

December 18, 2012

Ms. Nancy T. Edwards, Interim Executive Director  
Community Development Agency  
City of Santa Ana  
60 Civic Center Plaza, M-25  
Santa Ana, CA 92701

Dear Ms. Edwards:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 19, 2012. 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 III) to the California Department of Finance (Finance) on September 4, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 19, 2012. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on November 20, 2012.

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 items being disputed.

- Item No. 13 – Payments for 2003 Certificates of Participations (COPs) in the amount of \$6.1 million. Finance no longer objects to the item. Finance denied the item as the COPs were issued by the City of Santa Ana (City) and do not include a payment obligation of the former redevelopment agency (RDA). The Agency contends the item is an enforceable obligation because a Loan Agreement between the City and the former RDA was entered into to reimburse the City from the former RDA's property tax increment for the portion of the City's payments under the Lease-Purchase Agreement. HSC section 34171 (d) (2) states that written agreements entered into at the time of issuance, but in no event later than December 31, 2010, of indebtedness obligations, and solely for the purpose of securing or repaying those indebtedness obligations may be deemed enforceable obligations. The Trust Agreement is solely for the purpose of securing or repaying the indebtedness obligations and it was entered into at the time of issuance of the COPs. Therefore, this item is an enforceable obligation and eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item Nos. 14 through 18 – Settlement Agreements and Litigation Expenses totaling \$524.8 million. Item Nos. 14 through 17 are funded by RPTTF and Item No. 18 is funded by reserve balances. Finance no longer objects to Item 18. Finance denied the

items as the requirement to set aside 20 percent of RDA tax increment for low and moderate income housing purposes ended with the passing of the redevelopment dissolution legislation. The Agency contends the items are enforceable obligations because these are legal settlement agreements between the former RDA and third parties and judgments entered against the former RDA by the California Superior Court for the County of Orange dated 1984 and 1994. Finance acknowledges the items are not related to the 20 percent set aside as previously stated. However, settlements awarding a percentage of tax increment to be set aside are not considered enforceable obligations. The Agency did not provide any information indicating the amounts requested to be set aside were related to an enforceable obligation existing prior to June 27, 2011. Pursuant to ABx1 26 and AB 1484, tax increment is no longer payable to the former RDA and therefore there is no obligation.

For Item 18, the costs are for pending litigation against the state and the Santa Ana Successor Agency to enforce the South Main Settlement Agreement; Peebler vs. State of California Department of Finance, City of Santa Ana, et al., Case No. 34-2012-80001172-CU-WM-GDS. HSC section 34171 (b) allows litigation expenses related to assets or obligations to be funded with property tax outside the administrative cap. Therefore, Item 18 is an enforceable obligation.

- Item No. 22 – Payment to the South Main Commercial Corridor (SMCC) project area fund of the former RDA in the amount of \$6 million. Finance continues to deny the item at this time. The RDA used a portion of SMCC project area funds to pay the Supplemental Education Revenue Augmentation Fund (SERAF) obligation in fiscal year 2009-10. HSC 33690 (c) allows funds to be borrowed from and subsequently repaid to the Low and Moderate Income Housing Fund. Finance denied the item as the law does not require SERAF payments from other sources to be repaid with tax increment distributions. The Agency contends the item is an enforceable obligation because funds were borrowed from the South Main Corridor Settlement Agreement Fund to make the fiscal year 2009-10 SERAF payment, which requires repayment as the funds are to be used for public improvements as stipulated in the South Main judgment and settlement. HSC section 34171 (d) (1) (B) allows loans of moneys borrowed by the RDA for a lawful purpose, to the extent they are legally required to be repaid pursuant to a required repayment schedule or other mandatory loan terms. However, there was no repayment schedule or mandatory loan terms included in the resolution approving the loan from the fund to make the SERAF payment. HSC section 34180 (a) allows the oversight board to establish new repayment terms for outstanding loans where the terms have not been specified. Therefore, this item is currently not an enforceable obligation.
- Item Nos. 35 and 36 – Santa Ana Ventures estimate of permit fees and related project costs in the amount of \$1.7 million of RPTTF funding. Finance no longer objects to the items. Finance denied the items as the obligation to pay permit fees is an estimate for permit fees that may accompany projects for which construction has not begun. No additional documentation has been submitted to support the permit fee obligation, therefore the obligation and related project costs remain denied. The Agency contends the items are enforceable obligations because the Owner Participation Agreement (OPA) for MainPlace, previously Fashion Square Commercial Site, was entered into in April 1984. The Third Amendment to the OPA pertaining to the permit fee obligation was entered into in March 1992. The OPA requires on-going assistance and support of the Agency to ensure compliance and project implementation, as well as the payment of a portion of a transportation improvement fee as permits are issued for the build-out of the

