



May 16, 2014

Ms. Sheryl Montgomery, Administrative Services Manager
City of Anaheim
201 South Anaheim Boulevard, Suite 1003
Anaheim, CA 92805

Dear Ms. Montgomery:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 11, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Anaheim Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on February 27, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 11, 2014. 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 May 1, 2014.

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. 65 – Plaza Redevelopment Project in the amount of \$5,700,930. Finance continues to deny this item. The Agency provided an Owner Participation Agreement (OPA) between the former Anaheim Redevelopment Agency (RDA) and the California State Teachers' Retirement System (CalSTRS) in which CalSTRS loaned \$800,000 to the Agency and was to advance \$1,500,000 if certain other events occurred. However, Finance initially denied this item as it was unclear from the OPA what payment obligation the Agency had to Kimco Realty Corporation. During the Meet and Confer process, the Agency provided documentation showing property ownership changes with the most recent owner as Kimco Realty Corporation (Kimco) and naming Kimco the new "Participant" under the OPA as permitted by Section 609 of the OPA.

However, we note several concerns with this item and the documentation provided. A fully executed Promissory Note, as required by Section 202 of the OPA, has not been provided to demonstrate the amount of the original loan(s). When Kimco assumed the OPA as Participant, the outstanding principal balance on the loan was \$4,615,436 and it is unclear why the outstanding balance is currently \$5,700,930. Finally, the Agency did not provide any documents supporting the calculation for the amount requested.

For the reasons listed above, Finance is denying this item as we are unable to determine the actual outstanding balance and the amount due. To the extent the Agency can

provide additional documentation supporting the original loan amount, the outstanding balance, and the amount due, this item may become an enforceable obligation on future ROPS. However, at this time, this item is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding on ROPS 14-15A.

- Item No. 78 – Property Management of various sites totaling \$4,064,754. Finance no longer denies this item. Finance initially denied this item as insufficient documentation was provided. During the Meet and Confer process, the Agency provided an agreement between the former RDA and a third party for the management of a variety of former RDA properties. Although the term of the agreement expired January 2012, provisions allow up to three one-year extensions. The Agency provided documentation supporting that it extended the agreement and that the final extension will expire in January 2015. Finally, we also note that the agreement included a list of properties to be serviced through the agreement. We also selected a sample of properties in the agreement and verified that they are included in the Agency's Long Range Property Management Plan. Therefore, this item is eligible for RPTTF funding.
- Item Nos. 89 and 90 - Packing District/LAB Disposition and Development Agreement (DDA) and related costs totaling \$1,593,841. Finance no longer denies these items. As determined through the Meet and Confer process for the January through June 2014 (ROPS 13-14B) period, the DDA indicated the parking and alley construction were specifically intended as evidenced by Recital C of the DDA and a Planning Commission Report dated June 21, 2010, demonstrating the need for the parking construction. In addition, per Section 301.2 of the DDA, "Cost of Construction," the former RDA is responsible for the costs related to the parking and alley construction. Finance initially denied this item as insufficient documentation was provided to support the amounts requested. During the Meet and Confer process, the Agency provided documentation to support the amounts requested. Therefore, these items are eligible for RPTTF funding.
- Item No. 100 – Westgate Remediation Settlement Agreement/Reimbursement totaling \$5,773,215. Finance continues to deny this item at this time. Finance initially denied this item as insufficient documentation was provided. During the Meet and Confer process, the documentation provided by the Agency indicates that the Agency may have an obligation to reimburse the developer's costs until the developer assumes ownership of the site. However, the Agency did not provide sufficient documentation establishing the total amount outstanding or supporting the amount requested for the ROPS 14-15A period. To the extent the Agency can support the outstanding balance and any amounts requested, this item may be approved for funding on future ROPS.
- Item No. 141 – Street and Right-Of-Way Improvements in the amount of \$2,735,431. Finance no longer denies this item. We note that pursuant to HSC section 34191.4 (c), successor agencies that have been issued a Finding of Completion by Finance are allowed to use excess proceeds from bonds issued prior to December 31, 2010, for the purposes for which the bonds were issued. The Agency was issued a Finding of Completion on June 12, 2013. Finance initially denied this item as insufficient documentation was provided. During the Meet and Confer process, the Agency provided support for the estimated amount requested from the 2010 bond proceeds. Therefore, this item is eligible for excess bond proceeds funding on this ROPS.

- Item Nos. 145 and 146 – Cooperation/Loan Agreements totaling \$1,470,429. Finance continues to deny these items. According to the Agency, these line items represent loans to be approved by Finance and loans already made. Finance initially denied these items as insufficient documentation was provided. During the Meet and Confer process, the Agency contended that it was required to enter into two loan agreements with the City of Anaheim (City) to borrow funds to pay for a contract the City entered into on behalf of the Agency and several mortgage assistance program loans. The Agency provided the loan agreements between the Agency and the City during the Meet and Confer process; however, the Agency did not submit an Oversight Board resolution to Finance for review prior to entering the loans. Pursuant to HSC section 34180 (h), a request by the Agency to enter into an agreement with the city that created the former RDA must be approved by the oversight board. In addition, pursuant to HSC section 34179 (h), any actions taken by the oversight board must be submitted electronically and in a manner of Finance's choosing for review and approval. Therefore, these items are not eligible for funding on ROPS 14-15A.
- Item No. 148 – Administrative Cost Allowance to Housing Successor in the amount of \$2,500,000. 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 RDA elected to not assume the housing functions. Because the housing entity to the former RDA 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 component units are fiscally dependent on the City.

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 \$276,797 of housing entity administrative allowance.

