



September 2, 2016

Mr. David Biggs, City Manager
City of Hercules
111 Civic Drive
Hercules, CA 94547

Dear Mr. Biggs:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

The City of Hercules 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 December 28, 2015. 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 is not bound to 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 available for distribution to the taxing entities. Based on our review of your DDR, the following adjustment was made:

The request to retain \$1,249,545 for projected outflows through December 31, 2012 is not allowed. The Agency identified a total of \$1,249,545 is needed to be retained for bond payments (\$651,097 for the 2007 Tax Allocation Bonds (TAB), Housing Series A plus \$598,448 for the 2007 TAB, Housing Series B). The Agency also requested to retain this balance in the Other Funds and Accounts (OFA) DDR. Therefore, to avoid double counting, any balance allowed to be retained will be noted in the OFA DDR determination letter. Therefore, the LMIHF cash available for distribution to the taxing entities has been adjusted by \$1,249,545.

Finance notes that the State Controller's Office (SCO) reviewed the asset transfers made by the Hercules Redevelopment Agency (RDA) for the period of January 1, 2011 through January 31, 2012 and issued their Asset Transfer Review report in November 2012. The review disclosed \$15,638,313 in RDA housing assets have not yet been transferred from the LMIHF to the Housing Successor Agency. It is our understanding that a Housing Successor Agency has not been formally identified. However, in accordance with SCO's order, the City is required to transfer these housing assets to the Agency until a Housing Successor Agency has been identified.

As a result, the unencumbered LMIHF balance available for distribution to the affected taxing entities is \$213,889 as summarized in the table below.

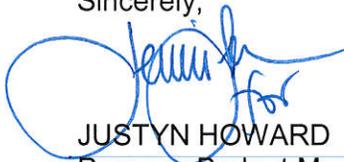
LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ (1,035,656)
Finance Adjustments	
Add:	
Request to retain balance for projected outflows:	1,249,545
Total LMIHF available to be distributed:	\$ 213,889

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 Agency, and if the 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.

Please direct inquiries to Cindie Lor, Supervisor or Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Program Budget Manager

cc: Ms. Annie To, Finance Director, City of Hercules
Mr. Bob Campbell, Auditor-Controller, Contra Costa County