DEPARTMENT OF FINANCE
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January 17, 2013

Ms. Rae James, Director
County of Placer
3091 County Center Dr., Suite 260
Auburn, CA 95603

Dear Ms. James:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original LMIHF DDR determination letter dated December 13, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the County of Placer 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 November 9, 2012. Finance issued a LMIHF DDR determination letter on December 13, 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 January 9, 2013.

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 adjustment:

- An amount of $1,300,000 retained to satisfy a fiscal year 2012-13 obligation. This amount relates to the California Housing Finance Agency (CalHFA) loan approved on the Recognized Obligation Payment Schedule (ROPS II) for the period July through December 2012 to be paid with Redevelopment Property Tax Trust Fund (RPTTF). However, Agency claims LMIHF was reserved for this obligation amount and funding source identified on the ROPSII was an error. Placer County Auditor-Controller paid the loan with LMIHF and reduced the Agency's RPTTF distribution by $1,300,000. Documents submitted by the Agency show that $1,192,526 was paid to CalHFA on August 28, 2012 for full repayment of the loan. Therefore, of the total $1,300,000 initially requested to be retained on the DDR, $1,192,526 is allowed to be retained. The remaining $107,474 ($1,300,000-$1,192,526) needs to be remitted to the County for disbursement to the taxing entities.

However, Finance continues to believe some of 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 reasons:

- An amount of $64,000 was retained for items that were not listed as enforceable obligations on ROPS approved by Finance. The Agency contends the retention of

$64,000 in LMIHF is needed for future project management costs associated with the production of affordable housing. Finance is continuing to deny the retention of $64,000. HSC section 34177 (b) allows reserves required for indentures, trust indentures, or similar documents governing the issuance of outstanding RDA bonds. The statute does not currently recognize contingent or unknown obligations, thus creation of reserves for such items are not permissible.

- Balances restricted for funding of an enforceable obligation in the amount of $353,032. According to the Agency, the amount is required to fund a portion of the $2 million loan obligation for the Quartz Ridge project. The Quartz Ridge project was identified and approved by Finance as a valid transfer on the Housing Asset Transfer (HAT) form. The Agency explained that the project was not listed on prior ROPS because the project and cash was transferred to the housing successor entity. HSC 34176 (a) (1) states housing assets excluding any amounts on deposit in the LMIHF shall be transferred to the city or county. Therefore, the $353,032 should be transferred back to the Agency for remittance to the County for disbursement to the taxing entities. Since the Quartz Ridge project was approved on the HAT as an enforceable obligation, RPTTF funding up to $353,032 may be requested to fund obligations for the project on a future ROPS.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to $1,432,671 (see table below):

LMIHF Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	908,165
Finance Adjustments		
Add:		
Balance restricted for use not supported		353,032
Requested retained balance not supported:		171,474
Total LMIHF available to be distributed:	$	1,432,671

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 29, 2012 do not in any way eliminate the Controller's authority.

Please direct inquiries to Beliz Chappuie, Supervisor or Cindie Lor, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Allison Carlos, Principal Management Analyst, Placer County
Ms. Jayne Goulding, Managing Accountant Auditor, Placer County
California State Controller's Office