



May 17, 2016

Ms. Susan Gorospe, Senior Management Analyst  
City of Santa Ana  
60 Civic Center Plaza, M-25  
Santa Ana, CA 92701

Dear Ms. Gorospe:

Subject: 2016-17 Annual Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 14, 2016. Pursuant to Health and Safety Code (HSC) section 34177 (o) (1), the City of Santa Ana Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period of July 1, 2016 through June 30, 2017 (ROPS 16-17) to Finance on January 28, 2016. Finance issued a ROPS determination letter on April 14, 2016. 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, 2016.

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. 43 – Downtown Parking Structure Improvements in the requested amount of \$302,000 in Bond Proceeds. Finance continues to partially deny this item. Finance previously denied \$41,305 because only \$260,695 was available pursuant to the calculation contained in HSC section 34191.4 (c) (2) (A).

During the Meet and Confer process, the Agency contended that a portion of 2011 Bond Proceeds were expended pursuant to a Cooperative Agreement with the City of Santa Ana (City), which was an enforceable obligation prior to the enactment of ABX1 26. However, the Cooperative Agreement is not an enforceable obligation because it is an agreement between the former redevelopment agency (RDA) and the sponsoring entity, which does not meet the definition of an enforceable obligation pursuant to HSC section 34171 (d) (1) (G) (2).

Pursuant to HSC section 34191.4 (c) (2), after receiving a Finding of Completion (FOC) the Agency may expend proceeds derived from bonds issued on or after January 1, 2011, in a manner consistent with the original bond covenants. The Agency received an FOC on March 2, 2015.

However, HSC section 34191.4 (c) (2) (A) limits the Agency's expenditure authority to five percent of the 2011 Bond Proceeds until the Agency has an approved Last and Final ROPS. The Agency currently does not have an approved Last and Final ROPS. As such, the Agency may only expend \$260,695 of proceeds derived from their 2011 Tax

Allocation Bonds, Series A. Therefore, Item No. 43 is partially allowed in the amount of \$260,695 and the remaining request in the amount of \$41,305 is denied.

- Item No. 45 – South Main Public Improvements funded with \$1,252,140 in Bond Proceeds. Finance previously approved this item; however, during the Meet and Confer process, the Agency requested that Finance increase the amount of pre-2011 bond proceeds requested for transfer to the City from \$1,252,140 to \$2,503,059.

Finance is approving the Agency's request to increase the amount of pre-2011 bond proceeds requested for transfer to the City from \$1,252,140 to \$2,503,059. The Agency received an FOC on March 2, 2015, and is allowed to expend bond proceeds derived from bonds issued prior to January 1, 2011 (pre-2011 bond proceeds) in a manner consistent with the bond covenants. However, before the transfer can take place, a bond expenditure agreement between the Agency and the City, outlining the transfer of pre-2011 bond proceeds, must be approved by the Oversight Board and submitted to Finance for review.

- Item No. 63 – Employee Pension Liability in the amount of \$70,000. Finance no longer denies this item; however, Finance reduces the funding to \$0. Finance previously denied this item because the Agency was unable to provide supporting documentation to support the amount requested.

During the Meet and Confer process, the Agency contended that the requested amount is based on prior period actual information and that since the Agency contributes to the employee pension liability as labor expenses are incurred and payments are made to CalPERS, the information for the current year is not yet available. The Agency provided additional documentation in the form of internal accounting records showing the Agency's prior period actual costs for this item.

However, the documentation provided was not sufficient to support the amount requested. To the extent the Agency can provide sufficient documentation, such as an explanation of the methodology used to calculate the amounts contributed to the net pension liability and the specific former RDA employees these costs pertain to, the Agency may be able to obtain funding on future ROPS. Therefore, the requested amounts of \$35,000 funded by Other Funds and \$35,000 in RPTTF are reduced to \$0.

- Item No. 119 – Employee Layoff/Termination Payment Obligations in the total outstanding amount of \$131,110. Finance continues to object to this item. Finance previously denied this item because allocating funds for unknown contingencies is not an allowable use of funds and the Agency was unable to provide documentation obligating them to pay the requested amount during ROPS 16-17.

During the Meet and Confer process, the Agency did not provide any new documentation. However, the Agency contended that while there are no plans to lay off any of the existing employees at this time, employees can retire or give notice and terminate their employment with the Agency at any moment. It is our understanding that the Agency is not currently obligated to pay leave balances for a retired or terminated former RDA employee. Further, the Agency has not provided any documentation to support that leave balances will be due and payable in the ROPS 16-17 period. In the event that a former RDA employee retires or terminates their employment, the Agency can subsequently request funding for this item on the ROPS. Since allocating funds for

unknown contingencies is not an allowable use of funds, the requested amount of \$69,852 for ROPS 16-17 is not eligible for RPTTF funding.

- Item No. 120 – Employee Obligations in the amount of \$60,000. Finance continues to object to this item. Finance previously denied this item because the Agency was unable to provide supporting documentation to support the amount requested.

