



December 21, 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

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 City of Grass Valley Successor Agency (Agency) submitted an oversight board approved LMIHF DDR to the California Department of Finance (Finance) on October 4, 2012. Finance issued a LMIHF DDR determination letter on November 9, 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 November 29, 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 adjustments:

Disallowed transfers of \$478,000:

- Transfer in the amount of \$150,000 for the Star Valley 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 (RPPTF) was used to make the payment, not LMIHF. According to the Agency, 20 percent of RPPTF received in January 2011 was deposited into the LMIHF and those LMIHF funds were used to make the payment during the ROPS I period. The agency provided sufficient documentation to support their claim. Therefore, the transfer is allowed.
- 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 fiscal year 2010-11 and 2011-12. According to the Agency, the amount was program income accumulated in the LMIHF over 10 years. The Agency provided documentation to demonstrate the use of the \$328,000 towards Housing Rehabilitation Loans and Emergency Repair Housing Grants issued prior to June 27, 2011. Therefore, the transfer is allowed.

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:

- 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. The obligations were approved by Finance to be funded with RPTTF. According to the Agency, they would like to retain the balance for the Star Valley Commons project payment obligation that is due during the ROPS III period. The item was approved by Finance to be funded with RPTTF on ROPS III; therefore, the Agency can expect to receive RPTTF, up to the amount that will be available. Therefore, the \$3,848 LMIHF is not allowed to be retained.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to \$3,848 (see table below).

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

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.

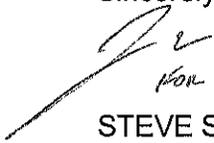
Failure to transmit the identified funds will also prevent the Agency from being able to receive a finding of completion from Finance. Without a finding of completion, the Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4. Specifically, these provisions allow certain 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 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,

A handwritten signature in black ink, appearing to read 'Steve Szalay', with a long horizontal flourish extending to the left.

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