



November 12, 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) (1) (A), the City of Daly City Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period January 1 through June 30, 2016 (ROPS 15-16B) to the California Department of Finance (Finance) on October 1, 2015. Finance has completed its review of the ROPS 15-16B.

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

- Item No. 1 – Loan from City of Daly City (City) loan repayment in the amount of \$497,406 requested for ROPS 15-16B 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 the ROPS if the following requirements are met: (1) the Agency has received a Finding of Completion; and (2) the Agency's oversight board (OB) 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. However, OB Resolution No. 15-1, approving the reinstatement of two city loans and finding the loans were for legitimate redevelopment purposes, was denied in our letter dated April 15, 2015. The loans were originally denied as the outstanding balance consisted primarily of properties conveyed from the City to the former RDA, and there wasn't an exchange of monies. Due to Finance's denial of OB Resolution No. 15-1, there is not an effective OB action in place to allow funding for this line item.

To the extent the Agency believes these loans will now qualify as loans eligible for repayment in light of the passage of Senate Bill 107 and the expanded definition of a loan pursuant to HSC section 34191.4 (b), the Agency should obtain the appropriate OB findings and Finance approvals.

- Item Nos. 20 and 25 – Professional Services and Litigation Costs funded from Other Funds and Redevelopment Property Tax Trust Fund (RPTTF), respectively, totaling \$125,000 have been reclassified to the administrative cost allowance (ACA). As a result, claimed administrative costs exceed the allowance by \$125,000. Pursuant to HSC section 34171 (d) (1) (F) (i), legal expenses related to civil actions, including writ proceeding, contesting the validity of the dissolution law, or challenging acts taken pursuant to the dissolution law shall only be payable out of the ACA.

Additionally, HSC section 34171 (b) (2) limits fiscal year 2015-16 administrative expenses to three percent of the RPTTF funds allocated to the Redevelopment Obligation Retirement Fund for the fiscal year or \$250,000. The San Mateo County Auditor-Controller (CAC) distributed \$125,000 for the July through December 2015 period, thus leaving a balance of \$125,000 available for the January through June 2016 period. Although \$125,000 is claimed for ACA, Item Nos. 20 and 25 for professional services and litigation costs totaling \$125,000 is considered general administrative costs and should be counted toward the cap. Therefore, \$125,000 of excess administrative cost is not allowed.

The administrative costs claimed are within the fiscal year administrative cap pursuant to HSC section 34171 (b) (2). 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 use adequate discretion when evaluating the administrative resources required to successfully wind-down the Agency.

Pursuant to HSC section 34186 (a) (1), the Agency was required to report on the ROPS 15-16B form the estimated obligations versus actual payments (prior period adjustment) associated with the January through June 2015 period (ROPS 14-15B). HSC section 34186 (a) (1) also specifies the prior period adjustment self-reported by the Agency is subject to review by the CAC. The amount of RPTTF approved in the table on the next page includes the prior period adjustment resulting from the CAC's review of the Agency's self-reported prior period adjustment.

Except for the item denied in whole or the item that has been reclassified, Finance is not objecting to the remaining items listed on your ROPS 15-16B. If you disagree with Finance's determination with respect to any items on your ROPS 15-16B, except for those items which are the subject of litigation disputing Finance's previous or related determinations, 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 \$116,920 as summarized in the Approved RPTTF Distribution table on the next page:

Approved RPTTF Distribution	
For the period of January through June 2016	
Total RPTTF requested for non-administrative obligations	617,406
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS 15-16B	\$ 742,406
Total RPTTF requested for non-administrative obligations	617,406
<u>Denied Item</u>	
Item No. 1	(497,406)
<u>Reclassified Item</u>	
Item No. 25	(120,000)
Total RPTTF authorized for non-administrative obligations	\$ 0
Total RPTTF requested for administrative obligations	125,000
<u>Reclassified Item</u>	
Item No. 20	5,000
Item No. 25	120,000
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(125,000)
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 125,000
ROPS 14-15B prior period adjustment	(8,080)
Total RPTTF approved for distribution	\$ 116,920

Administrative Cost Cap Calculation	
Total RPTTF for 15-16A (July through December 2015)	25,000
Total RPTTF for 15-16B (January through June 2016)	0
Total RPTTF for fiscal year 2015-2016	25,000
Administrative cost cap for fiscal year 2015-16 (Greater of 3% of Total RPTTF or \$250,000)	250,000
Administrative allowance for ROPS 15-16A (July through December 2015)	(125,000)
Remaining administrative cost cap for ROPS 15-16B	125,000
ROPS 15-16B administrative obligations after Finance adjustments	(250,000)
Administrative costs in excess of the cap	\$ (125,000)

On the ROPS 15-16B form, the Agency reported cash balances and activity for the period January 1 through December 31, 2015. Finance will perform a review of the Agency's self-reported cash balances on an ongoing basis. Please be prepared to submit financial records and bridging documents to support the cash balances reported upon request. If it is determined the Agency possesses cash balances that are available to pay approved obligations, HSC section 34177 (I) (1) (E) requires these balances be used prior to requesting RPTTF.

Please refer to the ROPS 15-16B schedule used to calculate the total RPTTF approved for distribution:

<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 January 1 through June 30, 2016. This determination only applies to items when 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 ROPS periods. All items listed on a future ROPS are subject to review and may be denied even if it was 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 the redevelopment dissolution statutes. 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.

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