



April 13, 2016

Ms. Monica L. Covarrubias, Project Manager
City of Garden Grove
11222 Acacia Parkway
Garden Grove, CA 92840

Dear Ms. Covarrubias:

Subject: 2016-17 Annual Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (o) (1), the City of Garden Grove Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period July 1, 2016 through June 30, 2017 (ROPS 16-17) to the California Department of Finance (Finance) on January 27, 2016. Finance has completed its review of the ROPS 16-17.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

- Item No. 16 – Sycamore Walk Disposition and Development Agreement (DDA) for remediation in the requested amount of \$36,614 is partially allowed. The Agency provided vendor invoices and a Project Assignment Addendum to the Master Services Agreement (Agreement). However, these documents are insufficient to support the total requested amount and were limited to the total authorized amount of \$13,642 per the Agreement. To the extent the Agency can provide additional documentation to support the requested funding, the Agency may be able to obtain additional Redevelopment Property Tax Trust Funds (RPTTF) in the future. Therefore, \$22,972 (\$36,614 - \$13,642) is not eligible for RPTTF funding for the July 1, 2016 through December 31, 2016 period (ROPS A period).
- Item No. 20 – Site B2 DDA in the requested \$315,000 is partially allowed. The Agency provided a Proposal and Contract (Proposal) to support the amount requested. However, this document is insufficient to support the total requested amount and was limited to the amount identified in the Proposal as \$235,700. To the extent the Agency can provide additional documentation to support the requested funding, the Agency may be able to obtain additional RPTTF funding in the future. Therefore, \$79,300 (\$315,000 - \$235,700) is not eligible for RPTTF funding for the January 1, 2017 through June 30, 2017 period (ROPS B period).
- Item No. 39 – 2014 Tax Allocation Refunding Bonds, debt service payment in the amount of \$1,589,225 requested for the ROPS A period has been adjusted. It is our understanding the Agency overpaid the previous debt service payment by \$2,000; that amount was originally requested to pay bond trustee fees. The Agency now requests funding for a debt service payment in the amount of \$1,587,725, plus an additional \$1,500 for the overage relating to ROPS 15-16A arbitrage fees, totaling \$1,589,225.

However, due to the incorrect debt service payment made during the ROPS 15-16A, the Agency agreed to apply the \$2,000 credit in the ROPS A period by reducing the requested amount from \$1,589,225 to \$1,587,225 (\$1,589,225 - \$2,000).

- Item No. 41 – Brookhurst Legal Services in the amount of \$100,000. 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 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 a general administrative task, payable from the Agency's ACA.
- Item No. 47 – Appraisals in the amount of \$10,000 are partially allowed. The Agency requested an appraisal in the amount of \$3,450 related to a property approved for transfer to the City of Garden Grove (City) for future development, as outlined in the Agency's Long-Range Property Management Plan pursuant to HSC 34191.5 (c) (2) (A) and (B). Therefore, Finance approves \$6,550 for the remaining properties, and \$3,450 (\$10,000 - \$6,550) is not eligible for RPTTF funding for the ROPS B period.
- Item No. 51 – Garden Grove Housing Successor Administration in the total outstanding amount of \$1,500,000 is not allowed. 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. The housing successor to the former redevelopment agency of the City is the City-formed Housing 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 RPTTF of housing successor administrative allowance requested for the ROPS 16-17 period is not allowed.
- Item No. 56 – Garden Grove Community Project Tax Allocation Bonds, Issue of 2016 have been adjusted. The Agency requested a reduction in the total outstanding balance by \$1,305,684, and requested an increase in the debt service payment amount by \$64,166 for the ROPS 16-17 to agree with the final official documents relating to the issuance of the 2016 Tax Allocation Bonds. Therefore, the correct total outstanding obligation is now \$55,595,379 (\$56,901,063 - \$1,305,684) and the correct debt service payment amount is \$2,129,567 (\$2,065,401 + \$64,166) for the ROPS 16-17 period.
- Item No. 58 – Dissemination Fees in the amount of \$1,000 are partially allowed. The Dissemination of Reports and Notices annual fee is only \$500. The Agency was unsure whether the fee will be assessed during the ROPS A or ROPS B period; and requested the fee for both periods. Although the annual ROPS includes A and B periods for RPTTF distribution purposes, the Agency is authorized to receive up to the maximum approved RPTTF through combined ROPS A & B distributions. Therefore, the requested amount of \$500 is not eligible for RPTTF funding for the ROPS B period.

- Claimed administrative costs exceed the allowance by \$217,320. HSC section 34171 (b) (3) limits the fiscal year 2016-2017 ACA to three percent of actual distributed RPTTF in the preceding fiscal year or \$250,000, whichever is greater; not to exceed 50 percent of the distributed RPTTF in the preceding fiscal year. As a result, the Agency's maximum ACA is \$477,489 for the fiscal year 2016-2017. Although \$594,809 is claimed for administrative cost, Item No. 41 – Brookhurst Legal Services in the amount of \$100,000 are considered an administrative cost as described above and should be counted toward the cap. Therefore, \$217,230 of excess ACA is not allowed.

