

May 15, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 10, 2015. 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 Finance on February 25, 2015, for the period of July through December 2015. Finance issued a ROPS determination letter on April 10, 2015. Subsequently, the Agency requested a Meet and Confer session on one or more of the determinations made by Finance. The Meet and Confer session was held on April 28, 2015.

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 determinations being disputed.

- Item No. 22 – Brookhurst Triangle Disposition and Development Agreement (DDA) in the amount of \$835,000. Based on the third-party estimate provided by the Agency during the Meet and Confer, Finance continues to deny \$335,000 of the amount and approves the remaining \$500,000. It is our understanding that the Agency has already transferred Phase I of the project to the developer pursuant to the DDA, the Long Range Property Management Plan, and Oversight Board Resolution 41-15. However, the site preparation costs requested here for clearance of Phase II of the project pursuant to the DDA which states in Sections 205.3 and 205.4, Agency's and Developer's Conditions Precedent to the Phase II Closing, that the Agency shall have cleared Phase II and relocated all tenants or other occupants from Phase II. Therefore, Finance has determined that these items are enforceable obligations and are eligible for funding on this ROPS.
- Item Nos. 23, 24, and 37 – Various Project Management Costs totaling \$797,563 with \$164,417 requested for ROPS 15-16A. Finance no longer denies these items. During the Meet and Confer process the Agency provided additional information and documentation including pay warrants, duty statements, and time allocation charts to support the amounts requested on the ROPS 15-16A and tied the project management costs to projects approved on the ROPS 15-16A. Additionally, the amount approved

includes a total of \$30,337 for overages on Item Nos. 23 and 37 approved in 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.

- Item No. 27 – Agency Property Maintenance/Management Costs in the amount of \$300,000 from Other Funds. Finance continues to deny \$200,000 of the \$260,000 requested for ROPS 15-16A. During the Meet and Confer process the Agency provided support for \$60,000 in potential property maintenance costs. Therefore, \$200,000 in Other Funds is denied and the Agency will be permitted to spend Other Funds totaling \$60,000 pursuant to the following:
  - Brookhurst Triangle - \$35,000
  - Site B2 DDA - \$9,500
  - Properties Identified for Sale - \$15,500

Finance notes that pursuant to the Agency's Long Range Property Management Plan dated March 7, 2014, the Agency has requested property maintenance costs for properties identified for transfer to the City of Garden Grove (City) for governmental purpose or for properties identified to be retained for future development while the City negotiates compensation agreements with the affected taxing entities. During the Meet and Confer process, the Agency contended that the properties are not immediately transferable and compensation agreements must first be obtained from the affected taxing entities. During the Meet and Confer process, the Agency contended that the properties are not immediately transferable and compensation agreements must first be obtained from the affected taxing entities. However, Dissolution Law does not require that a compensation agreement be reached prior to a property being transferred to the sponsoring entity or in this case, the City. Nevertheless, it is Finance's expectation that the required compensation agreement with the affected taxing entities be entered at some point in the future. Therefore, the Agency should proceed with the transfer of the properties to the City as approved in the LRPMP. As a result, the request for \$200,000 in property maintenance and management costs on the ROPS is denied and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item No. 41 – Brookhurst Legal Costs in the amount of \$250,000. Finance no longer denies this item; however, the entire amount requested for ROPS 15-16A, or \$109,185 is reclassified to the administrative cost allowance. The Agency contends the item is an enforceable obligation because the legal service is required for implementation of specific projects that are enforceable obligations and are not administrative in nature. However, the legal services for Item No. 41 are not related to litigation expenses and do not fall into any of the following categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b):
  - Any litigation expenses related to assets or obligations.
  - Settlements and judgments.
  - The costs of maintaining assets prior to disposition.

- Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs.

It is our understanding that a total of \$9,185 is related to overages of an item 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. Because this item is reclassified to administrative costs for this ROPS period, the Agency will have to pay the overages incurred in ROPS 14-15B from its administrative cost allowance.

