DEPARTMENT OF FINANCE

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REVISED

December 3, 2012

Mr. Kenneth Flewellyn, Assistant Finance Director
City of Torrance
3031 Torrance Boulevard
Torrance, CA 90503

Dear Mr. Flewellyn:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Torrance 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 October 12, 2012. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities.

On November 9, 2012, Finance issued a letter stating the Agency's Low and Moderate Income Housing Fund (LMIHF) balance available for distribution to the affected taxing entities was $4.8 million. Based on our review of support provided, the 20 percent housing set-aside deposits totaling $923,094 from July 12, 2011 through January 31, 2012 should not have been included as part of the total assets held as of June 30, 2012. The requirement to set aside 20 percent of tax increment into the LMIHF ended on June 27, 2011, the effective date of the redevelopment dissolution legislation. Therefore, it was an appropriate action to transfer these funds back to the Agency's other funds in March 2012. To the extent these funds are not encumbered to an enforceable obligation pursuant to HSC section 34171 (d), they are eligible for distribution to the taxing entities through the Agency's Other Funds Due Diligence Review. Therefore, we are issuing a revised letter to reflect such changes.

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:

- The request to retain $1,353,449 of the LMIHF to fund future obligations is denied. Based on our review of your DDR, the Agency has not adequately proven there will be insufficient property tax revenues to pay future obligations. The DDR support for retaining these balances includes the use of tax increment necessary to repay a short term loan to the LMIHF. However, this obligation was denied in our ROPS determination letter dated October 20, 2012. 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 $1,353,449.

- Finance is approving the $3.2 million deduction to the available LMIHF balance resulting from the short term loan from the LMIHF to cover the bond payments due in fiscal year 2012-13. It is our understanding the shortfall in funding occurred because the funds originally slated for these bond payments were used to make the July True-Up Payment demanded by the auditor controller. By authorizing this deduction, Finance hopes there will no longer be a need for a Meet and Confer, currently scheduled for November 15, 2012. Additionally, by authorizing this deduction, Finance's determination letter dated October 20, 2012 which denied Item No. 6, requesting Redevelopment Property Tax Trust Fund (RPTTF) to repay a short term loan from the LMIHF would still be denied. Any repayment to the LMIHF would constitute unencumbered funds. It is not necessary to return these funds as they would be distributed to the affected taxing entities in the same manner as residual pass-through payments would.

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 $3,867,774 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	2,514,325
Finance Adjustments		
Add:		
Requested retained balance not supported:		1,353,449
Total LMIHF available to be distributed:	$	3,867,774

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, 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 the 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 Kylie Le, Supervisor or Brian Dunham, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Wendy Wu, Accountant, City of Torrance
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office