



REVISED

April 9, 2014

Mr. G. Harold Duffey, Executive Director
City of Compton
205 South Willowbrook Avenue
Compton, CA 90220

Dear Mr. Duffey:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes the California Department of Finance's (Finance) original Low and Moderate Income Housing Fund (LMIHF) Due Diligence Review (DDR) determination letters dated November 19, 2012 and December 21, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Compton Successor Agency (Agency) submitted an oversight board approved LMIHF DDR to Finance on November 1, 2012. Finance issued a LMIHF DDR determination letter on November 21, 2012. Subsequent to a Meet and Confer process, Finance issued a LMIHF determination on December 21, 2012.

Based on a review of additional or clarifying information provided to Finance during and subsequent to the Meet and Confer process, Finance has completed its review of those specific items being disputed. Specifically, the following adjustments were made:

- Amount Due from Other Funds totaling \$5,589,180. This amount was identified by the DDR auditor as part of the beginning cash balance and was not originally contested by the Agency or the Oversight Board prior to submitting the DDR to Finance for review, nor was it contested by the Agency through the meet and confer process. Subsequent to the meet and confer process, the Agency claimed this amount represents the total owed to the LMIHF by the former redevelopment agency (RDA) for funds borrowed to pay RDA obligations. Our review of the documentation provided by the Agency indicates that \$5,045,007 is supported as RDA expenditures made during 2010 through 2011. This amount will be deducted from the available balance per the DDR as reported by the Agency. However, no adjustment to the DDR will be made for the remaining \$544,173. As further discussed the following sections, the Agency was not able to demonstrate the amount represents valid RDA expenditures:
 - Mepco Services, Inc. (Mepco) payments totaling \$431,941 are not allowed. This amount represents payments made to Mepco on August 11, 2011 for costs incurred through the May 31, 2011 and June 31, 2011 periods. The Agency provided documentation supporting that the RDA entered into an agreement with Mepco on June 3, 2009 for construction of the Martin Luther King Jr. Transit Center. Per Section 4.2.1 of the agreement, the contractor was to continue work on the project without interruption until completion or for 365 days, whichever comes first. Based

on our review of documentation provided, the contract terminated by June 3, 2010. Finance requested a contract amendment or change order that extended the performance period of the contract and authorized Mepco to continue to incur costs associated with completion of the project, but no such documentation was provided. Therefore, we determined there was no valid contract at the time the costs were incurred and paid.

- PNC Bank interest expense and debt service payments totaling \$85,386 are not allowed. This is not an RDA obligation. Documentation provided by the Agency indicates that in 2006, the City of Compton (City) entered into a Lease/Purchase Agreement with Citimortgage, Inc. for the purposes of the Citywide Energy Retrofit/Revenue Enhancement Performance Contracting Program. All documents provided by the Agency are signed by the City, not the RDA. Therefore, this contract was not an obligation of the former RDA.
- Media Portfolio, Inc. other contract services totaling \$23,861 are not allowed. The RDA entered into a contract with Media Portfolio, Inc. on May 24, 2011. Per Section 4 of the contract, maximum compensation to be paid for all services performed is not to exceed \$25,000; however, total expenditures toward this contract were \$48,861. The Agency did not provide any contract amendments for this contract; therefore, the amount exceeding the contract or \$23,861 (\$48,861 - \$25,000) is not permitted and should be available for distribution.
- Unsupported balance totaling \$2,985 is not allowed. The total amount Due from Other Funds is \$5,589,180; however, the Agency only provided documentation for \$5,586,195. Therefore, the difference of \$2,985 is unsupported and no adjustment will be made for this amount.
- The Agency contends retention of LMIHF balances for fiscal year 2012-13 obligations in the amount of \$1,732,000 is necessary for housing obligations. However, on the Recognized Obligation Payment Schedule (ROPS) for the July through December 2012, the Agency did not request and was, therefore, not approved for funds out of the LMIHF. For the January through June 2013 ROPS period, Finance only approved \$15,000 for Item Nos. 41, 43, and 45; the remaining amounts requested were for items that were either denied or were funded from the Redevelopment Property Tax Trust Fund, not LMIHF. Therefore, the Agency will be allowed to retain \$15,000. Accordingly, Finance is adjusting the available balance for distribution by \$1,717,000 (\$1,732,000 - \$15,000).

The Agency's LMIHF balance available for distribution to the affected taxing entities continues to be \$6,159,729 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 9,487,736
Finance Adjustments	
Less:	
Due from Redevelopment Fund:	\$ (5,045,007)
Add:	
Requested retained balance not supported:	1,717,000
Total LMIHF available to be distributed:	\$ 6,159,729

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 section 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 April 9, 2014 do not in any way eliminate the Controller's authority.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Michael Antwine, Deputy Director, City of Compton
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office