

December 17, 2013

Mr. Jim DellaLonga, Senior Project Manager  
City of Garden Grove  
11222 Acacia Parkway  
Garden Grove, CA 92840

Dear Mr. DellaLonga:

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 Garden Grove Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to Finance on September 26, 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 November 26, 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. 1 – 2003 Tax Allocation Bonds (TAB) in the amount of \$2,168,872. Finance approves this item. Finance initially denied this item as the Agency did not demonstrate a requirement or need to maintain reserves pursuant to HSC section 34171 (d) (1) (A). During the Meet and Confer, the Agency identified that the payment during the ROPS 13-14B period was only \$1,094,012; however, due to differences in the Redevelopment Property Tax Trust Fund (RPTTF) distributions between this ROPS period and July through December 2014 (ROPS 14-15A) period, the Agency requested half of their annual debt service payments on ROPS 13-14B. Upon review of the 2003 TAB Indenture, Section 4.1 identifies that these bonds are secured by a first pledge of and lien on all of the Agency's tax revenues. HSC section 34171 (d)(1)(A) allows a reserve to be held under the provisions of the bond for the next payment due. Therefore, this item is approved for \$2,168,872 in RPTTF this period.
- Item No. 7 – Katella Cottages Note in the amount of \$123,890. Finance approves this item in the amount of \$52,650. The item was initially denied as statute does not currently recognize all anticipated obligations for the next ROPS period, thus, the creation of a reserve is not permissible. During the Meet and Confer, the Agency provided documentation that identified only \$52,650 was due during this period.

Therefore, Finance approves the expenditure of \$52,650 and continues to deny the \$71,240.

In addition, per Finance's letter dated November 8, 2013, we continue to deny the following items not contested by the Agency during the Meet and Confer:

- Item Nos. 2 through 4 – Various obligations totaling \$3,500,000. According to the Agency's notes, the amounts requested are reserves for obligations due during July through December 2014 (ROPS 14-15A). HSC section 34177 (b) allows reserves required for indentures, trust indentures, or similar documents governing the issuance of outstanding redevelopment bonds. The statute does not currently recognize all anticipated obligations for the next ROPS period, thus, the creation of reserves for such items are not permissible. Additionally, Finance denied the Oversight Board's action related to project costs for the Kam Sang Agreement in our letter dated August 9, 2013. Therefore, these items are not eligible for RPTTF funding.
- The Agency's claimed administrative costs exceed the allowance by \$111,091. HSC section 34171 (b) limits the fiscal year 2013-14 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. The Orange County Auditor-Controller's Office distributed \$250,000 in administrative costs for the July through December 2013 period, thus leaving a balance of \$308,834 available for the January through June 2014 period. Although \$419,925 is claimed for administrative costs, only \$308,834 is available pursuant to the cap. Therefore, \$111,091 in excess administrative cost is not allowed.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that are required to be used prior to requesting RPTTF. Pursuant to HSC section 34177 (l) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. The Agency provided financial records that displayed available Other Funds balances totaling \$358,964.

Therefore, the funding source for the following item has been reclassified to Other Funds and in the amount specified below:

- Item No. 27 – Agency Property Maintenance/Management in the amount of \$36,000. The Agency requested \$125,000 from Other Funds and \$36,000 from RPTTF; however Finance is reclassifying \$36,000 to Other Funds. According to information provided by the Agency, the Agency collects revenues from various properties which are used for maintenance and management of the properties. Therefore, Finance is approving the use of Other Funds totaling \$161,000 for Item No. 27.

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 below table 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 or for items that have been reclassified, 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 \$9,291,267 as summarized below:

<b>Approved RPTTF Distribution Amount For the period of January through June 2014</b>	
Total RPTTF requested for non-administrative obligations	13,997,492
Total RPTTF requested for administrative obligations	419,925
<b>Total RPTTF requested for obligations</b>	<b>\$ 14,417,417</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>13,997,492</b>
<b>Denied Items</b>	
Item No. 2	(2,000,000)
Item No. 3	(1,300,000)
Item No. 4	(200,000)
Item No. 7	(71,240)
	<u>(3,571,240)</u>
<b>Total RPTTF before reclassification</b>	<b>10,426,252</b>
<b>Reclassified Items</b>	
Item No. 27	(36,000)
	<u>(36,000)</u>
<b>Total RPTTF approved for non-administrative obligations</b>	<b>10,390,252</b>
<b>Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)</b>	<b>308,834</b>
<b>Total RPTTF approved for obligations</b>	<b>10,699,086</b>
ROPS III prior period adjustment	(1,407,819)
<b>Total RPTTF approved for distribution</b>	<b>\$ 9,291,267</b>
<b>Administrative Cost Cap Calculation</b>	
Total RPTTF for 13-14A (July through December 2013)	8,237,546
Total RPTTF for 13-14B (January through June 2014)	10,390,252
Less approved unfunded obligations from prior periods	-
<b>Total RPTTF for fiscal year 2013-14</b>	<b>18,627,798</b>
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or \$250,000)	558,834
Administrative allowance for 13-14A (July through December 2013)	250,000
<b>Allowable RPTTF distribution for administrative cost for ROPS 13-14B</b>	<b>308,834</b>

Pursuant to HSC section 34177 (l) (1) (E), agencies are required to use all available funding sources prior to RPTTF for payment of enforceable obligations. Beginning with the ROPS 13-14B period, Finance required successor agencies to identify fund balances for various types of funds in its possession. During our ROPS 13-14B review, Finance requested financial records to support the fund balances reported by the Agency; however, Finance was unable to reconcile the financial records to the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 13-14B review period to properly identify the Agency's fund balances. If it is determined the Agency possesses fund balances that are available to pay approved obligations, the Agency should request the use of these fund balances prior to requesting RPTTF in ROPS 14-15A.

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/](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 Derk Symons, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD  
Assistant Program Budget Manager

cc: Mr. Matthew J Fertal, City Manager, City of Garden Grove  
Mr. Frank Davies, Property Tax Manager, Orange County  
California State Controller's Office