



November 6, 2013

Mr. David Belmer, Assistant City Manager  
City of Lake Forest  
25550 Commercentre Drive  
Lake Forest, CA 92630

Dear Mr. Belmer:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Lake Forest Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 24, 2013 for the period of January through June 2014. Finance has completed its review of your ROPS 13-14B, 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. 1 – Certificates of Participation (El Toro Road) in the amount of \$155,584. The Agency requested \$303,818; however, the total amount due during ROPS 13-14B is \$148,234. HSC section 34171 (d) (1) (A) allows agencies to hold a reserve for debt service payments when required by the bond indenture, or when the next property tax allocation will be insufficient to pay all obligations due for the next payment due in the following half of the calendar year. Based on our review of the bond indentures, we did not note any requirement to create such reserves. Additionally, based on the history of the Agency's RPTTF distributions, it is our understating the next property tax allocation will be sufficient to make debt service payments due for this item. Therefore, the excess, \$155,584 (\$303,818-\$148,234) is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item No. 11 – City of Lake Forest Loan repayment in the amount of \$355,281 is not eligible for funding at this time. The Agency received a Finding of Completion on April 26, 2013. As such, the Agency may place loan agreements between the former redevelopment agency and sponsoring entity on the ROPS, as an enforceable obligation, provided the oversight board makes a finding that the loan was for legitimate redevelopment purposes per HSC section 34191.4 (b) (1). While ROPS 13-14B falls within fiscal year 2013-14, the repayment of this city loan is subject to the repayment formula outlined in HSC section 34191.4 (b) (2) (A).

HSC section 34191.4 (b) (2) (A) allows this repayment 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 2012-13 base year. Since the formula does not allow for estimates, the Agency must wait until the ROPS residual pass-through distributions are known for fiscal year 2013-14 before requesting funding for this obligation. The Agency may be able to request funding beginning with ROPS 14-15A.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that are required to be used prior to requesting 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 Reserve Funds.

The following items were determined to be enforceable obligations for the ROPS 13-14B period. However, these obligations do not require payment from property tax revenues and the Agency has \$226,621 in Reserve Funds. Therefore, with the Agency's concurrence, the funding source for the following items have been reclassified to Reserve Funds and in the amounts specified below:

- Item No. 1 – Certificates of Participation (El Toro Road) in the amount of \$148,234.
- Item No. 2 – Banking Fees in the amount of \$1,800.
- Item No. 3 – Agency Administrative costs in the amount of \$51,587.
- Item No. 6 – Professional Services in the amount of \$10,000.
- Item No. 7 – Legal Services in the amount of \$15,000.

However, Finance was unable to fully reconcile the financial records to the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 13-14B review period to properly identify the Agency's fund balances. If it is determined the Agency possesses additional 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 14-15A.

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 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 table below includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Except for items denied in whole or in part as enforceable obligations or for items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 13-14B. If you disagree with the determination with respect to any items on your ROPS 13-14B, 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/](http://www.dof.ca.gov/redevelopment/meet_and_confer/)

The Agency's maximum approved RPTTF distribution for the reporting period is zero as summarized below:

<b>Approved RPTTF Distribution Amount For the period of January through June 2014</b>	
Total RPTTF requested for non-administrative obligations	660,899
Total RPTTF requested for administrative obligations	76,587
<b>Total RPTTF requested for obligations</b>	<b>\$ 737,486</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>660,899</b>
<u>Denied Items</u>	
Item No. 1	(155,584)
Item No. 11	(355,281)
	(510,865)
<u>Reclassified Items</u>	
Item No. 1	(148,234)
Item No. 2	(1,800)
	(150,034)
<b>Total RPTTF approved for non-administrative obligations</b>	<b>-</b>
<b>Total RPTTF requested for administrative obligations</b>	<b>76,587</b>
<u>Reclassified Items</u>	
Item No. 3	(51,587)
Item No. 6	(10,000)
Item No. 7	(15,000)
	(76,587)
<b>Total RPTTF for administrative obligations</b>	<b>-</b>
<b>Total RPTTF approved for obligations</b>	<b>-</b>
ROPS III prior period adjustment	(47,591)
<b>Total RPTTF approved for distribution</b>	<b>\$ (47,591)</b>

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

[http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14B Forms by Successor Agency/](http://www.dof.ca.gov/redevelopment/ROPS/ROPS_13-14B_Forms_by_Successor_Agency/).

Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2014. This determination applies only 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 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

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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 Alex Watt, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD  
Assistant Program Budget Manager

cc: Mr. Keith Neves, Director of Finance, City of Lake Forest  
Mr. Frank Davies, Property Tax Manager, Orange County  
California State Controller's Office