



May 17, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 15, 2016. 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 of July 1, 2016 through June 30, 2017 (ROPS 16-17) to Finance on January 29, 2016. Finance issued a ROPS determination letter on April 15, 2016. 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 29, 2016.

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 No. 54 – Fiscal Agent/Arbitrage Services Fees in the amount of \$30,000. Finance continues to partially allow this item. The Agency provided invoices and journal vouchers from the 2014-15 fiscal year totaling \$13,687 to support the amount requested. However, Finance initially denied \$15,000 of this item because the amount requested for the ROPS 16-17 period (\$30,000) is twice the amount needed based on the invoices and journal vouchers provided. During the Meet and Confer process, the Agency noted that fees have been increasing every year and as a result they are increasing their ROPS estimate. Additionally, the Agency requested to revise their request to \$20,000. Therefore, Finance is approving \$10,000 each for the January 1, 2016 through December 31, 2016 (ROPS A period) and January 1, 2017 through June 30, 2017 (ROPS B period). As such, \$10,000 (\$30,000 - \$20,000) is not eligible for funding for the ROPS 16-17 period.
- Item Nos. 62 and 74 – Project Management Costs in the amount totaling \$1,200,000. Finance continues to reclassify these costs to the Agency's Administrative Cost Allowance (ACA). Finance initially reclassified these items to the ACA because the documentation provided did not conclusively support that these costs were directly tied to a specific project and were considered administrative in nature. During the Meet and Confer process, the Agency contended that the costs for the Financial Accounting

Manager and Principal Accountant were associated with the management, monitoring, and implementation of specific enforceable obligations (e.g., debt/bonds and contracts). However, pursuant to HSC section 34171 (b) (5), employee costs associated with work on specific project implementation activities, include, but are not limited to, construction inspection, project management, or actual construction are excluded from the ACA. The specified staff are not completing specific project implementation activities and are considered administrative in nature. Therefore, \$80,000 (\$40,000 + \$40,000) has been reclassified from the Redevelopment Property Tax Trust Fund (RPTTF) to ACA.

- Item No. 102 – Project Management costs for the Westgate Project Remediation in the amount of \$200,000 for staff time associated with the operation, monitoring, and maintenance 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). Finance no longer denies this item; however, Finance reclassifies this item to the ACA. Finance initially denied this item because the Property has been retained by the City for future development.

During the Meet and Confer process, the Agency contended that the responsibility, liability, and obligation to monitor and manage the landfill are specific to the former RDA and the obligation does not go away regardless of ownership. Additionally, the Agency provided the duty statements and payroll expenditure reports for three employees. Pursuant to HSC section 34171 (b) (5), employee costs associated with work on specific project implementation activities, include, but are not limited to, construction inspection, project management, or actual construction are excluded from the ACA. However, only the employee acting as the project manager may be qualified for project-specific costs, but the breakdown of the requested amount per employee was not sufficient. As a result, the \$200,000 in staff time requested is not eligible for RPTTF funding and is being reclassified to the ACA for the ROPS 16-17 period.

- Item No. 103 – External Project Costs for the Westgate Project Remediation in the amount of \$400,000 payable to third parties in relation to the implementation of the Settlement and Release Agreement (Settlement) between the former RDA, City of Anaheim (City), County of Orange (County), Zelman Anaheim, LLC, and Westgate Investment Group, LLC dated October 15, 2008. Finance continues to deny this item. During the Meet and Confer process, the Agency submitted the following three agreements pertaining to third parties associated with the project to support this item:
 1. The Agreement for Appraisal Services between the City and Stephen White; the former RDA is not a party to the contract.
 2. The First Amendment to Professional Services Agreement between the City and GKK Works; the former RDA is not a party to the contract.
 3. The Agreement between the former RDA and Keyser Marston Associates dated October 29, 1987, for consulting services, which includes preparation of reports, economic feasibility, marketing, disposition of real property, and estimates of tax increment. The maximum compensation for all services shall not exceed \$120,000, which has been exhausted.

These agreements are not enforceable obligations because the former RDA was not a party to two of them and has expended the full amount on one of them. Therefore, this

item is not an enforceable obligation and not eligible for \$400,000 in RPTTF funding for the ROPS 16-17 period.

