DEPARTMENT OF FINANCE

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November 8, 2013

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), the City of Costa Mesa Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 27, 2013 for the period of January through June 2014. Finance has completed its review of your ROPS 13-14B, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following do not qualify as enforceable obligations for the reasons specified:

- Item No. 6 – City of Costa Mesa (City) Promissory Note in the amount of $1,299,705 for Redevelopment Property Tax Trust Fund (RPTTF) funding is not allowed at this time. The Agency received a Finding of Completion on May 24, 2013. As such, the Agency may place loan agreements between the former redevelopment agency and sponsoring entity on the ROPS, as an enforceable obligation, provided the oversight board makes a finding that the loan was for legitimate redevelopment purposes per HSC section 34191.4 (b) (1). However, HSC section 34191.4 (b) (2) (A) specifies loan or deferral repayments shall not be made prior to the 2013-14 fiscal year. While ROPS 13-14B falls within fiscal year 2013-14, the repayment of this City loan is subject to the repayment formula outlined in the section.

  HSC section 34191.4 (b) (2) (A) allows this repayment to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through distributed to the taxing entities in the 2012-13 base year. Since the formula does not allow for estimates, the Agency must wait until the ROPS residual pass-through distributions are known for fiscal year 2013-14 before requesting funding for this obligation. Therefore, the Agency may be able to request funding for the repayment of this City loan beginning with ROPS 14-15A.

- Item No. 52 – Enterprise Counsel Group Litigation Services in the amount of $125,000. To date, the Agency has not provided sufficient documentation to support the amounts

claimed. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding.

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 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 table below includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Except for items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 13-14B. If you disagree with the determination with respect to any items on your ROPS 13-14B, 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 $159,993 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014		
Total RPTTF requested for non-administrative obligations		1,483,593
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations	**$**	**1,608,593**
Total RPTTF requested for non-administrative obligations		**1,483,593**
Denied Items		
Item No. 6		(1,299,705)
Item No. 52		(125,000)
		(1,424,705)
Total RPTTF approved for non-administrative obligations		**58,888**
Total RPTTF approved for administrative obligations		**125,000**
Total RPTTF approved for obligations		**183,888**
ROPS III prior period adjustment		(23,895)
Total RPTTF approved for distribution	**$**	**159,993**

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

http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14B Forms by Successor Agency/.

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, 2014. This determination applies only 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 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 Nichelle Thomas, Supervisor or Alex Watt, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Bobby Young, Finance & IT Director, City of Costa Mesa
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office