DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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REVISED

May 27, 2015

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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 3, 2015. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Anaheim Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to Finance on February 20, 2015, for the period of July through December 2015. Finance issued a ROPS determination letter on April 3, 2015. Subsequently, the Agency requested a Meet and Confer session on one or more of the determinations made by Finance. The Meet and Confer session was held on April 14, 2015.

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 determinations being disputed.

- Items Nos. 114 through 117 – Avon Dakota Revitalization and related costs totaling $15,175,000 from the Redevelopment Property Tax Trust Fund (RPTFF). Finance continues to deny these items. As previously determined, the Agency is not a party to the Neighborhood Revitalization Agreement (Agreement). The Agreement dated June 1, 2010 and the Amendment dated February 1, 2011 are between the Anaheim Housing Authority (Authority) and a third party.

  The Agency provided a Cooperation Agreement between the former Redevelopment Agency (RDA) and the Authority dated June 1, 2010. In this Cooperation Agreement the RDA agreed to transfer $1,041,000 to the Authority for the Neighborhood Revitalization project only if, when, and in the amounts, requested by the Authority. The Agency provided another Cooperation Agreement between the Authority and the RDA dated January 1, 2011 in which the RDA agreed to transfer $15,000,000 to the Authority for the Neighborhood Revitalization project only if, when, and in the amounts, requested from the Authority.

  However, HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable obligations. 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. The Authority is controlled by the City because the City was involved in the formation of the Authority and they share a common governing board, which are factors to be considered when determining if an entity is controlled by the city pursuant to HSC section 34167.10 (b).

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."

Further, HSC section 34171 (d) (2) also states that written agreements entered into at the time of issuance, but in no event later than December 31, 2010, of indebtedness obligations, and solely for the purpose of securing or repaying those indebtedness obligations may be deemed enforceable obligations. The Cooperation Agreements, while entered into relatively at the same time as the Agreements, were not for the purpose of securing debt. Therefore, the Cooperation Agreements are not enforceable obligations and are not eligible for RPTTF funding.

- Item No. 155 – City of Anaheim Cooperation (City)/Loan Agreement repayment in the amount of $294,021. Finance notes the Agency's requested amount was transposed with a difference of $3,600 ($294,021 - $290,421). Additional information provided by the Agency during the Meet and Confer did not support that this item as an enforceable obligation. Therefore, Finance continues to deny this amount for the reasons previously provided. Pursuant to HSC section 34173 (h) the city, county, or city and county that authorized the creation of a redevelopment agency (RDA) 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 OB did review and approve the loan via Oversight Board (OB) Resolution No. 2014-09, as submitted to Finance October 28, 2014, Finance denied this portion of the loan in the OB determination letter dated December 8, 2014. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.

- Item Nos. 157 through 161 – ROPS II Expenditures in Excess of Authorized Estimates totaling $290,421. These items represent individual line items on the July through December 2012 ROPS (ROPS II) for which the Agency's expenditures exceeded the amounts approved. Finance continues to deny these items. Pursuant to HSC section 34177 (a) (3), only those payments listed in the ROPS may be made by the Agency and only from the funds specified in the ROPS. In addition, these items were determined as not enforceable obligations and denied for payment on subsequent ROPS. Furthermore, pursuant to HSC section 34178 (a), the Agency or OB is not allowed to restore funding for an obligation that was denied by Finance. Therefore, these items are not enforceable obligations and are not eligible for RPTTF funding.

- Item Nos. 162 through 167, 169 through 173 – ROPS III Expenditures in Excess of Authorized Estimates totaling $2,263,427, funded by $1,472,988 in RPTTF, $320,765 in Other Funds, and $469,674 in Reserve Balances. Finance no longer denies these items. During the Meet and Confer process, the Agency provided additional support for

these items including general ledger records, contracts, and clarifications. The Agency claims that the amounts requested for these items are the incremental difference between the amounts approved on the ROPS III and the actual amounts expended in the ROPS III period. Our review indicates that for the ROPS II period, the Agency erroneously requested RPTTF for items that were due during the ROPS III period. While Finance previously determined that the Agency used funds on hand to make these payments and therefore does not need additional funding, further review indicates that the unspent amounts from ROPS II were captured in a subsequent prior period adjustment thereby creating a shortage of funds in the following ROPS period. As such, because these items are enforceable obligations, they are eligible for funding on this ROPS.

Per HSC section 34177 (a) (3), only those payments listed on ROPS may be made by the Agency from the funds specified on the ROPS. However, these items were determined to be enforceable obligations for the ROPS 15-16A period and can therefore be funded on this ROPS. We remind the Agency that per 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.

- Item Nos. 163, 168, 174 through 177 – ROPS III Expenditures in Excess of Authorized Estimates totaling $376,022, funded by $24,972 in RPTTF and $351,050 in Other Funds. Finance continues to deny these items. During the Meet and Confer process, the Agency provided additional support for these items including general ledger records, contracts, and clarifications. In addition, the Agency claims that the amounts requested for these items are the incremental difference between the amounts approved on the ROPS III and the actual amounts expended in the ROPS III period. Similar to the above items, our review indicates that for the ROPS II period, the Agency erroneously requested RPTTF for items that were due during the ROPS III period. However, based on our review of the documentation provided for these items, these items are not enforceable obligations for the ROPS 15-16A period and are therefore not eligible for funding on this ROPS.

