



December 17, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 9, 2015. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Mission Viejo Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16B) to Finance on September 29, 2015, for the period of January 1 through June 30, 2016. Finance issued a ROPS determination letter on November 9, 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 November 17, 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. 2 – Stradling, Yocca, Carlson & Rauth Legal Services in the amount of \$80,000 was not allowed. Finance no longer denies this item; however, Finance reclassifies this item as an administrative cost. It was 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, Finance initially denied this item because the Agency was unable to provide sufficient documentation to support the amounts claimed. During the Meet and Confer process, the Agency contended that the legal services to be provided are project costs related to compliance with the Owner Participation Agreement, Mall Bond documents, and Covenants Agreement. However, legal services provided by a third party are not employee costs associated with work on specific project implementation activities, which are specifically excluded from the administrative cap as defined by HSC section 34171 (b) (5). Therefore, the legal services requested are considered general administrative costs and will be reclassified.
- Item No. 45 – City of Mission Viejo (City)/KNN Financial in the amount of \$30,000 was partially allowed. Finance continues to deny \$5,000 of this item and reclassifies \$25,000 as an administrative cost. Finance initially adjusted this item to \$10,000 because only \$25,000 was supported pursuant to the Agreement for Consultant Services (KNN Financial) provided by the Agency and the Agency received \$15,000 in ROPS 15-16A. During the Meet and Confer process, the Agency contended that the amount requested

is \$25,000 for professional services plus \$5,000 for related out-of-pocket expenses. Additionally, the Agency stated that the \$15,000 received in ROPS 15-16A will not be expended and will be included in the prior period adjustment process. Based upon further review of the Agreement, Exhibit B states that "the maximum cumulative fees, expenses, and costs authorized under this Agreement shall not exceed \$25,000." As a result, the out-of-pocket expenses should be included as part of this cumulative amount. Therefore, the excess \$5,000 (\$30,000 - \$25,000) is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

Additionally, the cost to evaluate alternatives and implement a preferred alternative in connection with the outstanding variable rate debt obligation incurred in 1999 for the Mission Viejo Mall Improvement Project is not required by an enforceable obligation and is not excluded from the administrative cost allowance pursuant to HSC section 34171 (d) (5). Therefore, the financial services requested are considered general administrative costs and \$25,000 will be reclassified.

- Item No. 51 – Project Management Costs in the amount of \$30,000 were not allowed. Finance continues to deny this item. Finance initially denied this item as it was our understanding this item relates to City staff and consultant time associated with the construction of the medical office building, which was not included in the original OPA discussed Item No. 2 and it is not the obligation of the Agency to monitor the project. During the Meet and Confer process, the Agency contended that since the entire Mall Site is covered under the OPA, Mall Bond documents, and Covenants Agreement, all activities (or failures to act) at, on, or about the Mall Site are subject to compliance with these documents while the Mall Bonds are outstanding, including any development undertaken at the Mall Site.

However, pursuant to HSC section 34177.3 (b), except as required by an enforceable obligation, the work of winding down the redevelopment agency (RDA) 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. As this project was not included in the original OPA, the tasks identified by the Agency in relation to the new development on the Mall Site are not required by an enforceable obligation and are not the work of winding down the former RDA. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding in the amount of \$30,000.

- Item Nos. 60 through 62 – Various Bond Administrative Services related to the 1999 Variable Rate Demand Revenue Bonds totaling \$60,000. Finance no longer denies these items; however, Finance reclassifies these items as administrative costs. It is our understanding these items relate to a letter of credit expiring in May 2016. Finance initially denied these items because the Agency was unable to provide sufficient documentation to support the amounts claimed. During the Meet and Confer process, the Agency provided an explanation of the services to be provided are related to the letter of credit renewal for the 1999 Variable Rate Demand Revenue Bonds. However, the services are not required by an enforceable obligation and are not excluded from the administrative cost allowance pursuant to HSC section 34171 (d) (5). Therefore, the financial services requested are considered general administrative costs and will be reclassified.

- Item Nos. 63 through 66 – Additional items not included on the ROPS 15-16B submission. During the Meet and Confer process, the Agency discussed these items and requested that they be approved for funding; however, these items were not submitted by the Agency in their ROPS 15-16B. Since these items were not included in the original submission, Finance cannot review these during the Meet and Confer process, as there is no denial/determinations for these items that would warrant the need to meet and confer. HSC section 34177 (m) provides that the successor agency shall complete the ROPS in the manner provided for by Finance and we only accept the ROPS 15-16B template downloaded from the RAD App for the ROPS 15-16B review.

In addition, per Finance's letter dated November 9, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- The Agency's claimed administrative costs exceed the allowance by \$236,000. 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, Finance reclassified Item Nos. 2, 45, and 60 through 62 as administrative costs totaling \$165,000, and only \$54,000 is available pursuant to the cap. Therefore, \$236,000 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. The Agency's maximum approved RPTTF distribution for the reporting period is \$726,100 as summarized in the Approved RPTTF Distribution table on the next page:

<b>Approved RPTTF Distribution</b>	
<b>For the period of January through June 2016</b>	
Total RPTTF requested for non-administrative obligations	872,100
Total RPTTF requested for administrative obligations	125,000
<b>Total RPTTF requested for obligations on ROPS 15-16B</b>	<b>\$ 997,100</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>872,100</b>
<u>Denied Items</u>	
Item No. 45	(5,000)
Item No. 51	(30,000)
	(35,000)
<u>Reclassified Items</u>	
Item No. 2	(80,000)
Item No. 45	(25,000)
Item No. 60	(20,000)
Item No. 61	(20,000)
Item No. 62	(20,000)
	(165,000)
<b>Total RPTTF authorized for non-administrative obligations</b>	<b>\$ 672,100</b>
<b>Total RPTTF requested for administrative obligations</b>	<b>125,000</b>
<u>Reclassified Items</u>	
Item No. 2	80,000
Item No. 45	25,000
Item No. 60	20,000
Item No. 61	20,000
Item No. 62	20,000
	165,000
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(236,000)
<b>Total RPTTF authorized for administrative obligations</b>	<b>\$ 54,000</b>
<b>Total RPTTF authorized for obligations</b>	<b>\$ 726,100</b>
ROPS 14-15B prior period adjustment	0
<b>Total RPTTF approved for distribution</b>	<b>\$ 726,100</b>
<b>Administrative Cost Cap Calculation</b>	
Total RPTTF for 15-16A (July through December 2015)	1,255,263
Total RPTTF for 15-16B (January through June 2016)	672,100
Less approved unfunded obligations from prior periods	0
<b>Total RPTTF for fiscal year 2015-2016</b>	<b>1,927,363</b>
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)
<b>Remaining administrative cost cap for ROPS 15-16B</b>	<b>54,000</b>
ROPS 15-16B administrative obligations after Finance adjustments	(290,000)
<b>Administrative costs in excess of the cap</b>	<b>\$ (236,000)</b>

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 (I) (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>

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

Sincerely,



JUSTYN HOWARD  
Program Budget Manager

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