



January 11, 2013

Mr. Eric Frost, Administrative Services Director  
City of Visalia Successor Agency  
P.O. Box 5078  
707 W. Acequia Ave.  
Visalia, CA 93291

Dear Mr. Frost:

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 December 5, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Visalia Successor Agency (Agency) submitted an oversight board approved LMIHF DDR to the California Department of Finance (Finance) on November 9, 2012. Finance issued a LMIHF DDR determination letter on December 5, 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 20, 2012.

Based on a review of additional or clarifying information provided to Finance during the Meet and Confer process, Finance is revising an adjustment made in our previous DDR determination letter. Specifically, we are revising the following adjustment:

- Advance receivables totaling \$918,242. The amount consisted of two advance receivables in the amount of \$54,054 and \$864,188. Finance adjusted the DDR because no supporting documentation was provided by the Agency to show the amount was related to an enforceable obligation of the former redevelopment agency. After reviewing additional documentation, the Agency was able to demonstrate the receivables were created by inter-fund transfers within the Agency's housing funds and is offset by an advance payable; therefore, no adjustment will be made to the non-cash or cash equivalent balance.

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 adjustment continue to be necessary for the following reason:

- Transfers in the amount of \$1,208,912. The transfer was listed on Attachment B of the DDR for the period February 1, 2012 to June 30, 2012. No supporting documentation was provided by the Agency to show the amount was related to an enforceable obligation of the former redevelopment agency. Further information provided by the Agency showed that the amount was unencumbered funds transferred to the Agency's

non-housing fund. The amount is reported as a transfer-in on its non-housing DDR as unencumbered cash available to be remitted to the County. However, the Agency has agreed to include the amount as part of the balance to be remitted under the LMIHF DDR and not the non-housing DDR.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to \$1,218,285 (see table below).

<b>LMIHF Balances Available For Distribution To Taxing Entities</b>	
Available Balance per DDR:	\$ 9,373
Finance Adjustments	
Add:	
Transfers:	\$ 1,208,912
<b>Total LMIHF available to be distributed:</b>	<b>\$ 1,218,285</b>

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 31, 2012 do not in any way eliminate the Controller's authority.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Steve Szalay', with a long horizontal stroke extending to the left.

<sup>For</sup>  
STEVE SZALAY  
Local Government Consultant

cc: Ms. Ruth Pena, Financial Analyst, City of Visalia Successor Agency  
Ms. Rita A. Woodard, Auditor-Controller, County of Tulare  
California State Controller's Office