DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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May 15, 2013

Ms. Lisa Strong, Deputy City Treasurer
City of Fontana
8353 Sierra Avenue
Fontana, CA 92335

Dear Ms. Strong:

Subject: Other Funds and Accounts Due Diligence Review

This letter supersedes the California Department of Finance's (Finance) original Other Funds and Accounts (OFA) Due Diligence Review (DDR) determination letter dated April 8, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Fontana Successor Agency (Agency) submitted an oversight board approved Other Funds and Accounts (OFA) Due Diligence Review (DDR) Finance on January 22, 2013. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Finance issued an OFA DDR determination letter on April 8, 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 April 30, 2013.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of those specific items being disputed. Specifically, the following adjustments were made:

- Finance previously increased the total amount of assets held by the Agency as of June 30, 2012 by $353,481. The Agency does not dispute $94,508; however, the Agency claims the remaining $258,973 is the difference between the actual loss on the sale of an investment, $1,380,281, and the valuation already included in the Comprehensive Annual Financial Report (CAFR), $1,121,308. The Agency provided documentation supporting the allocated valuation included in the CAFR and the allocation of the loss on the actual sale of the investment. In addition, our review indicates this amount will never be realized in cash; therefore, the OFA balance available for distribution will only be increased by $94,508. The Agency did not dispute this amount during the Meet and Confer.

- Finance previously decreased the restricted balances totaling $18,749,908 by $4,222,761. The Agency claims this amount represents costs incurred during the Recognized Obligation Payment Schedule (ROPS) period of January through June 2012 (ROPS I) but paid after June 30, 2012. The Agency provided documentation supporting that pass through payments due during the ROPS I period were paid July 5, 2012. The Agency was required to continue making pass through payments during this period;

therefore, this amount is allowed and no adjustment to the OFA balance available for distribution is required.

The Agency's OFA balance available for distribution to the affected taxing entities is $0 (see table below).

| OFA Balances Available For Distribution To Taxing Entities | | |
|---|---|---|
| Available Balance per DDR: | $ | (1,978,853) |
| Finance Adjustments | | |
| Add: | | |
| Adjustment to the June 30, 2012 balance | $ | 94,508 |
| **Total OFA available to be distributed:** | $ | (1,884,345) |

This is Finance's final determination of the OFA 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. Upon submission of payment, it is requested you provide proof of payment to Finance within five business days.

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 sections 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 do not in any way eliminate the Controller's authority.

Please direct inquiries to Evelyn Suess, Supervisor, or Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Dawn Brooks, Accounting Manager, City of Fontana
Ms. Vanessa Doyle, Auditor Controller Manager, San Bernardino County
California State Controller's Office