



December 17, 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 November 5, 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 15-16B) to Finance on September 22, 2015, for the period of January 1 through June 30, 2016. Finance issued a ROPS determination letter on November 5, 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 November 16, 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.

- Item Nos. 168, and 174 through 176 – January through June 2013 ROPS (ROPS III) Period Expenditures in Excess of Authorized Estimates totaling \$96,022. Finance continues to deny these items. The Agency claims the amounts requested for these items are the incremental differences between the amounts approved on ROPS III and the actual amounts expended in the January through June 2013 (ROPS III) period. While Finance did not deny these items during the ROPS III period, pursuant to HSC section 34177 (a) (3) only those payments listed on the ROPS may be made by the Agency from the funds specified in the ROPS. As further discussed for each of the items below, the over-expenditures for these items are not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
  - Item No. 168 – ROPS III Expenditures in Excess of Authorized Funding for Item 72. Item 72 was authorized for payment on ROPS III for \$0; however, the Agency reported spending \$24,972. The Agency did not have Finance's approval to make a \$24,972 payment for this item during the ROPS III period. Nevertheless, the county auditor-controller (CAC) did not make a prior period adjustment to disallow the payment; therefore, the Agency received funding for this item. Lastly, Finance notes the payment made is related to a cooperation agreement entered into August 1, 2010 between the former Redevelopment Agency (RDA) and the City of Anaheim (City) and such agreements are invalid under RDA Dissolution law. For these reasons, this item is not an enforceable obligation and is not eligible for funding on the ROPS.

- Item No. 174 – ROPS III Expenditures in Excess of Authorized Funding for Item 117. Item 117 was authorized for payment on ROPS III for \$48,557 from the RPTTF; however, the Agency reported spending \$25,412 from the RPTTF and \$20,574 in Reserve funds. The Agency did not have Finance's approval to make a \$20,574 in Reserve funds for this item during the ROPS III period. Therefore, the Reserve funding should be available to fund other enforceable obligations on the ROPS. Although Finance did not deny Item No. 117 on the ROPS III, Finance notes the payment made is related to consultant costs for the Avon/Dakota project, which is deemed not an enforceable obligation, as noted for Items 114 to 117. As such, this item is not an enforceable obligation and is not eligible for funding on the ROPS.
- Item No. 175 – ROPS III Expenditures in Excess of Authorized Funding for Item 119. Item 119 was authorized for payment on ROPS III for \$60,000 from the RPTTF; however, the Agency reported spending \$84,030 from the RPTTF. The Agency did not have Finance's approval make the additional \$24,030 payment for this item during the ROPS III period. Nevertheless, the county auditor-controller (CAC) did not make a prior period adjustment to disallow the payment; therefore, the Agency already received funding for this item and is not eligible for funding on the ROPS. Lastly, it is our understanding this item is related to housing monitoring. Obligations associated with the former RDA's previous statutory housing obligations are not enforceable obligations. Upon the transfer of the former RDA's housing functions to the new housing entity, HSC section 34176 requires that "all rights, powers, duties, obligations and housing assets...shall be transferred" to the new housing entity. This transfer of "duties and obligations" necessarily includes the transfer of statutory obligations; to the extent any continue to be applicable. To conclude that such costs should be on-going enforceable obligations of the successor agency could require a transfer of tax increment for life – directly contrary to the wind down directive to the RDA Dissolution law.
- Item No. 176 – ROPS III Expenditures in Excess of Authorized Funding for Item 120. Item 120 was authorized for payment on ROPS III for \$12,000 from the RPTTF; however, the Agency reported spending \$31,089 from the RPTTF. The Agency did not have Finance's approval to make the additional \$19,089 payment for this item during the ROPS III period. Nevertheless, the county auditor-controller (CAC) did not make a prior period adjustment to disallow the payment; therefore, the Agency already received funding for this item and is not eligible for funding on the ROPS. Lastly, it is our understanding this item is related to housing monitoring. Obligations associated with the former RDA's previous statutory housing obligations are not enforceable obligations. Upon the transfer of the former RDA's housing functions to the new housing entity, HSC section 34176 requires that "all rights, powers, duties, obligations and housing assets...shall be transferred" to the new housing entity. This transfer of "duties and obligations" necessarily includes the transfer of statutory obligations; to the extent any continue to be applicable. To conclude that such costs should be on-going enforceable obligations of the successor agency could require a transfer of tax increment for life – directly contrary to the wind down directive the RDA Dissolution law.
- Item No. 178 – ROPS 14-15A Expenditure in Excess of Authorized Funding in the amount of \$273,563. Finance continues to deny this item. The Agency claims this item represents a shortage in funds the Agency did not receive as a result of the Meet and Confer review during ROPS 15-16A. During the July through December 2014 (ROPS 14-15A) period, the Agency requested and was approved to spend \$400,000 for Item No. 89. However, the

