



April 3, 2015

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 15-16A) to the California Department of Finance (Finance) on February 24, 2015 for the period of July 1 through December 31, 2015. Finance has completed its review of your ROPS 15-16A, 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 – Housing and Urban Development Section 108 Infrastructure Loan in the amount of \$2,518,786. 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 requested \$433,036 from RPTTF; however, Finance is reclassifying \$375,000 to Other Funds. This item is an enforceable obligation for the ROPS 15-16A period. The obligation does not require payment from property tax revenues and the Agency has \$375,000 in available Other Funds. Therefore, Finance is approving RPTTF in the amount of \$58,036, and the use of Other Funds in the amount of \$375,000, totaling \$433,036.

- Item No. 14 – Strand Hotel and Mixed-Use Project in the amount of \$6,748,571 is not allowed. It is our understanding that the payment due September 30, 2015 was approved for Reserve Balances pursuant to Finance's ROPS 14-15B letter of determination dated December 17, 2014. Therefore, additional funding is not required for this period and the request for \$702,904 in Reserve Balances is not allowed at this time.

- Item No. 29 – Bella Terra Parking Infrastructure in the amount of \$12,910,919 is not allowed. It is our understanding that the payment due September 30, 2015, pursuant to the Second Implementation Agreement to the Owner Participation Agreement dated September 17, 2007, approved for Reserve Balances pursuant to Finance’s ROPS 14-15B letter of determination dated December 17, 2014. Therefore, additional funding is not required for this period and the request for \$1,578,008 in Reserve Balances is not allowed at this time.
- Item Nos. 39, 40, 50 – Agency Administration. Claimed administrative costs exceed the allowance by \$375,000. HSC section 34171 (b) limits the fiscal year 2015-2016 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater.

The Agency requested \$375,000 in Other Funds for these items. However, Finance has reclassified the \$375,000 in Other Funds to Administrative RPTTF, as Other Funds must be used to fund enforceable obligation prior to administrative items pursuant to HSC section 34177 (l) (1) (E).

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. If you disagree with the determination with respect to any items on your ROPS 15-16A, 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/](http://www.dof.ca.gov/redevelopment/meet_and_confer/)

The Agency’s maximum approved RPTTF distribution for the reporting period is \$4,068,883 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	4,230,063
Total RPTTF requested for administrative obligations	250,000
Total RPTTF requested for obligations on ROPS	\$ 4,480,063
Total RPTTF requested for non-administrative obligations	4,230,063
<u>Reclassified Item</u>	
Item No. 13	(375,000)
Total RPTTF authorized for non-administrative obligations	\$ 3,855,063
Total RPTTF requested for administrative obligations	250,000
<u>Reclassified Items</u>	
Item No. 39	75,000
Item No. 40	100,000
Item No. 50	200,000
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(375,000)
Total RPTTF authorized for administrative obligations	\$ 250,000
Total RPTTF authorized for obligations	\$ 4,105,063
ROPS 14-15A prior period adjustment	(36,180)
Total RPTTF approved for distribution	\$ 4,068,883

Administrative Cost Cap Calculation	
Total RPTTF for non-administrative obligations	4,230,063
Percent allowed pursuant to HSC section 34171 (b)	3%
Total RPTTF allowable for administrative obligations	250,000
Total RPTTF administrative obligations after Finance adjustments	625,000
Administrative costs in excess of the cap	\$ (375,000)

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. 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>

Absent a Meet and Confer, 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.

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

Sincerely,



JUSTYN HOWARD
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