

November 14, 2014

Ms. Susan Gorospe, Senior Management Analyst
City of Santa Ana
60 Civic Center Plaza, M-25
Santa Ana, CA 92701

Dear Ms. Gorospe:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Santa Ana Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to the California Department of Finance (Finance) on September 30, 2014 for the period of January 1 through June 30, 2015. Finance has completed its review of your ROPS 14-15B, which may have included obtaining clarification for various items.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

- Item Nos. 14 and 15 – Settlement Agreements and Litigation Expenses totaling \$490,482,927. Finance continues to deny these items as the requirement to set aside 20 percent of redevelopment agency (RDA) tax increment for low and moderate income housing purposes ended with the passage of the redevelopment dissolution legislation. Thus, settlements awarding a percentage of tax increment to be set aside are not considered enforceable obligations. Additionally, the Agency has not provided documentation to support that the amounts requested are related to enforceable obligations existing prior to June 27, 2011. Pursuant to ABx1 26 and AB 1484, tax increment is no longer payable to the former RDA. Therefore, there is no obligation and these line items are not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item No. 22 – Payment to the South Main Commercial Corridor (SMCC) project area fund of the former RDA in the amount of \$5,750,000. Finance continues to deny this item. The former RDA used a portion of the SMCC project area funds to pay the Supplemental Education Revenue Augmentation Fund (SERAF) obligation during fiscal year 2009-10. HSC section 33690 (c) only allows funds to be borrowed from and subsequently repaid to the Low and Moderate Income Housing Fund (LMIHF). Finance initially denied the item as the law does not require SERAF payments from other funding sources to be repaid with tax increment distributions. HSC section 34171 (d) (1) (B) allows loans to be repaid if they were borrowed by the former RDA for a lawful purpose, to the extent they are legally required to be repaid pursuant to a required repayment schedule or other mandatory loan terms; however, even if repayments were made on the SMCC loan, the proceeds would be unencumbered balances, which are to be remitted for distribution to the taxing entities pursuant to HSC section 34177 (d). The

Agency has not provided sufficient documentation to support the amount requested was related to enforceable obligations existing prior to June 27, 2011. Therefore, there is no obligation and this line item is not eligible for RPTTF funding.

- Item No. 72 – Station District Development and Disposition Agreement (DDA) New Construction costs in the amount of \$500,000 are partially denied. The Agency requests \$500,000, however, only \$245,186 is available to fund the obligation based on the contract amount and past funding requests. It is our understanding that the entire authorized amount from the 14-15A period will not be utilized, so to the extent the Agency can support the amount remaining to fund the obligation, the excess may be enforceable on future ROPS. Therefore, the excess, \$254,814 (\$500,000 - \$245,186) is not eligible for RPTTF funding at this time.
- Item No. 73 – Station District DDA New Construction project costs in the amount of \$50,000 are partially denied. The Agency requests \$50,000, however, only \$877 is available to fund the obligation based on the contract amount and past funding requests. It is our understanding that the entire authorized amount from the 14-15A period will not be utilized, so to the extent the Agency can support the amount remaining to fund the obligation, the excess may be enforceable on future ROPS. Therefore, the excess, \$49,123 (\$50,000 - \$877) is not eligible for RPTTF funding at this time.
- Item No. 129 – Housing Entity Administrative Costs Allowance in the amount of \$600,000 is not allowed. Finance continues to deny this request. Pursuant to HSC section 34171 (p), the housing successor administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the redevelopment agency elected to not assume the housing functions. Because the housing successor to the former RDA City of Santa Ana (City) is the City-formed Housing Authority (Authority) and the Authority operates under the control of the City, the Authority is considered the City under Dissolution Law pursuant to HSC section 34167.10. Therefore, \$600,000 of housing successor administrative allowance is not allowed and \$150,000 requested for the ROPS14-15B is not eligible for RPTTF funding.
- The Agency's claimed administrative costs exceed the allowance by \$311,668. HSC section 34171 (b) limits the fiscal year 2014-15 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 \$335,017 in administrative costs for the July through December 2014 period, thus leaving a balance of \$153,981 available for the January through June 2015 period. Although \$465,649 is claimed for administrative costs, only \$153,981 is available pursuant to the cap. Therefore, 311,668 of excess administrative cost is not allowed.

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 review 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 review of the Agency's self-reported prior period adjustment, with a proposed adjustment as calculated by Finance. Finance notes that the Agency properly applied the Due Diligence Review withhold

amount to pay for obligations in the 13-14B period; the Agency's prior period adjustment would be reduced from \$3,207,115 to \$0. Therefore, the Agency should work with CAC to resolve the PPA differences.

Except for the items denied in whole or in part, Finance is not objecting to the remaining items listed on your ROPS 14-15B. If you disagree with the determination with respect to any items on your ROPS 14-15B, 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 \$5,286,684 as summarized in the Approved RPTTF Distribution Table below:

Approved RPTTF Distribution For the period of January through June 2015	
Total RPTTF requested for non-administrative obligations	15,521,640
Total RPTTF requested for administrative obligations	465,649
Total RPTTF requested for obligations on ROPS	\$ 15,987,289
Total RPTTF requested for non-administrative obligations	15,521,640
<u>Denied Items</u>	
Item No. 14	(7,600,000)
Item No. 15	(1,835,000)
Item No. 22	(500,000)
Item No. 72	(254,814)
Item No. 73	(49,123)
Item No. 129	(150,000)
	(10,388,937)
Total RPTTF authorized for non-administrative obligations	\$ 5,132,703
Total RPTTF requested for administrative obligations	465,649
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(311,668)
Total RPTTF authorized for administrative obligations	\$ 153,981
Total RPTTF authorized for obligations	\$ 5,286,684
CAC ROPS 13-14B prior period adjustment (PPA)	(3,207,115)
Proposed Finance adjustment to ROPS 13-14B PPA	3,207,115
Total ROPS 13-14B PPA	0
Total RPTTF approved for distribution	\$ 5,286,684

Administrative Cost Cap Calculation	
Total RPTTF for 14-15A (July through December 2014)	11,167,230
Total RPTTF for 14-15B (January through June 2015)	5,132,703
Less approved unfunded obligations from prior periods	0
Total RPTTF for fiscal year 2014-2015	16,299,933
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or \$250,000)	488,998
Administrative allowance for 14-15A (July through December 2014)	335,017
Allowable RPTTF distribution for administrative cost for ROPS 14-15B	153,981
Total RPTTF administrative obligations after Finance adjustments	465,649
Administrative costs in excess of the cap	\$ (311,668)

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, Other Funds, and RPTTF 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>

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, 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.

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Please direct inquiries to Nichelle Thomas, Supervisor or Erika Santiago, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

cc: Mr. Francisco Gutierrez, Executive Director of Finance & Management Services
Agency, City of Santa Ana
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office