

November 13, 2014

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 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. 13 – Hyatt/Hilton Properties US Department of Housing and Urban Development Section 108 Infrastructure loan repayment in the amount of \$466,072 is partially allowed. The Agency requests \$433,036 for the repayment due July through December 2015. HSC section 34177 (b) allows reserves required for indentures, trust indentures, or similar documents governing the issuance of outstanding Redevelopment Agency bonds. The statute does not currently recognize all anticipated obligations for the next ROPS period, thus, the creation of reserves for such items are not permissible. Therefore, \$433,036 is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding during this ROPS period.
- Item No. 68 – Supplemental Educational Revenue Augmentation Fund loan repayment in the amount of \$3,418,477 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. Further, HSC section 34171 (d) (1) (G) requires the Oversight Board (OB) to approve a repayment schedule for the repayment of the amounts borrowed. No OB resolution approving the repayment schedule has been submitted. Once the OB approves the loan and loan repayment schedule, and the corresponding OB action is approved by Finance, the Agency may request funding for this item on future ROPS. Therefore, this line item is not eligible for RPTTF funding at this time.
- The Agency's claimed administrative costs exceed the allowance by \$250,000. HSC section 34171 (b) limits fiscal year 14-15 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. As a result,

the Agency is eligible for \$250,000 in administrative expenses. The Orange County Auditor-Controller's Office distributed \$250,000 in administrative costs for the July through December 2014 period, thus leaving a balance of \$0 available for the January through June 2015 period. Therefore, \$250,000 of excess administrative cost is not allowed.

During our review, which may have included obtaining financial records, 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. According to the Agency's Cash Balance Form, the Agency reported available Reserve Balances in the amount of \$4,451,791.

Therefore, the funding source for the following items has been reclassified to Reserve Balances in the amounts specified below:

- Item No. 3 – 2002 Tax Allocation Refunding Bonds debt service payment in the amount of \$1,627,138. The Agency requests \$1,627,138 from RPTTF; however, Finance is reclassifying the entire amount to Reserve Balances. 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 \$4,451,791 in available Reserve Balances. Therefore, Finance is approving use of Reserve Balances in the amount of \$1,627,138.
- Item No. 4 – 1999 Tax Allocation Refunding Bonds debt service payment in the amount of \$749,824. The Agency requests \$749,824 from RPTTF; however, Finance is reclassifying the entire amount to Reserve Balances. 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 \$4,451,791 in available Reserve Balances. Therefore, Finance is approving use of Reserve Balances in the amount of \$749,824.
- Item No. 14 – Strand Hotel and Mixed-Use Project in the amount of \$702,904. The Agency requests \$702,904 from RPTTF; however, Finance is reclassifying \$496,821 to Reserve Balances. 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 \$4,451,791 in available Reserve Balances. Therefore, Finance is approving RPTTF in the amount of \$206,083 and the use of Reserve Balances in the amount of \$496,821, totaling \$702,904.
- Item No. 29 – Bella Terra Parking Infrastructure Property Tax Sharing Agreement in the amount of \$1,578,008. The Agency requests \$1,578,008 from RPTTF; however, Finance is reclassifying the entire amount to Reserve Balances. 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 \$4,451,791 in available Reserve Balances. Therefore, Finance is approving use of Reserve Balances in the amount of \$1,578,008.

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 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 \$1,379,310 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	7,608,358
Total RPTTF requested for administrative obligations	250,000
Total RPTTF requested for obligations on ROPS	\$ 7,858,358
Total RPTTF requested for non-administrative obligations	7,608,358
<u>Denied Item</u>	
Item No. 13	(433,036)
Item No. 68	(1,227,569)
	(1,660,605)
Total RPTTF for non-administrative obligations	5,947,753
<u>Cash Balances - Items reclassified to other funding sources</u>	
Item No. 3	(1,627,138)
Item No. 4	(749,824)
Item No. 14	(496,821)
Item No. 29	(1,578,008)
	(4,451,791)
Total RPTTF authorized for non-administrative obligations	\$ 1,495,962
Total RPTTF requested for administrative obligations	250,000
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(250,000)
Total RPTTF authorized for administrative obligations	\$ 0
Total RPTTF authorized for obligations	\$ 1,495,962
ROPS 13-14B prior period adjustment	(98,652)
Total RPTTF approved for distribution	\$ 1,397,310

Administrative Cost Cap Calculation	
Total RPTTF for 14-15A (July through December 2014)	1,908,464
Total RPTTF for 14-15B (January through June 2015)	1,495,962
Less approved unfunded obligations from prior periods	\$ 0
Total RPTTF for fiscal year 2014-2015	3,404,426
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or \$250,000)	250,000
Administrative allowance for 14-15A (July through December 2014)	250,000
Allowable RPTTF distribution for administrative cost for ROPS 14-15B	\$ 0
Total RPTTF administrative obligations after Finance adjustments	250,000
Administrative costs in excess of the cap	\$ (250,000)

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.

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Please direct inquiries to Nichelle Thomas, Supervisor or Alexander Watt, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting 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