



May 20, 2013

Ms. Linda Kelly, Program and Financial Specialist
City of Desert Hot Springs
65-950 Pierson Boulevard
Desert Hot Springs, CA 92240

Dear Ms. Kelly:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

The City of Desert Hot Springs (Agency) submitted an oversight board approved Low and Moderate Income Housing Fund Due Diligence Review (DDR) to the California Department of Finance (Finance) on April 18, 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:

- Cash transfers to the City totaling \$1,011,687 (\$703,854 and \$307,833). Our review indicates that the transfers are pursuant to agreements between the City and RDA. HSC section 34167.5 states that asset transfers which occurred after January 1, 2011 between the RDA and the City that created the RDA are to be contractually committed to a third party. The Agency could not provide supporting documentation to demonstrate the expenditure of those assets. Therefore, the balance has been adjusted by \$1,011,687.
- Transfers to the City of Desert Hot Springs Housing Authority totaling \$4,743,064. Our review indicates that the items are not listed on the Housing Asset Transfer form (HAT) submitted to Finance on August 1, 2012. The transfer was comprised of \$1,010,734 cash, \$2,459,966 notes receivable, and \$1,272,364 land. The Agency did not provide supporting documents relating to these transfers. Since the notes receivable and land are non-liquid assets, Finance made no adjustments to the available balance to the affected taxing entities for these items. However, the Agency should reverse the improper transfers and recover the assets. Therefore, the balance has been adjusted by \$1,010,734.

- Balances retained for funding of an enforceable obligation in the amount of \$876,958. Our review indicates that only \$474,524 was approved as funded by reserve balances on ROPS 13-14A. Therefore, the amount requested has been adjusted by \$402,624.

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 \$2,424,855 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Disallowed Cash Transfers	\$ 1,011,687
Unauthorized transfers to the Housing Authority	\$ 1,010,734
Requested retained balance not supported	\$ 402,434
Total LMIHF available to be distributed:	\$ 2,424,855

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. Upon submission of payment, please provide proof of payment to Finance within five business days.

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 31, 2012 do not in any way eliminate the Controller's authority.

Please direct inquiries to Beliz Chappuie, Supervisor or Anna Kyumba, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Terrence Beaman, Administrative Services Director, City of Desert Hot Springs
Ms. Pam Elias, Chief Accountant Property Tax Division, County of Riverside,
Auditor-Controller
California State Controller's Office