

May 15, 2015

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

Dear Mr. Parker:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 10, 2015. 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 Finance on February 26, 2015, for the period of July through December 2015. Finance issued a ROPS determination letter on April 10, 2015. Subsequently, the Agency requested a Meet and Confer session on one or more of the determinations made by Finance. The Meet and Confer session was held on April 27, 2015.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of the specific determinations being disputed.

- Item No. 56 – Contract for Planning Services in the amount of \$15,000. Finance continues to deny this item. Finance initially denied this item because insufficient documentation was provided to support the amounts claimed. During the Meet and Confer process, the Agency provided the Consultant Services Agreement (Agreement) entered into by the former Redevelopment Agency with SMS Architects on September 8, 2010 along with accounting records. However, per Section 3.4, the Agreement expired by its own terms on September 8, 2011 (one year after execution of the Agreement). Therefore, this item is not an enforceable obligation and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item No. 72 – South Central Project Area Loan in the amount of \$4,650,000. Finance continues to deny this item at this time. Finance initially denied this item because OB Resolution No. 15-01, amending and reinstating the Working Capital Loan and Administrative Services Agreement (Agreement) between the City of Tustin (City) and the 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, appeared to be reimbursement agreements for services provided by the City to the Agency, rather than a loan of cash.

During the Meet and Confer process, the Agency provided accounting records showing a cash transfer of \$4,650,000 was made on September 2, 2008, from the City to the Agency. The Agency also provided accounting records and financial statements to support that no payments were made towards this loan and that the full principal balance remains outstanding. However, to date, the Agency has not sent a new oversight board action for Finance's reconsideration. Until the Agency has an effective Oversight Board resolution addressing our March 19, 2015 letter, Finance is unable to approve this item. Therefore, this item is currently not an enforceable obligation and is not eligible for RPTTF funding at this time.

- Item No. 77 – Legal Services totaling \$10,000. Finance continues to deny this item. Finance initially denied this item because it appeared that these were housing related obligations. During the Meet and Confer process, the Agency contended that this item is related to litigation costs. However, the Agency only provided legal services agreements entered into by the City and the Agency is not a party to the agreements. As such, these agreements are the responsibility of the City, not the Agency. Therefore, this item is not an enforceable obligation and is 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 No. 85 – Marine Corps Air Station (MCAS) Legal Services totaling \$80,000 is not allowed. Finance no longer denies this item; however, Finance reclassifies this item to the administrative cost allowance. Finance initially denied this item because insufficient documentation was provided for support. During the Meet and Confer process, the Agency contended that legal services were necessary for the implementation of the MCAS Economic Development Conveyance. However, the legal services do not fall into any of the following categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b):
 - Any litigation expenses related to assets or obligations.
 - Settlements and judgments.
 - The costs of maintaining assets prior to disposition.
 - Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs.

Therefore, Finance reclassifies this item as an administrative cost.

In addition, per Finance's letter dated April 10, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 70 – 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 Nos. 74 through 76 – Various Legal Services totaling \$20,000 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 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 No. 86 – MCAS Legal Services totaling \$10,000 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 \$51,327. 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. 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
<u>Denied Items</u>	
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. 86	(5,000)
	(619,394)
<u>Reclassified Item</u>	
Item No. 85	(40,000)
	(40,000)
	\$ 4,801,948
<u>Cash Balances - Items reclassified to Other Funds/Reserve Balances</u>	
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	\$ -
Total RPTTF requested for administrative obligations	250,000
<u>Reclassified Item</u>	
Item No. 85	40,000
	40,000
<u>Cash Balances - Items reclassified to Other Funds/Reserve Balances</u>	
Item No. 21	(250,000)
	(250,000)
Total RPTTF authorized for administrative obligations	\$ 40,000
Total RPTTF authorized for obligations	\$ 40,000
ROPS 14-15A prior period adjustment	(91,327)
Total RPTTF approved for distribution	\$ -

Please refer to the ROPS 15-16A schedule that was used to calculate the approved RPTTF amount:

<http://www.dof.ca.gov/redevelopment/ROPS>

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 Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-3274.

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