



September 2, 2016

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

Dear Mr. Biggs:

Subject: Other Funds and Accounts Due Diligence Review

The City of Hercules Successor Agency (Agency) submitted an oversight board approved Other Funds and Accounts (OFA) Due Diligence Review (DDR) to the California Department of Finance (Finance) on December 28, 2015. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities.

Since the Agency did not meet the January 15, 2013 submittal deadline pursuant to HSC section 34179.6 (c), Finance is not bound to completing its review and making a determination by the April 1, 2013 deadline pursuant to HSC section 34179.6 (d). However, Finance has completed its review of your DDR, which may have included obtaining clarification for various items.

HSC section 34179.6 (d) authorizes Finance to adjust the DDR's stated balance of OFA available for distribution to the taxing entities. Based on our review of your DDR, the following adjustments were made:

- Pursuant to HSC section 34167.5 (a), any transfer of assets after January 1, 2011 is not allowed between the city that created a redevelopment agency and the redevelopment agency. Therefore, total assets have been increased by \$37,761,335 (\$35,489,750 + \$1,248,876 + \$1,022,709) in unallowable transfers to the City of Hercules (City) as follows:
 - A total amount of \$35,489,750 (\$31,440,522 land and improvements + \$4,049,228 cash) pursuant to the State Controller's Office (SCO) Asset Transfer Review Report.
 - On March 8, 2011, the former Redevelopment Agency of the City of Hercules (RDA) transferred a property to the City for consideration of forgiveness of outstanding debt. The City then sold the property for a net \$1,248,876 and transferred \$1,248,876 back to the RDA to assist the RDA in making debt service payments. However, the City rescinded the action on January 20, 2012 due to the uncertainty of repayment due to the pending dissolution of the RDA. Since the property was inappropriately transferred, the corresponding sale proceeds

should be considered unencumbered and eligible for transfer to the affected taxing entities.

- A total amount of \$1,022,709 in interest payments to the City for various loan agreements between the RDA and City.
- The request to retain \$90,662,644 in assets that are not cash or cash equivalent has been increased by \$18,373,624 (\$31,440,522 - \$10,592,611 - \$397,644 - \$2,076,643) as follows:
 - A total amount of \$31,440,522 land and improvements pursuant to the SCO's Asset Transfer Review Report has been adjusted. Our review shows these items are not cash. Therefore, an adjustment of \$31,440,522 has been made.
 - The request to retain \$11,842,656 in Loan Receivables is partially not allowed. Our review shows the Agency double-counted \$10,592,611 in Loan Receivables in both the Low and Moderate Income Housing Funds (LMIHF) DDR and the OFA DDR by requesting retention of this amount in both DDRs. As this amount has already been retained in the LMIHF DDR, it is not necessary to retain the amount in the OFA DDR. Therefore, an adjustment of \$10,592,611 has been made.
 - The request to retain \$4,259,684 in Land Held for Resale has been adjusted by \$397,644. Our review shows the Agency double-counted \$397,644 in Land Held for Resale in both the LMIHF and OFA DDRs. Therefore, an adjustment of \$397,644 has been made.
 - The request to retain \$40,612,332 in Accumulated Project Costs has been adjusted by \$2,076,643. Of the amount retained, \$2,076,643 is for the retention of funds due to Oliver & Co. The Agency was unable to provide documentation requiring the retention of the funds. Therefore, an adjustment of \$2,076,643 has been made.
- The request to retain \$10,060,395 in projected outflows through December 31, 2012 is partially allowed. Our review of the Contra Costa County Auditor-Controller (CAC) Redevelopment Property Tax Trust Fund (RPTTF) distribution report for the Recognized Obligation Payment Schedule (ROPS) for the period July 1 through December 31, 2012 (ROPS II) shows the Agency received RPTTF of \$4,012,183 for approved enforceable obligations.

The Agency's total bond payments during ROPS II totaled \$6,897,996, consisting of \$5,442,182 for non-housing bonds and \$1,249,545 for housing bonds. As a result, the Agency only needs to retain \$2,885,813 (\$6,897,996 - \$4,012,183) necessary to pay debt services payments during ROPS II. Therefore, only \$2,885,813 is allowed to be retained and the OFA cash available for distribution to the taxing entities has been adjusted by \$7,174,582 (\$10,060,395 - \$2,885,813).

- The OFA balances available for distribution to the taxing entities has been reduced by \$8,024,366. As noted in the bullet above, the Agency received \$4,012,183 in RPTTF for payment of approved enforceable obligations listed in the ROPS II. This amount was incorrectly recorded as an increase to the OFA cash available for distribution to the

taxing entities. Therefore, to correct the error, Finance has doubled the adjustment amount to \$8,024,366 (\$4,012,183 + \$4,012,183); first to cancel out the effect of the incorrect addition of \$4,012,183; and second to properly retain the \$4,012,183 in RPTTF distribution received for ROPS II approved enforceable obligations.

If you disagree with Finance's adjusted amount of OFA balances available for distribution to the taxing entities, 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/

The Agency's OFA balance available for distribution to the affected taxing entities is \$3,624,149 (see table below).

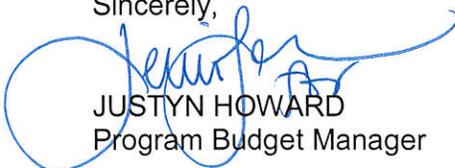
OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	(\$14,913,778)
Finance Adjustments:	
Disallowed transfers to the City	37,761,335
Assets that are not cash or cash equivalent	(18,373,624)
Requested retained balances not supported	7,174,582
Tax Increment Distribution for ROPS II (correction)	(8,024,366)
Total OFA available to be distributed:	\$ 3,624,149

Absent a Meet and Confer request, HSC section 34179.6 (f) requires successor agencies to transmit to the county auditor-controller the amount of funds identified in the above table within five working days, plus any interest those sums accumulated while in the possession of the recipient. Upon submission of payment, please provide proof of payment to Finance within five business days.

If funds identified for transmission are in the possession of the successor agency, and if the successor agency is operated by the city or county that created the former redevelopment agency, then failure to transmit the identified funds may result in offsets to the city's or the county's sales and use tax allocation, as well as its property tax allocation. If funds identified for transmission are in the possession of another taxing entity, the successor agency is required to take diligent efforts to recover such funds. A failure to recover and remit those funds may result in offsets to the other taxing entity's sales and use tax allocation or to its property tax allocation.

Please direct inquiries to Cindie Lor, Supervisor or Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,


JUSTYN HOWARD
Program Budget Manager

cc: Ms. Annie To, Finance Director, City of Hercules
Mr. Bob Campbell, Auditor-Controller, Contra Costa County