December 21, 2012

Ms. Joann Shao, Accounting Manager
City of South El Monte
1415 N. Santa Anita Ave
South El Monte, CA 91733

Dear Ms. Shao:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

The South El Monte Improvement District 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 November 29, 2012. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Since the Agency did not meet the October 15, 2012 submittal deadline pursuant to HSC section 34179.6 (c), Finance is not bound to completing its review and making a determination by the November 9, 2012 deadline pursuant to HSC section 34179.6 (d). However, 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:

- Assets transferred in the amount of $680,000 are disallowed. The former redevelopment agency (RDA) transferred a total of $979,765 in cash to Mayan's Development during the period January 1, 2011 to June 30, 2012 per an Owner Participation Agreement (OPA). The RDA approved the OPA to be amended on June 30, 2011 to include an additional $680,000 in the form of a forgivable loan. HSC section 34163 (c) prohibits an RDA from amending or modifying existing agreements, obligations, or commitments with any entity for any purpose after June 27, 2011. Therefore, the amended forgivable loan in the amount of $680,000 is not an enforceable obligation and not an allowable transfer. As such, the LMIHF available for distribution to the affected taxing entities will be adjusted by $680,000.

- Trustee fees in the amount of $1,334. Based on our review of your DDR, the Agency has not adequately proven there will be insufficient property tax revenues to pay for the $1,334 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 $1,334.

- July 2012 True-up payment to the County Auditor-Controller in the amount of $35,694. The Agency claims the True-up payment was paid from the LMIHF. However, supporting documents illustrate the payment was originally paid with RPTTF funds. Adjusting journal entries subsequently transferred the amount from RPTTF to LMIHF, only to then transfer the amount back to RPTTF in order to reflect the amount paid using LMIHF. Since the funds were first transferred to the LMIHF from RPTTF, the subsequent reversing transfer had a net effect of zero. Therefore, the LMIHF balance available for distribution to the affected taxing entities will be adjusted to reflect the $35,694 that was paid to the County using RPTTF funds.

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 $731,513 (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:	$	14,485
Finance Adjustments		
Add:		
Disallowed transfers:	$	680,000
Requested retained balance not supported:		37,028
Total LMIHF available to be distributed:	$	731,513

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 Brian Dunham, Lead Analyst at (916) 445-1546.

Sincerely,

For

STEVE SZALAY
Local Government Consultant

cc: Mr. Anthony Ybarra, City Manager, City of South El Monte
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office