DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

Revised

December 26, 2012

Ms. Debbie McIntyre, Accounting Manager
City of South Lake Tahoe
1901 Airport Road
South Lake Tahoe, CA 96150

Dear Ms. McIntyre:

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 South Tahoe Successor Agency (Agency) submitted an oversight board approved LMIHF DDR to the California Department of Finance (Finance) on October 15, 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 6, 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:

Balances retained to satisfy fiscal year 2012-13 obligations in the amount of $1,637,046. The retention balances was not part of the DDR and was submitted with the Meet and Confer request. Due to insufficient tax revenues, the Agency oversight board resolution 2012-10 approved the retention of the balances from LMIHF to fund bond debt obligations for the January through June 2013 Recognized Obligation Payment Schedule (ROPS) period. The Agency demonstrated the revenue shortfall with revenue projections provided by the county auditor controller and agency bond debt service schedule. Therefore, the retention of $1,637,046 LMIHF balance is allowed.

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 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:

Loan repayment to the LMIHF in the amount of $426,210. The Agency and the Oversight Board disagreed with the June 30, 2012 LMIHF balance of $1,911,519 and believes the balance should be $1,485,309. The $426,210 difference is due to a repayment of a LMIHF loan to pay for the Supplemental Educational Revenue Augmentation Fund (SERAF). The Agency received $426,210 RPTTF for the January through June 2012 ROPS period and deposited it into the LMIHF to pay back the loan and claims the amounts should be used for

housing obligations. Finance continues to deny retaining the $426,210 difference because per HSC section 34163 (c)(5), the funds were not encumbered prior to January 1, 2011. Therefore, the June 30, 2012 LMIHF balance is $1,911,519, as reported on the DDR.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to $274,473 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	$ 1,911,519
Finance Adjustments	
Less: Allowed amount to be used to fund ROPS III bond obligations	(1,637,046)
Total LMIHF available to be distributed:	$274,473

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 September 5, 2012 do not in any way eliminate the Controller's authority.

Please direct inquiries to Beliz Chappuie, Supervisor or Mindy Patterson, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Nancy Kerry, City Manager, City of South Lake Tahoe
Mr. Michael Nakama, Director of Finance, City of South Lake Tahoe
Ms. Sally Zutter, Acting Division Manager, El Dorado County Auditor-Controller
California State Controller's Office