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**AGENDA FOR THE ADJOURNED REGULAR MEETING OF
THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO
THE COMMERCE COMMUNITY DEVELOPMENT COMMISSION**

**COUNCIL CHAMBERS
CITY HALL, CITY OF COMMERCE
5655 JILLSON STREET, COMMERCE, CALIFORNIA**

THURSDAY, OCTOBER 11, 2012 – 5:00 P.M.

CALL TO ORDER

Chairperson Leon

PLEDGE OF ALLEGIANCE

Board Member Plotkin

ROLL CALL

Secretary Olivieri

PUBLIC COMMENT

Citizens wishing to address the Oversight Board on any item on the agenda or on any matter not on the agenda may do so at this time. However, State law (Government Code Section 54950 et seq.) prohibits the Oversight Board from acting upon any item not contained on the agenda posted 72 hours before a regular meeting and 24 hours before a special meeting. Upon request, the Oversight Board may, in its discretion, allow citizen participation on a specific item on the agenda at the time the item is considered by the Oversight Board. Request to address Oversight Board cards are provided by the Secretary. If you wish to address the Oversight Board at this time, please complete a speaker's card and give it to the Secretary prior to commencement of the Oversight Board meeting.

ADJOURNED REGULAR OVERSIGHT BOARD AGENDA

10/11/2012 – 5:00 p.m.

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Please use the microphone provided, clearly stating your name and address for the official record and courteously limiting your remarks to five (5) minutes so others may have the opportunity to speak as well.

To increase the effectiveness of the Public Comment Period, the following rules shall be followed:

No person shall make any remarks which result in disrupting, disturbing or otherwise impeding the meeting.

WRITTEN COMMUNICATIONS – None.

PRESENTATIONS – None.

CONSENT CALENDAR

Items under the Consent Calendar are considered to be routine and may be enacted by one motion. Each item has backup information included with the agenda, and should any Board Member desire to consider any item separately he/she should so indicate to the Chairperson. If the item is desired to be discussed separately, it should be the first item under Scheduled Matters.

1. Resolution No. OB 2012-15 – A Resolution of the Oversight Board of the Successor Agency to the Commerce Community Development Commission Amending the Recognized Obligation Payment Schedule for the Period Covering January-June 2013, as Required by Section 34180 of the California Health And Safety Code

On October 3, 2012, pursuant to the provisions of Resolution No. OB 2012-14, the Oversight Board of the Successor Agency amended the fee schedule for the May 17, 2011, Agreement between the former Commerce Community Development Commission and Wayne Perry, Inc., for the design and installation of a landfill gas collection and treatment system for 7025 E. Slauson Avenue, Commerce, California, and approved an increase in the estimated cost for operations and maintenance required after completion of such treatment.

The Board will consider for approval and adoption proposed Resolution No. OB 2012-15 amending the Recognized Obligation Payment Schedule for the period January-June 2013 to reflect the action taken pursuant to Resolution No. OB 2012-14, as noted above.

SCHEDULED MATTERS

2. Low and Moderate Income Housing Fund and Other Assets Due Diligence Review

Pursuant to *California Health & Safety Code* §34179.5(a), the Successor Agency to the Commerce Community Development Commission (the "Commission") has completed a Due Diligence Review of the Low and Moderate Income Housing Fund ("LMIHF") maintained by the now dissolved Commission and has now, as required by *Health & Safety Code* §34179.6(a), provided the results of such review to the Oversight Board of the Successor Agency. The Due Diligence Review was performed by Mayer Hoffman McCann P.C. as part of the AB 1X 26 requirements for the end of redevelopment and pursuant to *Health & Safety Code* §34179.5(c) requiring each County Auditor-Controller to conduct or cause to be conducted, agreed-upon procedures of each former redevelopment agency. The Board has also, pursuant to *Health & Safety Code* §34179.6(b), provided the public with an opportunity to comment on the Due Diligence Review.

The Board will review and determine the amount of LMIHF cash and cash equivalents that are available for disbursement to taxing entities based on the Due Diligence Review.

STAFF REPORTS AND INFORMATION ITEMS

CHAIR AND BOARD MEMBER REPORTS AND INFORMATION ITEMS

RECESS TO CLOSED SESSION – No items.

ADJOURNMENT

**LARGE PRINTS OF THIS AGENDA ARE AVAILABLE UPON REQUEST
FROM THE OVERSIGHT BOARD SECRETARY'S OFFICE,
MONDAY-FRIDAY, 8:00 A.M. - 6:00 P.M.**

AGENDA REPORT

OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE COMMERCE COMMUNITY DEVELOPMENT COMMISSION

DATE: October 11, 2012

TO: OVERSIGHT BOARD

FROM: SUCCESSOR AGENCY FINANCE DIRECTOR

SUBJECT: Resolution No. OB 2012-15 – A Resolution of the Oversight Board of the Successor Agency to the Commerce Community Development Commission Amending the Recognized Obligation Payment Schedule for the Period Covering January-June 2013, as Required by Section 34180 of the California Health And Safety Code

RECOMMENDATION:

Review the amended Recognized Obligation Payment Schedule for January-June 2013 and thereafter consider for approval and adoption Resolution No. OB 2012-15, as entitled above.

BACKGROUND AND OVERVIEW:

California Health and Safety Code Section 34177(a), enacted by AB 1X 26, requires the City of Commerce, as the Successor Agency to the Commerce Community Development Commission, to prepare a Recognized Obligation Payment Schedule (“ROPS”), which sets forth the minimum payment amounts and due dates of payments required by enforceable obligations for each six-month fiscal period.

At its first meeting on May 2, 2012, the Board received a presentation on the function of the ROPS, as determined by the provisions of *Health and Safety Code* Section 34177(a), and information about the required approval dates for the ROPS.

