



May 16, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated March 28, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Orange Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on February 13, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on March 28, 2014. 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 9, 2014.

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. 29 – Metrolink Parking Structure in the amount of \$114,645 (\$18,201 payable from Bond Proceeds and \$96,444 payable from the Redevelopment Property Tax Trust Fund (RPTTF)). Finance continues to deny this item. Finance initially determined this item is not an obligation of the Agency because it was our understanding this agreement entered into on March 28, 2006, is between the City of Orange (City) and The Arroyo Group, and the former Redevelopment Agency (RDA) is not a party to the agreement.

During the meet and confer, the Agency contends that it has an obligation to fund the item under the August 7, 2009, Cooperative Agreement between the former RDA, the City, and the Orange County Transportation Authority. Finance concurs that this Cooperative Agreement continues to be a valid obligation; however, the agreement with The Arroyo Group, entered into by the City pursuant to the 2009 Cooperative Agreement, is not an obligation of the Agency.

The Agency also provided an April 18, 2006 Cooperation Agreement between the former RDA and the City, which states that the former RDA "shall be liable to the City for any amounts expended by the City...for the Project up to but not in excess of...\$191,128." However, HSC section 34171 (d) (2) states enforceable obligation does not include any agreements, contracts, or arrangements between the city that created the RDA and the former RDA. Therefore, the 2006 Cooperation Agreement is not an enforceable

obligation and The Arroyo Group agreement is the City's obligation, not the Agency's. As such, this line item is not an enforceable obligation and is not eligible for Bond Proceeds at this time or for RPTTF funding.

It appears that the Agency intends to expend bond proceeds for this obligation; however, the Agency has yet to receive a Finding of Completion. Upon receipt of a Finding of Completion, the Agency may be able to utilize proceeds derived from bonds issued prior to January 1, 2011 in a manner consistent with the original bond covenants per HSC section 34191.4 (c).

- Item No. 73 – Agency Asset Transfer/Disposition Costs for the Long-Range Property Management Plan (LRPMP) in the amount of \$46,000 payable from RPTTF funding. Finance no longer denies \$25,000 of this item to be funded from Other Funds. Finance initially denied this item because Finance had 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 had requested funding for an additional \$46,000 from RPTTF for the 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.

During the Meet and Confer process, the Agency provided clarification that that this request should be adjusted to \$25,000 from Other Funds to fund the February 11, 2014 Consultant Services Agreement with Tierra West Advisors, Inc., (TWA) as approved by Finance's Oversight Board Action Letter dated March 28, 2014. In regards to the amounts previously approved, the Agency reported expending only \$8,735 in the ROPS 13-14A period and \$21,000 in the ROPS 13-14B period, which was associated with a previous agreement with TWA in an amount not to exceed \$30,000. Therefore, this item is approved for \$25,000 to be funded from Other Funds and the \$46,000 requested from RPTTF is denied.

- 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. Finance no longer denies these items. Finance initially denied these items because 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 former RDA's creation, the services provided are much more recent and are not specifically identified in the agreement.

During the Meet and Confer process, the Agency contended that the City should be eligible for reimbursement for various staffing costs incurred during the ROPS 13-14B period under the 1983 Cooperation Agreement. As previously stated, although the agreement was entered into within the first two years of the former RDA's creation, the costs incurred are after the first two years; therefore, the provisions of HSC section 34171 (d) (2) applies. However, the items the Agency has listed on the ROPS may be enforceable obligations outside of the 1983 Cooperation Agreement since they are related to specific projects approved on a ROPS or maintenance of Agency-owned property prior to disposition, as further discussed below:

- For Item No. 105, the Agency contends that the City is seeking reimbursement for staff costs incurred during the ROPS 13-14B period that are associated with

the Metrolink Parking Structure Project as listed on Item Nos. 27, 28, 29, 51, and 52. The Agency provided a list of the staff that worked on the various projects along with a breakdown of the total hours, percentage of time, and total costs incurred per staff for the ROPS 13-14B period.

- For Item No. 108, the Agency contends that the City is seeking reimbursement for landscape maintenance costs incurred during the ROPS 13-14B period associated with an Agency-owned property on Palm Avenue. The Agency provided the Grant Deed showing the former RDA as the owner of the property and the invoices showing the actual costs incurred for maintaining the property.
- For Item No. 109, the Agency contends that the City is seeking reimbursement for property maintenance costs incurred during the ROPS 13-14B period for the Royer Building, which is owned by the Agency. The Agency also requested the amount be revised from \$16,547 to \$13,297 from Other Funds. The Agency provided the Grant Deed showing the former RDA as the owner of the property, the Management Agreement entered into by the former RDA with a third party, and invoices showing the actual costs incurred.
- For Item No. 111, the Agency contends that the City is seeking reimbursement for property maintenance costs incurred during the ROPS 13-14B period associated with an Agency-owned property at 124-142 S. Grand Avenue. The Agency also requested the amount be revised from \$27,297 to \$7,341 in Other Funds. The Agency provided the Grant Deed showing the former RDA as the owner of the property, the Management Agreement entered into by the former RDA with a third party, and invoices showing the actual costs incurred.
- For Item No. 119, the Agency contends that the City is seeking reimbursement for property maintenance costs incurred during the ROPS 13-14B period associated with maintaining Agency-owned parking lots. The Agency also requested the amount be revised from \$1,920 in Other Funds to \$800 in Other Funds. The Agency provided Grant Deeds showing the former RDA as the owner of the properties and invoices showing the monthly costs incurred.

