



April 9, 2013

Mr. Jim Steele, Finance Director
City of South San Francisco
P.O. Box 711
South San Francisco, CA 94083

Dear Mr. Steele:

Subject: Other Funds and Accounts Due Diligence Review

The City of South San Francisco Successor Agency (Agency) submitted an oversight board approved Other Funds and Accounts (OFA) Due Diligence Review (DDR) to the California Department of Finance (Finance) on January 23, 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 January 15, 2013 submittal deadline pursuant to HSC section 34179.6 (c), Finance is not bound to completing its review and making a determination by the April 1, 2013 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 OFA available for distribution to the taxing entities. Based on our review of your DDR, the following adjustments were made:

- Ford property assets transferred to the City of South San Francisco in the period between January 1, 2011 and June 30, 2012 in the amount of \$8,762,821. HSC section 34179.5 (c) (2) only allows asset transfers within this period that are required by enforceable obligation and meet the definition of governmental use. No documents received support that the transfers were required by an enforceable obligation. Since these properties are illiquid, they are considered a non-cash asset of the Redevelopment Agency (RDA). Therefore, another adjustment is being made to increase the assets restricted as non-cash in the amount of \$8,762,821. In effect, these adjustments balance out and do not affect the ending OFA available balance.
- Balances legally restricted totaling \$65,600,399 to fund enforceable obligations should be adjusted by \$50,588,138. Specifically:
 - The Agency's request to retain \$5,216,644 for 1999 Certificates of Participation and HUD 108 should be adjusted by \$324,161. Finance approved the use of reserves in the amount of \$5,300,000 in the January through June 2012 Recognized Obligation Payment Schedule (ROPS) period. Of this amount, \$407,517 is being reported and legally restricted on Procedure 6 of the DDR.

Therefore, the OFA balance available for distribution to the taxing entities will be adjusted by \$324,161 ((\$5,300,000-\$407,517) -\$5,216,644).

- The Agency's request to retain \$27,938 to cover a 2006 RDA bonds debt service payment underestimated on the ROPS for the period of July through December 2012 is not allowed. This amount was requested to be funded with city loan proceeds as determined by Finance's review of the OB Resolution No. OB 2-2013. The repayment of this loan is subject to Finance's review and approval on a subsequent ROPS. Therefore, the OFA balances available for distribution to the taxing entities will be adjusted by \$27,938.
- The Agency's request to retain a total of \$40,153 to cover and allow the Agency to make payments for Non-Housing and other ROPS expenses is not allowed. This amount was requested to be funded with city loan proceeds as determined by Finance's review of two OB actions, OB 3-2013 and OB 6-2013. The repayment of these loans is subject to Finance's review and approval on a subsequent ROPS. Therefore, the OFA balance available for distribution to the taxing entities will be adjusted by \$40,153.
- The Agency requested to retain \$50,195,886 in funds that were placed in an escrow account to defease the 2006 Tax Allocation Bonds. The escrow account was set up and funded through the Escrow Deposit and Trust Agreement (Agreement) between the Agency and the Bank of New York Mellon Trust Company, N.A. in August 2012. Pursuant to HSC section 34163 (b), as of June 28, 2011, the Agency was prohibited from entering into contracts with any entity for any purpose.

Pursuant to HSC section 34181(e), the oversight board (OB) should direct the Agency to determine if an agreement should be terminated or renegotiated in order to reduce liabilities and increase net revenues to the taxing entities. The OB may approve the Agency's proposed termination or renegotiation of an agreement if the OB makes a finding that amendments or early termination would be in the best interest of the taxing entities. Finance has not received an OB resolution approving this specific Agreement or that this Agreement is in the best interest of the taxing entities.

To be in compliance with the law, Finance recommends the Agency immediately present this Agreement to their OB for approval. Should the OB make the appropriate findings as required by HSC section 34181 (e), Finance will consider its validity at that time. Until then, the OFA balance available for distribution to the taxing entities will be adjusted by \$50,195,886. Additionally, we would expect the Agency to request a Meet and Confer on this issue for further clarification.

If you disagree with Finance's adjusted amount of OFA 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 OFA balance available for distribution to the affected taxing entities is \$50,588,138.

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Requested retained balance not supported:	50,588,138
Total OFA available to be distributed:	\$ 50,588,138

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.

Mr. Jim Steele
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Please direct inquiries to Wendy Griffe, Supervisor or Jenny DeAngelis, Lead 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: Ms. Kate Rosenlieb, Senior Financial Analyst, City of San Bruno
Mr. Robert Adler, Auditor Controller, San Mateo County
California State Controller's Office