



December 19, 2012

Mr. Rob Burns, Director of Finance
City of Chino
13220 Central Avenue
Chino, CA 91710

Dear Mr. Burns:

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 9, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Chino 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 9, 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:

- A loan receivable transferred to the Housing Authority in the amount of \$14,345 was denied by Finance in the letter dated August 31, 2012, as an inclusion to the Housing Asset Transfer (HAT) Form. Based on our discussion with the Agency and a review of grant and loan agreements, the transfer of the loan receivable in the amount of \$14,345 is now allowed.
- Amounts transferred to meet two Affordable Housing Productions totaling \$3.86 million was disallowed, because the Agency had not adequately proven there will be insufficient property tax revenues to satisfy these obligations. Based on our discussion with the Agency and a review of Recognized Obligation Payment Schedules for periods July through December 2012 and January through June 2013, the amount disallowed should now be reduced by \$1 million to \$2.86 million.

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 reasons:

- Rental Income in the amount of \$9,986 was denied by Finance in the letter dated August 31, 2012 as an inclusion to the HAT Form. This item was not disputed by the Agency.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to \$4.7 million (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 1,864,762
Finance Adjustments	
Add:	
Disallowed transfers	\$ 2,860,000
Denied HAT items	9,986
Total LMIHF available to be distributed:	\$ 4,734,748

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.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Steve Szalay".

STEVE SZALAY
Local Government Consultant

cc: Ms. Nada Repajic, Management Analyst, City of Chino
Ms. Vanessa Doyle, Auditor Controller Manager, San Bernardino County
California State Controller's Office