



March 26, 2013

Ms. Joann Shao, Accounting Manager  
City of South El Monte  
1415 N. Santa Anita Ave  
South El Monte, CA 91733

Dear Ms. Shao:

Subject: Other Funds and Accounts Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the South El Monte Improvement District 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 10, 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:

- Repayment of loan interest in the amount of \$251,736 to the City of South El Monte (City) is disallowed. It is our understanding cash transferred to the City on June 29, 2011. Per City Resolution No. 88-2873 dated June 9, 1988, the City is allowed to advance funds to the South El Monte Improvement District (RDA). Further, City Resolution No. 88-2873 states the RDA agrees to reimburse the City for advances with an interest rate of seven percent. Per Agency staff, the transferred amount is a payment on funds advanced within the first two years of creation. However, adequate supporting documentation was not provided to illustrate the advance occurred within that time frame. Without sufficient evidence of the advance(s) date(s), it cannot be determined that the transfer was appropriate. HSC section 34171 (d) (2) states agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable obligations. Therefore, the OFA balance available for distribution to the taxing entities will be adjusted by \$251,736.
- Retention of balances for fiscal year 2012-13 in the amount of \$3.7 million is partially denied. Although Finance approved \$3.8 million for other obligations during the July through December 2012 ROPS II period, the County Auditor Controller distributed only \$2.1 million on June 1, 2012. Therefore, the Agency is limited to retaining \$2.1 million for ROPS II enforceable obligations. As such, the OFA balance available for distribution to the taxing entities will be adjusted by \$1.6 million.

To the extent these constitute enforceable obligations, the Agency should request funding for these in a future ROPS.

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/](http://www.dof.ca.gov/redevelopment/meet_and_confer/)

The Agency's OFA balance available for distribution to the affected taxing entities is \$1,583,779 (see table below).

<b>OFA Balances Available For Distribution To Taxing Entities</b>	
Available Balance per DDR:	\$ (269,208)
Finance Adjustments	
Add:	
Disallowed transfer:	251,736
Retained balances not supported:	\$ 1,601,251
<b>Total OFA available to be distributed:</b>	<b>\$ 1,583,779</b>

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, 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.

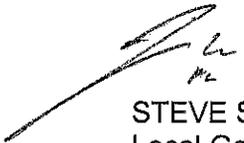
Failure to transmit the identified funds will also prevent the Agency from being able to receive a finding of completion from Finance. Without a finding of completion, the Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4. Specifically, these provisions allow certain 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 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 Brian Dunham, 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.

STEVE SZALAY  
Local Government Consultant

cc: Mr. Anthony Ybarra, City Manager, City of South El Monte  
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller  
California State Controller's Office