

Board Meeting of  
**September 28, 2012**

Honorable Chair and Members  
of the City of Torrance Oversight Board  
City Hall  
Torrance, California

**SUBJECT: Community Development – Accept and file the Report on the Agreed-Upon Procedures Audit Pursuant to ABX1-26 and AB 1484 of the former Redevelopment Agency of the City of Torrance.**

### **RECOMMENDATION**

Recommendation that the Oversight Board accept and file the report on the Agreed-Upon Procedures Audit Pursuant to ABX1-26 and AB 1484 of the former Redevelopment Agency of the City of Torrance.

### **BACKGROUND AND ANALYSIS**

According to California Health and Safety Code Section 34182, each county Auditor-Controller must conduct an Agreed-Upon Procedures (AUP) audit of each former redevelopment agency in their respective county by July 1, 2012. This deadline was extended on June 27, 2012 by State Assembly Bill 1484 (AB 1484) from July 1, 2012 to October 1, 2012. The intent of the audit is to establish the Agency's assets and liabilities, document and determine the Agency's pass-through payment obligations, and document and determine the amount and terms of any indebtedness incurred by the former Agency.

The AUP was completed by Simpson & Simpson, LLP, an independent Certified Public Accounting firm and the Los Angeles County Auditor Controller staff with the results received by the City of Torrance on September 11, 2012. Procedures performed were agreed upon by the California State Controller's Office, California Department of Finance and the Los Angeles County Auditor Controller. In cases where the AUP required legal determinations, the Office of the County Counsel was utilized.

The Los Angeles County Auditor Controller applied the AUP to the initial Recognized Obligation Payment Schedule (ROPS) of the former Redevelopment Agency of the City of Torrance. The results of the AUP are shown in Attachment A.

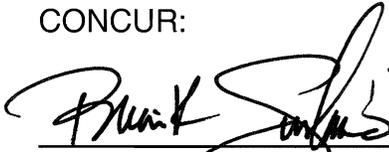
The AUP was taken before the City Council, acting as the Successor Agency to the former Redevelopment Agency of the City of Torrance to accept and file on September

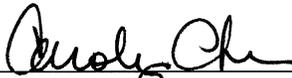
25, 2012. Staff recommends the Oversight Board accept and file the report on the Agreed-Upon Procedures Audit pursuant to ABX1-26 and AB 1484.

Respectfully submitted,

Brian Sunshine  
Assistant to the City Manager

CONCUR:

  
\_\_\_\_\_  
Brian K. Sunshine  
Assistant to the City Manager

By   
\_\_\_\_\_  
Carolyn Chun  
Sr. Planning Associate

NOTED:

  
\_\_\_\_\_  
LeRoy J. Jackson  
City Manager

Attachment:

A) Report on Agreed-Upon Procedures Audit pursuant to ABX1-26 and AB 1484 of the former Redevelopment Agency of the City of Torrance.



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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September 11, 2012

Honorable John Chiang  
Controller, State of California  
P.O. Box 942850  
Sacramento, CA 94250-5872

Dear Mr. Chiang:

**REPORT ON AGREED-UPON PROCEDURES AUDIT PURSUANT TO ABX1 26  
OF THE FORMER REDEVELOPMENT AGENCY OF  
THE CITY OF TORRANCE**

California Health and Safety Code (HSC) Section 34182 requires each county Auditor-Controller (A-C) to conduct, or cause to be conducted, an agreed-upon procedures (AUP) of each former redevelopment agency (RDA or Agency) in their respective county by July 1, 2012. On June 27, 2012, State Assembly Bill 1484 (AB 1484) extended the July 1 deadline to October 1, 2012. The audits are to establish each RDA's assets and liabilities; to document and determine each agency's pass-through payment obligations to other taxing entities; and to determine and document the amount and terms of any indebtedness incurred by the former RDA.

We have completed the AUP engagement of the former RDA of the City of Torrance, 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 (LAC) A-C. The initial Recognized Obligation Payment Schedule (ROPS) was prepared by, and is the responsibility of, the RDA's Successor Agency's management. Our responsibility was to apply the AUP.

Some of the AUP required legal determinations of whether the obligations were properly authorized, complied with applicable laws and regulations, and were binding on the Agency. We have utilized the Office of the County Counsel to provide the legal determinations required by the AUP. The results of County Counsel's legal analysis are presented in Attachment E.

Except for those obligations listed as "questionable" or "unenforceable", the obligations we reviewed are, to the best of our knowledge, allowable pursuant to the HSC prior to the passage of AB 1484. Questionable obligations identified during this engagement are

Honorable John Chiang  
September 11, 2012  
Page 2

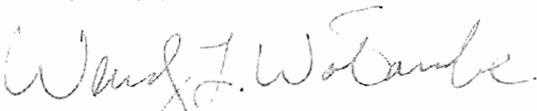
summarized in Exhibit 1. Supporting documentation related to terms and amounts for each obligation reviewed during this engagement are available for review upon request.

The AUP were completed by Simpson & Simpson, LLP, an independent Certified Public Accounting (CPA) firm, and LAC A-C staff. The attached documents constitute our report on the AUP and include a summary of the review of a sample of obligations from the Agency's ROPS (Exhibit 1); the AUP (Attachment A); the results of procedures performed by the independent CPA firm (Attachments B and C); and the results of procedures performed by A-C staff (Attachment D). We have also attached an analysis prepared by our County Counsel (Attachment E) for those ROPS items that required additional review; and a copy of the Finance ROPS review and final approval letters (Attachment F). In addition, at the completion of this AUP audit, the Agency provided a response (Attachment G) to the final report.

This report is intended solely for the information and use of the LAC A-C, the Successor Agency, the Successor Agency Oversight Board, and applicable State agencies, and is not intended to be, and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

If you have any questions regarding these reports, please contact the RDA Audit Manager at [RDAaudits@auditor.lacounty.gov](mailto:RDAaudits@auditor.lacounty.gov).

Very truly yours,



Wendy L. Watanabe  
Auditor-Controller

WLW:JET:JLS:SJL

Attachments

- c: Ana J. Matosantos, Director, California Department of Finance  
Successor Agency Oversight Board
- Kenneth Flewellyn, Assistant Finance Director, Successor Agency of the Former  
RDA for the City of Torrance

## Review of a Sample of Obligations from the Recognized Obligation Payment Schedule for the Successor Agency of the City of Torrance RDA

### State Department of Finance – Approval Letters

The original Recognized Obligation Payment Schedule (ROPS) submitted by the Successor Agency of the City of Torrance RDA totaled **\$117,142,382.99**. The final ROPS approved by the State Department of Finance (Finance) totaled **\$67,646,200.78**. Finance determined that the items below were not enforceable obligations:

#### Jan-June 2012

Project Name/ Debt Obligation	Description	Total Outstanding Debt or Obligation
Administration Costs	Admin allowance in excess of allowance limit of \$250,000	\$20,198
Total		\$20,198

#### July-Dec 2012

Project Name/ Debt Obligation	Description	Total Outstanding Debt or Obligation
City Advance 1982 (Industrial)	Non-housing improvements	\$57,517
City Advance 1985 (Industrial)	Non-housing improvements	49,438,665
Total		\$49,496,182

### Questionable Obligations

The agreed-upon procedures performed by the independent CPA firm and the Auditor-Controller (A-C) identified \$17,276,425 in questionable obligations that have since been removed from the ROPS.

### Unenforceable Obligations

The legal analysis performed by our County Counsel determined that the following sample items were not enforceable obligations:

Project Name/ Debt Obligation	Description	Total Outstanding Debt or Obligation
2001 tax allocation refunding bonds- Skypark	Bonds issued to fund non-housing project	\$176,072
Total		\$176,072

In addition, the legal analysis performed by County Counsel identified \$49,496,182 in questionable obligations noted by Finance.

