DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. ▪ GOVERNOR
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November 12, 2014

Ms. Stacey Shokri, Finance Manager
City of Anaheim
201 South Anaheim Boulevard, Suite 1003
Anaheim, CA 92805

Dear Ms. Shokri:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Anaheim Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to the California Department of Finance (Finance) on September 29, 2014 for the period of January 1 through June 30, 2015. Finance has completed its review of your ROPS 14-15B, which may have included obtaining clarification for various items.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

- Item No. 60 – Low and Moderate Income Housing Fund (LMIHF) loan repayment for purposes of the Supplemental Education Revenue Augmentation Fund in the amount of $1,002,436 is not allowed.

  HSC section 34191.4 (b) (2) (A) allows this repayment to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through distributed to the taxing entities in the fiscal year 2012-13 base year.

  According to the County Auditor-Controller's report, the amount distributed to the taxing entities for fiscal year 2012-13 and 2013-14 are $11,254,030 and $12,474,656, respectively. Therefore, pursuant to the repayment formula, the maximum repayment amount authorized for fiscal year 2014-15 is $610,313. However, Finance approved $610,313 in the ROPS 14-15A period (July through December 2014). Therefore, the $1,002,436 requested for LMIHF loan repayment at this time is not allowed.

- Item No. 78 – Property Management Services in the amount of $3,839,554 is partially approved. The Agency requests $485,000 for the ROPS 14-15B period, however, only $125,000 is supported by the current contract provided. To the extent the Agency can provide sufficient documentation to support the entire requested amount, the item may be eligible for additional funding on subsequent ROPS. Therefore, the excess, $360,000 (485,000-$125,000) is not an enforceable obligation and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding on this ROPS.

- Item No. 79 – Central Parking Downtown Parking Property Maintenance in the amount of $700,000 is partially approved. The Agency requests $700,000; however, only $116,667 is supported by the current contract, which expires in January 2015. To the extent the Agency can provide sufficient documentation to support the entire requested amount, such as an amended contract, the item may be eligible for additional funding on subsequent ROPS. Therefore, the excess, $583,333 ($700,000 -$116,667) is not an enforceable obligation and is not eligible for RPTTF funding on this ROPS.

- Item No. 89 – Development and Disposition Agreement /Management and Operations Agreement in the amount of $2,000,000 is partially approved. The Agency requests $1,065,000, however, only $1,027,600 is supported by the expense summary provided. To the extent the Agency can provide sufficient documentation to support the entire requested amount, the item may be eligible for additional funding on subsequent ROPS. Therefore, the excess, $37,400 ($1,065,000 - $1,027,600) is not an enforceable obligation and is not eligible for RPTTF funding on this ROPS.

- Item No. 150 – Plaza Redevelopment Project in the amount of $5,700,930 is not allowed. 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. 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. A fully executed Promissory Note, as required by Section 202 of the OPA, was provided, which states the amount of the original loan was $3,100,466.40, with simple interest of 7 percent assessed annually. However, when Kimco assumed the OPA as Participant, the outstanding principal balance on the loan was $4,615,436. It is still unclear how the Agency arrived at the current outstanding balance of $5,700,930.

  For the reasons listed above, Finance continues to deny 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. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding on this ROPS.

- Item No. 151 – Westgate Remediation in the amount of $5,700,000 is not allowed. It is our understanding the Settlement Agreement with Orange County requires the remediation, monitoring, maintenance, and mitigation of the landfill. However, pursuant to HSC 34178, the Agency can only enter into agreements upon obtaining the approval of the oversight board and Finance. Therefore, this line item is not an enforceable obligation and is not eligible for RPTTF funding at this time.

- Item Numbers 152 through 155 – City of Anaheim (City) Cooperation/Loan Agreement repayments totaling $6,201,868 are not allowed at this time. Pursuant to HSC section 34173 (h) the city, county, or city and county that authorized the creation of a redevelopment agency may loan or grant funds to a successor agency for administrative costs, enforceable obligations, or project-related expenses and are subject to the oversight and approval of the oversight board. While the Oversight Board (OB) did review and

approve the loans via OB resolutions 2014-06 to 2014-09, submitted to finance on October 28, 2014, Finance has not completed the review of those resolutions, as authorized by HSC section 34179 (h). Finance will continue working with the Agency to expeditiously complete our review prior to December 17, 2014, will make a final determination. Therefore, these items are not allowed and are not eligible for RPTTF funding until such time.

