DEPARTMENT OF FINANCE

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February 6, 2013

Mr. Donald W. McVey, Director of Finance and Administrative Services
City of Daly City
333 – 90th Street
Daly City, CA 94015

Dear Mr. McVey:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original LMIHF DDR determination letter dated January 4, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Daly City(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 December 11, 2013. Finance issued a LMIHF DDR determination letter on January 4, 2013. Subsequently, the Agency requested a Meet and Confer session on one or more items adjusted by Finance. The Meet and Confer Session was held on January 30, 2013.

Based on a review of additional or clarifying information provided to Finance during the Meet and Confer process, Finance is revising the adjustments made in our previous LMIHF DDR determination letter. Specifically, we are revising the following adjustments.

- Total asset balance held as of June 30, 2012. Finance initially adjusted the total asset balance of the LMIHF by $2,239,559 because there was insufficient documentation to support the balance reported on the LMIHF DDR when compared to the Agency's annual financial report. During the meet and confer process, the Agency provided additional documentation to support the total asset balance of $1,305,636 as was reported on the LMIHF DDR. Based upon review of this additional documentation, Finance is reversing its initial decision to adjust the Agency's total cash balance and accepts the Agency's total asset balance held on June 30, 2012 as $1,305,636.

- Balance needed to satisfy expenditures for fiscal year 2012-13. Finance initially denied this balance because there was insufficient documentation provided to support the need to retain the funds. We also noted that there were no items listed on ROPS I, II, or III that were identified as LMIHF obligations. During the meet and confer process, the Agency provided additional information to support their need to retain $648,231 in LMIHF to satisfy enforceable obligations for fiscal year 2012-13. Based upon review of this additional information, Finance is reversing its initial decision and will allow the Agency to retain the $648,231.

As a result of Finance revising the adjustments made in the January 4, 2013 letter, the Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to $657,405, as was stated in the original DDR.

This is Finance's final determination of the LMIHF balances available for distribution to the taxing entities. 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.

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 and Finance's Housing Assets Transfer letter dated August 30, 2012 do not in any way eliminate the Controller's authority.

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

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: on the following page