



March 25, 2013

Ms. Tamara Laken, Finance Director  
City of Lindsay  
251 E. Honolulu  
Lindsay, CA 93247

Dear Ms. Laken:

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 February 21, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Lindsay Successor Agency (Agency) submitted an oversight board approved LMIHF DDR to the California Department of Finance (Finance) on January 28, 2013. Finance issued a LMIHF DDR determination letter on February 21, 2013. 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 March 8, 2013.

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 reason:

- Balances retained for fiscal year 2012-13 obligations in the amount of \$3,690,000. The agency requested to retain balances to satisfy a CalHFA Loan payment listed on line 12 of the January through June 2013 Recognized Obligation Payment Schedule (ROPS III). Finance review indicates that the funding source approved for this item on ROPS III was "Other" and not LMIHF. The Agency contends that the CalHFA Loan repayment mechanism was to derive from proceeds from property lot sales equaling \$30,000 each. The sales of these properties have not materialized and the Agency has not received these funds to make payments. Therefore, use of "Other" funds or the retention of LMIHF balances as previously communicated in Finance's determination letter are not allowed.

Further review of additional or clarifying information provided to Finance during the Meet and Confer process has prompted Finance to make the following adjustment to the DDR's stated balance of LMIHF available to the taxing entities. Specifically, we are adjusting for the following reasons:

- An amount of \$1,710,000 is being adjusted to non-cash or equivalent assets held by the Agency as of June 30, 2012. The Agency provided supporting documentation to

demonstrate ownership of a property purchased for \$1,710,000 from the City of Lindsay (City). Accounting records of the Agency show the asset being held in a "Due From City" account, whereas the grant deed shows the asset is owned by the Agency. Finance made an adjustment to the Agency's asset balances reported in the DDR. Since the Property is a non-cash or cash equivalent asset, the balance available to the taxing entities is reduced by \$1,710,000.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to \$578,422 (see table below).

<b>LMIHF Balances Available For Distribution To Taxing Entities</b>	
Available Balance per DDR:	\$ (1,401,578)
Finance Adjustments	
Non-cash or cash equivalents	(1,710,000)
Unallowed balances retained for fiscal year 2012-13 obligations	3,690,000
<b>Total LMIHF available to be distributed:</b>	<b>\$ 578,422</b>

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.

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

Ms. Laken  
March 25, 2013  
Page 3

Housing Assets Transfer letter dated August 29, 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,

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

STEVE SZALAY  
Local Government Consultant

cc: Ms. Maria Knutson, Administrative Supervisor, City of Lindsay  
Ms. Rita A. Woodard, Auditor-Controller, Tulare County  
California State Controller's Office