As previously noted, 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.

- Item No. 47 – Appraisal costs in the amount of \$60,000 are partially approved. Finance continues to partially deny this item. Finance initially denied this item because 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 total contract price of \$14,550 included an appraisal for a property located at 12361 Chapman Avenue in the amount of \$3,850 that was approved for transfer to the City on Finance approval of the Agency's LRPMP dated March 7, 2014. The contract also included the Lanning/Barnett Street properties in the amount of \$3,750 which were approved for sale to the Hennessey Group pursuant to OB Resolution No. 36-14. Therefore, Finance denied the excess amount of \$52,400 [\$45,450 + \$6,950 (\$14,550 - \$3,850 - \$3,750)].

During the Meet and Confer process, the Agency contended that the properties are not immediately transferable as compensation agreements must first be obtained from the affected taxing entities. However, Dissolution Law does not require that a compensation agreement be reached prior to a property being transferred to the sponsoring entity or in this case, the City. Nevertheless, it is Finance's expectation that the required compensation agreement with the affected taxing entities be entered at some point in the future. Finance notes that the Agency is requesting costs for properties that have been approved for transfer to the City. Therefore, the Agency should proceed with the transfer of the properties to the City as approved in the LRPMP. As a result, the request for property costs on the ROPS remains partially denied.

- Item No. 31 - Administrative cost allowance in the amount of \$0. During the Meet and Confer the agency requested that the administrative cost allowance be increased from \$0 to three percent of the approved RPTTF or \$250,000 as permitted by HSC section 34171 (b). The Agency claims that due to an oversight the administrative costs were inadvertently left off the ROPS. Our review indicates that the Oversight Board approved an annual administrative cost budget at the same time the ROPS was approved totaling \$587,609 for the fiscal year. Based on determinations included in this letter, the Agency is authorized \$305,746 in administrative costs, which includes \$196,561 for Item No. 41.

In addition, per Finance's letter dated April 10, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

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. The Agency's maximum approved RPTTF distribution for the reporting period is \$10,497,284 as summarized in the Approved RPTTF Distribution table below:

<b>Approved RPTTF Distribution</b>	
<b>For the period of July through December 2015</b>	
Total RPTTF requested for non-administrative obligations	10,688,126
Total RPTTF requested for administrative obligations	0
<b>Total RPTTF requested for obligations on ROPS</b>	<b>\$ 10,688,126</b>
RPTTF adjustment to administrative obligations	196,561
<b>Total RPTTF adjustments</b>	<b>\$ 196,561</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>10,688,126</b>
<u>Denied Items</u>	
Item No. 22	(335,000)
Item No. 47	(52,400)
	(387,400)
<u>Reclassified Item(s)</u>	
Item No. 41	(109,185)
<b>Total RPTTF authorized for non-administrative obligations</b>	<b>\$ 10,191,541</b>
<b>Total RPTTF requested for administrative obligations</b>	<b>196,561</b>
<u>Reclassified Item(s)</u>	
Item No. 41	109,185
<b>Total RPTTF authorized for administrative obligations</b>	<b>\$ 305,746</b>
<b>Total RPTTF authorized for obligations</b>	<b>\$ 10,497,287</b>
ROPS 14-15A prior period adjustment	(3)
<b>Total RPTTF approved for distribution</b>	<b>\$ 10,497,284</b>

<b>Administrative Cost Cap Calculation</b>	
Total RPTTF for non-administrative obligations	10,191,541
Percent allowed pursuant to HSC section 34171 (b)	3%
<b>Total RPTTF allowable for administrative obligations</b>	<b>305,746</b>
Total RPTTF administrative obligations after Finance adjustments	305,746
<b>Administrative costs in excess of the cap</b>	<b>\$ 0</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. 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>

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 Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-3274.

Sincerely,



JUSTYN HOWARD  
Program Budget Manager

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