



CITY OF FULLERTON

September 19, 2012

Thomas J. Borris
Presiding Judge of the Superior Court
700 Civic Center Drive West
Santa Ana, CA 92701

RE: Response to the Orange County Grand Jury Report "The Dissolution of
Redevelopment: Where Have We Been? What Lies Ahead?"

Dear Mr. Borris:

In compliance with Penal Code 933.05 (a) and (b), enclosed please find the City
of Fullerton's response to the Orange County Grand Jury Report titled "The
Dissolution of Redevelopment: Where Have We Been? What Lies Ahead?"

If you have any questions, please feel free to contact me at (714) 738-6881.

Sincerely,
CITY OF FULLERTON

A handwritten signature in blue ink that reads "Ramona Castañeda".

Ramona Castañeda
Fiscal Services Manager

Cc: Orange County Grand Jury
Joseph Felz, City Manager

Enclosure





CITY COUNCIL AGENDA

MEETING DATE: · SEPTEMBER 18, 2012

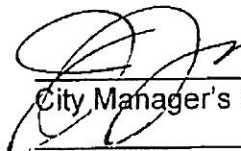
107

TO: CITY COUNCIL

FROM: SUCCESSOR AGENCY/CITY MANAGER

SUBJECT: RESPONSE TO THE ORANGE COUNTY GRAND JURY REPORT
"THE DISSOLUTION OF REDEVELOPMENT: WHERE HAVE WE
BEEN? WHAT LIES AHEAD?"

Approved for Agenda:



City Manager's Office

SUMMARY

Response to the Orange County Grand Jury report "The Dissolution of Redevelopment: Where have we been? What Lies Ahead?"

RECOMMENDATION

That the City Council approve the proposed responses to the Orange County Grand Jury report "The Dissolution of Redevelopment: Where have we been? What Lies Ahead?" and authorize the mayor to sign it.

FISCAL IMPACT

There is no fiscal impact.

DISCUSSION

On June 15, 2012, the Orange County Grand Jury released their report titled "The Dissolution of Redevelopment: Where have we been? What Lies Ahead?" The original purpose of the Grand Jury study was to identify what worked well and what did not work well in the Orange County Redevelopment community; however, with the dissolution of

redevelopment agencies effective on February 1, 2012, many issues are no longer relevant.

The Grand Jury revised its purpose to focus on the dissolution of the redevelopment programs, management of the transition, and to encourage local planning for whatever new program might take its place. More specifically, the revised purpose is threefold:

- Identifying the major problems that led to the legislation terminating redevelopment;
- Assessing the management responsibilities of successor agencies, oversight boards, and County offices in winding down redevelopment projects; and
- Proposing a planning effort by local government to prepare for a likely legislative effort to introduce a new version of redevelopment in the state.

The report provides background and facts of redevelopment; an analysis of redevelopment functions and financing; a case study on a successful redevelopment project; a case study on a not-so successful redevelopment project; an explanation of how redevelopment ended; the transition process; a summary of pending legislation and concludes with findings/conclusions and recommendations. At the very end of the report there are requirements and instructions for responses, including two matrices identifying which findings and recommendations the city is required to respond to in compliance with Penal Code Sections 933.05(a), (b), and (c). Note that because redevelopment agencies no longer exist, findings and recommendations in the report are limited to matters related to winding down the programs, oversight issues and otherwise promoting the concept of local planning for the next, yet unknown, phase of redevelopment.

GRAND JURY REPORT FINDINGS

The following are the findings that Fullerton was specifically asked to provide a response indicating whether Fullerton agrees with the finding; disagrees wholly or partially with the finding.

Finding F1 – As of the date of dissolution of redevelopment (February 1, 2012), all city operated redevelopment agencies, except Mission Viejo and Seal Beach, were exceeding the administrative costs limit of 5% of the tax increment distributed related to the Recognized Obligations Payment Schedule (ROPS) as authorized by Assembly Bill X1 26 (AB 26).

Disagree. While Fullerton does not dispute the numbers that have been reported, it is necessary to clarify what they represent.

The request from the Grand Jury was for total redevelopment expenditures reported to the State Controllers Office for the 2010-11 fiscal year. In that year, the Fullerton Redevelopment Agency spent \$16.2 million on capital improvement projects funded by bond proceeds in addition to the annual tax increment revenue.

The majority of the reported \$10 million in administrative costs represented costs for project design and development, project “management at risk” services, and professional consulting contract expenses related to those capital improvements.

To accurately analyze Fullerton's expenditures in 2010-11, one must separate the one-time capital improvements from the annual, ongoing operations. In that fiscal year, the Fullerton Redevelopment Agency received \$18.2 million in tax increment revenue. Of that amount, \$10.6 million paid debt service on bonds; \$1.2 million paid the required pass-through payments to other taxing agencies and \$3.6 million was set aside by law for low and moderate income housing. The remaining \$2.8 million, or 15% of annual revenue, was for administrative costs including program and operating expenses – not just salaries.

