

**SPECIAL MEETING OF THE OVERSIGHT BOARD  
OF THE SUCCESSOR AGENCY  
TO THE COSTA MESA REDEVELOPMENT AGENCY**

**AUGUST 23, 2012**

*These meeting minutes represent an “action minute” format. A copy of the meeting can be obtained at the Costa Mesa Housing Authority Office located on the 2<sup>nd</sup> floor of the Costa Mesa City Hall.*

The Oversight Board of the Successor Agency to the Costa Mesa Redevelopment Agency met in a Special Meeting on Thursday, August 23, 2012, in Conference Room 1A of the Costa Mesa City Hall, 77 Fair Drive, Costa Mesa.

Vice-Chair Jeff Trader called the meeting to order at 2:08 p.m. and led in the Pledge of Allegiance.

**I. ROLL CALL**

Members Present:	Jeff Trader, Vice Chair Dan Baker, Board Member Andy Dunn, Board Member Thomas R. Hatch, Board Member Rick Francis, Board Member
Members Absent:	Jim Righeimer, Chair Gary Monahan, Board Member
Officials Present:	Peter Naghavi, Director of Economic and Development / Deputy CEO Colleen O’Donogue, Assistant Finance Director Alma Penalosa, Budget Analyst Hilda Veturis, Management Analyst Celeste Brady, Successor Agency Special Counsel Martha Rosales, Recording Secretary

**II. CLERK’S STATEMENT**

The Agenda and Notice and Call for the August 23, 2012 Special Meeting of the Oversight Board was posted at the City Council Chambers, Adams Postal Office, Headquarters Police Department, Neighborhood Community Center and the Mesa Verde Public Library on Tuesday, August 21, 2012.

**III. PUBLIC COMMENTS**

Any person wishing to address the Oversight Board on any matter, whether or not it appears on this agenda, is requested to complete a “Request to Speak” form, available at the door and with the Secretary. The completed form is to be submitted to the Secretary prior to an individual agenda item being heard by the Oversight Board. No action will be taken on any item not on the agenda unless the Oversight Board makes a determination that an emergency exists or that the need to take

action on the item rose subsequent to the posting of the agenda. Public comments shall be limited to a maximum of three (3) minutes per person and an overall time period of 15 minutes for items not considered on the regular agenda.

#### IV. PRESENTATIONS - None

#### V. NEW BUSINESS

1. Review and Approval of Successor Agency's Proposed Administrative Budget for the 6-Month Period – January 1, 2013 to June 30, 2013

Ms. Penalosa presented the staff report and said the City was required to prepare and approve an administrative budget for the Successor Agency every 6-months. Since \$250,000 dollars were allocated annually, \$125,000 dollars were budgeted for the fiscal period of January 1, 2013 to June 30, 2013. She referred Board Members to Attachment 1 to view how the Budget had been laid out for the 6-month period and concluded her presentation.

**MOTION: Approve the Successor Agency's proposed Administrative Budget for the period of January 1, 2013 to June 30, 2013 and adopt Oversight Board Resolution No. 2012-07. Moved by Member Rick Francis, second by Member Andy Dunn.**

A RESOLUTION OF THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE COSTA MESA REDEVELOPMENT AGENCY APPROVING THE SUCCESSOR AGENCY'S PROPOSED ADMINISTRATIVE BUDGET FOR THE PERIOD OF JANUARY 1, 2013 TO JUNE 30, 2013 PURSUANT TO HEALTH AND SAFETY CODE SECTION 34177(j).

The motion carried by the following vote:

Ayes: Vice-Chair Jeff Trader, Board Members Rick Francis, Dan Baker, Andy Dunn, Tom Hatch  
Noes: None  
Absent: Chair Jim Righeimer, Member Gary Monahan  
Abstained: None

2. Review and Approval of the Third Recognized Obligation Payment Schedule (ROPS) for Fiscal Period January 1, 2013 to June 30, 2013.

Ms. O'Donoghue presented the staff report and stated that on August 21, 2012, the Successor Agency to the former Redevelopment Agency had approved the 3<sup>rd</sup> ROPS for submission to the State Department of Finance (DOF). There were no changes to the enforceable obligations that appeared on the ROPS but the form itself had changed. Successor Agencies were mandated by the State to reconcile past ROPS with the submitted ROPS. As a result, all ROPS that were submitted would be reconciled with the timeframe from the year before. Per AB 1484, staff was picking up half of the principal payment (\$349,688) for the Tax Allocation Bond (Line Item No. 1) to ensure sufficient funding for the October 2013 payment.

Ms. Brady said debt service had the tendency of being lop-sided; AB 1484 allowed staff to "bulk up" and request adequate debt service in the first 6-month ROPS of each calendar year to ensure sufficient debt service funding in the next ROPS period.

Member Tom Hatch stated there was no change in the amount because the ROPS from the next period would decrease. Ms. Brady added staff was allowed to max out their reserves in order to have a debt service available.

