



December 13, 2012

Ms. Rachel Hurst, Director of Community Development
City of Coronado
1825 Strand Way
Coronado, CA 92118

Dear Ms. Hurst:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original LMIHF DDR determination letter dated November 7, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Coronado (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 11, 2012. Finance issued a LMIHF DDR determination letter on November 7, 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 continues to believe 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 reason:

The Agency contends the retention of current balances is necessary for the purpose of paying two balloon mortgage payments due on February 1, 2014 and April 1, 2015. Finance originally denied the Agency's request to retain \$4,171,660 due to a lack of evidence there would be insufficient property taxes to pay the specified obligations. During the Meet and Confer process, the Agency provided additional information including a projection of annual revenue and spending requirements. Upon review of the additional information, Finance has concluded that although the Agency contends they will experience a deficit in the January through June 2014 and January through June 2015 Recognized Obligation Payment Schedule (ROPS) periods, there are sufficient funds in nearby periods to offset any shortfalls.

HSC provides successor agencies with various methods to address short term cash flow issues. These may include refinancing debt pursuant to HSC section 34177.5 (a), requesting a loan from the city for enforceable obligations pursuant to HSC section 34173 (h), or accumulating reserves for future obligations when a future balloon or uneven payment is expected. The Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation.

Since the Agency has alternatives to address short term cash flow shortages, Finance deems it is not necessary for the Agency to retain the requested funds.

Further, the cash flow analysis fails to recognize the anticipated increase in property tax revenues. Upon applying a conservative two percent annual increase, the Agency's contention of a funding deficiency is reduced.

As such, the Agency's LMIHF balance available for distribution to the affected taxing entities continues to be \$3,188,624 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ (983,036)
Finance Adjustments	
Requested retained balance not supported:	4,171,660
Total LMIHF available to be distributed:	\$ 3,188,624

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

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Housing Assets Transfer letter dated August 31, 2012 do not in any way eliminate the Controller's authority.

Please direct inquiries to Zachary Stacy, Supervisor or Derk Symons, Lead Analyst at (916) 445-1546.

Sincerely,

A handwritten signature in black ink, appearing to read 'Steve Szalay', with a stylized flourish extending to the left.

STEVE SZALAY
Local Government Consultant

cc: Ms. Leslie Suelter, Director of Administrative Services/Treasurer, City of Coronado
Mr. Juan Perez, Senior Auditor and Controller Manager, San Diego County
California State Controller's Office