

December 17, 2013

Ms. Lisa Kim, Senior Project Manager  
City of Orange  
230 East Chapman Avenue  
Orange, CA 92866

Dear Ms. Kim:

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 Orange 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 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 items being disputed.

- Item No. 16 – Grand Apartments Management services in the amount of \$4,250. Finance no longer denies this item. Finance initially denied this item as housing administrative costs are not enforceable obligations. Pursuant to HSC section 34176 (a) (1), if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a redevelopment agency (RDA), all rights, powers, duties, obligations, and housing assets shall be transferred to the city, county, or city and county. Since the City of Orange (City) assumed the housing functions, the administrative costs associated with these functions are the responsibility of the housing successor. During the Meet and Confer process, the Agency contended that this item is associated with an existing Management Agreement dated August 28, 2007, for a property currently owned by the Agency and the property was not acquired with Low and Moderate Income Housing Funds or for the purpose of providing affordable housing. Therefore, this item is an enforceable obligation and is eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item Nos. 27 through 29, and 51 and 52 – Metrolink Professional Services costs totaling \$1,760,673; \$444,427 funded by Bond Funds and \$1,316,246 funded by Reserve Funds. Finance no longer denies these items. Finance initially denied these items as the Metrolink properties were transferred to the City pursuant to Oversight Board

Resolution No. OB-0039 as governmental purpose assets. However, based on further review during the Meet and Confer process, the agreements for services with Griffin Structures, Inc., LPA Inc., and The Arroyo Group were not transferred to the City and remain obligations of the Agency. Therefore, these line items are enforceable obligations and are eligible for Reserve or Bond Funds.

- Item No. 83 – Bond Reserve payments in the amount of \$5,526,769. Finance no longer denies \$3,587,783 of this item. According to the Agency, this item represents bond payments due in August 2014. HSC section 34171 (d) (1) (A) allows reserves 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. Finance initially denied this item as the Agency has not provided sufficient documentation to indicate the next property tax allocation will be insufficient. During the Meet and Confer process, the Agency provided a cash flow analysis and projected revenue losses for pending appeals that impact property tax projections that indicate an approximately \$3.6 million shortfall will occur in the following ROPS period. Therefore, this item is eligible for RPTTF funding.

Finance notes that pursuant to HSC section 34183 (a) (2) (A), debt service payments have first priority for payment from distributed RPTTF funding. As such, the additional \$3,587,783 requested to be held in reserve should be transferred upon receipt to the bond trustee(s) along with the amounts approved for the other ROPS 13-14B debt service payments prior to making any other payments on approved ROPS items. Any requests to fund these items again on the ROPS 14-15A period will be denied unless insufficient RPTTF is received to satisfy both the debt service payments due during the ROPS 13-14B period and the reserve amounts requested in ROPS 13-14B for the ROPS 14-15A debt service payments.

- Item No. 103 – Administrative Building Project in the amount of \$43,989. Finance no longer denies this item. Finance initially denied the item as it was our understanding that the contract for this item had expired and had not been extended. During the Meet and Confer process, the Agency explained that the contract was placed on hold pending approval by Finance for funding on a ROPS as evidenced by communications between the Agency and the contractor. Therefore, this line item is an enforceable obligation, and is eligible for RPTTF funding.

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. 21 and 22 – Metrolink Property Maintenance costs totaling \$65,424. The Metrolink properties were transferred to the City pursuant to Oversight Board Resolution No. OB-0039 as governmental purpose assets. Therefore, these line items are not the Agency obligations and are not eligible for RPTTF or Other Funds funding.
- Item Nos. 53 and 80 – Infrastructure Improvements and related Project Management costs totaling \$317,220; \$12,500 funded by RPTTF, and \$304,720 funded by Bond Funds. The contract for this item has expired. Additionally, because the obligation has expired, any related project management costs are also disallowed. Therefore, these line items are not enforceable obligations, and are not eligible for Bond Funds or RPTTF funding.

