



May 15, 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

This letter supersedes the California Department of Finance's (Finance) original Other Funds and Accounts (OFA) Due Diligence Review (DDR) determination letter dated April 9, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of South San Francisco Successor Agency (Agency) submitted an oversight board approved Other Funds and Accounts (OFA) Due Diligence Review (DDR) to 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. Finance issued an OFA DDR determination letter on April 9, 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 30, 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:

- The Agency's request to retain \$5,216,644 for the 1999 Certificates of Participation and HUD 108 Loan was previously adjusted by \$324,161. During the Recognized Obligation Payment Schedule (ROPS) period of January through June 2012 (ROPS I), Finance approved the use of \$5,300,000 in reserves to retire these debts. Of the approved amount, \$407,517 was deposited with the trustee and is reported as restricted under Procedure 6. The remaining balance of the approved amount is \$4,892,483 (\$5,300,000 - \$407,517). Therefore the additional \$324,161 (\$5,216,644 - \$4,892,483) requested to be retained was previously not allowed because it exceeded the amount approved on ROPS I.

The Agency concurs that the amount was not approved on the ROPS I but requested Finance's reconsideration as the funds have already been paid to retire debt. The Agency provided documentation supporting the actual amount paid. Because the amount was used for debt service, the Agency will be permitted to retain these funds with no adjustments to the OFA balance. However for future reference, Finance notes that HSC section 34177 (a) (3) states that only those payments listed in the approved ROPS may be made from the funding source specified in the ROPS.

The Agency did not object to the following adjustment made by Finance during the Meet and Confer process. HSC section 34179.6 (d) authorizes Finance to make adjustments. We maintain that the following adjustment is appropriate:

- Balances legally restricted totaling \$65,600,399 to fund enforceable obligations is increased by \$68,091. Specifically:
 - The Agency's request to retain \$27,938 to cover a 2006 RDA bonds debt service payment underestimated on the July through December 2012 ROPS is not allowed. The amount was requested to be funded with loan proceeds provided by the City of South San Francisco (City) as allowed pursuant to HSC section 34173 (h) and as determined in Finance's review of OB Resolution No. OB 2-2013. The repayment of the City 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 I expenses is not allowed. This amount was requested to be funded with City loan proceeds as allowed pursuant to HSC section 34173 (h) and as determined in Finance's review of two OB actions, OB 3-2013 and OB 6-2013. The repayment of the City loan 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.
- Ford property assets transferred to the City 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.

The Agency's OFA balance available for distribution to the affected taxing entities is \$68,091.

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Requested retained balance not supported:	68,091
Total OFA available to be distributed:	\$ 68,091

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.

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

Sincerely,



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