



April 8, 2013

Ms. Lisa Grote, Community Development Director
City of San Mateo
330 West 20th Avenue
San Mateo, CA 94403-1388

Dear Ms. Grote:

Subject: Other Funds and Accounts Due Diligence Review

This letter supersedes the California Department of Finance's (Finance) original Other Funds and Accounts (OFA) Due Diligence Review (DDR) determination letter dated March 15, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of San Mateo Successor Agency (Agency) submitted an oversight board approved OFA DDR to Finance on January 10, 2013. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Finance issued an OFA DDR determination letter on March 15, 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 April 3, 2013.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of those specific items being disputed. Specifically, the following adjustments were made:

- Finance denied the loaned amount of \$555,274 to the former redevelopment agency in 2008 to construct affordable housing because the agreement states that the loan balance is due upon sale of the property. The Agency contends the item is an enforceable obligation because they are expecting to sell the property and do not expect the proceeds to cover the loan. The property was transferred to the City of San Mateo as the Housing Successor, which is in negotiation with a third party to sell or transfer the property within the upcoming July through December 2013 period. The item is an enforceable obligation and the unfunded loan balance, if any, is eligible for repayment from the July through December 2013 Redevelopment Property Tax Trust Fund (RPTTF) upon the sale or transfer of the property to a third party. The Agency has requested funding for the item on the July through December 2013 Recognized Obligation Payment Schedule from the RPTTF. As such, the retention of the OFA amount is not necessary and the OFA balance available for distribution is being increased by \$555,274.

The Agency's OFA balance available for distribution to the affected taxing entities is \$3,880,222 (see table on next page).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 3,324,948
Finance Adjustments	
Add:	
Denied ROPS items:	555,274
Total OFA available to be distributed:	\$ 3,880,222

This is Finance's final determination of the OFA 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. 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 sections 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.

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Please direct inquiries to Evelyn Suess, Supervisor, or Mary Halterman, Analyst, at
(916) 445-1546.

Sincerely,

A handwritten signature in black ink, appearing to read 'STEVE SZALAY', with a long horizontal stroke extending to the left.

STEVE SZALAY
Local Government Consultant

cc: Mr. David Culver, Finance Director, City of San Mateo
Mr. Robert Adler, Auditor Controller, San Mateo County
California State Controller's Office