



Mayor
Kathryn McCullough

Mayor Pro Tem
Scott Voigts

Council Members
Peter Herzog
Marcia Rudolph
Mark Tettermer

City Manager
Robert C. Dunek

September 18, 2012

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

RE: Response to Orange County Grand Jury Report on Redevelopment

Dear Judge Borris:

Upon reviewing the findings and recommendations of the Orange County Grand Jury report entitled, "*The Dissolution of Redevelopment: Where Have We Been? What Lies Ahead?*" the City of Lake Forest offers the following responses:

Findings:

F.1: 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 cost limit of 5% of the tax increment distributed related to the Recognized Obligations Payment Schedule ("ROPS") authorized by AB1X 26.

Response: The City of Lake Forest cannot agree or disagree with this finding of the Orange County Grand Jury pertaining to every city in Orange County with a redevelopment agency.

The information provided in the Orange County Grand Jury Report was compiled through a survey distributed by the Orange County Grand Jury to each Orange County city with a redevelopment agency. Furthermore, the results were analyzed independently by the Orange County Grand Jury and not available for review by the City of Lake Forest. Consequently, we cannot offer an opinion on the finding.



With respect to Lake Forest, the administrative allocation estimate provided by the Lake Forest Successor Agency exceeded the cost allocation prescribed in AB1X 26 as indicated by the Orange County Grand Jury. However, it should be noted that the State Department of Finance (“DOF”) required the ROPS to include the first six months of calendar year 2012 (January to June). As a result, the ROPS includes one month (January 2012) in which the former Lake Forest Redevelopment Agency (“Agency”) remained active. Expenditures for the month of January reflect all typical operating expenditures of the former agency, as they existed prior to dissolution. Consequently, the inclusion of January increases the total administrative cost reflected in the ROPS by approximately \$99,899. The Successor Agency’s January to June ROPS was approved by the DOF on May 25, 2012.

F.2: Of the agencies surveyed, only Costa Mesa and Santa Ana reported having a citizen involvement committee along the lines of a Project Area Committee as authorized by Section 33385 of the Health and Safety Code.

Response: The City of Lake Forest cannot agree or disagree with this finding of the Orange County Grand Jury pertaining to every city in Orange County with a redevelopment agency.

This information was compiled through a survey distributed by the Orange County Grand Jury to each Orange County city with a redevelopment agency. Furthermore, the results were analyzed independently by the Orange County Grand Jury and were not available for review by the City of Lake Forest. Consequently, we cannot offer an opinion on the finding.

The Lake Forest Redevelopment Agency did not form a Project Area Committee during its existence because it was never required.¹ The Agency never possessed the power of eminent domain. Additionally, low-and moderate-income households did not comprise a substantial portion of the El Toro Redevelopment Project Area when Lake Forest assumed its jurisdiction from the County of Orange in 1998. For these reasons, the operative provisions of State law did not require the former Agency to form a Project Area Committee.

¹ *Health and Safety Code Section, 33385, only required a Project Area Committee if, (1) a project area included a substantial number of low-income persons or moderate-income persons, and the redevelopment plan, as adopted, contained authority for the agency to acquire, by eminent domain, property on which any persons reside, or (2) the redevelopment plan contained one or more public projects that would displace a substantial number of low-income persons or moderate-income individuals.*

During its existence, the Agency made extensive efforts to communicate its activities to the community. As required, all board meetings, forums, workshops, and public hearings were conducted consistent with the public noticing and hearing requirements of State law. Additionally, the Agency consistently provided information to the community through its website and newsletter and sought public input regarding its projects. Because of these efforts, the Agency was the recipient of a California Redevelopment Association award for its communication efforts during the El Toro Road Widening Project.

F.3. 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.

Response: The City of Lake Forest can neither agree or disagree with this finding. The State created the mechanisms responsible for overseeing the activities of redevelopment agencies which included Annual Reports to the State Controller and Housing and Community Development as well as financial audits. The State was responsible for those oversight mechanisms. Consequently, the sufficiency of oversight as applied statewide is beyond our knowledge of the facts.

