



November 9, 2015

Ms. Cheryl Dyas, Director of Administrative Services
City of Mission Viejo
200 Civic Center
Mission Viejo, CA 92691

Dear Ms. Dyas:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m) (1) (A), the City of Mission Viejo 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 September 29, 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. 2 – Stradling, Yocca, Carlson & Rauth Legal Services in the amount of \$100,000 are not allowed. It is our understanding this item is related to legal services necessary for the administration of the 1999 Variable Rate Demand Revenue Bonds (Mission Viejo Mall Improvement Project), and new development. However, the Agency was unable to provide sufficient documentation to support the amounts claimed. There are no expenditure contracts in place, and allocating funds for unknown contingencies is not an allowable use of funds.

Additionally, HSC 34163 (b) prohibits the Agency from entering into contracts with, incur obligations, or make commitments to, any entity. It is our understanding the Mission Viejo Associates, L. P. (Developer) is currently constructing a 110,000 square foot, four story medical office building. As this project was not included in the original Owner Participation Agreement (OPA), the obligation of monitoring the development is not the responsibility of the Agency.

To the extent the Agency can provide sufficient documentation, such as a letter from the bond trustee, an executed contract, or vendor invoices, bond administration costs may be eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding on future ROPS.

- Item No. 45 – City of Mission Viejo (City)/KNN Financial in the amount of \$30,000 is partially allowed. The Agency requests \$30,000; however, only \$25,000 was supported pursuant to the Agreement for Consultant Services (KNN Financial) provided by the Agency. Additionally, the Agency received \$15,000 for this agreement in ROPS 15-16A;

therefore, the excess \$20,000, ($\$30,000 + \$15,000 - \$25,000$) is not eligible for RPTTF funding.

- Item No. 51 – Project Management Costs in the amount of \$90,000 are not allowed. It is our understanding this item relates to City staff and consultant time associated with the construction of the medical office building, as discussed above.

Pursuant to HSC 34177.3 (b), except as required by an enforceable obligation, the work of winding down the redevelopment agency does not include planning, design, redesign, development, demolition, alteration, construction, construction financing, site remediation, site development or improvement, land clearance, seismic retrofits, and other similar work.

Furthermore, HSC 34163 (b) prohibits the Agency from entering into contracts with, incur obligations, or make commitments to, any entity. As stated above, it is our understanding the Developer is constructing a medical office building. As this project was not included in the original OPA, the obligation of monitoring the project is not the responsibility of the Agency. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding in the amount of \$30,000 on this ROPS.

- Item Nos. 60 through 62 – Various Bond Administrative Services related to the 1999 Variable Rate Demand Revenue Bonds totaling \$60,000. It is our understanding these line items relate to the possibility of a letter of credit expiring in May of 2016. However, the Agency was unable to provide sufficient documentation to support the amounts claimed. There are no expenditure contracts in place and allocating funds for unknown contingencies is not an allowable use of funds.

To the extent the Agency can provide sufficient documentation, such as a letter from the bond trustee, an executed contract, or vendor invoices, to support these various bond administrative services, these items may be eligible for RPTTF funding on future ROPS.

- The Agency's claimed administrative costs exceed the allowance by \$71,000. 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. The Orange County Auditor-Controller distributed \$196,000 for administrative costs for the July through December 2015 period, thus leaving a balance of \$54,000 available for the January through June 2016 period. Although \$125,000 is claimed for administrative cost, only \$54,000 is available pursuant to the cap. Therefore, \$71,000 of excess administrative cost is not allowed.

Finance notes these items contain more than one contract and more than one payee. On future ROPS, the Agency must list each contract as a separate obligation with its own item number and list them in sequential order. Pursuant to HSC section 34177 (m) (1), the Agency is required to complete the ROPS in a manner provided by Finance. Future ROPS not completed in a manner provided by Finance may be rejected in its entirety and returned to the oversight board for reconsideration.

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, 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 \$736,100 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 | 872,100 |
| Total RPTTF requested for administrative obligations | 125,000 |
| Total RPTTF requested for obligations on ROPS 15-16B | \$ 997,100 |
| Total RPTTF requested for non-administrative obligations | 872,100 |
| <u>Denied Items</u> | |
| Item No. 2 | (80,000) |
| Item No. 45 | (20,000) |
| Item No. 51 | (30,000) |
| Item No. 60 | (20,000) |
| Item No. 61 | (20,000) |
| Item No. 62 | (20,000) |
| | (190,000) |
| Total RPTTF authorized for non-administrative obligations | \$ 682,100 |
| Total RPTTF requested for administrative obligations | 125,000 |
| Administrative costs in excess of the cap (see Admin Cost Cap table below) | (71,000) |
| Total RPTTF authorized for administrative obligations | \$ 54,000 |
| Total RPTTF authorized for obligations | \$ 736,100 |
| ROPS 14-15B prior period adjustment | 0 |
| Total RPTTF approved for distribution | \$ 736,100 |
| Administrative Cost Cap Calculation | |
| Total RPTTF for 15-16A (July through December 2015) | 1,255,263 |
| Total RPTTF for 15-16B (January through June 2016) | 717,100 |
| Less approved unfunded obligations from prior periods | 0 |
| Total RPTTF for fiscal year 2015-2016 | 1,972,363 |
| Administrative cost cap for fiscal year 2015-16 (Greater of 3% of Total RPTTF or \$250,000) | 250,000 |
| Administrative allowance for ROPS 15-16A (July through December 2015) | (196,000) |
| Remaining administrative cost cap for ROPS 15-16B | 54,000 |
| ROPS 15-16B administrative obligations after Finance adjustments | (125,000) |
| Administrative costs in excess of the cap | \$ (71,000) |

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 Nichelle Thomas, Supervisor, or Alexander Watt, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Program Budget Manager

cc: Ms. Josephine Julian, Treasury Manager, City of Mission Viejo
Mr. Frank Davies, Property Tax Manager, Orange County