- Item Number 156 – Administrative Cost Allowance to Housing Successor per AB 471 in the amount of $2,500,000 is denied. Finance continues to deny this item. Pursuant to HSC section 34171 (p), the housing successor administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the redevelopment agency elected to not assume the housing functions. Because the housing successor to the former redevelopment agency of the City 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 pursuant to HSC section 34167.10. Therefore, $2,500,000 of housing successor administrative allowance ($553,594 requested for the RPS 14-15B period) is not allowed.

- The Agency's claimed administrative costs exceed the allowance by $289,666. HSC section 34171 (b) limits the fiscal year 2014-15 administrative expenses to three percent of property tax allocated to the Agency or $250,000, whichever is greater. The Orange County Auditor-Controller's Office distributed $403,287 in administrative costs for the July through December 2014 period, thus leaving a balance of $333,281 for the January through June 2015 period. Although $622,947 is claimed for administrative cost, only $333,281 is available pursuant to the cap. Therefore, $289,666 of excess administrative cost is not allowed.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2014 period. HSC section 34186 (a) also specifies prior period adjustments self-reported by successor agencies are subject to review 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 review of the Agency's self-reported prior period adjustment.

Except for the items denied in whole or in part, Finance is not objecting to the remaining items listed on your ROPS 14-15B. If you disagree with the determination with respect to any items on your ROPS 14-15B, 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 $10,540,566 as summarized in the Approved RPTTF Distribution Table below:

Approved RPTTF Distribution For the period of January through June 2015		
Total RPTTF requested for non-administrative obligations		20,764,885
Total RPTTF requested for administrative obligations		622,947
Total RPTTF requested for obligations on ROPS	**$**	**21,387,832**
Total RPTTF requested for non-administrative obligations		**20,764,885**
Denied Items		
Item No. 60		(1,002,436)
Item No. 78		(360,000)
Item No. 79		(583,333)
Item No. 89		(37,400)
Item No. 150		(641,277)
Item No. 151		(220,000)
Item No. 152		(883,000)
Item No. 153		(884,429)
Item No. 154		(2,537,362)
Item No. 155		(953,404)
Item No. 156		(553,594)
		(8,656,235)
Total RPTTF authorized for non-administrative obligations	**$**	**12,108,650**
Total RPTTF requested for administrative obligations		**622,947**
Administrative costs in excess of the cap (see Admin Cost Cap table below)		(289,666)
Total RPTTF authorized for administrative obligations	**$**	**333,281**
Total RPTTF authorized for obligations	**$**	**12,441,931**
ROPS 13-14B prior period adjustment		(1,901,365)
Total RPTTF approved for distribution	**$**	**10,540,566**

Administrative Cost Cap Calculation		
Total RPTTF for 14-15A (July through December 2014)		12,443,620
Total RPTTF for 14-15B (January through June 2015)		12,108,650
Less approved unfunded obligations from prior periods		-
Total RPTTF for fiscal year 2014-2015		**24,552,270**
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or $250,000)		736,568
Administrative allowance for 14-15A (July through December 2014)		403,287
Allowable RPTTF distribution for administrative cost for ROPS 14-15B		**333,281**
Total RPTTF administrative obligations after Finance adjustments		622,947
Administrative costs in excess of the cap	**$**	**(289,666)**

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. During the ROPS 14-15B review, Finance requested financial records to support the cash balances reported by the Agency; however, the Agency was unable to support the amounts reported. The beginning balances for Reserve Balances, Other Funds, and RPTTF could not be supported by the Agency's financial records. As a result, Finance will continue to work with the Agency after the ROPS 14-15B review period to properly identify the Agency's cash balances. If it is determined the Agency possesses cash balances that are available to pay approved obligations, the Agency should request the use of these cash balances prior to requesting RPTTF in ROPS 15-16A.

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

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

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, 2015. 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 the 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 agency in the RPTTF.

Pursuant to HSC section 34177 (a) (3), only those payments listed on an approved ROPS may be made by the successor agency from the funds specified in the ROPS. However, if for whatever reason the Agency needs to make payments for approved obligations from another funding source, HSC section 34177 (a) (4) requires the Agency to first obtain oversight board approval.

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 Erika Santiago, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Acting 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