

December 18, 2012

Steven Mandoki, City Manager
City of Lawndale
14717 Burin Avenue
Lawndale, CA 90260

Dear Mr. Mandoki

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated November 21, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Lawndale Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on October 11, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on November 21, 2012. 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 December 6, 2012.

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.

- Item No. 8 – City loans totaling \$728,000. Finance no longer objects to the item. Finance denied the item as 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 issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. The Agency contends the item is an enforceable obligation because the Lawndale City Council activated its RDA in 1991 and in the same year provided a loan from the City to the Agency. Per HSC section 34171 (d) (2), loan agreements entered into between the RDA and the city, county, or city and county that created it, within two years of the date of creation of the RDA, may be deemed to be enforceable obligations. Based on further review, Finance approves this item as an enforceable obligation.
- Item No. 15 and 17 – City loans totaling \$15 million. Finance continues to deny the items at this time. Finance denied the items as 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 issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. Upon receiving a Finding of Completion from Finance, HSC section 34191.4 (b) may cause these items to be enforceable in future ROPS periods. The Agency requested further clarification. Per HSC section 34171 (d) (2), loan agreements entered into between the

RDA and the city, county, or city and county that created it, within two years of the date of creation of the RDA or solely for the purpose of securing or repaying indebtedness obligations, may be deemed to be enforceable obligations. However, the loans were not entered into within two years of the date of creation or solely for securing or repaying indebtedness. Finance has not issued a Finding of Completion to the Agency; therefore, the provisions of HSC section 34171 apply. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable obligations. Therefore, this item is currently not an enforceable obligation.

- Item No. 9 – Hopper Park I-Bank Loan in the amount of \$704,739. Finance continues to deny the item at this time. Finance denied the item as it is our understanding the agreements are between the City and a third party and the Agency is not a party to the agreement. The Agency contends the item is an enforceable obligation because the I-Bank loan utilized sale-lease-back financing, which required the use of a public facility as loan collateral. Since that Agency did not own public facilities, the City applied for the I-Bank loan and provided the funds to the Agency for park construction. In 2006, the Agency and City entered into a cooperation agreement that required the Agency to reimburse the City for construction costs related to Agency projects. Per HSC section 34171 (d) (2), loan agreements entered into between the RDA and the city, county, or city and county that created it, at the time of issuance, but in no event later than December 31, 2010, of indebtedness obligations, and solely for the purpose of securing or repaying those indebtedness obligations, may be deemed to be enforceable obligations. However, the cooperation agreement was entered into in 2006 and the I-Bank Loan was entered into by the City in 2010. Finance has not issued a Finding of Completion to the Agency; therefore, the provisions of HSC section 34171 apply. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable obligations. Therefore, this item is currently not an enforceable obligation.
- Item No. 10 – Lawndale Community Center project in the amount of \$2.9 million. Finance continues to deny the item at this time. Finance denied the item as 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 issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. Upon receiving a Finding of Completion from Finance, these items may become enforceable pursuant to HSC section 34191.4 (c). Until then, they are not enforceable obligations and not authorized for payment. The Agency contends the item is an enforceable obligation because the City and the RDA entered into a Public Works Agreement in 2006 to authorize the City to act as an agent of the RDA and commit and spend Agency funds for the construction of public improvements. In 2009, the RDA issued bonds for the purpose of constructing a Community Center. While it was the City that entered into the contract, the City used its authority under the Public Works Agreement, with the active consent of the RDA, to commit RDA bond proceeds for the payment of the construction contract. However, the Public Works Agreement did not specify the Lawndale Community Center as one of the projects the City would undertake on behalf of the former RDA. Finance has not issued a Finding of Completion to the Agency; therefore, the provisions of HSC section 34171 apply and the item is not eligible for bond funding at this time. However, successor agencies will be eligible to expend bonds issued prior to January 1, 2011, once a finding of completion is received per 34191.4 (c). Those obligations should be reported on a subsequent ROPS.

