DEPARTMENT OF FINANCE

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April 13, 2013

Ms. Colleen O'Donoghue, Assistant Finance Director
City of Costa Mesa Successor Agency
77 Fair Drive
Costa Mesa, CA 92626

Dear Ms. O'Donoghue:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Costa Mesa Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14A) to the California Department of Finance (Finance) on February 27, 2013 for the period of July through December 2013. Finance has completed its review of your ROPS 13-14A, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following do not qualify as enforceable obligations:

- Item No. 6 – City Promissory Note in the amount of $14,296,751. Interagency loans or agreements between the City of Costa Mesa and the Agency are not enforceable obligations at this time. HSC section 34171 (d) (2) states that agreements, contacts, or arrangements between the city that created the RDA and the former RDA are not enforceable, unless issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. With the exception of the first two promissory notes, which have been retired, these loans were issued after the first two years of the former RDA's creation and are not associated with the issuance of debt. Therefore, these items are not enforceable obligations.

  Upon receiving a Finding of Completion from Finance, and after the oversight board makes a finding the loan was for legitimate redevelopment purposes, HSC section 34191.4 (b) may cause these items to be enforceable in future ROPS periods.

- Item Nos. 17 through 18 and 22 through 23 – Administrative costs totaling $50,538. These line items were transferred to the Costa Mesa Housing Authority as an inclusion to the Housing Asset Transfer Form in the letter dated August 31, 2012. HSC 34176 (a) (1) states, in part, "If a city, county, or city and county elects to retain the authority to perform housing functions...all rights, powers, duties, obligations, and housing assets...shall be transferred to the city, county or city and county".

Upon transfer of the property, all related administrative costs became the responsibility of the Costa Mesa Housing Authority; therefore, this item is not an enforceable obligation and is not eligible for Redevelopment Property Tax Trust Fund funding.

Except for items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 13-14A. This determination applies only to items where funding was requested for the six month period. If you disagree with the determination with respect to any items on your ROPS 13-14A, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

http://www.dof.ca.gov/redevelopment/meet_and_confer/

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is $486,689 as summarized below:

Approved RPTTF Distribution Amount For the period of July through December 2013		
Total RPTTF funding requested for obligations	$	1,686,662
Minus: Six-month total for items denied or reclassified as administrative cost		
Item 6		1,299,705
Item 17		3,000
Item 18		13,000
Item 22		4,000
Item 23		5,269
Total approved RPTTF for enforceable obligations	$	361,688
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost		125,001
Minus: ROPS II prior period adjustment		-
Total RPTTF approved for distribution:	**$**	**486,689**

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2012 period. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. The amount of RPTTF approved in the above table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Please refer to the ROPS 13-14A schedule that was used to calculate the approved RPTTF amount:

http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14A Forms by Successor Agency/.

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2013. Finance's determination is effective for this time period only and should not be conclusively relied upon for future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not denied on this ROPS or a preceding ROPS. The only exception is for those items that have received a Final and Conclusive determination from Finance pursuant to HSC 34177.5 (i). Finance's review of items that have received a Final and Conclusive determination is limited to confirming the scheduled payments as required by the obligation.

The amount available from the RPTTF is the same as the amount of property tax increment that was available prior to enactment of ABx1 26 and AB 1484. This amount is not and never was an unlimited funding source. Therefore, as a practical matter, the ability to fund the items on the ROPS with property tax is limited to the amount of funding available to the successor agency in the RPTTF.

To the extent proceeds from bonds issued after December 31, 2010 exist and are not encumbered by an enforceable obligation pursuant to 34171 (d), HSC section 34191.4 (c)(2)(B) requires these proceeds be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation.

Please direct inquiries to Nichelle Thomas, Supervisor or Alex Watt, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Mr. Bobby Young, Finance & IT Director
Mr. Frank Davies, Property Tax Manager, County of Orange
California State Controller's Office