



April 17, 2014

Ms. Susan Gorospe, Senior Management Analyst
City of Santa Ana
60 Civic Center Plaza, M-25
Santa Ana, CA 92701

Dear Ms. Gorospe:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Santa Ana Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to the California Department of Finance (Finance) on March 3, 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 Nos. 14 and 15 – Settlement Agreements and Litigation Expenses totaling \$490,482,927. Finance continues to deny these items as the requirement to set aside 20 percent of redevelopment agency (RDA) tax increment for low and moderate income housing purposes ended with the passage of the redevelopment dissolution legislation. Thus, settlements awarding a percentage of tax increment to be set aside are not considered enforceable obligations. Additionally, the Agency has not provided documentation to support that the amounts requested are related to enforceable obligations existing prior to June 27, 2011. Pursuant to ABx1 26 and AB 1484, tax increment is no longer payable to the former redevelopment agency (RDA). Therefore, there is no obligation and these line items are not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item Nos. 18, 70 through 73, 75, 77, 87, and 119 – Various Obligations totaling \$3,129,910. It is our understanding the requested Reserve Balances for these items was derived from RPTTF funds received but not spent in the ROPS 13-14A period. However, these items are included as part of the county auditor-controller's prior period adjustment as an offset to the RPTTF to be distributed for the ROPS 14-15A period. Therefore, these Reserve Balances are no longer available. With the Agency's consent, Finance has reclassified the funding source for the following items from Reserve Balances to RPTTF:
 - Item No. 18 – Litigation in the amount of \$99,095

- Item No. 70 – DDA-Habitat for Humanity in the amount of \$1,000,000
 - Item Nos. 71, 75, 77, and 97 – Project Costs in the amount of \$610,000
 - Item No. 72 – DDA-Station District Construction in the amount of \$1,000,000
 - Item No. 119 – Employee Layoff/Termination Payment Obligations in the amount of \$420,815
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- Item No. 22 – Payment to the South Main Commercial Corridor (SMCC) project area fund of the former RDA in the amount of \$5,750,000. Finance continues to deny this item. The former RDA used a portion of the SMCC project area funds to pay the Supplemental Education Revenue Augmentation Fund (SERAF) obligation during fiscal year 2009-10. HSC section 33690 (c) only allows funds to be borrowed from and subsequently repaid to the Low and Moderate Income Housing Fund (LMIHF). Finance initially denied the item as the law does not require SERAF payments from other funding sources to be repaid with tax increment distributions. HSC section 34171 (d) (1) (B) allows loans to be repaid if they were borrowed by the former RDA for a lawful purpose, to the extent they are legally required to be repaid pursuant to a required repayment schedule or other mandatory loan terms; however, even if repayments were made on the SMCC loan, the proceeds would be unencumbered balances, which are to be remitted for distribution to the taxing entities pursuant to HSC section 34177 (d). The Agency has not provided sufficient documentation to support the amount requested was related to enforceable obligations existing prior to June 27, 2011. Therefore, there is no obligation and this line item is not eligible for RPTTF funding.

 - Item No. 59 – Litigation Services in the amount of \$353,728. It is our understanding the Agency based their request for affordable housing litigation services on the amount remaining from the distribution received for the July through December 2013 ROPS period. Finance requested documentation to support the amounts claimed, however, the Agency was unable to provide sufficient documentation. To the extent the Agency can provide suitable documentation, such as executed contracts or vendor invoices to support the requested funding, the Agency may be able to obtain RPTTF funding on future ROPS.

 - Item No. 129 – Housing administrative costs totaling \$600,000 are not enforceable obligations. Pursuant to HSC section 34177 (p), the housing entity administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the redevelopment agency elected to not assume the housing functions. Because the housing entity to the former RDA of the City of Santa Ana (City) is the City-formed Housing Authority (Authority) and the Authority operates under the control of the City, the Authority is considered the City under Dissolution Law pursuant to HSC section 34167.10. Therefore, \$600,000 of housing entity administrative allowance is not allowed.

 - Claimed administrative costs exceed the allowance by \$206,403. HSC section 34171 (b) limits fiscal year 2014-2015 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 \$354,405 in administrative expenses. Although \$560,808 is claimed for administrative \$206,403 of excess administrative costs is not allowed.

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 items denied in whole or in part as enforceable obligations or for the 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 \$6,988,519 as summarized below:

Approved RPTTF Distribution For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	18,693,592
Total RPTTF requested for administrative obligations	560,808
Total RPTTF requested for obligations	\$ 19,254,400
Total RPTTF requested for non-administrative obligations	18,693,592
<u>Denied Items</u>	
Item No. 14	(7,600,000)
Item No. 15	(1,835,000)
Item No. 22	(500,000)
Item No. 59	(353,728)
Item No. 129	(75,000)
	(10,363,728)
<u>Reclassified Items</u>	
Item No. 18	99,095
Item No. 59	353,728
Item No. 70	1,000,000
Item No. 71	400,000
Item No. 72	1,000,000
Item No. 73	50,000
Item No. 75	10,000
Item No. 77	10,000
Item No. 87	140,000
Item No. 119	420,815
	3,483,638
Total RPTTF authorized for non-administrative obligations	\$ 11,813,502
Total RPTTF requested for administrative obligations	560,808
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(206,403)
Total RPTTF authorized for administrative obligations	\$ 354,405
Total RPTTF authorized for obligations	\$ 12,167,907
ROPS 13-14A prior period adjustment	(5,179,388)
Total RPTTF approved for distribution	\$ 6,988,519

Administrative Cost Cap Calculation	
Total RPTTF authorized for non-administrative obligations	11,813,502
Percent allowed pursuant to HSC section 34171 (b)	3%
Total RPTTF allowable for administrative obligations	354,405
Administrative costs in excess of the cap	\$ (206,403)

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

Ms. Susan Gorospe
April 17, 2014
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cc: Mr. Francisco Gutierrez, Executive Director of Finance & Management Services Agency,
City of Santa Ana
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office