December 15, 2012

Ms. Lisa Brandl, Managing Director
County of Riverside
3403 10th Street, Suite 300
Riverside, CA 92501

Dear Ms. Brandl:

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 Economic Development Agency of the County of Riverside (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 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 5, 2012.

The DDR indicates the Low and Moderate Income Housing Fund (LMIHF) amount to be remitted to the County for distribution to taxing entities is $15,663,716. Finance recognizes that it did not take into account the request to retain $2.5 million for performing the housing responsibilities for the Coachella and Norco former redevelopment agencies.

Based on a review of additional or clarifying information provided to Finance during the Meet and Confer process, Finance continues to agree with the DDR reported amount as follows:

> The County of Riverside assumed housing functions from former Coachella and Norco redevelopment agencies. The Agency contends that the LMIHF is necessary for performing the housing functions for these two agencies due to lack of funding. Pursuant to HSC section 34176 (a) (1), if a city or county elects to retain the authority to perform housing functions previously performed by a redevelopment agency, all rights, powers, duties, obligations, and housing assets shall be transferred to that city or county. Therefore, Agency's request to retain $2.5 million is not allowed.

The Agency's LMIHF balance available for distribution to the affected taxing entities continues to be $15,663,716, as reported in the DDR.

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 Beliz Chappuie, Supervisor or Mindy Patterson, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Rohini Dasika, Principal Development Specialist, Economic Development Agency, County of Riverside
Ms. Pam Elias, Chief Accountant Property Tax Division, Riverside County Auditor Controller
California State Controller's Office