



April 9, 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

Pursuant to Health and Safety Code (HSC) section 34177 (o) (1), the City of Hercules Successor Agency (Agency) submitted an annual Recognized Obligation Payment Schedule for the period of July 1, 2019 through June 30, 2020 (ROPS 19-20) to the California Department of Finance (Finance) on January 31, 2019. Finance has completed its review of the ROPS 19-20.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

- 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 Redevelopment Property Tax Trust Fund (RPTTF) is not allowed.

- 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 review, the Agency has approximately \$2,582,461 in Other Funds available to fund enforceable obligations on the ROPS 19-20. HSC section 34177 (l) (1) (E) requires these balances to be used prior to requesting RPTTF. 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 Other Funds. This item does not require payment from property tax revenues. Therefore, Finance is approving RPTTF in the amount of \$805,471 and the use of Other Funds in the amount of \$2,582,461, totaling \$3,387,932.

- 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.
- 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. The Agency has not spent \$130,000, and therefore this amount is considered a prior period adjustment and will be used to offset the RPTTF authorized amount.

Except for the items adjusted, Finance is not objecting to the remaining items listed on the ROPS 19-20. If the Agency disagrees with our determination with respect to any items on the ROPS 19-20, except items that are the subject of litigation disputing our previous or related determinations, the Agency 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 on our website:

<http://dof.ca.gov/Programs/Redevelopment/Meet And Confer/>

The Agency's maximum approved RPTTF distribution for the reporting period is \$9,972,736 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.

Absent a Meet and Confer, 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 the 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 the RPTTF.

Please direct inquiries to Nichelle Jackson, Supervisor, or Veronica Zalvidea, 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	(2,242,216)	(340,245)	(2,582,461)
Item No. 16	(50,496,029)	0	(50,496,029)
	(52,738,245)	(340,245)	(53,078,490)
RPTTF Authorized	5,424,364	4,428,372	9,852,736
Administrative RPTTF Authorized	250,000	0	250,000
Total RPTTF Authorized for Obligations	5,674,364	4,428,372	10,102,736
Prior Period Adjustment	(130,000)	0	(130,000)
Total RPTTF Approved for Distribution	\$ 5,544,364	\$ 4,428,372	\$ 9,972,736