



March 28, 2014

Ms. Lisa Kim, Senior Project Manager
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 Orange City Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to the California Department of Finance (Finance) on February 13, 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 do not qualify as enforceable obligations for the reasons specified:

- Item No. 29 – Metrolink Parking Structure in the amount of \$114,646 (\$18,201 payable from Bond Proceeds and \$96,444 payable from the Redevelopment Property Tax Trust Fund (RPTTF)) is not an obligation of the Agency. It is our understanding this agreement entered into on March 28, 2006 is between the City of Orange (City) and The Arroyo Group, the former redevelopment agency (RDA) is not a party to the agreement. Therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding.
- Item No. 73 – Agency Asset Transfer/Disposition Costs for the Long-Range Property Management Plan (LRPMP) in the amount of \$42,000 payable from RPTTF funding. Finance has previously approved \$30,000 in RPTTF for the ROPS 13-14A period and \$21,000 in Reserve Balances for the ROPS 13-14B period. The Agency has requested funding for an additional \$46,000 for the current ROPS 14-15A period, however, the Agency was unable to provide adequate documentation to support the need for an additional \$46,000 for the LRPMP. Additionally, the requested amount exceeds the existing consultant service contract amount by \$42,000. Therefore, the requested funding is adjusted accordingly.
- Item No. 104 – Loan Compliance Monitoring costs in the amount of \$8,858 payable from RPTTF funding. The Agency requested a reduction to the amount requested for this item; the correct amount should be \$8,858, not \$17,716. Therefore, the requested amount has been adjusted by \$8,858 (\$17,716 - \$8,858).

- Item Nos. 105, 108, 109, 111, 119 – Various services provided by the City pursuant to a 1983 Reimbursement Agreement between the City and the Agency in the amount of \$83,437, payable from Other Funds. HSC section 34171 (d) (2) states that agreements, contracts, 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. Although the agreement was issued within two years of the RDA's creation, the services provided are much more recent and are not specifically identified in the agreement. Therefore, these line items are not enforceable obligations and are not eligible for Other Funding on the ROPS.
- Claimed administrative costs exceed the allowance by \$78,858. HSC section 34171 (b) limits fiscal year 2014-15 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. Although \$250,000 is claimed for administrative cost, Item No. 34 – Kane Balmer and Berkman Legal services in the amount of \$70,000, and Item No. 104 – Loan Compliance Monitoring costs in the amount of \$8,858, are considered administrative expenses and should be counted toward the cap. Therefore, \$78,858 of excess administrative cost is not allowed.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting Redevelopment Property Tax Trust Funds (RPTTF). Pursuant to HSC section 34177 (l) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. Finance has denied certain line items as enforceable obligations that were to be funded by Other Funds.

Therefore, the funding source for the following item has been reclassified to Other Funds, and in the amount specified below:

- Item No. 7 – Southern Counties Oil Corporation contract in the amount of \$1,800,000. Because Item Nos. 104, 105, 108, 109, 111, and 119 were denied as specified above, Finance has applied the Other Funds to this obligation. Finance is reclassifying \$92,295 (\$8,858 + \$83,437) to Other Funds. Although this item is an enforceable obligation for the ROPS 14-15A period, it does not require payment from property tax revenues. Therefore, Finance is approving RPTTF in the amount of \$1,707,705 and the use of Other Funds in the amount of \$92,295, totaling \$1,800,000.

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. The amount of RPTTF approved in the table below includes the prior period adjustment self-reported by the Agency. 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. Any proposed CAC adjustments were not received in time for inclusion in this letter. Therefore, the amount of RPTTF approved in the table below only includes the prior period adjustment self-reported by the Agency.

Except for items denied in whole or in part as enforceable obligations and for items that have been reclassified, 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 \$4,200,053 as summarized below:

Approved RPTTF Distribution	
For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	7,083,554
Total RPTTF requested for administrative obligations	250,000
Total RPTTF requested for obligations	\$ 7,333,554
Total RPTTF requested for non-administrative obligations	7,083,554
<u>Denied Items</u>	
Item No. 29	(96,444)
Item No. 73	(42,000)
	(138,444)
<u>Reclassified Item</u>	
Item No. 7	(92,295)
Item No. 34	(70,000)
	(162,295)
Total RPTTF authorized for non-administrative obligations	\$ 6,782,815
Total RPTTF authorized for administrative obligations	\$ 250,000
Total RPTTF authorized for obligations	\$ 7,032,815
ROPS 13-14A prior period adjustment	(2,832,762)
Total RPTTF approved for distribution	\$ 4,200,053

Pursuant to HSC section 34177 (l) (1) (E), agencies are required to use all available funding sources prior to RPTTF for payment of enforceable obligations. During the ROPS 14-15A review, Finance requested financial records to support the cash balances reported by the Agency; however, Finance was unable to reconcile the financial records to the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 14-15A review period to properly identify the Agency's cash balances. If it is determined the Agency possesses cash balances that are available to pay approved obligations, the Agency should request the use of these cash balances prior to requesting RPTTF in ROPS 14-15B.

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. Aaron Schulze, Economic Development Project Coordinator, City of Orange
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office