- Item No. 11 and 12 – Commercial Rehab Program (CRP) totaling \$72,778. Finance continues to deny the items. Although no funding is requested in the current ROPS period, Finance denied the items as it is our understanding contracts were entered into after June 27, 2011. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. Further these items were previously denied in Finance's letter dated May 27, 2012 for the ROPS period January through June 2012. The Agency contends the items are enforceable obligations because Successor Agency staff mistakenly listed the date of the construction agreement between the applicant and the contractor. Staff should have entered the date that the CRP committed funds to the applicants, which was September 15, 2010. Although funds were awarded in September 2010, the documents provided show the awards are from the City, not the former RDA. Additionally, reimbursement requests are submitted to the City and payments are made from the City. Since the former RDA is not a party to the awards or responsible for payment of the awards, the items are not enforceable obligations.
- Item No. 14 – Bond proceeds in the amount of \$6.6 million. Finance continues to deny the item at this time. Although no funding is requested in the current ROPS period, Finance denied the item as it is not an enforceable obligation. It is our understanding no contracts are in place for this line item. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. Therefore, this line item is not an enforceable obligation and not eligible for funding at this time. To the extent bond proceeds are the anticipated funding source for these projects, upon receiving a Finding of Completion from Finance, these items may become enforceable pursuant to HSC section 34191.4 (c). Until then, they are not enforceable obligations and not authorized for payment. The Agency requested further clarification. Since there are no contracts in place, the item is not eligible for bond funding at this time. However, successor agencies will be eligible to expend bonds issued prior to January 1, 2011, once a finding of completion is received per 34191.4 (c). Those obligations should be reported on a subsequent ROPS.
- Item No. 19 through 23 – Mobile Home Park Closure project totaling \$515,894. Finance continues to deny the items. Although no funding is requested in the current ROPS period, Finance denied the items as it is our understanding no contracts are in place or contracts were executed after June 27, 2011. The Agency listed the anticipated costs because they believed that the Oversight Board might wish to close the dilapidated mobile home park located on the site to increase its value and therefore listed closure expenses. These are anticipated costs associated with the Long-Range Property Management Plan. Since there are no contracts in place for these items they are not enforceable obligations and should not be listed on the ROPS.
- Item No. 27 – Successor Housing Administrative Cost in the amount of \$12,598. Finance no longer objects to the item. The item was denied as HSC section 34176 (a) (1) states if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a RDA, all rights, powers, duties, obligations, and housing assets shall be transferred to the city, county, or city and county. Since the City of Lawndale assumed the housing functions, the administrative costs associated with these functions are the responsibility of the housing successor. The Agency contends the item was an enforceable obligation because these are former RDA

expenditures for housing staff for January 2012. The former RDA used tax increment it received before February 1, 2012 to pay these staff costs. The Agency is asking that Finance validates this expenditure by approving it as part of ROPS III. The costs were for housing staff of the former RDA prior to dissolution. Therefore, the item was an enforceable obligation.

- Item No. 4 for audit fees in the amount of \$4,350 is considered an administrative expense and should be counted towards the cap. Finance no longer reclassifies the item as an administrative cost, but denies it as an enforceable obligation. The Agency contends the item is an enforceable obligation because successor agencies are required to prepare annual audits and the former RDA entered into an agreement with an accounting firm in 2006 to prepare the annual audit. However, the agreement provided was between the City and a third party, not the former RDA. Since the former RDA was not a party to the agreement or responsible for payment, the item is not an enforceable obligation nor should it be reclassified as an administrative cost.

The Agency also requested clarification on what expenditures are considered administrative costs. Items that fall into any of the following categories are specifically excluded from the administrative cap as defined by HSC section 34171 (b):

- Any litigation expenses related to assets or obligations.
- Settlements and judgments.
- The costs of maintaining assets prior to disposition.
- Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs.

In addition, per Finance's ROPS letter dated November 21, 2012, the following items not disputed by the Agency continue to be denied:

- Item No. 7 – Pass through payments in the amount of \$304,871. Per HSC section 34183 (a) (1), the county auditor-controller will make the required pass through payments starting with the July through December 2012 ROPS. Therefore, these items are not enforceable obligations and not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is: \$680,079 as summarized below:

Approved RPTTF Distribution Amount	
For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 1,629,347
Less: Six-month total for items denied or reclassified as administrative cost:	
Item 4*	4,350
Item 7	304,871
Item 9	11,805
Total approved RPTTF for enforceable obligations	<u>\$ 1,308,321</u>
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	<u>100,000</u>
Total RPTTF approved:	\$ 1,408,321

* Reclassified as administrative cost

Administrative Cost Calculation	
Total RPTTF for the period July through December 2012	\$ 1,823,364
Total RPTTF for the period January through June 2013	1,308,321
Total RPTTF for fiscal year 2012-13:	\$ 3,131,685
Allowable administrative cost for fiscal year 2012-13 (Greater of 3% or \$250,000)	250,000
Administrative allowance for the period of July through December 2012	150,000
Allowable RPTTF distribution for administrative cost for ROPS III:	\$ 100,000

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS III form the estimated obligations and actual payments associated with the January through June 2012 period. The amount of RPTTF approved in the above table will be adjusted by the county auditor-controller to account for differences between actual payments and past estimated obligations. Additionally, these estimates and accounts are subject to audit by the county auditor-controller and the State Controller.

The amount available from the RPTTF is the same as the 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.

Except for items disallowed as noted above, Finance is not objecting to the remaining items listed in your ROPS III. Obligations deemed not to be enforceable shall be removed from your ROPS. This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2013. 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 questioned on this ROPS or a preceding ROPS.

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Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Otis Ginoza, Deputy City Manager, City of Lawndale
Mr. Ken Louie, Finance Director, City of Lawndale
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office