actual expenditure for this item totaled \$734,511 in the ROPS 14-15A period. Finance approved the excess expenditure on the July through December 2015 (ROPS 15-16A) period to be fully funded by \$60,948 in Other Funds and \$273,563 in Reserve Balances as requested by the Agency on the ROPS 15-16A. However, during the ROPS 15-16B meet and confer, the Agency contended the Reserve Balances were not available to pay the amount of the excess expenditure and requested RPTTF to pay those obligations. The Agency provided documentation to support this item including the Report of Cash Balances page of the ROPS 15-16A and two pages of the ROPS 15-16A itself. However, Item No. 178 on the documentation does not tie to the ROPS the Agency originally submitted for the ROPS 15-16A period. Therefore, Finance has determined that the documentation provided does not support the shortage of Reserve Balances. Finance further determines that this overage was fully satisfied in the ROPS 15-16A period and the item is not eligible for RPTTF funding in the amount of \$273,563 on this ROPS.

- Item Nos. 179 – City of Anaheim (City) Cooperation/Loan Agreements totaling \$1,500,000. Finance continues to deny these items. On the ROPS III, the Agency claimed amounts for down payment assistance loans to be made pursuant to three Disposition and Development Agreements. The loans were denied because, although the loans were allowed by the respective DDAs, the Agency did not provide support that it had made the loans or that contracts were entered into to make the loans. During the ROPS III period, the City entered into loan agreements with the homebuyers. The Agency was not a party to those agreements. Therefore, Finance determined that the loans were made and there is no further obligation on the Agency to make the loans.

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 an 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 on October 28, 2014, Finance denied these OB resolutions in our determination letters dated December 8, 2014 because the loans are not obligations of the Agency. Again, the Agency did not enter into the loan agreements, rather the City did. Therefore, these items are not enforceable obligations and are not eligible for RPTTF funding totaling \$1,500,000.

- Item No. 186 – Administrative Cost Allowance to Housing Successor per AB 471 in the amount of \$1,023,000 requested for ROPS 15-16B and total outstanding balance of \$2,500,000. Finance continues to deny this item. Finance denied this item 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 redevelopment agency (RDA) elected to not assume the housing functions. Because the housing entity to the former redevelopment agency of the City of Anaheim (City) is the City-formed Housing Authority (Authority), the Authority operates under the control of the City and is considered the City under Dissolution Law (ABx1 26 and AB 1484).

The Agency contends that the City elected not to retain the housing functions, but the Authority, as a separate legal entity from the City, did retain 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 City is financially accountable for the component units.

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 \$1,023,000 of housing successor administrative allowance requested for ROPS 15-16B.

- Claimed administrative costs exceed the allowance by \$201,415. HSC section 34171 (b) (2) limits the fiscal year 2015-16 administrative expenses to three percent of the RPTTF allocated or \$250,000, whichever is greater. The Orange County Auditor-Controller distributed \$362,089 in administrative costs for the July through December ROPS 15-16A period, leaving a balance of \$592,692 available for the January through June ROPS 15-16B period. Although \$794,107 is claimed for administrative cost, only \$592,692 is available pursuant to the cap. Therefore, \$201,415 of excess administrative cost is not allowed.

The Agency also contested Item Nos. 114-117 and 180 during the Meet and Confer. However, pursuant to HSC section 34177 (m) (1), items that are the subject of litigation disputing Finance’s previous or related determination are not eligible for meet and confer. As a result, we continue to make the following determination:

- Item Nos. 114 through 117 – Avon Dakota Revitalization and related costs in the amount of \$2,276,000 requested for ROPS 15-16B and total outstanding balance of \$15,385,000 are not allowed. Finance continues to deny these items. It is our understanding the parties referenced in the Neighborhood Revitalization Agreement (Agreement) dated June 1, 2010 and the Amendment to the Agreement dated February 1, 2011, are between the Anaheim Housing Authority (Authority) and a third party. The former redevelopment agency is not a party to the Agreement. Therefore, these items are not enforceable obligations and are not eligible for RPTTF funding totaling \$2,276,000 on this ROPS.
- Item No. 180 – City of Anaheim (City) Cooperation/Loan Agreements totaling \$884,429. 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 redevelopment agency (RDA) may loan or grant funds to an 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 on 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 RPTTF funding totaling \$884,429 on this ROPS.

Furthermore, per Finance’s letter dated November 5, 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 \$403,097 has been adjusted. This item is a Taxable Recovery Zone Economic Development Bond, wherein it is entitled to an Internal Revenue Service (IRS) rebate of 45 percent interest (Rebate). As tax incentives, a direct refundable credit payment is received from the Federal government that equals a percentage of the interest payments on these bonds. The IRS Rebate must be funded by other revenue sources.

It is also our understanding that pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, certain automatic reductions to the refundable credits under IRS Code section 6431 will apply and would reduce the refundable credit payment by 6.8 percent, known as the sequestration reduction rate. This rebate is calculated at \$72,597 (\$77,894 - \$5,297), and the Agency should request a portion from Other Funds on the ROPS. Therefore, with the Agency's consent, Finance approves \$330,500 from the Redevelopment Property Tax Trust Fund (RPTTF), and reclassifies \$72,597 to Other Funds, for a total of \$403,097 for this obligation.