The Lake Forest Successor Agency and the Lake Forest Successor Agency Oversight Board work cooperatively to address the statutory requirements of State dissolution legislation now amended as AB 1484. The Oversight Board reviews and authorizes all actions of the Successor Agency at its public meetings. This information is posted publicly on the Lake Forest Successor Agency Oversight Board webpage, located on the City of Lake Forest website: http://www.lakeforestca.gov/depts/econdev/oversight_board/default.asp

Recommendations:

R.1. All successor agencies should review administrative costs to ensure compliance with the limit of five percent of the tax increment or less as required by AB1X 26 and develop a plan to reduce these 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 a higher amount.

Response: The Lake Forest Successor Agency remains in full compliance with State law. Additionally, the administrative costs of the Successor Agency are

monitored by staff. However, given the unprecedented complications of the State's actions, the early stages of the dissolution process have proven to be a significant undertaking. The Successor Agency will continue working toward reducing its administrative costs, but will charge appropriately those expenditures related directly to the dissolution of the former Agency.

Additionally, the Lake Forest Successor Agency was required recently to submit a ROPS for the period January to June 2013. The new ROPS required reconciliation of expenditures from the January to June 2012 period. This process demonstrated the Lake Forest Successor Agency spent 54% less than the estimated administrative expenditures shown on the ROPS analyzed by the Orange County Grand Jury. This is a positive indication that the Lake Forest Successor Agency is successfully managing its administrative expenditures.

- R.2. *Successor agencies and oversight boards should review the Recognized Obligations Payment Schedule with a view toward limiting the range of projects and obligations thereby retiring the enforceable obligations debt as quickly as possible.*

Response: The Lake Forest Successor Agency already minimally includes only those enforceable obligations on its ROPS necessary to wind down existing debt obligations or maintain real property assets of the former Agency, consistent with AB1X 26 and AB 1484. Enforceable obligations can only be retired consistent with the original payment schedules of the debt because the Lake Forest Successor Agency is only eligible to receive limited funding for its obligations once every six-month period. Consequently, any expedited retirement of enforceable obligations would require the DOF to allow or provide the Lake Forest Successor Agency with advance funding, commensurate with the proposed acceleration of payments, to retire the debt.

- R.4. *Successor agencies and oversight boards should critically review the ROPS to evaluate the need for debt owed to the city.*

Response: Debts of the Agency to the City of Lake Forest were retired prior to the dissolution of the Agency. Consequently, this expenditure category is not reflected on the Lake Forest Successor Agency's ROPS and is not a subject to be considered by the Lake Forest Successor Agency Oversight Board.

- R.5. *Successor agencies and oversight boards should critically review the ROPS to evaluate the need for incentive payments to commercial entities.*

The Honorable Judge Thomas Borris
September 18, 2012
Page 5

Response: The former Agency did not provide incentives to commercial entities. Consequently, this expenditure category is not reflected on the Lake Forest Successor Agency's ROPS and is not a subject to be considered by the Lake Forest Successor Agency Oversight Board.

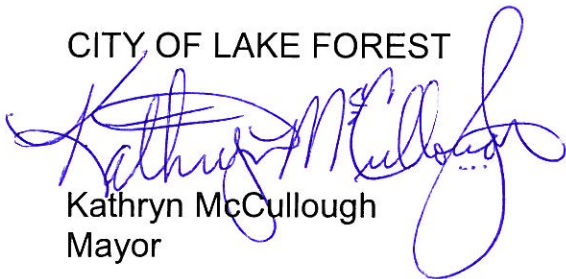
The City appreciates the opportunity to respond to the findings and recommendations prepared by the 2011-12 Orange County Grand Jury. Based on the answers provided, please note that the Lake Forest Successor Agency is in full compliance with the AB1X 26 and AB 1484.

Generally, the City feels it is unfortunate that the State elected to dissolve an economic revitalization tool that created jobs, improved public facilities, and provided affordable housing to struggling communities. The City of Lake Forest utilized its former redevelopment agency to improve public spaces and attract millions of dollars of private-sector reinvestment. Regrettably, given the political realities of the State, this powerful and productive tool is not available to assist in the economic recovery of California.

Should you have any questions, please contact David Belmer, Assistant City Manager, at (949) 461-3437.

Sincerely,

CITY OF LAKE FOREST



Kathryn McCullough
Mayor

c: Robert C. Dunek, City Manager
Scott C. Smith, City Attorney