DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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April 10, 2015

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 15-16A) to the California Department of Finance (Finance) on February 26, 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. 56 – Contract for Planning Services in the amount of $15,000 is not allowed. Insufficient documentation was provided to support the amounts claimed.
  HSC section 34177.3 (a) states that agencies shall lack the authority to, and shall not, create new enforceable obligations or begin new redevelopment work, except in compliance with an enforceable obligation that existed prior to June 28, 2011. To the extent the Agency can provide suitable documentation, such as the executed contract or vendor invoices, to support the requested funding, the Agency may be able to obtain Redevelopment Property Tax Trust Funds (RPTTF) on future ROPS.

- Item No. 70 – Marine Corps Air Station (MCAS) Direct Project Costs associated with MCAS Tustin Tax Allocation Bonds in the amount of $76,500. According to information provided by the Agency, the bond proceeds were approved for transfer to the City of Tustin (City) pursuant to Oversight Board Resolution No. 14-14 and listed in ROPS 14-15B. The inclusion on the ROPS was in error. Therefore, with the Agency's consent, this item is no longer eligible for Bond Proceeds funding on this ROPS.

- Item No. 72 – South Central Project Area Loan in the amount of $4,650,000 is not an enforceable obligation and not eligible for funding on the ROPS.

  OB Resolution No. 15-01, amending and reinstating the Working Capital Loan and Administrative Services Agreement (Agreement) between the City of Tustin (City) and Agency, was denied in our letter dated March 19, 2015. The Agency was unable to provide adequate documentation to support the receipt of funds from the City, and both

the original Agreement and subsequent Amended Agreement, appear to be reimbursement agreements for services provided by the City to the Agency, rather than a loan of cash.

To the extent the Agency can provide additional documentation to demonstrate the monetary amounts that comprise the loan, rather than a reimbursement of services provided by the City, this item may be eligible for repayment on future ROPS.

- Item Nos. 74 through 77 – Various Legal Services totaling $30,000 are not enforceable obligations. It appears these are housing related obligations. HSC section 34176 (a) (1) states if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a redevelopment agency (RDA), all rights, powers, duties, obligations, and housing assets shall be transferred to the city, county, or city and county. Because the Authority assumed the housing functions, the administrative costs associated with these functions are the responsibility of the Authority as the housing successor. Therefore, these items are not enforceable obligations and are not eligible for funding on this ROPS.

  To the extent the Agency can provide suitable documentation, such as the executed contracts or vendor invoices to support these legal services as Agency obligations, the Agency may be able to obtain funding on future ROPS.

- Item 85 and 86 – MCAS Legal Services totaling $45,000 are not allowed. Insufficient documentation was provided for support. To the extent the Agency can provide suitable documentation, such as the executed contract or vendor invoices, the Agency may be able to obtain funding on future ROPS.

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 provided financial records that displayed available Other Funds totaling $5,260,816.

Therefore, with the Agency's concurrence, the funding source for these items has been reclassified to Other Funds and in the amounts specified below:

Item No.	Project Name/ Debt Obligation	ROPS 15-16A Amount of RPTTF Requested	Amount Reclassified to Other Funds
1	Housing Tax Allocation Bonds, Series 2010	$1,305,403	$1,305,403
3	Continuing disclosure services & arbitrage services	2,900	2,900
19	Tax Allocation Refunding Bonds 1998 (Town Center)	1,601,007	1,601,007
21	Continuing disclosure & arbitrage services	1,100	1,100
23	Stevens Square Parking Garage Declaration of Covenants, Conditions, Restrictions and Reservations	10,000	10,000
48	Tax Allocation Bonds - MCAS Tustin, Series 2010	1,852,138	1,852,138
50	Continuing disclosure services & arbitrage services	2,900	2,900
58	Contract for Financial Analysis	4,000	4,000
68	8th Amended Agreement for Reimbursement of Costs and City/Admin Agency Operations Loan between the SA/City pursuant to California HSC Section 34177 (j)	250,000	250,000
73	Housing Tax Allocation Bonds, Series 2010 - Legal Services	5,000	5,000
78	Tax Allocation Refunding Bonds 1998 (Town Center) - Legal Services	2,500	2,500
82	Tax Allocation Bonds - MCAS Tustin, Series 2010 - Legal Services	15,000	15,000
	Total	**$5,051,948**	**$5,051,948**

Our Review of ROPS 15-16A included the Agency's Oversight Board (OB) Resolution No.15-04, approving the amended administrative budget and Eighth Amended Agreement between the City and the Successor Agency for administrative support. Finance approves the administrative budget costs incurred by the City and approves funding for this contract, identified in Item No. 68, up to the maximum amount allowed pursuant to HSC section 34171 (b).

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 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.

The amount of RPTTF approved in the table below includes an excess prior period adjustment (PPA) of $91,327. The current approved RPTTF is insufficient to allow for the prior period adjustments of $91,327 during this ROPS period. Pursuant to HSC section 34177 (l) (1) (E), the Agency is required to use all available funding sources to pay enforceable obligations.

Therefore, the Agency should apply the remaining funds prior to requesting RPTTF on future ROPS.

Except for the items denied in whole or in part or items that have 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 zero 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		5,461,342
Total RPTTF requested for administrative obligations		250,000
Total RPTTF requested for obligations on ROPS	**$**	**5,711,342**
Total RPTTF requested for non-administrative obligations		**5,461,342**
Denied Items		
Item No. 56		(15,000)
Item No. 72		(584,394)
Item No. 74		(5,000)
Item No. 75		(2,500)
Item No. 76		(2,500)
Item No. 77		(5,000)
Item No. 85		(40,000)
Item No. 86		(5,000)
		(659,394)
	$	**4,801,948**
Cash Balances - Items reclassified to Other Funds/Reserve Balances		
Item No. 1		(1,305,403)
Item No. 3		(2,900)
Item No. 19		(1,601,007)
Item No. 21		(1,100)
Item No. 23		(10,000)
Item No. 48		(1,852,138)
Item No. 50		(2,900)
Item No. 58		(4,000)
Item No. 73		(5,000)
Item No. 78		(2,500)
Item No. 82		(15,000)
		(4,801,948)
Total RPTTF authorized for non-administrative obligations		**0**
Total RPTTF requested for administrative obligations		**250,000**
Reclassified Item- Items reclassified to Other Funds/Reserve Balances		
Item No. 21		(250,000)
Total RPTTF authorized for administrative obligations		**0**
Total RPTTF authorized for obligations	**$**	**0**
ROPS 14-15A prior period adjustment		(91,327)
Total RPTTF approved for distribution		**0**

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: Mr. Jerry Craig, Economic Development & Housing Manager, City of Tustin
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office