



December 17, 2014

Ms. Rose Zimmerman, City Attorney
City of Daly City
333 - 90th Street
Daly City, CA 94015

Dear Ms. Zimmerman:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated October 29, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Daly City Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on September 17, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on October 29, 2014. 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 November 5, 2014.

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. 22 – Housing Administrative Allowance in the amount of \$150,000. Finance continues to deny this item. Finance denied this item because pursuant to HSC section 34171 (p), the housing entity administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the redevelopment agency (RDA) elected to not assume the housing functions. Because the housing entity to the former RDA of the City of Daly City (City) is the City-formed Housing Development Finance Agency (City HDFA), the City HDFA is considered the City under Dissolution Law (ABx1 26 and AB 1484).

The Agency contends that the City elected not to retain the housing functions, but the City HDFA, as a separate legal entity from the City, did retain the housing functions pursuant to HSC section 34176 (b) and should therefore be eligible for the housing entity administrative allowance. However, pursuant to HSC section 34167.10 (a), the definition of city includes, but is not limited to, any reporting entity of the city for purposes of its comprehensive annual financial report, any component unit of the city, or any entity controlled by the city or for which the city is financially responsible or accountable. HSC section 34167.10 (a) defines city for purposes of all of Dissolution Law, which includes HSC section 34171, as amended by AB 471, and HSC section 34176. The City HDFA is controlled by the City because the City was involved in the formation of the City HDFA

and they share common governing boards, which are factors to be considered when determining if an entity is controlled by the city pursuant to HSC section 34167.10 (b).

Although the City HDFA is a separate legal entity from the City, HSC section 34167.10 (c) states that it shall not be relevant that the entity is formed as a separate legal entity. It should also be noted that HSC section 34167.10 (c) goes on to state that the provisions of this section are declarative of existing law as the entities described herein are and were intended to be included within the requirements of this part [Part 1.8] and Part 1.85...and any attempt to determine otherwise would thwart the intent of these two parts. Therefore, based on our review, the City, by way of the City HDFA, elected to retain the housing functions pursuant to HSC section 34176 (a) and is not eligible for \$150,000 of housing entity administrative allowance.

In addition, per Finance's letter dated October 29, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 20 – Professional Services in the amount of \$5,000 is considered an administrative expense. Therefore, the claimed administrative costs exceed the allowance by \$5,000. HSC section 34171 (b) limits fiscal year 2014-2015 administrative expenses to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. As a result, the Agency is eligible \$250,000 in administrative expenses for fiscal year 2014-2015. The San Mateo Auditor-Controller's Office (CAC) distributed \$125,000 of administrative costs for the July through December 2014 period (ROPS 14-15A), thus leaving a balance of \$125,000 available for the January through June 2015 period (ROPS 14-15B). Although \$125,000 in administrative costs is claimed for ROPS 14-15B, Item No. 20 should be counted toward the cap. Therefore, \$5,000 of excess administrative cost is not allowed.

The remaining administrative costs in the amount of \$125,000 are within the fiscal year administrative cap, pursuant to HSC section 34171 (b). However, Finance notes the oversight board has approved an amount that appears excessive, given the number and nature of the obligations listed on the Agency's ROPS. HSC section 34179 (i) requires the oversight board to exercise a fiduciary duty to the taxing entities. Therefore, Finance encourages the oversight board to apply adequate oversight when evaluating the administrative resources required to successfully wind-down the Agency.

Additionally, during our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting Redevelopment Property Tax Trust Fund (RPTTF). Pursuant to HSC section 34177 (I) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. The Agency holds unencumbered rental revenue as supported by their accounting records in the amount of \$56,919 as of June 30, 2014.

Therefore, the funding source for the following item has been reclassified from RPTTF to Other Funds in the amount specified below:

- Item No. 21 – Remediation in the amount of \$56,919. The Agency requests \$65,000 of RPTTF; however, Finance is reclassifying \$56,919 to Other Funds. This item is an enforceable obligation for the ROPS 14-15B period. However, the obligation does not require payment from property tax revenues and the Agency has \$56,919 of available

Other Funds. Therefore, Finance is approving RPTTF in the amount of \$8,081 and the use of Other Funds in the amount of \$56,919, totaling \$65,000.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2014 period. The amount of RPTTF approved in the table below reflects the prior period adjustment self-reported by the Agency. HSC section 34186 (a) also specifies prior period adjustments self-reported by successor agencies are subject to audit by the CAC and the State Controller. Proposed CAC adjustments were not received in time for inclusion in this letter; therefore, the amount of RPTTF approved in the table below only reflects the prior period adjustment self-reported by the Agency.

Except for the item denied in whole or items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15B. The Agency's maximum approved RPTTF distribution for the reporting period is \$133,081 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution	
For the period of January through June 2015	
Total RPTTF requested for non-administrative obligations	70,000
Total RPTTF requested for administrative obligations	275,000
Total RPTTF requested for obligations on ROPS	\$ 345,000
Total RPTTF requested for non-administrative obligations	70,000
<u>Reclassified Item</u>	
Item No. 20	(5,000)
<u>Cash Balances - Item reclassified to other funding sources</u>	
Item No. 21	(56,919)
Total RPTTF authorized for non-administrative obligations	\$ 8,081
Total RPTTF requested for administrative obligations	275,000
<u>Reclassified Item</u>	
Item No. 20	5,000
<u>Denied Item</u>	
Item No. 22	(150,000)
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(5,000)
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 133,081
ROPS 13-14B prior period adjustment	0
Total RPTTF approved for distribution	\$ 133,081

Administrative Cost Cap Calculation	
Total RPTTF for 14-15A (July through December 2014)	0
Total RPTTF for 14-15B (January through June 2015)	12,817
Total RPTTF for fiscal year 2014-2015	12,817
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or \$250,000)	250,000
Administrative allowance for 14-15A (July through December 2014)	125,000
Allowable RPTTF distribution for administrative cost for ROPS 14-15B	125,000
Total RPTTF administrative obligations after Finance adjustments	130,000
Administrative costs in excess of the cap	\$ (5,000)

Please refer to the ROPS 14-15B schedule that was used to calculate the approved RPTTF amount:

<http://www.dof.ca.gov/redevelopment/ROPS>

This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2015. This determination only applies to items where funding was requested for the six-month period. 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 section 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 the 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 agency in the RPTTF.

Pursuant to HSC section 34177 (a) (3), only those payments listed on an approved ROPS may be made by the successor agency from the funds specified in the ROPS. However, if for whatever reason the Agency needs to make payments for approved obligations from another funding source, HSC section 34177 (a) (4) requires the Agency to first obtain oversight board approval.

To the extent proceeds from bonds issued after December 31, 2010 exist and are not encumbered by an enforceable obligation pursuant to HSC section 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.

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Please direct inquiries to Evelyn Sues, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

cc: Mr. Lawrence Chiu, Director of Finance & Administrative Services, City of Daly City
Mr. Bob Adler, Auditor-Controller, County of San Mateo
California State Controller's Office