project per the agreement. The payment of the permit fees are a requirement of the OPA. Therefore, the items are enforceable obligations.

- Item Nos. 89 through 103 and 116 through 118 – ROPS I and II Denied Obligations totaling \$495.2 million funded by RPTTF and reserve balances. Finance no longer objects to Items 117 and 118 and continues to deny Items 89, 90, 91, 94 through 103, and 116 at this time. Finance denied the item as these items are duplicates of the RPTTF requested on the prior ROPS. HSC section 34177 (l) (3) states that the ROPS shall be forward looking to the next six months. The Agency contends the items are enforceable obligations because these are disputed items from ROPS II that were incorrectly allocated to administrative expenses for the July through December 2012 period.

The Agency contends Items 89, 90, 91, 94 through 103, and 116 are enforceable obligations because these are project costs that were reclassified as administrative costs on ROPS II and since the administrative cap was exceeded the amounts were not paid. Items 89, 90, 91, and 116 are various bond costs. Items 94 through 102 are staff costs for specific projects. Item 103 is maintaining assets prior to disposition. Although Finance agrees that these items may be enforceable obligations outside of the administrative cost cap, the Agency did not provide documentation to demonstrate its position. Therefore, at this time, we continue to reclassify these items as administrative costs. If the Agency is able to provide sufficient documentation to support these items, it may claim these items as enforceable obligations on a future ROPS.

For Items 92 and 93, see determination related to Items 14 through 17 above. The items are not enforceable obligations.

For Item 117, see determination related to Items 35 and 36 above. The Agency noted that due to a clerical error the amount listed on the ROPS for the current period should be \$2,000 rather than \$0. Finance has made the correction. The item is an enforceable obligation.

For Item 118, see determination related to Item 18 above. The item is an enforceable obligation.

- Administrative costs in the amount of \$626,956 out of the claimed \$924,370 for the January to June 2013 period are in excess of the administrative cost allowance. Item Nos. 48 and 59 were considered administrative costs. HSC section 34171 (b) limits administrative costs for fiscal year 2012-13 to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. See table on the next page for administrative costs approved.

In addition, per Finance's ROPS letter dated October 19, 2012, the following items not disputed by the Agency continue to be denied:

- Items No. 23 through 25 – Settlement agreements with various school districts for pass-through payments to fund capital projects in the amount of \$43.8 million. Beginning July 1, 2012, the county auditor-controller is responsible for distributing property tax increment funds to the taxing entities. Therefore, these items should not appear on the Agency's ROPS as enforceable obligations and are not eligible for RPTTF funding.

- Item Nos. 68 through 88 – Housing obligations in the amount of \$6.2 million. These obligations have been transferred to the Housing Authority of the City of Santa Ana (Authority) along with funds from the Low and Moderate Income Housing Fund. HSC section 34176 (a) (1) states that if a city elects to retain the housing functions, all rights, duties, and obligations shall be transferred to the city. These items are the responsibility of the Authority, not the Agency and do not qualify for RPTTF funding.
- Item Nos. 104 through 115 – ROPS I and II Denied Obligations totaling \$3.7 million funded by RPTTF. These items are duplicates of the RPTTF requested on the prior ROPS. HSC section 34177 (l) (3) states that the ROPS shall be forward looking to the next six months.

The Agency's maximum approved RPTTF distribution for the reporting period is: \$5,551,683 as summarized below.

