DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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April 15, 2016

Ms. Stacey Shokri, Finance Manager
City of Anaheim
201 South Anaheim Boulevard, Suite 1003
Anaheim, CA 92805

Dear Ms. Shokri:

Subject: 2016-17 Annual Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (o) (1), the City of Anaheim Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period July 1, 2016 through June 30, 2017 (ROPS 16-17) to the California Department of Finance (Finance) on January 29, 2016. Finance has completed its review of the ROPS 16-17.

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

- Item No. 54 – Fiscal Agent/Arbitrage Services Fees in the amount of $30,000 is partially allowed. The Agency provided invoices and journal vouchers from the 2014-15 fiscal year totaling $13,687 to support the amount requested. However, the amount requested for the ROPS 16-17 period in the amount of $30,000 is twice the amount needed based on the invoices and journal vouchers provided.

  Furthermore, two of the invoices for fees relating to the 2007 A, B, C, and D Tax Allocation Refunding Bonds dated January 25, 2016 indicated the Agency paid $7,040 in advance for the period January 1, 2016 through December 31, 2016 (ROPS A period). Therefore, Finance denies the Redevelopment Property Tax Trust Fund (RPTTF) funding request of $15,000 for the ROPS A period and approves RPTTF funding in the amount of $15,000 for the January 1, 2017 through June 30, 2017 period (ROPS B period).

- Item Nos. 62 and 74 – Project Management Costs in the amount totaling $1,200,000 are reclassified to the Agency's Administrative Cost Allowance (ACA). The Agency provided documentation such as payroll expenditure summary report, duty statements, and general ledger. However, the documentation did not conclusively support that these costs are directly tied to a specific project and are considered administrative in nature. Therefore, the amount of $80,000 ($40,000 + $40,000) has been reclassified from RPTTF to ACA.

- Item Nos. 102, 103, and 151 – Various Westgate Project Remediation costs with a total outstanding obligation amount of $26,500,000 are not allowed. It is our understanding the Agency is requesting funding for the following items for the purposes listed below:

  - Item No. 102 – Project Management costs in the amount of $200,000 for staff time associated with the operation, monitoring and maintenance (OM&M) required by the Remedial Action Plan (RAP) approved by the California Regional Water Quality Board (Board) for the remediation of the Westgate Project Property (Property) owned by the former Redevelopment Agency (RDA). The Agency provided a payroll expenditure summary report, duty statements, and general ledger to support the request.

  - Item 103 – External Project Costs in the amount of $400,000 payable to third parties in relation to the implementation of the Settlement and Release Agreement (Settlement Agreement) between the former RDA, City of Anaheim (City), County of Orange (County), Zelman Anaheim, LLC, and Westgate Investment Group, LLC dated October 15, 2008. In addition to the Settlement Agreement, the Agency provided the Attorney Services Agreement and a Professional Services Agreement for the OM&M required by the RAP to support the request.

  - Item No. 151 – Westgate Remediation costs in the amount of $1,000,000 for the OM&M of the Property. The Agency provided the Settlement Agreement along with the Attorney Services Agreement and a Professional Services Agreement to support the request.

  However, Finance approved the Agency's Long-Range Property Management Plan (LRPMP) on December 31, 2015. The Property listed on the Agency's LRPMP as Property No.16 -Westgate Project, requiring remediation, was designated and approved for future development as its permissible use. Although HSC section 34171 (d) (1) (F) allows the costs of maintaining assets prior to disposition, pursuant to HSC section 34191.3, the approved LRPMP shall govern, and supersede all other provisions relating to the disposition and use of real property assets of the former RDA. Since the Property has been retained by the City for future development, the City is responsible for OM&M costs required to prepare the Property for that development. Furthermore, Finance notes that the Settlement Agreement specifically excludes the activities of the OM&M. Therefore, these items are not enforceable obligations and are not eligible for RPTTF funding totaling $1,600,000 ($200,000 + $400,000 + $1,000,000) for the ROPS 16-17 period.

- Item Nos. 114 through 117 – Avon Dakota Revitalization, Project Management, and External Project Costs; outstanding obligation costs totaling $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 RDA is not a party to the Agreement. In addition, pursuant to the Superior Court of California, County of Sacramento's final ruling dated February 19, 2016, these items were denied as enforceable obligations. Therefore, these items are not eligible for RPTTF funding totaling $4,110,000 ($4,000,000 + $50,000 + $60,000) on the ROPS 16-17 period.

- Item No. 137 – Cooperation Agreement/Reimbursement of Costs in the amount of $645,222. It is our understanding that this item pertains to unfunded liabilities relating to Employee Pension and Retiree Medical Liabilities.

