



May 17, 2013

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

Dear Ms. Farrell:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS 13-14A) letter dated April 12, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Huntington Beach Successor Agency (Agency) submitted a ROPS 13-14A to Finance on February 26, 2013 for the period of July through December 2013. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on April 29, 2013.

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 item being disputed.

- Item Nos. 3 and 4 – 2002 and 1999 Tax Allocation Refunding Bonds totaling \$1,944,613. Finance no longer objects to these items. While the Agency did request full payment for the year in the ROPS period of January through June 2013 (ROPS III), there was a shortage in Redevelopment Property Tax Trust Fund (RPTTF) received in the amount of \$2,319,361. HSC section 34183 (a) (2) states that debt service shall have priority over other enforceable obligations. This remains the case; however, the \$604,144 and \$1,340,469 for Items No. 3 and 4, respectively, were not due during the ROPS III period; therefore, not a priority at this time. Finance will allow the request for RPTTF in the ROPS 13-14A period; however, the prior period adjustment for the ROPS III period should only include the February 2013 payment in the amount of \$139,144 and \$300,469 for Items No. 3 and 4, respectively, in the "actual" column. This amount will be adjusted if it is not reported accurately. These items will now be eligible for RPTTF funding on ROPS 13-14A.
- Item No. 53 – 2010 Emerald Cove Lease Revenue Refunding Bonds in the amount of \$404,931, funded by reserves. Finance continues to deny this item. This item was originally denied as the bonds are secured solely through lease payments of the City of Huntington Beach (City), and there is no requirement to repay this bond with tax increment. This item also lists its funding source as Low-Moderate Income Housing Fund (LMIHF) reserves. HSC section 34177 (d) requires that all such reserves be remitted to the county auditor-controller (CAC) for distribution to affected taxing entities.

Therefore, the LMIHF cannot be a funding source for this item, and any LMIHF reserves should be remitted to the CAC.

Additionally, this item was denied as an inclusion to the ROPS in our letter dated October 11, 2012, and later upheld during the Meet and Confer process in our determination letter dated December 18, 2012. This item is not an enforceable obligation.

- Finance originally reclassified the following items as administrative costs, which exceeds the administrative allowance by \$147,584:
 - Item No. 27 – Unused Employee General Leave in the amount of \$25,688
 - Item No. 33 – Property Tax Valuation in the amount of \$5,000
 - Item No. 34 – Employee Costs in the amount of \$11,700
 - Item No. 35 – Employee Costs in the amount \$9,666
 - Item No. 39 – Legal Expenses in the amount of \$75,000
 - Item No. 40 – Economic Analysis Services in the amount of \$70,000
 - Item No. 51 – Property Maintenance in the amount of \$750
 - Item No. 52 – Weed Control in the amount of \$4,000

The Agency contends the items are enforceable obligations because they include payment of leave balances of the former RDA employees, legal expenses that are project specific, consulting services to assist the Agency in its wind-down of former RDA affairs, and property maintenance. The following categories are specifically excluded from the administrative cap as defined by HSC section 34171 (b):

- Any litigation expenses related to assets or obligations.
- Settlements and judgments.
- The costs of maintaining assets prior to disposition.
- Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs.

Finance no longer reclassifies Items No. 27, 34, 35, 51, and 52 as administrative costs. Items No. 27, 34, and 35 totaling \$47,054 is an allowable expense under HSC section 34171 (d) (1) (C) as it is cost incurred to fulfill collective bargaining agreements for layoffs or terminations of the former RDA employees. Items No. 51 and 52 totaling \$4,750 is an allowable expense that is excluded from the administrative cap as defined in HSC section 34171 (b) as it is property maintenance expense prior to disposition. Therefore, Items No. 27, 34, 35, 51, and 52 are enforceable obligations. However, Items No. 33, 39, and 40 do not fall into any of the categories specifically excluded from the administrative cap. The Agency was unable to provide support differentiating between possible project costs and general administrative costs to determine an amount eligible as an enforceable obligation. Therefore, these items continue to be reclassified as administrative costs.

Additionally, Items No. 33, 39, and 40 was reclassified in ROPS III letter dated October 11, 2012, and later upheld during the Meet and Confer process in our letter dated December 18, 2012.

With the additional enforceable obligations, the excess administrative allowance has decreased; however, administrative costs funded by RPTTF still exceed the allowance by \$95,780. HSC section 34171 (b) limits administrative expenses to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. Three percent of the property tax allocated is \$168,780. Therefore, \$95,780 of the claimed \$345,780 is not an enforceable obligation.

In addition, per Finance's ROPS letter dated April 12, 2013, the following items continue to be denied and were not contested by the Agency:

- Item No. 19 – Supplemental Educational Revenue Augmentation Fund (SERAF) obligation in the amount of \$750,000. During the Meet and Confer process, it was discovered that this item was included in the summary box of Finance's letter dated April 12, 2013; however, there was no explanation as to why this item was denied. SERAF repayments are not allowed at this time because SERAF repayment cannot occur until the Agency has received a Finding of Completion. Upon receiving a Finding of Completion and after the Oversight Board makes a finding the loan was for legitimate redevelopment purposes, HSC section 34191.4 (b) may cause this item to be payable in future ROPS period.

Except for items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 13-14A. Obligations deemed not to be enforceable shall be removed from your ROPS. This is Finance's final determination related to the enforceable obligations reported on your ROPS for July through December 2013. Finance's determination is effective for this time period only and should not be conclusively relied on for future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not denied on this ROPS or a preceding ROPS.

The Agency's maximum approved RPTTF distribution for the reporting period is \$5,875,998 as summarized below:

| Approved RPTTF Distribution Amount For the period of July through December 2013 | |
|--|---------------------|
| Total RPTTF funding requested for obligations | \$ 6,525,998 |
| Minus: Six-month total for items denied or reclassified as administrative cost | |
| Item 19 | 750,000 |
| Item 33* | 5,000 |
| Item 39* | 75,000 |
| Item 40* | 70,000 |
| Total approved RPTTF for enforceable obligations | \$ 5,625,998 |
| Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost | 250,000 |
| Minus: ROPS II prior period adjustment | - |
| Total RPTTF approved for distribution: | \$ 5,875,998 |

*Reclassified as administrative cost

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2012 period. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the

CAC and the State Controller. The amount of RPTTF approved in the above table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Please refer to the ROPS 13-14A schedule that was used to calculate the approved RPTTF amount:

[http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14A Forms by Successor Agency/](http://www.dof.ca.gov/redevelopment/ROPS/ROPS%2013-14A%20Forms%20by%20Successor%20Agency/).

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2013. Finance's determination is effective for this time period only and should not be conclusively relied upon for future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not denied on this ROPS or a preceding ROPS. The only exception is for those items that have received a Final and Conclusive determination from Finance pursuant to HSC 34177.5 (i). Finance's review of items that have received a Final and Conclusive determination 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 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.

To the extent proceeds from bonds issued after December 31, 2010 exist and are not encumbered by an enforceable obligation pursuant to 34171 (d), HSC section 34191.4 (c)(2)(B) requires these proceeds be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation.

Please direct inquiries to Wendy Griffe, Supervisor or Jenny DeAngelis, 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, County of Orange
California State Controller's Office