- Item Nos. 179, 180, and 181 – City Cooperation/Loan Agreement repayments totaling $4,921,791. Finance continues to deny these items. Pursuant to HSC section 34173 (h) the city, county, or city and county that authorized the creation of a RDA 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 OB. While the OB did review and approve the loans via OB Resolution Nos. 2014-06 through 2014-08, as submitted to Finance October 28, 2014, Finance denied these OB resolutions in our determination letters dated December 8, 2014. Therefore, these items are not enforceable obligations and are not eligible for Other Funds on the ROPS.

- Item Nos. 183 and 184 – Debt service reserve payments in the amount of totaling $3,382,737 from Reserve funds. Finance no longer denies these items. The requested amounts represent a portion of the debt service due on February 1, 2016. Pursuant to HSC section 34171 (d) (1) (A) successor agencies are allowed to hold a reserve for debt service payments 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 of the *calendar* year. Our review indicates that the requested reserve is pursuant to the bond documents. Therefore, these items are enforceable obligations.

Finance notes that the additional funds requested to be held in reserve should be transferred upon receipt to the bond trustee(s) along with the amounts approved for the other ROPS 15-16A debt service payments prior to making any other payments on approved ROPS items. Any requests to fund these reserves again in the ROPS 15-16B period will be denied unless insufficient RPTTF is received to satisfy both the debt service payments due during the ROPS 15-16A period and the reserve amounts requested in ROPS 15-16A for the ROPS 15-16B debt service payments.

- Item Nos. 185 and 186 – Administrative Cost Allowance to Housing Successor per AB 471 totaling $1,023,288 ($469,694 and $553,594, respectively). Finance continues to deny this item. As previously determined, Finance denies these items 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 Authority, as a separate legal entity from the City, retained 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 $1,023,288 of housing entity administrative allowance.

- Claimed administrative costs exceed the allowance by $113,670. HSC section 34171 (b) limits the fiscal year 2015-16 administrative expenses to three percent of property tax allocated to the Agency or $250,000, whichever is greater. Although $475,759 is claimed for administrative cost, only $362,089 is available pursuant to the cap. Therefore, $113,670 of excess administrative cost is not allowed.

In addition, per Finance's letter dated April 3, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 52 – 2010 Taxable Recovery Zone Bonds debt service payment in the amount of $173,098 is partially approved for the Redevelopment Property Tax Trust Fund (RPTTF) funding. This bond pertains to Taxable Recovery Zone Economic Development Bonds wherein it is entitled to an Internal Revenue Service (IRS) rebate of

45 percent interest. As tax incentives, a direct refundable credit payment is received from the Federal government that equals to a percentage of the interest payments on these bonds. The 45 percent IRS rebate must be funded by other revenue sources. This rebate is calculated at $77,894, which should be listed as funded by Other Funds on the ROPS. Finance is approving RPTTF in the amount of $95,204 and reclassified $77,894 to Other Funds. Therefore, Finance is approving $95,204 of the $173,098 as eligible for RPTTF funding, for a total of $173,098 ($77,894 and $95,204).

- Item No. 89 – Packing District Development and Disposition Agreement/Management and Operations Agreement in the amount of $1,017,954 is partially approved. The Agency requests $1,017,954; however, an adjustment of $18,400 is necessary to agree with the provided expense summary. 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, $18,400 ($1,017,954 - $999,554) is not eligible for RPTTF funding.

- Item No. 178 – Expenditures in Excess of Authorized Estimates in the amount of $334,511, funded by $273,563 in Other Funds, $60,948 in Reserve Balances. It is our understanding the Agency funded obligations in excess of the maximum amounts approved by Finance during ROPS 14-15A. Finance is allowing this item to ensure that authorization is consistent with expenditures for the approved obligations. As these Other Funds and Reserve Balances were previously expended, the Agency should reconcile the remaining total outstanding balance for this obligation accordingly. Per HSC section 34177 (a) (3), only those payments listed on ROPS may be made by the Agency from the funds specified on the ROPS, up to the amount authorized by Finance. 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 in the future.

Various Items superseded – No funding requests are made on these items; however, with the Agency's consent, these items will be retired on ROPS 15-16A since they were superseded. Therefore, Finance has retired the items noted on the table below.

