



July 12, 2013

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

Dear Mr. Jones:

Subject: Objection of Oversight Board Action

The City of San Diego Successor Agency (Agency) notified the California Department of Finance (Finance) of its May 28, 2013 oversight board (OB) resolution on May 28, 2013. Pursuant to Health and Safety Code (HSC) section 34179 (h), Finance has completed its review of the OB action.

Based on our review and application of the law, the Agency's OB Resolution No. OB-2013-05 related to approving a Loan Agreement with the City of San Diego to address the funding shortfall for the remittance of Low and Moderate Income Housing Fund Due Diligence Review (LMIHF DDR) amount is not approved.

The LMIHF DDR was completed to determine the amount of excess cash remaining with the Agency; therefore, a shortfall is not possible. HSC 34173 (h) allows the city to loan funds to the Agency for the purpose of paying an enforceable obligation. Pursuant to HSC 34171 (d), a debt incurred from the LMIHF DDR process does not meet the definition of an enforceable obligation. Therefore, the Loan Agreement and inclusion of payment on future ROPS is not permissible at this time.

It is our understanding Finance's LMIHF demand payment is currently in litigation. Should the court rule in the Agency's favor, this loan agreement may become an enforceable obligation and eligible for repayment on the Recognized Obligation Payment Schedule (ROPS). Until such a ruling occurs, this loan agreement is not enforceable and not eligible for repayment.

As authorized by HSC section 34179 (h), Finance is returning your OB action to the board for reconsideration.

Please direct inquiries to Wendy Griffe, Supervisor, 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