



February 21, 2014

Ms. Teresa Binkley, Finance Director
City of Taft
209 East Kern Street
Taft, CA 93268

Dear Ms. Binkley:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original LMIHF DDR determination letter dated December 27, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City Taft 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 December 2, 2013. Finance issued a LMIHF DDR determination letter on December 27, 2013. 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 January 23, 2014.

Based on a review of additional or clarifying information provided to Finance during the Meet and Confer process, Finance continues to believe the adjustment 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 adjustment continues to be necessary for the reasons noted:

- The Agency contends the retention of \$583,703 in LMIHF balances is needed for debt service payments on the 1998 Revenue Bond. However, the Agency has been requesting and receiving Redevelopment Property Tax Trust Fund (RPTTF) for this enforceable obligation. Therefore, the Agency's request to restrict \$583,703 continues to be denied. In addition, based upon additional information provided, it is our understanding the \$583,703 requested to be retained is also included in the \$585,049 (\$583,703 + \$1,346 interest receivable) requested in Procedure 9.
- The Agency contends the retention of \$585,049 in LMIHF balances is necessary for the purpose of satisfying future obligations. During the Meet and Confer process, the Agency provided a cash flow analysis showing future revenues would not meet future bond debt service payments. However, the cash flow analysis failed to recognize the probable increase in future property tax revenues. Finance recalculated the cash flow analysis using a conservative two percent annual increase in tax revenues. As a result of the recalculation, the Agency would have sufficient tax revenue for future debt service payments and no need to retain current balances in the amount of \$585,049.

However, should the Agency experience a cash flow shortage when obligations are due, 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 when a future balloon or uneven payment is expected. In addition, pursuant to HSC section 34183 (b), pass-through obligations could be subordinated should debt service be jeopardized. The Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation. Since the Agency has alternatives to address short term cash flow shortages, Finance maintains it is not necessary for Agency to retain the requested funds.

The Agency's LMIHF balance available for distribution to the affected taxing entities continues to be \$585,049 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ (583,703)
Finance Adjustments	
Add:	
Requested restricted balance not supported:	\$ 583,703
Requested retained balance not supported:	585,049
Total LMIHF available to be distributed:	\$ 585,049

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 25, 2012 do not in any way eliminate the Controller's authority.

Please direct inquiries to Kylie Oltmann, Supervisor or Brian Dunham, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Craig Jones, City Manager, City of Taft
Ms. Mary B Bedard, Auditor-Controller, Kern County
California State Controller's Office