DEPARTMENT OF FINANCE

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December 17, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 10, 2013. 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 Finance on September 27, 2013, for the period of January through June 2014. Finance issued a ROPS determination letter on November 10, 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 November 26, 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 Nos. 14, 15, and 29 – Various Parking & Infrastructure projects in the amount of $2,445,456 for the ROPS 13-14B period. Finance no longer denies these items. During the Meet and Confer process, the Agency provided additional documentation identifying that these items were not requests for reserves, but enforceable obligations payable during the ROPS 13-14B period. Therefore, these items are eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding on this ROPS.

- Items No. 39, 40, and 50 – Various administrative expenses in the amount of $587,510 from Other Funds and $250,000 from the RPTTF. During the Meet and Confer process, the Agency provided the Oversight Board's approval for the use of Other Funds in the Administrative Budget for this ROPS period. 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 had forecasted that $587,510 of Other Funds would be available this period; however, due to the unanticipated loss of a lease and lease revenue, the estimated amount of Other Funds that would be available during ROPS 13-14B has been reduced to $452,840 ($587,510 – $134,670). Therefore, the amount of administrative costs to be paid from the RPTTF will be increased by $134,670, due to

the loss of the lease revenue, and Finance approves the expenditure of Other Funds for these items in the amount of $452,840.

- The Agency's claimed administrative costs exceed the allowance by $296,572. 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 $338,098 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 $88,098 available for the January through June 2014 period. Although $250,000 in RPTTF funding was initially claimed for administrative costs, the requested amount was increased to $384,670 ($250,000 + $134,670) due to the reduction of lease revenue for Item No. 50 in the amount of $134,670. Therefore, $296,572 ($384,670 - $88,098) of excess administrative cost is not allowed.

- Item 2 – Hyatt Regency Hunting Beach Project in the amount of $734,079. Due to the approved use of the Agency's Other Funds for administrative expenses as described above, Finance is no longer reclassifying the funding source of this item. Therefore, Finance is approving the amount of $734,079 from the RPTTF.

In addition, per Finance's letter dated November 10, 2013, we continue to deny the following items not contested by the Agency during the Meet and Confer:

- Item Nos. 3 and 4 – 1999 and 2002 Tax Allocation Refunding Bonds totaling $1,977,701. The Agency requested $2,385,402 for 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. 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.

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.

The Agency's maximum approved RPTTF distribution for the reporting period is $5,655,611 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**
Denied Items	
Item No. 3	(1,359,019)
Item No. 4	(618,682)
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)
	(1,993,601)
Total RPTTF for non-administrative obligations before reclassification	**5,643,934**
Total RPTTF requested for administrative obligations	**250,000**
Reclassified Items	
Item No. 50	134,670
	134,670
	384,670
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)	**88,098**
Total RPTTF approved for obligations	**5,732,032**
ROPS III prior period adjustment	(76,421)
Total RPTTF approved for distribution	**$ 5,655,611**
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)	5,643,934
Total RPTTF for fiscal year 2013-14	**11,269,932**
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or $250,000)	338,098
Administrative allowance for 13-14A (July through December 2013)	250,000
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	**88,098**

Pursuant to HSC section 34177 (l) (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/.

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 section 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 Evelyn Suess, Dispute Resolution Supervisor, or Derk Symons, 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