



May 10, 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:

Pursuant to Health and Safety Code (HSC) section 34177 (l) (2) (C), the City of Garden Grove Successor Agency submitted a Recognized Obligation Payment Schedule (ROPS) to the California Department of Finance (Finance) on April 25, 2012 for the period January through June 2012. Finance staff contacted you for clarification of items listed in the ROPS.

HSC section 34171 (d) lists enforceable obligation (EO) characteristics. Based on a sample of line 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. 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 loan agreements were entered into within the first two years of the date of the creation of the RDA.
- 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 legally binding agreements are in place prior to June 27, 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 \$583,714. HSC section 34171 (b) limits fiscal year 2011-12 administrative expenses to five percent of property tax allocated to the successor agency or \$250,000, whichever is greater. Five percent of the property tax allocated is \$185,702. Therefore, \$583,714 of the claimed \$833,714 is not an EO. The following items were considered administrative expenses:
 - Page 1, items 22 and 23
 - Page 3, item 1

As authorized by HSC section 34179 (h), Finance is returning your ROPS for your reconsideration. This action will cause the specific ROPS items noted above to be ineffective until Finance approval. Furthermore, items listed on future ROPS will be subject to review and may be denied as EOs.

If you believe we have reached this conclusion in error, please provide further evidence that the items questioned above meet the definition of an EO and submit to the following email address:

Redevelopment_Administration@dof.ca.gov

Finance may continue to review items on the ROPS in addition to those mentioned above and identify additional issues. We will provide separate notice if we are requesting further modifications to the ROPS. It is our intent to provide an approval notice with regard to each ROPS prior to the June 1 property tax distribution date.

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

Sincerely,



MARK HILL
Program Budget Manager

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