Therefore, these line items are enforceable obligations and are eligible for Other Funding on the ROPS.

- Claimed administrative costs exceed the allowance by \$28,858. 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.

During the Meet and Confer process, the Agency contended that Item No. 34 should not be considered an administrative expense, but a property disposition cost related to the disposition of Item Nos. 94 and 96 and also requested the amount be revised to \$20,000. However, the legal services for Item No. 34 does not fall into any of the

following categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b):

- Any litigation expenses related to assets or obligations.
- Settlements and judgments.
- The costs of maintaining assets prior to disposition.
- Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs.

Additionally, since the Agency's Long-Range Property Management Plan (LRPMP) has not been reviewed or approved, Finance has not determined if these proposed costs are allowed as part of the LRPMP. Therefore, Item No. 34 is not an enforceable obligation and not eligible for RPTTF funding at this time. Once the Agency's LRPMP has been approved by Finance, the Agency should request RPTTF funding on a ROPS to implement the LRPMP.

Therefore, Finance continues to classify Item No. 34 as an administrative expense in the revised amount of \$20,000 and \$28,858 of excess administrative cost is not allowed.

- During our initial review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting RPTTF. Pursuant to HSC section 34177 (I) (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. Since Finance had denied certain line items as enforceable obligations that were to be funded by Other Funds, the funding source for the following item had been reclassified to Other Funds in the amount specified below:
  - Item No. 7 – Southern Counties Oil Corporation contract in the amount of \$1,800,000. Although this item is an enforceable obligation for the ROPS 14-15A period, it does not require payment from property tax revenues. Because Item Nos. 104, 105, 108, 109, 111, and 119 were initially denied, Finance had applied the Other Funds to this obligation. Finance had reclassified \$92,295 (\$8,858 + \$83,437) to Other Funds. During the Meet and Confer process, Finance no longer denies Item Nos. 105, 108, 109, 111, and 119 totaling \$59,111 in Other Funds. As such, \$33,184 (\$92,295 - \$59,111) in Other Funds continues to be available. Therefore, Finance is approving RPTTF in the amount of \$1,766,816 and the use of Other Funds in the amount of \$33,184 to fund the requested \$1,800,000 for Item No. 7.
- 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.

During the Meet and Confer process, the Agency requested to revise the self-reported prior period adjustment to account for estimated expenditures that may be incurred during the ROPS 13-14B period from RPTTF funding received during the ROPS 13-14A period. On ROPS 13-14B, the Agency had requested to use Reserve funding for Item Nos. 4, 5, 7, 27, 28, 29, and 78. This Reserve funding was actually a carryover of RPTTF received in ROPS 13-14A, but not expended. As such, to ensure the Agency has sufficient funding to fund these approved items from Reserve funds, the following increases will be made to the Actual Non-Admin RPTTF Expenditures on the Prior Period Adjustment form:

- o Item No. 4 will be increased by \$566.
- o Item No. 5 will be increased by \$6,500.
- o Item No. 7 will be increased by \$241,853.
- o Item No. 27 will be increased by \$18,000.
- o Item No. 28 will be increased by \$90,000.
- o Item No. 29 will be increased by \$79,000.
- o Item No. 78 will be increased by \$20,000.

We note the Agency should report actual expenditures incurred for these items during the ROPS 13-14B on the January through June 2015(ROPS 14-15B) Prior Period Adjustment worksheet and Finance will work with the Agency during its review of the ROPS 14-15B to ensure reconciliation of its expenditures and cash balances.

In addition, per Finance's letter dated March 28, 2014, we continue to make the adjustments on the following item not contested by the Agency during the Meet and Confer:

- 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).

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. The Agency's maximum approved RPTTF distribution for the reporting period is \$4,711,083 as summarized in the following table:

<b>Approved RPTTF Distribution</b>	
<b>For the period of July through December 2014</b>	
Total RPTTF requested for non-administrative obligations	7,083,554
Total RPTTF requested for administrative obligations	250,000
<b>Total RPTTF requested for obligations</b>	<b>\$ 7,333,554</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>7,083,554</b>
<u>Denied Item</u>	
Item No. 29	(96,444)
	(96,444)
<u>Reduced Items</u>	
Item No. 34	(50,000)
Item No. 73	(21,000)
	(71,000)
<u>Reclassified Items</u>	
Item No. 7	(33,184)
Item No. 34	(20,000)
Item No. 73	(25,000)
	(78,184)
<b>Total RPTTF authorized for non-administrative obligations</b>	<b>\$ 6,837,926</b>
<b>Total RPTTF authorized for administrative obligations</b>	<b>\$ 250,000</b>
<b>Total RPTTF authorized for obligations</b>	<b>\$ 7,087,926</b>
ROPS 13-14A prior period adjustment	(2,376,843)
<b>Total RPTTF approved for distribution</b>	<b>\$ 4,711,083</b>

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>

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 Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, 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