DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
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April 10, 2015

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

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 15-16A) to the California Department of Finance (Finance) on February 25, 2015 for the period of July 1 through December 31, 2015. Finance has completed its review of your ROPS 15-16A, 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 No. 22 – Brookhurst Triangle Disposition and Development Agreement (DDA) in the amount of $835,000. Insufficient documentation was provided to support the amounts claimed. While the DDA requires the Agency to clear the site and relocate tenants, the Agency did not provide sufficient documentation to support the amounts claimed. To the extent the Agency can provide suitable documentation, such as executed contracts, or vendor invoices, to support the requested funding, the Agency may be able to obtain Redevelopment Property Tax Trust Funds (RPTTF) on future ROPS.

- Item Nos. 23, 24, and 37 – Various Project Management Costs totaling $797,563. Insufficient documentation was provided to support the amounts claimed. The Agency summarized the costs for each project by employee; however, Finance has not received documentation to support salaries paid to these employees, nor support for time specifically allocated to these activities. Finance will allow for a total of $30,337 for overages as approved during ROPS 14-15B. Finance reminds the Agency that, pursuant to HSC section 34177 (a) (3), only those payments listed on ROPS may be made by the Agency from the funds specified on the ROPS, up to the amount authorized by Finance.

  HSC sections 34177 (a) (4) and 34173 (h) provide mechanisms when Agency payments must exceed the amounts authorized by Finance. Please ensure the proper expenditure authority is received from your Oversight Board and Finance prior to making payments on enforceable obligations.

To the extent the Agency can provide suitable documentation, such as time sheets, pay stubs, or duty statements, to support the requested funding, the Agency may be able to obtain RPTTF on future ROPS. Therefore, the excess, $134,080 ($164,417 - $30,337) is not eligible for RPTTF funding on this ROPS.

- Item No. 27 – Agency Property Maintenance/Management Costs in the amount of $300,000 is partially approved. The Agency provided a breakdown of costs by property. However, Finance approved several of the properties for transfer to the City of Garden Grove (City) for governmental purpose pursuant to the Agency's Long Range Property Management Plan dated March 7, 2014. As such, the responsibility for maintenance and management of those properties now lies with the City. Finance allows maintenance and management costs for the following properties:

    - Waterpark Hotel
    - Brookhurst Triangle
    - Site B2
    - Site C
    - Lanning/Barnett

  Therefore, the excess $230,000 ($260,000 - $30,000) is not eligible for Other Funds on this ROPS.

- Item No. 41 – Brookhurst Legal Costs in the amount of $250,000. Insufficient documentation was provided to support the amounts claimed. The Agency estimated the legal costs for the Brookhurst DDA based on legal costs associated with other projects. However, the Agency did not base the estimate on third-party proposals or invoices. Finance will allow for a total of $9,185 for overages as approved during ROPS 14-15B. Finance reminds the Agency that, pursuant to HSC section 34177 (a) (3), only those payments listed on ROPS may be made by the Agency from the funds specified on the ROPS, up to the amount authorized by Finance.

  HSC sections 34177 (a) (4) and 34173 (h) provide mechanisms when Agency payments must exceed the amounts authorized by Finance. Please ensure the proper expenditure authority is received from your Oversight Board and Finance prior to making payments on enforceable obligations.

  To the extent the Agency can provide suitable documentation, such as executed contracts or vendor invoices, to support the requested funding, the Agency may be able to obtain RPTTF on future ROPS. Therefore, the excess, $100,000 ($109,185 - $9,185) is not eligible for RPTTF funding on this ROPS.

- Item No. 47 – Appraisal costs in the amount of $60,000 are partially approved. Finance review of this item took into consideration the Agency's Oversight Board (OB) Resolution No.39-15, awarding a contract for real property appraisal services. However, based on our review of the contract, the maximum contract award is not to exceed $14,550, therefore, Finance reduced the requested amount by $45,450 ($60,000 - $14,550).

  Additionally, the proposal included a City-owned property located at 12361 Chapman Avenue in the amount of $3,850 (transferred to the City for future development pursuant to Finance approval of the Agency's LRPMP dated March 7, 2014) and the Lanning/Barnett Street properties in the amount of $3,750 (approved for sale to the

Hennessey Group pursuant to OB Resolution No. 36-14). Therefore, the excess $52,400 ($45,450 plus $6,950 ($14,550 - $3,850 - $3,750) is not eligible for RPTTF funding on this ROPS.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 15-16A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 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 review of the Agency's self-reported prior period adjustment.

Except for the items denied in whole or in part, Finance is not objecting to the remaining items listed on your ROPS 15-16A. If you disagree with the determination with respect to any items on your ROPS 15-16A, 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 $9,651,643 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution For the period of July through December 2015		
Total RPTTF requested for non-administrative obligations		10,688,126
Total RPTTF requested for administrative obligations		0
Total RPTTF requested for obligations on ROPS	**$**	**10,688,126**
Total RPTTF requested for non-administrative obligations		**10,688,126**
Denied Items		
Item No. 22		(750,000)
Item No. 23		(44,000)
Item No. 24		(23,040)
Item No. 37		(67,040)
Item No. 41		(100,000)
Item No. 47		(52,400)
		(1,036,480)
Total RPTTF authorized for non-administrative obligations	**$**	**9,651,646**
Total RPTTF requested for administrative obligations		**0**
Total RPTTF authorized for administrative obligations		**0**
Total RPTTF authorized for obligations	**$**	**9,651,646**
ROPS 14-15A prior period adjustment		(3)
Total RPTTF approved for distribution	**$**	**9,651,643**

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 15-16A review, Finance requested financial records to support the cash balances reported by the Agency; however, the Agency was unable to provide sufficient accounting documents to support the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 15-16A 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 15-16B.

Please refer to the ROPS 15-16A 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 July 1 through December 31, 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 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 Nichelle Thomas, Supervisor or Alexander Watt, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Program Budget Manager

cc: Mr. Allan Roeder, Interim City Mayor, City of Garden Grove
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office