DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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December 15, 2012

Ms. Justine Menzel, Deputy Executive Director
City of Artesia
18747 Clarkdale Avenue
Artesia, CA 90701

Dear Ms. Menzel:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original Low and Moderate Income Housing Fund (LMIHF) Due Diligence Review (DDR) determination letter dated November 9, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the Successor Agency to the Artesia Redevelopment Agency (Agency) submitted an oversight board approved LMIHF DDR to the California Department of Finance (Finance) on October 11, 2012. Finance issued a LMIHF DDR determination letter on November 9, 2012. 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 December 3, 2012.

Based on a review of additional or clarifying information provided to Finance during the Meet and Confer process, Finance is revising the adjustments made in our previous LMIHF DDR determination letter. Specifically, we are revising the following adjustments.

- Adjustment of transfer of net rental income of $62,887 in Procedure 2 and 3 is revised. The transfer was originally disallowed because it was not listed on the Housing Asset Transfer (HAT) and rental income is considered unencumbered LMIHF cash balances that needed to be returned to the successor agency. After reviewing additional supporting document it was determined the rental income belonged to the Housing Authority, not the Agency. Hence, it was not necessary to record the transfer on the DDR or the HAT.

- Adjustment of requested retained balance not supported in the amount of $706,068 in Procedure 8 is revised. The request to retain balance was originally disallowed because the Agency has not adequately proven there will be insufficient property tax revenues to pay for the projected net deficit in obligations. After reviewing additional supporting document, it was determined from the cash flow projection that the successor agency will have insufficient RPTTF to meet its enforceable obligations. As a result, the adjustment was reversed and the deduction is now allowed.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to $212,307 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	212,307
Total LMIHF available to be distributed:	**$**	**212,307**

This is Finance's final determination of the LMIHF 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.

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 and Finance's Housing Assets Transfer letter dated September 18, 2012 do not in any way eliminate the Controller's authority.

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

Sincerely,

FOR

STEVE SZALAY
Local Government Consultant

cc: Ms. Maria Dadian, Executive Director, City of Artesia
Ms. Kristina Burns, Tax Division Manager, Los Angeles County Auditor-Controller
California State Controller Office