



January 4, 2013

Mr. Allen Jones, Deputy Chief of Staff
City of San Diego
202 C St. 11th Floor
San Diego, CA 92101

Dear Mr. Jones:

Subject: Housing Assets Transfer Form

Pursuant to Health and Safety Code (HSC) section 34176 (a) (2), the City of San Diego Successor Agency (Agency) submitted a revised Housing Assets Transfer Form (Form) to the California Department of Finance (Finance) on September 26, 2012 through Oversight Board Resolution 2012-23 for the period February 1, 2012 through September 26, 2012. This revised Form was meant to supersede the Form submitted on August 1, 2012.

Finance is not objecting to items listed for transfer on the revised Form. However, we are providing the following information to help inform the agency and Oversight Board as to possible issues that may or may not arise during our review of your Low and Moderate Income Housing Fund (LMIHF) Due Diligence Review or future Recognized Obligation Payment Schedule (ROPS) reviews:

- The Oversight Board Resolution 2012-23 states that all encumbered affordable housing funds are to be transferred to the Housing Asset Fund and maintained in the City's treasury on behalf of the successor housing entity. HSC section 34177.3 (c) states that the Agency lacks the authority to transfer any revenues to any other party except pursuant to an enforceable obligation on a ROPS approved by Finance. Since Finance has only approved funding through the January through June 2013 ROPS period, the Agency's fund balances, including the balances of the LMIHF, are only encumbered to the extent they have been approved on a ROPS through the June 30, 2013 period. All future housing obligations that were liabilities of the former redevelopment agency will need to be placed and approved on a future ROPS pursuant to HSC section 34176 (g) (1) (B) before expenditure authority can be achieved.

The eventual retention of current LMIHF funds needed to pay future obligations should be contemplated during the LMIHF Due Diligence Review. HSC section 34179.5 (c) (5) (D) outlines the type of analysis required before retention of current fund balances can be authorized. Specifically, the Agency will have to prove that future tax increment will be insufficient to cover enforceable housing obligations, and thus retention of these funds is necessary. As a result, the Agency should not transfer any affordable housing funds at this time. If the funds have already transferred, the Agency should cause the funds to be transferred back until the possible retention of these funds is considered by

the independent licensed accountant, the oversight board, and Finance through the LMIHF Due Diligence Review process. Therefore, any transfer of funds at this time is premature.

- Exhibit C, Item No. 30 and 50 – Agreements with the City of San Diego. The Agency is not a party to these agreements and the agreements were signed after June 27, 2011. HSC section 34163 (b) prohibits a redevelopment agency from amending a contract with any entity after June 27, 2011. Therefore, these items are not an enforceable obligation and are not a future liability of the Agency that will be eligible for funding. Finance has clearly defined authority under HSC section 34177 and 34179 (h) to review any items on a ROPS to determine whether or not successor agencies are responsible for the obligation listed. Even if an Oversight Board approved an action that created an enforceable obligation, or approved a transfer of an encumbrance to another entity, Finance has the authority to review the enforceable obligation for compliance with HSC section 34171 (d) or for compliance with any other statutory requirements contained in ABx1 26 or AB 1484 once listed on a ROPS. At no time can an Oversight Board action eliminate Finance's authority to review an enforceable obligation as part of a ROPS review.

Oversight Board Resolution 2012-23 states that the Oversight Board's decision regarding the transfer of Housing Assets will not become effective until after the decision has been approved or deemed approved by Finance in accordance with HSC section 34181 (f). Except for the informational issues noted above, Finance is not objecting to the items listed on your Form.

If you have questions with respect to this letter or any items on the Form, please direct inquiries to Zachary Stacy, Manager or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Jeff Graham, President, Civic San Diego
Mr. Juan Perez, Senior Auditor and Controller Manager, San Diego County
Ms. Nenita DeJesus, Senior Auditor and Controller Accountant, San Diego County
California State Controller's Office