



March 22, 2013

Ms. Diana De Anda, Finance Director
City of Loma Linda
25541 Barton Road
Loma Linda, CA 92354

Dear Ms. De Anda:

Subject: Other Funds and Accounts Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Loma Linda 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 15, 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:

- Transfers totaling \$2,273,000 are not allowed. The funds were transferred to the City of Loma Linda (City); however, HSC section 34171 (d) (2) states that all agreements, contracts, or arrangements between a redevelopment agency (RDA) and the city, county, or city and county that created it are invalid unless entered into at the time of issuance of indebtedness obligations or within two years of the formation of the RDA.
- The request to restrict assets as non-cash or cash equivalent has been adjusted by \$13,881,609. Former RDA loans to the city totaling \$13,873,025 are not allowed; Commercial Code section 3108 states a promise or order is payable on demand if it does not state any time of payment. The Agency did not provide sufficient documentation, and therefore Finance was unable to determine the terms of loans, such as, the loan origination, interest rates, repayment due dates. Therefore, it is assumed the funds can be recovered immediately. If full payment and recovery of these loans is not currently feasible, pursuant to Health and Safety code section 34179.6 (h) (1) (D) (3), the Agency may submit an installment plan for Finance's review and approval.

Additionally, the former RDA loaned the Loma Linda Chamber of Commerce \$8,584. A review of the Loan Agreement, dated June 30, 2007, indicates "this loan shall be due and payable as of the third anniversary of the date of agreement". Therefore, this loan is no longer an illiquid asset and is available for distribution to the affected taxing entities.

- The request to restrict funds for uses specified by debt covenants, grant restrictions, or restrictions imposed by other governments has been adjusted by \$2,032,850. The repayment of funds dispersed from the Inland Valley Development Authority (IVDA) in the amount of \$175,181 is not allowed. In its letter dated December 14, 2012, Finance reversed its decision regarding the need for the IVDA to recover funds which originally appeared to be housing set-aside funds. It is our understanding that those funds were paid to the Joint Powers Authority (JPA) members per the JPA Agreement. Therefore, there is no need for the Agency to retain these funds for remittance to IVDA.

Additionally, the Agency requested funds in the amount of \$1,857,669 for July 2012 debt service payments. It is our understanding that sufficient Redevelopment Property Tax Trust Fund funds were received to fund the necessary debt service payments as outlined in the debt service payment schedules.

- The request to retain current cash balances totaling \$31,481 is not allowed. Sufficient documentation was not provided to support the request to retain funds totaling \$30,986 in cash, and the Paredes Replacement Housing Assistance item in the amount of \$495 was denied by Finance during the ROPS for the period January 2013 through June 2013 as stated in our letter dated October 19, 2012.

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 \$17,105,965 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ (1,112,975)
Finance Adjustments	
Add:	
Disallowed transfers	\$ 2,273,000
Requested retained balances not supported	15,945,940
Total OFA available to be distributed:	\$ 17,105,965

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

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Jarb Thaipejr, Executive Director, City of Loma Linda
Ms. Vanessa Doyle, Auditor Controller Manager, San Bernardino County
California State Controller's Office