DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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February 7, 2014

Ms. Jessica O'Connell, Accountant II
City of Cotati
201 West Sierra Avenue
Cotati, CA 94931

Dear Ms. O'Connell:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

The City of Cotati Successor Agency (Agency) submitted an Oversight Board approved Low and Moderate Income Housing Fund (LMIHF) Due Diligence Review (DDR) to the California Department of Finance (Finance) on September 12, 2013. 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 October 15, 2012 submittal deadline pursuant to HSC section 34179.6 (c), Finance was not bound to completing its review and making a determination by the November 9, 2012 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 LMIHF balances available for distribution to the taxing entities. Based on our review of your DDR, the following adjustment was made:

> Balances requested to be retained in the amount of $300,000 for fiscal year 2012-13 obligations are not allowed. The Agency requests to retain $300,000 of LMIHF balances in order to satisfy an obligation identified as the Ryan (Jamie) Lane Project. The obligation was placed on the Agency's Recognized Obligation Payment Schedule for the period of January through June 2013 (ROPS III) as payable from LMIHF balances in the amount of $300,000. The obligation was not sampled by Finance during the ROPS III review; therefore, it was approved by default and the Agency had authority to expend $300,000 for the obligation in the ROPS III period. However, no expenditure was made as supported by the Agency's ROPS III Prior Period Adjustment schedule submitted with ROPS 13-14A (July through December 2013).
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> Subsequently, the Agency listed the obligation on ROPS 13-14A as payable from reserve balances in the amount of $300,000. As detailed in Finance's ROPS 13-14A determination letter dated April 15, 2013, the obligation is not an enforceable obligation and not eligible for funding on the ROPS.
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> Finance's ROPS approval is only applicable to the relevant six-month ROPS period. The Agency did not expend LMIHF balances on the obligation during the six-month

period for which expenditure was authorized in the ROPS III period. The obligation was denied as an enforceable obligation during Finance's ROPS 13-14A review. Consequently, $300,000 in LMIHF balances is no longer encumbered by an enforceable obligation. As such, the LMIHF balances available for distribution to the taxing entities shall be increased by $300,000.

If you disagree with Finance's adjusted amount of LMIHF 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 LMIHF balances available for distribution to the affected taxing entities is $5,054,981 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	4,754,981
Finance Adjustments		
Add:		
Request to retain balances not supported	$	300,000
Total LMIHF balances to be distributed:	$	5,054,981

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, it is requested you 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. If funds identified for transmission are in the possession of a private entity, HSC 34179.6 (h) (1) (B) states that any remittance related to unallowable transfers to a private party may also be subject to a 10 percent penalty if not remitted within 60 days.

Failure to transmit the identified funds will also prevent the Agency from being able to receive a finding of completion from Finance. Without a finding of completion, the Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4. Specifically, these provisions allow certain loan agreements between the former redevelopment agency (RDA) and the city, county, or city and county that created the RDA to be considered enforceable obligations. These provisions also allow certain bond proceeds to be used for the purposes in which they were sold and allows for the transfer of real property and interests into the Community Redevelopment Property Trust Fund once Finance approves the Agency's Long-Range Property Management Plan.

In addition to the consequences above, willful failure to return assets that were deemed an unallowable transfer or failure to remit the funds identified above could expose certain individuals to criminal penalties under existing law.

Pursuant to HSC section 34167.5 and 34178.8, the California State Controller's Office (Controller) has the authority to claw back assets that were inappropriately transferred to the city, county, or any other public agency. Determinations outlined in this letter do not in any way eliminate the Controller's authority.

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

Sincerely,

JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Marcia Schnapp, Director of Finance, City of Cotati
Mr. Randy Osborn, Property Tax Manager, Sonoma County
California State Controller's Office