- During our review, Finance determined the Agency possesses funds that should 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. Due to the continued denial through the Meet and Confer process of Item Nos. 140 and 145, \$999,290 in Other Funds continues to be available to be applied to enforceable obligations for funding. Therefore, the funding for the following item continues to be reclassified in the amount specified below:

- Item No. 50 – Tax Allocation Refunding Bonds in the amount of \$5,329,450. The Agency requests \$5,329,450 from RPTTF; however, Finance is reclassifying \$999,290 to Other Funds. This item is an enforceable obligation for the ROPS 14-15B period. However, the obligation does not require payment from property tax revenues and the Agency has \$999,020 in available Other Funds. Therefore, Finance is approving RPTTF in the amount of \$4,330,160 and the use of Other Funds in the amount of \$999,290, totaling \$5,329,450.
- Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2013 period. During the Meet and Confer process, the Agency disagreed with the total of the prior period adjustment. However, as stated in our original ROPS 14-15A letter, pursuant to HSC section 34186 (a), 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 table below includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment. Therefore, no adjustment is being made.

In addition, per Finance's letter dated April 11, 2014, we continue to deny the following items not contested by the Agency during the Meet and Confer:

- Item Nos. 51 and 53 – Debt service reserves totaling \$2,430,000 for payments due January through June 2015. HSC section 34171 (d) (1) (A) allows successor agencies to hold a reserve for debt service payments 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. Therefore, the request to fund payments due for the first half of the calendar year is not allowed.
- Item Nos. 110 through 113 – Hermosa Phase IV obligations totaling \$1,684,000 are not obligations of the Agency. It is our understanding the agreement entered into on July 27, 2007 is between Anaheim Revitalization IV Partners and the Anaheim Housing Authority; the former redevelopment agency is not a party to the contract. Therefore, these line items are not enforceable obligations and are not eligible for RPTTF funding.
- Item No. 140 – City Loan totaling \$10,550,000. Finance requested clarification on this item from the Agency, however, to date, the Agency has been unable to provide additional clarification or documentation to support the amounts claimed. To the extent the Agency can provide suitable documentation, such as executed agreements, contracts or vendor invoices, the Agency may be able to obtain RPTTF or Other Funds on future ROPS.
- Item No. 143 – Ongoing Pension Obligation in the amount of \$1,074,033. The Agency provided insufficient documentation to support the amount claimed; the Estimate of

Redevelopment Agency Obligations for Post-Employment Benefits prepared by the California Public Employees Retirement System identifies a total cost of \$887,072. To the extent the Agency can provide suitable documentation, such as an amended estimate, to support the full amount requested, the Agency may be able to obtain an additional \$186,961 on future ROPS. Therefore, the excess \$186,961 (\$1,074,033-887,072) is not eligible for RPTTF funding on this ROPS.

- Item No. 147 – Asset Management Deferred Maintenance totaling \$1,500,000. Finance requested supporting documentation to support the amounts claimed. However, to date, the Agency has been unable to provide any documentation to support the amount claimed. To the extent the Agency can provide suitable documentation, such as an executed contract or vendor invoices, to support the requested funding, the Agency may be able to obtain RPTTF funding on future ROPS.
- The Agency's claimed administrative costs exceed the allowance by \$207,421. HSC section 34171 (b) limits the fiscal year 2014-2015 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. Although \$610,708 is claimed for administrative cost, only \$403,287 is available pursuant to the cap after the adjustments made during meet and confer. Therefore, \$207,421 of excess administrative cost is not allowed.

Except for the items denied in whole or in part as enforceable obligations or for the item that has been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15A. The Agency's maximum approved RPTTF distribution for the reporting period is \$4,529,685 as summarized below:

Approved RPTTF Distribution	
For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	20,356,917
Total RPTTF requested for administrative obligations	610,708
Total RPTTF requested for obligations	\$ 20,967,625
Total RPTTF requested for non-administrative obligations	20,356,917
Denied Items	
Item No. 51	(2,205,000)
Item No. 53	(225,000)
Item No. 65	(596,820)
Item No. 100	(500,000)
Item No. 110	(1,129,000)
Item No. 111	(120,000)
Item No. 112	(30,000)
Item No. 113	(10,000)
Item No. 143	(186,961)
Item No. 146	(884,429)
Item No. 147	(750,000)
Item No. 148	(276,797)
	(6,914,007)
Total RPTTF funding for non-administrative obligations	13,442,910
Cash Balances - Item reclassified to other funding sources	
Item No. 50	(999,290)
	(999,290)
Total RPTTF authorized for non-administrative obligations	\$ 12,443,620
Total RPTTF requested for administrative obligations	610,708
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(207,421)
Total RPTTF authorized for administrative obligations	\$ 403,287
Total RPTTF authorized for obligations	\$ 12,846,907
ROPS 13-14A prior period adjustment	(8,317,222)
Total RPTTF approved for distribution	\$ 4,529,685
Administrative Cost Cap Calculation	
Total RPTTF authorized for non-administrative obligations (prior to reclassifications)	13,442,910
Percent allowed pursuant to HSC section 34171 (b)	3%
Total RPTTF allowable for administrative obligations	403,287
Total RPTTF administrative obligations after Finance adjustments	610,708
Administrative costs in excess of the cap	\$ (207,421)

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. During the ROPS 14-15A 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 14-15A 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 14-15B.

Please refer to the ROPS 14-15A schedule that was used to calculate the approved RPTTF amount:

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

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2014. This determination only applies 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 Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Brad Hobson, Deputy Director, City of Anaheim
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office