Item Nos. to Retire	Project Name / Debt Obligation	Description/Project Scope	Superseded by ROPS 15-16A Item Nos.
65	Plaza Redevelopment Project Area	Contracts: Owner Participation Agreement	150
88, 139, 146, and 153	Cooperation/Loan Agreement-34173(h) - Retroactive Payments	Packing District: Loan of funds for Alley/Parking Lots	180
97, 105, 140, 145, and 152	Cooperation/Loan Agreement-34173(h) - Retroactive Payments	Loans: Reimbursement for Homebuyer Loans from May 2013-December 2013	179
100	Westgate Remediation	Westgate: Settlement Agreement/Reimbursement	151
148 and 156	Administration Cost Allowance to Housing Successor Per AB 471	Legally enacted Administrative Allowance of RPTTF to Housing Successor	185 & 186

154	City Loan for Successor Agency Overspent Amount on Prior ROPS	City Loan to fund Successor Agency for overspent line items on prior ROPS period	181

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. The Agency provided financial records that displayed available Other Funds in the amount of $7,236,871. This amount was also reported by the Agency on ROPS 15-16A as cash available and have requested to use it on several ROPS items as a funding source prior to requesting RPTTF. However, Finance denied some of these items as noted above and have determined $5,468,510 ($7,236,871 – $1,768,361 in approved items) in Other Funds is now available for reclassification.

Therefore, the funding source for the following items has been reclassified to Other Funds and in the amounts specified below:

Item No.	Project Name/ Debt Obligation	ROPS 15-16A Amount of RPTTF Requested	Amount Reclassified to Other Funds
50	Tax Allocation Refunding Bonds	$ 5,265,958	$ 233,027
54	Fiscal Agent/Arbitrage Services	15,000	15,000
56	HUD 108 Loan-Capital Projects	437,858	437,858
58	HUD 108 Loan-Westgate	755,498	755,498
62	Project Management	20,000	20,000
63	External Project Costs	20,000	20,000
64	Plaza Redevelopment Project Area	20,000	20,000
66	River Valley Redevelopment Project Area	364,289	364,289
67	Fry's	304,378	304,378
68	Anaheim Westgate Center Project	94,501	94,501
70	8.9-acre SoCal Edison	253,905	253,905
71	Shoe City Lease	16,728	16,728
74	Project Management	20,000	20,000
75	External Project Costs	20,000	20,000
78	Property Management Services	485,000	485,000
79	Downtown Parking	700,000	700,000
80	Downtown Properties/CC&Rs	80,000	80,000
81	Project Management	100,000	100,000
84	Pre-Development/Const. Mgt. Agreement	100,000	100,000
86	DDA/Additional Capital Improvements	45,000	45,000
89	DDA/Mgt. and Operations Agreement	1,017,954	999,554
90	DDA/Mgt. and Operations Agreement	55,500	55,500
91	Project Management	100,000	100,000
92	External Project Costs	50,000	50,000
96	Colony Park Phase IV	50,000	50,000
98	Project Management	100,000	100,000
99	External Project Costs	5,000	5,000
106	Project Management	23,272	23,272
	Total	$ 10,559,841	$5,468,510

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 15-16A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 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 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 15-16A.

The Agency's maximum approved RPTTF distribution for the reporting period is $4,934,647 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution For the period of July through December 2015		
Total RPTTF requested for non-administrative obligations		15,858,629
Total RPTTF requested for administrative obligations		475,759
Total RPTTF requested for obligations on ROPS	**$**	**16,334,388**
Total RPTTF requested for non-administrative obligations		**15,858,629**
Denied Items		
Item No. 89		(18,400)
Item No. 114		(2,000,000)
Item No. 115		(20,000)
Item No. 116		(20,000)
Item No. 117		(20,000)
Item No. 155		(294,021)
Item No. 157		(298)
Item No. 158		(112,751)
Item No. 159		(169,166)
Item No. 160		(1,456)
Item No. 161		(6,750)
Item No. 168		(24,972)
Item No. 185		(469,694)
Item No. 186		(553,594)
		(3,711,102)
Reclassified Item		
Item No. 52		(77,894)
		(77,894)
	$	**12,069,633**
Cash Balances - Items reclassified to Other Funds		
See Reclassification Table on page 7 for details		(5,468,510)
		(5,468,510)
Total RPTTF authorized for non-administrative obligations	**$**	**6,601,123**
Total RPTTF requested for administrative obligations		**475,759**
Administrative costs in excess of the cap (see Admin Cost Cap table below)		(113,670)
Total RPTTF authorized for administrative obligations	**$**	**362,089**
Total RPTTF authorized for obligations	**$**	**6,963,212**
ROPS 14-15A prior period adjustment		(2,028,565)
Total RPTTF approved for distribution	**$**	**4,934,647**

Administrative Cost Cap Calculation	
Total RPTTF for non-administrative obligations	12,069,633
Percent allowed pursuant to HSC section 34171 (b)	3%
Total RPTTF allowable for administrative obligations	**362,089**
Total RPTTF administrative obligations after Finance adjustments	475,759
Administrative costs in excess of the cap	**$ (113,670)**

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 15-16A 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 Agency insisted that the bridging document prepared for ROPS 14-15B was completed and no bridging document is prepared for ROPS 15-16A. Furthermore, Agency stated that the ending balances on the ROPS 14-15B bridging document were transferred as the beginning balances for ROPS 15-16A. However, the ending balances from the ROPS 14-15B bridging document did not match the beginning balances reported in ROPS 15-16A Cash Balance Form. As a result, Finance will continue to work with the Agency after the ROPS 15-16A 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 15-16B.

Please refer to the ROPS 15-16A 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, 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 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 Danielle Brandon, Analyst, at (916) 445-3274.

Sincerely,

JUSTYN HOWARD
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