



REVISED

April 6, 2013

Ms. Margarita Cruz, Redevelopment Manager
City of Inglewood
One Manchester Blvd.
Inglewood, CA 90301

Dear Ms. Cruz:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's LMIHF DDR determination letter dated January 17, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Inglewood successor agency (Agency) submitted an oversight board approved Low and Moderate Income Housing Fund (LMIHF) Due Diligence Review (DDR) to the California Department of Finance (Finance) on November 15, 2012. Finance issued a LMIHF DDR determination letter on December 11, 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 January 10, 2013. Finance issued a decision on the Meet and Confer session on January 17, 2013.

Based on a review of additional or clarifying information provided to Finance during the Meet and Confer session and on March 11, 2013, subsequent to 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:

- In our original LMIHF determination letter dated December 11, 2012, the cash transferred to the City of Inglewood (City) in the amount of \$27,741,219 plus \$13,980 in accrued interest was disallowed. Further, this transfer occurred per an amended Cooperation Agreement between the City and the Agency, which Finance contended was not valid pursuant to HSC section 34171 (d) (2).

The Agency contends the transfer of cash was used to pay the Agency's obligations. Accounting records and DDR auditor statements illustrates a total of \$31,195,023 was transferred to the City as of June 30, 2012 and \$24,195,793 of the transferred cash paid for the following 2011 Agency expenditures:

- \$241,265 – Operating Expenses
- \$496,920 – PATH Senior Osage Villa Housing Project
- \$2,930,527 – Bond Series 2007A-H Debt Service
- \$6,579,081 – Cloudbreak Housing Project
- \$13,948,000 – Regency Square Housing Project

After considering the paid expenditures, \$6,999,230 of transferred cash as of June 30, 2012 remained. The LMIHF DDR reported \$6,812,293; therefore, the LMIHF balance available for distribution to the taxing entities will be adjusted by \$186,937, the difference between \$31,195,023 in transferred cash, the subsequent \$24,195,793 in Agency expenditures, and the LMIHF DDR reported amount of \$6,812,293.

- The Agency contends \$740,002 of the transferred cash will be used to pay for the PATH Senior Osage Villa Housing Project as approved on the ROPS for the period January through June 2012. Since this expenditure was approved on ROPS I, but not yet expended due to timing, we are allowing the retention of \$740,002.
- Also, the Agency contends \$1,599,238 of the transferred funds were deposited in the LMIHF in error from non-housing tax increment funds. The Agency further contends the amount will be reported as part of the June 30, 2012 balance on the Other Funds DDR. Therefore, an adjustment of \$1,599,238 will be made to the June 30, 2012 balance.

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 reasons:

- The Regency Square loan receivable in the amount of \$13.9 million continues to be denied. The agency believes AB 1x26 was not yet in law when the loan was executed on June 28, 2011. However, HSC section 34163 (a) prohibits redevelopment agencies from making loans or enter into agreements after June 27, 2011. Further, this item was denied in our Housing Assets Transfer (HAT) letter dated September 21, 2012. Therefore, the LMIHF balance available for distribution to the taxing entities has been adjusted by \$13.9 million. The Agency requested a Meet and Confer session regarding the disputed loan and the Meet and Confer session is currently pending.
- The requested retention of LMIHF balances for fiscal year 2012-13 obligations in the amount of \$6,100,771 was partially denied. LMIHF obligations totaling \$2,256,583 were approved by Finance for the ROPS period July through December 2012 and January through June 2013. Therefore, only \$2,256,583 of the requested \$6,100,771 is allowed to be retained to pay for enforceable obligations. As such Finance is making an adjustment of \$2,256,583 to account for approved ROPS II and III expenditures.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to \$16,379,496 (see table below).

| LMIHF Balances Available For Distribution To Taxing Entities | |
|---|----------------------|
| Available Balance per DDR: | \$ 739,611 |
| Finance Adjustments | |
| Add: | |
| Disallowed transfers: | \$ 186,937 |
| Adjustment to the June 30, 2012 balance: | (1,599,238) |
| Denied HAT items: | 13,948,000 |
| Requested retained balance not supported: | 6,100,771 |
| Approved LMIHF expenditures for ROPS I: | (740,002) |
| Approved LMIHF expenditures for ROPS II and III: | (2,256,583) |
| Total LMIHF available to be distributed: | \$ 16,379,496 |

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. Upon submission of payment, it is requested you provide proof of payment to Finance within five business 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 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.

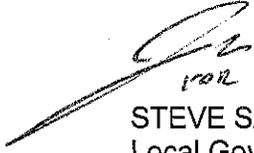
In addition to the consequences above, willful failure to return assets that were deemed an unallowable transfer or failure to remit the funds identified above could expose certain individuals to criminal penalties under existing law.

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 21, 2012 do not in any way eliminate the Controller's authority.

Ms. Cruz
April 6, 2013
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Please direct inquiries to Kylie Le, Supervisor or Brian Dunham, 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. David Esparza, Assistant City Manager, Chief Financial Officer, City of Inglewood
Ms. Sharon Koike, Assistant Finance Director, City of Inglewood
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office