



November 17, 2014

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

Dear Mr. Parker:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Tustin Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to the California Department of Finance (Finance) on October 3, 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. 17 – Asset Transfer Obligations in the amount of \$200,000 is not allowed. The Agency asserts these costs are for appraisals, property title reports, and attorney fees for four parcels that will be included in the Agency's Long Range Property Management Plan (LRPMP). However, the Agency was unable to provide any documentation to support the amounts claimed. To the extent the Agency can provide suitable documentation, such as executed contracts or vendor invoices to support the requested funding, the Agency may be able to obtain Redevelopment Property Tax Trust Fund (RPTTF) on future ROPS.
- The Agency's claimed administrative costs exceed the allowance by \$113,401. 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 \$250,000 in administrative costs for the July through December 2014 period, thus leaving a balance of \$0 available for the January through June 2015 period. Although \$125,000 is claimed for administrative costs, no remaining administrative allowance is available pursuant to the cap. Of the \$125,000 administrative costs requested, \$11,599 has been reclassified to Other Funds (see below). Therefore, \$113,401 (\$125,000 - \$11,599) of excess administrative cost is not allowed.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should 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 self-reported an available Other Funds balance of \$122,278; however \$110,679 was reclassified in the 14-15A period. Available Other Funds in the amount of \$11,599 remains (\$122,278 - \$110,679).

Therefore, the funding source for the following item has been reclassified to Other Funds and in the amount specified below:

- Item No. 68 – Administrative Costs. The Agency requests \$125,000 from RPTTF; however, Finance is reclassifying \$11,599 to Other Funds. This item is an enforceable obligation for the ROPS 14-15B period. However, the obligation does not require payment from property tax revenues and the Agency has \$11,599 in available Other Funds. Therefore, Finance is approving RPTTF in the amount of \$0 (see above) and the use of Other Funds in the amount of \$11,599, totaling \$11,599.

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 review by the county auditor-controller (CAC) and the State Controller.

Based on our review of the Agency's prior period adjustment reporting, the Agency inappropriately used distributed RPTTF for non-approved ROPS items. Pursuant to HSC section 34177 (a) (3), only those payments listed in the ROPS may be made by the successor agency and only from the funds specified in the ROPS. Furthermore, pursuant to HSC section 34178 (a), the Agency or oversight board is not allowed to restore funding for an obligation that was denied by Finance. As a result of our review, Finance is hereby adjusting the prior period adjustment reported on the ROPS 13-14B form by \$125,000 to accurately reflect only those payments that were authorized by Finance on the Agency's ROPS 13-14B. Therefore, the amount of RPTTF approved in the table below includes the prior period adjustment resulting from the CAC's review, as adjusted by Finance.

Except for the item denied in whole or in part or item that has been reclassified, 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 \$1,528,897 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	1,806,349
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS	\$ 1,931,349
Total RPTTF requested for non-administrative obligations	1,806,349
<u>Denied Item</u>	
Item No. 17	(100,000)
Total RPTTF authorized for non-administrative obligations	\$ 1,706,349
Total RPTTF requested for administrative obligations	125,000
<u>Reclassified Item</u>	
Item No. 68	(11,599)
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(113,401)
Total RPTTF authorized for administrative obligations	0
Total RPTTF authorized for obligations	\$ 1,706,349
Self-reported ROPS 13-14B prior period adjustment (PPA)	(52,452)
Finance adjustment to ROPS 13-14B PPA	(125,000)
Total ROPS 13-14B PPA	(177,452)
Total RPTTF approved for distribution	\$ 1,528,897

Administrative Cost Cap Calculation	
Total RPTTF for 14-15A (July through December 2014)	4,729,117
Total RPTTF for 14-15B (January through June 2015)	1,528,897
Total RPTTF for fiscal year 2014-2015	6,258,014
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)	250,000
Allowable RPTTF distribution for administrative cost for ROPS 14-15B	0
Total RPTTF administrative obligations after Finance adjustments	113,401
Administrative costs in excess of the cap	\$ (113,401)

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 Other Funds and RPTTF did not reconcile to the accounting records provided by the Agency. 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: Mr. Jerry Craig, Economic Development & Housing Manager, City of Tustin
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office