



May 17, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 15, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of San Juan Capistrano Successor Agency Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14A) to Finance on March 1, 2013, for the period of July through December 2013. Finance issued a ROPS determination letter on April 15, 2013. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on April 24, 2013.

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 items being disputed.

- Item No. 14 – Kinoshita Note (Note) Principal Payment Set-Aside in the amount of \$1 million. Finance continues to deny this item at this time. The Agency claims this item is an enforceable obligation and that the Redevelopment Property Tax Trust Fund (RPTTF) distribution will not be sufficient in 2021 to repay the Note. Finance agrees that the Note is an enforceable obligation pursuant to HSC section 34171 (d) (1) (B). The agreement was entered into on February 28, 2011, with a lump sum payment due on March 1, 2021. Per HSC section 34171 (d) (1), reserves can only be established for bond debt service payments and only to the extent the next property tax allocation distribution will not satisfy bond debt service payments in the following period. In addition, HSC section 34177 (b) allows reserves for indentures, trust indentures, or similar documents governing the issuance of outstanding redevelopment agency bonds. This Note is not a bond; therefore, Finance has determined that this is an enforceable obligation, but funding is not due at this time and statute does not allow maintaining reserves.
- Item No. 19 – Paseo De Verdugo Owner Participation Agreement in the amount of \$748,000 payable from Reserve Funds. Finance no longer denies this item. This item was approved during the January through June 2013 (ROPS III) period payable from Reserve Funds. The Agency claims all these funds were not expended during the

ROPS III period. In Finance's Other Funds and Accounts (OFA) Due Diligence Review (DDR) Meet and Confer determination letter dated May 8, 2013, the Agency was permitted to retain funds totaling \$1,248,000 to satisfy the obligations approved for "Reserve" funds. The amount requested is the remaining balance of the amounts approved on ROPS III and allowed for retention in the OFA DDR; therefore, this item is an enforceable obligation. We note that with the allowance to retain these funds, the total outstanding obligation for this item has been met.

- Item Nos. 31 and 32, Property Maintenance and Legal Costs totaling \$60,000 are considered general administrative costs and have been reclassified. Finance requested additional documentation to support the Agency's position that these are not general administrative costs; however, none was provided. Therefore, Finance continues to reclassify these items as administrative costs counting towards the administrative cost cap. Although this reclassification increased administrative costs to \$185,000, the administrative cost allowance has not been exceeded.

In addition, per Finance's ROPS letter dated April 15, 2013, the following item continues to be denied and was not contested by the Agency:

- 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. 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.

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	<u>\$ 2,564,166</u>
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost	<u>185,000</u>
Minus: ROPS II prior period adjustment	<u>-</u>
Total RPTTF approved for distribution:	\$ 2,749,166

*Reclassified as administrative cost

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 that was self-reported by the Agency and the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment. Please refer to the worksheet used by the CAC to determine the audited prior period adjustment for the Agency:

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

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.

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 Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, 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