



May 17, 2013

Mr. Jim DellaLunga, Senior Project Manager  
Economic Development Department  
City of Garden Grove Successor Agency  
11222 Acacia Parkway  
Garden Grove, CA 92840

Dear Mr. DellaLunga:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated March 29, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Garden Grove Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14A) to Finance on February 13, 2013 for the period of July through December 2013. Finance issued a ROPS determination letter on March 29, 2013. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on *April 23, 2013*.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of the specific items being disputed.

- Item No. 9 – Coastline Lease Payments in the amount of \$101,893. Finance previously reclassified this item as an administrative cost. Finance no longer reclassifies this item as administrative cost but now denies this item. The Agency claims this is not an administrative expense as the Agency has a sublease with a third party and the Agency does not, and cannot, use or occupy any portion of the leased premises. Our review indicates that the Agency entered into a lease agreement on August 1, 1997 pursuant to a Development and Disposition Agreement dated February 22, 1996. In that Lease, the Agency agreed to lease 20,000 square feet on the third and fourth floors of the building for semi-annual payments of \$31,893 due on August 1, 2013 and \$199,053 on February 1, 2014 (\$230,946 annually).

Per the Lease, the Agency is permitted to sublease a portion of the leased space to accredited educational institutions. The Agency provided the sublease for the space dated November 19, 1997 and the sublease extension dated January 28, 2008 between the Agency and a third party. In that sublease, the third party agreed to lease 12,530 square feet for a monthly payment of \$20,674 (\$248,044 annually). This leaves approximately 7,470 square feet of space for office and administrative space for the Agency as stated in the original lease. The amounts received from the sublease are

more than the amount owed on the original lease; therefore, we have determined the Agency receives adequate funds through the sublease to make the required lease payments and this item is not an enforceable obligation eligible for Redevelopment Property Tax Trust Funds (RPTTF).

- Item No. 22 – Brookhurst Triangle Disposition and Development Agreement (DDA) in the amount of \$835,000. Finance denied this item because a DDA in itself is only enforceable to the extent legally binding agreements are in place prior to June 27, 2011. Finance no longer denies this item. Our review indicates the Agency entered into a DDA with a third party on November 24, 2010. Per the DDA the Agency is required to relocate current tenants and clear all above ground structures before conveying the property to the developer. In addition, the DDA cannot be terminated by the Agency unless the developer has defaulted on the DDA. A default by the developer has not occurred; therefore, per HSC section 34171 (d) (1) (E), this item is a legally binding and enforceable agreement and is therefore an enforceable obligation.

In addition, per our letter dated March 29, 2013, Finance continues to deny the following items that were not contested by the agency during the Meet and Confer:

- Item No. 17 – Housing monitoring costs in the amount of \$175,000. HSC section 34176 (a) (1) states if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a RDA, all rights, powers, duties, obligations, and housing assets shall be transferred to the city, county, or city and county. Since the City of Garden Grove assumed the housing functions, the monitoring costs associated with these functions are the responsibility of the housing successor. Therefore, this item is not an enforceable obligation and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item No. 32 – Garden Grove Unified School District pass-through payments in the amount of \$1.3 million. Per HSC section 34183 (a) (1), the county auditor-controller will make the required pass-through payments starting with the July through December 2012 ROPS. Therefore, this item is not eligible for RPTTF funding.
- Claimed administrative costs exceed the administrative cost allowance by \$42,037. HSC section 34171 (b) limits fiscal year 2013-14 administrative expenses to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$250,000 in administrative expenses; therefore, \$42,037 in excess administrative cost is not allowed.

Except for items disallowed as noted above, Finance is not objecting to the remaining items listed in your ROPS 13-14A. Obligations deemed not to be enforceable shall be removed from your ROPS.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$8,487,546 as summarized on the following page:

<b>Approved RPTTF Distribution Amount For the period of July through December 2013</b>	
Total RPTTF funding requested for obligations	\$ 9,734,555
Minus: Six-month total for items denied or reclassified as administrative cost	
Item 9	101,893
Item 17	87,500
Item 32	1,307,616
Total approved RPTTF for enforceable obligations	<u>\$ 8,237,546</u>
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost	250,000
Minus: ROPS II prior period adjustment	-
<b>Total RPTTF approved for distribution:</b>	<b>\$ 8,487,546</b>

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 that was self-reported by the Agency and the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment. Please refer to the worksheet used by the CAC to determine the audited prior period adjustment for the Agency:

<http://www.dof.ca.gov/redevelopment/ROPS/view.php>

Please refer to the ROPS III schedule that was used to calculate the approved RPTTF amount:

<http://www.dof.ca.gov/redevelopment/ROPS/ROPS III 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 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.

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July through December 2013. Finance's determination is effective for this time period only and should not be conclusively relied upon for future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not questioned on this ROPS or a preceding ROPS.

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

Sincerely,



STEVE SZALAY  
Local Government Consultant

cc: Mr. Matthew J. Fertal, City Manager, City of Garden Grove  
Mr. Frank Davies, Property Tax Manager, Orange County  
California State Controller's Office