



February 12, 2013

Ms. Diana G. Edwards, Finance Manager
City of Cloverdale
P.O. Box 217
Cloverdale, CA 95425

Dear Ms. Edwards:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

The City of Cloverdale Successor Agency (Agency) submitted an oversight board approved Low and Moderate Income Housing Fund Due Diligence Review (DDR) to the California Department of Finance (Finance) on January 17, 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:

- Asset balance as of June 30, 2012 in the amount of \$284,914 cannot be verified. Finance has requested documentation to support this amount; however the Agency has been unable to provide this information. It has come to our attention there are no audited financial statements from fiscal years 2009-10, 2010-11 and 2011-12. Without these reports or General Ledger account activities, we cannot confirm the given balance. Finance reserves the right to confirm this amount at a later date when the appropriate supporting documentation is available.
- Adjustment to the asset balance as of June 30, 2012 in the amount of \$233,521. The DDR listed a cash balance on February 1, 2012 of \$518,435. This amount was reduced by expenditures during the period February 1, 2012 through June 30, 2012 totaling \$233,521. Pursuant to HSC section 34177 (a) (3) only payments listed on an approved Recognized Obligation Payment Schedule (ROPS) may be made with the specified funding source. The ROPS for the period January through June 30, 2012 did not list any payments with the funding source of LMIHF, therefore this reduction is not valid. Therefore, Finance will make an adjustment of \$233,521.

- LMIHF balances needed to satisfy fiscal year 2012-13 obligations in the amount of \$325,974. The DDR states this amount is needed for the 2006 Tax Allocation Bonds. However, it is not clear this amount is needed to prevent bond default. In addition, the Agency requested and was approved to use Redevelopment Property Tax Trust Funds to cover these costs. Therefore, Finance will make an adjustment of \$325,974.

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 \$518,435 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ (41,060)
Finance Adjustments	
Add:	
LMIHF not authorized for expinditure (pre June 30,2 012):	233,521
Requested retained balance not supported (post June 30, 2012):	325,974
Total LMIHF available to be distributed:	\$ 518,435

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.

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

Please direct inquiries to Wendy Griffe, Supervisor or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Nina Regor, City Manager, City of Cloverdale
Mr. Erick Roeser, Property Tax Manager, County of Sonoma
California State Controller's Office