



May 2, 2013

Ms. Jan Sprague, Administrative Secretary  
City of California City  
21000 Hacienda Blvd  
California City, CA 93505

Dear Ms. Sprague:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original LMIHF DDR determination letter dated March 29, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City California City 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 March 6, 2013. Finance issued a LMIHF DDR determination letter on March 29, 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 or clarifying information provided to Finance during the Meet and Confer process, Finance continues to believe the adjustment made to the DDR's stated balance of LMIHF available for distribution to the taxing entities is appropriate. HSC section 34179.6 (d) authorizes Finance to make these adjustments. We maintain the adjustment continues to be necessary for the reasons noted:

- The Agency contends the retention of \$215,518 in current balances is necessary for the purpose of satisfying SDI Fund promissory notes for the ROPS periods covering fiscal year 2012-13. However, the promissory notes were denied on ROPS III letter dated October 29, 2012 and again in the Meet and Confer Determination letter dated December 18, 2012.

The Agency further contends the promissory notes were validated by a federal judgment which requires compliance regardless of subsequent changes in state law. Finance agrees the judgment validates the promissory notes as contracts, but does not make them enforceable obligations in light of section 34171(d)(2). Additionally, there does not appear to be anything in the judgment that orders the Agency to comply with the terms of the promissory notes. These promissory notes may become enforceable once the Agency receives a Finding of Completion from Finance, and the request for repayment can be placed on the Recognized Obligation Payment Schedule.

The Agency's cash flow analysis indicates a negative cash flow starting fiscal year 2013-14; however, the cash flow analysis inappropriately includes the SDI Fund obligations.

Finance recalculated the cash flow analysis excluding the denied obligations. As a result, the Agency will now have a positive cash flow and no need to retain current balances in the amount of \$215,518. However, should the Agency experience a cash flow shortage when obligations are due, HSC provides successor agencies with various methods to address short term cash flow issues. These may include requesting a loan from the city pursuant to HSC section 34173 (h), or requesting the accumulation of reserves on the ROPS when a future balloon or uneven payment is expected. The Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation. Since the Agency has alternatives to address short term cash flow shortages, Finance maintains it is not necessary for Agency to retain the requested funds.

The Agency's LMIHF balance available for distribution to the affected taxing entities continues to be \$215,518 (see table below).

<b>LMIHF Balances Available For Distribution To Taxing Entities</b>	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Requested retained balance not supported:	215,518
<b>Total LMIHF available to be distributed:</b>	<b>\$ 215,518</b>

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 5, 2012 do not in any way eliminate the Controller's authority.

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

Sincerely,



STEVE SZALAY  
Local Government Consultant

cc: Mr. Tom Weil, City Manager, City of California City  
Ms. Mary B. Bedard, Auditor-Controller, County of Kern  
California State Controller's Office