DEPARTMENT OF FINANCE

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December 17, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 13, 2014. 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 Finance on September 29, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 13, 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 November 25, 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. 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. Finance continues to partially deny this item. The Agency requests $433,036 for the repayment due July through December 2015. During the Meet and Confer process, the Agency contended that HSC section 34177 (b) allows reserves if the lender requires that those funds be on hand and the Section 108 agreement requires the Agency to maintain a loan payment account. However, Paragraph 6 – Loan Repayment Account of the Section 108 agreement states that the "Loan Repayment Account need only be established if and when the [Agency] receives amounts pledged pursuant to paragraph 5 (b), 5 (c), or 5(d)." The specified paragraphs do not relate to retaining additional property tax funding as security on the loan. Therefore, the allowance of reserves pursuant to HSC section 34177 (b) is not applicable. As such, $433,036 is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item No. 68 – Supplemental Educational Revenue Augmentation Fund loan repayment in the amount of $3,418,477 was not allowed. Finance no longer denies this item. 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. Finance initially denied this item because no OB resolution approving the repayment schedule had been submitted. During the Meet and Confer process, the Agency provided an OB resolution approving the repayment schedule. Therefore, this line item is eligible for RPTTF funding.

- 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.

  During the Meet and Confer process, the Agency requested that Reserve Balances be retained to cover RPTTF shortfalls in the ROPS 15-16A period due to anticipated property tax appeals. However, pursuant to HSC section 34171 (d) (1) (A), reserves are only allowed for debt service 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 calendar year. This request does not meet this requirement. Furthermore, the Agency has always received the total amount approved by Finance to be funded from the RPTTF and has never had an insufficient property tax allocation to pay all obligations due under the provisions of the bonds.

  The Agency also requested that Item Nos. 3, 4, 14, and 29 not be reclassified to Reserve Balances because these items are required to be paid from former tax increment and should be funded by the RPTTF. Item Nos. 3 and 4 are pledged with tax increment; however, the agreements for Item Nos. 14 and 29 do not pledge tax increment. Therefore, the funding source for the following items has been reclassified to Reserve Balances in the amounts specified below:

  - Item No. 2 – Hyatt Regency Huntington Beach Project in the amount of $1,313,402. The Agency requests $975,806 from Other Funds and $337,596 from RPTTF; however, Finance is reclassifying $337,596 to Reserve Balances. Therefore, Finance is approving the use of Other Funds in the amount of $975,806 and Reserve Balances in the amount of $337,596.

  - Item No. 13 – HUD Section 108 Infrastructure Loan for Hyatt/Hilton Properties in the amount of $33,036. The Agency requests $33,036 from RPTTF; however, Finance is reclassifying $5,714 to Reserve Balances. Therefore, Finance is approving RPTTF in the amount of $27,322 and the use of Reserve Balances in the amount of $5,714, totaling $33,036.

  - 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 $702,904 to Reserve Balances. Therefore, Finance is approving the use of Reserve Balances in the amount of $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 $1,578,008 to Reserve Balances. Therefore, Finance is approving use of Reserve Balances in the amount of $1,578,008.

- Item No. 30 – Bella Terra Phase II Property Tax Sharing Agreement in the amount of $600,000. The Agency requests $600,000 from RPTTF; however, Finance is reclassifying $600,000 to Reserve Balances. Therefore, Finance is approving use of Reserve Balances in the amount of $600,000.

- Item No. 68 – Repayment of SERAF Debt Obligation 2009 in the amount of $1,227,569. The Agency requests $1,227,569 from RPTTF; however, Finance is reclassifying $1,227,569 to Reserve Balances. Therefore, Finance is approving use of Reserve Balances in the amount of $1,227,569.

In addition, per Finance's letter dated November 13, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- 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.

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 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. The Agency's maximum approved RPTTF distribution for the reporting period is $2,624,879 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	**$**	**7,858,358**
Total RPTTF requested for non-administrative obligations		**7,608,358**
Denied Item		
Item No. 13		(433,036)
		(433,036)
Total RPTTF for non-administrative obligations		**7,175,322**
Cash Balances - Items reclassified to other funding sources		
Item No. 2		(337,596)
Item No. 13		(5,714)
Item No. 14		(702,904)
Item No. 29		(1,578,008)
Item No. 30		(600,000)
Item No. 68		(1,227,569)
		(4,451,791)
Total RPTTF authorized for non-administrative obligations	**$**	**2,723,531**
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	**$**	**0**
Total RPTTF authorized for obligations	**$**	**2,723,531**
ROPS 13-14B prior period adjustment		(98,652)
Total RPTTF approved for distribution	**$**	**2,624,879**

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

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 Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, 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