



April 15, 2013

Ms. Cindy Russell, Finance Officer
City of San Juan Capistrano Successor Agency
32400 Paseo Adelanto
San Juan Capistrano, CA 92675

Dear Ms. Russell:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of San Juan Capistrano Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14A) to the California Department of Finance (Finance) on March 1, 2013 for the period of July through December 2013. Finance has completed its review of your ROPS 13-14A, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following do not qualify as enforceable obligations:

- Item No. 3 – 2008 Tax Allocation Bonds, Series A in the amount of \$20,000. It is our understanding the Agency requested funding in the amount of \$483,384, when the correct amount should have been \$463,384. While this is an enforceable obligation, we have adjusted the amount requested on this ROPS by \$20,000 based on the debt service schedule. The Agency agreed it should be \$463,384.
- Item No. 14 – Kinoshita Note Principal Payment Set-Aside in the amount of \$1 million. It is our understanding this item is a contingent obligation for a principal balloon payment for the Kinoshita Note Payable due March 1, 2021. HSC section 34177 (b) allows reserves for indentures, trust indentures, or similar documents governing the issuance of outstanding RDA bonds. The statute does not currently recognize contingent or unknown obligations, thus creation of reserves for such items are not permissible. Therefore, this item is not an enforceable obligation and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item No. 19 – Paseo De Verdugo Owner Participation Agreement in the amount of \$748,000; payable from Reserve Funds. This item was approved during the ROPS for the period January through June 2013 period only, payable from Reserve Funds. If the Agency does not spend the requested Reserve Funds during the period for which Finance approved, the Reserve Funds should not be carried over into subsequent periods. Instead, these funds should be used to offset requests for future RPTTF funding, or submitted to the county auditor controller for distribution to the affected taxing

entities. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding.

- Item No. 33 – Personal Services Agreement for Rental Subsidy Program Management, in the amount of \$43,155. HSC section 34176 (a) (1) states if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a RDA, all rights, powers, duties, obligations, and housing assets shall be transferred to the city, county, or city and county. Since the San Juan Capistrano Housing Authority assumed the housing functions, the administrative costs associated with these functions are the responsibility of the housing successor. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding.
- Item Nos. 35 through 37, 39, 42 and 43 – Rental Subsidy Agreements totaling \$173,034. These agreements are between the City of San Juan Capistrano (City) and various property owners. The former RDA is neither a party to the agreements nor responsible for payments pursuant to the agreements. Therefore, these items are not enforceable obligations and not eligible for RPTTF funding.
- Item Nos. 46 and 47 – City Loan Agreements totaling \$2,045,000. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the former RDA are not enforceable, unless issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. These loans were issued after the first two years of the former RDA's creation and are not associated with issuance of debt. Therefore, these items are not enforceable obligations and not eligible for RPTTF funding.

Additionally, these loans were denied as inclusions to the ROPS for the period January through June 2013, later upheld through the Meet and Confer process in our letter dated December 18, 2012.

Upon receiving a Finding of Completion from Finance, and after the oversight board makes a finding the loan was for legitimate redevelopment purposes, HSC section 34191.4 (b) may cause these items to be enforceable in future ROPS periods.

- Item Nos. 31 and 32, Property Maintenance and Legal Costs totaling \$60,000 are considered general administrative costs and have been reclassified. Although this reclassification increased administrative costs to \$185,000, the administrative cost allowance has not been exceeded.

Except for items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 13-14A. This determination applies only to items where funding was requested for the six month period. If you disagree with the determination with respect to any items on your ROPS 13-14A, 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 Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$2,749,166 as summarized below:

Approved RPTTF Distribution Amount For the period of July through December 2013	
Total RPTTF funding requested for obligations	\$ 3,100,089
Minus: Six-month total for items denied or reclassified as administrative cost	
Item 14	259,543
Item 31*	10,000
Item 32*	50,000
Item 33	21,578
Item 35	7,992
Item 36	8,178
Item 37	6,852
Item 39	5,658
Item 42	9,024
Item 43	7,098
Item 46	25,000
Item 47	125,000
Total approved RPTTF for enforceable obligations	\$ 2,564,166
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost	185,000
Minus: ROPS II prior period adjustment	-
Total RPTTF approved for distribution:	\$ 2,749,166

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2012 period. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. The amount of RPTTF approved in the above table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Please refer to the ROPS 13-14A schedule that was used to calculate the approved RPTTF amount:

http://www.dof.ca.gov/redevelopment/ROPS/ROPS_13-14A_Forms_by_Successor_Agency/.

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2013. Finance's determination is effective for this time period only and should not be conclusively relied upon for future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not denied on this ROPS or a preceding ROPS. The only exception is for those items that have received a Final and Conclusive determination from Finance pursuant to HSC 34177.5 (i). Finance's review of items that have received a Final and Conclusive determination 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 that was available prior to enactment of ABx1 26 and AB 1484. This amount is not and never was an unlimited funding source. 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 successor agency in the RPTTF.

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To the extent proceeds from bonds issued after December 31, 2010 exist and are not encumbered by an enforceable obligation pursuant to 34171 (d), HSC section 34191.4 (c)(2)(B) requires these proceeds be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation.

Please direct inquiries to Nichelle Thomas, Supervisor or Alex Watt, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Michelle Bannigan, Assistant Finance Director, City of San Juan Capistrano
Ms. Christy Jakl, Deputy City Clerk, City of San Juan Capistrano
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office