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June 2012 Disbursement to Successor Agency

The total obligations approved for the six-month period from July 1 to December 31, 2012 by the State Department of Finance is **\$4,383,291.13**. Based on the available RDA funds, less pass-through payments paid directly by the A-C and the administrative fees, the A-C remitted **\$1,691,524.71** for the six-month period from July 1 to December 31, 2012 to the successor agency, City of Torrance on June 1, 2012.

**County of Los Angeles  
Report on Applying Agreed-Upon Procedures  
Pursuant to the Redevelopment Agency  
Dissolution Bill (ABx1 26) of 2011  
Successor Agency  
City of Torrance, California**

**County of Los Angeles  
Agreed-Upon Procedures Engagement  
Pursuant to the Redevelopment Agency  
Dissolution Bill (ABx1 26) of 2011  
Successor Agency  
City of Torrance, California**

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Los Angeles County Auditor-Controller  
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Los Angeles, California 90012

### Independent Accountant's Report on Applying Agreed-Upon Procedures

We have performed the agreed upon procedures enumerated in the Auditor-Controller's statement of work, Attachment A, which were generally agreed to by the California State Controller's Office, Department of Finance, and the Los Angeles County Auditor-Controller, solely to assist you in ensuring that the dissolved redevelopment agency is complying with its statutory requirements with respect to ABX1 26. Management of the successor agency, **City of Torrance, California** is responsible for the accounting records pertaining to statutory compliance. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The scope of this engagement was limited to performing the agreed-upon procedures at your direction as set forth in Attachment A. Attachment B identifies the findings noted as a result of the procedures performed.

The Enforceable Obligation Payment Schedule (EOPS) and Recognized Obligation Payment Schedule (ROPS) in Attachment B-1 and Attachment B-2, respectively, are provided by the Auditor-Controller. Attachment C is the Comparative Asset Balance Schedule.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Comparative Assets Balance Schedule, the EOPS, the ROPS, or as to the appropriateness of the results summarized in Attachment B. 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.

This report is intended solely for the information and use of the County, the successor agency, City of Torrance, California, and applicable State agencies, and is not intended to be, and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Los Angeles, California  
June 7, 2012



The CPA. Never Underestimate The Value.™

**County of Los Angeles**  
**Agreed-Upon Procedures Engagement**  
**Pursuant to the Redevelopment Agency**  
**Dissolution Bill (ABx1 26) of 2011**  
**Successor Agency**  
**City of Torrance, California**

**AGREED-UPON PROCEDURES AND RESULTS**

**A. Redevelopment Agency Dissolution and Restrictions**

For each former RDA reviewed, perform the following:

1. Based on the Enforceable Obligation Payment Schedule (EOPS) for the period August 1 through December 31, 2011, provided by the Auditor-Controller (see Attachment B-1):
  - a. For each obligation highlighted in yellow with black font on the EOPS, identify the payee, a description of the nature of the work/service agreed to, and the amount of payment(s) made by month through December 31, 2011, and compare it to the legal document that forms the basis for the obligation. Note any discrepancies. Any obligations for which the successor agency cannot produce a supporting legal document, or for which the supporting legal document does not support the obligation, should be noted as “questionable” in the AUP report.

For each obligation highlighted in yellow with red font on the EOPS, obtain documentation and forward them to the Auditor-Controller for County Council review. Also, compare the dollar amount of the obligation to the documentation obtained. Note any discrepancies. Any obligations, for which the successor agency cannot produce documentation, should be noted as “questionable” in the AUP report.

***Result***

Except for the discrepancies described in Finding No.1 and 2, in Attachment B, no exceptions were noted as a result of applying the procedure.

- b. Identify all obligations listed on the EOPS that were entered into after June 29, 2011.

***Result***

No obligations were entered into after June 29, 2011.

2. Based on the EOPS for the period January 1 through June 30, 2012, provided by the Auditor-Controller (see Attachment B-1):
  - a. Identify and document the project name and project area associated with each obligation.

***Result***

There were no obligations listed on the EOPS for January 1 through June 20, 2012, provide by the Auditor-Controller, therefore, the procedure was not performed.

**County of Los Angeles**  
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**Successor Agency**  
**City of Torrance, California**

**AGREED-UPON PROCEDURES AND RESULTS**

**A. Redevelopment Agency Dissolution and Restrictions (Continued)**

2. Based on the EOPS for the period January 1 through June 30, 2012, provided by the Auditor-Controller (see Attachment B-1)- (Continued):
- b. For each obligation highlighted in yellow with black font on the EOPS, identify the payee, a description of the nature of the work/service agreed to, and the amount of payment(s) to be made by month through June 30, 2012, and compare it to the legal document that forms the basis for the obligation. Note any discrepancies. Any obligations for which the successor agency cannot produce a supporting legal document, or for which the supporting legal document does not support the obligation, should be noted as “questionable” in the AUP report.

For each obligation highlighted in yellow with red font on the EOPS, obtain documentation and forward them to the Auditor-Controller for County Council review. Also, compare the dollar amount of the obligation to the documentation obtained. Note any discrepancies. Any obligations, for which the successor agency cannot produce documentation, should be noted as “questionable” in the AUP report.

***Result***

Except for the discrepancies described in Finding No.1 and 2, in Attachment B, no exceptions were noted as a result of apply the procedure.

- c. Identify all obligations listed on EOPS that were entered into after June 29, 2011.

***Result***

No obligations were entered into after June 29, 2011.

3. With regard to the Low and Moderate Income Housing Fund (L&M Fund) of the former Redevelopment Agency:
- a. Inquire and document whether the former Redevelopment Agency transferred the L&M Fund to the Successor Agency.

***Result***

The Successor Agency, City of Torrance, has represented to us that the former redevelopment agency of the City of Torrance did transfer the L&M Fund to the successor agency on February 1, 2012, when the dissolution went into effect.

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**Agreed-Upon Procedures Engagement**  
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**Successor Agency**  
**City of Torrance, California**

**AGREED-UPON PROCEDURES AND RESULTS**

**A. Redevelopment Agency Dissolution and Restrictions (Continued)**

3. With regard to the Low and Moderate Income Housing Fund (L&M Fund) of the former redevelopment agency (Continued):
- b. If the L&M Fund was transferred, document the date of transfer and summarize the manner in which the transfer was performed. (e.g., the accounting fund, X, and bank account, Y, were retitled in the name of the Successor Agency).

***Result***

The L&M Fund was transferred to the successor agency on February 1, 2012. Fund number 8019 was created and named the RDA Successor Agency-Housing. A new bank account was created.

- c. Document the total value of the L&M Fund transferred to the redevelopment agency's successor agency and the date of transfer.

***Result***

<b>Date</b>	<b>Assets</b>	<b>Balance</b>
3/30/2012	Cash with Fiscal Agents Successor Low Mod-Fund 8019	\$ 7,988,278
	<b>Total Assets (Fund 8019)</b>	<b>\$ 7,988,278</b>

4. With regard to the housing activities and assets of the former redevelopment agency:
- a. Inquire and document whether the housing activities and/or assets were transferred to the successor agency.

***Result***

The successor agency, City of Torrance, has represented to us that the former redevelopment agency of the City of Torrance did transfer the housing activities and/or assets to the successor agency.

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Agreed-Upon Procedures Engagement  
Pursuant to the Redevelopment Agency  
Dissolution Bill (ABx1 26) of 2011  
Successor Agency  
City of Torrance, California**

**AGREED-UPON PROCEDURES AND RESULTS**

**A. Redevelopment Agency Dissolution and Restrictions (Continued)**

4. With regard to the housing activities and assets of the former redevelopment agency (Continued)

- b. If housing activities were transferred, obtain the underlying documentation authorizing the transfer (e.g. resolution of the city or county assuming the housing activity from the redevelopment agency).

