



May 16, 2014

Mr. Jacob Rahn, Financial Services Manager  
City of San Clemente  
100 Avenida Presidio  
San Clemente, CA 92672

Dear Mr. Rahn:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 7, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of San Clemente Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on February 26, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 7, 2014. 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 16, 2014.

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.

- Item No. 3 – General Fund Loan in the amount of \$720,000 for ROPS 14-15A. Finance approves this item for \$93,017 and continues to deny the remaining amount requested for ROPS 14-15A or \$626,983. Pursuant to HSC section 34191.4 (b), loan agreements between the former redevelopment agency and sponsoring entity may be placed on the ROPS if the following requirements are met: (1) the Agency has received a Finding of Completion; and (2) the Agency's oversight board (OB) approves the loan as an enforceable obligation by finding the loan was for legitimate redevelopment purposes.

The Agency received a Finding of Completion on June 20, 2013. In addition, on April 10, 2014 the Agency submitted OB Resolution No. OB 13-03, making a finding that the loan agreement by and between the City of San Clemente and the former San Clemente Redevelopment Agency was for legitimate redevelopment purposes and is an enforceable obligation. The OB resolution was approved May 16, 2014.

Finally, HSC section 34191.4 (b) (2) (A) specifies the loan repayment is to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through distributed to the taxing entities in the fiscal year 2012-13 base year. Based on this formula, our review indicates the Agency is only eligible to receive \$93,017 in fiscal year 2014-15. Finance will work with the Agency to determine the actual total outstanding balance.

The administrative costs claimed are within the fiscal year administrative cap pursuant to HSC section 34171 (d). However, Finance notes the oversight board has approved an amount that appears excessive, given the number and nature of the other obligations listed on the ROPS. HSC section 34179 (i) requires the oversight board to exercise a fiduciary duty to the taxing entities. Therefore, Finance encourages the oversight board to apply adequate oversight when evaluating the administrative resources required to successfully wind-down the Agency.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2013 period. HSC section 34186 (a) also specifies 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 table below includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

The amount of RPTTF approved in the table below includes an excess prior period adjustment (PPA) in the amount of \$26,207. The current approved RPTTF is insufficient to allow for the prior period adjustments during this ROPS period. The Agency should apply the remaining funds prior to requesting RPTTF on future ROPS.

Except for the items denied in whole or in part as enforceable obligations or for the items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15A. The Agency's maximum approved RPTTF distribution for the reporting period is \$0 as summarized below:

| <b>Approved RPTTF Distribution</b>                               |                   |
|--|-------------------|
| <b>For the period of July through December 2014</b>              |                   |
| Total RPTTF requested for non-administrative obligations         | 750,000           |
| Total RPTTF requested for administrative obligations             | 125,000           |
| <b>Total RPTTF requested for obligations</b>                     | <b>\$ 875,000</b> |
| <b>Total RPTTF requested for non-administrative obligations</b>  | <b>750,000</b>    |
| <u>Denied Items</u>  |                   |
| Item No. 3   | (626,983)         |
|  | (626,983)         |
| <b>Total RPTTF authorized for non-administrative obligations</b> | <b>\$ 123,017</b> |
| <b>Total RPTTF requested for administrative obligations</b>      | <b>125,000</b>    |
| <b>Total RPTTF authorized for administrative obligations</b>     | <b>\$ 125,000</b> |
| <b>Total RPTTF authorized for obligations</b>                    | <b>\$ 248,017</b> |
| ROPS 13-14A prior period adjustment (PPA)                        | (274,224)         |
| Excess PPA   | 26,207            |
| <b>Total RPTTF approved for distribution</b>                     | <b>\$0</b>        |

Pursuant to HSC section 34177 (l) (1) (E), agencies are required to use all available funding sources prior to RPTTF for payment of enforceable obligations. During the ROPS 14-15A review, Finance requested financial records to support the cash balances reported by the Agency; however, Finance was unable to reconcile the financial records to the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 14-15A review period to properly identify the Agency's cash balances. If it is determined the Agency

possesses cash balances that are available to pay approved obligations, the Agency should request the use of these cash balances prior to requesting RPTTF in ROPS 14-15B.

Please refer to the ROPS 14-15A schedule that was used to calculate the approved RPTTF amount:

<http://www.dof.ca.gov/redevelopment/ROPS>

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2014. This determination only applies to items where funding was requested for the six-month period. 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 section 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 HSC section 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.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD  
Assistant Program Budget Manager

cc: Ms. Sandee Chiswick, Senior Accountant, City of San Clemente  
Mr. Frank Davies, Property Tax Manager, Orange County  
California State Controller's Office