



October 11, 2012

Ms. Lori Ann Farrell, Director of Finance  
City of Huntington Beach  
2000 Main Street  
Huntington Beach, CA 92648-2702

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 III) to the California Department of Finance (Finance) on August 27, 2012 for the period of January through June 2013. Finance has completed its review of your ROPS III, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following do not qualify as enforceable obligations:

- Item No. 1 – City loan in the amount of \$5.7 million. This loan was created through a Cooperative Agreement in 2009. The amount of \$5.3 million in “Set Aside funds” is pledged through a 2009 Cooperative Agreement. The funds were to be used to make payments for the 2000 A Lease Revenue Bonds, which have since been defeased. In addition, the requirement for “Set Aside funds” ended with the dissolution of the former redevelopment agency (RDA) and HSC section 34171 (d) (2) states that agreements between the city and the former RDA are not enforceable obligations. Therefore, this item is not an enforceable obligation and not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item No. 12 – Payment for a Lease Revenue Refunding Bond in the amount of \$3.6 million. This bond is secured solely through lease payments, and there is no requirement to repay this bond with tax increment. HSC section 34183 (2) (B) states RPTTF can fund revenue bonds, but only to the extent the revenue pledged is insufficient to make payments, and only where the agency's tax increment revenues were also pledged for repayment. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding.
- Item No. 17 – Pacific City project development agreement in the amount of \$6.5 million Low and Moderate Income Housing Fund. HSC section 34163 (c) prohibits a RDA from amending or modifying existing agreements, obligations, or commitments with any entity for any purpose after June 27, 2011. Therefore, this item is not an enforceable obligation.

- HSC section 34176 (a) (1) states that if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a RDA, all rights, powers, duties, obligations and housing assets shall be transferred to the city, county, or city and county. Since the Huntington Beach Housing Authority assumed the housing functions, the administrative costs associated with these functions are the responsibility of the housing successor. Furthermore, HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011.
  - Item No. 18 – Amerinational Community Services Inc. contract for housing compliance monitoring inspection services in the amount of \$75,000. Because the contract with Amerinational Community Services Inc. was executed on July 28, 2011, this item is not an enforceable obligation and not eligible for RPTTF funding.
  - Item No. – Jessica Latham, Esquire contract for housing legal services in the amount of \$30,000. Because the contract with Jessica Latham, Esquire was signed on March 6, 2012, this item is not an enforceable obligation and eligible for RPTTF funding.
- Item No. 32 – City loan repayment in the amount of \$283,211. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable obligations. This shall remain the case until and unless a Finding of Completion is issued by Finance and the oversight board makes a finding that the loan was for legitimate redevelopment purposes pursuant to HSC section 34191.4 (b).
- Item Nos. 41 through 49 – Loan payments to the Agency totaling \$60.4 million. These are for projects previously completed by the former RDA using funds borrowed from the City. HSC section 34177 (l) (3) states that the ROPS shall be forward looking to the next six months. Further, HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable obligations. Therefore, these items are not enforceable obligations and not eligible for RPTTF funding.
- Furthermore, the following items were reclassified as administrative costs, which exceeded the allowance by \$259,574:
  - Item No. 27 – Unused employee leave in the amount of \$124,391.
  - Item No. 33 – Van Horn Consulting in the amount of \$5,000.
  - Item Nos. 38 and 39 – Kane, Ballmer & Berkman legal services in the amount of \$163,993.
  - Item No. 40 – Keyser Marston consulting services in the amount of \$200,000.

HSC section 34171 (b) limits fiscal year 2012-13 administrative expense to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. As a result, Huntington Beach is eligible for \$303,343 in administrative expenses. Therefore, \$259,574 of the claimed \$562,917 is not an enforceable obligation.

Except for items denied in whole or in part as enforceable obligations as noted above, Finance is approving the remaining items listed in your ROPS III. If you disagree with the determination with respect to any items on your ROPS III, 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 Redevelopment Property Tax Trust Fund distribution for the reporting period is \$6,986,176 as summarized below:

<b>Approved RPTTF Distribution Amount For the period of January through June 2013</b>	
Total RPTTF funding requested for obligations	\$ 11,915,468
Less: Six-month total for items denied or reclassified as administrative cost	
Item 1	442,905
Item 12	404,932
Item 18	75,000
Item 22	30,000
Item 27*	11,460
Item 32	21,319
Item 33*	5,000
Item 38*	13,993
Item 39*	75,000
Item 40*	100,000
Item 41	296,498
Item 42	345,786
Item 43	238,685
Item 44	1,005,122
Item 45	23,176
Item 46	5,875
Item 47	27,339
Item 48	1,138,686
Item 49	971,859
Total approved RPTTF for enforceable obligations	\$ 6,682,833
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	303,343
<b>Total RPTTF approved:</b>	<b>\$ 6,986,176</b>

\* Reclassified as administrative cost.

<b>Administrative Cost Calculation</b>	
Total RPTTF for the period July through December 2012	\$ 3,428,586
Total RPTTF for the period January through June 2013	6,682,833
<b>Total RPTTF for fiscal year 2012-13:</b>	<b>\$ 10,111,419</b>
Allowable administrative cost for fiscal year 2012-13 (Greater of 3% or \$250,000)	303,343
Administrative allowance for the period of July through December 2012	0
<b>Allowable RPTTF distribution for administrative cost for ROPS III:</b>	<b>\$ 303,343</b>

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS III form the estimated obligations and actual payments associated with the January through June 2012 period. The amount of RPTTF approved in the above table will be adjusted by the county auditor-controller to account for differences between actual payments and past estimated obligations. Additionally, these estimates and accounts are subject to audit by the county-auditor controller and the State Controller.

Please refer to the ROPS III schedule that was used to calculate the approved RPTTF amount:

<http://www.dof.ca.gov/redevelopment/ROPS/ROPS III Forms by Successor Agency/>.

All items listed on a future ROPS are subject to a subsequent review. An item included on a future ROPS may be denied even if it was not questioned from the preceding ROPS.

The amount available from the RPTTF is the same as the property tax increment that was available prior to 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 successor agency in the RPTTF.

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

Sincerely,



STEVE SZALAY  
Local Government Consultant

cc: Ms. Kellee Fritzal, Deputy Director of Economic Development, City of Huntington Beach  
Mr. Frank Davies, Property Tax Manager, Orange County