



November 15, 2013

Mr. Chris J. Jicha, Senior Consultant, Kosmont Companies
City of Mendota Designated Local Authority
865 South Figueroa Street, 35th Floor
Los Angeles, CA 90017

Dear Mr. Jicha:

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 15, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the Mendota Designated Local Authority (Authority) submitted an oversight board approved LMIHF DDR to the California Department of Finance (Finance) on January 22, 2013. Finance issued a LMIHF DDR determination letter on February 15, 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 October 1, 2013.

Based on a review of additional or clarifying information provided to Finance during 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:

- The request to restrict non-cash assets totaling \$1,020,722 was originally denied the request to restrict non-cash assets because the Authority was unable to provide sufficient documentation to support the request. Finance no longer denies the request; through the Meet and Confer process, the Authority was able to provide sufficient documentation to substantiate the amount of restricted non-cash assets claimed.
- The request to retain \$1,294,217 for the funding of enforceable obligations was originally denied because the Agency did not request authorization for LMIHF on any previously submitted Recognized Obligation Payment Schedules. Finance no longer denies the request. Through the Meet and Confer process, the Authority provided documentation indicating the former redevelopment agency (RDA) was in danger of defaulting on their 1994 Tax Allocation Bonds, and requested the use of LMIHF to bring the debt service payments current.

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 reason:

- The transfer to the County of Fresno for the Supplemental Educational Revenue Augmentation Fund (SERAF) payment in the amount of \$64,049 was originally disallowed because the transfer was not made pursuant to HSC section 34191.4 (b) (2) (B), which requires SERAF payments to be distributed to the Low and Moderate Income Housing Asset Fund established by subdivision (d) of section 34176. Finance continues to disallow the request. The Agency should reverse the transaction, and recover the funds from the County of Fresno.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to \$64,049 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Disallowed transfers:	\$ 64,049
Total LMIHF available to be distributed:	\$ 64,049

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 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

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city, county, or any other public agency. Determinations outlined in this letter 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,

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

JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Craig Mellon, Chair, Designated Local Authority, City of Mendota Designated Local Authority
Mr. George Gomez, Accounting Financial Manager, Fresno County
California State Controller's Office