June 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

This letter supersedes Finance's original LMIHF DDR determination letter dated May 20, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Desert Hot Springs (Agency) submitted an oversight board approved Low and Moderate Income Housing Fund (LMIHF) Due Diligence Review (DDR) to the California Department of Finance (Finance) on April 18, 2013. Finance issued a LMIHF DDR determination letter on May 20, 2013. 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 June 4, 2013.

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 transfers to the City totaling $1,011,687 comprised of two transfers of $703,854 and $307,833. Finance is no longer objecting to these items. These transfers were originally denied because the Agency had not provided documentation to support that the transfers were for enforceable obligations. The Agency provided the March 2010 Owner Participation and Grant Agreement between the former redevelopment agency (RDA) and Coachella Valley Housing Coalition for development of the Brisas De Paz affordable housing project for the $703,854 transfer. The Agency also provided the 2009 Cooperative Agreement related to the RDA's obligation to pay $307,883 to the City for the affordable housing program staffing costs incurred prior to February 1, 2012.

- Transfer to the City of Desert Hot Springs Housing Authority in the amount of $1,010,734. Finance is no longer objecting to this item. The transfer was originally denied because the Agency had not provided documentation to support that transfer was for an enforceable obligation. The Agency demonstrated that the transfer of $1,010,734 to the City of Desert Hot Springs Housing Authority was a second payment related to the $1.7 million funding for the Brisas De Paz affordable housing project cited above. The project was completed in June 2012.

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 adjustments continue to be necessary for the following reason:

- Balances to be retained for funding enforceable obligations in the amount of $876,958. Finance originally adjusted the amount requested by $402,624 because only $474,524 was approved as funded by reserve balances on ROPS 13-14A. The Agency contends that the $402,624 also needs to be retained for future debt service payments related to the 2009 Tax Allocation Bonds due to insufficient RPTTF distribution. The Agency's cash flow projection does not illustrate an immediate shortfall for bond service payments. Should a deficit occur in the future, HSC provides successor agencies with various methods to address short term cash flow issues. These may include requesting a loan from the city pursuant to HSC section 34173 (h), requesting the accumulation of reserves on the ROPS when a future balloon or uneven payment is expected, or subordinating pass-through payments pursuant to HSC section 34183 (b). The Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation if a deficiency were to occur.

The Agency's LMIHF balance available for distribution to the affected taxing entities continues to be $402,434 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	-
Finance Adjustments		
Requested retained balance not supported:		402,434
Total LMIHF available to be distributed:	$	402,434

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. Upon submission of payment, it is requested you 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 September 5, 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