



November 10, 2013

Ms. Lori Ann Farrell, Director of Finance
City of Huntington Beach
2000 Main Street
Huntington Beach, CA 92648

Dear Ms. Farrell:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Huntington Beach Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 27, 2013 for the period of January through June 2014. Finance has completed its review of your ROPS 13-14B, 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 does not qualify as enforceable obligations for the reasons specified:

- Item Nos. 3 and 4 – 1999 and 2002 Tax Allocation Refunding Bonds totaling \$1,977,701. The Agency requested \$2,385,402 for Redevelopment Property Tax Trust Fund (RPTTF) funding, however, the total amount due during ROPS 13-14B is \$407,701. HSC section 34171 (d) (1) (A) allows agencies to hold a reserve for debt service payments when required by the bond indenture, or when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the following half of the calendar year. Based on our review of the bond indentures, we did not note any requirement to create such reserves. Additionally, based on the Agency's history, it is our understating the next property tax allocation will be sufficient to make debt service payments due for these items. Therefore, the requested funding has been adjusted by \$1,977,701 (\$2,385,402-\$407,701) to \$407,701.
- Item No. 14 – Strand Hotel and Mixed Use Project, Parking & Infrastructure in the amount of \$702,903 for the ROPS 13-14B period. According to the Disposition and Development Agreement, this obligation has annual payments due on September 1 each year, indicating a payment will not be due during the ROPS 13-14B period. HSC section 34177 (b) allows reserves required for indentures, trust indentures, or similar documents governing the issuance of outstanding redevelopment agency (RDA) bonds. The statute does not currently recognize all anticipated obligations for future ROPS periods, thus, the creation of reserves for such items are not permissible. Therefore, this item is not eligible for RPTTF funding on this ROPS.

- Item No. 15 – Strand Project Additional Parking in the amount of \$49,756. According to information provided by the Agency, the amount is requested to create a reserve due to a lack of funding in the prior ROPS period. HSC section 34177 (b) allows reserves required for indentures, trust indentures, or similar documents governing the issuance of outstanding RDA bonds. The statute does not currently recognize all anticipated obligations for future ROPS periods, thus, the creation of reserves for such items are not permissible. Therefore, this item is not eligible for RPTTF funding.
- Item No. 29 – Bella Terra Parking Infrastructure Property Tax Sharing Agreement in the amount of \$1,692,797. According to the amortization schedule provided by the Agency, this obligation has annual payments due on September 1 each year, indicating a payment will not be due in the ROPS 13-14B period. HSC section 34177 (b) allows reserves required for indentures, trust indentures, or similar documents governing the issuance of outstanding RDA bonds. The statute does not currently recognize all anticipated obligations for future ROPS periods, thus, the creation of reserves for such items are not permissible. Therefore, this item is not eligible for RPTTF funding.
- Item No. 53 – 2010 Emerald Cove Lease Revenue Refunding Bonds in the amount of \$3,244,702, funded by reserves. This item was originally denied as the bonds are secured solely through lease payments of the City of Huntington Beach (City), and there is no requirement to repay this bond with tax increment. This item also lists its funding source as Low-Moderate Income Housing Fund (LMIHF) reserves. It is our understanding the Agency only remitted \$1,210,901 of the \$4,860,535 amount available for distribution to the affected taxing entities determined in Finance's LMIHF Due Diligence Review letter dated January 17, 2013. The Agency contends the amount of \$3,649,634 reflects the former RDA pledge of LMIHF to the 2010 Lease Revenue Refunding Bonds relating to the Emerald Cove affordable senior housing project. HSC section 34177 (d) requires that all such reserves be remitted to the county auditor-controller (CAC) for distribution to affected taxing entities. Therefore, the LMIHF cannot be a funding source for this item, and any LMIHF reserves should be remitted to the CAC.

Additionally, this item was denied as an inclusion to the ROPS in our letters dated October 11, 2012 and April 12, 2013 and later upheld during the Meet and Confer process in our determination letters dated December 18, 2012 and May 17, 2013. This item is not an enforceable obligation.

