DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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April 8, 2014

Ms. Colleen O'Donoghue, Assistant Finance Director
City of Costa Mesa
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 14-15A) to the California Department of Finance (Finance) on February 27, 2014 for the period of July through December 2014. Finance has completed its review of your ROPS 14-15A, 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 does not qualify as an enforceable obligation for the reasons specified:

Item No. 6 – City of Costa Mesa (City) Promissory Note in the amount of $12,596,074. Pursuant to HSC section 34191.4 (b), loan agreements between the former redevelopment agency and sponsoring entity may be placed on the ROPS if the following requirements are met: (1) The Agency has received a Finding of Completion; and (2) The Agency's oversight board approves the loan as an enforceable obligation by finding the loan was for legitimate redevelopment purposes.

The Agency received a Finding of Completion on May 24, 2013. OB Resolution 2014-01, finding that the City/Agency loan between the City and former Agency was entered into for legitimate redevelopment purposes, that the reinstated loan is an enforceable obligation, and approving that certain agreement to re-establish the loan pursuant to HSC section 34191.4 between the City and Agency following the obtaining of a Finding of Completion, was denied in our letter dated April 4, 2014. The OB has approved an agreement that allows for late fees and penalties in the event the City does not receive the proscribed payment amount as outlined in the repayment schedule. However, HSC section 34191.4 does not allow the payment of such penalties. Additionally, the Agency has improperly calculated the interest and principal due by using the incorrect Local Agency Investment Fund (LAIF) rate. Pursuant to HSC section 34191.4 (b) (2), the accumulated interest on the remaining principal amount of the loan shall be recalculated from origination at the interest rate earned by funds deposited into the LAIF. As such, this item is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2013 period. HSC section 34186 (a) also specifies

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 table below includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Except for the item denied in whole or in part as enforceable obligation, Finance is not objecting to the remaining items listed on your ROPS 14-15A. If you disagree with the determination with respect to any items on your ROPS 14-15A, 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 RPTTF distribution for the reporting period is $866,839 as summarized below:

Approved RPTTF Distribution For the period of July through December 2014		
Total RPTTF requested for non-administrative obligations		1,531,371
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations	**$**	**1,656,371**
Total RPTTF requested for non-administrative obligations		1,531,371
Denied Item		
Item No. 6		(782,983)
Total RPTTF authorized for non-administrative obligations		**748,388**
Total RPTTF authorized for administrative obligations		**125,000**
Total RPTTF authorized for obligations	**$**	**873,388**
ROPS 13-14A prior period adjustment		(6,549)
Total RPTTF approved for distribution	**$**	**866,839**

Please refer to the ROPS 14-15A schedule that was used to calculate the approved RPTTF amount:

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

Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2014. This determination only applies to items where funding was requested for the six-month period. 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 section 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 HSC section 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 Alexander Watt, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Steve Dunivent, Finance Director, City of Costa Mesa
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office