



May 25, 2012

Jim DellaLonga, Sr. Project Manager/Administrative Officer
Economic Development Department
City of Garden Grove
11222 Acacia Parkway
Garden Grove, CA 92840

Dear Mr. DellaLonga:

Subject: Recognized Obligation Payment Schedule Approval Letter

Pursuant to Health and Safety Code (HSC) section 34177 (l) (2) (C), the City of Garden Grove Successor Agency submitted Recognized Obligation Payment Schedules (ROPS) to the California Department of Finance (Finance) on April 25, 2012 for period of the January to June 2012 and May 10, 2012 for the period of July to December 2012 period. Finance is assuming appropriate oversight board approval. Finance has completed its review of your ROPS, which may have included obtaining clarification for various items.

January through June 2012 ROPS

Except for items disallowed in whole or in part as enforceable obligations (EO) noted in Finance's letter dated May 10, 2012, Finance is approving the remaining items listed in your ROPS.

July through December 2012 ROPS

Except for items disallowed in whole or in part as EOs noted below, Finance is approving the remaining items listed in your ROPS.

HSC section 34171 (d) lists enforceable obligations characteristics. Based on a sample of items reviewed and application of the law, the following do not qualify as EOs:

- Page 1, item 2 in the amount of \$19.5 million is a Certificate of Participation issued by the City of Garden Grove. It is our understanding that an agreement between the RDA and the city pledging RDA tax increment is nonexistent. Additionally, HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the redevelopment agency (RDA) and the former RDA are not enforceable unless the agreements were entered into within the first two years of the date of the creation of the RDA or the agreements secured debt. Since neither apply, this is not an EO.
- Page 1, items 15, 18, and 19; page 2, items 1 through 5, 7, and 8 - Various projects totaling \$113.9 million requiring asset acquisition or transfer. It is our understanding these items are for the acquisition and transfer of lands along with already acquired land to a developer through a Disposition and Development Agreement (DDA). In return for developing the land, the developer will also be subsidized through future incentive subsidies. A DDA in itself is not entirely enforceable, but only enforceable to the extent

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legally binding agreements are in place prior to June 28, 2011. Since both the acquisition of additional property and transfer of the property will require additional legally binding agreements to be executed, these are not enforceable obligations. HSC section 34163 (b) prohibits an RDA from entering into any agreements after June 27, 2011. Additionally, HSC section 34163 (e) states the agency shall not have the authority to acquire real property by any means for any purpose and HSC section 34163 (f) prohibits transfer, assign, vest, or delegate of any assets, funds, rights, powers, ownership interests, or obligations for any purpose to any entity. Further, HSC section 34177 (e) requires the successor agency to dispose of assets and properties of the former redevelopment agency as directed by the oversight board and this disposition is to be done expeditiously and in manner aimed at maximizing value.

- Page 1, line item 24 in the amount of \$13.8 million. The requirement to set aside 20 percent of RDA tax increment for low and moderate income housing purposes ended with the passing of the redevelopment dissolution legislation. HSC section 34177 (d) requires that all unencumbered balances in the Low and Moderate Income Housing Fund be remitted to the county auditor controller for distribution to the taxing entities.
- Administrative costs claimed exceed allowance by \$510,103. HSC section 34171 (b) limits fiscal year 2012-13 administrative expenses to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. Three percent of the property tax allocated is \$347,037. Therefore, \$510,103 of the claimed \$857,140 is not an EO. The following items were considered administrative expenses:
 - Page 1, items 22 and 23
 - Page 3, items 1 through 3

This is our determination with respect to any items funded from the Redevelopment Property Tax Trust Fund (RPPTF) for the June 1, 2012 property tax allocations. If your oversight board disagrees with our determination with respect to any items not funded with property tax, any future resolution of the disputed issue may be accommodated by amending the ROPS for the appropriate time period. Items not questioned during this review are subject to a subsequent review, if they are included on a future ROPS. If an item included on a future ROPS is not an enforceable obligation, Finance reserves the right to remove that item from the future ROPS, even if it was not removed from the preceding ROPS.

Please refer to Exhibit 12 at http://www.dof.ca.gov/assembly_bills_26-27/view.php for the amount of RPTTF that was approved by Finance based on the schedule submitted.

As you are aware the amount of available RPTTF is the same as the property tax increment that was available prior to ABx1 26. 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 in the RPTTF.

Please direct inquiries to Evelyn Suess, Supervisor or Brian Dunham, Lead Analyst at (916)322-2985.

Sincerely,



MARK HILL
Program Budget Manager

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cc: On following page

cc: Mr. Matthew Fertal, City Manager, City of Garden Grove
Mr. Kingsley Okereke, Director of Finance, City of Garden Grove
Mr. Frank Davies, Administrative Manager, County of Orange