- Item No. 151 – Westgate Remediation costs in the amount of \$1,000,000 for the operation, management, and monitoring of the remediation project. Finance no longer denies \$276,000 of this item. During the Meet and Confer process, the Agency provided the Settlement, a Professional Services Agreement with Tetra Tech Bas, Inc. (Agreement), and remediation expenditure reports to support the requested estimate. It is our understanding the remediation is approximately 60 percent complete and the property will be transferred to the City once remediation is complete.

However, the maximum compensation allowed annually on the Agreement is \$276,000. The Agency is currently in the process of amending the Agreement to reflect actual costs that are much higher. However, Finance must use the current contract to support the amount requested on the ROPS. To the extent the Agency can provide proper documentation, such as an amended Agreement and invoices to support the annual estimated expenditures, the funding may be requested on a future ROPS. Therefore, this item is an enforceable obligation; however, \$724,000 (\$1,000,000 requested - \$276,000 Agreement) of RPTTF is not eligible for funding during the ROPS 16-17 period.

- Item No. 179 – City Cooperation/Loan Agreement in the total outstanding obligation amount of \$1,500,000. 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.

During the Meet and Confer process, the Agency continued to object to Finance's determination; however, no new information was provided. 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; however, 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. Therefore, this item is not an enforceable obligation and is not eligible for \$1,500,000 of RPTTF funding on the ROPS.

- Item Nos. 185 and 186 – Housing Entity Administrative Cost Allowance in the total outstanding obligation amount 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 RDA of the City 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.

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 \$1,556,045 (\$532,757 + \$1,023,288) of housing entity administrative allowance.

The Agency also contested Item Nos. 114 through 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 determinations:

- Item Nos. 114 through 117 – Avon Dakota Revitalization, Project Management, and External Project Costs; outstanding obligation costs totaling \$15,385,000. 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. 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.

In addition, per Finance's letter dated April 15, 2016, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- 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 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 \$280,000. 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, 74, and 102 totaling \$280,000 are considered administrative costs and should be counted toward the cap. Therefore, \$280,000 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.

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 \$22,118,906 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>

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.

Ms. Stacey Shokri
May 17, 2016
Page 7

Please direct inquiries to Evelyn Sues, Dispute Resolution Supervisor, or Michael Barr, Analyst, at (916) 445-1546.

Sincerely,

A handwritten signature in blue ink, appearing to read 'J. Howard', with a long, sweeping underline that extends to the left.

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			
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
<u>Denied Items</u>			
Item No. 54	(5,000)	(5,000)	(10,000)
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	(224,000)	(500,000)	(724,000)
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)
	(6,747,085)	(3,082,611)	(9,829,696)
<u>Reclassified Items</u>			
Item No. 62	(20,000)	(20,000)	(40,000)
Item No. 74	(20,000)	(20,000)	(40,000)
Item No. 102	(100,000)	(100,000)	(200,000)
Item No. 137	322,611	322,611	645,222
Item No. 187	(611,000)	0	(611,000)
	(428,389)	182,611	(245,778)
Total RPTTF authorized	7,548,009	13,932,685	\$ 21,480,694
Total Administrative RPTTF requested	641,717	641,717	1,283,434
<u>Reclassified Items</u>			
Item No. 62	20,000	20,000	40,000
Item No. 74	20,000	20,000	40,000
Item No. 102	100,000	100,000	200,000
Item No. 137	(322,611)	(322,611)	(645,222)
	(182,611)	(182,611)	(365,222)
Total Administrative RPTTF after Finance adjustments	459,106	459,106	918,212
Administrative costs in excess of the cap (see Admin Cost Cap table below)	0	(280,000)	(280,000)
Total Administrative RPTTF authorized	459,106	179,106	\$ 638,212
Total RPTTF approved for distribution	8,007,115	14,111,791	\$ 22,118,906

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)	638,212
ROPS 16-17 Administrative RPTTF after Finance adjustments	918,212
Administrative Cost Allowance in excess of the cap	\$ (280,000)