DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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November 18, 2015

Mr. Jason Simpson, Director of Administrative Services
City of Lake Elsinore
130 South Main Street
Lake Elsinore, CA 92530

Dear Mr. Simpson:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m) (1) (A), the City of Lake Elsinore Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period January 1 through June 30, 2016 (ROPS 15-16B) to the California Department of Finance (Finance) on October 4, 2015. Finance has completed its review of the ROPS 15-16B.

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

- Item No. 19 – Housing Fund Loan for purposes of the Supplemental Educational Revenue Augmentation Fund (SERAF) in the amount of $562,125 is not allowed. HSC section 34191.4 (b) (3) (A) allows this repayment to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through distributed to the taxing entities in the fiscal year 2012-13 base year.

  According to the County Auditor-Controller's report, the amount distributed to the taxing entities for fiscal year 2012-13 and 2014-15 are $91,779 and $994,686, respectively. Therefore, pursuant to the repayment formula, the maximum repayment amount authorized for fiscal year 2015-16 is $451,454. The Agency requested and was approved to expend a total of $562,125 during ROPS 15-16A, which exceeded the maximum repayment amount authorized for fiscal year 2015-16 by $110,671. As such, the Agency has exhausted the maximum repayment amount authorized for fiscal year 2015-16. The Agency may be eligible for additional funding beginning ROPS 16-17.

- Item No. 33 – Interim Stadium Management Agreement in the amount of $3,625,457 is not allowed. HSC section 34181 (e) allows an oversight board to determine whether any contract, agreement, or other arrangement between the dissolved redevelopment agency and private parties should be terminated or renegotiated to reduce liabilities and increase net revenues to the taxing entities. The oversight board is also allowed to approve any amendments to or early termination of those agreements if it finds that amendments or early termination would be the best interests of the taxing entities. This amendment, however, would increase the estimated Capital Repair Schedule costs by

$1,921,912 to a total of $3,286,912, and therefore would not be in the best interests of the taxing entities. Although HSC 34171 (d) (1) (F) allows contracts or agreements necessary for the maintenance of assets prior to disposition, the type of costs identified in relation to the increased contract amount are capital repairs that go beyond the scope of maintaining the property, such as purchase of replacement stadium seating and equipment (e.g. Forklift and Polaris Ranger), media room upgrade, and Diamond Club wood and cabinet refinishing. The third amendment was also denied by Finance under OB No. 2015-004. Therefore, this item is not eligible for Other Funds in the amount of $248,649 and $1,914,788 in Redevelopment Property Tax Trust Fund (RPTTF) funding, totaling $3,625,457.

- Item No. 43 – Housing Authority Administrative Cost in the amount of $300,000 is not allowed. Pursuant to HSC section 34171 (p), the housing successor administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the redevelopment agency (RDA) elected to not assume the housing functions and that the housing functions were transferred to a local housing authority in the territorial jurisdiction of the RDA. Here, however, the City of Lake Elsinore (City) elected to be the housing successor to the RDA and retained the housing assets by submitting the housing asset transfer form to Finance on August 1, 2012. Therefore, the City is not eligible for the housing successor administrative costs allowance of $300,000 requested for ROPS 15-16B.

- Claimed administrative costs exceed the allowance by $99,170. HSC section 34171 (b) (2) limits the fiscal year 2015-16 administrative expenses to three percent of the RPTTF allocated or $250,000, whichever is greater. As a result, the Agency is eligible for $279,299 in administrative expenses. The Riverside County Auditor-Controller distributed $185,337 administrative costs for the July through December 2015 period, thus leaving a balance of $93,962 available for the January through June 2016 period. Although $193,132 is claimed for administrative cost, only $93,962 is available pursuant to the cap. Therefore, $99,170 of excess administrative cost is not allowed.

Pursuant to HSC section 34186 (a) (1), the Agency was required to report on the ROPS 15-16B form the estimated obligations versus actual payments (prior period adjustment) associated with the January through June 2015 period (ROPS 14-15B). HSC section 34186 (a) (1) also specifies the prior period adjustment self-reported by the Agency is subject to review by the county auditor-controller (CAC). 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 items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 15-16B. If you disagree with Finance's determination with respect to any items on your ROPS 15-16B, except for those items which are the subject of litigation disputing Finance's previous or related determinations, 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 $3,754,766 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution For the period of January through June 2016		
Total RPTTF requested for non-administrative obligations		6,437,717
Total RPTTF requested for administrative obligations		193,132
Total RPTTF requested for obligations on ROPS 15-16B	$	**6,630,849**
Total RPTTF requested for non-administrative obligations		**6,437,717**
Denied Items		
Item No. 19		(562,125)
Item No. 33		(1,914,788)
Item No. 43		(300,000)
		(2,776,913)
Total RPTTF authorized for non-administrative obligations	$	**3,660,804**
Total RPTTF requested for administrative obligations		**193,132**
Administrative costs in excess of the cap (see Admin Cost Cap table below)		(99,170)
Total RPTTF authorized for administrative obligations	$	**93,962**
Total RPTTF authorized for obligations	$	**3,754,766**
ROPS 14-15B prior period adjustment		0
Total RPTTF approved for distribution	$	**3,754,766**

Administrative Cost Cap Calculation		
Total RPTTF for 15-16A (July through December 2015)		5,649,175
Total RPTTF for 15-16B (January through June 2016)		3,660,804
Total RPTTF for fiscal year 2015-2016		**9,309,979**
Administrative cost cap for fiscal year 2015-16 (Greater of 3% of Total RPTTF or $250,000)		279,299
Administrative allowance for ROPS 15-16A (July through December 2015)		(185,337)
Remaining administrative cost cap for ROPS 15-16B		**93,962**
ROPS 15-16B administrative obligations after Finance adjustments		(193,132)
Administrative costs in excess of the cap	$	**(99,170)**

On the ROPS 15-16B form, the Agency reported cash balances and activity for the period January 1 through December 31, 2015. Finance will perform a review of the Agency's self-reported cash balances on an ongoing basis. Please be prepared to submit financial records and bridging documents to support the cash balances reported upon request. If it is determined the Agency possesses cash balances that are available to pay approved obligations, HSC section 34177 (l) (1) (E) requires these balances be used prior to requesting RPTTF.

Please refer to the ROPS 15-16B schedule used to calculate the total RPTTF approved for distribution:

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, 2016. This determination only applies to items when 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 ROPS periods. All items listed on a future ROPS are subject to review and may be

denied even if it was not denied on this ROPS or a preceding ROPS. The only exception is for items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). Finance's review of Final and Conclusive items 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 available prior to the enactment of the redevelopment dissolution statutes. 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.

Please direct inquiries to Cindie Lor, Supervisor, or Medy Lamorena, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Program Budget Manager

cc: Mr. Grant Yates, Executive Director, City of Lake Elsinore
Ms. Pam Elias, Chief Accountant Property Tax Division, Riverside County