DEPARTMENT OF FINANCE

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August 12, 2013

Ms. Cindy Prothro, Finance Director
City of Barstow
220 East Mountain View Street, Suite A
Barstow, CA 92311

Dear Ms. Prothro:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

The City of Barstow 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 July 15, 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 October 15, 2012 submittal deadline pursuant to HSC section 34179.6 (c), Finance is not bound to completing its review and making a determination by 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 Low and Moderate Income Housing Fund (LMIHF) available for distribution to the taxing entities. Based on our review of your DDR, the following adjustments were made:

Our review indicates the total amount of assets held as of June 30, 2012 should be $11,275,111 pursuant to the City of Barstow's revised Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2012. It is our understanding that adjustments in the amounts of $103,027 to cash/investments and $14,359 to accrued interest income were made to the CAFR subsequent to the submission of the Other Funds and Accounts DDR to Finance. These adjustments increased the net total assets held by the Agency as of June 30, 2012 by $117,359 compared to the amount reported in the DDR.

As such, an adjustment in the amount of $103,027 has been made; however, accrued interest income in the amount of $14,359 is a non-cash asset and has been excluded from the amount available for distribution to the taxing entities.

If you disagree with Finance's adjusted amount of LMIHF 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 LMIHF balance available for distribution to the affected taxing entities is $333,143 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities		
Available Balance per DDR	$	230,116
Finance Adjustments		
Add:		
Adjustment to the June 30, 2012 balance	$	103,027
Total LMIHF available to be distributed:	$	333,143

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, please 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 and Finance's Housing Assets Transfer letter dated February 6, 2013 do not in any way eliminate the Controller's authority.

Please direct inquiries to Nichelle Thomas, Supervisor or Susana Medina Jackson, Lead Analyst at (916) 445-1546.

Sincerely,

for

STEVE SZALAY
Local Government Consultant

cc: Ms. Mary Stapp, Assistant Finance Director, City of Barstow
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office