DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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April 15, 2015

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

Dear Ms. Zimmerman:

Subject: Recognized Obligation Payment Schedule

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 15-16A) to the California Department of Finance (Finance) on March 3, 2015 for the period of July 1, 2015 through December 31, 2015. Finance has completed its review of your ROPS 15-16A, which may have included obtaining clarification for various items.

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

> Item No. 1 – Loan from City of Daly City (Mission Street Loan) in the request ROPS 15-16A amount of $374,203 and total outstanding amount of $23,431,356 is not allowed. Pursuant to HSC section 34191.4 (b), loan agreements between the former redevelopment agency and sponsoring entity may be placed on ROPS if the following requirements are met: (1) the Agency has received a Finding of Completion; and (2) the Agency's oversight board approves the loan as an enforceable obligation by finding the loan was for legitimate redevelopment purposes.
>
> The Agency received a Finding of Completion on December 5, 2014. Oversight Board Resolution No. OB15-1, approving an agreement regarding the reinstatement of certain loans between the former City of Daly City Redevelopment Agency (RDA) and the City of Daly City (City) in the amount of $23,431,356 as an enforceable obligation and finding the loans were for legitimate redevelopment purposes, was denied in our letter dated April 15, 2015. Documentation provided by the Agency displayed the outstanding principal balance of the Mission Street Loan consisted of property conveyances from the City to the former RDA, with no moneys borrowed. As such, this item is not eligible for funding.

In addition, Finance noted the following:

> On the ROPS 14-15A Prior Period Adjustment (PPA) worksheet, the Agency's Other Funds expenditures exceeded Finance's authorization for the following items:

- Item No. 5 – Rental Properties Utilities in the amount of $117.
- Item No. 7 – Property Insurance in the amount of $19.
- Item No. 10 – Property Insurance in the amount of $10.
- Item No. 15 – 260 Abbot Property Maintenance in the amount of $3.
- Item No. 17 – Various Properties – Property Maintenance in the amount of $15,414.

Per HSC section 34177 (a) (3), only those payments listed on ROPS may be made by the Agency from the funds specified on the ROPS. However, these items were determined to be enforceable obligation for the ROPS 14-15A period. Therefore, Finance is increasing the Agency's authorization for the ROPS 15-16A period to ensure that authorization is consistent with expenditures for the approved enforceable obligations. As the Other Funds were previously expended, the increase in authorization should not result in increased expenditures for the current ROPS period, but should merely allow the Agency to reconcile the actual expenditures to authorization.

HSC sections 34177 (a) (4) and 34173 (h) provide mechanisms when Agency payments must exceed the amounts authorized by Finance. Please ensure the proper expenditure authority is received from the oversight board and Finance prior to making payments on enforceable obligations.

The administrative costs claimed 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 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.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 15-16A form the estimated obligations and actual payments (PPAs) associated with the July through December 2014 period. HSC section 34186 (a) also specifies PPAs 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 table on the next page includes the PPA resulting from the CAC's review of the Agency's self-reported PPA.

Except for the item denied in whole, Finance is not objecting to the remaining items listed on your ROPS 15-16A at this time. If you disagree with the determination with respect to any items on your ROPS 15-16A, 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 maximum approved RPTTF distribution for the reporting period is $150,000 as summarized in the Approved RPTTF Distribution table below:

| **Approved RPTTF Distribution For the period of July through December 2015** | | |
|---|---|---|
| Total RPTTF requested for non-administrative obligations | | 399,203 |
| Total RPTTF requested for administrative obligations | | 125,000 |
| **Total RPTTF requested for obligations on ROPS** | **$** | **524,203** |
| | | |
| **Total RPTTF requested for non-administrative obligations** | | **399,203** |
| Denied Item | | |
| Item No. 1 | | (374,203) |
| | | |
| **Total RPTTF authorized for non-administrative obligations** | **$** | **25,000** |
| | | |
| **Total RPTTF requested for administrative obligations** | | **125,000** |
| **Total RPTTF authorized for administrative obligations** | **$** | **125,000** |
| | | |
| **Total RPTTF authorized for obligations** | **$** | **150,000** |
| ROPS 14-15A PPA | | 0 |
| **Total RPTTF approved for distribution** | **$** | **150,000** |

Please refer to the ROPS 15-16A schedule that was used to calculate the approved RPTTF amount:

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

Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 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 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.

Please direct inquiries to Wendy Griffe, Supervisor or Erika Santiago, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Program Budget Manager

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