DEPARTMENT OF FINANCE

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Revised

January 31, 2013

Mr. Cruz Ramos, City Manager
City of San Joaquin
PO Box 758
San Joaquin, CA 93660

Dear Mr. Ramos:

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) Meet and Confer determination letter dated January 11, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of San Joaquin 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 14, 2012. Finance issued a LMIHF DDR determination letter on December 10, 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 20, 2012 and Finance's Meet and Confer determination letter was issued on January 13, 2013. This letter further makes adjustments to the available LMIHF balance that should be remitted to the affected taxing entities.

Based on a review of additional or clarifying information provided to Finance after 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:

- Finance's initial review indicated the balance as of June 30, 2012 should be $611,752, which includes several general ledger entries that took place prior to February 1, 2012 and were not included in the ending balance of the LMIHF. According to the Agency, a $65,794 entry should not have occurred because it represents a 20 percent set-aside of Redevelopment Property Tax Trust Funds (RPTTF). No reversal was made for this error in the general ledger.

- According to the information provided by the Agency, the full RPTTF amount will appear in the DDR for all other Agency funds. Based on the information provided, the remaining cash balance of the LMIHF was deposited in the Agency's RPTTF account. Because the $65,794 was effectively returned to the RPTTF account, Finance is no longer making an adjustment of $57,576 to the Agency's LMIHF June 30, 2012 balance.

However, Finance continues to believe other adjustments made to the DDR's stated balance of LMIHF available for distribution to the affected taxing entities is appropriate. We maintain the adjustments continue to be necessary for the following reasons:

- Request to retain funding in the amount of $60,584. Finance continues to deny this request; the Agency did not identify enforceable obligations to be funded by the LMIHF on the Recognized Obligation Payment Schedule for the period January 1, 2012 through June 30, 2013. Therefore, the request to retain funding for these items is disallowed.

- July True-Up payment in the amount of $54,627. Based on documentation received from the Agency, this payment was made from RPTTF, not LMIHF. Therefore, Finance continues to deny this request.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to $554,176 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	438,965
Finance Adjustments		
Add:		
Requested retained balance not supported		60,584
True up payment obligation		54,627
Total LMIHF available to be distributed:	$	554,176

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 30, 2012 do not in any way eliminate the Controller's authority.

Please direct inquiries to Nichelle Thomas, Supervisor or Alexander Watt, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Diana Brooks, City Clerk, City of San Joaquin
Mr. George Gomez, Accounting Financial Manager, Fresno County
California State Controller's Office