



November 9, 2012

Mr. Gary Chapman, Finance Director
City of Fortuna
P.O. Box 545
621 11th Street
Fortuna, CA 95540

Dear Mr. Chapman:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Fortuna Successor Agency (Agency) submitted an oversight board approved Low and Moderate Income Housing Fund Due Diligence Review (DDR) to the California Department of Finance (Finance) on October 10, 2012. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Pursuant to HSC section 34179.6 (d), 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 land valued at \$551,368.
- Loans Receivable in the amount of \$2,000,000 related to the Rohner Village Housing Project (Project).

The former redevelopment agency (RDA) entered into a disposition and development agreement (DDA) with Rohner Village LP (Developer) to develop property for apartment housing and was to provide \$2,000,000 in loans to the Developer in addition to transfer of land valued at \$551,368. Escrow to close the transaction did not occur within the time allowed per the Schedule of Performance, noted as Exhibit 17 of the DDA. The final agreement to extend the deadline to close escrow occurred in December of 2011. The loan and purchase notes, as well as the Deed of Trust and Assignments of rents were executed on March 1, 2012. HSC section 34163 (c) prohibits an agency from amending or modifying agreements, obligations, or contracts with any entity after June 27, 2011; therefore, the expenditure of funds for the Project from the LMIHF was not allowed. Therefore, \$2,000,000 in loans and land valued at \$551,368 should be returned to the Agency.

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 \$3.3 million (see table below). Pursuant to HSC 34179.6 (h) (1) (B), 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.

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 1,290,093
Finance Adjustments*	
Add:	
Denied HAT loan receivables	2,000,000
Total LMIHF available to be distributed:	\$ 3,290,093

The adjustments do not include non-cash or cash equivalents objected to by Finance in the amount of \$551,368.

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.

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, that taxing entity's failure to 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.

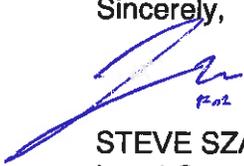
In addition to the consequences above, willful failure to return assets that were deemed an unallowable transfer or failure to remit the funds identified above could expose certain individuals to criminal penalties under existing law.

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 August 29, 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 blue ink, appearing to read 'Steve Szalay', with a small 'P.02' written below it.

STEVE SZALAY
Local Government Consultant

cc: Mr. Duane Rigge, City Manager, Successor Agency
Mr. Joe Mellett, Auditor-Controller, Humboldt County
California State Controller's Office