DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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December 17, 2013

Ms. Cindy Russell, Chief Finance Officer
City of San Juan Capistrano
32400 Paseo Adelanto
San Juan Capistrano, CA 92675

Dear Ms. Russell:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 8, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of San Juan Capistrano Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to Finance on September 26, 2013, for the period of January through June 2014. Finance issued a ROPS determination letter on November 8, 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 November 26, 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.

- Item No. 5 – Tax Allocation Bond Reserve Set-Aside in the amount of $467,500. Finance no longer denies this item. The Agency requests $467,500 to fund one half of the principal debt service payments due during July through December 2014 (ROPS 14-15A). 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 under the provisions of the bond for the next payment due in the following half of the calendar year. Based on our review of the bond indentures, the bonds have first lien on tax increment revenue; therefore, the Agency will be permitted to receive the amount requested.

  Finance notes that pursuant to HSC section 34183 (a) (2) (A), debt service payments have first priority for payment from distributed RPTTF funding. As such, the additional $467,500 requested to be held in reserve should be transferred upon receipt to the bond trustee(s) along with the amounts approved for the other ROPS 13-14B debt service payments prior to making any other payments on approved ROPS items. Any requests to fund these items again in the ROPS 14-15A period will be denied unless insufficient RPTTF is received to satisfy both the debt service payments due during the ROPS 13-14B period and the reserve amounts requested in ROPS 13-14B for the ROPS 14-15A debt service payments.

- Item No. 15 – Cooperation Agreement (Agreement) with the City of San Juan Capistrano in the amount of $1,348,899. Finance continues to deny this item. As previously determined, the Agreement was entered to provide the Agency with assistance for various administrative services. The Agency claims these are direct project costs that have been deferred per the Agreement. We note that both agreements provided by the Agency were entered into in 1985 and information provided during the meet and confer did not support that the amount remains unpaid after 18 years. In addition, 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. While this Agreement was entered into within the first two years of the RDA's creation; the Agency has not provided sufficient documentation to support the amounts requested. Therefore, this item is denied.

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.

These 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 other available funds. Therefore, the funding sources for the following items have been reclassified to the funding sources and in the amounts specified below:

- Item No. 1 – 1997 Subordinated Taxable Tax Allocation Bonds in the amount of $706,963. The Agency requests $22,863 of RPTTF; however Finance is reclassifying $22,863 to Other Funds. Therefore, Finance is approving RPTTF in the amount of $0 and the use of Other Funds in the amount of $22,863, totaling $22,863 for Item No. 1

- Item No. 2 – 1998 Tax Allocation Refunding Bonds in the amount of $1,571,040. The Agency requests $34,626 of RPTTF; however, Finance is reclassifying $2,137 to Other Funds and $32,489 to Reserve funds. Therefore, Finance is approving RPTTF in the amount of $0, the use of Other Funds in the amount of $2,137, and the use of Reserve Funds in the amount of $32,489, totaling $32,626 for Item No. 2.

- Item No. 3 – 2008 Tax Allocation Bonds, Series A in the amount of $12,871,019. The Agency requests $178,484 of RPTTF; however, Finance is reclassifying $178,484 to Reserve Funds. Therefore, Finance is approving RPTTF in the amount of $0 and the use of Reserve Funds in the amount of $178,484, totaling $178,484 for Item No. 3.

- Item No. 4 – 2008 Tax Allocation Bonds, Series B in the amount of $17,907,265. The Agency requests $301,173 of RPTTF; however, Finance is reclassifying $301,173 to Reserve Funds. Therefore, Finance is approving RPTTF in the amount of $0 and the use of Reserve Funds in the amount of $301,173, totaling $178,484 for Item No.4.

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 below table 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 items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 13-14B. The Agency's maximum approved RPTTF distribution for the reporting period is $1,121,177 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014		
Total RPTTF requested for non-administrative obligations		2,942,222
Total RPTTF requested for administrative obligations		65,000
Total RPTTF requested for obligations	**$**	**3,007,222**
Total RPTTF requested for non-administrative obligations		**2,942,222**
Denied Items		
Item No. 52		(1,348,899)
		(1,348,899)
Total RPTTF before reclassification		**1,593,323**
Reclassified Items		
Item No. 1		(22,863)
Item No. 2		(34,626)
Item No. 3		(178,484)
Item No. 4		(301,173)
		(537,146)
Total RPTTF approved for non-administrative obligations		**1,056,177**
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)		**65,000**
Total RPTTF approved for obligations		**1,121,177**
ROPS III prior period adjustment		-
Total RPTTF approved for distribution	**$**	**1,121,177**

Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	2,564,166
Total RPTTF for 13-14B (January through June 2014)	1,125,823
Less approved unfunded obligations from prior periods	-
Total RPTTF for fiscal year 2013-14	**3,689,989**
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or $250,000)	250,000
Administrative allowance for 13-14A (July through December 2013)	185,000
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	**65,000**

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/.

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 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. Michelle Bannigan, Assistant Finance Director, City of San Juan Capistrano
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office