



May 17, 2013

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

Dear Mr. Parker:

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 Tustin 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 May 1, 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 items being disputed.

- Claimed administrative costs exceed the allowance by \$235,463. HSC section 34171 (b) limits fiscal year ROPS 13-14A 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 \$218,554 is claimed for administrative cost, Item No. 7 and Item No. 89 totaling \$266,909 are considered administrative expenses and should be counted toward the cap. Therefore, \$235,463 of excess administrative cost is not allowed.
  - Item No. 7 – Direct Project related costs totaling \$489,985. Finance no longer denies this item. Finance originally denied this item because insufficient documentation was provided to support this item. The Agency contends this item represents project costs and provided a classification listing during the Meet and Confer session; however, the list does not include a description of the task or work to be performed and does not provide a clear association to the project costs. As such, these items are considered general and administrative expenses.
  - Item No. 89 – Office lease in the amount of \$135,457. Finance originally denied this obligation because the lease is between the City of Tustin and PK Larwin Square, SC LP and the Agency is not a party to the agreement. During the Meet and Confer session, the Agency contends the lease is for Successor Agency

staff and submitted a schedule of payments demonstrating the Agency has been making lease payments since 2007. Therefore, this item has been classified as an administrative expense.

- Item No. 35 – Public Works Agreement between the City of Tustin (City) and the Tustin Community Redevelopment Agency in the amount of \$26,062,505. Finance continues to deny this item. The Agency contends, the Public Works Agreement dated July 18, 1983 was written for the issuance of indebtedness and the City has third party contracts that have been paid for by the City, as a result of the indebtedness. HSC 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the 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. However, these agreements were issued after the first two years of the former RDA's creation and are not associated with the issuance of debt. Therefore, this item is not an enforceable obligation at this time and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item Nos. 83 and 84 – Leases totaling \$100,000 between the USA and the City of Tustin, the recognized local redevelopment authority (LRA) for the former Marine Corps Air Station (MCAS) Tustin. It is our understanding the former RDA is not a party to the lease agreements. Finance continues to deny these items. While Finance recognizes that Senate Bill 1861 designated MCAS Tustin as a Redevelopment Project Area and the City as the LRA, the bill does not in any way obligate the former RDA or pledge tax increment to this project area. Therefore, these items are not enforceable obligations and not eligible for RPTTF funding on the ROPS.
- Item No. 87 – Affordable housing reimbursement agreement and affordable housing for legal services in the amount of \$100,000. Finance continues to deny this item. The Agency contends that the legal services are necessary to serve its affordable homeowners at MCAS Tustin in carrying out the Leases in Furtherance of Conveyance. HSC section 34176 (a) (1) states if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a RDA, all rights, powers, duties, obligations, and housing assets shall be transferred to the city, county, or city and county. Since the Housing Authority assumed the housing functions, the administrative costs associated with these functions are the responsibility of the housing successor. Therefore, these items are not enforceable obligations and not eligible for RPTTF funding on the ROPS.

In addition, per Finance's ROPS letter dated April 13, 2013, the following items continue to be denied and were not contested by the Agency:

- Item Nos. 55 and 57– Various contracts totaling \$69,058 are not obligations of the Agency. These contracts are between the City of Tustin and various third parties. The former RDA is neither a party to the contract nor responsible for payment of the contract. Therefore, these line items are not enforceable obligations and not eligible for RPTTF funding on the ROPS.

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 \$5,144,447 as summarized below:

<b>Approved RPTTF Distribution Amount</b>	
<b>For the period of July through December 2013</b>	
Total RPTTF funding requested for obligations	\$ 7,285,126
Minus: Six-month total for items denied or reclassified as administrative cost	
Item 7 *	244,943
Item 35	1,954,712
Item 55	14,058
Item 57	55,000
Item 83	25,000
Item 84	25,000
Item 87	50,000
Item 89*	21,966
Total approved RPTTF for enforceable obligations	\$ 4,894,447
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost	250,000
Minus: ROPS II prior period adjustment	-
<b>Total RPTTF approved for distribution:</b>	<b>\$ 5,144,447</b>

\*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_13-14A_Forms_by_Successor_Agency/).

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.

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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.

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

Sincerely,



STEVE SZALAY  
Local Government Consultant

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