DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

March 31, 2015

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

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 15-16A) to the California Department of Finance (Finance) on February 25, 2015 for the period of July 1 through December 31, 2015. Finance has completed its review of your ROPS 15-16A, 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. 11 – Lower Rosan Ranch Loan Payable in the amount of $3,525,125 is not allowed. The Agency provided an amended promissory note, dated July 6, 2011, as support for this obligation. However, HSC section 34163 (c) prohibits a redevelopment agency (RDA) from amending or modifying existing agreements, obligation, or commitments with any entity for any purpose after June 27, 2011. To the extent the Agency can provide suitable documentation to support the outstanding amount of the note payable, the Agency may be able to obtain funding on a future ROPS. Therefore, this item is not eligible for Redevelopment Property Tax Trust Funds (RPTTF) on this ROPS.

- Item No. 14 – Kinoshita Note Principal Payment Set-Aside in the amount of $7,996,697 is not allowed. Finance continues to deny this item. It is our understanding this item is a contingent obligation for a principal balloon payment for the Kinoshita Note Payable due March 1, 2021. HSC section 34177 (b) allows reserves for indentures, trust indentures, or similar documents governing the issuance of outstanding RDA bonds. The statute does not currently recognize contingent or unknown obligations, thus creation of reserves for such items is not permissible. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.

- Item Nos. 31 and 32 – Property Maintenance and Legal Costs associated with assets, obligations, and property totaling $60,000 are not allowed. Finance approved the Agency's Long-Range Property Management Plan on January 16, 2015. The Agency designated the final disposition for these properties as governmental and future

development, and transferred these properties to the City of San Juan Capistrano (City) pursuant to HSC 34191.5 (b), deemed effective on January 16, 2015. Therefore, the City is now responsible for property maintenance and legal costs associated with these assets. Therefore, these items are not enforceable obligations and are not eligible for RPTTF and Other Funds funding.

During our review, 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. As the Agency no longer has Property Maintenance and Legal Costs associated with assets, obligations, and property, Other Funds are now available totaling $10,509.

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

- Item No. 6 – Fluidmaster Owner Participation Agreement in the amount of $194,760. The Agency requests $40,000 from RPTTF; however, Finance is reclassifying $10,509 to Other Funds. This item is an enforceable obligation for the ROPS 15-16A period. However, the obligation does not require payment from property tax revenues and the Agency now has $10,509 in available Other Funds. Therefore, Finance is approving RPTTF in the amount of $29,491 and the use of Other Funds in the amount of $10,509, totaling $40,000.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 15-16A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 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 review of the Agency's self-reported prior period adjustment.

Except for the items denied in whole or in part, or the item that has been reclassified, Finance is not objecting to the remaining items listed on your ROPS 15-16A. If you disagree with the determination with respect to any items on your ROPS 15-16A, 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 $2,124,623 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution For the period of July through December 2015		
Total RPTTF requested for non-administrative obligations		2,522,810
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations on ROPS	**$**	**2,647,810**
Total RPTTF requested for non-administrative obligations		**2,522,810**
Denied Item		
Item No. 11		(198,777)
Item No. 14		(50,000)
Item No. 32		(49,491)
		(298,268)
Reclassified Items		
Item No. 6		(10,509)
Total RPTTF authorized for non-administrative obligations	**$**	**2,214,033**
Total RPTTF requested for administrative obligations		**125,000**
Total RPTTF authorized for administrative obligations	**$**	**125,000**
Total RPTTF authorized for obligations	**$**	**2,339,033**
ROPS 14-15A prior period adjustment		(214,410)
Total RPTTF approved for distribution	**$**	**2,124,623**

Please refer to the ROPS 15-16A 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, 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 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 Alexander Watt, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
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