



October 28, 2014

Mr. Lee Squire, Financial Services Manager
City of Brea
1 Civic Center Circle
Brea, CA 92821

Dear Mr. Squire:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Brea Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to the California Department of Finance (Finance) on September 19, 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. 1 – Brea Mall Expansion in the amount of \$6,643,722. During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting Redevelopment Property Tax Trust Funds (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 provided financial records that displayed available Other Funds totaling \$104,466.

The Agency requested \$1,107,287 from RPTTF; however, Finance is reclassifying \$104,466 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 \$104,466 in available Other Funds. Therefore, Finance is approving RPTTF in the amount of \$1,002,821, and the use of Other Funds in the amount of \$104,466, totaling \$1,107,287.

- Item No. 49 – Agency Administration. Claimed administrative costs exceed the allowance by \$104,649. 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. The Orange County Auditor-Controller's Office distributed \$250,000 for the July through December 2014 period, thus leaving a balance of \$261,513 available for the January through June 2015 period.

The Agency has requested \$104,466 in Other Funds for this item. However, Finance has reclassified the \$104,466 in Other Funds to Administrative RPTTF, as Other Funds must be used to fund enforceable obligation prior to administrative items.

Review of ROPS 14-15B included Agency's Oversight Board (OB) Resolution No. OB 2014-05, approving the execution and delivery of a 1991B Bond Proceeds Funding Agreement between the Agency and the City of Brea. The Agency has listed the use of the excess bond proceeds on the ROPS in the amount of \$700,000 (Item No. 54), approved by Finance.

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 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.

In addition, Finance noted the following during our review:

- On the ROPS 13-14B Prior Period Adjustment worksheet, the Agency's expenditures exceeded Finance's authorization for the following item:
 - Other Funding totaling \$76,571 for Item No. 49.

Per HSC section 34177 (a) (3), only those payments listed on the ROPS may be made by the Agency from the fund sources specified on the ROPS. Item No. 49 was approved for Other Funds for the ROPS 13-14B period. Therefore, Finance is increasing the Agency's authorization for the ROPS 14-15B period to ensure that authorization is consistent with expenditures for the approved item. As these Other Funds were previously expended, the increase in authorization should not result in increased expenditures for the current ROPS period, but should merely allow the Agency to reconcile actual expenditures to the authorization.

HSC sections 34177 (a) (4) and 34173 (h) provide mechanisms when Agency payments must exceed the amounts authorized by Finance. Please ensure the proper expenditure authority is received from your Oversight Board and Finance prior to making payments on enforceable obligations.

Except for items denied in whole or in part or items that have been reclassified, 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 \$16,290,516 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	17,056,527
Total RPTTF requested for administrative obligations	261,696
Total RPTTF requested for obligations on ROPS	\$ 17,318,223
Total RPTTF requested for non-administrative obligations	17,056,527
<u>Reclassified Item</u>	
Item No. 1	(104,466)
	(104,466)
Total RPTTF authorized for non-administrative obligations	\$ 16,952,061
Total RPTTF requested for administrative obligations	261,696
<u>Reclassified Item</u>	
Item No. 49	104,466
	104,466
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(104,649)
Total RPTTF authorized for administrative obligations	\$ 261,513
Total RPTTF authorized for obligations	\$ 17,213,574
ROPS 13-14B prior period adjustment	(923,058)
Total RPTTF approved for distribution	\$ 16,290,516
Administrative Cost Cap Calculation	
Total RPTTF for 14-15A (July through December 2014)	98,385
Total RPTTF for 14-15B (January through June 2015)	16,952,061
Less approved unfunded obligations from prior periods	0
Total RPTTF for fiscal year 2014-2015	17,050,446
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or \$250,000)	511,513
Administrative allowance for 14-15A (July through December 2014)	250,000
Allowable RPTTF distribution for administrative cost for ROPS 14-15B	261,513
Total RPTTF administrative obligations after Finance adjustments	366,162
Administrative costs in excess of the cap	\$ (104,649)

Pursuant to HSC section 34177 (l) (1) (E), agencies are required to use all available funding. 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 Alexander Watt, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

cc: Mr. Bill Gallardo, Administrative Services Director, City of Brea
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office