<b>Approved RPTTF Distribution Amount</b>	
<b>For the period of January through June 2013</b>	
Total RPTTF funding requested for obligations	\$ 28,814,330
Less: Six-month total for items denied or reclassified as administrative cost (See Attachment A for the list of denied or reclassified items)	23,558,061
Total approved RPTTF for enforceable obligations	<u>6,808,225</u>
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	<u>\$ 344,033</u>
<b>Total RPTTF approved:</b>	<b>\$ 7,152,258</b>

<b>Administrative Cost Calculation</b>	
Total RPTTF for the period July through December 2012	\$ 7,172,871
Total RPTTF for the period January through June 2013	6,808,225
<b>Total RPTTF for fiscal year 2012-13:</b>	<b>\$ 13,981,096</b>
Allowable administrative cost for fiscal year 2012-13 (Greater of 3% or \$250,000)	419,433
Administrative allowance for the period of July through December 2012	75,400
<b>Allowable RPTTF distribution for administrative cost for ROPS III:</b>	<b>\$ 344,033</b>

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS III form the estimated obligations and actual payments associated with the January through June 2012 period. The amount of RPTTF approved in the above table will be adjusted by the county auditor-controller to account for differences between actual payments and past estimated obligations. Additionally, these estimates and accounts are subject to audit by the county auditor-controller and the State Controller.

The amount available from the RPTTF is the same as the property tax increment that was available prior to 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 successor agency in the RPTTF.

Except for items disallowed as noted above, Finance is not objecting to the remaining items listed in your ROPS III. Obligations deemed not to be enforceable shall be removed from your ROPS. This is Finance's final determination related to the enforceable obligations reported on

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your ROPS for January 1 through June 30, 2013. 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 questioned on this ROPS or a preceding ROPS.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



**STEVE SZALAY**  
Local Government Consultant

cc: Ms. Sandi Gottlieb, Program Manager, City of Santa Ana  
Mr. Francisco Gutierrez, Executive Director, Finance and Management Services  
Agency, City of Santa Ana  
Ms. Susan Gorospe, Senior Management Analyst, City of Santa Ana  
Mr. Frank Davies, Property Tax Manager, Orange County Auditor-Controller  
California State Controller's Office

**Attachment A**  
**Approved RPTTF Distribution Amount**  
**For the period of January through June 2013**

Total RPTTF funding requested for obligations	\$ 28,814,330
Less: Six-month total for items denied or reclassified as administrative cost	
Item 14	8,721,091
Item 15	1,500,000
Item 16*	0
Item 17*	0
Item 22	250,000
Item 23	1,101,381
Item 24	664,595
Item 25	42,557
Item 48**	50,000
Item 59**	10,000
Item 69	40,000
Item 70	530,656
Item 71	88,250
Item 72	1,500,000
Item 73	123,600
Item 74*	0
Item 75	10,500
Item 76*	0
Item 77	10,700
Item 78*	0
Item 79	5,800
Item 80*	0
Item 81	5,800
Item 82*	0
Item 83	1,800
Item 84*	0
Item 85	5,800
Item 87	23,704
Item 88	35,000
Item 89	2,500
Item 90	1,500
Item 91	1,500
Item 92	5,251,573
Item 93	1,000,000
Item 94	2,000
Item 95	2,945
Item 96	10,280
Item 97	2,000
Item 98	3,000
Item 99	5,000

Item 100	5,500	
Item 102	3,150	
Item 103	53,361	
Item 104	55,000	
Item 105	682,272	
Item 106	81,550	
Item 107	9,400	
Item 108	16,640	
Item 109	10,700	
Item 110	7,500	
Item 111	7,500	
Item 112	7,500	
Item 113	7,500	
Item 114	5,000	
Item 115	25,000	
Item 116	<u>25,000</u>	
Six-month total denied:		22,006,105
Total approved RPTTF for enforceable obligations		6,808,225
Plus: Allowable RPTTF distribution for administrative cost for ROPS III		<u>344,033</u>
<b>Total RPTTF approved:</b>		<b>\$ 7,152,258</b>

\*No RPTTF requested for the reporting period

\*\* Reclassified as Administrative Costs