DEPARTMENT OF FINANCE
EDMUND G. BROWN JR. ▪ GOVERNOR
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November 9, 2012

Ms. Arminé Chaparyan, Redevelopment Manager
City of Santa Clarita
23920 Valencia Blvd., Suite 300
Santa Clarita, CA 91355-2196

Dear Ms. Chaparyan:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Santa Clarita successor agency (Agency) submitted an oversight board approved Low and Moderate Income Housing Fund Due Diligence Review (DDR) to the California Department of Finance (Finance) on October 11, 2012. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Pursuant to HSC section 34179.6 (d), Finance has completed its review of your DDR, which may have included obtaining clarification for various items.

HSC section 34179.6 (d) authorizes Finance to adjust the DDR's stated balance of Low and Moderate Income Housing Fund (LMIHF) available for distribution to the taxing entities. Based on our review of your DDR, the following adjustments were made:

- $5.3 million in bond proceeds restricted as of June 30, 2012. It is our understanding Agency LMIHF housing bond proceeds were used to purchase a City block intended for affordable housing. The Agency subsequently decided the development would be mixed use. Therefore, in May 2011, $2.9 million of non-housing funds were deposited back into LMIHF for the portion of the development that was mixed use. The $2.9 million would no longer be considered a restricted balance but instead; these funds would be considered unrestricted and unencumbered. As such, a portion of your request to restrict $5.3 million of bond proceeds is denied and the LMIHF available for distribution to the affected taxing entities will be adjusted by $2.9 million.

- Unencumbered LMIHF funds deposited into the Redevelopment Obligation Retirement Fund in the amount of $757,297. Based on our review of your DDR, the Agency has not adequately proven there will be insufficient property tax revenues to pay for the $757,297 in obligations. HSC section 34179.5 (c) (5) (D) states that a successor agency shall provide a listing of all approved enforceable obligations that includes a projection of annual spending requirements to satisfy each obligation and a projection of annual revenues available to fund those requirements.

  If a DDR review finds that future revenues together with dedicated or restricted balances are insufficient to fund future obligations and thus retention of current balances is required, it shall identify the amount of current balances necessary for retention. The review shall also detail the projected property tax revenues and other general purpose revenues to be received by the successor agency, together with both the amount and timing of the bond debt service payments of the successor agency, for the period in which the oversight board anticipates the successor agency will have insufficient property tax revenue to pay the specified obligations. It is not evident the thorough analysis required by HSC section 34179.5 (c) (5) (D) was conducted. Further, it is not evident that future property tax revenues will be insufficient. Therefore, your request to retain current LMIHF balances for future obligations is denied and the LMIHF available for distribution to the affected taxing entities will be adjusted by $757,297.

- Your request to retain $1.8 million of LMIHF for fiscal year 2012-13 is denied. The ROPS periods for July through December 2012 and January through June 2013 did not identify any enforceable obligations to be funded by the LMIHF. Therefore, the LMIHF available for distribution to the affected taxing entities will be adjusted by $1.8 million.

If you disagree with Finance's adjusted amount of LMIHF balances available for distribution to the taxing entities, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

http://www.dof.ca.gov/redevelopment/meet_and_confer/

The Agency's LMIHF balance available for distribution to the affected taxing entities is $5.9 million (see table below). Pursuant to HSC 34179.6 (h) (1) (B), 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.

LMIHF Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	402,766
Finance Adjustments		
Add:		
Requested restricted balance not supported:		2,850,000
Requested retained balance not supported:		2,602,527
Total LMIHF available to be distributed:	**$**	5,855,293

Absent a Meet and Confer request, 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, that taxing entity's failure to remit those funds may result in offsets to its sales and use tax allocation or to its property tax allocation.

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 Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,

For

STEVE SZALAY
Local Government Consultant

cc: Ms. Armine Chaparyan, Redevelopment Manager, Santa Clarita
Ms. Carmen Magana, Finance Manager, Santa Clarita
Ms. Denise Covert, Administrative Analyst, Santa Clarita
Ms. Kristina Burns, Manager, Manager, Los Angeles County Auditor-Controller's Office
California State Controller's Office