



December 17, 2015

Ms. Grace E. Lee, Senior Economic Development Specialist
City of Garden Grove
11222 Acacia Parkway
Garden Grove, CA 92840

Dear Ms. Lee:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 06, 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 15-16B) to Finance on September 23, 2015, for the period of January 1 through June 30, 2016. Finance issued a ROPS determination letter on November 06, 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 November 23, 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. 41 – Brookhurst Legal Services in the amount of \$50,000. Finance continues to reclassify this item to the Agency's Administrative Cost Allowance (ACA). The legal services as confirmed by the Agency are related to the Brookhurst Triangle Disposition and Development Agreement (DDA) and are not related to litigation expenses. However, our review indicates that these costs are not required by the DDA and do not fall into any of the categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b). Therefore, Finance has determined this item is considered a general administrative cost payable from the Agency's ACA.
- Item No. 48 – Site C Disposition and Development Agreement (Site C DDA) in the amount of \$1,500,000 requested for ROPS 15-16B and total outstanding balance of \$44,000,000 is not allowed. Finance continues to deny this item. It is our understanding that the contract for this item was awarded after June 27, 2011.

The Agency contends that the Site C DDA was entered into when the former Garden Grove Agency for Community Development resolved to enter the Site C DDA at its meeting on June 14, 2011. However, section 609 of the Site C DDA states the Site C DDA may be signed in multiple counterparts which, when signed by all parties, shall constitute a binding agreement. Additionally, section 610 of the Site C DDA states that

the Site C DDA agreement contains the entire understanding between the parties and all prior agreements, understandings, representations and statements shall be of no further force. Finally, section 623 states that when the Site C DDA is executed by the developer and delivered to the Agency, the Agency has 30 days to sign the SITE C DDA or the agreement shall be void. Combined, these sections indicate that the Agency had discretion in the terms of the agreement after the resolution was made on June 14, 2011 and that the Site C DDA was not valid until signed by all parties, including the Agency. However, the Agency did not sign the Site C DDA until June 28, 2011. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding in the amount of \$1,500,000 on this ROPS.

- Item No. 50 – Limon Law Suit Settlement/Judgment in the amount of \$1,600,000. With the Agency's concurrence, while this item is an enforceable obligation, Finance continues to deny the payment of this item at this time. Pursuant to the stipulated judgment entered by the Sacramento Superior Court on June 5, 2015, this item is an enforceable obligation. However, as confirmed by the Agency, these funds are not needed this ROPS period and will be listed on the ROPS for the July 2016 through June 30, 2017 period. Therefore, while this item is an enforceable obligation, it is not eligible for RPTTF funding in the amount of \$1,600,000 on this ROPS.
- Item No. 51 – Housing Successor Administration in the amount of \$75,000 requested for ROPS 15-16B and total outstanding balance of \$1,500,000. 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 redevelopment agency of the City of Garden Grove (City) is the City-formed Housing Authority (Authority), the Authority operates under the control of the City and 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 \$75,000 of housing successor administrative allowance requested for ROPS 15-16B.

- Item No. 55 – Limon Litigation Agency Legal Fees in the amount of 50,000. Finance no longer denies this item. During the meet and confer the Agency provided documentation supporting these costs are related to the litigation between the Agency and Marina Limon, a third party. They are not related to litigation between the Agency and Finance. It is our understanding that the amount requested on this ROPS represents costs already incurred totaling \$31,075 and anticipated ROPS 15-16B costs totaling \$18,925. Therefore, Finance has determined this item is an enforceable obligation eligible for RPTTF funding on this ROPS.
- The Agency's claimed administrative costs exceed the allowance by \$146,109. HSC section 34171 (b) (2) limits fiscal year 2015-16 administrative expenses to three percent of distributed RPTTF in the preceding fiscal year or \$250,000, whichever is greater. As a result, the Agency is eligible for \$528,450 in administrative expenses.

The Orange County Auditor-Controller distributed \$305,746 administrative costs for the July through December ROPS 15-16A period, thus leaving a balance of \$ 221,214 available for the January through June ROPS 15-16B period. Although \$318,813 is claimed for administrative cost, Item No. 41 – Brookhurst Legal Services, in the amount of \$50,000, is considered an administrative expense and should be counted toward the cap. Therefore, \$146,109 of excess ACA is not allowed.

