DEPARTMENT OF FINANCE

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May 17, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 11, 2016. 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 of July 1, 2016 through June 30, 2017 (ROPS 16-17) to Finance on January 28, 2016. Finance issued a ROPS determination letter on April 11, 2016. 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 April 20, 2016.

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 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. During Meet and Confer the Agency contends these items are project related expenses. However, legal services provided by a third party for monitoring bond indenture compliance, Owner Participation Agreement, or legal services related to the Orange County Auditor-Controller calculations do not represent employee costs associated with work on specific project implementation activities. HSC section 34171 (b) allows litigation expenses related to assets or obligations to be funded with property tax outside the administrative cap. However, claimed legal costs 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. Finance continues to deny this item. Finance denied this item because pursuant to HSC section 34171 (p), the housing entity 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. Because the housing entity to the former RDA of the City of Corona (City) is the City-formed Housing Authority (Authority), and the Authority operates under the control of the City, the Authority is considered the City under Dissolution Law (ABx1 26 and AB 1484).

  The Agency contends that the City elected not to retain the housing functions, but the Authority, as a separate legal entity from the City, did retain the housing functions pursuant to HSC section 34176 (b) and should therefore be eligible for the housing entity administrative allowance. However, pursuant to HSC section 34167.10 (a), the definition of city includes, but is not limited to, any reporting entity of the city for purposes of its comprehensive annual financial report (CAFR), any component unit of the city, or any entity controlled by the city or for which the city is financially responsible or accountable. HSC section 34167.10 (a) defines city for purposes of all of Dissolution Law, which includes HSC section 34171, as amended by AB 471, and HSC section 34176. The Authority is included in the City's CAFR, which identifies the Authority as a component unit of the City and states that the City is financially accountable for the component units.

  Although the Authority is a separate legal entity from the City, HSC section 34167.10 (c) states that it shall not be relevant that the entity is formed as a separate legal entity. It should also be noted that HSC section 34167.10 (c) goes on to state that "the provisions of this section are declarative of existing law as the entities described herein are and were intended to be included within the requirements of this part [Part 1.8] and Part 1.85...and any attempt to determine otherwise would thwart the intent of these two parts." Therefore, based on our review, the City, by way of the Authority, elected to retain the housing functions pursuant to HSC section 34176 (a) and is not eligible for $450,000 of housing entity administrative allowance.

In addition, per Finance's letter dated April 10, 2016, 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 $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

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 $2,336,420 as summarized in the Approved RPTTF Distribution Table on Page 5 (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

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 Evelyn Suess, Dispute Resolution Supervisor, or Nicole Prisakar, 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

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**
Denied Items			
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)
Reclassified Items			
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**
Reclassified Items			
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)**