



January 10, 2013

Ms. Elizabeth Aguire, City Clerk
City of Galt
380 Civic Drive
Galt, CA 95632

Dear Ms. Aguire:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original LMIHF DDR determination letter dated December 5, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Galt 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 November 9, 2012. Finance issued a LMIHF DDR determination letter on December 5, 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 December 19, 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:

- The request to retain the fund balance of \$279,609 in order to reverse the January 2012 set-aside disbursement was initially disallowed by Finance because this disbursement was not legally restricted for the funding of an enforceable obligation. During the Meet and Confer session, the Agency provided additional information, including general ledger transaction details. Based on the review of this additional information, Finance has concluded the deposits of property tax revenues to LMIHF in the amount of \$279,609 were erroneous. Consequently, Finance is revising its adjustment accordingly.

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:

- Two loan installment payments to the City of Galt in the amount of \$296,000, and the payment for impact fees in the amount of \$789,000, for a total of \$1,085,000. These payments were not made pursuant to an enforceable obligation; therefore, we continue to maintain the adjustments are appropriate.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to \$1,085,000 (see table below). Additionally, our determination does not include non-

cash or cash equivalents totaling \$4,396,625, which continue to be denied by Finance as inclusions to the Housing Asset Transfer Form.

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Disallowed transfers	\$ 1,085,000
Requested retained balance not supported	279,609
Revised adjustments	(279,609)
Total LMIHF available to be distributed:	\$ 1,085,000

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

Ms. Elizabeth Aguire
January 10, 2013
Page 3

Please direct inquiries to Nichelle Thomas, Supervisor or Susana Medina Jackson, 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: Ms. Inez Kiri, Finance Director, City of Galt
Ms. Michelle Neeley, Accounting Manager, City of Galt
Mr. Carlos Valencia, Senior Accounting Manager, Sacramento County
California State Controller's Office