



December 20, 2012

Mr. Douglas Dumhart, Community Development Director
City of La Palma
7822 Walker Street
La Palma, CA 90623

Dear Mr. Dumhart:

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 16, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of La Palma Successor Agency (Agency) submitted an oversight board approved LMIHF DDR to the California Department of Finance (Finance) on October 19, 2012. Finance issued a LMIHF DDR determination letter on November 16, 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 December 7, 2012.

Based on a review of additional or clarifying information provided to Finance during the Meet and Confer process, Finance continues to believe 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:

- We previously denied \$183,622 for various obligations. Based on the additional information provided during the Meet and Confer process, we are now approving \$73,122. However, the Loan Agreement and the Ground Lease Agreement for the 1999 Season project in the amount of \$110,000 was originally denied as an inclusion on the Recognized Obligation Payment Schedule (ROPS) for the periods July 1, 2012 through December 31, 2012 and January 1, 2013 through June 30, 2013. Pursuant to HSC 34171 (d)(2) agreements between the city that formed the RDA and the RDA are not enforceable obligations and are not eligible for funding from the LMIHF. The ROPS Meet and Confer was held December 18, 2012 and per Finance's letter dated December 18, 2012 these items continue to be denied.
- Restricted program income in the amount of \$2,806,902 was originally denied as an inclusion on the ROPS for the period January 1, 2013 through June 30, 2013 because it is an agreement between the city and the former RDA. The Agency contends that this is validly restricted program income and is separate and distinct from the 20 percent set-aside requirement. However, because the Loan Agreement specifying this restriction has been denied as an enforceable obligation (see above item), the restriction itself is also not allowable, and Finance continues to deny this item.

- The request for funding obligations totaling \$119,015 was originally denied as there is no funding past the ROPS January 1, 2013 through June 30, 2013 period from the LMIHF. The items requested and approved for funding from LMIHF for the ROPS period January 1, 2013 through June 30, 2013 have already been approved in the letter dated September 29, 2012; therefore, the request for funding continues to be denied.

The Agency's LMIHF balance available for distribution to the affected taxing entities continues to be \$3,065,719 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 29,802
Finance Adjustments	
Add:	
Requested restricted balances for enforceable obligations	\$ 119,015
Denied ROPS items	110,000
Requested retained balances not supported	2,806,902
Total LMIHF available to be distributed:	\$ 3,065,719

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.

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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 Nichelle Thomas, Supervisor or Wendy Griffe, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Michael Solorza, Finance Director, City of La Palma
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office