DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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October 22, 2015

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) (1) (A), the City of Costa Mesa Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period January 1 through June 30, 2016 (ROPS 15-16B) to the California Department of Finance (Finance) on September 21, 2015. Finance has completed its review of the ROPS 15-16B.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

- Item No. 52 – Litigation costs in the amount of $52,200 have been reclassified to the Administrative Cost Allowance (ACA). HSC section 34171 (b) allows litigation expenses related to assets or obligations to be funded with property tax outside the administrative cap. However, this item relates to contesting the validity of dissolution law or challenging acts taken pursuant to these parts. Pursuant to HSC 34171 (d) (1) (F) (i), legal expenses contesting the validity of dissolution legislation shall only be payable out of the administrative cost allowance. Therefore, litigation costs totaling $52,200 are considered a general administrative cost payable from the Agency's ACA.

- Item No. 53 – Housing Authority Administrative Cost Allowance totaling $150,000. Finance continues to deny this item. Pursuant to HSC section 34171 (p), the housing successor 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 successor to the former redevelopment agency of the City of Costa Mesa (City) is the City-formed Housing 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, this item is not an enforceable obligation and the requested $150,000 is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- The Agency's claimed administrative costs exceeds the allowance by $52,200. HSC section 34171 (b) (2) limits fiscal year 2015-16 administrative expenses to three percent of the RPTTF funds allocated to the Redevelopment Obligation Retirement Fund for the fiscal year or $250,000. The Orange County Auditor-Controller distributed

$125,000 for the July through December 2015 period, leaving a balance of $125,000 available for the January through June 2016 period. Although $125,000 is claimed for the Administrative Cost Allowance, Item No. 52 Litigation costs in the amount of $52,200 are considered a general administrative cost and should be counted toward the cap. Therefore, $52,200 of excess administrative costs is not allowed.

Finance notes the oversight board has approved an amount that appears excessive, given the number and nature of the other obligations listed in the ROPS. HSC section 34179 (i) requires the oversight board to exercise a fiduciary duty to the taxing entities. Therefore, Finance encourages the oversight board to apply adequate oversight when evaluating the administrative resources required to successfully wind-down the Agency.

Pursuant to HSC section 34186 (a) (1), the Agency was required to report on the ROPS 15-16B form the estimated obligations versus actual payments (prior period adjustment) associated with the January through June 2015 period (ROPS 14-15B). HSC section 34186 (a) (1) also specifies the prior period adjustment self-reported by the Agency is subject to review by the county auditor-controller (CAC). The amount of RPTTF approved in the table below includes the prior period adjustment resulting from the CAC's review of the Agency's self-reported prior period adjustment.

Except for the items denied in whole or in part or the item that has been reclassified, Finance is not objecting to the remaining items listed on your ROPS 15-16B. If you disagree with Finance's determination with respect to any items on your ROPS 15-16B, except for those items which are the subject of litigation disputing Finance's previous or related determinations, 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 $91,797 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution For the period of January through June 2016		
Total RPTTF requested for non-administrative obligations		87,825
Total RPTTF requested for administrative obligations		275,000
Total RPTTF requested for obligations on ROPS 15-16B	**$**	**362,825**
Total RPTTF requested for non-administrative obligations		**87,825**
Reclassified Item		
Item No. 52		(52,200)
		(52,200)
Total RPTTF authorized for non-administrative obligations	**$**	**35,625**
Total RPTTF requested for administrative obligations		**275,000**
Reclassified Item		
Item No. 52		52,200
		52,200
Denied Item		
Item No. 53		(150,000)
		(150,000)
Administrative costs in excess of the cap (see Admin Cost Cap table below)		(52,200)
Total RPTTF authorized for administrative obligations	**$**	**125,000**
Total RPTTF authorized for obligations	**$**	**160,625**
ROPS 14-15B prior period adjustment		(68,828)
Total RPTTF approved for distribution	**$**	**91,797**

Administrative Cost Cap Calculation		
Total RPTTF for 15-16A (July through December 2015)		980,405
Total RPTTF for 15-16B (January through June 2016)		35,625
Less approved unfunded obligations from prior periods		0
Total RPTTF for fiscal year 2015-2016		**1,016,030**
Administrative cost cap for fiscal year 2015-16 (Greater of 3% of Total RPTTF or $250,000)		250,000
Administrative allowance for ROPS 15-16A (July through December 2015)		(125,000)
Remaining administrative cost cap for ROPS 15-16B		**125,000**
ROPS 15-16B administrative obligations after Finance adjustments		(177,200)
Administrative costs in excess of the cap	**$**	**(52,200)**

On the ROPS 15-16B form, the Agency reported cash balances and activity for the period January 1 through December 31, 2015. Finance will perform a review of the Agency's self-reported cash balances on an ongoing basis. Please be prepared to submit financial records and bridging documents to support the cash balances reported upon request. If it is determined the Agency possesses cash balances that are available to pay approved obligations, HSC section 34177 (l) (1) (E) requires these balances be used prior to requesting RPTTF.

Please refer to the ROPS 15-16B schedule used to calculate the total RPTTF approved for distribution:

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 January 1 through June 30, 2016. This determination only

applies to items when 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 ROPS periods. All items listed on a future ROPS are subject to review and may be denied even if it was not denied on this ROPS or a preceding ROPS. The only exception is for items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). Finance's review of Final and Conclusive items 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 available prior to the enactment of the redevelopment dissolution statutes. 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 Agency in the RPTTF.

Please direct inquiries to Nichelle Thomas, Supervisor or Alexander Watt, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Program Budget Manager

cc: Mr. Steve Dunivent, Finance Director, City of Costa Mesa
Mr. Frank Davies, Property Tax Manager, Orange County