



November 6, 2012

Ms. Gayla R. Chapman, Administrative Services Director
City of Grover Beach
154 South 8th Street
Grover Beach, CA 93433

Dear Ms. 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 Grover Beach 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 11, 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:

- Unallowable transfer of Notes Receivable in the amount of \$227,568. The Housing Asset Transfer List did not list any receivables to be transferred to the housing entity; therefore the Agency must be in receipt of the receivable. This item is not a cash equivalent, therefore will not affect the amount remitted to the county for disbursement to taxing entities, however this item will need to be included in the long range management plan. Two adjustments were made regarding this item; an adjustment to add in the disallowed transfer and an adjustment to recognize it as an asset other than cash or cash equivalent.
- Reimbursement of developer costs associated with the Farroll Road Project in the amount of \$25,000. This project was not approved on any Recognized Obligation Payment Schedule and therefore, retaining current LMIHF balances to reimburse the developer is not necessary.
- Project costs of \$95,000 for the Farroll Road Project was denied by Finance in our letter dated October 19, 2012. Therefore, this obligation is not eligible for payment and the associated balances must be remitted to the county for disbursement to the taxing entities.

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 \$934,200 (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:	\$ 814,200
Finance Adjustments	
Add:	
Disallowed transfers:	\$ 227,568
Denied ROPS items:	95,000
Retained balace not supported:	25,000
Non-cash asset adjustment:	(227,568)
Total LMIHF available to be distributed:	\$ 934,200

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.

Ms. Chapman
November 6, 2012
Page 3

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 23, 2012 do not in any way eliminate the Controller's authority.

Please direct inquiries to Robert Scott, Supervisor or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,

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

STEVE SZALAY
Local Government Consultant

cc: Mr. Robert Perrault, City Manager, City of Grover Beach
Ms. Barbara Godwin, Property Tax Manager, San Luis Obispo County Auditor
California State Controller's Office