DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

December 15, 2012

Ms. Nancy Manchester, Program Specialist
City of Santa Rosa
90 Santa Rosa Avenue
Santa Rosa, CA 95404

Dear Ms. Manchester:

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 City of Santa Rosa successor agency (Agency) submitted an oversight board approved LMIHF DDR to the California Department of Finance (Finance) on October 12, 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.

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

- Incremental Property Taxes in the amount of $57,239 to be returned to the County of Sonoma. Finance previously denied restriction of these funds due to lack of supporting documentation. The Agency has provided accounting records to support the expenditure incurred by the County, and the Agency's portion of that repayment. Based on review of the documents, Finance concludes that retention of the $57,239 for repayment of incremental property taxes is approved.

However, Finance continues to believe some of the adjustments made to the DDR's stated balance of LMIHF available for distribution to the taxing entities are appropriate. HSC section 34179.6 (d) authorizes Finance to make these adjustments. We maintain the adjustments continue to be necessary for the following reasons:

- Unspent Exchange Bank Revolving Loan proceeds in the amount of $581,016. Pursuant to HSC section 34191.4 (c) (1), only bond funds are permitted to be retained for expenditure after receipt of the finding of completion. Finance continues to deny restriction of these funds for future enforceable obligations.

- Capital Projects Fund transfer in the amount of $1,047,839. In our letter dated November 9, 2012, Finance denied restriction of these funds due to lack of supporting

documentation. The Agency indicated that the funds were required to make payment of a Cal HFA loan that is in jeopardy of default. A Meet and Confer was held between the Agency and Finance on November 19, 2012 pertaining to the Recognized Obligation Payment Schedule (ROPS III). Consistent with the results of that meeting, the referenced items are not enforceable obligations and, therefore, the request to restrict $1,047,839 transferred from the Capital Projects Fund is denied.

- Request to retain $5,259,076 for balances to satisfy fiscal year 2012-13 obligations. Finance originally denied restriction of these funds as they were deemed to not be enforceable obligations. Consistent with the results of the ROPS III Meet and Confer held November 19, 2012, the referenced items are not enforceable obligations and, therefore, the request to restrict $5,259,076 is denied.

In addition, Finance elects to include the following new adjustment:

- Exchange Bank Revolving Loan proceeds in the amount of $581,016. For reasons stated above, Finance denies restriction of these funds for use toward future enforceable obligations. HSC section 34181 (e) states that the oversight board shall direct the successor agency to determine whether any contracts, agreements, or other arrangements between the dissolved redevelopment agency and any private parties should be terminated or renegotiated to reduce liabilities and increase net revenues to the taxing entities, and present proposed termination or amendment agreements to the oversight board for its approval. Unencumbered proceeds should be returned to the lender to decrease the total obligation. Therefore, Finance concludes that $581,016 should be restricted from distribution to the underlying taxing entities to decrease the total obligation of the successor agency. Finance recommends that the oversight board direct the successor agency to return the funds to the lender.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to $6,345,315 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	$ 0
Finance Adjustments	
Add:	
Requested restricted balances not supported:	1,628,855
Obligations transferred to the Successor Housing Entity:	38,400
Denied ROPS items:	5,259,076
Subtract:	
Restriction for payment to Exchange Bank Revolving loan balance	(581,016)
Total LMIHF available to be distributed:	$ 6,345,315

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 Zach Stacy, Manger or Derk Symons, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Mr. Erick Roeser, Property Tax Manager, County of Sonoma
California State Controller's Office