



April 13, 2015

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 15-16A) to the California Department of Finance (Finance) on March 2, 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. 27 – Project Cost for Imperial Hotel in the amount of \$26,500 is not allowed. The actual obligation does not exist at this time and the estimated cost is not supported. Allocating funds for unknown contingencies is not an allowable use of funds. Therefore, this item is not an enforceable obligation and not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding on the ROPS at this time.
- Item No. 45 – Public Improvements for South Main in the amount of \$2,488,155. The Agency received a Finding of Completion on March 2, 2015 and may now utilize and expend their bond proceeds and in a manner consistent with the original bonds covenants pursuant to HSC section 34191.4 (c) (1). The Agency has not provided sufficient documentation to support the requested amount on ROPS 15-16A. It is our understanding the Agency has not yet identified any projects for these projects, and is still in the planning stages of obtaining Oversight Board approval for the use of these bond proceeds. Therefore, this item is not eligible for Bond Proceeds funding on the ROPS at this time.
- Item No. 129 – Housing Entity Administrative Cost Allowance in the amount of \$600,000. Finance continues to deny this item. 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 redevelopment agency of the 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, \$150,000 of housing successor administrative allowance is not allowed.

- Claimed administrative costs exceed the allowance by \$4,740. HSC section 34171 (b) limits the fiscal year 2015-16 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. Although \$285,443 is claimed for administrative cost, only \$280,703 is available pursuant to the cap. Therefore, \$4,740 of excess administrative cost is not allowed.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should 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. The Agency provided financial records that displayed available Other Funds totaling \$4,330,343.

Therefore, with the Agency's concurrence, the funding source for the following items has been reclassified to Other Funds and in the amounts specified below:

| Item No. | Project Name/ Debt Obligation | ROPS 15-16A Amount of RPTTF Requested | Amount Reclassified to Other Funds |
|----------|---|---------------------------------------|------------------------------------|
| 9 | 2003 Tax Allocation Bonds Series B | \$ 2,629,875 | \$ 669,243 |
| 13 | Lease Agreement re: 2003 COPs Series A | 11,100 | 11,100 |
| 19 | Fashion Square (Mainplace Mall) Loan | 2,500,000 | 2,500,000 |
| 26 | OPA - Imperial Hotel Group | 600,000 | 600,000 |
| 39 | Project Costs for BARCO Agreement | 4,000 | 4,000 |
| 47 | Non-Housing Asset Maintenance & Disposition | 15,000 | 15,000 |
| 62 | Audited Financial Statements/DDR | 30,000 | 30,000 |
| 63 | Employee Pension Liability | 35,000 | 35,000 |
| 64 | Other Postemployment Benefits (OPEB) | 10,000 | 10,000 |
| 71 | Project Costs for Item #70 | 75,000 | 75,000 |
| 72 | DDA-Station District New Construction | 100,000 | 100,000 |
| 73 | Project Costs for Item #72 | 15,000 | 15,000 |
| 86 | Station District Lawsuit Settlement | 200,000 | 200,000 |
| 87 | Project Cost for Item #86 | 25,000 | 25,000 |
| 120 | Employee Obligation | 35,000 | 35,000 |
| 121 | Project Costs for Item #13 | 1,000 | 1,000 |
| 122 | Project Costs for Item #19 | 5,000 | 5,000 |
| | Total | \$ 6,290,975 | \$ 4,330,343 |

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, 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 14-15A period; the Agency's prior period adjustment would be reduced from \$5,717,821 to \$234,621. Therefore, the Agency should work with CAC to resolve the prior period adjustment differences.

In addition, Finance noted the following during our review:

- On the ROPS 14-15A Prior Period Adjustment worksheet, the Agency's expenditures exceeded Finance's authorization for Item No. 41 – Penske Development and Disposition Agreement Project Costs, Bond Proceeds totaling \$12,000.

Per HSC section 34177 (a) (3), only those payments listed on ROPS may be made by the Agency from the funds specified on the ROPS. Please ensure the proper expenditure authority is received from your Oversight Board and Finance prior to making payments on enforceable obligations.

Except for the items denied in whole or in part or for the items that have been reclassified, 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 \$5,072,504 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 | 9,514,765 |
| Total RPTTF requested for administrative obligations | 285,443 |
| Total RPTTF requested for obligations on ROPS | \$ 9,800,208 |
| Total RPTTF requested for non-administrative obligations | 9,514,765 |
| Denied Items | |
| Item No. 27 | (8,000) |
| Item No. 129 | (150,000) |
| | (158,000) |
| | \$ 9,356,765 |
| Cash Balances - Items reclassified to Other Funds | |
| Item No. 9 | (669,243) |
| Item No. 13 | (11,100) |
| Item No. 19 | (2,500,000) |
| Item No. 26 | (600,000) |
| Item No. 39 | (4,000) |
| Item No. 47 | (15,000) |
| Item No. 62 | (30,000) |
| Item No. 63 | (35,000) |
| Item No. 64 | (10,000) |
| Item No. 71 | (75,000) |
| Item No. 72 | (100,000) |
| Item No. 73 | (15,000) |
| Item No. 86 | (200,000) |
| Item No. 87 | (25,000) |
| Item No. 120 | (35,000) |
| Item No. 121 | (1,000) |
| Item No. 122 | (5,000) |
| | (4,330,343) |
| Total RPTTF authorized for non-administrative obligations | \$ 5,026,422 |
| Total RPTTF requested for administrative obligations | 285,443 |
| Administrative costs in excess of the cap (see Admin Cost Cap table below) | (4,740) |
| Total RPTTF authorized for administrative obligations | \$ 280,703 |
| Total RPTTF authorized for obligations | \$ 5,307,125 |
| CAC ROPS 14-15A prior period adjustment (PPA) | (5,717,821) |
| Finance adjustment to ROPS 14-15A PPA | 5,483,200 |
| Total ROPS 14-15A PPA | (234,621) |
| Total RPTTF approved for distribution | \$ 5,072,504 |

| Administrative Cost Cap Calculation | |
|--|-------------------|
| Total RPTTF for non-administrative obligations | 9,356,765 |
| Percent allowed pursuant to HSC section 34171 (b) | 3% |
| Total RPTTF allowable for administrative obligations | 280,703 |
| Total RPTTF administrative obligations after Finance adjustments | 285,443 |
| Administrative costs in excess of the cap | \$ (4,740) |

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 Medy Lamorena, Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
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