  Pursuant to HSC section 34171 (d) (1) (C) this item is considered an enforceable obligation; however, the Agency erroneously reported this as part of the Agency's ACA. Therefore, to correct the oversight, Finance has reclassified this item from the ACA to RPTTF for the ROPS 16-17 period.

  However, the documentation provided by the Agency to support the requested amount showed that this item was overfunded in prior ROPS periods; and there is no current amount owed for the unfunded liability payment during the ROPS 16-17 period. Therefore, this item is not eligible for RPTTF funding at this time.

- Item Nos. 141 and 190 – Infrastructure Improvements funded with Bond Proceeds totaling $3,009,761. The Agency received a Finding of Completion on June 12, 2013 and is allowed to expend bond proceeds derived from bonds issued prior to January 1, 2011 (pre-2011 bond proceeds) in a manner consistent with the bond covenants. The Agency intends to transfer pre-2011 bond proceeds to the City during ROPS 16-17. Before the transfer can take place, however, a bond expenditure agreement between the City and the Agency, outlining the transfer of pre-2011 bond proceeds, must be approved by the Oversight Board (OB) and submitted to Finance for review.

- Item Nos. 179 – City Cooperation/Loan Agreement in the total outstanding obligation amount of $1,500,000 is not allowed. Finance continues to deny this item. 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 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 loan via OB Resolution Nos. 2014-07 as submitted to Finance on October 28, 2014, Finance denied this OB resolution in our determination letter dated December 8, 2014. The loan is not an obligation of the Agency. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding totaling $1,500,000 on the ROPS.

- Item No. 180 – City Cooperation/Loan Agreements totaling $884,429 is not allowed. Finance continues to deny this item. 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 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 loan via OB Resolution Nos. 2014-06 as submitted to Finance on October 28, 2014, Finance denied this OB resolution in our determination letter dated December 8, 2014. In addition, pursuant to the Superior Court of California, County of Sacramento's final ruling dated February 19, 2016, this item was denied. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding totaling $884,429 on the ROPS.

- Item Nos. 185 and 186 – Administrative Cost Allowance to the Housing Successor per AB 471; outstanding obligation amounts totaling $2,500,000 is not allowed. Finance continues to deny these items. Pursuant to HSC section 34171 (p), the housing successor 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. The housing successor to the former RDA of the City is the City-formed Housing Authority and the Authority operates under the control of the City, the Authority is considered the City under Dissolution Law pursuant to HSC section 34167.10. Therefore, $1,556,045 ($532,757 + $1,023,288) of housing successor administrative allowance requested for the ROPS A period is not allowed.

- Item No. 187 – Domain Project Area Remediation in the amount of $611,000 is reclassified from RPTTF to Other Funds. This item pertains to remediation efforts to accommodate California Department of Toxic Substance Control and using restricted federal grant proceeds for the assessment and remediation of Assessor Parcel Numbers 037-022-02 and 037-022-03. This item is an enforceable obligation; however, the obligation does not require payment from property tax revenues. Therefore, with the Agency's concurrence, Finance is approving Other Funds for the ROPS 16-17 period to reflect the proper funding source.

- Claimed administrative costs exceed the allowance by $80,000. HSC section 34171 (b) (3) limits the fiscal year 2016-2017 Administrative Cost Allowance (ACA) to three percent of actual distributed RPTTF in the preceding fiscal year or $250,000, whichever is greater; not to exceed 50 percent of the distributed RPTTF in the preceding fiscal year. As a result, the Agency's maximum ACA is $638,212 for the fiscal year 2016-2017. Although $638,212 is claimed for the ACA, Item Nos. 62 and 74 Project Management Costs totaling $80,000 are considered administrative costs and should be counted toward the cap. Therefore, $80,000 of excess administrative cost allowance is not allowed.

Except for the items denied in whole or in part or the items that have been adjusted, Finance is not objecting to the remaining items listed on your ROPS 16-17. If you disagree with Finance's determination with respect to any items on your ROPS 16-17, 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/

On the ROPS 16-17 form, the Agency reported cash balances and activity for the period of July 1, 2015 through June 30, 2016. Finance performs a review of the Agency's self-reported cash balances on an ongoing basis. 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 enforceable obligations, HSC section 34177 (l) (1) (E) requires these balances to be used prior to requesting RPTTF.

The Agency's maximum approved RPTTF distribution for the reporting period is $21,837,906 as summarized in the Approved RPTTF Distribution Table on Pages 6-7 (See Attachment).