In summary, what was reported to the Grand Jury was this information plus the capital improvement costs spent during that period. The \$10,165,613 reported in administrative costs included \$7.4 million in project design and development, project management at risk services, and professional consulting costs related to a number of capital improvements including the Fox Theatre restoration, Lions Field renovation, Main Library remodel and expansion, and street reconstruction projects. These were one-time project costs, not on-going administrative costs.

A 15% administrative cost puts Fullerton in line with the other Orange County redevelopment agencies as indicated by Figure 7 – Administrative Costs in the Grand Jury's report. Furthermore, in compliance with AB 26 and AB 1484, Fullerton's administrative cost was reduced to the allowed 5% limit and decreased to 3% in subsequent years through the ROPS process and State Department of Finance procedures for review and approval/denial.

Finding F2 – Of the agencies surveyed, only Costa Mesa and Santa Ana reported having a citizen involvement committee along the line of a Project Area Committee as authorized by Section 33385 of the Health and Safety Code.

Agree. Prior to the dissolution of redevelopment, pursuant to Section 33386 of the California Health and Safety Code, a project area committee shall exist for a three-year period after the adoption of the redevelopment plan and is subject to one-year extensions by the legislative body. Over time Fullerton's project area committees were terminated, except for Project Area Committee 2 (PAC 2), which was formed at the time of adoption of the Central Fullerton Redevelopment Project Area in 1974. PAC 2 continued until March 2008 when the Fullerton City Council voted to terminate its annual renewal.

Finding F3 - Historically, external oversight over redevelopment has been missing or ineffective in monitoring redevelopment agency compliance and performance. The newly formed oversight boards offer a potential to

improve on that record by providing critical evaluation of existing projects and management of the successor agency debt.

Agree. All redevelopment projects and expenditures were presented to the governing redevelopment agency boards (in Fullerton's case the City Council). Per dissolution legislation (AB 26 and 1484), successor agency projects, ROPS and management of successor agency debt need Oversight Board approval. In addition, the State Department of Finance will also be involved in the review and approval/denial of items listed on the ROPS.

GRAND JURY REPORT RECOMMENDATIONS

With regard to the Grand Jury's Recommendations, Fullerton is being asked to report whether the recommendation has been implemented; recommendation has not yet been implemented, but will be implemented in the future, with a time frame for implementation; recommendation required further analysis, with an explanation and the scope and parameters of an analysis or study, and a time frame for the matter to be prepared for discussion (this time frame shall not exceed six months from the date of publication of the Grand Jury report); or whether the recommendation will not be implemented because it is not warranted or is not warranted or is not reasonable; with an explanation therefore.

Recommendation R1 – All Successor Agencies should review administrative cost to ensure compliance with the limit of five percent of the tax-increment or less as required by ABX1 26 and develop a plan to reduce the costs to three percent of the tax increment received or less in 2012-13. If these percentages fall below \$250,000, the agencies are allowed to claim the higher amount.

Recommendation R1 has been implemented through the ROPS process and State Department of Finance procedures for review and approval/denial.

Recommendation R2 - Successor Agencies and Oversight Boards should review the ROPS with a view toward limiting the range of projects and obligations thereby retiring the enforceable obligations debt as quickly as possible.

Recommendation R2 has been implemented as required by statute. The Successor Agency and Oversight Board members represent a variety of interest; therefore, not all ROPS have been approved unanimously, and some have been denied. Staff has presented a detailed explanation of each ROPS item and responded to questions in a public forum.


Recommendation R4 – Successor Agencies and Oversight Boards should critically review the ROPS to evaluate the need for debt owed to the city.

Recommendation R4 is not applicable because Agency does not owe debt to the city.

Recommendation R5 – Successor Agencies and Oversight Boards should critically review the Recognized Obligations Payment Schedule (ROPS) to evaluate the need for incentive payments to commercial entities. (Recommendation references Finding 9 – Some former redevelopment agencies such as Brea and Buena Park have incentive payments to commercial entities as enforceable obligations).

Recommendation R5 is not applicable because Fullerton does not have and does not anticipate having incentive payments to commercial entities on its ROPS.

Staff recommends that the City Council approve by motion the responses to the findings and recommendations in the Grand Jury report as listed above and in compliance with Penal Code Section 933.05(a) (b) and (c).



Joe Felz
City Manager



Ramona Castañeda
Fiscal Services Manager

Attachment - Grand Jury Report "The Dissolution of Redevelopment: Where have we been? What Lies Ahead?"