- Item No. 75 – Agency Property Maintenance in the amount of \$21,500. The Agency requested \$31,500; however, pursuant to the terms of the contract provided, only \$10,000 is required each six-month period. Therefore, the excess \$21,500 (\$31,500-\$10,000), is not eligible for RPTTF funding.
- Item No. 79 – Metrolink Project Management Costs in the amount of \$42,000. It is our understanding that the contract for this item is expired. HSC section 34163 (c) states that successor agencies shall not have the authority to amend or modify existing agreements, obligations, or commitments with any entity, for any purpose, including renewing or extending terms of leases or other agreements and modifying terms and conditions of existing agreements. Further, the Metrolink properties were transferred to the City pursuant to Oversight Board Resolution No. OB-0039 as governmental purpose assets. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.
- Item No. 81 – Orange Police Facility Certificates of Participation in the amount of \$1,025,000. According to the Agency, this item represents the final bond payment due August 2014. HSC section 34171 (d) (1) (A) allows reserves 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. The Agency has not provided sufficient documentation to indicate the next property tax allocation will be insufficient. Therefore, this line item is not eligible for RPTTF funding.
- Item No. 88 – 1983 City Reimbursement Agreement in the amount of \$38,219. The Agency provided the Agreement to support a City loan for funds advanced to the Agency related to the wind-down of activities during ROPS 13-14A. However, the Agreement is not specific in terms of the amount loaned, repayment terms, or the types of services provided. Therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding.
- Item No. 89 – Orange Transportation Center Project in the amount of \$14,880, funded by Other Funds. The Metrolink properties were transferred to the City pursuant to Oversight Board Resolution No. OB-0039 as governmental purpose assets. Therefore, this item is not an enforceable obligation and is not eligible for Other Funds.
- Item No. 90 – Administrative Building Project in the amount of \$2,336. The Metrolink properties, as well as the South Grand Parking Lot, were transferred to the City pursuant to Oversight Board Resolution No. OB-0039 as governmental purpose assets. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.
- The Agency's claimed administrative costs exceed the allowance by \$219,274. HSC section 34171 (b) limits fiscal year 2014 administrative expenses to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$329,766 in administrative expenses. The Orange County Auditor-Controller's Office distributed \$250,000 in administrative costs for the July through December 2013 period, thus leaving \$79,766 for administrative cost funding available for the January through June 2014 period. Although \$167,072 is claimed for

administrative cost, Item No. 13 for Agency Property Management in the amount of \$2,072, and Item No. 70 for Successor Agency Administrative costs in the amount of \$129,896, are also considered administrative expenses and should be counted toward the cap. Therefore, \$219,274 (\$167,072 + \$2,072 + \$129,896 - \$79,766) of excess administrative costs 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. Therefore, the funding source for the following items have been reclassified to Other Funds and in the amounts specified below:

- Item No. 8 – Orange City Mills in the amount of \$832,320; \$416,160 from Reserve Funds and \$416,160 from RPTTF; however, Finance is reclassifying \$131,968 from RPTTF to Other Funds. This item was determined to be an enforceable obligation for the ROPS 13-14B period. However, this obligation does not require payment from property tax revenues and the Agency has \$131,968 in Other Funds. Therefore, Finance is approving \$416,160 from Reserve Funds, \$284,192 from RPTTF, and \$131,968 from Other Funds for this item.

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 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 \$5,121,575 as summarized below:

<b>Approved RPTTF Distribution Amount For the period of January through June 2014</b>	
Total RPTTF requested for non-administrative obligations	9,898,935
Total RPTTF requested for administrative obligations	167,072
<b>Total RPTTF requested for obligations</b>	<b>\$ 10,066,007</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>9,898,935</b>
<u>Denied Items</u>	
Item No. 21	(30,424)
Item No. 22	(25,000)
Item No. 75	(21,500)
Item No. 79	(42,000)
Item No. 81	(1,025,000)
Item No. 83	(1,938,986)
Item No. 90	(2,336)
	<u>(3,085,246)</u>
<u>Reclassified Items</u>	
Item No. 8	(131,968)
	<u>(131,968)</u>
<b>Total RPTTF approved for non-administrative obligations</b>	<b>6,681,721</b>
<b>Total RPTTF requested for administrative obligations</b>	<b>167,072</b>
<u>Reclassified Items</u>	
Item No. 13	2,072
Item No. 70	129,896
	<u>131,968</u>
<b>Total RPTTF for administrative obligations</b>	<b>299,040</b>
<b>Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)</b>	<b>\$ 79,766</b>
Total ROPS III PPA	(1,639,912)
<b>Total RPTTF approved for distribution</b>	<b>\$ 5,121,575</b>
<b>Administrative Cost Cap Calculation</b>	
Total RPTTF for 13-14A (July through December 2013)	4,339,042
Total RPTTF for 13-14B (January through June 2014)	6,653,171
Less approved unfunded obligation from prior periods	-
<b>Total RPTTF for fiscal year 2013-14</b>	<b>10,992,213</b>
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or \$250,000)	329,766
Administrative allowance for 13-14A (July through December 2013)	250,000
<b>Allowable RPTTF distribution for administrative cost for ROPS 13-14B</b>	<b>\$ 79,766</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, Supervisor, or Mary Halterman, Lead Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD  
Assistant Program Budget Manager

cc: Mr. Aaron Schulze, Economic Development Project Coordinator, Orange City  
Mr. Frank Davies, Property Tax Manager, Orange County  
California State Controller's Office