

November 13, 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) (1) (A), the City of Tustin 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 30, 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 – Tax Allocation Refunding Bonds 1998 Series A (Town Center) in the amount of \$37,882 in Other Funds has been reclassified. It is our understanding the Agency established a Reserve Fund at issuance, and the debt service payment due June 1, 2016 represents one of the last payments due for this obligation. Therefore, with the Agency's consent, Finance has reclassified the amount requested from Other Funds to Bond Proceeds, as prescribed in the bond indenture.
- Item Nos. 35, 71 and 72 – Pursuant to HSC section 34191.4 (b), loan agreements between the former redevelopment agency and sponsoring entity may be placed on the ROPS if the following requirements are met: (1) The Agency has received a Finding of Completion; and (2) The Agency's oversight board approves the loan as an enforceable obligation by finding the loan was for legitimate redevelopment purposes.

The Agency received a Finding of Completion on May 15, 2014. However, OB Resolution Nos. 14-11, 14-12, and 15-06 were denied by Finance as described below. Therefore, the following items are not allowed at this time:

- Item No. 35 – Public Works Agreement/South Central Redevelopment Project, total obligation of \$25,934,993, \$2,595,186 requested for ROPS 15-16B, is not allowed. Finance continues to deny this item. The Agency was unable to provide the original executed Public Works Agreement. HSC section 34191.4 (b) (1) specifically states that "loan agreements entered into...shall be deemed to be enforceable obligations provided that the oversight board makes a finding that the loan was for legitimate redevelopment purposes." Without the original loan agreement that was actually entered into, it is unclear how the oversight board could make such a finding.

Furthermore, the unexecuted copy that was provided is a reimbursement agreement, not a loan agreement. The City of Tustin (City) did not loan any funds to the former RDA, rather the City incurred expenditures on various projects and requested the former RDA to reimburse the City for costs the City incurred. Therefore, this is not an enforceable obligation and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item No. 71 – Affordable Housing Reimbursement Agreement and First Amendment Between the City and Agency, total obligation of \$16,393,177, \$1,652,127 requested from Other Funds for ROPS 15-16B. Finance continues to deny this item. The Agency provided the Affordable Housing Reimbursement Agreement with two amendments. However, under the amended agreement, the City did not loan any funds to the former RDA, rather the City provided gap financing to affordable homebuyers with promissory notes and requested the former RDA to reimburse the City for the amount of gap financing provided. Therefore, this item is not an enforceable obligation and is not eligible for funding.
- Item No. 72 – South Central Project Area Loan, total obligation \$4,650,000, \$584,393 requested from Other Funds for ROPS 15-16B. Finance continues to deny this item. The Agency was unable to provide adequate documentation to support the receipt of funds from the City, and both the Agreement and subsequent Amended Agreement appear to be reimbursement agreements for administrative services provided by the City to the Agency, rather than a loan of cash. Therefore, this item is not an enforceable obligation and is not eligible for funding.

However, per the court order, Finance is currently reviewing OB Resolutions associated with these items in light of the amendments to HSC section 34191.4 by Senate Bill 107.

- Item No. 94 and 95 – Litigation Costs totaling \$152,919 have been reclassified to the Administrative Cost Allowance (ACA). Pursuant to HSC 34171 (d) (1) (F) (i), legal expenses contesting the validity of dissolution law, or challenging acts taken pursuant to the dissolution laws shall only be payable out of the ACA. These items relates to costs incurred by the Agency in challenging Finance's ROPS determination. Therefore, these items are considered general administrative costs. Because the Agency has Other Funds available, these items have been reclassified to the ACA and are approved to be funded with Other Funds.

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 Redevelopment Property Tax Trust Fund 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 \$893,703 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	3,571,228
Total RPTTF requested for administrative obligations	0
Total RPTTF requested for obligations on ROPS 15-16B	\$ 3,571,228
Total RPTTF requested for non-administrative obligations	3,571,228
<u>Denied Item</u>	
Item No. 35	(2,595,186)
Total RPTTF authorized for non-administrative obligations	\$ 976,042
Total RPTTF requested for administrative obligations	0
Total RPTTF authorized for administrative obligations	\$ 0
Total RPTTF authorized for obligations	\$ 976,042
ROPS 14-15B prior period adjustment	(82,339)
Total RPTTF approved for distribution	\$ 893,703

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.

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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