



December 19, 2012

Ms. Lisa Brancheau, Assistant to the City Manager
City of Covina
125 East College Street
Covina, CA 91723

Dear Ms. Brancheau:

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 15, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Covina Successor Agency (Agency) submitted an oversight board approved LMIHF DDR to the California Department of Finance (Finance) on October 23, 2012. Finance issued a LMIHF DDR determination letter on November 15, 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 28, 2012.

Based on a review of additional or clarifying information provided to Finance during the Meet and Confer process, Finance continues to believe 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:

- During the Meet and Confer process, the Agency did not object to the adjustment made by Finance, but objected to the transfer of two properties listed in the DDR. The Agency requested to have the value of the two properties totaling \$1.2 million be deducted from the balance available for distribution to the affected taxing entities. Although the DDR indicated these transfers were not authorized as enforceable obligations because it was not listed on the housing assets transfer list submitted to Finance on July 31, 2012, the DDR Certified Public Accounting (CPA) firm appropriately accounted for these properties in the DDR procedures 2, 3 and 7. Finance concurs with the CPA firm's adjustment. These properties are non-liquid assets and the LMIHF balance available for distribution to the affected taxing entities will not be adjusted.

The Oversight Board (OB) resolution no. 12-13 approved the LMIHF DDR with objections to the properties listed on page 11 of the DDR. The OB finds the two properties transferred on March 2011 was a valid transfer to the Covina Housing Authority, and as such, should not be transferred to the Agency for sale, liquidation, and distribution of the proceeds to affected taxing entities pursuant to AB 1X26 and AB 1484.

Pursuant to HSC section 34167.5 and 34178.8, the California State Controller's Office has the authority to make a final determination on whether the transfer of two properties to the Housing Successor Agency was appropriate. As such, Finance will not revise the adjustment of \$1.2 million as there is no impact on the cash and cash equivalents available for distribution to the affected taxing entities.

- The adjustment for payment to the County Auditor Controller for the July True Up in the amount of \$1,181,516 remains. The Agency did not contest to this adjustment. It is our understanding the payment made from the City of Covina's Debt Service Fund which is not part of the LMIHF. Therefore, the LMIHF available for distribution to the affected taxing entities continues to be adjusted by \$1,181,516.

The Agency's LMIHF balance available for distribution to the affected taxing entities continues to be \$3,407,292 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 2,225,776
Finance Adjustments	
Add:	
Requested retained balance not supported:	1,181,516
Total LMIHF available to be distributed:	\$ 3,407,292

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 Brian Dunham, Lead Analyst at (916) 445-1546.

Sincerely,

A handwritten signature in blue ink that reads "Steve Szalay" followed by a stylized flourish.

STEVE SZALAY
Local Government Consultant

cc: Mr. Dilu de Alwis, Finance Director, City of Covina
Ms. Kristina Burns, Manager, Los Angeles County Auditor-Controller's Office
California State Controller's Office