Ms. O'Donoghue reported staff was in transition because the ROPS from last year were lop-sided (1<sup>st</sup> ROPS required \$900,000 and the 2<sup>nd</sup> ROPS required \$3 million). If the tax increment money did not come in they would be in a deficit. Staff was smoothing out the payment (pushing it on to ROPS 4 and ROPS 5) to make it equal with the loan payment. They hoped to have it in balance by ROPS 5 in order to capture as much tax increment as they could.

Member Andy Dunn misunderstood the waterfall array of payments regarding the bond repayment and thought the State and the County were first, followed by the pass-through payments and the administration from the Oversight Board. Ms. Brady said the administration of the Oversight Board was a low-priority line item within the ROPS. Member Dunn asked if the bond repayment waterfall had changed. Ms. Brady stated the waterfall had not changed – State and County administrative costs were first, non-subordinated pass-through obligations to all of the affected taxing entities (schools in particular) were second; enforceable obligations that contained sub-sections (1<sup>st</sup> sub-section being bond debt service) were third, administrative costs were fourth, and thereafter subordinated pass-through payments and any residual monies transferred to the affecting taxing entities.

Vice-Chair Jeff Trader said the Successor Agency was not leaving any monies for the State to take. Ms. Brady advised there were residual monies. Vice-Chair Jeff Trader asked why the residual monies could not be applied towards the debt service. Ms. Brady stated staff would have to do a bond defeasement in order to bulk-up beyond an annual debt service payment. Vice-Chair Trader added there was also a promissory note. Ms. Brady confirmed the promissory note was an annual payment that was included in ROPS 2 and other than debt service payments on bonds, the DOF did not allow Successor Agencies to request an annual amount of money beyond what was due within the 6-months. Ms. Brady gave a summary of AB 1484 guidelines pertaining to bond defeasance.

Member Tom Hatch asked if it made sense to prepare the ROPS years in advance, have them approved and submitted to the DOF early. Ms. Brady reported that AB 1484 changed the timing for the ROPS; the DOF had changed the form and was only processing one 6-month period at a time. Ms. O'Donoghue added the DOF was also trying to match up the 2 installments of property tax infusion with the ROPS. Director Peter Naghavi said potential long-term changes would mean coming back and redoing changes. Ms. Brady announced that Oversight Boards were going to be consolidated after 2015 (5 Successor Agencies per Oversight Boards). Ms. O'Donoghue added the ROPS could not be prepared in advance due to the reconciliation component (waiting for time to elapse in order to know what had been spent and reporting it). Ms. Brady agreed that Member Hatch's suggestion was a good suggestion but it had not been recognized by the legislature as of yet.

Member Dan Baker asked if the submitted numbers were subject for review and if the DOF could challenge them. Ms. O'Donoghue confirmed Member Baker's comment. Ms. Brady added the DOF had 45 days to review the ROPS and the power to overturn AB 1484 and any actions taken by the Successor Agency and Oversight

Board.

**MOTION: Approve the third Recognized Payment Schedule (“ROPS”) and adopt Oversight Board Resolution No. 2012-08. Moved by Member Andy Dunn, second by Member Rick Francis.**

A RESOLUTION OF THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE COSTA MESA REDEVELOPMENT AGENCY APPROVING THE THIRD RECOGNIZED OBLIGATION PAYMENT SCHEDULE FOR THE PERIOD JANUARY 1, 2013 TO JUNE 30, 2013, SUBJECT TO SUBMITTAL TO, AND REVIEW BY THE D.O.F. PURSUANT TO CALIFORNIA HEALTH AND SAFETY CODE, DIVISION 24, PART 1.85, AS AMENDED BY ASSEMBLY BILL 1484; AUTHORIZE POSTING AND TRANSMITTAL THEREOF

The motion carried by the following vote:

Ayes: Vice-Chair Jeff Trader, Board Members Rick Francis, Dan Baker, Andy Dunn, Tom Hatch  
Noes: None  
Absent: Chair Jim Righeimer, Member Gary Monahan  
Abstained: None

3. Update to Oversight Board Regarding Accountant Selected for Due Diligence Reviews; Update Regarding Communications with the DOF and County Auditor-Controller (CAC)

Ms. Brady announced that Agenda Item 3 was being presented for background and update purposes only. She presented the staff report and spoke of Assembly Bill 1484, which had become law and included “true up” payments. A review of information and data compiled had revealed excess funds that the DOF wanted to “claw” and take away immediately. Ms. Brady reminded Members that in mid-July Costa Mesa’s Successor Agency made their payment under protest on the grounds that it had sufficient funds and felt the calculations were incorrect. She referred to a timeline of critical dates and reported that AB 1484 required the Successor Agency to select an accountant to process due diligence reviews. The DOF and the Accountants Trade Organization were working on establishing standards for the due diligence reviews which were supposed to be available on Monday, August 28<sup>th</sup>. No monies would be provided to the Successor Agency for the due diligence report as it would be part of the \$125,000 administrative costs. The County-approved City’s auditors, White Nelson Diehl Evans, were familiar with the Successor Agency’s books and records – the first due diligence review would be for the housing assets and obligations followed by a review for the non-housing assets and obligations. The accountant’s due diligence review would result in a report requiring one review and approval of the Successor Agency prior to October 1, 2012, and two reviews and approvals by the Oversight Board. The first review by the Oversight Board would have to be prior to October 1, 2012 in order to make it available to the public and the County Administrator to review for at least 5 days. Any comments by the public and County Administrator would then be subject for review a second time by the Oversight Board. The Oversight Board would review, approve and submit the report to the DOF before October 15, 2012. In order to meet the deadline dates, three meetings would need to be held in the following 6 weeks – one Successor Agency meeting and two Oversight Board meetings. The deadline date was not flexible as it had been statutorily set. All the requirements would need to be completed by the

deadline date unless changed by the DOF.

