DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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November 16, 2015

Mr. Eddie Manfro, City Manager
City of Westminster
8200 Westminster Boulevard
Westminster, CA 92683

Dear Mr. Manfro:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m) (1) (A), the City of Westminster Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period January 1 through June 30, 2016 (ROPS 15-16B) to the California Department of Finance (Finance) on October 5, 2015. Finance has completed its review of the ROPS 15-16B.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

- Item Nos. 12 and 35 – Bank Fees and Capital Projects in the amount of $18,000 and $800,000, respectively, have been adjusted. At the Agency's request, Finance has increased funding for these items by $5,547 and $2,224,531, an increase totaling $2,230,078. Based on the documents provided by the Agency, the Agency incurred costs that exceeded the amount of funding approved on ROPS 14-15B for these items. Therefore, Finance approves $23,547 for Item No. 12 ($18,000 + $5,547) and $3,024,531 for Item No. 35,($800,000 + $2,224,531) for a total amount of $3,048,078 eligible for funding from Redevelopment Property Tax Trust Funds (RPTTF) this period.

- Item No. 14 – Consulting Services in the amount of $25,000 have been reclassified. Based on our review of the agreement, the types of consulting services provided by the Rosenow Spevacek Group, Inc. relate to budget and cash flow work, preparation of the ROPS, and assisting the Agency navigate new legislation. Therefore, as these costs are considered general administrative costs, Finance has reclassified funding for this item from RPTTF to the Administrative Cost Allowance (ACA).

- Item No. 51 - Unencumbered 2009 Bond Proceeds in the amount of $11,902,966 in Bond Proceeds is partially allowed. Finance approved the transfer of the 2009 Tax Allocation Bond proceeds in our letter dated April 23, 2015, pursuant to Oversight Board (OB) Resolution No. 20. However, the OB Resolution, as well as the corresponding expenditure agreement, only identified bond proceeds in the amount of $5,336,436.

  To the extent the Agency can provide support for the additional $6,566,530, or the Agency submits another resolution to transfer the additional 2009 bond proceeds, the

Agency may be able to include the transfer of the excess bond proceeds in a subsequent ROPS. Therefore, Finance approves a transfer of the 2009 Bond Proceeds in the amount of $5,336,436, and the excess, $6,566,530 ($11,902,966 - $5,336,436), is not eligible for transfer to the City of Westminster (City) on this ROPS.

- Item No. 52 – Cash Flow Loan in the amount of $2,231,784 is not allowed. It is our understanding the Agency incurred expenses in excess of the amounts approved by Finance in ROPS 14-15B, and received a loan from the City to cover the additional expenses. Pursuant to HSC section 34173 (h), the City may loan the Agency funds for enforceable obligations only to the extent the Agency received an insufficient distribution from the RPTTF.

  However, according to documentation provided by the Orange County Auditor-Controller (CAC), the Agency received the total amount of RPTTF approved by Finance. Because the Agency received the entire authorized amount, no insufficiency exists, and this loan is not allowed. Oversight Board (OB) Resolution No. 21, approving a cash flow loan was denied by Finance. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.

- Item No. 53 – 2011 Unencumbered Bond Proceeds in the amount of $606,523 are not allowed. It is our understanding the Agency desires to transfer 2011 Bond Proceeds to the City for purposes for which the bonds were sold, and to be used in a manner consistent with the original bond covenants. Pursuant to HSC section 34191.4 (c) (2), the Agency may expend up to five percent of the excess proceeds derived from bonds issued on or after January 1, 2011. However, the Agency was unable to provide sufficient documentation to support the amount proposed for transfer to the City.

  The Agency claims that it is holding a total of $12,130,460 excess 2011 bond proceeds and desires to transfer $606,23, five percent of the excess 2011 bond proceeds, to the City. The Agency provided a copy of the 2011 Official Statement for the bonds which indicate $34,500,000 in bond proceeds was issued. Additionally, the Agency provided bank statements that show the remaining balance of $15,585,915 for these 2011 bonds.