- Item No. 142 – Litigation Expenses totaling \$180,000. At the Agency's request, Finance has reduced the requested amount from \$60,000 to zero for ROPS 15-16B period. Therefore, this item is not eligible for RPTTF funding in the amount of \$60,000 on this ROPS.
- Item No. 149 – Colony Cooperation Agreement in the amount of \$500,000 requested for ROPS 15-16B and a total outstanding balance of \$9,500,000 is not allowed. The Agency was unable to provide a valid contract or agreement to support the \$500,000 requested from RPTTF. To the extent the Agency can provide sufficient documentation, such as an executed contract or vendor invoices to support the requested funding, the Agency may be able to obtain RPTTF funding on future ROPS.
- Item No. 189 – Expenditure in Excess of Authorized Estimates in the amount of \$27,931. The Agency states the requested amount reflects a correction to the amount claimed by the Agency in ROPS 15-16A. However, this item relates to Item Nos. 114 through 117, the Avon Dakota Revitalization project, denied as enforceable obligations. Therefore, this item is also considered unenforceable, and is not eligible for RPTTF funding in the amount of \$27,931 on this ROPS.

Pursuant to HSC section 34186 (a) (1), the Agency was required to report on the ROPS 15-16B form the estimated obligations versus actual payments (prior period adjustment) associated with the January through June 2015 period (ROPS 14-15B). HSC section 34186 (a) (1) also specifies the prior period adjustment self-reported by the Agency is subject to review by the county auditor-controller (CAC). 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 the item that has been reclassified, Finance is not objecting to the remaining items listed on your ROPS 15-16B. The Agency's maximum approved RPTTF distribution for the reporting period is \$18,248,637 as summarized in the Approved RPTTF Distribution table on the next page:

<b>Approved RPTTF Distribution</b>	
<b>For the period of January through June 2016</b>	
Total RPTTF requested for non-administrative obligations	26,470,240
Total RPTTF requested for administrative obligations	794,107
<b>Total RPTTF requested for obligations on ROPS 15-16B</b>	<b>\$ 27,264,347</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>26,470,240</b>
<u>Denied Items</u>	
Item No. 114	(2,221,000)
Item No. 116	(25,000)
Item No. 117	(30,000)
Item No. 142	(60,000)
Item No. 149	(500,000)
Item No. 168	(24,972)
Item No. 174	(27,931)
Item No. 175	(24,030)
Item No. 176	(19,089)
Item No. 178	(273,563)
Item No. 179	(1,500,000)
Item No. 180	(884,429)
Item No. 186	(1,023,288)
Item No. 189	(27,931)
	(6,641,233)
<u>Reclassified Item</u>	
Item No. 52	(72,597)
<b>Total RPTTF authorized for non-administrative obligations</b>	<b>\$ 19,756,410</b>
<b>Total RPTTF requested for administrative obligations</b>	<b>794,107</b>
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(201,415)
<b>Total RPTTF authorized for administrative obligations</b>	<b>\$ 592,692</b>
<b>Total RPTTF authorized for obligations</b>	<b>\$ 20,349,102</b>
ROPS 14-15B prior period adjustment	(2,100,465)
<b>Total RPTTF approved for distribution</b>	<b>\$ 18,248,637</b>
<b>Administrative Cost Cap Calculation</b>	
Total RPTTF for 15-16A (July through December 2015)	12,069,633
Total RPTTF for 15-16B (January through June 2016)	19,756,410
<b>Total RPTTF for fiscal year 2015-2016</b>	<b>31,826,043</b>
Administrative cost cap for fiscal year 2015-16 (Greater of 3% of Total RPTTF or \$250,000)	954,781
Administrative allowance for ROPS 15-16A (July through December 2015)	(362,089)
<b>Remaining administrative cost cap for ROPS 15-16B</b>	<b>592,692</b>
<b>Administrative costs in excess of the cap</b>	<b>\$ 201,415</b>

On the ROPS 15-16B form, the Agency reported cash balances and activity for the period January 1 through December 31, 2015. Finance will perform a review of the Agency's self-reported cash balances on an ongoing basis. Please be prepared to submit financial records and bridging documents to support the cash balances reported upon request. If it is determined the Agency possesses cash balances that are available to pay approved obligations, HSC section 34177 (l) (1) (E) requires these balances be used prior to requesting RPTTF.

Please refer to the ROPS 15-16B schedule used to calculate the total RPTTF approved for distribution:

<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, 2016. This determination only applies to items when 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 ROPS periods. All items listed on a future ROPS are subject to review and may be denied even if it was not denied on this ROPS or a preceding ROPS. The only exception is for items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). Finance's review of Final and Conclusive items 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 available prior to the enactment of the redevelopment dissolution statutes. 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.

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