



April 1, 2013

Ms. Lorry Hempe, Public Works Special Projects Manager
City of Lynwood
11330 Bullis Road
Lynwood, CA 90262

Dear Ms. Hempe:

Subject: Other Fund Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Lynwood Successor Agency (Agency) submitted an oversight board approved Other Funds and Accounts (OFA) Due Diligence Review (DDR) to the California Department of Finance (Finance) on January 8, 2013. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Pursuant to HSC section 34179.6 (d), Finance has completed its review of your DDR, which may have included obtaining clarification for various items.

HSC section 34179.6 (d) authorizes Finance to adjust the DDR's stated balance of OFA available for distribution to the taxing entities. Based on our review of your DDR, the following adjustments were made:

- Cash transfers to the City totaling \$2 million are disallowed. The Agency transferred \$2 million to repay loans from the City. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the former RDA are not enforceable, unless issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. Neither of these exceptions applies. As such the OFA balance available for distribution to the taxing entities will be adjusted by an additional \$2 million.
- Assets that are not cash or cash equivalents in the amount of \$957,380, reported under Procedure 7 are disallowed. The DDR identifies this amount as a Due From the City. Agency staff stated they would need to consult with their Finance and Community Development staff regarding the classification of this item. Since a determination cannot be made as to the description of this asset, the OFA balance available for distribution to the taxing entities will be adjusted by \$957,380.
- The DDR requests to retain \$6.6 million for fiscal year 2012-13 obligations. Included in this amount is \$2 million that Finance approved to be funded with reserves for January through June 2013 Recognized Obligation Payment Schedule (ROPS III); as such \$2 million is allowed to be retained. Also allowed to be retained is the \$2.4 million in Redevelopment Property Tax Trust Fund (RPTTF) that was distributed by the county auditor controller (CAC) for the ROPS II period.

The remaining \$2.1 balance requested to be retained are related to ROPS III expenditures approved with RPTTF funding. Since the CAC distributed RPTTF for approved ROPS III obligations on January 2, 2013, after the June 30, 2012 OFA balances delineated in the DDR, it is inappropriate for the Agency to retain current OFA balances for obligations that have already been funded through a separate process. Therefore, the OFA balances available for distribution to the taxing entities will be adjusted by \$2.1 million.

If you disagree with Finance's adjusted amount of OFA 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 OFA balance available for distribution to the affected taxing entities is \$5,139,495 million (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Disallowed transfers:	2,082,845
Assets that are not cash or cash equivalents not supported:	957,380
Requested retained balance not supported:	2,099,270
Total OFA available to be distributed:	\$ 5,139,495

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. Upon submission of payment, please 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 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 do not in any way eliminate the Controller's authority.

Please direct inquiries to Kylie Le, Supervisor or Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,

A handwritten signature in black ink, appearing to read 'Steve Szalay', with a stylized flourish extending to the left.

STEVE SZALAY
Local Government Consultant

cc: Ms. Sarah Withers, Director of Community Development, City of Lynwood
Ms. Kristina Burns, Manager, Los Angeles County Auditor-Controller's Office
California State Controller's Office