



April 11, 2014

Mr. Jeffrey Parker, City Manager
City of Tustin
300 Centennial Way
Tustin, CA 92780

Dear Mr. Parker:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Tustin Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to the California Department of Finance (Finance) on February 27, 2014 for the period of July through December 2014. Finance has completed its review of your ROPS 14-15A, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following do not qualify as enforceable obligations for the reasons specified:

- Item No. 18 – Town Center Housing Deficit Reduction Plan in the amount of \$976,042. Deferred housing set-aside payments are not enforceable obligations at this time. Upon receiving a Finding of Completion from Finance and after the oversight board approves a repayment schedule, HSC section 34191.4 (b) may cause these items to be enforceable in future ROPS periods.
- Item Nos. 35 and 71 – Agreements with the City of Tustin (City) totaling \$42,328,170. The Public Works Agreement between the City and the Agency in the amount of \$25,934,993 and the Affordable Housing Reimbursement Agreement between the City and the Agency in the amount of \$16,393,177 are not enforceable obligations at this time. It is our understanding the loans were issued on June 7, 1993 and June 5, 2007. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the redevelopment agency (RDA) and the former RDA are not enforceable, unless issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. These loans were issued after the first two years of the former RDA's creation and are not associated with the issuance of debt. Therefore, these items are not enforceable obligations and are not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding on this ROPS.

Upon receiving a Finding of Completion from Finance and after the oversight board makes a finding the loan was for legitimate redevelopment purposes, HSC section 34191.4 (b) may cause these items to be enforceable in future ROPS periods.

- Item No. 90 – Housing Entity Administrative Cost Allowance in the amount of \$143,404. Pursuant to HSC section 34177 (p), the housing entity administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the redevelopment agency elected to not assume the housing functions. Because the housing entity to the former RDA of the City is the City-formed Housing Authority (Authority) and the Authority operates under the control of the City, the Authority is considered the City under Dissolution Law. Therefore, \$143,404 of housing entity administrative allowance is not allowed.
- Claimed administrative costs exceed the allowance by \$179,314. HSC section 34171 (b) limits the fiscal year 2014-15 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. Although \$429,314 is claimed for administrative cost, only \$250,000 is available pursuant to the cap. Therefore, \$179,314 of excess administrative cost is not allowed.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting Redevelopment Property Tax Trust Fund (RPTTF). Pursuant to HSC section 34177 (l) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. The Agency provided financial records that displayed available Other Funds totaling \$110,679.

Therefore, with the Agency's concurrence, the funding source for the following item has been reclassified to Other Funds and in the amount specified below:

- Item No. 1 – Housing Tax Allocation Bonds, Series 2010 in the amount of \$1,293,703. The Agency requests \$1,293,703 from RPTTF; however Finance is reclassifying \$110,679 to Other Funds. This item is an enforceable obligation for the ROPS 14-15B period. However, the obligation does not require payment from property tax revenues and the Agency has \$110,679 in available Reserve Balances. Therefore, Finance is approving RPTTF in the amount of \$1,183,024 and the use of Other Funds in the amount of \$110,679, totaling \$1,293,703.

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.

Except for the items denied in whole or in part as enforceable obligations or for the item that has been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15A. If you disagree with the determination with respect to any items on your ROPS 14-15A, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

http://www.dof.ca.gov/redevelopment/meet_and_confer/

The Agency's maximum approved RPTTF distribution for the reporting period is \$4,628,727 as summarized below:

Total RPTTF requested for non-administrative obligations	14,310,462
Total RPTTF requested for administrative obligations	572,718
Total RPTTF requested for obligations	\$ 14,883,180
Total RPTTF requested for non-administrative obligations	14,310,462
<u>Denied Items</u>	
Item No. 18	(976,042)
Item No. 35	(5,190,371)
Item No. 71	(3,304,253)
	(9,470,666)
Total RPTTF for non-administrative obligations	4,839,796
<u>Cash Balances - Item reclassified to other funding sources</u>	
Item No. 1	(110,679)
	(110,679)
Total RPTTF authorized for non-administrative obligations	\$ 4,729,117
Total RPTTF requested for administrative obligations	572,718
<u>Denied Item</u>	
Item No. 90	(143,404)
	(143,404)
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(179,314)
Total RPTTF authorized for administrative obligations	\$ 250,000
Total RPTTF authorized for obligations	\$ 4,979,117
ROPS 13-14A prior period adjustment	(350,390)
Total RPTTF approved for distribution	\$ 4,628,727
Administrative Cost Cap Calculation	
Total RPTTF for non-administrative obligations	4,839,796
Percent allowed pursuant to HSC 34171 (b)	3%
Total RPTTF allowable for administrative obligations	145,194
Total RPTF administrative costs after Finance adjustments	250,000
Administrative costs in excess of the cap	\$ 179,314

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 fund 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 fund balances. If it is determined the Agency possesses fund balances that are available to pay approved obligations, the Agency should request the use of these fund 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>

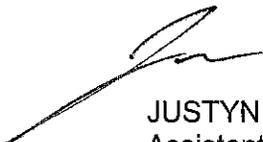
Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2014. This determination only applies to items where funding was requested for the six-month period. Finance's determination is effective for this 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 Nichelle Thomas, Supervisor or Alexander Watt, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Jerry Craig, Economic Development & Housing Manager, City of Tustin
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office