



December 14, 2012

Mr. Al Hernandez, City Administrator
City of San Fernando
117 Macneil Street
San Fernando, CA 91340

Dear Mr. Hernandez:

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 San Fernando 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 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 7, 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 adjustment continues to be necessary for the following reason:

- The Agency contends the retention of \$2,274 is necessary for the remaining balance owed to the CPA firm for performing the LMIHF DDR and anticipated travel costs of having the CPA firm attend an Oversight Board meeting. Finance originally denied the Agency's request to retain \$2,274 of LMIHF for the fiscal year 2012-13 because Finance approved this obligation to be funded with Redevelopment Property Tax Trust Fund (RPTTF) on ROPS III in the amount of \$15,000.

During the Meet and Confer process, the Agency provided a projection of annual revenue and spending requirements suggesting there will be insufficient tax increment to cover this expense when it comes due. The Agency contends they must retain the funds to pay the CPA firm. The Agency's cash flow analysis indicates a negative cash flow for ROPS III. However, the cash flow analysis inappropriately includes a line item that was denied on ROPS III for a retirement override assessment and a reimbursement payment to the City of San Fernando. The Agency's cash flow analysis also indicates HSC section 34186 will affect tax increment available for current enforceable obligations. However, HSC section 34186 is intended to adjust for differences between estimated

and actual expenditures from prior periods and should not contribute to current cash deficiencies.

In addition, to the extent available, the cost of the due diligence review should be paid out of the current administrative cost allowance. Finance has already approved \$15,000 in RPTTF funding for the DDR review. Any overrides should be absorbed in the Agency's administrative cost allowance.

Should this adjustment causes cash flow issues, the Agency may request a loan from the city to cover valid enforceable obligations pursuant to HSC section 34173 (h). The Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation.

The Agency's LMIHF balance available for distribution to the affected taxing entities continues to be \$2,274 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Requested retained balance not supported:	2,274
Total LMIHF available to be distributed:	\$ 2,274

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,

A handwritten signature in black ink, appearing to read 'SZALAY', with a stylized flourish extending from the bottom left.

STEVE SZALAY
Local Government Consultant

cc: Ms. Sonia Garcia, Junior Accountant, City of San Fernando
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office