



March 29, 2013

Mr. Kenneth A. Domer, Assistant City Administrator  
City of Placentia  
401 E. Chapman Avenue  
Placentia, CA 92870

Dear Mr. Domer:

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 February 21, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Placentia Successor Agency (Agency) submitted an oversight board approved LMIHF DDR to the California Department of Finance (Finance) on January 28, 2013. Finance issued a LMIHF DDR determination letter on February 21, 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 13, 2013.

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

- Assets held as of June 30, 2012 in the amount of \$287,177. Finance is no longer adjusting \$217,177 of the allowance for doubtful accounts. Based on information provided during the Meet and Confer process, it was determined that these receivables were offset by transfers to the City Housing Successor on or about February 1, 2012 per the Agency's Housing Asset Transfer (HAT) Form. Finance did not object to the transfer of these items in our letter dated September 5, 2012. Therefore, they do not represent assets held by the Successor Agency.

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 adjustments continue to be necessary for the following reason:

- Assets held as of June 30, 2012 in the amount of \$225,596. The Agency did not provide adequate documentation to support the allowance for doubtful accounts in the amount of \$70,000; according to information provided by the Agency during the Meet and Confer process, no documentation could be located to support this item.

Additionally, Finance continues to adjust the cash balance by \$155,596. According to information provided by the Agency, this amount was transferred from the Agency's Low

and Moderate Housing fund general checking account and deposited in the Housing Successor's Housing Authority fund general checking account. Because cash is not considered a housing asset per HSC 34176, the amount is denied for transfer and should remain as a balance available for remittance to the affected taxing entities.

- Sale of property located at 913 Bradford Avenue in the amount of \$285,000. Although Finance recognizes this is not a cash balance and has removed the amount as an adjustment, we continue to deny the transfer of the property. The Agency contends that the Agency approved the transfer and entered into an agreement on May 4, 2010. However, the agreement was not effective until January 30, 2012 when signed by both parties. Per HSC section 34163 (b), the former Redevelopment Agency (RDA) was prohibited from entering into contracts after June 27, 2011. Furthermore, per HSC section 34177.3 (d), any actions taken by RDAs to create obligations after June 27, 2011 were ultra vires and do not create enforceable obligations. Because the agreement was not effective until after June 27, 2011, it is not an enforceable obligation.
- Request to retain funding in the amount of \$160,802. Per a review of the DDR by the Agency, the Agency determined the restriction of \$160,802 was identified in error. It was placed to cover the payment of bond proceeds payable by the Redevelopment Property Tax Trust Fund (RPTTF). Therefore, Finance continues to believe the adjustment of \$160,802 is necessary.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to \$226,371 (see table below).

<b>LMIHF Balances Available For Distribution To Taxing Entities</b>	
Available Balance per DDR:	\$ (160,027)
Finance Adjustments	
Add:	
Adjustment to the June 30, 2012 balance	225,596
Requested retained balance not supported	160,802
<b>Total LMIHF available to be distributed:</b>	<b>\$ 226,371</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.

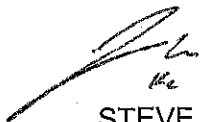
Failure to transmit the identified funds will also prevent the Agency from being able to receive a finding of completion from Finance. Without a finding of completion, the Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4. Specifically, these provisions allow certain 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 September 5, 2012 do not in any way eliminate the Controller's authority.

Please direct inquiries to Nichelle Thomas, Supervisor or Alex Watt, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY  
Local Government Consultant

cc: Mr. Troy Butzlaff, City Administrator, City of Placentia  
Ms. Karen Ogawa, Finance Director, City of Placentia  
Mr. Frank Davies, Property Tax Manager, Orange County  
California State Controller's Office