the loans were not issued within the first two years of the RDA's establishment date.
- Form A, item 87 in the amount of \$6.9 million. The loan agreement identified the City, not the RDA, as a party to the agreement. Further, agreement section 15 (a), specified that the *Pledged Tax Increment Revenues* and the *Pledge, Assignment, and Security Agreement* was to be included in the agreement if tax increment (TI) revenue was to be pledged towards repayment of the loan. However, these documents were not provided to substantiate the pledge of TI.
- Form A, item 48, in the amount of \$10 million. HSC section 34177 (b) allows reserves required for indentures, trust indentures, or similar documents governing the issuance of outstanding RDA bonds. The statute does not currently recognize contingent or unknown obligations, thus creation of reserves for such items are not permissible. It is our understanding that the item is a reserve for potential litigation costs.
- Form A, item 57, in the amount of \$38.5 million. Section 34177(i) states "bond proceeds shall be used for the purposes for which bonds were sold unless the purposes can no longer be achieved, in which case, the proceeds may be used to defease the bonds." It is not the intent of ABx1 26 to allow successor agencies to enter into new contracts, unless those contracts are specifically required pursuant to the terms of another pre-existing contract that meets the requirements of ABx1 26.

- Form B, item 8 in the amount of \$2 million for county auditor administrative costs. HSC section 34182 (e) allows the county auditor-controller to deduct from the Redevelopment Property Tax Trust Fund for their administration costs prior to distributing property tax increment funds.
- Form A, item 9 in the amount of \$45.7 million for pass-thru payments is a duplicate item. The item was also reported on Form D, item 9.
- Administrative expenses in the amount of \$1.4 million. HSC section 34171 (b) limits administrative expenses for 2011-12 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 \$314,672. Therefore, \$1.4 million of the claimed \$1.8 million is not an EO. The following items were considered administrative expenses:
  - Form A, items 49, 90, and 90a
  - Form C, all items

#### July through December 2012 ROPS

- Form A, items 7 and 54 in the amount of \$1.3 million for loans from the City to the former redevelopment agency (RDA). HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the 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 the loans were not issued within the first two years of the RDA's establishment date.
- Form A, item 87 in the amount of \$6.9 million. The loan agreement identified the City, not the RDA, as a party to the agreement. Section 15(a) of the agreement, specified that the *Pledged Tax Increment Revenues and Pledge, Assignment, and Security Agreement* was to be included in the agreement if tax increment (TI) revenue was to be pledged towards repayment of the loan. However, these documents were not provided to substantiate the pledge of TI.
- Form A, item 48, in the amount of \$10 million. HSC section 34177 (b) allows reserves required for indentures, trust indentures, or similar documents governing the issuance of outstanding RDA bonds. The statute does not currently recognize contingent or unknown obligations, thus creation of reserves for such items are not permissible. It is our understanding that the item is a reserve for potential litigations costs.
- Form A and B, item 57, in the amount of \$38.5 million. Section 34177(i) states "bond proceeds shall be used for the purposes for which bonds were sold unless the purposes can no longer be achieved, in which case, the proceeds may be used to defease the bonds." It is not the intent of ABx1 26 to allow successor agencies to enter into new contracts, unless those contracts are specifically required pursuant to the terms of another pre-existing contract that meets the requirements of ABx1 26.
- Form B, item 8 in the amount of \$2 million for county auditor administrative costs. HSC section 34182 (e) allows the county auditor-controller to deduct from the Redevelopment Property Tax Trust Fund for their administration costs prior to distributing property tax increment funds.

- Form A, item 9 in the amount of \$44.7 million for pass-thru payments is a duplicate item. The item was also reported on Form D, item 9.
- Administrative expenses in the amount of \$662,410. HSC section 34171 (b) limits administrative expenses for 2012-13 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 \$144,815. Therefore, \$662,410 of the claimed \$912,410 is not an EO. All items listed on Form C were considered administrative expenses.

Furthermore, it appears that there is a large variance between what the City is requesting to pay for obligations and what the RDA received in the prior year. The City is requesting a total of \$18 million<sup>1</sup> in Redevelopment Property Tax Trust Funds (RPTTF) to pay obligations for both ROPS periods (\$10.6 million for the January through June 2012 period and \$7.4 million for the July through December 2012 period). However, according to the 2010-11 State Controller's Office's *Community Redevelopment Agencies Annual Report*, the RDA received only \$5.3 million in gross tax increment. The City's RPTTF allocation should be allowable only to the extent of actual property tax increment available.

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.

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.

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](mailto:Redevelopment_Administration@dof.ca.gov)

Please direct inquiries to Chikako Takagi-Galamba, Supervisor or Cindie Lor, Lead Analyst at (916) 322-2985.

Sincerely,



MARK HILL  
Program Budget Manager

cc: Mr. Roger Haley, City Manager, City of Lynwood  
Mr. Robert Torrez, Assistant City Manager, City of Lynwood  
Ms. Sara Withers, Development Director, City of Lynwood  
Mr. Bruno Naulls, Project Manager, City of Lynwood  
Ms. Kristina Burns, Program Specialist III, County of Los Angeles Auditor-Controller and Treasurer-Tax Collector

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<sup>1</sup> The \$18 million includes RPTTF requested for obligations, administrative costs, and pass-thru payments.