



December 31, 2012

Ms. Deborah Lauchner, Finance Director
City of Vallejo
555 Santa Clara Street
Vallejo, CA 94590

Dear Ms. Lauchner:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original LMIHF DDR determination letter dated December 11, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Vallejo (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 November 15, 2012. Finance issued a LMIHF DDR determination letter on December 11, 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 21, 2012.

Based on a review of additional or clarifying information provided to Finance during the Meet and Confer process, Finance is revising the unencumbered LMIHF balance available for distribution to the affected taxing entities. This decision is based on the following:

In the LMIHF DDR, a bond reserve totaling \$470,616 was identified when only a \$426,500 reserve was required. Therefore, the preparer of the DDR only restricted \$426,500. Through the Meet and Confer process, Finance has determined the excess amount on reserve is not eligible to be transferred to the taxing entities. Per the bond trust documents, excess reserve amounts may only be spent on future bond payments. The Agency expressed their intention to apply this excess reserve towards bond payment due in the July through December 2013 period. Since the Agency does not have access to the excess reserve amount, Finance is reducing the LMIHF balance available for distribution by \$44,116.

As such, the Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to \$148,378 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 192,494
Finance Adjustments	
Add:	
Adjustment to Procedure 6 amount	(44,116)
Total LMIHF available to be distributed:	\$ 148,378

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 August 29, 2012 do not in any way eliminate the Controller's authority.

Please direct inquiries to Zachary Stacy, Manager or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Sandra Sato, Interim Accounting Manager, City of Vallejo
Mr. Jun Adeva, Deputy Auditor-Controller, County of Solano
California State Controller's Office

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