DEPARTMENT OF FINANCE

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December 17, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 8 2013. 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 Finance on September 27, 2013, for the period of January through June 2014. Finance issued a ROPS determination letter on November 8, 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 December 5, 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 items being disputed.

- 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. Finance continues to deny this item. The Agency contends that the item falls within the exception in HSC section 34171 (d) (2), which allows City loans within the first two years of creation to be enforceable obligations. The Agency stated the Redevelopment Plan expressly authorized and anticipated that the City would advance funds to the former RDA. According to the Agency, the Redevelopment Plan was adopted in December 1973 or within the first two years of the former redevelopment agency's (RDA) creation in January 1972. However, based on our review, funds were advanced to the RDA after the first two years of the RDA's creation from October 7, 1975 through March 16, 1981 as documented by a series of promissory notes. Therefore, this item does not fall within the exception of HSC section 34171 (d) (2).

  The Agency received a Finding of Completion on May 24, 2013. As such, the Agency may place loan agreements between the former RDA 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, which 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. Finance no longer objects to this item. Finance initially denied this item as the Agency did not provide sufficient documentation to support the amounts claimed. During the Meet and Confer process, the Agency provided additional documents showing the Agency's ongoing lawsuit, as well as the methodology used to estimate the amount requested. Therefore, this item is 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. The Agency's maximum approved RPTTF distribution for the reporting period is $284,992 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)
Total RPTTF approved for non-administrative obligations	**183,888**
Total RPTTF approved for administrative obligations	**124,999**
Total RPTTF approved for obligations	**308,887**
ROPS III prior period adjustment	(23,895)
Total RPTTF approved for distribution	**$ 284,992**

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/.

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 section 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 Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Steve Dunivent, Interim Finance Director, City of Costa Mesa
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office