



January 4, 2013

Ms. Hannah Chung, Finance Director
City of Tehachapi
115 S. Robinson Street
Tehachapi, CA 93561

Dear Ms. Chung:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

The City of Tehachapi 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 December 11, 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:

- Your request to retain \$457,499 to pay future bond debt service payments is denied. Exhibit D of the DDR includes a fund shortage analysis indicating a cash shortage of RPTTF to pay future administrative expenses and bond debt service payments. However, for fiscal year 2012-13, the cash flow analysis indicates debt service is \$1,175,759 with a cash shortage of approximately \$199,144. While the Agency may incur a cash shortage for administrative costs for fiscal year 2012-13, the Agency should receive enough Redevelopment Property Tax Trust Fund (RPTTF) to make its bond debt service payments.

Exhibit D used a conservative two percent annual increase in property tax, as such; the Agency will have sufficient RPTTF in the subsequent ROPS period to pay for bond debt service payments identified in exhibit D. In addition, the cash flow analysis suggests the Agency will need the maximum amount of administrative cost allowance allowed in law through 2016-17 to service two bond issuances, which is unlikely. 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 \$457,499.

Should this adjustment cause a cash flow shortage for administrative expenses, HSC provides successor agencies with various methods to address short term cash flow issues. This might include requesting a loan from the city pursuant to HSC section 34173 (h). The Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation.

- LMIHF obligations totaling \$81,399 were approved by Finance for the ROPS period January through June 2013. As such, Finance is adjusting the balance to reflect the \$81,399 in approved ROPS III expenditures.

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 \$376,100 (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:	\$ -
Finance Adjustments	
Add:	
Requested retained balance not supported:	457,499
Approved LMIHF expenditures for ROPS III:	(81,399)
Total LMIHF available to be distributed:	\$ 376,100

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 30, 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,



STEVE SZALAY
Local Government Consultant

cc: Ms. Daisy Wee, Accounting Officer, City of Tehachapi
Ms. Ann K. Barnett, Kern County Auditor-Controller
California State Controller's Office