



December 13, 2012

Ms. Marcela Piedra, Director of Economic Development
City of El Centro
1249 Main Street
El Centro, CA 92243

Dear Ms. Piedra:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original LMIHF DDR determination letter dated November 9, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of El Centro Successor Agency (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 October 12, 2012. Finance issued a LMIHF DDR determination letter on November 9, 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 is revising some of the adjustments made in our previous DDR determination letter. Specifically, we are revising the following adjustment:

- Loan receivable in the amount of \$975,000. Finance's letter dated August 30, 2012 denied the loan receivable of \$975,000 to be transferred to the housing successor entity on the Housing Assets Transfer (HAT) Form because the agreement was executed after June 27, 2011. However, additional documentation provided by the Agency demonstrated that the loan is an enforceable obligation. Therefore, the loan receivable of \$975,000 is allowed.

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 adjustment continue to be necessary for the following reason:

- Balances retained for fiscal year 2012-13 obligations in the amount of \$137,200. Our review indicated the amount retained was not supported by enforceable obligations to be funded with LMIHF on the Recognized Obligation Payment Schedule (ROPS) for the periods July through December 2012 (ROPS II) and January through June 2013 (ROPS III). Finance is allowing \$2,350 for Item No. 7 on ROPS II, since the funding source is identified as LMIHF. According to the Agency, the total amount is required to fund administrative costs. However, the remaining balance of \$134,850 for Item Nos. 7, 8, and 9 on ROPS III is not allowed because the items are identified as being funded

with other funding sources other than LMIHF. Further, the agency will receive an administrative allowance to fund administrative costs, up to the allowed cap for ROPS III. Therefore, the remaining \$134,850 is not allowed to be retained.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to \$1,239,922 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 1,105,072
Finance Adjustments	
Add	
Retained balance not supported	134,850
Total LMIHF available to be distributed:	\$ 1,239,922

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.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Steve Szalay', with a stylized flourish at the end.

STEVE SZALAY
Local Government Consultant

cc: Mr. Reuben A. Duran, City Manager, City of El Centro
Mr. Douglas R. Newland, Auditor-Controller, County of Imperial
California State Controller's Office