***Result***

Housing activities and assets were transferred to the successor agency via Resolution dated January 10, 2012.

With regard to the housing activities and assets of the former redevelopment agency:

- c. If the transfer included assets, obtain a list of the assets and their reported value from the successor agency.

***Result***

Date	Assets	Balance
3/30/2012	Cash with Fiscal Agents Successor Low Mod-Fund 8019	\$ 7,988,278
	<b>Total Assets (Fund 8019)</b>	<b>\$ 7,988,278</b>

**County of Los Angeles**  
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**AGREED-UPON PROCEDURES AND RESULTS**

**B. Successor Agency (Continued)**

2. With regard to the administrative responsibilities and assets of the former Redevelopment Agency (Continued):

- a. Inquire and document whether the former Redevelopment Agency transferred its administrative responsibilities to the Successor Agency (e.g., documents and records, etc), and the date of the transfer.

***Result***

The successor agency, City of Torrance, has represented to us that the former redevelopment agency of the City of Torrance did transfer its administrative responsibilities to the successor agency.

- b. Inquire whether the former redevelopment agency transferred assets other than real property to the Successor Agency.

***Result***

The successor agency, City of Torrance, represented that they transferred assets other than real property to the successor agency via Council Agenda item 12B dated January 10, 2012 and Resolution No. 2012-02.

- c. If assets other than real property were transferred, document the transfer date, and summarize the manner in which the transfer(s) were performed (e.g., accounting fund, X, and bank account, Y, were renamed in the name of the Successor Agency), and the total value of the assets transferred.

***Result***

Council Agenda Item dated January 10, 2012 and Resolution No. 2012-02, authorized the Successor Agency to rename the fund, in the name of the Successor Agency and set-up a new bank account. However, the successor agency indicated that no assets other than real property were transferred.

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Successor Agency  
City of Torrance, California**

**AGREED-UPON PROCEDURES AND RESULTS**

**B. Successor Agency (Continued)**

2. With regard to the administrative responsibilities and assets of the former Redevelopment Agency (Continued):

- d. Inquire if real property was transferred from the former redevelopment agency to the successor agency.

***Result***

The successor agency, City of Torrance, has represented to us that the former redevelopment agency of the City of Torrance did not transfer real property to the successor Agency.

- e. If real property was transferred, examine and document evidence of the transfer(s), such as re-recorded titles filed at the Registrar-Recorder/County Clerk.

***Result***

Real property was not transferred to the successor agency; therefore, the procedure was not performed.

3. Determine if the successor agency has established the Redevelopment Obligation Retirement Fund(s) in its accounting system.

***Result***

We obtained the successor agency the City of Torrance's Trial Balance dated February 1, 2012 and noted fund number 8020, the Redevelopment Obligation Retirement Fund.

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**AGREED-UPON PROCEDURES AND RESULTS**

**B. Successor Agency (Continued)**

4. Obtain audited financial statements of the redevelopment agency for the fiscal years ended June 30, 2010 and June 30, 2011. Prepare a schedule listing the name and balance of each asset shown in the government-wide financial statements for each of the two years, as of June 30th (or fiscal year end, if different). Obtain unaudited asset balances as of January 31, 2012 from the successor agency which are comparable to the 2010 and 2011 amounts and include those on the schedule (marked as “unaudited”). If the successor agency is unable to provide comparable balances, indicate the reason and leave the 2012 column blank. Include the comparative asset listing as an attachment to the AUP report.

*Result*

We performed the procedure and the result is presented in the Comparative Asset Balance Schedule in Attachment C.

**C. Draft Recognized Obligation Payment Schedule (ROPS)**

5. Obtain a list of all payments from the successor agency’s general ledger for the period February 1 through May 31, 2012. Trace and agree all payments made by the successor agency to a corresponding obligation on the draft ROPS provided by the Auditor-Controller. Note any discrepancies.

*Result*

Except for the discrepancies described in Finding No. 3, in Attachment B, no exceptions were noted as a result of applying the procedure.

6. Compare each obligation highlighted in yellow with black font on the ROPS provided by the Auditor-Controller (Attachment B-2) to the legal document that forms the basis for the obligation (e.g. contract, bond indenture, etc.) Note any discrepancies. Any obligations for which the successor agency cannot produce a supporting legal document, or for which the supporting legal document does not support the obligation, should be noted as “questionable” in the AUP report.

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Pursuant to the Redevelopment Agency  
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**AGREED-UPON PROCEDURES AND RESULTS**

**C. Draft Recognized Obligation Payment Schedule (ROPS)**

For each obligation highlighted in yellow with red font on the ROPS provided by the Auditor-Controller (Attachment B-2), obtain documentation and forward them to the Auditor-Controller for County Council review. Also, compare the dollar amount of the obligation to the documentation obtained. Note any discrepancies. Any obligations, for which the successor agency cannot produce documentation, should be noted as “questionable” in the AUP report.

***Result***

Except for the discrepancies described in Finding Nos. 1 and 2, in Attachment B, no exceptions were noted.

**County of Los Angeles  
Agreed-Upon Procedures Engagement  
Pursuant to the Redevelopment Agency  
Dissolution Bill (ABx1 26) of 2011  
Successor Agency  
City of Torrance, California**

Finding No. 1 – Supporting Documentation for Obligations Was Not Provided

In performing procedure A.1.a, A.2.b and C.6, the following obligations are noted as questionable.

The successor agency, City of Torrance, represented to us that they did not provide supporting documentation for the following obligations on the EOPS or ROPS (highlighted in yellow with black font) because these obligations are no longer applicable.

<b>ROPS No.</b>	<b>Payee</b>	<b>Description</b>	<b>Obligation Amount (\$)</b>
<i>Project Area: Skypark</i>			
Page 1 #6	City of Torrance	Interfund Loan Principal Repayment (Skypark)	172,376
<i>Project Area: Downtown</i>			
Page 2 #14	City of Torrance	Interdepartmental Charges (Downtown/Low-Mod)	16,839
Page 2 #15	City of Torrance	Transfer to Rehab Housing, Data Comm, PC Replacement (Downtown)	22,558
<i>Project Area: Industrial</i>			
Page 3 #21	City of Torrance	Transfers to General Fund (Industrial)	2,433,165
Page 3 #27	City of Torrance	Transfer to Rehab Housing, PC Replacement (Industrial/Low-Mod)	18,800

Also, the successor agency, City of Torrance, represented to us that they did not provide supporting documentation for the following obligations on the EOPS or ROPS (highlighted in yellow with red font) because these obligations are no longer applicable.

