



May 17, 2013

Mr. Steve Duran, City Manager
City of Hercules Successor Agency
111 Civic Drive
Hercules, CA 94547

Dear Mr. Duran:

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 Hercules 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 25, 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 No. 18 – Sycamore North Construction Contracts totaling \$2,076,643. Finance originally denied this item as the contracts were between the City of Hercules and various third party vendors. During the Meet and Confer process, the Agency provided additional documentation. Finance concludes that the former redevelopment agency (RDA) is a party to the contracts; however, this item still continues to be denied for Redevelopment Property Tax Trust Fund (RPTTF) funding.

It is our understanding that these costs were incurred prior to January 1, 2012. Pursuant to HSC section 34177 (l) (3) obligations incurred prior to January 1, 2012 shall be made from property tax revenues received in the spring of 2011 property tax distribution. Therefore, this item is not eligible for RPTTF funding on the ROPS.

In addition, per Finance's ROPS letter dated April 12, 2013, the following item continues to be approved:

- Item No. 10 – Disposition Development and Loan Agreement (DDLA) for Hercules Senior Housing Development in the amount of \$130,000. This item was previously denied on the January through June 2013 ROPS. Subsequently, the Agency provided sufficient documentation to support the required operating subsidy. Specifically, Finance finally received a true and complete copy of the DDLA including key pages that were missing from previous version provided to Finance. Those pages specifically delineate a \$130,000 annual pledge that makes this item and enforceable obligation. Therefore,

Finance is adjusting the ROPS accordingly and allowing this item as an enforceable obligation and is approving \$130,000 in RPTTF.

In addition to the above, Finance has received new information related to Item 6, which was previously denied on ROPS III. Specifically, the properties in question are now in the possession of the Agency instead of the city. According to the settlement agreement, the Agency is required to sell various properties with the proceeds being distributed to AMBAC. Finance agrees that the settlement agreement is an enforceable obligation of the Agency. As such, the Agency is allowed to sell the properties in question and distribute the proceeds according to the settlement. Finance is unlocking and approving Item 6 for expenditure in the upcoming ROPS 13-14A period from "other funds" in the amount of \$6.5 million, which was the amount requested during the ROPS III 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 \$9,180,795 as summarized below:

Approved RPTTF Distribution Amount	
For the period of July through December 2013	
Total RPTTF funding requested for obligations	\$ 10,994,760
Plus: Item 10	\$ 130,000
Minus: Six-month total for items denied Item 18	2,076,643
Total approved RPTTF for enforceable obligations	\$ 9,048,117
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost	132,678
Minus: ROPS II prior period adjustment	-
Total RPTTF approved for distribution:	\$ 9,180,795

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 county auditor-controller (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/>.

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

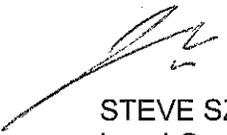
period only and should not be conclusively relied upon for future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not denied on this ROPS or a preceding ROPS. The only exception is for those items that have received a Final and Conclusive 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 Medy Lamorena, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Nickie Mastay, Finance Director, City of Hercules
Mr. Bob Campbell, Auditor-Controller, County of Contra Costa
California State Controller's Office