ROPS distributions will occur twice annually, one distribution for the July 1, 2016 through December 31, 2016 (ROPS A period), and one distribution for the January 1, 2017 through June 30, 2017 (ROPS B period) based on Finance's approved amounts. Since Finance's determination is for the entire ROPS 16-17 period, the Agency is authorized to receive up to the maximum approved RPTTF through the combined ROPS A and B period distributions.

On the ROPS 16-17 form, the Agency was not required to report the estimated obligations versus actual payments (prior period adjustment) associated with the July 1, 2015 through December 31, 2015 period (ROPS 15-16A). The Agency will report actual payments for ROPS 15-16A and ROPS 15-16B on the ROPS 18-19 form pursuant to HSC section 34186 (a) (1). A prior period adjustment will be applied to the Agency's future RPTTF distribution. Therefore, the Agency should retain any difference in unexpended RPTTF.

Please refer to the ROPS 16-17 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 determination related to the enforceable obligations reported on your ROPS for the period July 1, 2016 through June 30, 2017. This determination only applies to items when funding was requested for the 12-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 Medy Lamorena, Lead Analyst at (916) 445-1546.

Sincerely,

For

JUSTYN HOWARD
Program Budget Manager

cc: Mr. Brad Hobson, Deputy Director, City of Anaheim
Mr. Frank Davies, Property Tax Manager, Orange County

## Attachment

| Approved RPTTF Distribution<br>For the period of July 2016 through June 2017 | ROPS A Period | ROPS B Period | Total |
|---|---|---|---|
| Requested RPTTF (excluding administrative obligations) | $ 14,723,483 | $ 16,832,685 | $ 31,556,168 |
| Requested Administrative RPTTF | 641,717 | 641,717 | 1,283,434 |
| **Total RPTTF requested for obligations on ROPS 16-17** | $ 15,365,200 | $ 17,474,402 | **$ 32,839,602** |
| **Total RPTTF requested** | 14,723,483 | 16,832,685 | **31,556,168** |
| Denied Items | | | |
| Item No. 54 | (15,000) | 0 | (15,000) |
| Item No. 102 | (100,000) | (100,000) | (200,000) |
| Item No. 103 | (200,000) | (200,000) | (400,000) |
| Item No. 114 | (2,000,000) | (2,000,000) | (4,000,000) |
| Item No. 116 | (25,000) | (25,000) | (50,000) |
| Item No. 117 | (30,000) | (30,000) | (60,000) |
| Item No. 137 | (322,611) | (322,611) | (645,222) |
| Item No. 151 | (500,000) | (500,000) | (1,000,000) |
| Item No. 179 | (1,500,000) | 0 | (1,500,000) |
| Item No. 180 | (884,429) | 0 | (884,429) |
| Item No. 185 | (532,757) | 0 | (532,757) |
| Item No. 186 | (1,023,288) | 0 | (1,023,288) |
| | (7,133,085) | (3,177,611) | (10,310,696) |
| Reclassified Items | | | |
| Item No. 62 | (20,000) | (20,000) | (40,000) |
| Item No. 74 | (20,000) | (20,000) | (40,000) |
| Item No. 137 | 322,611 | 322,611 | 645,222 |
| Item No. 187 | (611,000) | 0 | (611,000) |
| | (328,389) | 282,611 | (45,778) |
| **Total RPTTF authorized** | 7,262,009 | 13,937,685 | **$ 21,199,694** |
| **Total Administrative RPTTF requested** | 641,717 | 641,717 | **1,283,434** |
| Reclassified Items | | | |
| Item No. 62 | 20,000 | 20,000 | 40,000 |
| Item No. 74 | 20,000 | 20,000 | 40,000 |
| Item No. 137 | (322,611) | (322,611) | (645,222) |
| | (282,611) | (282,611) | (565,222) |
| Total Administrative RPTTF after Finance adjustments | 359,106 | 359,106 | 718,212 |
| Administrative costs in excess of the cap (see Admin Cost Cap table below) | 0 | (80,000) | (80,000) |
| **Total Administrative RPTTF authorized** | 359,106 | 279,106 | **$ 638,212** |
| **Total RPTTF approved for distribution** | 7,621,115 | 14,216,791 | **$ 21,837,906** |

| Administrative Cost Allowance Cap Calculation | |
|---|---|
| Actual RPTTF distributed for fiscal year 2015-16 | $ 22,228,503 |
| Less sponsoring entity loan and Administrative RPTTF | 954,781 |
| Actual RPTTF distributed for 2015-16 after adjustment | 21,273,722 |
| | |
| Administrative Cap for 2016-17 per HSC section 34171 (b) | 718,212 |
| ROPS 16-17 Administrative RPTTF after Finance adjustments | 638,212 |
| **Administrative Cost Allowance in excess of the cap** | **$ 80,000** |