<b>ROPS No.</b>	<b>Payee</b>	<b>Description</b>	<b>Obligation Amount (\$)</b>
<i>Project Area: Skypark</i>			
Page 1 #2	City of Torrance RDA	Advance from Low-Mod Housing Fund FY09-10 (Skypark)	1,633,409
Page 1 #3	City of Torrance RDA	Advance from Low-Mod Housing Fund FY10-11 (Skypark)	240,316
<i>Project Area: Downtown</i>			
Page 2 #1	County of Los Angeles	Advance from County 1992-2011 (Downtown)	20,250,074
Page 2 #2	City of Torrance	City Advance 1997-1998 (Downtown)	192,752
Page 2 #8	City of Torrance	Interest Payments to City (Downtown)	314,638
Page 2 #9	City of Torrance	County Pass Thru-Deferred Interest (Downtown)	896,940

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Finding No. 1 – Supporting Documentation for Obligations Was Not Provided (continued)

<b>ROPS No.</b>	<b>Payee</b>	<b>Description</b>	<b>Obligation Amount (\$)</b>
<i>Project Area: Industrial</i>			
Page 3 #3	City of Torrance	City Advance 1986 (Industrial)	3,488,417
Page 3 #4	City of Torrance	City Advance 1987 (Industrial)	3,325,163
Page 3 #5	City of Torrance	City Advance 1988 (Industrial)	298,635
Page 3 #6	City of Torrance	City Advance 1990 (Industrial)	247,543
Page 3 #7	City of Torrance	City Advance 1997 (Industrial)	1,749,520
Page 3 #8	City of Torrance	City Advance 1988 (Industrial)	63,780
Page 3 #9	City of Torrance	City Advance 1989 (Industrial)	151,133
Page 3 #11	City of Torrance	City Advance 1998 (Industrial)	1,578,099
Page 3 #12	City of Torrance	City Advance 1999 (Industrial)	113,893
Page 3 #14	City of Torrance	City Advance 1999 (Industrial)	642,717
Page 3 #15	City of Torrance	City Advance 1998 (Industrial)	572,672

Finding No. 2 – Obligation Amount Did Not Agree with Supporting Documentation

In performing procedures C.6, the following obligations are noted as questionable.

We noted the obligation amount did not agree with the supporting documentation for the following obligation on the EOPS or ROPS (highlighted yellow with black font).

<b>ROPS No.</b>	<b>Payee</b>	<b>Description</b>	<b>Obligation Amount (\$)</b>	<b>Amount Supported (\$)</b>	<b>Variance (\$)</b>
<i>Project Area: Industrial</i>					
Page 3 #20	Honda	American Honda Interest (Industrial)	48,000	0	48,000 (a)

(a) We were provided a Participation Agreement by and between the RDA of the City of Torrance and American Honda Motor Co., Inc. dated April 9, 1985 for \$13,000,000. Moreover, per the agreement, there is a provision for supplemental letters of credit that total \$11,000,000. However, no supporting documentation was provided to support the obligation amount of \$48,000.

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Agreed-Upon Procedures Engagement  
Pursuant to the Redevelopment Agency  
Dissolution Bill (ABx1 26) of 2011  
Successor Agency  
City of Torrance, California**

Finding No. 2 – Obligation Amount Did Not Agree with Supporting Documentation (continued)

We noted that the obligation amount did not agree with the supporting documentation for the following obligations on the EOPS or ROPS (highlighted in yellow with red font).

<b>ROPS No.</b>	<b>Payee</b>	<b>Description</b>	<b>Obligation Amount (\$)</b>	<b>Amount Supported (\$)</b>	<b>Variance (\$)</b>	
<i>Project Area: Industrial</i>						
Page 3 #1	City of Torrance	City Advance 1982 (Industrial)	56,298	0	56,298	(b)
Page 3 #2	City of Torrance	City Advance 1985 (Industrial)	48,617,760	0	48,617,760	(c)

(b) We were provided Resolutions that do not clearly state the obligation amount. We were also provided a “Schedule of Indebtedness-from 1985” as of January 31, 2012, that shows a principal and interest amount of \$17,000 and \$40,517, respectively.

(c) We were provided Resolutions that do not clearly state the obligation amount. We were also provided a “Schedule of Indebtedness-from 1985” as of January 31, 2012, that shows a principal and interest amount of \$12,058,682 and \$37,379,983, respectively.

**County of Los Angeles  
Agreed-Upon Procedures Engagement  
Pursuant to the Redevelopment Agency  
Dissolution Bill (ABx1 26) of 2011  
Successor Agency  
City of Torrance, California**

Finding No.3 –Discrepancies between the Actual Payments and Obligation Amounts on the Draft ROPS

In performing procedure C.5, we noted the following discrepancies between the payments made by the successor agency, City of Torrance, for the period from February 1, 2012 through May 31, 2012.

Actual Payment				Per Draft ROPS									
Payee	Description	Post Date	Payment Amount	ROPS No.	Payee	Total Due During Period	Jan	Feb	Mar	Apr	May	Jun	Total
<i>Project Area: Industrial</i>													
The Gas Co.	Utilities	2/28/2012	\$ 45.56										
The Gas Co.	Utilities	3/26/2012	19.55										
The Gas Co.	Utilities	4/18/2012	17.92										
Southern California Edison	Utilities	3/26/2012	409.00										
Keyser Marston Associates	Real Estate Advisors	4/25/2012	2,160.00										
			<u>2,652.03</u>	Page 1 #24	None Listed	\$ 108,818	\$ 18,136	\$ 18,136	\$ 18,136	\$ 18,136	\$ 18,136	\$ 18,136	\$ 108,818
<i>Project Area: Downtown</i>													
Coleman Court	Housing Project	2/22/2012	2,325.00										
Coleman Court	Housing Project	3/19/2012	1,804.00										
Coleman Court	Housing Project	4/24/2012	1,832.00										
Ocean Terrace	Housing Project	2/22/2012	1,750.00										
Ocean Terrace	Housing Project	3/19/2012	1,750.00										
Ocean Terrace	Housing Project	4/24/2012	1,000.00										
			<u>10,461.00</u>	Page 2 #11	Various Contracts	252,717	42,119	42,119	42,119	42,119	42,119	42,119	252,717

Name of Redevelopment Agency: Redevelopment Agency of the City of Torrance  
 Project Area(s): All (Skypark, Industrial, Downtown)

**ENFORCEABLE OBLIGATION PAYMENT SCHEDULE**

Per AB 26 - Section 34167 and 34169 (\*)

Project Name / Debt Obligation	Project Area	Payee	Description	Total Outstanding Debt or Obligation As of June 30, 2010	Total Paid During 2010-11 Fiscal Year (unaudited)	Total Due During 2011-12 Fiscal Year	Payments by month	
							Total	
5) SERAF FY10-11	Skypark	State of CA		\$ 436,758.00	\$ 436,758.00		\$ -	
34) Housing Programs	Downtown Low-Mod	City of Torrance	labor for Home Improvement Program (HIP)	\$ 247,550.00	\$ 181,390.84	\$ 214,250.00	\$ 214,250.00	\$ 214,250.00

BLACK FONT/YELLOW HIGHLIGHT CPA Firm to review validity and amount of obligation.

Name of Redevelopment Agency: Redevelopment Agency of the City of Torrance  
 Project Area(s): All (Skypark, Industrial, Downtown)

Project Name / Debt Obligation Project Area	Payee	Description	Outstanding Debt or	During 2011-12	Amounts p 1/18/12	Payments by	
						Total	Total
7) City Advances 1990- 1993	Downtown	City of Torrance	downtown revitalization, relocation costs				\$ -

BLACK FONT/YELLOW HIGHLIGHT CPA Firm to review validity and amount of obligation.

