



March 22, 2013

Ms. René Miller, City Manager
City of Farmersville
909 W. Visalia Road
Farmersville, CA 93223

Dear Ms. Miller:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

The Farmersville 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 February 28, 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:

- Transfer of Loan Receivables to the Housing Successor Agency in the amount of \$257,901. On September 18, 2012, Finance issued a determination letter objecting to all assets, listed on the Agency's Housing Assets Transfer Form (HAT) in the amount of \$1,081,117 and directed the return of assets to the Agency. Attachment C of the DDR identifies the transfer of assets to the Housing Successor Agency totaling an amount of \$823,276 and shows an adjustment of this amount in the DDR Attachment F. Finance is adjusting the DDR balance for the \$257,901 difference between the amounts reported on the HAT and DDR (\$1,081,117 - \$823,276). Since Loans Receivable is not considered cash or a cash-equivalent asset, adjustment made does not impact the available balance of \$147,318 to be distributed to the affected taxing entities. However, the Agency is required to reverse the improper transfer and recover the assets from the Housing Successor Agency.

The Agency's LMIHF balance available for distribution to the affected taxing entities is \$147,318.

If you disagree with Finance's adjusted amount of LMIHF assets, 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/

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 above 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 its sales and use tax allocation or to its property tax allocation.

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 18, 2012 do not in any way eliminate the Controller's authority.

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

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Patricia Miller, Finance Director, City of Farmersville
Ms. Rita A. Woodard, Tulare County Auditor-Controller, Tulare County
California State Controller's Office