



May 17, 2013

Mr. David Christian, Finance Director
City of Yorba Linda
4845 Casa Loma Avenue
Yorba Linda, CA 92885

Dear Mr. Christian:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS 13-14A) letter dated April 13, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Yorba Linda Successor Agency (Agency submitted a ROPS 13-14A to Finance on February 27, 2013 for the period of July through December 2013. 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 April 30, 2013.

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 item being disputed.

- Claimed administrative costs exceed the allowance by \$920,106. HSC section 34171 (b) limits administrative expenses to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$250,000 in administrative expenses. Although, \$203,600 is claimed for administrative cost, Items Nos. 14, 15 and 22 for salaries and benefits and legal services are considered administrative expense and should be counted towards the cap. Therefore, \$920,106 of excess administrative cost claimed is not allowed.

The Agency contends that these items are enforceable obligations because of the following reasons:

- Item Nos. 14 and 22 – Memorandums of Understanding totaling \$866,506. Finance initially denied these items due to a lack of support. The Agency contends the salaries and benefits expense are for project implementation. Upon review of the documentation provided by the Agency, the salaries and benefits expense is allocated between three projects; however, it is unclear how these salaries and benefits are associated with items approved on the ROPS. Additionally, the positions listed do not include a description of the task or work to be performed and does not provide a clear association to the implementation costs of the projects. As such, these items are considered general and administrative expenses.

- o Item No. 15 – Legal Services administrative costs in the amount of \$100,000. Finance continues to reclassify this item as administrative expense. The Agency contends that this item is an enforceable obligation because it is related to wind down activities and should be counted outside the cap. The item does not fall into anyone of the four categories listed below.

HSC section 34171(b) defines items that shall be specifically excluded from the administrative cap as:

- a. Any litigation expenses related to assets or obligations
 - b. Settlements and judgments
 - c. The costs of maintaining assets prior to disposition
 - d. Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs
- Item Nos. 40 through 43 – Tax Allocation Bonds totaling \$1,256,585. Finance no longer objects to these items. It is our understanding the Agency is requesting debt service reserves for the March 2014 period. During the Meet and Confer process, the Agency stated they are concerned there would be insufficient funding during the ROPS 13-14B period to cover debt service based on the past actions of the County Auditor Controller (CAC). During ROPS I and II periods, the CAC did not make any RPTTF distributions to the Agency. HSC section 34171(d) (1) (A) allows for a reserve, when required by the bond indenture or when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the following half of the calendar year. Therefore, these items are eligible for funding on this ROPS.
 - Item Nos. 48 and 49 – Town Center Development totaling \$8 million funded by bond proceeds. Finance no longer objects to these items. Finance originally denied these items because contracts for these line items have not yet been awarded and the Agency is not allowed to enter into new contracts. Pursuant to HSC section 34191.4 (c) the Agency's requests to use bond funds for these obligations may be allowable once the Agency receives a Finding of Completion from Finance.

Subsequent to the Meet and Confer session, the Agency received a Finding of Completion from Finance on May 9, 2013. Therefore, the Agency may utilize proceeds derived from bonds issued prior to January 1, 2011 in a manner consistent with the original bond covenants per HSC section 34191.4 (c). As such, these items are eligible for expenditure on the ROPS 13-14A, as originally requested.

Except for items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 13-14A. 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 your ROPS for July through December 2013. Finance's determination is effective for this time period only and should not be conclusively relied on 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 denied on this ROPS or a preceding ROPS.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$6,708,588 as summarized below:

Approved RPTTF Distribution Amount	
For the period of July through December 2013	
Total RPTTF funding requested for obligations	\$ 7,425,094
Minus: Six-month total for items denied or reclassified as administrative cost	
Item 14*	433,252
Item 15*	100,000
Item 22*	433,254
Total approved RPTTF for enforceable obligations	<u>\$ 6,458,588</u>
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost	<u>250,000</u>
Minus: ROPS II prior period adjustment	<u>-</u>
Total RPTTF approved for distribution:	\$ 6,708,588

*Reclassified as administrative cost

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2012 period. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. The amount of RPTTF approved in the above table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Please refer to the ROPS 13-14A schedule that was used to calculate the approved RPTTF amount:

[http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14A Forms by Successor Agency/](http://www.dof.ca.gov/redevelopment/ROPS/ROPS%2013-14A%20Forms%20by%20Successor%20Agency/).

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 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 denied on this ROPS or a preceding ROPS. The only exception is for those items that have received a Final and Conclusive determination from Finance pursuant to HSC 34177.5 (i). Finance's review of items that have received a Final and Conclusive determination is limited to confirming the scheduled payments as required by the obligation.

The amount available from the RPTTF is the same as the amount of 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.

To the extent proceeds from bonds issued after December 31, 2010 exist and are not encumbered by an enforceable obligation pursuant to 34171 (d), HSC section 34191.4 (c)(2)(B) requires these proceeds be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation.

Mr. David Christian
May 17, 2013
Page 4

Please direct inquiries to Kylie Le, Supervisor or Brian Dunham, Lead Analyst at
(916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Pamela Stoker, Redevelopment & Housing Manager, City of Yorba Linda
Mr. Frank Davies, Property Tax Manager, County of Orange
California State Controller's Office