December 21, 2012

Ms. Linda Daniels, Assistant City Manager
City of Rancho Cucamonga
10500 Civic Center Drive
Rancho Cucamonga, CA 91730

Dear Ms. Daniels:

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 November 7, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Rancho Cucamonga Successor Agency (Agency) submitted an oversight board approved LMIHF DDR to the California Department of Finance (Finance) on October 11, 2012. Finance issued a LMIHF DDR determination letter on November 7, 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 December 4, 2012.

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:

- Balances restricted for funding the 2007 Housing Tax Allocation Bonds Series A and B in the amount of $8 million was denied by Finance, due to a lack of evidence there would be insufficient property taxes to pay the debt service payments. The Agency provided additional information including the debt service payment schedules, and the bank confirmation for funds transferred for the debt service payment in September from the LMIHF. Upon review of the additional information, Finance has reversed its determination and will allow the retention of $4 million to satisfy debt service requirements.

- Balances restricted for funding personnel services in the amount of $178,349 were denied by Finance, due to a lack of evidence there would be insufficient property taxes to pay the specific obligation. The Agency provided additional information including an explanation as to why funds need to be retained by the Agency. Upon review of the additional information, Finance has concluded that the Agency is allowed to retain $181,197 to cover personnel service costs through June 30, 2012.

In addition, the Agency requested to retain $277,220 to pay for employee compensation costs. These costs were incurred between January 1, 2012 and June 30, 2012 for employees that were separated from the Agency as a result of the former redevelopment agency's dissolution. This amount was not originally included in the DDR submitted on October 11, 2012. Based on a review of additional information, Finance will allow the Agency to retain $277,220 to meet these employee benefit costs.

However, Finance continues to believe the remaining 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:

- Balances restricted for funding enforceable obligations totaling $27 million, including the following items:
  - 2007 Tax Allocation Bonds Series A and B in the amount of $4 million
  - NHDC Pledge Payment in the amount of $18.9 million
  - SoCal CHFA Loan Payment in the amount of $4.1 million
  - Rental Assistance Program in the amount of $75,840

  Based on our review of your DDR, the Agency has not adequately proven there will be insufficient property tax revenues to pay these obligations. HSC section 34179.5 (c) (5) (D) states that a successor agency shall provide a listing of all approved enforceable obligations that includes a projection of annual spending requirements to satisfy each obligation and a projection of annual revenues available to fund those requirements.

  If a DDR review finds that future revenues together with dedicated or restricted balances are insufficient to fund future obligations and thus retention of current balances is required, it shall identify the amount of current balances necessary for retention. The review shall also detail the projected property tax revenues and other general purpose revenues to be received by the successor agency, together with both the amount and timing of the bond debt service payments of the successor agency, for the period in which the oversight board anticipates the successor agency will have insufficient property tax revenue to pay the specified obligations. It is not evident the thorough analysis required by HSC section 34179.5 (c) (5) (D) was conducted. Further, it is not evident that future property tax revenues will be insufficient. Therefore, the request to retain LMIHF balances for future obligations is denied and the LMIHF available for distribution to the affected taxing entities will be adjusted by $27 million.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to $31,222,675 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	4,497,473
Finance Adjustments		
Add:		
Requested retained balance not supported	$	26,725,202
Total LMIHF available to be distributed:	$	31,222,675

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 August 31, 2012 do not in any way eliminate 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: Mr. Flavio Nunez, Management Analyst I, City of Rancho Cucamonga
Ms. Vanessa Doyle, Auditor Controller Manager, San Bernardino County
California State Controller's Office