



REVISED

July 11, 2013

Ms. Londa Helms, Accounting Manager 1  
City of Murrieta  
1 Town Square  
Murrieta, CA 92562

Dear Ms. Helms:

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 9, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Murrieta Successor Agency (Agency) submitted an oversight board approved LMIHF DDR to the California Department of Finance (Finance) on October 10, 2012. Finance issued a LMIHF DDR determination letter on November 9, 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 5, 2012.

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:

- Unallowable transfers for City of Murrieta (City) loan payments in the amount of \$3,657,419. The Agency disagrees with the \$3,657,419 adjustment Finance made related to a city loan stating that the transactions were loan payments to the city, not transfers. During the Meet and Confer process, the Agency provided additional information related to the loan payments. Upon further review of documents, the \$500,000 loan payment that took place on June 30, 2011 is allowable because this payment was made in accordance with the loan repayment schedule. However, the accelerated loan payment of \$3,157,419 made on December 30, 2011 is not allowable per HSC section 34163 (c) (5) where an agency could not transfer funds out of the LMIHF except to meet the minimum housing-related obligations that existed as of January 1, 2011.
- Additional housing obligations in the amount of \$25,559. These obligations are for Community Facility District (CFD) fees from pre-dissolution period, but were not invoiced until after the DDR was completed. The information was included with the meet and confer request submitted to Finance; however, it was overlooked in the email. Upon further review of the CDF fees and related documentation provided by the Agency, amounts are allowable and will be deducted from the available LMIHF balance.

- Finance originally made an adjustment of \$1,242,222 for unallowable transfers to the housing successor agency. The Agency disagrees with the adjustment for the Monte Vista obligation stating that the money was transferred to the housing authority to cover enforceable obligations related to that project. This project has been listed on Recognized Obligation Payment Schedules (ROPS) for January through June 2012 (ROPS I), July through December 2012 (ROPS II), and January through June 2013 periods. However, for the ROPS II obligations, the Agency requested and received Redevelopment Property Tax Trust Fund (RPTTF). During the Meet and Confer, the Agency agreed that they received RPTTF funding for ROPS II for this obligation. Subsequent to the Meet and Confer session, the Agency provided additional documentation showing a breakdown of the \$1,242,222. The \$1,242,222 included costs for items approved on ROPS I for other housing project and housing related costs. Based on this new information, Finance is adjusting the unallowable transfers to the housing successor amount from \$1,242,222 to \$881,639.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to \$4,489,218 (see table below).

<b>LMIHF Balances Available For Distribution To Taxing Entities</b>	
Available Balance per DDR:	\$ 475,719
Finance Adjustments	
Add: Unallowable transfers to City	3,157,419
Add: Unallowable transfers to Housing Successor	881,639
Less: CFD Fees	(25,559)
<b>Total LMIHF available to be distributed:</b>	<b>\$ 4,489,218</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

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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 5, 2012 do not in any way eliminate the Controller's authority.

Please direct inquiries to Chikako Takagi-Galamba, Manager at (916) 445-1546.

Sincerely,



STEVE SZALAY  
Local Government Consultant

cc: Ms. Joy Canfield, Finance Director, City of Murrieta  
Ms. Pam Elias, Chief Accountant Property Tax Division, Riverside County  
Auditor Controller  
California State Controller's Office