



November 4, 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 14-15B) to the California Department of Finance (Finance) on September 25, 2014 for the period of January 1 through June 30, 2015. Finance has completed its review of your ROPS 14-15B, which may have included obtaining clarification for various items.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

- Item No. 1 – 1999 Variable Rate Demand Revenue Bonds in the amount of \$902,369 is partially denied. Although total Redevelopment Property Tax Trust Fund (RPTTF) requested is \$902,369, it is our understanding that \$33,540 has been paid with Other Funds. Pending further documentation to support what other funding was used and if repayment is necessary, the excess \$33,540 is not an enforceable obligation and not eligible for RPTTF funding.
- Item Nos. 48 and 49 – 1999 Variable Rate Demand Revenue Bond contingency litigation costs totaling \$90,000 are not allowed. The Agency has not supported these costs as being incurred, but rather indicates they are expected to be incurred in the ROPS 14-15B period. Allocating funds for unknown contingencies is not an allowable use of funds, therefore these items are not enforceable obligations and not eligible for RPTTF funding.
- Item No. 50 – OPA/DDA construction costs totaling \$30,000 are not allowed. It is our understanding that the City of Mission Viejo (City) is incurring these costs for the preparation of a third Amendment to the OPA. While the existing OPA may be an enforceable obligation, any costs incurred by the City are not enforceable obligations of the Agency and therefore not eligible for RPTTF funding.
- Claimed administrative costs exceed the allowance by \$25,000. 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. The Orange County Auditor-Controller's Office distributed \$150,000 for the July through December 2014 period, thus leaving a balance of \$100,000 for the January through June 2015 period. Although \$125,000 is claimed for administrative costs, only \$100,000 is available pursuant to the cap. Therefore, \$25,000 of excess administrative costs is not allowed.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2014 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, Finance is not objecting to the remaining items listed on your ROPS 14-15B. If you disagree with the determination with respect to any items on your ROPS 14-15B, 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 \$1,089,552 as summarized in the Approved RPTTF Distribution Table below:

Approved RPTTF Distribution	
For the period of January through June 2015	
Total RPTTF requested for non-administrative obligations	1,162,719
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS	\$ 1,287,719
Total RPTTF requested for non-administrative obligations	1,162,719
<u>Denied Items</u>	
Item No. 1	(33,540)
Item No. 48	(30,000)
Item No. 49	(60,000)
Item No. 50	(30,000)
Total RPTTF authorized for non-administrative obligations	\$ 1,009,179
Total RPTTF requested for administrative obligations	125,000
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(25,000)
Total RPTTF authorized for administrative obligations	\$ 100,000
Total RPTTF authorized for obligations	\$ 1,109,179
ROPS 13-14B prior period adjustment	(19,627)
Total RPTTF approved for distribution	\$ 1,089,552

Administrative Cost Cap Calculation	
Total RPTTF for 14-15A (July through December 2014)	1,625,299
Total RPTTF for 14-15B (January through June 2015)	1,009,179
Less approved unfunded obligations from prior periods	0
Total RPTTF for fiscal year 2014-2015	2,634,478
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or \$250,000)	250,000
Administrative allowance for 14-15A (July through December 2014)	150,000
Allowable RPTTF distribution for administrative cost for ROPS 14-15B	100,000
Total RPTTF administrative obligations after Finance adjustments	125,000
Administrative costs in excess of the cap	\$ (25,000)

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 14-15B review, Finance requested financial records to support the cash balances reported by the Agency; however, the Agency was unable to support the amounts reported. The beginning balances for Reserve Balances, Other Funds, and RPTTF could not be supported by the Agency's financial records. As a result, Finance will continue to work with the Agency after the ROPS 14-15B 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 15-16A.

Please refer to the ROPS 14-15B 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 January 1 through June 30, 2015. 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 the 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 agency in the RPTTF.

Pursuant to HSC section 34177 (a) (3), only those payments listed on an approved ROPS may be made by the successor agency from the funds specified in the ROPS. However, if for whatever reason the Agency needs to make payments for approved obligations from another funding source, HSC section 34177 (a) (4) requires the Agency to first obtain oversight board approval.

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 Erika Santiago, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting 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