In addition, per Finance's letter dated November 06, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 22 – Brookhurst Triangle Disposition and Development Agreement in the amount of \$400,000 has been adjusted. The Agency requested an increase of \$100,000 for this item. However, Finance reduced the requested amount by the actual expenditures incurred during July 1, 2015 through September 30, 2015. Therefore, Finance approves \$499,449 ($\$400,000 + \$100,000 - \551) in Redevelopment Property Tax Trust Funds (RPTTF) for this item this ROPS period.

Pursuant to HSC section 34186 (a) (1), the Agency was required to report on the ROPS 15-16B form the estimated obligations versus actual payments (prior period adjustment) associated with the January through June 2015 period (ROPS 14-15B). HSC section 34186 (a) (1) also specifies the prior period adjustment self-reported by the Agency is subject to review by the county auditor-controller (CAC). The amount of RPTTF approved in the table below includes the prior period adjustment resulting from the CAC's approval of the Agency's self-reported prior period adjustment.

Except for the items denied in whole or in part or the item that has been reclassified, Finance is not objecting to the remaining items listed on your ROPS 15-16B. The Agency's maximum approved RPTTF distribution for the reporting period is \$6,025,238 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution For the period of January through June 2016	
Total RPTTF requested for non-administrative obligations	10,627,103
Total RPTTF requested for administrative obligations	318,813
Total RPTTF requested for obligations on ROPS 15-16B	\$ 10,945,916
RPTTF adjustment to non-administrative obligations - Item No. 22	99,449
Total RPTTF adjustment	\$ 99,449
Total RPTTF requested for non-administrative obligations	10,726,552
<u>Denied Items</u>	
Item No. 48	(1,500,000)
Item No. 50	(1,600,000)
Item No. 51	(75,000)
	<u>(3,175,000)</u>
<u>Reclassified Item</u>	
Item No. 41	(50,000)
Total RPTTF authorized for non-administrative obligations	\$ 7,501,552
Total RPTTF requested for administrative obligations	318,813
<u>Reclassified Item</u>	
Item No. 41	50,000
	<u>368,813</u>
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(146,109)
Total RPTTF authorized for administrative obligations	\$ 222,704
Total RPTTF authorized for obligations	\$ 7,724,256
ROPS 14-15B prior period adjustment	(1,699,018)
Total RPTTF approved for distribution	\$ 6,025,238

Administrative Cost Cap Calculation	
Total RPTTF for 15-16A (July through December 2015)	10,113,781
Total RPTTF for 15-16B (January through June 2016)	7,501,552
Total RPTTF for fiscal year 2015-2016	17,615,333
Administrative cost cap for fiscal year 2015-16 (Greater of 3% of Total RPTTF or \$250,000)	528,450
Administrative allowance for ROPS 15-16A (July through December 2015)	(305,746)
Remaining administrative cost cap for ROPS 15-16B	222,704
ROPS 15-16B administrative obligations after Finance adjustments	(368,813)
Administrative costs in excess of the cap	\$ (146,109)

On the ROPS 15-16B form, the Agency reported cash balances and activity for the period January 1 through December 31, 2015. Finance will perform a review of the Agency's self-reported cash balances on an ongoing basis. Please be prepared to submit financial records and bridging documents to support the cash balances reported upon request. If it is determined the Agency possesses cash balances that are available to pay approved obligations, HSC section 34177 (I) (1) (E) requires these balances be used prior to requesting RPTTF.

Please refer to the ROPS 15-16B schedule used to calculate the total RPTTF approved for distribution:

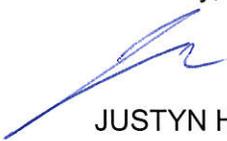
<http://www.dof.ca.gov/redevelopment/ROPS>

This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2016. This determination only applies to items when 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 ROPS periods. All items listed on a future ROPS are subject to review and may be denied even if it was not denied on this ROPS or a preceding ROPS. The only exception is for items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). Finance's review of Final and Conclusive items 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 available prior to the enactment of the redevelopment dissolution statutes. 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.

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

Sincerely,



JUSTYN HOWARD
Program Budget Manager

cc: Mr. Kingsley Okereke, Finance Director/Assistant City Manager, City of Garden Grove
Mr. Frank Davies, Property Tax Manager, Orange County