



May 15, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 13, 2015. 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 Finance on March 2, 2015, for the period of July through December 2015. Finance issued a ROPS determination letter on April 13, 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 24, 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. 129 – Housing Entity Administrative Cost Allowance in the amount of \$600,000. Finance continues to deny this item. Finance denied this item because pursuant to HSC section 34171 (p), the housing entity administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the redevelopment agency (RDA) elected to not assume the housing functions. Because the housing entity to the former RDA 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 (ABx1 26 and AB 1484).

The Agency contends that the City elected not to retain the housing functions, but the Authority, as a separate legal entity from the City, did retain the housing functions pursuant to HSC section 34176 (b) and should therefore be eligible for the housing entity administrative allowance. However, pursuant to HSC section 34167.10 (a), the definition of "city" includes, but is not limited to, any reporting entity of the city for purposes of its comprehensive annual financial report (CAFR), any component unit of the city, or any entity controlled by the city or for which the city is financially responsible or accountable. HSC section 34167.10 (a) defines "city" for purposes of all of Dissolution Law, which includes HSC section 34171, as amended by AB 471, and HSC section 34176. The Authority is included in the City's CAFR, which identifies the Authority as a component unit of the City and states that the City is financially accountable for the component units.

Although the Authority is a separate legal entity from the City, HSC section 34167.10 (c) states that it shall not be relevant that the entity is formed as a separate legal entity. It should also be noted that HSC section 34167.10 (c) goes on to state that "the provisions of this section are declarative of existing law as the entities described herein are and were intended to be included within the requirements of this part [Part 1.8] and Part 1.85...and any attempt to determine otherwise would thwart the intent of these two parts." Therefore, based on our review, the City, by way of the Authority, elected to retain the housing functions pursuant to HSC section 34176 (a) and is not eligible for \$600,000 of housing entity administrative allowance.

- 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 noted that the Agency properly applied the Due Diligence Review withhold amount to pay for obligations in the 14-15A period and that the Agency's prior period adjustment should be reduced from \$5,717,821 to \$234,621. During the Meet and Confer process, the Agency contended that the \$234,621 prior period adjustment should not be made because these funds were related to the administrative cost allowance for the 2014-15 fiscal year and were needed to fund administrative costs being incurred in the ROPS 14-15B period. With concurrence from the CAC, Finance is reducing the prior period adjustment as reported by the CAC by \$234,621 to allow the Agency to fund their administrative costs in the ROPS 14-15B period.

In addition, per Finance's letter dated April 13, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- 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.

- 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 (I) (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

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. The Agency's maximum approved RPTTF distribution for the reporting period is \$5,307,125 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)	(5,483,200)
Finance adjustment to ROPS 14-15A PPA	5,483,200
Total ROPS 14-15A PPA	0
Total RPTTF approved for distribution	\$ 5,307,125

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>

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 Mary Halterman, Analyst, at (916) 445-3274.

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