Redevelopment Agency of the City of Torrance  
 Skypark

Name of Redevelopment Agency  
 Project Area(s)

**RECOGNIZED OBLIGATION PAYMENT SCHEDULE**  
 Per AB 26 - Section 34167 and 34169 (\*)

Footnote	Project Name / Debt Obligation	Payee	Description	Total Outstanding Debt or Obligation As of June 30, 2011	Payment Source	Total Due During 2011-12 Fiscal Year	Actual Amounts 1/18/12	Payments by month	
								Total	
	1) 2001 Tax Allocation Refunding Bonds, Skypark,	Bank of New York	Bonds issued to fund non-housing project	\$ 528,216.00	RPTTF	\$ 252,145.00	\$ 352,144.07	\$ -	\$ -
	2) Advance from Low-Mod Housing Fund FY08-10 (Skypark)	City of Torrance RDA	City Low Mod Housing fund	\$ 1,633,409.00	RPTTF				
	3) Advance from Low-Mod Housing Fund FY10-11 (Skypark)	City of Torrance RDA	City Low Mod Housing fund	\$ 240,316.00	RPTTF				
	4) Property Tax Admn Cost FY11-12 (Skypark)	Skypark Redevelopment Admin		\$ 12,189.00	RPTTF				
	5) 20% Low Mod Housing set-aside FY11-12 (Skypark)	City of Torrance RDA		\$ 134,178.00	N/A	\$ 12,189.00	\$ 10,157.66	\$ -	\$ -
	6) Interfund Loan Principal Repayment (Skypark)			\$ 172,376.00	RPTTF	\$ 172,376.00	\$ 172,376.00	\$ -	\$ 5,030.18
(1)	7) Interdepartmental Charges (Skypark/Low-Mod)			\$ 1,322.00	RPTTF	\$ 1,322.00	\$ 770.00	\$ -	\$ 552.00
	8) Audit Charges for ROPS	J.A. County Auditor			RPTTF	\$ 443.00	\$ -	\$ 443.00	\$ -
	9) Admn Cost				RPTTF	\$ 22,150.00	\$ -	\$ 22,150.00	\$ -
	<b>Total Obligations</b>			<b>\$ 2,722,006.00</b>		<b>\$ 694,803.00</b>	<b>\$ 584,738.13</b>	<b>\$ 22,150.00</b>	<b>\$ 28,175.18</b>

RPTTF=Redevelopment Property Tax Trust Fund

**HIGHLIGHT LEGEND:**

RED FONT	Auditor-Controller staff responsible for calculating Pass-Through and Administrative costs. No further work proposed.
RED FONT/GREY HIGHLIGHT	Potentially unenforceable obligation and requires County Counsel review. No further work proposed.
GREEN FONT	Auditor-Controller staff has verified the obligation exists and is valid. No further work proposed.
RED FONT/YELLOW HIGHLIGHT	CPA Firm please obtain documentation and forward to Auditor-Controller for County Counsel review. In addition, CPA firm is responsible for verifying the dollar amount of the obligation.
BLACK FONT/YELLOW HIGHLIGHT	CPA Firm to review validity and amount of obligation.

**FOOTNOTES:**

(1) The total obligation amount is immaterial. No further work proposed

**RECOGNIZED OBLIGATION PAYMENT SCHEDULE**  
Per AB 26 - Section 34167 and 34169 (\*)

Footnote	Project Name / Debt Obligation	Payee	Description	Total Outstanding Debt or Obligation As of June 30, 2011	Payment Source	Total Due During 2011-12 Fiscal Year	Payments by month	
							Actual Amounts 1/18/12	Total
	1) Advance from County 1992-2011 (Downtown)	County of Los Angeles	downtown rehabilitation	\$ 20,250,074.00	RPTTF		\$	\$
	2) City Advance 1997-1998 (Downtown)	City of Torrance		\$ 192,752.00	RPTTF		\$	\$
	3) Bond Series A (Downtown)	Bank of New York		\$ 10,349,167.00	RPTTF		\$ 491,651.25	\$ 176,051.00
	4) County Admin Fee FY11-12 (Downtown)	County of Los Angeles	admin	\$ 30,300.00	RPTTF		\$ 29,769.14	\$
	5) Bond Admin Fee FY11-12 (Downtown)	Bank of New York	admin	\$ 2,000.00	RPTTF		\$ 1,722.50	\$
	6) County Pass Thru FY11-12 (Downtown)	County of Los Angeles		\$ 989,657.00	RPTTF		\$ 960,657.00	\$ 513,032.00
	7) 20% Low-Vol Set-Aside FY11-12 (Downtown)	City of Torrance		\$ 342,289.00	N/A		\$ 163,784.15	\$ 176,504.00
	8) Interest Payments to City (Downtown)	City of Torrance		\$ 314,636.00	RPTTF		\$ 157,319.00	\$ 87,512.88
	9) County Pass Thru-Deferred Interest (Downtown)	City of Torrance		\$ 896,940.00	RPTTF		\$	\$ 896,940.00
	10) Salaries FY11-12 (Downtown)	City of Torrance	employee salaries & benefits	\$ 58,400.00	RPTTF		\$ 29,801.72	\$ 28,598.28
	11) Professional/Contract Services & Utilities (Downtown) Low-Mod	Various Contracts	Legal, tech services, housing & non housing projects	\$ 278,663.00	RPTTF		\$ 25,946.36	\$ 252,716.54
	12) Materials Supplies, Maintenance (Downtown) Low-Mod	City of Torrance	rental subscriptions, supplies, CPA charges	\$ 65,898.00	RPTTF		\$ 25,687.00	\$ 40,211.00
	13) Training, Travel & Membership Dues (Downtown) Low-Mod	City of Torrance		\$ 56,569.00	RPTTF		\$ 2,477.93	\$ 329.72
	14) Interdepartmental Charges (Downtown) Low-Mod			\$ 16,839.00	RPTTF		\$ 9,821.00	\$ 7,018.00
	15) Transfer to Rehab Housing, Data Comm, PC Replacement (Downtown)			\$ 22,558.00	RPTTF		\$ 13,377.00	\$ 9,181.00
	16) Audit Charges for ROPS	LA County Auditor	fees necessary for completing ROPS audit	\$	RPTTF		\$ 1,261.00	\$ 1,261.00
	17) Admin Cost			\$ 63,050.00	RPTTF		\$	\$ 63,050.00
	Total Obligations			\$ 32,646,166.00			\$ 3,707,895.00	\$ 1,329,211.91
							\$ 2,354,005.52	

RPTTF=Redevelopment Property Tax Trust Fund

**HIGHLIGHT LEGEND:**

RED FONT	Auditor/Controller staff responsible for calculating Pass-Through and Administrative costs. No further work proposed.
RED FONT/GREY HIGHLIGHT	Potentially unenforceable obligation and requires County Counsel review. No further work proposed.
GREEN FONT	Auditor/Controller staff has verified the obligation exists and is valid. No further work proposed.
RED FONT/YELLOW HIGHLIGHT	CPA Firm please obtain documentation and forward to Auditor/Controller for County Counsel review. In addition, CPA firm is
BLACK FONT/YELLOW HIGHLIGHT	CPA Firm to review validity and amount of obligation.

Name of Redevelopment Agency of the City of Torrance  
 Industrial

**RECOGNIZED OBLIGATION PAYMENT SCHEDULE**

Per AB 26 - Section 34167 and 34169 (\*)

