



March 9, 2013

Ms. Jessica Hurst, Accounting Manager
City of Colton
650 North La Cadena Drive
Colton, CA 92324

Dear Ms. Hurst:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original LMIHF DDR determination letter dated November 6, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the Colton Successor Agency (Agency) submitted an oversight board approved Low and Moderate Income Housing Fund (LMIHF) Due Diligence Review (DDR) to the California Department of Finance (Finance) on October 11, 2012. Finance issued a LMIHF DDR determination letter on November 6, 2012. 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 February 26, 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 adjustments:

- The Colton Crossing and Fly Mitigation Land projects totaling \$3,204,033. Finance originally objected to these transfers because the projects were not for low and moderate income housing purposes. During the Meet and Confer, the Agency agreed and confirmed these items were reflected in both DDRs in error. Finance is reversing the adjustment here and will review these items during the Other Funds and Accounts DDR.
- Statutory pass-through payments totaling \$1,004,166. Finance originally objected to these transfers because it was determined that the pass-through payments were listed on the January 1, 2012 through June 30, 2012 Recognized Obligation Payment Schedule (ROPS) as funded by the Redevelopment Property Tax Trust Fund (RPTTF), not LMIHF. During the Meet and Confer, the Agency agreed and confirmed these items were reflected in both DDRs in error. Finance is reversing the adjustment here and will review these items during the Other Funds and Accounts DDR.

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:

- The restriction of LMIHF balances totaling \$1,008,065. The ROPS for the period of July 1, 2012 through December 31, 2012 and January 1, 2013 through June 30, 2013 did not identify any enforceable obligations to be funded by the LMIHF. During the Meet and Confer, the Agency agreed but stated the balances were needed to be retained to fund other obligations. Finance believes the amount of RPTTF distributed to the agency for the prior ROPS periods is sufficient to make payments on the bond obligations listed.

Should a deficit occur in the future, HSC provides successor agencies with various methods to address short term cash flow issues. These may include requesting a loan from the city pursuant to HSC section 34173 (h), requesting the accumulation of reserves on the Recognized Obligation Payment Schedule (ROPS) when a future balloon or uneven payment is expected, or subordinating pass-through payments pursuant to HSC section 34183 (b). The Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation if a deficiency were to occur.

- Additionally, Finance reviewed the DDR submitted by the Inland Valley Development Agency (IVDA) in which Colton is a member. According to IVDA records, two transfers were made to the former redevelopment agency pursuant to HSC section 33334.2 in the amounts of \$124,878 and \$70,088. Finance reviewed documentation and confirmed with the Agency that the last transfer of \$70,088 was deposited into the Housing Successors' account. Because this transfer was not supported by an enforceable obligation; Finance is performing an adjustment for \$70,088.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to \$1,072,122 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ (6,031)
Finance Adjustments	
Add:	
Requested retained balance not supported	\$ 1,008,065
Pass-through payments from IVDA	70,088
Total LMIHF available to be distributed:	\$ 1,072,122

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.

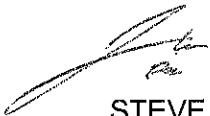
Failure to transmit the identified funds will also prevent the Agency from being able to receive a finding of completion from Finance. Without a finding of completion, the Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4. Specifically, these provisions allow certain 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 11, 2012 do not in any way eliminates the Controller's authority.

Please direct inquiries to Nichelle Thomas, Supervisor or Susana Medina Jackson, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Bonnie Johnson, Management Services Director, City of Colton
Ms. Vanessa Doyle, Auditor Controller Manager, San Bernardino County