Specific to this subject matter, on May 17, 2011, the Commission entered into an agreement with Wayne Perry, Inc. (the “Agreement”) for the installation of four wells and a gas collection system needed to reduce the methane readings at Commission-owned property located at 7025 E. Slauson Avenue, in the City of Commerce (the “Site”), at a cost of \$147,366. Wayne Perry also proposed to conduct required monitoring, operations and maintenance, for a thirty year period, at an estimated cost of \$150,000.

The Agreement involves two phases:

Phase I consists of obtaining a South Coast Air Quality Management District (AQMD) permit to actively extract and flare the current temporary bubble of landfill gas from four

new wells using a Solar Spark Vent Flare consisting of a small solar powered blower and igniter.

Phase II involves removing and replacing the Solar Spark Vent Flare once it begins to operate infrequently or the flow of gas ceases to support flaring due to low methane concentration. If necessary, two 55-gallon granular activated carbon canisters will be installed to treat the exhaust prior to discharge to the atmosphere.

On November 21, 1995, the Commission entered into a 55-year Ground Lease with Structural Materials for the Site. Pursuant to AB 1X 26, the Ground Lease and the environmental mitigation requirements for the Site constitute “enforceable obligations” that must be recognized and addressed by the Successor Agency.

On July 3, 2012, the Successor Agency approved the assignment and assumption of the Ground Lease from Structural Materials to Beacon Sales Acquisition, Inc., which purchased Structural Materials. The Oversight Board approved the assignment and assumption of lease on July 5, 2012.

On October 2, 2012, the Successor Agency approved an amendment to the Agreement fee schedule to include the unexpected increased costs to Wayne Perry for the construction and the monitoring, maintenance and operations tasks at the Site [see *Analysis and Discussion*, below]. On October 3, the Oversight Board also approved the amendment to the Agreement.

ANALYSIS AND DISCUSSION:

The ROPS III, for the period January 1, 2013, to June 30, 2013, like the approved ROPS I and II, include line items for environmental investigation and remediation. The Successor Agency and Oversight Boards have approved through the ROPS the allocation of remediation amounts that are estimated to achieve State of California Regional Water Quality Control Board (RWQCB), Department of Toxic Substance Control (DTSC), Los Angeles County and other oversight jurisdiction approvals. The estimates are based on information currently available. Site investigation and characterization is ongoing. Actual contract amounts for most of the remediation efforts are not yet available.

As the owner of the sites, the Successor Agency is responsible for investigation and remediation of the sites.

Whether the properties are the subject of a long-range management plan after a Finding of Completion pursuant to AB 1484, or the properties become the subject of expeditious disposition, they must be remediated.

Specific to this project, during excavation for the well installation at the Site, Wayne Perry discovered that the lead content in some of the soils exceeded regulatory limits and must be disposed of as a hazardous waste. This resulted in a disposal rate of \$142/ton instead of \$36/ton and increased the cost for disposal by \$12,451.57.

The South Coast Air Quality Management District (“AQMD”) permit No. 525796 was granted on April 11, 2012, but did not allow for the use of solar flare as anticipated by Wayne Perry. Instead, the permit requires installation of an extraction system utilizing a vacuum blower and carbon treatment. This change has resulted in an electrical redesign, electrical connection and service, and a change in equipment for an additional unanticipated increased cost of \$5,680.00.

Pursuant to the Agreement, Wayne Perry was to provide quarterly monitoring, operations and maintenance of the installed mitigation and collection equipment at the Site for a period of thirty years, at an estimated cost of \$150,000. The AQMD permit required monitoring to occur on a monthly, rather than a quarterly basis. This resulted in an increase from \$3,000 per year to \$7,585 for year one and \$6,600 for year 2 and beyond for an increase service by \$48,985. The total revised figure is \$198,985.

In summary, the contract changes, as approved by both the Successor Agency and Oversight Board, are as follows:

Reason for Increase	Increased amount
AQMD permit requirement – electrical	\$ 5,680.00
Hazardous waste soil disposal	\$ 12,451.57
Total Increase to Contract	\$ 18,131.57
AQMD permit requirement – O&M	\$198,985.00 (revised total cost over 30 years)

As a result of the modification aforementioned, staff believes that an amendment to ROPS III is warranted. Specifically, the amendment is as follows:

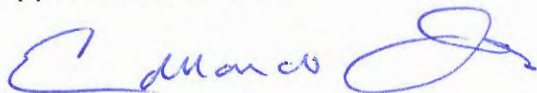
Line 11	Monitoring Methane System (Construction)	\$150,000 to \$168,131.57
	Monitoring Methane System (Monitoring)	\$198,000 to \$198,985

Respectfully submitted,



Vilko Domic
 Successor Agency Finance Director

Approved as to form,



Eduardo Olivo
 Successor Agency Legal Counsel

RESOLUTION NO. OB 2012-15

A RESOLUTION OF THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE COMMERCE COMMUNITY DEVELOPMENT COMMISSION AMENDING THE RECOGNIZED OBLIGATION PAYMENT SCHEDULE FOR THE PERIOD COVERING JANUARY-JUNE 2013, AS REQUIRED BY SECTION 34180 OF THE CALIFORNIA HEALTH AND SAFETY CODE

WHEREAS, the Commerce Community Development Commission (the "Commission") operated as a redevelopment agency in the City of Commerce (the "City"), duly created pursuant to the Community Redevelopment Law (Part 1 (commencing with Section 33000) of Division 24 of the California *Health and Safety Code*) (the "Redevelopment Law"); and

WHEREAS, *Health and Safety Code* Section 34177 (a), which was enacted by Assembly Bill 1X 26, requires successor agencies to prepare a Recognized Obligation Payment Schedule, which sets forth the minimum payment amounts and due dates of payments required by enforceable obligations for each six-month fiscal period, and

WHEREAS, on April 24, 2012, pursuant to Resolution No. SA 12-4, the Successor Agency to the Commission approved the Recognized Obligations Payment Schedule ("ROPS") for July-December 2012; and

WHEREAS, *Health and Safety Code* Section 34180 requires the Oversight Board of the Successor Agency to approve the establishment of the Recognized Obligation Payment Schedule; and

