



April 11, 2016

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

Dear Ms. Dyas:

Subject: 2016-17 Annual Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (o) (1), the City of Mission Viejo 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 January 28, 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 Nos. 2, 24, 56, and 57 – Various obligations totaling \$200,000 have been reclassified to the Agency's Administrative Cost Allowance (ACA). Finance continues to reclassify these obligations to the ACA. HSC section 34171 (b) allows litigation expenses related to assets or obligations to be funded with property tax outside the administrative cap. The Agency contends these items are project related expenses. However, legal services provided by a third party, or legal services related to the Orange County Auditor-Controller calculations do not fall into any of the following categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b):
 - Any litigation expenses related to assets or obligations
 - Settlements and judgments
 - The costs of maintaining assets prior to disposition
 - Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs

Although enforceable, the types of services requested are considered general administrative costs and continue to be reclassified to the Agency's ACA.

- Item Nos. 63, 64, and 65 – Mission Viejo Housing Authority Housing Entity Administrative Cost Allowance, outstanding obligation amount totaling \$450,000, is not allowed. Finance continues to deny these items. 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. The housing successor to

the former RDA of the City of Mission Viejo (City) is the City-formed Housing Authority and the Authority operates under the control of the City, the Authority is considered the City under Dissolution Law pursuant to HSC section 34167.10. Therefore, \$450,000 of housing successor administrative allowance requested for Redevelopment Property Tax Trust Fund (RPTTF) for the ROPS 16-17 period is not allowed.

- The Agency's claimed administrative costs exceed the allowance by \$215,000. HSC section 34171 (b) (3) limits the fiscal year 2016-17 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 \$250,000 for the fiscal year 2016-17. Although \$465,000 is claimed for administrative cost, only \$250,000 is available pursuant to the cap. Therefore, \$215,000 of excess administrative cost is not allowed.

Except for the items denied in whole or in part or the items that have been adjusted, 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/

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 (I) (1) (E) requires these balances to be used prior to requesting RPTTF.

The Agency's maximum approved RPTTF distribution for the reporting period is \$2,336,420 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:

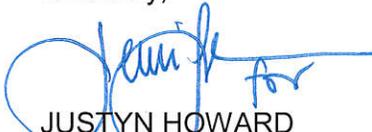
<http://www.dof.ca.gov/redevelopment/ROPS>

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 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

Attachment

Approved RPTTF Distribution			
For the period of July 2016 through June 2017			
	ROPS A Period	ROPS B Period	Total
Requested RPTTF (excluding administrative obligations)	\$ 1,647,170	\$ 1,089,250	\$ 2,736,420
Requested Administrative RPTTF	132,500	132,500	265,000
Total RPTTF requested for obligations on ROPS 16-17	1,779,670	1,221,750	\$ 3,001,420
Total RPTTF requested	1,647,170	1,089,250	2,736,420
<u>Denied Items</u>			
Item No. 63	(150,000)	0	(150,000)
Item No. 64	(150,000)	0	(150,000)
Item No. 65	(75,000)	(75,000)	(150,000)
<u>Reclassified Items</u>			
Item No. 2	(60,000)	(60,000)	(120,000)
Item No. 24	(10,000)	(10,000)	(20,000)
Item No. 56	(10,000)	(10,000)	(20,000)
Item No. 57	(20,000)	(20,000)	(40,000)
Total RPTTF authorized	1,172,170	914,250	\$ 2,086,420
Total Administrative RPTTF requested	132,500	132,500	265,000
<u>Reclassified Items</u>			
Item No. 2	60,000	60,000	120,000
Item No. 24	10,000	10,000	20,000
Item No. 56	10,000	10,000	20,000
Item No. 57	20,000	20,000	40,000
Total Administrative RPTTF after Finance adjustments	232,500	232,500	465,000
Administrative costs in excess of the cap (see Administrative Cost Allowance Cap table below)	0	(215,000)	(215,000)
Total Administrative RPTTF authorized	232,500	17,500	\$ 250,000
Total RPTTF approved for distribution	1,404,670	931,750	\$ 2,336,420

Administrative Cost Allowance Cap Calculation	
Actual RPTTF distributed for fiscal year 2015-16	\$ 2,176,552
Less sponsoring entity loan and Administrative RPTTF	250,000
Actual RPTTF distributed for 2015-16 after adjustment	1,926,552
Administrative Cap for 2016-17 per HSC section 34171 (b)	250,000
ROPS 16-17 Administrative RPTTF after Finance adjustments	465,000
Administrative Cost Allowance in excess of the cap	\$ (215,000)