



December 15, 2012

Mr. Art Gallucci, City Manager
City of Cerritos
P.O. BOX 3130
Cerritos, CA 90703

Dear Mr. Gallucci:

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 Cerritos Redevelopment Agency (Agency) submitted an oversight board approved LMIHF DDR to the California Department of Finance (Finance) on October 15, 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 November 29, 2012.

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

- Cash and cash equivalents totaling \$6 million transferred to the City on February 1, 2012. Upon review of supporting documents provided by the Agency, the \$6 million of LMIHF was transmitted on July 12, 2012 to the Los Angeles Auditor-Controller for distribution to taxing entities as required by state law. Therefore, the LMIHF balance available for distribution to the taxing entities has been adjusted by \$6 million.
- Cash and cash equivalents totaling \$1 million transferred to the City on February 1, 2012. Upon review of supporting documents, \$1 million of LMIHF was expended prior to June 30, 2012 for valid Recognized Obligation Payment Schedule (ROPS) January through June 2012 period obligations. Therefore, the LMIHF balance available for distribution to the taxing entities has been adjusted by \$1 million.

However, Finance continues to believe some of the adjustments 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 following reason:

- The Agency contends the retention of current balances is necessary for the purpose of meeting future obligations. Finance originally denied the Agency's request to retain \$10.1 million due to a lack of evidence there would be insufficient property taxes to pay future obligations. During the Meet and Confer process, the Agency provided additional information including a projection of annual revenue and spending requirements. Finance reviewed the additional information and concluded that while the Agency may experience a deficit of \$100,480 for the ROPS January through June 2013 period, the Agency will have a positive cash flow in the amount of \$3.4 million for the July through December 2013. As such, there is no immediate need to retain LMIHF balances.

Should the Agency experience a cash flow shortage, HSC provides successor agencies with various methods to address short term cash flow issues. These may include refinancing debt pursuant to HSC section 34177.5 (a), requesting a loan from the city pursuant to HSC section 34173 (h), or accumulating reserves for future obligations when a future balloon or uneven payment is expected. The Agency should seek counsel from its oversight board to determine the solution most appropriate for its situation.

Since the cash flow analysis does not fully support the need to retain LMIHF balances and there are alternatives available to address potential short term cash flow issues, Finance deems it is not necessary for Agency to retain the requested funds.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to \$10,092,815 (see table below):

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Adjustment to the June 30, 2012 balance:	10,092,815
Total LMIHF available to be distributed:	\$ 10,092,815

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

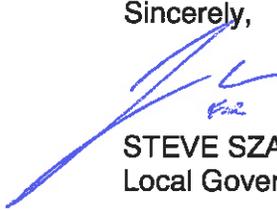
provisions allow certain loan agreements between the former redevelopment agency (RDA) and the city, county, or city and county that created the RDA to be considered enforceable obligations. These provisions also allow certain bond proceeds to be used for the purposes in which they were sold and allows 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 August 30, 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,



STEVE SZALAY
Local Government Consultant

cc: Ms. Torrey N. Contreras, Director of Community Development, City of Cerritos
Ms. Kristina Burns, Manager Los Angeles County Auditor-Controller's Office
California State Controller's Office