



November 9, 2012

Mr. David A. Klug, Redevelopment Manager  
City of Pasadena  
100 North Garfield Avenue, Room S116  
Pasadena, CA 91101

Dear Mr. Klug:

**Subject: Low and Moderate Income Housing Fund Due Diligence Review**

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Pasadena successor agency (Agency) submitted an oversight board approved Low and Moderate Income Housing Fund Due Diligence Review (DDR) to the California Department of Finance (Finance) on October 12, 2012. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Pursuant to HSC section 34179.6 (d), Finance has completed its review of your DDR, which may have included obtaining clarification for various items.

HSC section 34179.6 (d) authorizes Finance to adjust the DDR's stated balance of Low and Moderate Income Housing Fund (LMIHF) available for distribution to the taxing entities. Based on our review of your DDR, the following adjustments were made:

- Transfer of Casa Maria housing sales proceeds in the amount of \$339,697. It is our understanding the remaining balance of the sales proceeds were transferred from LMIHF to another housing fund. As such, the amount of June 30, 2012 balance has been adjusted by \$339,697.
- Your request to restrict \$4.6 million in LMIHF is denied. \$4.6 million in Redevelopment Property Tax Trust Fund (RPTTF) funding was approved for the Recognized Obligation Payment Schedule (ROPS) periods January through June 2012 and July through December 2012. Therefore, the LMIHF available for distribution to the affected taxing entities will be adjusted by \$4.6 million.
- Based on our review of your DDR, the Agency has not adequately proven there will be insufficient property tax revenues to pay for the \$1 million in obligations. HSC section 34179.5 (c) (5) (D) states that a successor agency shall provide a listing of all approved enforceable obligations that includes a projection of annual spending requirements to satisfy each obligation and a projection of annual revenues available to fund those requirements.

If a DDR review finds that future revenues together with dedicated or restricted balances are insufficient to fund future obligations and thus retention of current

balances is required, it shall identify the amount of current balances necessary for retention. The review shall also detail the projected property tax revenues and other general purpose revenues to be received by the successor agency, together with both the amount and timing of the bond debt service payments of the successor agency, for the period in which the oversight board anticipates the successor agency will have insufficient property tax revenue to pay the specified obligations. It is not evident the thorough analysis required by HSC section 34179.5 (c) (5) (D) was conducted. Further, it is not evident that future property tax revenues will be insufficient. Therefore, your request to retain current LMIHF balances for future obligations is denied and the LMIHF available for distribution to the affected taxing entities will be adjusted by \$1 million.

- Your request to retain \$119,820 of LMIHF funding is denied. The fiscal year 2012-13 ROPS submitted and evaluated by Finance did not identify any obligations to be funded by the LMIHF. Therefore, the LMIHF available for distribution to the taxing entities will be adjusted by \$119,820.

If you disagree with Finance's adjusted amount of LMIHF balances available for distribution to the taxing entities, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

[http://www.dof.ca.gov/redevelopment/meet\\_and\\_confer/](http://www.dof.ca.gov/redevelopment/meet_and_confer/)

The Agency's LMIHF balance available for distribution to the affected taxing entities is \$4.3 million (see table below). Pursuant to HSC 34179.6 (h) (1) (B), 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.

<b>LMIHF Balances Available For Distribution To Taxing Entities</b>	
Available Balance per DDR:	\$ (1,939,555)
Finance Adjustments	
Add:	
Adjustment to June 30, 2012 balance:	\$ 339,697
Requested restricted balance not supported:	\$ 4,647,231
Requested retained balance not supported:	1,210,628
<b>Total LMIHF available to be distributed:</b>	<b>\$ 4,258,001</b>

Absent a Meet and Confer request, 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, that taxing entity's failure to remit those funds may result in offsets to its sales and use tax allocation or to its property tax allocation.

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,



STEVE SZALAY  
Local Government Consultant

cc: Mr. Robert Ridley, Controller, City of Pasadena  
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller  
California State Controller's Office