

April 12, 2016

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

Dear Mr. Simpson:

Subject: 2016-17 Annual Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (o) (1), the City of Lake Elsinore Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period July 1, 2016 through June 30, 2017 (ROPS 16-17) to the California Department of Finance (Finance) on February 1, 2016. Finance has completed its review of the ROPS 16-17.

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

- Item No. 20 – Housing Fund Loan in the total outstanding amount of \$26,194,304 is not allowed. Finance continues to deny this item. Finance denied this item because the 1995 Housing Loan agreement between the Lake Elsinore Public Financing Authority (Authority) and the former redevelopment agency (RDA) is not an enforceable obligation pursuant to HSC section 34171 (d) (2). Additionally, HSC section 34178 (c) states that a successor agency or an oversight board shall not exercise the powers granted by this subdivision to restore funding for an enforceable obligation that was deleted or reduced by the Finance pursuant to subdivision (h) of Section 34179 unless it reflects the decisions made during the meet and confer process with the Finance or pursuant to a court order. Finance's Meet and Confer determination letters dated December 17, 2014 and May 15, 2015 continued to deny this item.

During ROPS 16-17, the Agency contended this item is for repayment of interfund loans made from the Low and Moderate Income Housing Fund (LMIHF) to its project areas pursuant to the 1995 Housing Loan Agreement and therefore constitutes enforceable obligation for the Agency. However, the 1995 Housing Loan was funded with the Authority's 1995 Series A and B bond proceeds, which have since been refunded by the Authority's 2010 Series A and B Tax Allocation Revenue Bonds (2010 Bonds). Therefore, the Agency no longer has obligation under the 1995 Housing Loan. Repayment of the Agency's obligation under the various 2010 loan agreements to repay the Authority's 2010 Bonds is already funded under Item Nos. 1 and 2.

Additionally, the Agency contends that interfund loans should be considered enforceable obligations pursuant to HSC section 34171 (d) (2) based on the City of Fairfield's court ruling. However, the Agency's application of a court ruling in favor of another successor agency is not relevant to the enforceability of this item because the Agency is not a party to that agreement.

Therefore, this item is not an enforceable obligation and the requested \$2,334,000 is not eligible for Redevelopment Property Tax Trust Fund (RPPTF) funding.

- Item No. 28 – The claimed administrative costs exceed the allowance by \$82,010. HSC section 34171 (b) (3) limits the fiscal year 2016-2017 Administrative Cost Allowance (ACA) to three percent of actual distributed RPTTF in the preceding fiscal year or \$250,000, whichever is greater; not to exceed 50 percent of the distributed RPTTF in the preceding fiscal year. As a result, the Agency's maximum ACA is \$323,342 for the fiscal year. Although \$405,352 is claimed for administrative cost, only \$323,342 is available pursuant to the cap. Therefore, \$82,010 of excess administrative cost is not allowed.
- Item No. 43 – Housing Authority Administrative Cost in the total outstanding amount of \$600,000 is not allowed. Finance continues to deny this item. 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 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 Agency is not eligible for the housing successor administrative costs allowance of \$450,000 in RPTTF funding requested for ROPS 16-17.

Except for the items denied in whole or in part, Finance is not objecting to the remaining items listed on your ROPS 16-17. If you disagree with Finance's determination with respect to any items on your ROPS 16-17, 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/](http://www.dof.ca.gov/redevelopment/meet_and_confer/)

On the ROPS 16-17 form, the Agency reported cash balances and activity for the period of July 1, 2015 through June 30, 2016. Finance performs a review of the Agency's self-reported cash balances on an ongoing basis. 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 enforceable obligations, HSC section 34177 (l) (1) (E) requires these balances to be used prior to requesting RPTTF.

The Agency's maximum approved RPTTF distribution for the reporting period is \$11,051,067 as summarized in the Approved RPTTF Distribution Table on Page 4 (See Attachment).

ROPS distributions will occur twice annually, one distribution for the July 1, 2016 through December 31, 2016 (ROPS A period), and one distribution for the January 1, 2017 through June 30, 2017 (ROPS B period) based on Finance's approved amounts. Since Finance's determination is for the entire ROPS 16-17 period, the Agency is authorized to receive up to the maximum approved RPTTF through the combined ROPS A and B period distributions.

On the ROPS 16-17 form, the Agency was not required to report the estimated obligations versus actual payments (prior period adjustment) associated with the July 1, 2015 through December 31, 2015 period (ROPS 15-16A). The Agency will report actual payments for ROPS 15-16A and ROPS 15-16B on the ROPS 18-19 form pursuant to HSC section 34186 (a) (1). A prior period adjustment will be applied to the Agency's future RPTTF distribution. Therefore, the Agency should retain any difference in unexpended RPTTF.

Please refer to the ROPS 16-17 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 determination related to the enforceable obligations reported on your ROPS for the period July 1, 2016 through June 30, 2017. This determination only applies to items when funding was requested for the 12-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 Anna Kyumba, 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

Attachment

<b>Approved RPTTF Distribution</b>			
<b>For the period of July 2016 through June 2017</b>			
	<u>ROPS A Period</u>	<u>ROPS B Period</u>	<u>Total</u>
Requested RPTTF (excluding administrative obligations)	\$ 7,056,624	\$ 6,455,101	\$ 13,511,725
Requested Administrative RPTTF	211,699	193,653	405,352
<b>Total Requested RPTTF on ROPS 16-17</b>	<u>7,268,323</u>	<u>6,648,754</u>	<u>\$ 13,917,077</u>
<b>Total RPTTF requested</b>	7,056,624	6,455,101	<b>13,511,725</b>
<u>Denied Items</u>			
Item No. 20	(375,000)	(1,959,000)	(2,334,000)
Item No. 43	(375,000)	(75,000)	(450,000)
	<u>(750,000)</u>	<u>(2,034,000)</u>	<u>(2,784,000)</u>
<b>Total RPTTF authorized</b>	6,306,624	4,421,101	<b>\$ 10,727,725</b>
<b>Total Administrative RPTTF requested</b>	211,699	193,653	<b>405,352</b>
Administrative costs in excess of the cap (see Admin Cost Cap table below)	0	(82,010)	(82,010)
<b>Total Administrative RPTTF authorized</b>	211,699	111,643	<b>\$ 323,342</b>
<b>Total RPTTF approved for distribution</b>	6,518,323	4,532,744	<b>\$ 11,051,067</b>

<b>Administrative Cost Allowance Cap Calculation</b>	
Actual RPTTF distributed for fiscal year 2015-16	\$ 11,114,808
Less sponsoring entity loan and Administrative RPTTF	336,743
Actual RPTTF distributed for 2015-16 after adjustment	<u>10,778,065</u>
Administrative Cap for 2016-17 per HSC section 34171 (b)	323,342
ROPS 16-17 Administrative RPTTF after Finance adjustments	405,352
<b>Administrative Cost Allowance in excess of the cap</b>	<b>\$ (82,010)</b>