WHEREAS, on August 22, 2012, pursuant to Resolution No. OB 2012-11, the Oversight Board approved the ROPS for January-June 2013, directing that Successor Agency staff amend the ROPS to include, in a footnote therein, a brief explanation as to why the Successor Agency does not have firm numbers at this time for the expected cost of environmental remediation on various properties included on lines 13, 14, 15, 27, 28, 39, 40 and 55-59; and

WHEREAS, on September 5, 2012, pursuant to Resolution No. OB 2012-12, the Oversight Board approved the Amended ROPS for January-June 2013, including a footnote that explained the expected cost of environmental remediation on various properties; and

WHEREAS, on October 3, 2012, pursuant to the provisions of Resolution No. OB 2012-14, the Oversight Board amended the fee schedule for the May 17, 2011, Agreement between the former Commission and Wayne Perry, Inc., for the design and installation of a landfill gas collection and treatment system for 7025 E. Slauson Avenue, and approved an increase in the estimated cost for operations and maintenance required after completion of such treatment; and

WHEREAS, the Amended ROPS for January-June 2013, requires amendment to reflect the action approved under Resolution No. OB 2012-14.

NOW, THEREFORE, BE IT RESOLVED BY THE OVERSIGHT BOARD AS FOLLOWS:

Section 1. The recitals set forth above are true and correct.

Section 2. The following amendments to the Amended Recognized Obligation Payment Schedule, for the period January-June 2013, are hereby approved and the Amended Recognized Obligation Payment Schedule, for the period January-June 2013, which is attached hereto as Exhibit "A", is hereby approved and adopted in accordance with the provisions of Section 34180 of the *Health and Safety Code*:

Line 11	Monitoring Methane System (Construction)	\$150,000 to \$168,131.57
	Monitoring Methane System (Monitoring)	\$198,000 to \$198,985

The Director of Finance of the Successor Agency is hereby authorized and directed to transmit the Schedule to the Los Angeles County Auditor-Controller, the State Controller and the State Department of Finance in accordance with Section 34169 of the *Health and Safety Code*.

Section 3. The Oversight Board's Secretary shall certify to the passage of this Resolution and thereupon and thereafter the same shall be in full force and effect.

PASSED, APPROVED AND ADOPTED this 11th day of October, 2012.

Lilia R. Leon
Oversight Board Chairperson

ATTEST:

Linda Kay Olivieri, MMC
Oversight Board Secretary

AGENDA REPORT

OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE COMMERCE COMMUNITY DEVELOPMENT COMMISSION

DATE: October 11, 2012

TO: HONORABLE OVERSIGHT BOARD

FROM: SUCCESSOR AGENCY FINANCE DIRECTOR

SUBJECT: LOW AND MODERATE INCOME HOUSING FUND AND OTHER
ASSETS DUE DILIGENCE REVIEW

RECOMMENDATION:

The Oversight Board will review the Low-Moderate Income Housing Fund ("LMIHF") and other assets Due Diligence Review, as performed by Mayer Hoffman McCann P.C. as part of AB 1X 26 requirements, and pursuant to *California Health and Safety Code* Section 34179.5(c) requiring each County Auditor-Controller to conduct, or cause to be conducted, agreed-upon procedures of each former Redevelopment Agency, and determine the amount of LMIHF cash and cash equivalents that are available for disbursement to taxing entities based on the Due Diligence Review.

MOTION:

Board discretion.

BACKGROUND:

On March 14, 1974, the City of Commerce City Council (the "City") established the Commerce Redevelopment Agency (the "Agency"). Thereafter, the City Council approved and adopted the Redevelopment Plans for Project Area No. 1, Project Area No. 2 (the Town Center Project), Project Area No. 3 (the Atlantic Washington Project) and Project Area No. 4 (collectively, the "Redevelopment Plans"), covering certain properties within the City (the "Project Areas").

On November 3, 1992, the City Council created the Commerce Community Development Commission (the "Commission"). The Commission is the successor-in-interest to the Agency and was engaged in various activities necessary to execute and implement the Redevelopment Plans pursuant to the provisions of the California Community Redevelopment Law (*Health and Safety Code* § 33000, *et seq.*) ("CRL").

As part of the 2011-12 State budget bill, the California Legislature enacted and the Governor signed companion bills, Assembly Bill X1 26 ("AB 26") and Assembly Bill X1 27 ("AB 27"), requiring that each redevelopment agency in the State be dissolved

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unless the community exercised the option to continue with a modified form of redevelopment under AB 27.

Subsequently, the League of California Cities, the California Redevelopment Association and the cities of San Jose and Union City filed a lawsuit with the California Supreme Court, entitled California Redevelopment Association et al., v. Ana Matosantos, challenging the constitution of AB 26 and AB 27.

On December 29, 2011, the California Supreme Court upheld the constitutionality of AB 26 which abolished redevelopment agencies. The Supreme Court also held that AB 27 was unconstitutional. Thus, effective, February 1, 2012, redevelopment agencies throughout the State were abolished and cannot continue on with any redevelopment activities.

HSC Section 34179.5 requires each Successor Agency to employ a licensed accountant, approved by the county auditor-controller and with experience and expertise in local government accounting, to conduct a due diligence review to determine the unobligated balances available for transfer to taxing entities.

Due Diligence reviews of the Low and Moderate Income Housing Fund must be submitted to the Oversight Board, the county auditor-controller, the State Controller's Office and the Department of Finance by October 1, 2012. The Oversight Board has until October 15, 2012 to review, approve, and transmit to the Department of Finance and county auditor-controller the determination of the amount of cash and cash equivalents that are available for disbursement to taxing entities.

Department of Finance reviews of the determinations provided by the Oversight Boards will be completed no later than November 9, 2012. Any decision to overturn determinations made by the Oversight Board to authorize a Successor Agency to retain assets or funds will be conveyed to the Oversight Board and Successor Agency via a letter. Successor Agencies have five days from receipt of the decisions to request "meet and confer."

