



December 12, 2012

Ms. Kellee Fritzal, Deputy Director
City of Huntington Beach
2000 Main Street
Huntington Beach, CA 92648-2702

Dear Ms. Fritzal:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

The Huntington 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 November 16, 2012. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Since the Agency did not meet the October 15, 2012 submittal deadline pursuant to HSC section 34179.6 (c), Finance is not bound to completing its review and making a determination by the November 9, 2012 deadline pursuant to HSC section 34179.6 (d). However, 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:

- Cash transfer in the amount of \$4,860,535. To meet the definition of a housing asset per HSC section 34176 (e) (2), funds transferred to the City's Housing Successor must be encumbered by an enforceable obligation. According to the DDR, \$4,959,145 in cash was transferred to the City's Housing Successor. However, the Recognized Obligation Payments Schedules (ROPS) covering the January 2012 through June 2013 periods only identified \$98,610 in LMIHF obligations; therefore, \$4,860,535 is not eligible for transfer.
- Transfer in the amount of \$6.5 million made pursuant to an Owner's Participation Agreement (OPA) with Makallon Atlanta Huntington Beach, LLC (Makar). According to Oversight Board Resolution 2012-04, this OPA has been terminated because the OPA was never implemented by Makar. Therefore, \$6.5 million should be returned to the Agency for distribution to affected taxing entities.
- Lease Revenue Refunding Bonds in the amount of \$4,054,198. Finance denied this item in our letter dated October 11, 2012 because the repayment of the bonds is secured by lease payments, not Redevelopment Property Tax Trust Funds or LMIHF.

Therefore, \$4,054,198 should be returned to the Agency for distribution to affected taxing entities.

- Loan repayments to BTDJM Phase II Associates, LLC in the amount of \$15,722,100. According to the ROPS submitted for the periods covering January 2012 through June 2013, the Agency requested Redevelopment Property Tax Trust Funds to fund this obligation. Therefore, the transfer of LMIHF for this obligation is disallowed.

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 \$31,136,833 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Disallowed Transfers	\$ 31,136,833
Total LMIHF available to be distributed:	\$ 31,136,833

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.

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.

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 Agency's failure to recover and 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 Housing Assets Transfer letter dated August 31, 2012 do not in any way eliminate the Controller's authority.

Please direct inquiries to Nichelle Thomas, Supervisor or Alex Watt, Lead Analyst at (916) 445-1546.

Sincerely,



File
STEVE SZALAY
Local Government Consultant

cc: Lori Ann Farrell, Director of Finance, City of Huntington Beach
Frank Davies, Property Tax Manager, Orange County
California State Controller's Office