



December 17, 2015

Ms. Kelly McAdoo, Assistant City Manager
City of Hayward
777 B Street
Hayward, CA 94541

Dear Ms. McAdoo:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 13, 2015. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Hayward Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16B) to Finance on September 30, 2015, for the period of January 1 through June 30, 2016. Finance issued a ROPS determination letter on November 13, 2015. Subsequently, the Agency requested a Meet and Confer session on one or more of the determinations made by Finance. The Meet and Confer session was held on November 30, 2015.

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 determinations being disputed.

- Item Nos. 23, 25, 27, 29, 31, 72, and 73 – Obligations related to Cinema Place and Cinema Place Parking Structure totaling \$38,592 was reclassified to Other Funds. Finance continues to reclassify these items to Other Funds. Pursuant to HSC section 34177 (l) (1) (E), the Redevelopment Property Tax Trust Fund (RPTTF) may be listed as a source of payment on the ROPS, but only to the extent no other funding source is available. Finance initially reclassified this item to Other Funds because pursuant to the lease agreement, the tenant pays \$50,000 each January 1.

During the Meet and Confer process, the Agency contended that payments received on a monthly basis in the amount of \$4,166.67 and the monthly installments of the 50 percent share of the maintenance obligations are not sufficient to cover the total maintenance obligation. However, it is unclear why payments are made on a monthly basis because Section 3.1 of the First Amended Ground Lease states that Base Rent shall be paid annually in advance on January 1 of each year. Additionally, the Agency did not provide any information indicating why \$50,000 is insufficient to cover the estimated \$38,592 in property maintenance costs. Therefore, Finance continues to determine that the Agency has other funding sources available to fund the items and the RPTTF requested is reclassified to Other Funds.

- Item No. 38 – Contract for environmental remediation in the amount of \$70,815 was not allowed. Finance no longer denies this item. Finance initially denied this item because the Agency provided a contract with a termination date December 31, 2015, which is prior to the start of the ROPS 15-16B period. Additionally, the Agency believes work should be completed by the end of the contract. During the Meet and Confer process, the Agency contended that although the work is anticipated to be completed by the termination date, the invoice may not be received and paid until January 2016. Therefore, due to the timing of when the Agency may be invoiced for the work completed, this item is eligible for Reserve Balance funding on this ROPS.
- Item No. 48 – The total outstanding balance for the Reentered Repayment Agreement (Reentry Agreement) with the City of Hayward is overstated. Finance maintains that the balance for this item is overstated. The Reentered Agreement was approved by the Oversight Board on May 21, 2012 for a loan repayment in the amount of \$7,789,843. Therefore, Finance initially determined that the outstanding loan balance reported on the Agency's ROPS Detail Form should be \$7,789,843.

During the Meet and Confer process, the Agency contended at the time the Reentered Agreement was approved and executed, the outstanding obligation was estimated to be \$7,789,843, which excluded \$2.2 million that was repaid in March 2011, but subsequently clawed back as part of the Due Diligence Review (DDR). The Agency also contended that the Oversight Board (OB) approved Resolution No. 2015-05 is clarification, not a reentered agreement, in order to reflect the amount that is outstanding based on the Reentered Agreement that was previously approved in 2012. However, Finance denied Resolution No. 2015-05 in our letter dated November 13, 2015, because at the time of execution of the 2012 Reentered Agreement, the outstanding balance was \$7,789,843. Furthermore, HSC section 34178 (a) states that an agency shall not enter or reenter into any agreements with the sponsoring entity. Therefore, the OB does not have the authority to reenter into an agreement with the City of Hayward (City) for the \$2.2 million that was returned as part of the DDR.

We are approving a loan repayment of \$800,000 payable from the RPTTF on ROPS 15-16B; therefore, the outstanding loan balance on the subsequent ROPS should be updated to reflect the loan repayment made during the ROPS 15-16B period. In regards to the \$2.2 million that was returned as part of the DDR, if the oversight board makes a finding that the loan was for legitimate redevelopment purposes, and it meets the definition of a loan, the loan may be placed on future ROPS for repayment. Refer to HSC section 34191.4 (b) for more guidance.

