

November 9, 2012

Ms. Roberta Raper, Director of Finance  
City of Grass Valley,  
125 East Main Street  
Grass Valley, CA 95945

Dear Ms. Raper:

**Subject: Low and Moderate Income Housing Fund Due Diligence Review**

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), City of Grass Valley 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 4, 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:

- Disallowed transfers of \$478,000:
  - Transfer in the amount of \$150,000 for the Star Valleys Commons project. The January to June 2012 actual payments reported on the Recognized Obligation Payment Schedule (ROPS III) noted that Redevelopment Property Tax Trust Fund was used to make the payment, not LMIHF. Therefore, the balance has been adjusted by \$150,000.
  - Transfer amount of \$328,000 from LMIHF to the City for its Housing Rehabilitation Program on April 1, 2011. The funds were transferred to supplement the program allowing the City to cover additional anticipated loans during 2010-11 and 2011-12. The transfer was not supported by an enforceable obligation of the redevelopment agency. Therefore, the balance has been adjusted by \$328,000.
- Balances retained for future obligations in the amount of \$3,848. Our review indicates Agency is requesting the amount to fund unfunded obligations that were identified on the ROPS. However, the obligations were requested to be funded with RPTTF, not LMIHF. Therefore, the balance has been adjusted by \$3,848.

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/](http://www.dof.ca.gov/redevelopment/meet_and_confer/)

The Agency's LMIHF balance available for distribution to the affected taxing entities is \$481,848 (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.

<b>LMIHF Balances Available For Distribution To Taxing Entities</b>	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Disallowed transfers	\$ 478,000
Requested retained balance not supported	3,848
<b>Total LMIHF available to be distributed:</b>	<b>\$ 481,848</b>

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

Ms. Roberta Raper  
November 9, 2012  
Page 3

Housing Assets Transfer letter dated September 17, 2012 do not in any way eliminate the Controller's authority.

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

Sincerely,



**STEVE SZALAY**  
Local Government Consultant

cc: Mr. Dan Holler, City Administrator, City of Grass Valley  
Ms. Marcia L. Salter, Auditor-Controller, County of Nevada  
California State Controller's Office