



March 15, 2013

Mr. Sean Scully, Assistant City Manager
City of Gustine
682 3rd Street
Gustine, CA 95322

Dear Mr. Scully

Subject: Low and Moderate Income Housing Fund Due Diligence Review

The City of Gustine Successor Agency (Agency) did not submit an oversight board approved Low and Moderate Income Housing Fund (LMIHF) Due Diligence Review (DDR) to the California Department of Finance (Finance). The Agency also did not hire a CPA to conduct the DDR review. Finance determined this was unnecessary as the Merced County Auditor Controller had yet to make any property tax allocations to the Agency. Therefore, there are no unencumbered LMIHF balances available for distribution to the taxing entities.

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 30, 2012 do not in any way eliminate the Controller's authority.

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

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Sylvia Sanchez, Supervising Accountant, County of Merced
Ms. Lisa Cardella-Presto, Auditor-Controller, County of Merced
State Controller's Office