ANALYSIS:

The auditing firm of Mayer-Hoffmann-McCann has completed the Due Diligence Review engagement of the City's Low and Moderate Income Housing Fund/Program, the results of which are **attached**. The procedures performed were agreed upon by the California State Controller's Office, California Department of Finance (Finance), and Los Angeles County (LACA-C).

Results:

We obtained from the Successor Agency a listing of all assets (at their recorded book values) that were transferred from the former redevelopment agency to the Successor Agency on February 1, 2012. We agreed the amounts on this listing to account balances established in the accounting records of the Successor Agency.

- ✓ On February 1, 2012, \$23,237,952 of low and moderate income housing fund assets was transferred to the Successor Agency. See additional asset detail on **EXHIBIT B**.

If the State Controller's Office has completed its review of transfers required under both Sections 34167.5 and 34178.8 and issued its report regarding such review, attach a copy of that report as an exhibit to the AUP report.

- ✓ The State Controller's Office has not completed the review of transfers. The low and moderate income housing fund did not transfer any funds to the City of Commerce or the County of Los Angeles for the period from January 1, 2011 through January 31, 2012.
- ✓ The State Controller's Office has not completed the review of transfers. The Department of Finance has not approved the transfers, but the City is appealing the decision. The Low and Moderate Income Housing Fund transferred \$1,146,394 of real property, loans receivable, an escrow deposit, and related liabilities to the City as of June 30, 2012 as noted on **EXHIBIT C** for the purpose of ongoing housing activities in the City of Commerce.
- ✓ The transfers were not made as a result of the enforceable obligations. All account values transferred at June 30, 2012 agreed to the June 30, 2011 audited financial statements with the exception of loans receivable.

If the State Controller's Office has completed its review of transfers required under both Sections 34167.5 and 34178.8 and issued its report regarding such review, attach a copy of that report as an exhibit to the AUP report. If this has not yet occurred, perform the following procedures:

- ✓ No transfers were made from the former redevelopment agency to any other public agency or to private parties for the period January 1, 2011 through January 31, 2012.
- ✓ No transfers were made from the former redevelopment agency to any other public agency or to private parties for the period February 1, 2012 through June 30, 2012.
- ✓ No transfers were made from the former redevelopment agency to any other public agency or to private parties for the periods indicated above.

We obtained from the Successor Agency a summary of the financial transactions of the Redevelopment Agency and the Successor Agency in the format set forth in the California State Controller's Office's procedures for the fiscal year ended June 30, 2010, the fiscal year ended June 30, 2011, the period July 1, 2011 through January 31, 2012, and the period February 1, 2012 through June 30, 2012. For each period presented, we determined that the total of revenues, expenditures, and transfers accounted fully for the changes in equity from the previous fiscal period. We compared amounts in the

schedule relevant to the fiscal year ending June 30, 2010 to the state controller's report filed for the Redevelopment Agency for that period.

- ✓ The schedule is presented at EXHIBIT B.

We obtained from the Successor Agency a listing of all assets of the Low and Moderate Income Housing Fund as of June 30, 2012. We also agreed the assets so listed to recorded balances reflected in the accounting records of the Successor Agency.

- ✓ The listing of assets is included in EXHIBIT B.

We obtained from the Successor Agency a listing of asset balances held on June 30, 2012 that are restricted for specific purposes and performed the following procedures:

- ✓ There are no low and moderate income housing unspent bond proceeds.
- ✓ There are no low and moderate income housing grant proceeds or program income.
- ✓ There are no other assets considered to be legally restricted.

We obtained from the Successor Agency a listing of assets as of June 30, 2012 that are not liquid or otherwise available for distribution (such as capital assets, land held for resale, long-term receivables, etc.) and ascertained if the values are listed at either purchase cost (based on book value reflected in the accounting records of the Successor Agency) or market value as recently estimated by the Successor Agency.

- ✓ There are no assets at June 30, 2012 that are not liquid or otherwise available for distribution. The only asset at June 30, 2012 is cash and investments. See EXHIBIT B.

We performed the following procedures: For assets balance needed to be retained to satisfy enforceable obligations, we obtained from the Successor Agency an itemized schedule of asset balances (resources) as of June 30, 2012 that are dedicated or restricted for the funding of enforceable obligations and performed certain procedures.

- ✓ ROPSIII for the period January 1, 2013 includes \$1,425,000 of low and moderate income housing funds that were reports as "available revenues other than anticipated RPTTF funding" that will be used to pay enforceable obligations. ROPSIII has not yet been approved by the California Department of Finance. This amount has been included in **Exhibit A**.

For future revenues together with balances dedicated or restricted to an enforceable obligation are insufficient to fund future obligation payments and thus retention of current balances is required, we obtained from the Successor Agency a schedule of approved enforceable obligations that included a projection of the annual spending requirements to satisfy each obligation and a projection of the annual revenues available to fund those requirements and performed certain procedures.

- ✓ **EXHIBIT D** summarizes the annual spending requirements and annual revenues available to fund those requirements.

For projected property tax revenues and other general purpose revenues that were received by the Successor Agency are insufficient to pay bond debt service payments, we obtained from the Successor Agency a schedule demonstrating this insufficiency and applied the following procedures to the information reflected in that schedule.

- ✓ EXHIBIT D summarizes the future bond debt service payments and the forecasted revenues. Property taxes are estimated to be sufficient to pay for future bond debt service payments.

For cash balances as of June 30, 2012 that need to be retained to satisfy obligations on the Recognized Obligation Payment Schedule (ROPS) for the period of July 1, 2012 through June 30, 2013, we obtained a copy of the final ROPS for the period of July 1, 2012 through December 31, 2012 and a copy of the final ROPS for the period January 1, 2013 through June 30, 2013.

- ✓ We compared the obligations noted on EXHIBIT D for the period July 1, 2012 through June 30, 2013 to the final ROPS for the periods July 1, 2012 through December 31, 2012 and January 1, 2013 through June 30, 2013.

