



May 17, 2019

Mr. David Biggs, City Manager
City of Hercules
111 Civic Drive
Hercules, CA 94547

Dear Mr. Biggs:

Subject: 2019-20 Annual Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 9, 2019. Pursuant to Health and Safety Code (HSC) section 34177 (o) (1), the Hercules Successor Agency (Agency) submitted an annual ROPS for the period July 1, 2019 through June 30, 2020 (ROPS 19-20) to Finance on January 22, 2019. The Agency requested a Meet and Confer on one or more of the determinations made by Finance. The Meet and Confer was held on April 23, 2019.

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:

- On the ROPS 19-20 form, the Agency reported cash balances and activity for the period July 1, 2016 through June 30, 2017 (ROPS 16-17). According to our initial review, the Agency had approximately \$2,582,461 in Other Funds available to fund enforceable obligations on the ROPS 19-20. Although this amount was available at the end of ROPS 16-17, the Agency demonstrated it was required for use in ROPS 17-18 during the Meet and Confer review. Therefore, these Other Funds are not available in ROPS 19-20. However, the Agency identified \$156,279 in Reserve Balances available to fund enforceable obligations in ROPS 19-20. HSC section 34177 (l) (1) (E) requires these balances to be used prior to requesting Redevelopment Property Tax Trust Fund (RPTTF) funding. Therefore, with the Agency's concurrence, the funding source for the following item has been reclassified in the amount specified below:
 - Item No. 2 – 2007 Tax Allocation Bonds debt service payment in the amount of \$3,387,932 is reclassified from RPTTF to Reserve Balances. This item does not require payment from property tax revenues. Therefore, Finance is approving RPTTF in the amount of \$3,231,653 and the use of Reserve Balances in the amount of \$156,279 totaling \$3,387,932.
- Pursuant to HSC section 34186, successor agencies are required to report differences between actual payments and past estimated obligations. Reported differences in RPTTF are used to offset current RPTTF distributions. The amount of RPTTF approved in the table on Page 4 includes the prior period adjustment resulting from the County Auditor-Controller's review of the prior period adjustment form submitted by the Agency, as adjusted by Finance. Finance initially identified the Agency did not spend \$130,000. During the Meet and Confer, the Agency reported additional \$520 was not expended. As a result, the Agency has not spent \$130,520, and therefore this amount is considered a prior period adjustment and will be used to offset the RPTTF authorized amount.

The Agency also contested Item No. 16 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 determination:

- Item No. 16 – Cooperation Agreement (Agreement) between the former Redevelopment Agency (RDA) and the City of Hercules (City) in the total outstanding obligation amount of \$50,496,029 is not allowed. Finance continues to deny this item. Finance originally denied this item in ROPS 17-18 because the Agreement does not meet the requirements of an enforceable obligation pursuant to HSC section 34171 (d) (2). In addition, the Agency did not receive a Finding of Completion by December 31, 2015. Therefore, the loan agreement provisions under HSC section 34191.4 (b) do not apply to the Agency.

On the current ROPS, the Agency claims the Agreement was executed within two years of creation of the former RDA; therefore, the loan is an enforceable obligation pursuant to HSC section 34171 (d) (2). The RDA was established in 1982 and the Agreement was executed on February 9, 1983. However, the Agreement does not mention a loan amount or a repayment schedule. Further, the Agency was unable to provide support for the transfer of money nor the outstanding balance. Therefore, the requested amount of \$50,496,029 from RPTTF is not allowed.

In addition, per Finance's letter dated April 9, 2019, we continue to make the following determinations not contested by the Agency during the Meet and Confer review:

- The administrative costs claimed are within the fiscal year administrative cap pursuant to HSC section 34171 (b) (3). However, Finance notes the Oversight Board (OB) has approved an amount that appears excessive, given the number and nature of the obligations listed on the ROPS. HSC section 34179 (i) requires the OB to exercise a fiduciary duty to the taxing entities. Therefore, Finance encourages the OB to apply adequate oversight when evaluating the administrative resources necessary to successfully wind-down the Agency.

The Agency's maximum approved RPTTF distribution for the reporting period is \$12,398,398 as summarized in the Approved RPTTF Distribution table on Page 4 (see Attachment).

RPTTF distributions occur biannually, one distribution for the July 1 through December 31 period (ROPS A period), and one distribution for the January 1 through June 30 period (ROPS B period) based on Finance approved amounts. Since this determination is for the entire ROPS 19-20 period, the Agency is authorized to receive up to the maximum approved RPTTF through the combined ROPS A and B period distributions.

This is our final determination regarding the obligations listed on the ROPS 19-20. This determination only applies to items when funding was requested for the 12-month period. If a denial by Finance in a previous ROPS is currently the subject of litigation, the item will continue to be denied until the matter is resolved.

The ROPS 19-20 form submitted by the Agency and this determination letter will be posted on our website:

<http://dof.ca.gov/Programs/Redevelopment/ROPS/>

This determination is effective for the ROPS 19-20 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 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 RPTTF is the same as the amount of property tax increment available prior to the enactment of redevelopment dissolution law. Therefore, as a practical matter, the ability to fund the items on the ROPS with property tax increment is limited to the amount of funding available to the Agency in RPTTF.

Please direct inquiries to Joshua Mortimer, Supervisor, or Daisy Rose, Lead Analyst, at (916) 322-2985.

Sincerely,



 JENNIFER WHITAKER
Program Budget Manager

cc: Mr. Edwin Gato, Finance Director, City of Hercules
Mr. Bob Campbell, Auditor-Controller, Contra Costa County

Attachment

Approved RPTTF Distribution			
For the period of July 1, 2019 through June 30, 2020			
	ROPS A Period	ROPS B Period	ROPS 19-20 Total
RPTTF Requested	\$ 58,162,609	\$ 4,768,617	\$ 62,931,226
Administrative RPTTF Requested	250,000	0	250,000
Total RPTTF Requested	58,412,609	4,768,617	63,181,226
RPTTF Requested	58,162,609	4,768,617	62,931,226
<u>Adjustments</u>			
Item No. 2	(156,279)	0	(156,279)
Item No. 16	(50,496,029)	0	(50,496,029)
	(50,652,308)	0	(50,652,308)
RPTTF Authorized	7,510,301	4,768,617	12,278,918
Administrative RPTTF Authorized	250,000	0	250,000
Total RPTTF Authorized for Obligations	7,760,301	4,768,617	12,528,918
Prior Period Adjustment	(130,520)	0	(130,520)
Total RPTTF Approved for Distribution	\$ 7,629,781	\$ 4,768,617	\$ 12,398,398