



March 12, 2013

Ms. Lorry Hempe, Public Works Special Projects Manager
City of Lynwood
11330 Bullis Road
Lynwood, CA 90262

Dear Ms. Hempe:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original LMIHF DDR determination letter dated February 4, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Lynwood 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 January 10, 2013. Finance issued a LMIHF DDR determination letter on February 4, 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 6, 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:

- The Agency contends the retention of \$751,536 is necessary to pay for ongoing obligations, such as pending litigations, contaminated properties, pensions, other post-employment benefits (OPEB), and debt service obligations. Previously, the Agency provided a cash flow analysis which included items that were denied by Finance on the January to June 2013 Recognized Obligation Payment Schedule (ROPS). Additionally, the cash flow analysis included a judgment that has not yet been finalized between Rogel vs. LRA estimated at \$19 million. It is our understanding no final determination has been made per the judgment stipulation and a meeting was to be rescheduled with the judge and plaintiff. After excluding the denied items and the estimated cost of the judgment, the cash flow analysis indicates there are sufficient funds to pay approved obligations.

Finance deems it is not necessary for Agency to retain unencumbered LMIHF for an estimated \$19 million settlement agreement that has yet to materialize. In addition, retaining funds to pay for projects that were denied by Finance is not necessary. Therefore, the request to retain current LMIHF balances for future obligations is denied and the LMIHF available for distribution to the affected taxing entities will continue to be adjusted by \$751,536.

When and if the settlement materializes, this obligation and other obligations such as the unfunded employee pension and benefit costs can be put on a future ROPS to be funded with Redevelopment Property Tax Trust Fund (RPTTF).

- LMIHF obligations totaling \$18,000 were approved by Finance for the ROPS period July through December 2012. LMIHF funding for the ROPS period January through June 2013 was not requested. As such, Finance is adjusting the balance to reflect the \$18,000 in approved ROPS II expenditures.

The Agency's LMIHF balance available for distribution to the affected taxing entities continues to be \$733,536 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Requested retained balance not supported:	751,536
Approved LMIHF expenditures for ROPS II:	\$ (18,000)
Total LMIHF available to be distributed:	\$ 733,536

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

Please direct inquiries to Kylie Le, Supervisor or Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Steve Szalay', with a stylized flourish extending to the left.

STEVE SZALAY
Local Government Consultant

cc: Ms. Sarah Withers, Director of Community Development, City of Lynwood
Ms. Kristina Burns, Manager, Los Angeles County Auditor-Controller's Office
California State Controller's Office