



November 7, 2012

Mr. Steve Toler, Assistant City Manager
City of Foster City
610 Foster City Blvd.
Foster City, CA 94404

Dear Mr. Toler:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Foster City Successor Agency (Agency) submitted an oversight board approved Low and Moderate Income Housing Fund Due Diligence Review (DDR) to the California Department of Finance (Finance) on October 10, 2012. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Pursuant to HSC section 34179.6 (d), 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 Low and Moderate Income Housing Fund (LMIHF) available for distribution to the taxing entities. Based on our review of your DDR, the following adjustments were made:

- Funds in the amount of \$6,312,500 were transferred to the City of Foster City to be used for an agreement with Northwestern Mutual and Housing Endowment and Regional Trust of San Mateo County. The transfer to Foster City is not allowed; however the amounts are approved for spending during the period of July through December 2012. Therefore there is no effect on the amount to be remitted to the county for disbursement to the taxing entities.
- Requested balances needed to satisfy Recognized Obligation Payment Schedule (ROPS) obligations in the amount of \$286,500. These amounts were not included on any ROPS and may not be held for future payment. This amount must be remitted to the county for disbursement to the taxing entities.

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 balance available for distribution to the affected taxing entities is \$13,213,382 (see table below). Pursuant to HSC 34179.6 (h) (1) (B), 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.

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 12,926,882
Add:	
Disallowed transfers:	\$ 6,312,500
Amounts needed to satisfy ROPS for the 2012-13 fiscal year	(6,312,500)
Requested retained balance not supported:	286,500
Total LMIHF available to be distributed:	\$ 13,213,382

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.

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, that taxing entity's failure to remit those funds may result in offsets to its sales and use tax allocation or to its property tax allocation.

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.

Mr. Steve Toler
November 7, 2012
Page 3

Please direct inquiries to Robert Scott, Supervisor or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,



For
STEVE SZALAY
Local Government Consultant

cc: Ms. Lin-Lin Cheng, Finance Director, Foster City
Mr. Bob Adler, Auditor-Controller, County of San Mateo
Ms. Shirley Tourel, Auditor, County of San Mateo
California State Controller's Office