

May 16, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 17, 2014. 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 Finance on March 3, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 17, 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 May 2, 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 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 RDA. During the Meet and Confer process, the Agency continued to object to Finance's determination; however, no additional information or documents were provided. Therefore, there is no obligation and these line items are not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- 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. During the Meet and Confer process, the Agency continued to object to Finance's determination; however, no additional information or documents were provided. 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 from Reserve Balances. Finance no longer denies this item; however, Finance reclassifies this item to RPTTF. Finance initially denied this item as it was 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 13-14A) period. Finance requested documentation to support the amounts claimed; however, the Agency was unable to provide sufficient documentation. During the Meet and Confer process, the Agency provided clarification that the amount requested is the remaining balance from the ROPS 13-14A distribution that the Agency anticipates expending during the ROPS 14-15A period. The Agency provided sample invoices to show litigation expenditures are still being incurred by the Agency. Therefore, this item is an enforceable obligation; however, the unexpended amount is 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. As such, Finance is reclassifying the funding source for this item from Reserve Balances to RPTTF.
- Item No. 70 – DDA-Habitat for Humanity in the amount of \$1,000,000. It was our initial understanding the requested Reserve Balances for this item was derived from RPTTF funds received, but not spent in the ROPS 13-14A period. Based upon further review during the Meet and Confer process, Finance determined that the Reserve Balances for this item is actually a portion of the \$1,173,432 retained through the LMIHF Due Diligence Review (DDR). Therefore, Finance is not reclassifying the funding source for this item from Reserve Balances to RPTTF. The Agency may expend the requested \$1,000,000 from the LMIHF DDR balance that was retained for this item, which leaves a balance of \$173,432 from the LMIHF DDR for this item that may be requested on a future ROPS.
- Item No. 129 – Housing administrative costs totaling \$600,000 are not enforceable obligations. Finance continues to deny this item. Finance denied this item because pursuant to HSC section 34171 (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 RDA 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 (ABx1 26 and AB 1484).

The Agency contends that the City elected not to retain the housing functions, but the Authority, as a separate legal entity from the City, did retain the housing functions pursuant to HSC section 34176 (b) and should therefore be eligible for the housing entity

administrative allowance. However, pursuant to HSC section 34167.10 (a), the definition of "city" includes, but is not limited to, any reporting entity of the city for purposes of its comprehensive annual financial report (CAFR), any component unit of the city, or any entity controlled by the city or for which the city is financially responsible or accountable. HSC section 34167.10 (a) defines "city" for purposes of all of Dissolution Law, which includes HSC section 34171, as amended by AB 471, and HSC section 34176. The Authority is included in the City's CAFR, which identifies the Authority as a component unit of the City and states that the City is financially accountable for the component units.

Although the Authority is a separate legal entity from the City, HSC section 34167.10 (c) states that it shall not be relevant that the entity is formed as a separate legal entity. It should also be noted that HSC section 34167.10 (c) goes on to state that "the provisions of this section are declarative of existing law as the entities described herein are and were intended to be included within the requirements of this part [Part 1.8] and Part 1.85...and any attempt to determine otherwise would thwart the intent of these two parts." Therefore, based on our review, the City, by way of the Authority, elected to retain the housing functions pursuant to HSC section 34176 (a) and is not eligible for \$600,000 of housing entity administrative allowance.

In addition, per Finance's letter dated April 17, 2014, we continue to deny the following items not contested by the Agency during the Meet and Confer:

- Item Nos. 18, 71 through 73, 75, 77, 87, and 119 – Various Obligations totaling \$2,129,910. 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 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
- Claimed administrative costs exceed the allowance by \$225,791. 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 \$335,017 in administrative expenses. Although \$560,808 is claimed for administrative \$225,791 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. The Agency's maximum approved RPTTF distribution for the reporting period is \$6,322,859 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. 129	(75,000)
	<u>(10,010,000)</u>
<u>Reclassified Items for RPTTF funding</u>	
Item No. 18	99,095
Item No. 59	353,728
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
	<u>2,483,638</u>
Total RPTTF authorized for non-administrative obligations	\$ 11,167,230
Total RPTTF requested for administrative obligations	560,808
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(225,791)
Total RPTTF authorized for administrative obligations	\$ 335,017
Total RPTTF authorized for obligations	\$ 11,502,247
ROPS 13-14A prior period adjustment	(5,179,388)
Total RPTTF approved for distribution	\$ 6,322,859

Administrative Cost Cap Calculation	
Total RPTTF authorized for non-administrative obligations	11,167,230
Percent allowed pursuant to HSC section 34171 (b)	3%
Total RPTTF allowable for administrative obligations	335,017
Administrative costs in excess of the cap	\$ (225,791)

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. 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