DEPARTMENT OF FINANCE

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April 18, 2013

Ms. Linda Padilla-Smyth, Economic Development & Housing Manager
City of La Habra
201 East La Habra Boulevard
La Habra, CA 90631

Dear Ms. Padilla-Smyth:

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 March 19, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of La Habra Successor Agency (Agency) submitted an oversight board approved OFA DDR to Finance on December 13, 2012. 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 March 19, 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 March 26, 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:

- The request to retain funds totaling $2,571,650 was originally decreased by $339,795.
    - The reserve fund in the amount of $232,903 was created in accordance with the indenture for the 1999 Refunding Special Tax Bonds in order to receive deposits from the Mello Roos special tax revenues to pay debt service. Therefore, Finance is reversing its adjustment of $232,903.
    - Additionally, the Agency requested $1,317,761 to pay Recognized Obligation Payment Schedule items for the period July through December 2012 (ROPS II); however, our records indicate the Agency received $1,210,869. With the July through December 2013 Recognized Obligation Payment Schedule, the Agency reported actual expenditures of $1,202,796 for the ROPS II period (per the Prior Period Adjustment Worksheet). During the Meet and Confer process, the Agency provided additional information showing that $99,685 was needed from the OFA balances to make a debt service payment in the ROPS II period. Therefore, the Agency may retain $1,302,481 ($1,202,796 + $99,685) for the ROPS II period and Finance is reversing $91,612 ($1,302,481 - $1,210,869) of its original adjustment.

Therefore, Finance continues to increase the OFA balance available for distribution by $15,280 ($339,795 - $232,903 - $91,612).

The Agency's OFA balance available for distribution to the affected taxing entities is $15,280 (see table below).

OFA Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	-
Finance Adjustments		
Add:		
Requested retained balances not supported		15,280
Total OFA available to be distributed:	$	15,280

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 Mary Halterman, Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Stefanie Turner, Revenue Manager, City of La Habra
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office