



June 20, 2013

Ms. Tina Olson
Finance Director
65 Civic Avenue
Pittsburg, CA 94565

Dear Ms. Olson:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes the California Department of Finance's (Finance) original Low and Moderate Income Housing Fund (LMIHF) Due Diligence Review (DDR) determination letter dated May 18, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Pittsburg Successor Agency (Agency) submitted an oversight board approved LMIHF DDR to Finance on April 22, 2013. Finance issued a LMIHF DDR determination letter on May 17, 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 June 12, 2013.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of those specific items being disputed. Specifically, the following adjustments were made:

- Transfers of cash and a balance Due from Other Funds to the City of Pittsburg (City) totaling \$1,451,670 has been adjusted by \$1,448,367. During the Meet and Confer process, the Agency provided additional documentation to support the transfer of \$221,670 to the City. The original transfer of funds to the City occurred in fiscal year 2009-10; and is not subject to Finance review pursuant to HSC 34163 (c) (5).

Additionally, the transfer to the City in the amount of \$1,230,000 was used to pay debt service obligations totaling \$1,226,697. The Agency did not receive sufficient Redevelopment Property Tax Trust Funds to satisfy debt service obligations approved on the Recognized Obligation Payment Schedule (ROPS) for the period January through June 2012, and therefore expended funds from the LMIHF. The remaining \$3,303 should be available for distribution to the taxing entities.

HSC section 34177 (a) (3) states that only those payments listed in the approved ROPS may be made from the funding source specified in the ROPS. However, HSC section 34177 (a) (4) goes on to state that with prior approval from the oversight board, the agency can make payments for enforceable obligations from sources other than those listed in the ROPS. In the future, the Agency should obtain prior oversight board approval when making payments for enforceable obligations from a funding source other than those approved by Finance.

The following adjustment continues to be disallowed and not contested by the Agency:

- Transfers of various loan receivables totaling \$24,668,397 to the City. These items were not included on the Housing Asset Transfer form prepared by the Agency on July 31, 2012. Per HSC section 34181 (c), the oversight board may still direct the Agency to transfer these assets. The Agency must submit a duly approved oversight board resolution to Finance for its review prior to approval and transfer of these assets. Therefore, Finance continues to deny the transfer of these loan receivables at this time. However, for DDR purposes, no adjustments to the LMIHF balance available for distribution to the taxing entities has been made.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to \$3,303, as detailed below:

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Disallowed transfers:	\$ 3,303
Total LMIHF available to be distributed:	\$ 3,303

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.

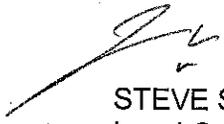
In addition to the consequences above, willful failure to return assets that were deemed an unallowable transfer or failure to remit the funds identified above could expose certain individuals to criminal penalties under existing law.

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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 Nichelle Thomas, Supervisor or Alex Watt, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Maria Aliotti, Redevelopment Manager, City of Pittsburg
Mr. Bob Campbell, Auditor-Controller, County of Contra Costa
California State Controller's Office