The report includes a schedule detailing the computation of the Balance Available for Allocation to Affected Taxing Entities.

- ✓ See EXHIBIT A. **The total balance available for allocation to affected taxing entities is \$19,963,547.**

FISCAL IMPACT:

As part of the ROPS process, those funds have been earmarked specifically for contaminated properties held by the Successor Agency.

Disposition of the remaining sites, as described in the prepared and approved ROPS/EOPS, require that the set aside funds and reserved tax increment remain for cleanup allocation as no further tax increment, other State or County resources will be allocated for environmental remediation. Without remediation the sites may remain unsold and non-developable. The Successor and Oversight Boards have included in their disposition plans the use and allocation of the existing tax increment funds to achieve the highest possible sale price for each property. The Successor and Oversight Boards have approved through the ROPS the allocation of remediation amounts that are estimated to achieve State of California Regional Water Quality Control Board (RWQCB), Department of Toxic Substance Control (DTSC), Los Angeles County and other oversight jurisdiction approvals prior to sale and development of each site.

Unfortunately, the relinquishment of these funds will mean that the city's only recourse to remediate the aforementioned properties will be thru the RPTTF ROPS request process. With that said, and reflective of the precarious process

that we have endured thus far, staff is very leery that the remediation, thus the disposition of said properties will transpire in the near future.

The Oversight Board provided the public with an opportunity to comment on the Due Diligence Review at its regular meeting of October 3, 2012.

Recommended by:



Vilko Domic
Successor Agency Finance Director

Approved as to form:



Eduardo Olivo
Successor Agency Legal Counsel

Attachments:

Low-Moderate Housing Income Fund "Due Diligence Review"

Oversight Board of the Successor Agency of the former Redevelopment Agency
of the City of Commerce
2535 Commerce Way
Commerce, CA 92708

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the Successor Agency of the former Redevelopment Agency of the City of Commerce (Successor Agency), the California Department of Finance, and the California State Controller's Office, solely to assist you in complying with the requirement for a due diligence review of the low and moderate income housing fund of the former Redevelopment Agency and the Successor Agency pursuant to Section 34179.5(c) of the California Health and Safety Code. Management of the Successor Agency is responsible for the Successor Agency's compliance with the California Health and Safety Code. This engagement to apply agreed-upon procedures was performed in accordance with the attestation standards established by the *American Institute of Public Accountants* for such engagements. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the specified items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Our procedures and results were as follows:

1. We obtained from the Successor Agency a listing of all assets (at their recorded book values) that were transferred from the former redevelopment agency to the Successor Agency on February 1, 2012. We agreed the amounts on this listing to account balances established in the accounting records of the Successor Agency.

Results: On February 1, 2012, \$23,237,952 of low and moderate income housing fund assets were transferred to the Successor Agency. See additional asset detail on EXHIBIT B.

2. If the State Controller's Office has completed its review of transfers required under both Sections 34167.5 and 34178.8 and issued its report regarding such review, attach a copy of that report as an exhibit to the AUP report. If this has not yet occurred, perform the following procedures:
 - a. We obtained a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the former redevelopment agency to the city, county, or city and county that formed the redevelopment agency for the period from January 1, 2011 through January 31, 2012.

Results: The State Controller's Office has not completed the review of transfers. The low and moderate income housing fund did not transfer any funds to the City of Commerce or the County of Los Angeles for the period from January 1, 2011 through January 31, 2012.

- b. We obtained a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the Successor Agency to the city, county, or city and county that formed the redevelopment agency for the period from February 1, 2012 through June 30, 2012.

Results: The State Controller's Office has not completed the review of transfers. The Low and Moderate Income Housing Fund transferred \$1,146,394 of real property, loans receivable, an escrow deposit, and related liabilities to the City as of June 30, 2012 as noted on EXHIBIT C for the purpose of ongoing housing activities in the City of Commerce. The Department of Finance has approved the transfer of the loans receivable and the transfer of the real property, with the exception of \$399,000 that is being appealed.

- c. For each transfer, we obtained the legal document that formed the basis for the enforceable obligation that required any transfer.

Results: The transfers were not made as a result of the enforceable obligations. All account values transferred at June 30, 2012 agreed to the June 30, 2011 audited financial statements with the exception of loans receivable. Loans receivable reported on the Housing Asset Listing provided to the California Department of Finance included loans that were erroneously excluded from the audited financial statements. We compared all loans to the original loan document and corespondance. We ensured the balance was reasonable based on the information we reviewed. As a result of our review, we reduced the loan receivable balance of \$2,194,896 that was previously reported to the Department of Finance to \$457,228.

3. If the State Controller's Office has completed its review of transfers required under both Sections 34167.5 and 34178.8 and issued its report regarding such review, attach a copy of that report as an exhibit to the AUP report. If this has not yet occurred, perform the following procedures:

- a. We obtained a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the former redevelopment agency to any other public agency or to private parties for the period from January 1, 2011 through January 31, 2012.

Results: No transfers were made from the former redevelopment agency to any other public agency or to private parties for the period January 1, 2011 through January 31, 2012.

- b. We obtained a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the Successor Agency to any other public agency or private parties for the period from February 1, 2012 through June 30, 2012.

Results: No transfers were made from the former redevelopment agency to any other public agency or to private parties for the period February 1, 2012 through June 30, 2012.

- c. For each transfer, we obtained the legal document that formed the basis for the enforceable obligation that required any transfer.

Results: No transfers were made from the former redevelopment agency to any other public agency or to private parties for the periods indicated above.

4. We obtained from the Successor Agency a summary of the financial transactions of the Redevelopment Agency and the Successor Agency in the format set forth in the California State Controller's Office's procedures for the fiscal year ended June 30, 2010, the fiscal year ended June 30, 2011, the period July 1, 2011 through January 31, 2012, and the period February 1, 2012 through June 30, 2012. For each period presented, we determined that the total of revenues, expenditures, and transfers accounted fully for the changes in equity from the previous fiscal period. We compared amounts in the schedule relevant to the fiscal year ending June 30, 2010 to the state controller's report filed for the Redevelopment Agency for that period.

