DEPARTMENT OF FINANCE

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March 29, 2013

Mr. Michael Matsumoto, Director of Finance
City of Pico Rivera
6615 Passons Blvd.
Pico Rivera, CA 90660

Dear Mr. Matsumoto:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's Low and Moderate Income Housing Fund (LMIHF) Due Diligence Review (DDR) determination letter dated February 25, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Pico Rivera successor agency (Agency) submitted an oversight board approved LMIHF DDR to the California Department of Finance (Finance) on October 15, 2012. Finance issued a LMIHF DDR determination letter on November 15, 2012 and a revised letter on February 25, 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 12, 2013.

On February 25, 2012, Finance issued a revised letter to correct a previous determination that erroneously increased the amount available for distribution to the affected taxing entities by $2,220,436. This amount was already included in the $2,226,463 identified in the DDR as available for distribution to the taxing entities. Therefore, Finance ended up making no adjustments to the LMIHF DDR as reported by Moss, Levy, and Hartzheim LLP. As a result, the Agency's LMIHF balance available for distribution to the taxing entities is $2,226,463.

Despite Finance making no adjustments to the LMIHF DDR as reported by Moss, Levy, and Hartzheim LLP, the Agency requested a Meet and Confer. During the Meet and Confer process, the Agency contends the $2,226,463 of cash and interest receivable are pledged revenues necessary to secure the 2001 Tax Allocation Bonds. Finance now recognizes these findings were also made by the Agency's oversight board (OB) in Resolution No. OB-10-12. The OB determined its fiduciary duties to the taxing entities and the holders of enforceable obligations required the retention of these funds, and that the retention was in the best interst of the taxing entities and the holders of enforceable obligations. The OB resolution passed with six ayes, no noes, and one absent.

The bonds were in default on June 1, 2012 due to insufficient funds. On November 19, 2012, the Agency filed a Notice of Insufficient Funds with Los Angeles County Auditor-Controller, anticipating a short fall of $486,178 for January through June 2013 Recognized Obligation Payment Schedule (ROPS) period. In addition, the Agency requested County deferals of their pass through payments in the event bond debt obligations are jeopardized.

The Report of Insufficient funds included a breakdown of June 30, 2013 revenues and expenditures. The cash flow analysis fails to recognize the probable increase in property tax

revenues. In applying the conservative two percent tax increase, the Agency will be deficient in meeting their debt service payments in the amount of $914,203 during ROPS 13-14 A. As such, due to the immediate need, Finance is allowing the retention of $914,203 to avoid a default on bond debt service payments. In addition, in evaluating the Agency's financial condition beyond ROPS 13-14A, Finance determined the retention of the remaining funds is necessary to help ensure the 2001 Tax Allocation Bonds are not defaulted.

Should additional resources be needed, HSC provides successor agencies with various methods to address short term cash flow issues. These may include requesting a loan from the city pursuant to HSC section 34173 (h) to pay for enforceable obligations or administrative expenses or accumulating reserve for future obligations when a future balloon or uneven payment is expected. The repayment of these types of loans can be put on a future ROPS. The Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to be zero.

LMIHF Balances Available For Distribution To Taxing Entities		
Available balance per DDR:	$	2,226,463
Finance Adjustments		
Add:		
LMIHF balances approved to be retained for enforceable obligations:	$	(2,226,463)
Total LMIHF available to be distributed to taxing entities:		0

This is Finance's final determination of the LMIHF balances available for distribution to the taxing entities.

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. Jim Simon, RSG Consultant
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office