Except for the items denied in whole or in part or the items that have been adjusted, Finance is not objecting to the remaining items listed on your ROPS 16-17. If you disagree with Finance's determination with respect to any items on your ROPS 16-17, except for those items which are the subject of litigation disputing Finance's previous or related determinations, 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/

On the ROPS 16-17 form, the Agency reported cash balances and activity for the period of July 1, 2015 through June 30, 2016. During the ROPS 16-17 review, Finance determined that the Agency's reporting methodology of the County Auditor-Controller's RPTTF distributions and related expenditures were not reported on the designated column for RPTTF. Finance performs a review of the Agency's self-reported cash balances on an ongoing basis. 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 enforceable obligations, HSC section 34177 (l) (1) (E) requires these balances to be used prior to requesting RPTTF.

The Agency's maximum approved RPTTF distribution for the reporting period is \$19,834,381 as summarized in the Approved RPTTF Distribution Table on Page 5 (See Attachment).

ROPS distributions will occur twice annually, one distribution for the ROPS A period and one distribution for the ROPS B period based on Finance's approved amounts. Since Finance's determination is for the entire ROPS 16-17 period, the Agency is authorized to receive up to the maximum approved RPTTF through the combined ROPS A and B period distributions.

On the ROPS 16-17 form, the Agency was not required to report the estimated obligations versus actual payments (prior period adjustment) associated with the July 1, 2015 through December 31, 2015 period (ROPS 15-16A). The Agency will report actual payments for ROPS 15-16A and ROPS 15-16B on the ROPS 18-19 form pursuant to HSC section 34186 (a) (1). A prior period adjustment will be applied to the Agency's future RPTTF distribution. Therefore, the Agency should retain any difference in unexpended RPTTF.

Please refer to the ROPS 16-17 schedule used to calculate the total RPTTF approved for distribution:

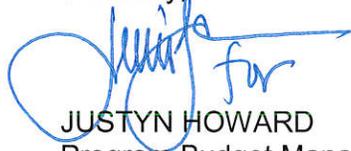
<http://www.dof.ca.gov/redevelopment/ROPS>

Absent a Meet and Confer, this is Finance's determination related to the enforceable obligations reported on your ROPS for the period July 1, 2016 through June 30, 2017. This determination only applies to items when funding was requested for the 12-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 Nichelle Thomas, Supervisor, or Medy Lamorena, Lead Analyst at (916) 445-1546.

Sincerely,

A handwritten signature in blue ink, appearing to read "Justyn Howard", with a large circular flourish on the left side.

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

Attachment

Approved RPTTF Distribution			
For the period of July 2016 through June 2017			
	<u>ROPS A Period</u>	<u>ROPS B Period</u>	<u>Total</u>
Requested RPTTF (excluding administrative obligations)	\$ 9,680,456	\$ 9,970,492	\$ 19,650,948
Requested Administrative RPTTF	293,054	301,755	594,809
Total RPTTF requested for obligations on ROPS 16-17	9,973,510	10,272,247	\$ 20,245,757
Adjustment to Agency requested RPTTF			
Item No. 56	(13,234)	77,400	64,166
Total RPTTF adjustments	(13,234)	77,400	\$ 64,166
Total RPTTF requested	9,680,456	9,970,492	19,715,114
<u>Denied Items</u>			
Item No. 16	(22,972)	0	(22,972)
Item No. 20	0	(79,300)	(79,300)
Item No. 39	(2,000)	0	(2,000)
Item No. 47	0	(3,450)	(3,450)
Item No. 51	(75,000)	(75,000)	(150,000)
Item No. 58	0	(500)	(500)
	(99,972)	(158,250)	(258,222)
<u>Reclassified Item</u>			
Item No. 41	(50,000)	(50,000)	(100,000)
Total RPTTF authorized	9,530,484	9,762,242	\$ 19,356,892
Total Administrative RPTTF requested	293,054	301,755	594,809
<u>Reclassified Item</u>			
Item No. 41	50,000	50,000	100,000
Total Administrative RPTTF after Finance adjustments	343,054	351,755	694,809
Administrative costs in excess of the cap (see Administrative Cost Allowance Cap table below)	0	(217,320)	(217,320)
Total Administrative RPTTF authorized	343,054	134,435	\$ 477,489
Total RPTTF approved for distribution	9,873,538	9,896,677	\$ 19,834,381

Administrative Cost Allowance Cap Calculation	
Actual RPTTF distributed for fiscal year 2015-16	\$ 16,444,762
Less sponsoring entity loan and Administrative RPTTF	528,450
Actual RPTTF distributed for 2015-16 after adjustment	15,916,312
Administrative Cap for 2016-17 per HSC section 34171 (b)	477,489
ROPS 16-17 Administrative RPTTF after Finance adjustments	694,809
Administrative Cost Allowance in excess of the cap	\$ (217,320)