



December 17, 2014

Mr. Steve Franks, Director
Orange County Community Resources
Orange County
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) letter dated October 31, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the County of Orange Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on September 18, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on October 31, 2014. 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 12, 2014.

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. 2 – The Agency's claimed administrative costs exceed the allowance by \$82,766. HSC section 34171 (b) limits fiscal year 2014-2015 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 \$383,390 in administrative expenses. The Orange County Auditor-Controller's Office distributed \$141,500 in administrative costs for the July through December 2014 period, thus leaving a balance of \$241,890 available for the January through June 2015 period. Although \$264,656 is claimed for administrative costs, Item Nos. 5 and 6, general legal professional services agreements totaling \$60,000, are considered administrative expenses and should be counted toward the cap.

During the Meet and Confer process, the Agency contended that Item Nos. 5 and 6 should not be considered administrative expenses. HSC section 34171 (b) allows litigation expenses related to assets or obligations to be funded with property tax outside the administrative cap. However, Item Nos. 5 and 6 relate to general legal representation and not specifically to bringing or contesting a legal action in court; therefore, they are considered administrative costs. As a result, \$82,766 of excess administrative cost is not allowed.

- Assembly Bill 2647 (AB 2647) in the amount of \$3,020,126. During the Meet and Confer process, the Agency requested to submit a revised ROPS 14-15B to add an item for AB 2647. However, per HSC section 34177 (m), the ROPS 14-15B was due no later than October 3, 2014, and in compliance with that section the original ROPS was submitted. As such, we will not be accepting any revised ROPS. To the extent the additional item requested by the Agency is a valid enforceable obligation, it may be listed on a future ROPS submittal.

In addition, per Finance's letter dated October 31, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 41 – 2013 Tax Allocation Bond debt service payment in the amount of \$2,708,505 has been increased by \$45. Based on information provided by the Agency, the debt service payment for this item should be \$2,708,550. Therefore, with the Agency's concurrence, Finance has increased this item by \$45, to \$2,708,550.
- Item No. 42 – 2014 Tax Allocation Bond debt service payment in the amount of \$2,023,606 has been reduced by \$5,498. Based on information provided by the Agency, the debt service payment for this item should be \$2,018,108. Therefore, with the Agency's concurrence, Finance has reduced this item by \$5,498, to \$2,018,108.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2014 period. HSC section 34186 (a) also specifies 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 the items that have been reclassified, or adjusted, Finance is not objecting to the remaining items listed on your ROPS 14-15B. The Agency's maximum approved RPTTF distribution for the reporting period is \$8,841,432 as summarized in the Approved RPTTF Distribution Table on the following page:

Approved RPTTF Distribution	
For the period of January through June 2015	
Total RPTTF requested for non-administrative obligations	8,821,861
Total RPTTF requested for administrative obligations	264,656
Total RPTTF requested for obligations on ROPS	\$ 9,086,517
Total RPTTF requested for non-administrative obligations	8,821,861
<u>Adjusted Items</u>	
Item No. 41	45
Item No. 42	(5,498)
	(5,453)
<u>Reclassified Items</u>	
Item No. 5	(30,000)
Item No. 6	(30,000)
	(60,000)
Total RPTTF authorized for non-administrative obligations	\$ 8,756,408
Total RPTTF requested for administrative obligations	264,656
<u>Reclassified Items</u>	
Item No. 5	30,000
Item No. 6	30,000
	60,000
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(82,766)
Total RPTTF authorized for administrative obligations	\$ 241,890
Total RPTTF authorized for obligations	\$ 8,998,298
Total ROPS 13-14B PPA	(156,866)
Total RPTTF approved for distribution	\$ 8,841,432

Administrative Cost Cap Calculation	
Total RPTTF for 14-15A (July through December 2014)	4,023,275
Total RPTTF for 14-15B (January through June 2015)	8,756,408
Total RPTTF for fiscal year 2014-2015	12,779,683
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or \$250,000)	383,390
Administrative allowance for 14-15A (July through December 2014)	141,500
Allowable RPTTF distribution for administrative cost for ROPS 14-15B	241,890
Total RPTTF administrative obligations after Finance adjustments	324,656
Administrative costs in excess of the cap	\$ (82,766)

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. During the ROPS 14-15B review, Finance requested financial records to support the cash balances reported by the Agency; however, the Agency was unable to support the amounts reported. The beginning balances for Reserve Balances and Other Funds could not be supported by the Agency's financial records. As a result, Finance will continue to work with the Agency after the ROPS 14-15B review period to properly identify the Agency's cash balances. If it is determined the Agency possesses cash balances that are available to pay approved obligations, the Agency should request the use of these cash balances prior to requesting RPTTF in ROPS 15-16A.

Please refer to the ROPS 14-15B schedule that was used to calculate the approved RPTTF amount:

<http://www.dof.ca.gov/redevelopment/ROPS>

This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2015. This determination only applies 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 the 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 agency in the RPTTF.

Pursuant to HSC section 34177 (a) (3), only those payments listed on an approved ROPS may be made by the successor agency from the funds specified in the ROPS. However, if for whatever reason the Agency needs to make payments for approved obligations from another funding source, HSC section 34177 (a) (4) requires the Agency to first obtain oversight board approval.

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
Acting Program Budget Manager

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