Results: The schedule is presented at EXHIBIT B. We recorded several adjustments to the data provided to us as follows:

- There was a prior period adjustment to record a parcel of land during the June 30, 2010 audit that was not reflected on the June 30, 2010 State Controller's Report. The adjustment has been added to the exhibit as a reconciling item.
 - We noted that the fiscal year ended June 30, 2011, the period ended January 1, 2012, and the period ended June 30, 2012 did not include principal and interest payments on Housing Bonds. The Housing Bonds are properly reflected on the ROPS and were approved by the Department of Finance. We adjusted the periods ended January 1, 2012 and June 30, 2012 balances to reflect a prior period adjustment for the fiscal year ended June 30, 2011 as well as principal and interest payments for the periods ended January 1, 2012 and June 30, 2012.
 - We adjusted the balance of loans receivable and deferred revenue for the period ended June 30, 2012 to reflect additional loans that were included on the Housing Asset Listing that was provided to the Department of Finance.
 - We removed certain assets and liabilities and recorded a transfer to the City as of June 30, 2012 in the amount of \$1,146,394 as noted in procedure 2 and EXHIBIT C.
5. We obtained from the Successor Agency a listing of all assets of the Low and Moderate Income Housing Fund as of June 30, 2012. We also agreed the assets so listed to recorded balances reflected in the accounting records of the Successor Agency.

Results: The listing of assets is included in EXHIBIT B. We agreed the asset balances to the recorded balances reflected in the accounting records of the Successor Agency. To verify the accuracy of the cash balance, we obtained the Citywide bank reconciliation at June 30, 2012 and traced the cash balance for the low and moderate income housing fund to the reconciled bank balance. We adjusted the cash balance to reflect the adjustments noted in procedure 4. We ensured interest income on investments was recorded in the fund from February 1, 2012 through June 30, 2012. We reviewed all expenditures in the fund from February 1, 2012 through June 30, 2012 and noted they were all included on the applicable approved ROPS.

6. We obtained from the Successor Agency a listing of asset balances held on June 30, 2012 that are restricted for specific purposes and performed the following procedures:

- a. Unspent bond proceeds:

- i. We obtained the Successor Agency's computation of the restricted balances (e.g., total proceeds less eligible project expenditures, amounts set aside for debt service payments, etc.).
- ii. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).
- iii. Obtain from the Successor Agency a copy of the legal document that sets forth the restriction pertaining to these balances.

Results: There are no low and moderate income housing unspent bond proceeds.

b. Grant proceeds and program income that are restricted by third parties:

- i. We obtained the Successor Agency's computation of the restricted balances.
- ii. We traced individual components of this computation to related account balances in the accounting records, or to other supporting documentation.
- iii. We obtained from the Successor Agency a copy of the grant agreement that sets forth the restriction pertaining to these balances.

Results: There are no low and moderate income housing grant proceeds or program income.

c. Other assets considered to be legally restricted:

- i. We obtained the Successor Agency's computation of the restricted balances (e.g., total proceeds less eligible project expenditures).
- ii. We traced individual components of this computation to related account balances in the accounting records, or to other supporting documentation.
- iii. We obtained from the Successor Agency a copy of the legal document that sets forth the restriction pertaining to these balances.

Results: There are no other assets considered to be legally restricted.

d. We attached the above mentioned Successor Agency prepared schedule(s) as an exhibit to the AUP report. For each restriction identified on these schedules, we indicated in the report the period of time for which the restrictions are in effect.

Results: This procedure is not applicable.

7. We obtained from the Successor Agency a listing of assets as of June 30, 2012 that are not liquid or otherwise available for distribution (such as capital assets, land held for resale, long-term receivables, etc.) and ascertained if the values are listed at either purchase cost (based on book value reflected in the accounting records of the Successor Agency) or market value as recently estimated by the Successor Agency.

- a. If the assets listed at 7(a) were listed at purchase cost, we traced the amounts to a previously audited financial statement (or to the accounting records of the Successor Agency) and noted any differences.
- b. For any differences noted in 7(b), we inspected evidence of disposal of the asset and ascertained that the proceeds were deposited into the Successor Agency trust fund. If the differences are due to additions, we inspected supporting documentation and noted the circumstance.
- c. If the assets listed at 7(a) were listed at recently estimated market value, we inspected the evidence (if any) supporting the value and noted the methodology used.

Results: There are no assets at June 30, 2012 that are not liquid or otherwise available for distribution. The only asset at June 30, 2012 is cash and investments. See EXHIBIT B.

8. We performed the following procedures:

- a. For assets balance needed to be retained to satisfy enforceable obligations, we obtained from the Successor Agency an itemized schedule of asset balances (resources) as of June 30, 2012 that are dedicated or restricted for the funding of enforceable obligations and performed the following procedures:
 - i. We compared all information on the schedule to the legal documents that form the basis for the dedication or restriction of the resource balance in question.
 - ii. We compared all current balances to the amounts reported in the accounting records of the Successor Agency or to an alternative computation.
 - iii. We compared the specified enforceable obligations to those that were included in the final Recognized Obligation Payment Schedule approved by the California Department of Finance.
 - iv. We attached as an exhibit to the report the listing obtained from the Successor Agency. We also identified in the report any listed balances for which the Successor Agency was unable to provide appropriate restricting language in the legal document associated with the enforceable obligation.

Results: ROPS III for the period January 1, 2013 to June 30, 2013 includes \$1,425,000 of low and moderate income housing funds that were reported as “available revenues other than anticipated RPTTF funding” that will be used to pay enforceable obligations. ROPS III has not yet been approved by the California Department of Finance. This amount has been included in EXHIBIT A.