- Item No. 64 – Housing Authority Administrative Cost Allowance in the amount of \$150,000 is not allowed. Finance continues to deny this item. During the Meet and Confer process, the Agency objected to Finance's determination; however, no new information or documents were provided. 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 redevelopment agency of the City is the City-formed Housing Authority (Authority) and the Authority operates under the control of the City, the Authority 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 Authority, as a separate legal entity from the City, did retain the housing functions pursuant to HSC section 34176 (b) (2) 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 (CAFR), 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 Authority is included in the City's CAFR, which identifies the Authority as a component unit of the City and states that the City is financially accountable for the component units.

Although the Authority 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 Authority, 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 November 13, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item Nos. 1 and 6 – Finance is approving the Agency's request to increase Redevelopment Property Tax Trust Fund (RPTTF) funding for these items. The Agency should have requested \$2,558,663 for the 2004 Series Bonds and \$363,304 for the 2006 Series Bonds. As a result, total RPTTF requested for the ROPS 15-16B period has been increased by \$1,835,000.
- Item Nos. 70 and 71 – PERS and OPEB Liabilities in the amounts of \$666,235 and \$177,227 had been reclassified to Reserve Balance funding. Although the Agency received sufficient funding and self-reported full expenditure of these items during the June to December 2013 (ROPS 13-14A) period, the Agency is contending that these items remain outstanding. The Agency provided accounting records to clarify that the funding received did not transfer to the City and the cash to pay the items were part of Reserve Balances identified on the ROPS 14-15A Report of Cash Balances, which were reclassified by Finance to pay for other enforceable obligations. However, Finance's review of the accounting records identified the Agency made unauthorized payments to satisfy its Supplemental Educational Revenue Augmentation Fund (SERAF) loan (Item No. 49) to the City totaling \$2,584,344 during the ROPS 13-14A period. Additionally, the accounting records noted that the Agency had paid the SERAF obligation in full during the ROPS 14-15B period, but the Agency continued to request and received RPTTF funding in the amount of \$1,736,807 during ROPS 15-16A.

As such, the \$1,736,807 in RPTTF funding received during ROPS 15-16A is not needed for its SERAF obligation (Item No. 49), which was fully paid prior to ROPS 15-16A, and the amount is now considered cash available to pay enforceable obligations on ROPS

15-16B. Therefore, requested funding for Item Nos. 70 and 71 have been reclassified to Reserve Balance funding.

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 county auditor-controller (CAC). The amount of RPTTF approved in the table below includes the prior period adjustment resulting from the CAC's review of the Agency's self-reported prior period adjustment.

Except for the items denied in whole or in part or the items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 15-16B. The Agency's maximum approved RPTTF distribution for the reporting period is \$3,423,191 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution	
For the period of January through June 2016	
Total RPTTF requested for non-administrative obligations	2,957,270
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations on ROPS 15-16B	\$ 3,082,270
RPTTF adjustment to non-administrative obligations	
Item No. 1	1,745,000
Item No. 6	90,000
Total RPTTF adjustments	\$ 1,835,000
Total RPTTF requested for non-administrative obligations	4,792,270
<u>Denied Item</u>	
Item No. 64	(150,000)
<u>Reclassified Items</u>	
Item No. 23	(1,066)
Item No. 25	(3,900)
Item No. 27	(5,200)
Item No. 29	(13,260)
Item No. 31	(416)
Item No. 70	(666,235)
Item No. 71	(177,227)
Item No. 72	(11,750)
Item No. 73	(3,000)
	(882,054)
Total RPTTF authorized for non-administrative obligations	\$ 3,760,216
Total RPTTF requested for administrative obligations	125,000
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 3,885,216
ROPS 14-15B prior period adjustment	(462,025)
Total RPTTF approved for distribution	\$ 3,423,191

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 (l) (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>

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 Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-3274.

Sincerely,



JUSTYN HOWARD
Program Budget Manager

cc: Ms. Tracy Vesely, Finance Director, City of Hayward
Ms. Carol S. Orth, Tax Analysis, Division Chief, Alameda County