- Item Nos. 57 through 62 – Bella Terra I/II and CIM Project Management and Financial Analysis costs totaling of \$15,900. Insufficient documentation was provided to support the amounts claimed. Therefore, these items are not enforceable obligations and are not eligible for RPTTF funding.
- The Agency's claimed administrative costs exceed the allowance by \$822,776. HSC section 34171 (b) limits fiscal year 2013-14 administrative expenses to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$264,734 in administrative expenses. The County Auditor-Controller's Office distributed \$250,000 in administrative costs for the July through December 2013 period, thus leaving a balance of \$14,734 available for the January through June 2014 period. Although \$250,000 is claimed for administrative cost, Item Nos. 39 and 40, Legal and Economic Analysis expenses totaling \$175,000,

and Item No. 50 - Dissolution Compliance and Monitoring costs in the amount of \$662,510, are considered administrative expenses and should be counted toward the cap. The Agency originally requested funding for Item Nos. 39, 40, and 50 from Other Funds. However, pursuant to HSC section 34177 (l) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. These obligations do not require payment from property tax revenues and the Agency has \$587,510 available in Other Funds. Therefore, \$822,776 of excess administrative cost is not allowed.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that are required to be used prior to requesting RPTTF. Pursuant to HSC section 34177 (l) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. The Agency displayed available Other Funds totaling \$587,510.

Therefore, the funding source for the following item has been reclassified to Other Funds and in the amount specified below:

- Item No. 2 – Hyatt Regency Huntington Beach Project in the amount of \$734,079. The Agency requested \$734,079 of RPTTF; however, Finance is reclassifying \$587,510 of RPTTF to Other Funds. This item was determined to be an enforceable obligation for the ROPS 13-14B period. However, the obligation does not require payment from property tax revenues and the Agency has \$587,510 available in Other Funds. Therefore, Finance is approving RPTTF in the amount of \$146,569 and the use of Other Funds in the amount of \$587,510 for Item No. 2.

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 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 below table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Except for items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 13-14B. If you disagree with the determination with respect to any items on your ROPS 13-14B, 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 RPTTF distribution for the reporting period is \$2,549,281 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	7,637,535
Total RPTTF requested for administrative obligations	250,000
Total RPTTF requested for obligations	\$ 7,887,535
Total RPTTF requested for non-administrative obligations	7,637,535
<u>Denied Items</u>	
Item No. 3	(1,359,019)
Item No. 4	(618,682)
Item No. 14	(702,903)
Item No. 15	(49,756)
Item No. 29	(1,692,797)
Item No. 57	(2,200)
Item No. 58	(2,200)
Item No. 59	(2,200)
Item No. 60	(3,100)
Item No. 61	(3,100)
Item No. 62	(3,100)
	<u>(4,439,057)</u>
Total RPTTF for non-administrative obligations before reclassification	3,198,478
<u>Reclassified Items</u>	
Item No. 2	(587,510)
Total RPTTF approved for non-administrative obligations	2,610,968
Total RPTTF requested for administrative obligations	250,000
<u>Reclassified Items</u>	
Item No. 39	75,000
Item No. 40	100,000
Item No. 50	412,510
	<u>587,510</u>
	837,510
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)	14,734
Total RPTTF approved for obligations	2,625,702
ROPS III prior period adjustment	(76,421)
Total RPTTF approved for distribution	\$ 2,549,281
Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	5,625,998
Total RPTTF for 13-14B (January through June 2014)	3,198,478
Total RPTTF for fiscal year 2013-14	8,824,476
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or \$250,000)	264,734
Administrative allowance for 13-14A (July through December 2013)	250,000
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	14,734

Pursuant to HSC section 34177 (I) (1) (E), agencies are required to use all available funding sources prior to RPTTF for payment of enforceable obligations. Beginning with the ROPS 13-14B period, Finance required successor agencies to identify fund balances for various types of funds in its possession. During our ROPS 13-14B review, Finance requested financial records to support the fund balances reported by the Agency; however, Finance was unable to

reconcile the financial records to the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 13-14B review period to properly identify the Agency's fund balances. If it is determined the Agency possesses fund balances that are available to pay approved obligations, the Agency should request the use of these fund balances prior to requesting RPTTF in ROPS 14-15A.

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

[http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14B Forms by Successor Agency/](http://www.dof.ca.gov/redevelopment/ROPS/ROPS%2013-14B%20Forms%20by%20Successor%20Agency/).

Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2014. This determination applies only to items where funding was requested for the six month period. 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 HSC section 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,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Kellee Fritzal, Deputy Director of Economic Development, City of Huntington Beach
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office