Footnote	Project Name / Debt Obligation	Payee	Description	Total Outstanding Debt or Obligation As of June 30, 2011	Payment Source	Total Due During 2011-12 Fiscal Year	Actual Amounts	
							1/1/12	1/1/12
	1) City Advance 1982 (Industrial)	City of Torrance	Non-housing improvements	\$ 56,298.00	RPTTF			\$ -
	2) City Advance 1985 (Industrial)	City of Torrance		\$ 48,517,760.00	RPTTF			\$ -
	3) City Advance 1986 (Industrial)	City of Torrance		\$ 3,488,417.00	RPTTF			\$ -
	4) City Advance 1987 (Industrial)	City of Torrance		\$ 3,325,163.00	RPTTF			\$ -
	5) City Advance 1988 (Industrial)	City of Torrance		\$ 288,635.00	RPTTF			\$ -
	6) City Advance 1989 (Industrial)	City of Torrance		\$ 247,543.00	RPTTF			\$ -
	7) City Advance 1987 (Industrial)	City of Torrance		\$ 1,749,520.00	RPTTF			\$ -
	8) City Advance 1988 (Industrial)	City of Torrance		\$ 63,780.00	RPTTF			\$ -
	9) City Advance 1989 (Industrial)	City of Torrance		\$ 151,133.00	RPTTF			\$ -
	10) Notes Payable Developer (Industrial)	Honda	for dev. of north american headquarters	\$ 1,775,337.00	RPTTF			\$ -
	11) City Advance 1988 (Industrial)	City of Torrance	Non-housing improvements	\$ 1,578,089.00	RPTTF			\$ -
	12) City Advance 1989 (Industrial)	City of Torrance		\$ 113,893.00	RPTTF	\$ 2,416,096.00	\$ 1,803,770.63	\$ 612,326.86
	13) Industrial Series B&C Bonds (Industrial)	Bank of New York		\$ 36,045,263.00	RPTTF			\$ -
	14) City Advance 1989 (Industrial)	City of Torrance		\$ 642,717.00	RPTTF			\$ -
	15) City Advance 1988 (Industrial)	City of Torrance		\$ 572,672.00	RPTTF			\$ -
	16) Song Admin Fee FY11-12 (Industrial)	Bank of New York	admin	\$ 5,000.00	RPTTF	\$ 5,000.00	\$ 4,188.10	\$ -
	17) County Pass Thru (Industrial)	County of Los Angeles		\$ 2,232,134.00	RPTTF	\$ 2,232,134.00	\$ 733,877.90	\$ 1,498,256.00
	18) Admin Fee SR2557/AB1924 (Industrial)	State of CA		\$ 123,300.00	RPTTF	\$ 123,300.00	\$ 88,040.22	\$ 35,260.00
	19) 20% Low-Mod Sub-Aside F11-12 (Industrial)	City of Torrance		\$ 1,240,074.00	N/A	\$ 1,240,074.00	\$ 420,331.60	\$ 819,742.40
	20) American Honda Interest (Industrial)	Honda		\$ 48,000.00	RPTTF	\$ 48,000.00	\$ -	\$ 48,000.00
	21) Transfers to General Fund (Industrial)	City of Torrance		\$ 2,433,165.00	RPTTF	\$ 2,433,165.00	\$ 1,216,562.50	\$ 1,216,562.50
	22) Labor & Salaries FY11-12 (Low-Mod) Industrial	City of Torrance	Home Improvement Program Low Mod	\$ 214,250.00	RPTTF	\$ 214,250.00	\$ 92,469.23	\$ 121,840.77
	23) Materials Supplies, Maintenance (Industrial)(Low-Mod)	City of Torrance		\$ 111,502.00	RPTTF	\$ 111,502.00	\$ 34,904.31	\$ 76,597.69
	24) Professional/Contract Services & Utilities (Industrial)(Low-Mod)	City of Torrance		\$ 120,054.00	RPTTF	\$ 120,054.00	\$ 11,235.53	\$ 108,818.47
	25) Training, Travel & Membership Dues (Industrial)(Low-Mod)	City of Torrance	Conferences, trainings	\$ 550.00	RPTTF	\$ 550.00	\$ -	\$ 550.00
	26) Interdepartmental Charges (Industrial)(Low-Mod)	City of Torrance		\$ 1,323.00	RPTTF	\$ 1,323.00	\$ 770.00	\$ 553.00
(1)	27) Transfer to Rehab Housing, PC Replacement (Industrial)(Low-Mod)	City of Torrance		\$ 18,800.00	RPTTF	\$ 18,800.00	\$ 9,400.00	\$ 9,400.00
	28) Audit Charges for ROPS	LA County Auditor	Fees necessary for completing ROPS audit		RPTTF	\$ 3,296.00	\$ -	\$ 3,296.00
	29) Admin Cost	City of Torrance			RPTTF	\$ 164,800.00	\$ -	\$ 164,800.00
	<b>Total Obligations</b>			<b>\$ 105,276,382.00</b>		<b>\$ 9,132,346.00</b>	<b>\$ 4,415,510.02</b>	<b>\$ 4,716,023.71</b>

RPTTF=Redevelopment Property Tax trust Fund

**HIGHLIGHT LEGEND:**

RED FONT	Auditor/Controller staff responsible for calculating Pass-Through and Administrative costs. No further work proposed.
RED FONT/GREY HIGHLIGHT	Potentially unenforceable obligation and requires County Counsel review. No further work proposed.
GREEN FONT	Auditor/Controller Staff has verified the obligation exists and is valid. No further work proposed.
RED FONT/YELLOW HIGHLIGHT	CPA Firm please obtain documentation and forward to Auditor/Controller for County Counsel review. In addition, CPA firm is
BLACK FONT/YELLOW HIGHLIGHT	CPA Firm to review validity and amount of obligation.

FOOTNOTES  
 (1)

The total obligation amount is immaterial. No further work proposed.

**County of Los Angeles**  
**Agreed-Upon Procedures Engagement**  
**Pursuant to the Redevelopment Agency**  
**Dissolution Bill (ABx1 26) of 2011**  
**Successor Agency**  
**City of Torrance, California**

**Comparative Asset Balance Schedule (Unaudited)**

	As of January 31, 2012	As of June 30, 2011 *	As of June 30, 2010*
<b>ASSETS</b>			
Cash and Investments	8,312,271	8,110,889	9,269,183
Receivables			
Taxes			
Interest		27,704	80,523
Notes			
Prepaid Items			3,514
Land held for resale			
Due from other funds		1,515,824	919,228
Deferred Charges			
Restricted Assets			
Cash and Investments with fiscal agents	2,927,789	2,931,155	2,948,318
Capital Assets		846,504	6,981,700
Land			
	<u>11,240,060</u>	<u>13,432,076</u>	<u>20,202,466</u>

\* Obtained from audited financial statements of the redevelopment agency for the fiscal years ended June 30, 2010 and June 30, 2011.

### Successor Agency – City of Torrance

The results of those procedures performed by the Auditor-Controller (A-C) are as follows:

#### Procedure B.1.a

Inspect evidence that the successor agency was established by February 1, 2012.

#### *Results*

No exceptions were noted as a result of performing this procedure.

#### Procedure B.1.b

Inspect evidence that the oversight board members were appointed and their names were submitted to the Department of Finance (Finance) by May 1, 2012.

#### *Results*

No exceptions were noted as a result of performing this procedure.

#### Procedure C.1

Obtain a copy of the draft Recognized Obligation Payment Schedule (ROPS) from the successor agency.

#### *Results*

No exceptions were noted as a result of performing this procedure.

#### Procedure C.2

Inspect evidence that the initial draft ROPS was prepared by March 1, 2012 by the successor agency.

#### *Results*

No exceptions were noted as a result of performing this procedure.

Procedure C.3

Determine if the certified draft ROPS was approved by the oversight board. If the certified draft ROPS was not approved by the date of this report, we noted it as a finding.

*Results*

No exceptions were noted as a result of performing this procedure.

Procedure C.4

Determine if the draft ROPS was submitted to the County A-C, State Controller, and Finance.

*Results*

No exceptions were noted as a result of performing this procedure.

Procedure E.1

Obtain a copy of pass-through payment agreements from successor agency.

*Results*

No exceptions were noted as a result of performing this procedure. The successor agency has provided the A-C with copies of all pass-through agreements.

Procedure E.2

Obtain a list of pass-through obligations from the successor agency as of January 31, 2012, including the recipient and terms of each pass-through obligation.

*Results*

The City of Torrance Successor Agency asserts that they did not make any pass-through payments for the period July 1, 2011 to January 31, 2012.

Procedure E.3

Obtain a list of pass-through payments made for the period July 1, 2011 to January 31, 2012 and verified payments.