Director Peter Naghavi asked if the matter could be presented at the October Oversight Board meeting. Ms. Brady said if Mr. Naghavi's suggestion was possible, they would have a regular Oversight Board meeting in September and another meeting before the regular October meeting to review the report a second time and take final action. The statute mandated the Oversight Board to convene, accept the report from the Successor Agency and make it available to the public; then review the report a second time and approve it based on the public's and County Administrator's comments.

Director Naghavi asked if the regular October meeting could be moved up. Ms. Brady said the September meeting could be adjourned to a certain date once staff knew when the auditor's report would be complete. Upon completion of the housing due diligence report, staff would begin generating the non-housing due diligence review for review by the Successor Agency once and review by the Oversight Board twice. Per the schedule of critical dates, the first DOF demand regarding housing assets was due no later than November 28<sup>th</sup>. If the Successor Agency failed to make any payment demanded by the DOF, AB 1484 authorized the DOF to order the County Auditor-Controller and the State Board of Equalization to withhold property and sales taxes from the City in order to make the payment. Several lawsuits had been filed challenging that portion of AB 1484 because it left the circle of Successor Agency assets and went into the City's General Fund monies. The Dissolution Act intended that liabilities and responsibilities were assets of the Successor Agency and not the City. Ms. Brady said the DOF incentives pertaining to real property assets and paybacks to Successor Agencies did not apply to Costa Mesa but the last DOF incentive (City loan arrangements) did apply as Costa Mesa did have a couple loans (more than 2 years from creation of the Agency) that could be revitalized with the consent of the Oversight Board. Ms. Brady advised that AB 1484 added more work to Oversight Boards.

Member Andy Dunn asked if the White Nelson Diehl Evans accounting firm was going to appear before the Oversight Board or simply deliver a report. Ms. Brady stated they would only be delivering a report for review and approval.

Vice-Chair Jeff Trader inquired if any of the lawsuits would be helpful to Costa Mesa. Ms. Brady explained the constitutional issue was whether or not City general fund money should be subject to "grabbing" by the State to satisfy obligations of a Successor Agency. AB 1484 made an amendment to the statute clarifying that Successor Agencies were public entities with separate tax ID numbers that could sue and be sued. The DOF had denied all requests for preliminary injunctions or temporary restraining orders that would stop true up payments. The DOF had filed lawsuits with Successor Agencies who had not made the payment and was working with them to assess steep penalties if they were not resolved.

Vice-Chair Jeff Trader asked if there was any relief with the two items the DOF had denied. Ms. O'Donoghue clarified the items had not been denied by the DOF and added staff had removed two items that the Successor Agency had reported as expenditures and were revenue generators. Staff also had to write two very lengthy letters regarding two items that the DOF was ready to reject; one of those items being the Neighborhood Improvement Program. Ms. Brady explained tax allocation bonds, certificates of participation (COPs), 108 loans, etc.

Member Rick Francis asked if the Oversight Board was indemnified the same as the City. Ms. Brady stated Oversight Boards were not separate public entities but AB 1484 did state that Oversight Boards had the immunities as a public official.

Member Tom Hatch asked Ms. O'Donoghue if additional staff was needed to assist her; with her increased responsibilities that resulted from the Dissolution Act, he did not want other financial matters to suffer. Ms. O'Donoghue said she had been delegating some tasks to Liz and added that having half a position would help with the labor-intensive demands from the DOF.

Member Andy Dunn stated the redevelopment agencies had been gone one year and asked if the State's underlying goals had been realized. Ms. Brady said the State's underlying goals had not been realized as of yet and added the DOF was preparing a report that would summarize the residual monies.

Vice-Chair Jeff Trader accepted the report.

## **VII. CHAIR AND BOARD MEMBER'S COMMENTS AND SUGGESTIONS**

Member Tom Hatch asked about the set of Minutes that were included in the meeting packet. Ms. Brady apologized for not having the approval of the Minutes on the Agenda and said two sets of Minutes would be approved at the next meeting.

Member Andy Dunn asked for the date and time of the next Oversight Board meeting. He was informed it would be on Thursday, September 20<sup>th</sup> at 2 p.m. Ms. Brady advised if the accountant's report was complete, they would submit it to the Successor Agency and there could be an Oversight Board meeting the week after.

## **VIII. ADJOURN** – Vice-Chair Jeff Trader adjourned the Oversight Board meeting at 2:44 p.m.