



December 15, 2012

Ms. Marissa Christiansen, Assistant to the City Manager
City of Redondo Beach
415 Diamond Street
Redondo Beach, CA 90277

Dear Ms. Christiansen:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original LMIHF DDR determination letter dated November 9, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Redondo Beach 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 October 11, 2012. Finance issued a LMIHF DDR determination letter on November 09, 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 November 30, 2012.

Based on a review of additional or clarifying information provided to Finance during the Meet and Confer process, Finance continues to believe 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:

- Unencumbered cash transferred to the City's housing entity and included on the Housing Asset Transfer Form in the amount of \$7 million was denied by Finance in our letter dated August 31, 2012 and our DDR letter dated November 9, 2012. During the Meet and Confer session, the Agency stated the funds were returned to the Successor Agency and not available in the LMIHF at this time; however the funds will be available for distribution following the completion of the Other Funds DDR. Finance requested the funds be available for distribution to the affected taxing entities during the LMIHF DDR. As such, the LMIHF amount available for distribution to the taxing entities has been adjusted by \$7 million.
- The Agency contends retention of \$1.2 million of LMIHF funding for fiscal year 2012-13 expenditures is necessary for the Redondo Beach Handyman Project and the down payment assistance program. Finance approved this item on the Housing Asset Transfer Form and the Agency believed it was unnecessary to list approved transfers on the Recognized Obligation Payment Schedules (ROPS) III. The fiscal year 2012-13 ROPS submitted and evaluated by Finance did not identify any obligations to be funded by the LMIHF. As such, the Agency cannot request retention of LMIHF funds for

obligations that were not approved on ROPS III. However, pursuant to HSC section 34173 (h) the Agency can request a loan from the city to address short term cash flow issues and pay for enforceable obligations. Provided the city loan is for valid enforceable obligations, the Agency can put the repayment of the loan on subsequent ROPS. Since the Agency has an alternative to address short term cash flow shortages, Finance deems it not necessary for Agency to retain the requested funds. Therefore, the LMIHF available for distribution to the taxing entities will be adjusted by \$1.2 million.

The Agency's LMIHF balance available for distribution to the affected taxing entities continues to be \$9,914,969 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 1,711,713
Finance Adjustments	
Add:	
Denied HAT items:	7,011,464
Requested retained balance not supported:	1,191,792
Total LMIHF available to be distributed:	\$ 9,914,969

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 31, 2012 do not in any way eliminate the Controller's authority.

Please direct inquiries to Kylie Le, Supervisor or Brian Dunham, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Peter Grant, Assistant City Manager, City of Redondo Beach
Ms. Diana Moreno, Financial Services Director, City of Redondo Beach
Mr. Joe Hoefgen, Recreation, Transit, and Community Services Director, City of Redondo Beach
Mr. Doug Kaku, Grants Financial Administrator, City of Redondo Beach
Ms. Elizabeth Hull, Agency Counsel, Best, Best & Krieger
Ms. Kristina Burns, Manager, Los Angeles County Auditor-Controller's Office
California State Controller's Office