November 9, 2012

Mr. David Wilson, Finance Officer
City of West Hollywood
8300 Santa Monica Blvd.
West Hollywood, CA 90069

Dear Mr. Wilson:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of West Hollywood 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 15, 2012. 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 Low and Moderate Income Housing Fund (LMIHF) available for distribution to the taxing entities. Based on our review of your DDR, the following adjustments were made:

- Procedure 8 of the DDR identifies $8 million as being restricted for the funding of an enforceable obligation. Based on our review of your DDR, the Agency has not adequately proven there will be insufficient property tax revenues to pay for the $8 million in 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. In addition, $5.6 million in funding other than LMIHF was requested on ROPS III and was denied by Finance in our ROPS III letter dated October 15, 3012. Therefore, your request to retain $8 million in unencumbered LMIHF is unnecessary.

  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, your request to retain current LMIHF balances for future obligations is denied and the LMIHF available for distribution to the affected taxing entities will be adjusted by $8 million.

In addition to there being insufficient evidence that future tax increment will be deficient, $5.6 million of the requested funding was denied in our ROPS determination letter dated October 15, 2012.

- Obligations totaling $630,975 needed for the 2012-13 fiscal year is not necessary. Redevelopment Property Tax Trust Fund (RPTTF) funding was approved for these obligations for the ROPS period July through December 2012 and January through June 2013. Therefore, the LMIHF available for distribution to the taxing entities will be adjusted by $630,975.

If you disagree with Finance's adjusted amount of LMIHF 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 LMIHF balance available for distribution to the affected taxing entities is $7.9 million (see table below). Pursuant to HSC 34179.6 (h) (1) (B), 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.

LMIHF Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	(757,360)
Finance Adjustments		
Add:		
Requested retained balance not supported:		8,689,100
Total LMIHF available to be distributed:	$	7,931,740

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.

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, that taxing entity's failure to remit those funds may result in offsets to its sales and use tax allocation or to its property tax allocation.

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 Kylie Le, Supervisor or Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,

For

STEVE SZALAY
Local Government Consultant

cc: Mr. John Leonard, Project Development Administrator, City of West Hollywood
Ms. Kristina Burns, Manager, Los Angeles County Auditor-Controller's Office
California State Controller's Office

December 15, 2012

Mr. David Wilson, Finance Officer
City of West Hollywood
8300 Santa Monica Boulevard
West Hollywood, CA 90069

Dear Mr. Wilson:

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 West Hollywood Successor Agency (Agency) submitted an oversight board approved LMIHF DDR to the California Department of Finance (Finance) on October 15, 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 November 27, 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 adjustment:

- Finance originally denied the retention of $8 million because the Agency has not adequately proven there will be insufficient property tax revenues to pay for the $8 million in obligations. Also, $5.6 million of the requested obligations was denied in our ROPS determination letter dated October 15, 2012.

  During the DDR Meet and Confer process, the Agency contends the $8 million is restricted bond proceeds not eligible for distribution to the affected taxing entities. Our review of the bond indenture identified $8 million as restricted for low and moderate housing purposes. Therefore, these balances are restricted and the LMIHF balances available for distribution to the taxing entities will be revised by $8 million.

  Although, $5.6 million continues to be denied as a result of the ROPS III Meet and Confer process, it does not affect the LMIHF liquid asset balance available for distribution to the affected taxing entities. Pursuant to HSC section 34191.4 (c), successor agencies that have been issued a Finding of Completion by Finance will be allowed to use excess proceeds from bonds issued prior to December 31, 2010 for the purposes for which the bonds were issued. Successor Agencies are required to defease or repurchase on the open market for cancellation any bonds that cannot be used for the purpose they were issued or if they were issued after December 31, 2010. It is our understanding the bond proceeds requested for use were issued in March 2011.

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 adjustment continues to be necessary for the following reason:

- Obligations totaling $630,975 needed for the 2012-13 fiscal year is not necessary. Redevelopment Property Tax Trust Fund (RPTTF) funding was approved for these obligations for the ROPS period July through December 2012 and January through June 2013. Therefore, the LMIHF available for distribution to the taxing entities will be adjusted by $630,975. During the Meet and Confer process, the Agency concurred with Finance's adjustment.

It has come to our attention during the Meet and Confer process, $468,899 of LMIHF unencumbered cash is available for distribution to the taxing entities per the Agency's re-review of its DDR and segregation of the bond proceeds and cash reserves. It is our understanding; the licensed accountant validated the recalculation. Therefore, the LMIHF available for distribution to the taxing entities will be adjusted by $468,899.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to $342,514 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	(757,360)
Finance Adjustments		
Add:		
Cash reserve	$	468,899
Requested retained balance not supported:		630,975
Total LMIHF available to be distributed:	$	342,514

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 Kylie Le, Supervisor or Brian Dunham, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Mr. John Leonard, Project Development Administrator, City of West Hollywood
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office