DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

January 2, 2013

Mr. Curt Watts, Economic Development Director
City of Rancho Mirage
69825 Highway 111
Rancho Mirage, CA 92270

Dear Mr. Watts:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original Low and Moderate Income Housing Fund (LMIHF) Due Diligence Review (DDR) determination letter dated November 9, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the Rancho Mirage Successor Agency (Agency) submitted an oversight board approved LMIHF DDR to the California Department of Finance (Finance) on October 30, 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 7, 2012.

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:

> Finance originally made an adjustment for a $6 million transfer to the Rancho Mirage Housing Authority (Authority) needed to cover future housing projects and maintenance. The Agency contends the retention of $3.6 million is necessary for housing-related expenses that occurred from January 2011 through January 2012, prior to the transfer of housing assets to the housing successor entity. Historically, the Rancho Mirage Redevelopment Agency's LMIHF reimbursed the Authority for low-income housing related obligations. This practice has been in place since the Authority's establishment in 1994.
>
> Per the DDR, the Agency transferred $6 million to the Authority in June and July 2011. Based on additional supporting documents provided during the Meet and Confer session, Finance determined the Agency is allowed to retain $3.5 million for housing-related obligations that were incurred prior to January 2012. An adjustment of $2.4 million continues to apply, as the Agency's future housing liabilities will be required to be placed on a Recognized Obligation Payment Schedule, and the Redevelopment Property Tax Trust Fund (RPTTF) will be the designated funding source.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to $3,752,240 (see table below).

| LMIHF Balances Available For Distribution To Taxing Entities | | |
|---|---|---|
| Available Balance per DDR: | $ | 1,310,374 |
| Finance Adjustments | | |
| Add: Disallowed transfer | | 2,441,866 |
| **Total LMIHF available to be distributed:** | $ | 3,752,240 |

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 Mindy Patterson, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Virginia Ortega, Accounting Manager, City of Rancho Mirage
Ms. Pam Elias, Chief Accountant, County of Riverside Auditor Controller
California State Controller's Office