December 15, 2012

Ms. Elena Bolbolian, Principal Administrative Officer
City of Glendale
633 East Broadway, Suite 201
Glendale, CA 91206

Dear Ms. Bolbolian:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original Low and Moderate Income Housing Fund (LMIHF) Due Diligence Review (DDR) determination letter dated November 9, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the Glendale Successor Agency (Agency) submitted an oversight board approved LMIHF DDR to the California Department of Finance (Finance) on October 15, 2012. Finance issued a revised LMIHF DDR determination letter on November 16, 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 5, 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 Agency's request to restrict $3.5 million was previously denied by Finance because the fiscal year 2012-13 Recognized Obligation Payment Schedules (ROPS) indicate the Redevelopment Property Tax Trust Fund (RPTTF) is the authorized source of funding. Upon further review, Finance has concluded that these accounts payables are mainly for unfunded pension obligations for housing employees. These obligations were listed on ROPS January through June 2012 period with LMIHF as the authorized funding source, however, not paid until August 2012. Therefore, due to timing differences, these balances are not available for distribution to the taxing entities and Finance will adjust 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 adjustment continues to be necessary for the following reason:

- The Agency contends the retention of current balances totaling $9.2 million is necessary to satisfy the ROPS periods covering fiscal year 2012-13. Finance originally denied the Agency's request to retain $9.2 million due to a lack of evidence there would be insufficient property taxes to pay the specified obligations. During the Meet and Confer process, the Agency provided additional information including a projection of annual revenue and spending requirements suggesting there will be insufficient tax increment to cover the expenses when it comes due.

The Agency's cash flow analysis indicates a negative cash flow during ROPS III. The cash flow analysis inappropriately includes obligations that were denied on ROPS III. Through the ROPS III Meet and Confer process, Finance continues to deny the loan obligations for which the Agency is not a party to the agreements and bond funded projects without contracts in place. Finance recalculated the cash flow analysis excluding the denied obligations. As a result, the Agency will now have a positive cash flow for ROPS III.

The cash flow analysis does not indicate the Agency has an immediate need to retain the LMIHF. However, should the Agency experience a cash flow shortage when obligations are due, 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), or requesting the accumulation of reserves on the ROPS when a future balloon or uneven payment is expected. The Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation. Since the Agency has alternatives to address short term cash flow shortages, Finance deems it is not necessary for Agency to retain the requested funds.

As such, the Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to be $281,243 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	(8,908,467)
Finance Adjustments		
Less: Restricted balance supported		0
Add: Requested retained balance not supported	$	9,189,710
Total LMIHF available to be distributed:	$	281,243

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.

Please direct inquiries to Kylie Le, Supervisor or Brian Dunham, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Anne Bockenkamp, Housing Coordinator, City of Glendale
Ms. Kristina Burns, Manager, Los Angeles County Auditor Controller's Office
California State Controller's Office