*Results*

As indicated, the City of Torrance Successor Agency asserts that they did not make any pass-through payments for the period July 1, 2011 to January 31, 2012. However, the A-C distributed the County Entities' share of contractual pass-through payments for the period of November 1, 2011 to January 31, 2012 as follows:

<b>Pass-through Taxing Entity</b>	<b>Pass-through Amount Paid</b>
County Entities	\$1,309,616.02
Other County Entities	46,974.91
City	0
Special Districts	0
Schools	0
<b>TOTAL</b>	<b>\$1,356,590.93</b>



COUNTY OF LOS ANGELES  
OFFICE OF THE COUNTY COUNSEL

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500 WEST TEMPLE STREET  
LOS ANGELES, CALIFORNIA 90012-2713

JOHN F. KRATTLI  
County Counsel

August 21, 2012

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TO: WENDY WATANABE  
Auditor-Controller

FROM: JUDY W. WHITEHURST  
Assistant County Counsel  
Government Services Division

RE: **Legal Analysis of Torrance ROPS Items**

Pursuant to your request, our office conducted a legal analysis to supplement the agreed-upon procedures audit you conducted pursuant to Health & Safety Code section 34182(a). Specifically, you requested that we review the agreements described in the "Findings" section below to determine whether each is an "enforceable obligation" pursuant to ABx1 26 (Chapter 5, Statutes 2011) and AB 1484 (Chapter 26, Statutes 2012). We have consulted with outside counsel and reviewed correspondence from the Department of Finance ("DOF") in its review of the Recognized Obligation Payment Schedule ("ROPS") submitted by the successor to the Redevelopment Agency of the City of Torrance ("Former Agency"), and we have come to the conclusions discussed below.

**FINDINGS**

1. The Agreement for Allocation of Tax Increment Funds, a tax increment revenue-sharing agreement in which the County of Los Angeles ("County") agrees to make annual loans to the Agency of a portion of tax increment to which the County is entitled to receive ("Deferral Agreement") is an enforceable obligation between the Former Agency and the County.
2. The 2001 Tax Allocation Refunding Bonds for the Skypark Redevelopment Project ("Skypark Bonds") issued by the Former Agency to the City to refund a series of bonds issued in 1987 in furtherance of the Skypark Redevelopment Project are not enforceable obligations.

3. The 1982 and 1985 City Advances are not enforceable obligations.

### **DISCUSSION**

#### **A. Agreement for Allocation of Tax Increment Funds (County Deferral Agreement)**

Items 13 and 14 on the January through June 2012 ROPS are identified as Advance from County 1992-2011 (Downtown), and County Pass-Thru Deferred Interest Downtown, respectively. These items, which total \$21,147,014 on the ROPS, are evidenced by a tax increment revenue-sharing agreement between the Former Agency and the County, executed by the parties on April 4, 1991 and adopted by the Board of Supervisors on May 21, 1991. While the City of Torrance ("City") is a party to the Deferral Agreement, it has no rights or obligations thereunder. Section 5 of the Deferral Agreement provides for an annual loan from the County to the Former Agency of the portion of tax increment due to the County ("Deferral") necessary to meet existing and projected annual debt service (not to exceed \$1,550,000) for the Torrance Downtown Redevelopment Project plus simple interest of seven percent annually. According to the Former Agency's financial statements as of June 30, 2011, the total amount owed to the County under the Deferral Agreement is \$20,250,074.<sup>1</sup>

Health & Safety Code section 34171(d)(2) provides that "enforceable obligation" does not include any agreement, contracts, or arrangements between the city, county, or city and county that created the redevelopment agency and the former redevelopment agency." Here, the Former Agency was created by the City. Accordingly, as between the Former Agency and the County, the Deferral Agreement is an enforceable obligation per Health & Safety Code sections 34171(d)(1)(B) and (E). *See* Health & Safety Code section 34171(d)(1)(B) ("enforceable obligation" includes "[l]oans of moneys borrowed by the redevelopment agency for a lawful purpose, to the extent they are legally required to be repaid pursuant to a required payment schedule or other mandatory loan terms"); Section 34171(d)(1)(E) ("enforceable obligation" includes "any legally binding enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy").

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<sup>1</sup> Available at [http://www.torranceca.gov/Documents/RDA\\_Financial\\_Rpt\\_YearEnd30Jun11.pdf](http://www.torranceca.gov/Documents/RDA_Financial_Rpt_YearEnd30Jun11.pdf).

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As a loan agreement predating dissolution of the Former Agency under ABx1 26 between the Former Agency and a party other than its creating city, the Deferral Agreement is an enforceable obligation between the Former Agency and the County.<sup>2</sup> The Deferral Agreement does not give rise to any obligations between the Former Agency and the City. However, it should be noted that the July through December 2012 ROPS improperly lists the City of Torrance as the Payee of Item 14, County Pass-Thru Deferred Interest (Downtown). We found no evidence that the DOF addressed either item in its review of the ROPS.

### **B. Skypark Bonds**

Item 1 on the January through June 2012 ROPS is identified as 2001 Tax Allocation Refunding Bonds (Skypark), and is evidenced by a resolution adopted by the Former Agency on December 4, 2001 authorizing the issuance of refunding bonds redeeming 1987 bonds issued to finance the Skypark Redevelopment Project (“Skypark Bonds”). The resolution and the corresponding terms and conditions indicate that the bonds were issued and sold only to the City (Section 3) and secured by pledges of tax increment revenues generated by the Skypark Redevelopment Project.

Health & Safety Code section 34171(d)(2) provides that an “enforceable obligation” does not include any agreements, contracts, or arrangements between the city, county, or city and county that created the redevelopment agency and the former redevelopment agency.” Section 34171(d)(2) provides two exceptions to this general rule. First, an agreement will be considered an “enforceable obligation” where it was “entered into (A) at the time of issuance, but in no event later than December 31, 2010, of indebtedness obligations, and (B) solely for the purpose of securing or repaying those indebtedness obligations . . . .” Pursuant to Section 34171(e), “[i]ndebtedness obligation” means bonds, notes, certificates of participation, or other evidence of indebtedness, issued or delivered by the redevelopment agency . . . to *third-party investors* or bondholders to finance or refinance redevelopment projects. . . .”

---

<sup>2</sup> The Deferral Agreement provides that the Former Agency will commence repayment of the Deferral in the year in which its share of tax increment exceeds its annual debt service for the Project. The information provided does not specify whether the Former Agency’s share of tax increment under the Deferral Agreement exceeds the debt service for the Project.

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(*Emphasis added*). Second, “loan agreements entered into between the redevelopment agency and the city, county, or city and county that created it, within two years of the date of creation of the redevelopment agency, may be deemed to be enforceable obligations.” *Id.* Health & Safety Code section 34178(a) also generally provides that agreements between a redevelopment agency and its sponsoring city or county are invalid, subject to, *inter alia*, the two exceptions discussed above.

Here, the Former Agency sold the Skypark Bonds to the City, and not to a third-party investor. Accordingly, the bonds do not fall within the definition of “indebtedness obligation” provided in section 34171(e). Nor were the bonds issued within two years of the creation of the Former Agency. It should be noted that pursuant to section 34171(d)(1)(A), bonds issued by a redevelopment agency are *generally* considered enforceable obligations. However, because the bonds were only sold to the City and not to a third-party investor, the rule in section 34171(d)(2) and section 34178(a) dealing specifically with agreements between a redevelopment agency and its sponsoring city or county is controlling. As such, the Skypark Bonds are not an enforceable obligation. We found no evidence that the DOF addressed this item in its review of the ROPS.

### C. 1982 & 1985 City Advances

Items 11 and 12 on the January through June 2012 ROPS identify City Advances (Industrial) 1982, and 1985, respectively. These items reflect a series of loan advances from the City to the Former Agency to fund two redevelopment projects administered by the Former Agency (“Advances”). Tax increment revenues from the project areas were a source of revenue pledged to repay the City loans.