During the Meet and Confer process, the Agency contended that the requested amount is based on prior period actual information and that since costs are incurred as a proportion of the labor expenses attributable to the Agency, the information for the current year is not yet available. The Agency provided additional documentation in the form of internal accounting records showing the Agency's actual prior period costs for this item. However, the documentation provided was not sufficient to support the amount requested. To the extent the Agency can provide sufficient documentation, such as an explanation of the methodology used to calculate the amounts contributed to the net pension liability and the specific former RDA employees these costs pertain to, the Agency may be able to obtain funding on future ROPS. Therefore, the requested amount of \$30,000 funded by Other Funds and \$30,000 in RPTTF is not eligible for funding at this time.

- Item No. 129 – Housing Entity Administration Cost Allowance in the total outstanding 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 RDA elected to not assume the housing functions. Because the housing entity to the former RDA of the 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 \$450,000 of housing entity administrative allowance.

- Item Nos. 130 through 159 – Unfunded HSC section 33607.7 Pass-Through Payments in the total outstanding amount of \$4,989,859. Finance no longer denies these items. Finance previously denied the requested amount because the Agency was unable to provide sufficient documentation to support the requested amount.

During the Meet and Confer process, the Agency provided additional clarification regarding how the requested amount was calculated. Upon further review of this item, Finance is approving these items as enforceable obligations. Therefore, these items are eligible for RPTTF funding of \$4,989,859.

In addition, per Finance's letter dated April 14, 2016, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 21 – Housing Loan for Education Revenue Augmentation Fund Fiscal Year 2009-10 in the amount of \$116,500 is reclassified from RPTTF to Other Funds. This item is an enforceable obligation and the Agency requested \$3,146,944, however, Finance is reclassifying \$116,500 from RPTTF to Other Funds. Finance determined the Agency has \$116,500 in Other Funds as explained under Item Nos. 31, 39, 63, and 120. Therefore, Finance is approving \$116,500 from Other Funds for this obligation and \$3,030,444 in RPTTF, totaling \$3,146,944.
- Item No. 31 – Erickson Lease Agreement project costs in the total outstanding obligation amount of \$58,700 is not allowed. The actual obligation does not exist at this time; allocating funds for unknown contingencies is not an allowable use of funds. Therefore, this item is not an enforceable obligation and the amount of \$50,000 is not eligible to be funded by Other Funds.
- Item No. 39 – BARCO Agreement project costs in the total outstanding amount of \$43,561 are not allowed. The Agency requested project management funding for a property that Finance approved in the Agency's Long-Range Property Management Plan for transfer to the City for future development pursuant to HSC 34191.5 (c) (2). Therefore, this item is no longer an enforceable obligation and the amount of \$1,500 is not eligible to be funded by Other Funds.

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.

On the ROPS 16-17 form, the Agency reported cash balances and activity for the period of July 1, 2015 through June 30, 2016. 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 (I) (1) (E) requires these balances to be used prior to requesting RPTTF.

The Agency's maximum approved RPTTF distribution for the reporting period is \$19,072,412 as summarized in the Approved RPTTF Distribution Table on Page 6 (See Attachment).

ROPS distributions will occur twice annually, one distribution for the July 1, 2016 through December 31, 2016 (ROPS A period), and one distribution for the January 1, 2017 through June 30, 2017 (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:

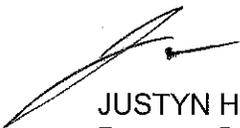
<http://www.dof.ca.gov/redevelopment/ROPS>

This is Finance's final 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 Evelyn Suess, Dispute Resolution Supervisor, or Michael Barr, 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

**Attachment**

<b>Approved RPTTF Distribution</b>			
<b>For the period of July 2016 through June 2017</b>			
	<b>ROPS A Period</b>	<b>ROPS B Period</b>	<b>Total</b>
Requested RPTTF (excluding administrative obligations)	\$ 16,547,823	\$ 2,975,941	\$ 19,523,764
Requested Administrative RPTTF	125,000	125,000	\$ 250,000
<b>Total RPTTF requested for obligations on ROPS 16-17</b>	<b>\$ 16,672,823</b>	<b>\$ 3,100,941</b>	<b>\$ 19,773,764</b>
<b>Total RPTTF requested</b>	<b>16,547,823</b>	<b>2,975,941</b>	<b>19,523,764</b>
<u>Denied Items</u>			
Item No. 63	0	(35,000)	(35,000)
Item No. 119	0	(69,852)	(69,852)
Item No. 120	0	(30,000)	(30,000)
Item No. 129	(450,000)	0	(450,000)
	(450,000)	(134,852)	(584,852)
<u>Reclassified Items</u>			
Item No. 21	(116,500)	0	(116,500)
<b>Total RPTTF authorized</b>	<b>15,981,323</b>	<b>2,841,089</b>	<b>\$ 18,822,412</b>
<b>Total Administrative RPTTF authorized</b>	<b>125,000</b>	<b>125,000</b>	<b>\$ 250,000</b>
<b>Total RPTTF approved for distribution</b>	<b>16,106,323</b>	<b>2,966,089</b>	<b>\$ 19,072,412</b>