



December 14, 2012

Mr. Kenneth C. Farfsing, City Manager
City of Signal Hill
2175 Cherry Avenue
Signal Hill, CA 90755

Dear Mr. Farfsing:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original LMIHF DDR determination letter dated November 8, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Signal Hill 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 8, 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 4, 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 adjustments continue to be necessary for the following reasons:

- The Agency contends the retention of current balances is necessary for the purpose of meeting future obligations for an affordable housing development at 1500 Hill Street and 2170 Gundry Avenue. Finance originally denied the Agency's request to retain \$2.6 million due to a lack of evidence there would be insufficient property taxes to pay future obligations.

During the Meet and Confer process, the Agency provided additional information including a projection of annual revenue and spending requirements. The Agency's cash flow analysis indicates a positive cash flow annually with the exception of a shortfall occurring in fiscal year 2012-13. The cash flow analysis contemplates the repayment of city loans or agreements. Should these items become enforceable obligations after a Finding of Completion is received from Finance, the repayment of these obligations is restricted to any residual pass-through payments pursuant to HSC section 34191.4 (b) (2) (A) and should not contribute to any cash flow issues. The cash flow analysis also includes a \$6 million obligation to Car Max, which Finance believes is not enforceable further weakening the argument that a deficiency exists.

The cash flow analysis does not indicate the Agency has an immediate need to retain the LMIHF for housing obligations. However, should the Agency experience a cash flow shortage, HSC provides successor agencies with various methods to address short term cash flow issues. These may include requesting a loan from the city pursuant to HSC section 34173 (h), or requesting the accumulation of reserves on the ROPS to cover future balloon or uneven payments. The Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation.

Since the cash flow analysis does not fully support the need to retain LMIHF balances and there are alternatives available to address potential short term cash flow issues, Finance deems it is not necessary for Agency to retain the requested funds.

- LMIHF obligations totaling \$750,000 was approved by Finance for the ROPS period July January through June 2013. As such, Finance is adjusting the balance to reflect the \$750,000 in approved ROPS III expenditures.

The Agency's LMIHF balance available for distribution to the affected taxing entities continues to be \$2,632,685 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 822,984
Finance Adjustments	
Add:	
Requested retained balance not supported:	2,550,701
Approved LMIHF expenditures for ROPS III:	(750,000)
Total LMIHF available to be distributed:	\$ 2,623,685

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 29, 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 'Steve Szalay', with a long horizontal line extending to the left.

STEVE SZALAY
Local Government Consultant

cc: Ms. Elise McCaleb, Economic Development Manager, City of Signal Hill
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office