In defining “enforceable obligations,” Section 34171(d)(2) renders unenforceable “agreements, contracts, or arrangements between the city, county, or city and county that created the redevelopment agency and the former redevelopment agency.” Section 34178(a) states that “agreements, contracts, or arrangements between the city . . . that created the redevelopment agency and the redevelopment agency are invalid and shall not be binding on the successor agency.” The Advances are arrangements between the City and the Former Agency which do not fall within the exceptions contained in section 34171(d)(2) (exempting agreements between a Former-Agency and its creating entity that were entered into contemporaneously with indebtedness obligations to third parties and for the purpose of repaying the indebtedness obligations). The above-referenced sections 34171(d)(2) and 34178(a) were not amended by AB 1484, and invalidate the advances. Therefore, the advances are not enforceable obligations.

-5-

It should be noted that in a letter to the successor agency dated May 11, 2012, the DOF determined to be unenforceable ROPS "Item Nos. 11 and 12 – City advances totaling \$6.7 million. HSC section 34171(d)(2) states that loans between the entity that created the redevelopment agency (RDA) and the former RDA are only enforceable if made within the first two years of the RDA's existence . . .the two City's advances were made in 1982 and 1983 whereas the RDA was created in [] 1964." The DOF did not change its determination in its May 25, 2012 final determination letter.

JWW:SC:vcv



EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

May 11, 2012

Kenneth Flewellyn, Assistant Finance Director  
 City of Torrance  
 3031 Torrance Boulevard  
 Torrance, CA 90503

Dear Mr. Flewellyn:

Pursuant to Health and Safety Code (HSC) section 34177 (l) (2) (C), the City of Torrance (City) Successor Agency submitted a Recognized Obligation Payment Schedule (ROPS) to the California Department of Finance (Finance) on April 30, 2012, for the periods January through June 2012 and July through December 2012. Finance staff recently contacted you for further clarification of items listed in the ROPS.

HSC section 34171 (d) lists enforceable obligations characteristics. Based on our application of the law, we do not believe the following items qualify as Enforceable Obligations (EO):

January through June 2012 ROPS

- Administrative expenses of \$20,198 (see Attachment A). The HSC section 34171 (b) limits the 2011-12 administrative cost allowance to five percent of the property tax allocated to the successor agency or \$250,000, whichever is greater. Therefore, \$20,198 of the claimed \$270,198 is not allowed.

July through December 2012 ROPS

- Item Nos. 11 and 12 – City advances totaling \$6.7 million. HSC section 34171 (d) (2) states that loans between the entity that created the redevelopment agency (RDA) and the former RDA are only enforceable if made within the first two years of the RDA's existence. It is our understanding the two City's advances were made in 1982 and 1983 whereas the RDA was created in the 1964.

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.

Department of 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.

Mr. Flewellyn  
May 11, 2012  
Page 2

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.

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

Sincerely,

A handwritten signature in black ink that reads "Mark Hill". The signature is written in a cursive, slightly slanted style.

MARK HILL  
Program Budget Manager

cc: Ms. Kristina Burns, Program Specialist III, Los Angeles County

Mr. Flewellyn  
 May 11, 2012  
 Page 4

**Attachment A**  
**Administrative Cost Calculation**  
**For the period January – June**

<b>Allowed Administrative Costs Calculation</b>	
<b>Total RPTTF Funding (Line items 1, 2, 3, 7, and 15)</b>	<b>1,032,648</b>
Less: Administrative expenses (line item 15 on page 1)	20,198
Total funded from RPTTF:	1,012,450
5% of tax allocation:	50,622
<b>Allowed Administrative Costs (Greater of 5% or \$250,000):</b>	<b>\$ 250,000</b>

<b>Line Items Considered Administrative Costs</b>			
Page	Item No.	Debt Obligation	
1	8	Administrative Cost (Downtown)	63,050
1	9	Administrative Cost (Industrial)	164,800
1	10	Administrative Cost (Skypark)	22,150
1		Administrative Costs from RPTTF	20,198
		Total:	270,198
		Administrative Cap:	250,000
		<b>Amount Denied (Total - Administrative Cap):</b>	<b>\$ 20,198</b>



**DEPARTMENT OF  
FINANCE**

EDMUND G. BROWN JR. ■ GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

May 25, 2012

Kenneth Flewellyn  
Assistant Finance Director  
City of Torrance  
3031 Torrance Boulevard  
Torrance, CA 90503

Dear Mr. Flewellyn:

Subject: Recognized Obligation Payment Schedule Approval Letter

Pursuant to Health and Safety Code (HSC) section 34177 (l) (2) (C), the City of Torrance Successor Agency submitted Recognized Obligation Payment Schedules (ROPS) to the California Department of Finance (Finance) on April 30, 2012 for periods of January to June 2012 and July to December 2012. Finance is assuming appropriate oversight board approval. Finance has completed its review of your ROPS, which may have included obtaining clarification for various items.

Except for items disallowed in whole or in part as enforceable obligations noted in Finance's letter dated May 11, 2012, Department of Finance is approving the remaining items listed in your ROPS for both periods. This is our determination with respect to any items funded from the Redevelopment Property Tax Trust Fund (RPTTF) for the June 1, 2012 property tax allocations. If your oversight board disagrees with our determination with respect to any items not funded with property tax, any future resolution of the disputed issue may be accommodated by amending the ROPS for the appropriate time period. Items not questioned during this review are subject to a subsequent review, if they are included on a future ROPS. If an item included on a future ROPS is not an enforceable obligation, Finance reserves the right to remove that item from the future ROPS, even if it was not removed from the preceding ROPS.

Please refer to Exhibit 12 at [http://www.dof.ca.gov/assembly\\_bills\\_26-27/view.php](http://www.dof.ca.gov/assembly_bills_26-27/view.php) for the amount of RPTTF that was approved by Finance based on the schedule submitted.

As you are aware the amount of available RPTTF is the same as the property tax increment that was available prior to ABx1 26. 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 in the RPTTF.

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

Sincerely,

MARK HILL  
Program Budget Manager

cc: Ms. Kristina Burns, Program Specialist III, Office of the Los Angeles County Auditor



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CITY OF  
TORRANCE

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Ms Susan Linschoten  
Special Projects  
Department of Auditor-Controller  
County of Los Angeles

September 11, 2012

Dear Ms. Linschoten:

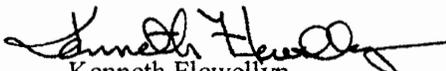
The City of Torrance Successor Agency has received the AUP report and do not agree with the report relating to the determination of "Unenforceable Obligations" on Exhibit 1 Page 2 of 2.

We believe the 2001 Tax allocation refunding bonds (Skypark) listed under Exhibit 1 is an enforceable Obligation because of the following:

- a. Health and Safety Code 34171(d)(1) provides that "enforceable obligation" is (1) Bonds, as define by section 33602 and bonds issued pursuant to section 5850 of the Government Code including the require debt service, reserve set-asides and any other payments required under the indenture or similar documents governing the issuance of the outstanding bonds of the redevelopment agency.
- b. The above reference bonds were refunded on December 31, 2001. The City of Torrance acted in the capacity as the bond agent to save on the cost of refunding the bonds. Debt service payments were made in accordance with the terms of the refunding requirements and as such, the appropriate legal payments were made to all responsible parties. The debt was listed on the redevelopment books as bonds, reported in the statement of indebtedness and further reported in the state controller's report and the City's annual financial report as bonds (please see attached) for over ten years. The last payment of the bonds was made on July 1, 2012. The bonds have now been retired.

We ask that this obligation be retained as enforceable obligations through June 30, 2012 and retired on July 1, 2012.

Sincerely,

  
Kenneth Flewellyn  
Assistant Finance Director