- b. For future revenues together with balances dedicated or restricted to an enforceable obligation are insufficient to fund future obligation payments and thus retention of current balances is required, we obtained from the Successor Agency a schedule of approved enforceable obligations that included a projection of the annual spending requirements to satisfy each obligation and a projection of the annual revenues available to fund those requirements and performed the following procedures:

- i. We compared the enforceable obligations to those that were approved by the California Department of Finance.
- ii. We compared the forecasted annual spending requirements to the legal document supporting each enforceable obligation by obtaining from the Successor Agency its assumptions relating to the forecasted annual spending requirements and disclose in the report major assumptions associated with the projections.
- iii. For the forecasted annual revenues, we obtained the assumptions for the forecasted annual revenues and disclosed the major assumptions associated with the projections.

Results: EXHIBIT D summarizes the annual spending requirements and annual revenues available to fund those requirements. We compared the annual spending requirements to the approved Recognized Obligation Payment Schedule. We compared the bond payments to the bond debt to maturity schedules by year through retirement. The assumption is that bonds will not be refunded prior to their original maturity. We calculated the forecasted annual revenues using information from the loans receivable schedule. The assumption is that forgivable loans will not be received. Additionally, a 50% allowance for doubtful accounts was applied to the remaining principal and interest payments due when determining the expected amount that will be received. Property taxes are assumed to increase by 1% each year since the fiscal year ended June 30, 2011. Because property taxes are projected to be sufficient to pay all former Redevelopment Agency enforceable obligations, only the portion needed to pay the low and moderate income housing fund obligations has been included on this schedule.

- c. For projected property tax revenues and other general purpose revenues that were received by the Successor Agency are insufficient to pay bond debt service payments, we obtained from the Successor Agency a schedule demonstrating this insufficiency and applied the following procedures to the information reflected in that schedule:
 - i. We compared the timing and amounts of bond debt service payments to the related bond debt service schedules in the bond agreement.
 - ii. We obtained the assumptions for the forecasted property tax revenues and disclose major assumptions associated with the projections.
 - iii. We obtained the assumptions for the forecasted other general purpose revenues and disclose major assumptions associated with the projections.

Results: EXHIBIT D summarizes the future bond debt service payments and the forecasted revenues. Property taxes are estimated to be sufficient to pay for future bond debt service payments.

- d. If procedures, A, B, or C were performed, we calculated the amount of current unrestricted balances necessary for retention in order to meet the enforceable obligations by performing the following procedures:
 - i. We combined the amount of identified current dedicated or restricted balances and the amount of forecasted annual revenues to arrive at the amount of total resources available to fund enforceable obligations.

- ii. We reduced the amount of total resources available by the amount forecasted for the annual spending requirements.

Results: No unrestricted balances are necessary for retention in order to meet the enforceable obligations.

9. For cash balances as of June 30, 2012 that need to be retained to satisfy obligations on the Recognized Obligation Payment Schedule (ROPS) for the period of July 1, 2012 through June 30, 2013, we obtained a copy of the final ROPS for the period of July 1, 2012 through December 31, 2012 and a copy of the final ROPS for the period January 1, 2013 through June 30, 2013.

Results: We compared the obligations noted on EXHIBIT D for the period July 1, 2012 through June 30, 2013 to the final ROPS for the periods July 1, 2012 through December 31, 2012 and January 1, 2013 through June 30, 2013.

10. We have included a schedule detailing the computation of the Balance Available for Allocation to Affected Taxing Entities.

Results: See EXHIBIT A. The total balance available for allocation to affected taxing entities is \$19,963,547.

11. We obtained a representation letter from management acknowledging their responsibility for the data provided to the practitioner and the data presented in the report or in any attachments to the report.

Results: Required representations were obtained from management.

This letter is intended solely for the information and use of the Oversight Board of the Successor Agency of the former Redevelopment Agency of the City of Commerce, the Successor Agency of the former Redevelopment Agency of the City of Commerce, the California Department of Finance, the California State Controller's Office, and the County of Los Angeles' Auditor-Controller's Office and is not intended to be and should not be used by anyone other than those specified parties.

Irvine, California
September 27, 2012

SUCCESSOR AGENCY OF THE COMMERCE REDEVELOPMENT AGENCY
 Summary of Balances Available for Allocation of Affected Taxing Entities
 June 30, 2012

SUMMARY OF BALANCES AVAILABLE FOR ALLOCATION TO AFFECTED TAXING ENTITIES

Total amount of assets held by the successor agency as of June 30, 2012	\$ 21,388,547
Less assets legally restricted for uses specified by debt covenants, grant restrictions, or restrictions imposed by other governments.	-
Less assets that are not cash or cash equivalents (i.e. physical assets)	-
Less balances that are legally restricted for the funding of an enforceable obligation (net of projected annual revenues available to fund those obligations)	-
Less balances needed to satisfy ROPS for fiscal year 12/13	(1,425,000)
Less balances needed to satisfy ROPS for future fiscal years	-
Add the amount of any assets transferred to the city for which an enforceable obligation with a third party requiring such transfer and obligating the use of the transferred assets did not exist	-
Amount to be remitted to county for disbursement to taxing entities	<u>\$ 19,963,547</u>

Note that separate computations are required for the Low and Moderate Income Housing Fund held by the Successor Agency and for all other funds held by the Successor Agency.

NOTES: For each line shown above, an exhibit should be attached showing the composition of the summarized amount.

If the review finds that there are insufficient funds available to provide the full amount due, the cause of the insufficiency should be demonstrated in a separate schedule.

