DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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December 15, 2012

Mr. Manuel Sandoval, Finance Director
City of Orange Cove
633 Sixth Street
Orange Cove, CA 93646

Dear Ms. O'Donoghue:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original LMIHF DDR determination letter dated November 9, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Orange Cove 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 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 3, 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 reason:

- The available balance as of June 30, 2012 has been adjusted due to an error discovered by the Agency when preparing for the Meet and Confer Session. Cash on deposit with the fiscal agent in the amount of $332,631 was double-counted in the original DDR, and the Agency provided clarifying documentation to support the correct cash balances. Therefore, the amount requested to be retained decreased accordingly, and is addressed below.

- Finance originally denied the Agency's request to retain funds in the amount of $225,307 because the Agency did not request funding from LMIHF for certain enforceable obligations identified in the DDR. The Agency then requested to retain LMIHF $284,165 to prevent a cash flow deficit as soon as June 2013 if the request to retain is not allowed.

  The Recognized Obligation Payment Schedules for the periods of July 1, 2012 through June 30, 2013 only identified two enforceable obligations totaling $78,580 to be funded by the LMIHF.

  The Agency provided a five-year cash flow projection. Based on a review of the cash flow projection, and after adjustments were made to remove non-LMIHF obligations from

the analysis, the Agency will have sufficient cash available to meet LMIHF obligations through June 2013. Therefore, the request to retain $205,585 is disallowed ($284,165 $78,580 = $205,585).

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to $568,846 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	695,892
Finance Adjustments		
Add:		
Adjustment to the June 30, 2012 balance		(332,631)
Requested retained balance not supported		205,585
Total LMIHF available to be distributed:	$	568,846

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 22, 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. Sam Escobar, City Manager, City of Orange Cove
Mr. George Gomez, Accounting Financial Manager, Fresno County
California State Controller's Office