



October 17, 2012

Honorable Thomas J. Borris, Presiding Judge
Orange County Superior Court
700 Civic Center Drive West
Santa Ana, CA 92701

Re: Response by The City of Tustin to the June 22, 2012 Grand Jury Report

Your Honor,

The City of Tustin ("City") is responding to the June 22, 2012 Grand Jury Report entitled "The Dissolution of Redevelopment: Where Have We Been? What Lies Ahead?" (referred to herein as the "Report"). Pursuant to California Penal Code Section 933.05(a) and (b), please find the following responses to Findings F1, F2, and F3 and the Recommendations R1, R2, R4 and R5:

Findings of the Grand Jury

- 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 ROPS as authorized by ABX1 26.

City Response:

The City acknowledges that before January 1, 2012, the former Redevelopment Agency's administrative costs exceeded five percent (5%). Effective January 1, 2012 and in accordance with California Health and Safety Code (HSC) Section 34171(a) & (b), the City acting as the Successor Agency to the Tustin Community Redevelopment Agency ("Successor Agency") has prepared administrative budgets that restrict the administrative cost allowances payable from property tax revenues to five percent (5%) for the period of January 1, 2012 through June 30, 2012 and three percent (3%) for the subsequent periods. Pursuant to HSC Section 34177(j), the Oversight Board of the Successor Agency to the Tustin Community Redevelopment Agency ("Oversight Board") approved the administrative budgets for each six-month period covered by the Recognized Obligation Payment Schedule (ROPS) as follows:

- a) March 13, 2012, the administrative budget for the First ROPS (January – June 2012);
 - b) April 10, 2012, the administrative budget for the Second ROPS (July – December 2012); and
 - c) August 28, 2012, the administrative budget for the Third ROPS (January – June 2013).
- 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.

City Response:

The City acknowledges a Project Area Committee (PAC) did not exist at the time of dissolution. While a PAC was not in existence, the former Redevelopment Agency was in complete compliance with the HSC as it related to Redevelopment and PACs.

- 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.

City Response:

While the City agrees that local external oversight has been missing, the City Council acting as the Redevelopment Agency provided effective monitoring of the former Redevelopment Agency's compliance and performance. In addition, the former Redevelopment Agency was subject to state external oversight through the submission of annual financial reports and compliance reports to the California Department Housing and Community Development. The newly formed oversight boards will provide local external oversight. In accordance with HSC Section 34179, the City Council of the City of Tustin appointed two members to the Oversight Board on March 6, 2012. The Orange County Board of Supervisors, the County Superintendent of Schools, Chancellor of the California Community Colleges and the Orange County Flood Control District (largest special district by property tax share within the territorial jurisdiction of the former Tustin Community Redevelopment Agency) appointed their representatives prior to the Oversight Board's first meeting on March 13, 2012. Pursuant to HSC Section 34179(i), the Oversight Board is fulfilling its fiduciary responsibilities to holders of enforceable obligations and the taxing entities that benefit from distributions of property tax. In that regard, the Oversight Board is critically evaluating existing projects and managing successor agency debt.

As the Grand Jury reported, the new legislation does not restrict the Mayor from appointing sitting City Council members to the Oversight Board. In fact, the legislation requires appointments to the Oversight Board to be made by several different public agencies with potentially competing interests in the winding down of each Successor Agency, and in Tustin's case, the legislation required one such representative to be appointed by the Mayor. A sitting City Council member was appointed in Tustin and serves the legislature's intended purpose as an effective and knowledgeable member of the Oversight Board who can provide the City's perspective on matters brought to that Board.

Recommendations of the Grand Jury

- R1) 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 ABX1 26 and develop a plan to reduce these costs to three percent of the tax increment received or less in 2012-2013. If these percentages fall below \$250,000, the agencies are allowed to claim the higher amount. (See F1)

City Response:

The recommendation has been implemented. As noted above under F1, the Successor Agency is complying with the administrative cost allowance limits required under Assembly Bill 1X 26. In accordance with HSC Section 34171(a) & (b), the Successor Agency prepared and operated under an administrative budget that restricted the administrative cost allowance payable from property tax revenue to five percent (5%) for the period of January 1, 2012 through June 30, 2012 and is currently operating under an administrative budget of three percent (3%) for the July 1, 2012 through December

31, 2012 period. Pursuant to HSC Section 34177(j), the Oversight Board has approved the administrative budgets for each six-month period covered by the Recognized Obligation Payment Schedule (ROPS) and the administrative cost allowances do not exceed the allowed limits.

- 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 obligation debt as quickly as possible. (See F3)

City Response:

The recommendation has been implemented. In compliance with HSC Section 34177, the Successor Agency has prepared and submitted each ROPS for approval by the Oversight Board. During the period of time represented by the three (3) ROPS (January 1, 2012 through June 30, 2013), the number of enforceable obligations has been reduced as contracts are completed and payments have been made. In the review of each ROPS and pursuant to HSC Section 34179(i), the Oversight Board has been fulfilling its fiduciary responsibilities to holders of enforceable obligations and the taxing entities that benefit from distributions of property tax. In that regard, the Oversight Board is critically evaluating existing projects and managing successor agency debt.

- R4) Successor agencies and oversight boards should critically review the ROPS to evaluate the need for debt owed to the city. (See F8)

City Response:

The recommendation has been implemented. The Successor Agency and Oversight Board are critically reviewing each and every enforceable obligation, including debt owed to the City of Tustin. Debt owed to the City and qualifying as enforceable obligations has been listed on the ROPS and submitted to DoF. These enforceable obligations are in compliance with HSC Section 34171(d)(2) as well as with page 3 of the ROPS III (January 2013 through June 2013) instructions posted on DoF's website. As noted before, the Oversight Board is committed to fulfilling its fiduciary responsibilities to holders of enforceable obligations and the taxing entities that benefit from distributions of property tax. The Oversight Board has an obligation to treat all holders of debt equitably, including the City.

- R5) Successor agencies and oversight boards should critically review the ROPS to evaluate the need for incentive payments to commercial entities. (See F9)

City Response:

The recommendation has been implemented. Prior to dissolution, the Tustin Community Redevelopment Agency was not providing incentive payments to commercial entities. As a result, the First, Second and Third ROPS approved by the Oversight Board and the First and Second ROPS approved by the California Department of Finance ("DoF") did not list any incentive payments to commercial entities as an enforceable obligation. The Third ROPS is currently being reviewed by DoF. Unless there are amendments to the current legislation, the Successor Agency cannot enter into new agreements that require incentive payments and, as a result, cannot list incentive payments as an enforceable obligation on a ROPS.

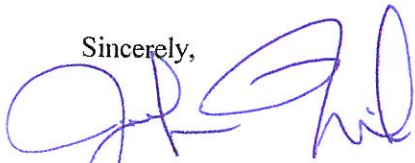
Thank you for the opportunity to respond to the Grand Jury's Report. If you have any questions regarding our response, please contact Jeffrey C. Parker, City Manager, at (714) 573-3012 or Jerry Craig, Successor Agency Program Manager, at (714) 573-3121.

Response to June 22, 2012 Grand Jury Report

October 17, 2012

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Sincerely,

A handwritten signature in blue ink, appearing to read "John Nielsen". The signature is stylized and cursive.

John Nielsen
Mayor

cc: 2011-2012 Orange County Grand Jury
Jeffrey C. Parker, City Manager
David E. Kendig, City Attorney
John Buchanan, Program Manager
Jerry Craig, Program Manager