SUCCESSOR AGENCY OF THE COMMERCE REDEVELOPMENT AGENCY
Reconciliation of Low and Moderate Income Housing Fund Activities
6/30/12

	Redevelopment Agency 12 Months Ended 6/30/2010	Redevelopment Agency 12 Months Ended 6/30/2011	Redevelopment Agency 7 Months Ended 1/31/2012	Successor Agency 5 Months Ended 6/30/2012
Assets:				
Cash and Investments	\$ 1,458,951	24,423,059	21,947,698	21,388,547
Cash and Investments with Fiscal Agent	-	-	-	-
Accounts Receivable	-	-	-	-
Interest Receivable	-	-	-	-
Due From Other Funds	20,454,032	-	-	-
Advances to other Funds	-	-	-	-
Loans Receivable	139,450	139,450	139,450	-
Lease Receivable	-	-	-	-
Prepaid Items	-	-	-	-
Deposits in Escrow	-	97,804	97,804	-
Property Held for Resale	399,000	1,053,000	1,053,000	-
Total Assets	22,451,433	25,713,313	23,237,952	21,388,547
Liabilities:				
Accounts Payable	78,210	60,661	-	-
Other Liabilities	-	-	-	-
Deposits Payable	-	-	-	-
Due to Other Governments	-	-	-	-
Due to Other Funds	-	-	-	-
Advances from Other Funds	-	-	-	-
Deferred Revenue	40,000	40,000	35,000	-
Total Liabilities	118,210	100,661	35,000	-
Equity	22,333,223	25,612,652	23,202,952	21,388,547
Total Liabilities + Equity	22,451,433	25,713,313	23,237,952	21,388,547
Total Revenues:	132,633	229,331	51,500	21,962
Total Expenditures/Expenses:	(459,657)	(1,199,132)	(1,075,656)	(689,973)
Total Transfers:	2,981,338	3,595,229	-	(1,146,394)
Net change in equity	2,654,314	2,625,428	(1,024,156)	(1,814,405)
Beginning Equity:	19,678,909	22,333,223	25,612,652	23,202,952
Equity adjustment	-	654,001 A	(1,385,544) B	-
Ending Equity:	\$ 22,333,223	25,612,652	23,202,952	21,388,547
Bonds Payable	\$ 20,825,000	20,635,000	20,315,000	19,815,000

A There was a prior period adjustment in 2010 to record land held for resale that had not been previously recorded.

B There was a prior period adjustment in 2011 an entry to record principal and interest payment on bonds that had been recorded in the wrong fund.

SUCCESSOR AGENCY OF THE COMMERCE REDEVELOPMENT AGENCY
 Transfers to the City of Commerce
 6/30/2012

Asset/Liability Transferrec	Transfers from 2/1/2012- 6/30/2012	Approved by CA DOF	Reason for Transfer
Real property	\$ 1,053,000.00	(1)	For ongoing housing activities administered by the City.
Loans receivable	457,228.00	Yes	For ongoing housing activities administered by the City.
Escrow deposit	97,804.00	No (2)	For ongoing housing activities administered by the City.
Accounts payable	(4,410.00)	n/a	For ongoing housing activities administered by the City.
Deferred Revenue	<u>(457,228.00)</u>	n/a	For ongoing housing activities administered by the City.
Total Transfers	<u>\$ 1,146,394.00</u>		

⁽¹⁾ DOF approved the transfer except for \$399,000 that is being appealed.

⁽²⁾ Escrow deposit was not included in the Housing Asset List submitted to the DOF.

n/a - not applicable

SUCCESSOR AGENCY OF THE COMMERCE REDEVELOPMENT AGENCY
 Schedule of Future Revenues and Enforceable Obligations
 6/30/2012

Fiscal Year Ending June 30	Spending			Revenue			Forecasted Spending (Over) Under Revenue
	2003 Tax Allocation Bonds	2007 Tax Allocation Bonds	Forecasted Annual Spending	Estimated Loan Payments	Estimated RPTTF Available	Forecasted Annual Revenue	
2013	\$ 720,476	1,106,560	1,827,036	12,570	1,814,466	1,827,036	-
2014	719,354	1,108,544	1,827,898	12,570	1,815,328	1,827,898	-
2015	717,612	1,108,896	1,826,508	12,570	1,813,938	1,826,508	-
2016	739,480	1,107,616	1,847,096	12,570	1,834,526	1,847,096	-
2017	734,959	1,109,568	1,844,527	12,570	1,831,957	1,844,527	-
2018	737,511	1,109,616	1,847,127	12,570	1,834,557	1,847,127	-
2019	737,980	1,107,760	1,845,740	12,570	1,833,170	1,845,740	-
2020	740,368	1,103,900	1,844,268	12,570	1,831,698	1,844,268	-
2021	741,522	1,103,200	1,844,722	12,345	1,832,377	1,844,722	-
2022	818,971	1,027,264	1,846,235	12,345	1,833,890	1,846,235	-
2023	1,064,690	778,128	1,842,818	112,720	1,730,098	1,842,818	-
2024	687,414	1,153,552	1,840,966	3,285	1,837,681	1,840,966	-
2025	1,663,997	193,120	1,857,117	3,285	1,853,832	1,857,117	-
2026	580,576	1,277,792	1,858,368	180,995	1,677,373	1,858,368	-
2027	573,477	1,280,368	1,853,845	3,285	1,850,560	1,853,845	-
2028	579,988	1,283,456	1,863,444	3,285	1,860,159	1,863,444	-
2029	574,953	-	574,953	3,285	571,668	574,953	-
2030	520,227	-	520,227	3,087	517,140	520,227	-
2031	520,656	-	520,656	3,087	517,569	520,656	-
2032	369,328	-	369,328	11,518	357,810	369,328	-
2033	366,554	-	366,554	2,412	364,142	366,554	-
2034	372,545	-	372,545	2,406	370,139	372,545	-
2035	372,145	-	372,145	2,406	369,739	372,145	-
2036	360,818	-	360,818	1,956	358,862	360,818	-
	<u>\$ 16,015,601</u>	<u>16,959,340</u>	<u>32,974,941</u>	<u>462,262</u>	<u>32,512,679</u>	<u>32,974,941</u>	<u>-</u>

Assumptions: 50% of oan payments will be collected, property taxes will grow by 1% each year and will be sufficient to cover forecasted annual spending. The amount listed for property taxes only includes the amount necessary to pay enforceable obligations less estimated loan payments.