

May 17, 2013

Mr. Steve Franks, Director
County of Orange
1770 North Broadway
Santa Ana, CA 92706

Dear Mr. Franks:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS 13-14A) letter dated April 14, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the County of Orange Successor Agency (Agency) submitted a ROPS 13-14A to Finance on February 28, 2013 for the period of July through December 2013. 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 April 25, 2013.

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 item being disputed.

- Item Nos. 16 and 17 – Orange County Development Agency 2001 and 2003 Tax Allocation Refunding Bonds totaling \$973,495. Finance is no longer denying these items. It is our understanding the ROPS 13-14A requests funding for a full year of debt service payments for these items totaling \$5,116,841. Included in this amount is \$973,495 of interest payments due in March 2014. Finance originally denied the March 2014 interest payments because the Agency did not provide sufficient documentation to indicate the next property tax allocation will be insufficient to pay all bond obligations due. HSC section 34171 (d) (1) (A) allows for a reserve, when required by the bond indenture or when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the following half of the calendar year. During the Meet and Confer process, the Agency provided sufficient documentation to demonstrate the requested amount for the entire year is required by the bond indentures. Therefore, these line items are enforceable obligations and eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

In addition, per Finance's ROPS letter dated April 14, 2013, the following items continue to be denied and were not contested by the Agency:

- Item No. 8 – Required Financial Audits payable to the Orange County Auditor-Controller in the amount of \$41,000 is not eligible for funding on the ROPS. Because HSC section 34182 (e) allows the county auditor-controller to deduct their administrative costs from

the RPTTF prior to distributing tax increment to the Agency, this line item is not eligible for funding on the ROPS.

- Item Nos. 11, 12, and 14 – Various Professional Services contracts totaling \$750,000 are not obligations of the Agency. These contracts are between various third parties and the County of Orange. The former Redevelopment Agency (RDA) is neither a party to the contract nor responsible for payment of the contract.

Additionally, it is our understanding that these contracts were executed to provide professional services for the Housing Development Program. HSC 34176 (a) (1) states, if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a RDA, all rights, powers, duties, obligations, and housing assets shall be transferred to the city, county or city and county. Since the Orange County Housing Authority assumed the housing functions, the administrative costs associated with these functions are the responsibility of the housing successor. Therefore, these line items are not enforceable obligations and are not eligible for funding on the ROPS.

- Claimed administrative costs exceed the allowance by \$94,449 HSC section 34171 (b) limits 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 \$169,602. Although \$344,449 is claimed for administrative cost, only \$250,000 is available pursuant to the cap. Therefore, \$94,449 of excess administrative cost is not allowed.

Except for items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 13-14A. Obligations deemed not to be enforceable shall be removed from your ROPS. This is Finance's final determination related to the enforceable obligations reported on your ROPS for July through December 2013. Finance's determination is effective for this time period only and should not be conclusively relied on 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 Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$5,903,388 as summarized below:

| Approved RPTTF Distribution Amount | |
|--|---------------------|
| For the period of July through December 2013 | |
| Total RPTTF funding requested for obligations | \$ 5,798,888 |
| Minus: Six-month total for items denied or reclassified as administrative cost | |
| Item 8 | 20,500 |
| Item 11 | 37,500 |
| Item 12 | 37,500 |
| Item 14 | 50,000 |
| Total approved RPTTF for enforceable obligations | \$ 5,653,388 |
| Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost | 250,000 |
| Minus: ROPS II prior period adjustment | - |
| Total RPTTF approved for distribution: | \$ 5,903,388 |

*Reclassified as administrative cost

Mr. Steve Franks

May 17, 2013

Page 3

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2012 period. HSC Section 34186 (a) also specifies that the 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 above table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Please refer to the ROPS 13-14A schedule that was used to calculate the approved RPTTF amount:

[http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14A Forms by Successor Agency/](http://www.dof.ca.gov/redevelopment/ROPS/ROPS%2013-14A%20Forms%20by%20Successor%20Agency/).

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2013. 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 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 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 Kylie Le, Supervisor or Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Jeff Kirkpatrick, Administrative Manager, County of Orange
Mr. Frank Davies, Property Tax Manager, County of Orange
California State Controller's Office