

April 11, 2014

Ms. Cheryl Dyas, Director of Administrative Services
City of Mission Viejo
200 Civic Center
Mission Viejo, CA 92691

Dear Ms. Dyas:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Mission Viejo 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 Nos. 11 and 13 (Agency reported Item Nos. 10 and 12) – Crown Valley Widening Project costs in the amount of \$5,000. Finance previously denied this item, because the contract provided by the Agency had expired. Per section 3 of the Amended and Restated Joint Funding Cooperation Agreement for the Crown Valley Parkway/I-5 Widening Project – Construction Phase (Agreement), the Agreement remains in effect until the project is complete. However, according to Recital M of the Agreement, Item No. 11 is the responsibility of the City of Mission Viejo (City), not the Agency, and Item 13 is not included in the Agency's total costs for the project. Therefore, these items are not enforceable obligations and are not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item No. 29 (Agency reported Item No. 17) – Supplemental Educational Revenue Augmentation Fund Loan Repayment in the amount of \$879,098. The Agency received a Finding of Completion on May 24, 2013. As such, the Agency may place loan agreements between the former redevelopment agency (RDA) and sponsoring entity on the ROPS, as an enforceable obligation, provided the oversight board makes a finding the loan was for legitimate redevelopment purposes per HSC section 34191.4 (b) (1).

Additionally, HSC section 34191.4 (b) (2) (A) specifies 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 fiscal year 2012-13 base year.

According to the Orange County Auditor-Controller's report, the ROPS residual pass-through amount distributed to the taxing entities for fiscal year 2012-13 and 2013-14 are \$322,253 and \$2,425,101, respectively. Pursuant to the repayment formula outlined in HSC section 34191.4 (b) (2) (A), the maximum repayment amount authorized for fiscal year 2014-15 is \$0. Therefore, the requested repayment amount of \$879,098 is not eligible for funding on this ROPS. The Agency may be eligible for additional funding beginning with ROPS 15-16A.

- Item No. 35 (Agency reported Item No. 21) – Legal costs in the amount of \$30,000 are not an obligation of the Agency. It is our understanding the agreement entered into on February 21, 2006 is between the City and Richards, Watson & Gershon; the former RDA is not a party to the contract. Therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding.
- Item Nos. 42 through 47 (Agency reported Item Nos. 23 through 28) – City Loan repayments totaling \$352,622. HSC section 34173 (h) allows the city, county, or city and county that authorized the creation of a RDA to loan or grant funds to an Agency for administrative costs, enforceable obligations, or project-related expenses at the city's discretion, when the property tax distribution is insufficient to fund all obligations. Further, an enforceable obligation shall be deemed to be created for the repayment of these loans.

Oversight Board (OB) Resolution 2013-09, approving a Cooperation Agreement and Loan Agreement (Agreement) by and between the City and the Agency, was denied in our determination letter dated November 10, 2013. As several of the items identified for funding in the Agreement did not appear on the ROPS for the period January through June 2013, Finance was unable to determine whether all of the items identified for funding are in fact, enforceable obligations. Therefore, these items are not eligible for RPTTF funding.

Finance, with concurrence from the Agency, also made an adjustment to the item number sequence on ROPS 14-15A for consistency with prior ROPS. Items which no longer require funding should be classified as "retired" but retain the number assigned to the obligation on the ROPS. Furthermore, item numbers may only be used once and new obligations of the Agency should be listed with the next available sequential number. The item numbers referenced above reflect the corrected numbering sequence, as well as the Agency reported item numbers for record keeping purposes. Pursuant to HSC section 34177 (a) (2) documents are to be provided in a manner of Finance's choosing; therefore, the obligations on ROPS 14-15A should be reported in the manner previously communicated to 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.

Except for the items denied in whole or in part as enforceable obligations, 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 \$458,053 as summarized below:

Approved RPTTF Distribution For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	1,880,970
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations	\$ 2,005,970
Total RPTTF requested for non-administrative obligations	1,880,970
Denied Items	
Item No. 13	(5,000)
Item No. 29	(879,098)
Item No. 35	(20,000)
Item No. 42	(28,302)
Item No. 43	(106,500)
Item No. 44	(464)
Item No. 45	(12,887)
Item No. 46	(2,100)
Item No. 47	(202,369)
	(1,256,720)
Total RPTTF authorized for non-administrative obligations	\$ 624,250
Total RPTTF requested for administrative obligations	125,000
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Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 749,250
ROPS 13-14A prior period adjustment	(291,197)
Total RPTTF approved for distribution	\$ 458,053

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>

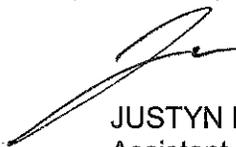
Absent a Meet and Confer this is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2014. This determination only applies to items where funding was requested for the six-month period. Finance's determination is effective for this 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: Ms. Josephine Julian, Treasury Manager, City of Mission Viejo
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office