  However, this documentation is insufficient to support the requested amount because they do not support the difference between the amount of 2011 bonds issued and encumbered by an enforceable obligation). Additionally, it appears that the Agency may have already expended 2011 bond proceeds that exceed the five percent allowable pursuant to the statute. Therefore, Finance denied the transfer of excess 2011 bond proceeds during our review of OB Resolution No. 22.

  To the extent the Agency can provide suitable documentation, such as bank statements and executed contracts and agreements specifying the amount of 2011 bond proceeds available and/or the amount encumbered for enforceable obligations, the Agency may be able to transfer excess Bond Proceeds to the City on future ROPS.

- The Agency's claimed administrative costs exceed the allowance by $25,801. HSC section 34171 (b) (2) limits fiscal year 2015-16 administrative expenses to three percent of distributed RPTTF in the preceding fiscal year or $250,000, whichever is greater. As a result, the Agency is eligible for $652,127 in administrative expenses. The CAC distributed $437,450 for the July through December 2015 period, leaving a balance of $214,677 available for the January through June 2016 period. Although $215,478 is

claimed for administrative cost, Item No. 14 for Consulting Services in the amount of $25,000 are considered administrative expenses and should be counted toward the ACA. Therefore, $25,801 of excess ACA is not allowed.

Finally, Finance notes the City loaned the Agency funds related to litigation costs contesting the validity of the dissolution law and challenging acts taken pursuant to the dissolution law. Pursuant to HSC section 34171 (d) (1) (F) (ii), funds provided by the City to contest the validity of the dissolution law or actions taken pursuant to the dissolution law may be deemed enforceable only if the Agency obtains a final judicial determination granting the relief requested in the action. Therefore, loans of this nature are not enforceable obligations, and should be reimbursed from the Agency's ACA.

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 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, Finance is not objecting to the remaining items listed on your ROPS 15-16B. If you disagree with Finance's determination with respect to any items on your ROPS 15-16B, except for those items which are the subject of litigation disputing Finance's previous or related determinations, 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 $7,255,169 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution For the period of January through June 2016		
Total RPTTF requested for non-administrative obligations		7,182,606
Total RPTTF requested for administrative obligations		215,478
Total RPTTF requested for obligations on ROPS 15-16B	**$**	**7,398,084**
RPTTF adjustment to non-administrative obligations - Item Nos. 12 and 35		2,230,078
Total RPTTF adjustments	**$**	**2,230,078**
Total RPTTF requested for non-administrative obligations		**9,412,684**
Denied Item		
Item No. 52		(2,231,784)
Reclassified Item		
Item No. 14		(25,000)
Total RPTTF authorized for non-administrative obligations	**$**	**7,155,900**
Total RPTTF requested for administrative obligations		**215,478**
Reclassified Item		
Item No. 14		25,000
Administrative costs in excess of the cap (see Admin Cost Cap table below)		(25,801)
Total RPTTF authorized for administrative obligations	**$**	**214,677**
Total RPTTF authorized for obligations	**$**	**7,370,577**
ROPS 14-15B prior period adjustment		(115,408)
Total RPTTF approved for distribution	**$**	**7,255,169**

Administrative Cost Cap Calculation		
Total RPTTF for 15-16A (July through December 2015)		14,581,663
Total RPTTF for 15-16B (January through June 2016)		7,155,900
Total RPTTF for fiscal year 2015-2016		**21,737,563**
Administrative cost cap for fiscal year 2015-16 (Greater of 3% of Total RPTTF or $250,000)		652,127
Administrative allowance for ROPS 15-16A (July through December 2015)		(437,450)
Remaining administrative cost cap for ROPS 15-16B		**214,677**
ROPS 15-16B administrative obligations after Finance adjustments		(240,478)
Administrative costs in excess of the cap	**$**	**(25,801)**

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

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

Sincerely,

JUSTYN HOWARD
Program Budget Manager

cc: Mr. Erin Backs, Financial Services Manager, City of Westminster
Mr. Frank Davies, Property Tax Manager, Orange County