



April 14, 2013

Ms. Lisa Kim, Senior Project Manager
City of Orange Successor Agency
City of Orange
230 East Chapman Avenue
Orange, CA 92866

Dear Ms. Kim:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Orange Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14A) to the California Department of Finance (Finance) on February 28, 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. 18 – Agency Property Maintenance in the amount of \$561,000. It is our understanding that there are no contracts in place; allocating funds for unknown contingencies is not an allowable use of funds. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011.
- Item No. 74 – Pavement Coating contract in the amount of \$154,701. It is our understanding a contract dated February 13, 2013 between the Agency and Pavement Coatings Co. states that \$140,637 is the amount for full compensation, including any unforeseen difficulties and obstructions. While this agreement is an enforceable obligation, the total outstanding obligation amount reported on this ROPS period does not agree with the \$140,637 contract amount. Therefore, we have adjusted the requested amount by \$14,064.
- Item No. 81 – Orange Police Facility Certificates of Participation in the amount of \$1,025,000. According to the Agency, this item represents the final bond payment due in August 2014. HSC section 34171 (d) (1) (A) allows reserves when required by the bond indenture or when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the following half of the calendar year. The Agency has not provided sufficient documentation to indicate the next few property tax allocations will be insufficient.

- Item No. 82 – Reserve for the Redevelopment Obligation Retirement Fund (RORF) in the amount of \$1,463,586. To the extent that funds were available but not expended spent during the period, the Agency may request Redevelopment Property Tax Trust Funds again on a future ROPS. Currently, any funds not expended in the period for which they were approved will be adjusted by the Orange County Auditor-Controller pursuant to HSC section 34186 (a). Therefore, the request to for funding for Various Payees is not allowed.
- Item No. 86 – Alley Cat Development Inc. in the amount of \$85,668. It is our understanding there are no contracts in place; allocating funds for unknown contingencies is not an allowable use of funds. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011.
- Administrative costs funded by RPTTF exceed the allowance by \$644,248. HSC section 34171 (b) limits administrative expenses to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. Three percent of the property tax allocated is \$115,533. Therefore, \$644,248 of the claimed \$894,248 is not an enforceable obligation. The following items were considered administrative expenses and therefore have been reclassified:
 - Item Nos. 11 through 16, 17, 21 through 23 – Agency Property-Management
 - Item Nos. 17, 75 through 77, 84, 85, and 87 – Agency Property-Maintenance
 - Item Nos. 24 through 26 – Loan Agreements - Oversight
 - Item Nos. 33, 35 through 43, and 72 – Agency Asset Transfer/Disposition

Pursuant to HSC 34171 (d) (1) (F), administrative costs include, in part, contracts or agreements necessary for the administration or operation of the successor agency, including, but not limited to, agreements concerning litigation expenses related to assets or obligations, settlements and judgments, and the costs of maintaining assets prior to disposition, and agreements to purchase or rent office space, equipment and supplies, insurance, and pay-related expenses. The Agency has not provided sufficient documentation to support these costs as project-specific costs.

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 \$1,357,128 as summarized below:

Approved RPTTF Distribution Amount For the period of July through December 2013	
Total RPTTF funding requested for obligations	\$ 6,034,537
Minus: Six-month total for items denied or reclassified as administrative cost	
Item 11*	14,000
Item 12*	38,000
Item 13*	2,072
Item 14*	25,000
Item 15*	3,450
Item 16*	3,450
Item 17*	10,000
Item 18	345,500
Item 21*	30,424
Item 22*	25,000
Item 23*	1,057
Item 24*	7,457
Item 25*	38,000
Item 26*	25,000
Item 33*	3,196
Item 35*	15,000
Item 36*	15,000
Item 37*	15,000
Item 38*	5,571
Item 39*	15,000
Item 40*	9,100
Item 41*	16,000
Item 42*	100,000
Item 43*	60,000
Item 72*	25,000
Item 74	14,064
Item 75*	20,000
Item 76*	26,046
Item 77*	85,019
Item 81	1,025,000
Item 84*	6,000
Item 85*	6,000
Item 86	85,668
Item 87*	18,370
Total approved RPTTF for enforceable obligations	<u>\$ 3,901,093</u>
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost	250,000
Minus: ROPS II prior period adjustment	<u>(2,793,965)</u>
Total RPTTF approved for distribution:	\$ 1,357,128

*Reclassified as administrative cost.

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/](http://www.dof.ca.gov/redevelopment/ROPS/ROPS%2013-14A%20Forms%20by%20Successor%20Agency/).

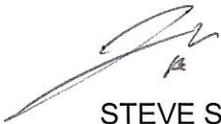
This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2013. Finance's determination is effective for this time period only and should not be conclusively relied upon for future periods. All items listed on a future ROPS are 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: Ms. Barbara Messick, Economic Development Project Manager
Mr. Frank Davies, Property Tax Manager, County of Orange
California State Controller's Office