



REVISED

March 20, 2013

Ms. Leslie Fritzsche, Senior Project Manager
City of Sacramento
915 I Street
Sacramento, CA 95814

Dear Ms. Fritzsche:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

The City of Sacramento Successor Agency (Agency) submitted an oversight board approved Low and Moderate Income Housing Fund Due Diligence Review (DDR) to the California Department of Finance (Finance) on February 20, 2013. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Since the Agency did not meet the October 15, 2012 submittal deadline pursuant to HSC section 34179.6 (c), Finance is not bound to completing its review and making a determination by the November 9, 2012 deadline pursuant to HSC section 34179.6 (d). However, 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:

- Transfers of obligations to the Sacramento Housing and Redevelopment Agency (SHRA) for property holding and disposition costs totaling \$105,505 are not allowed. These transfers were denied by Finance in its letter dated August 31, 2012 as an inclusion to the Housing Asset Transfer (HAT) form review. Subsequently, the Agency requested a Meet and Confer session for the disputed items. Based on the Meet and Confer session held on February 6, 2013, Finance continues to deny the transfers of these items.
- The request to retain assets that are not cash or cash equivalents totaling \$263,194 is not allowed. Receivables totaling \$254,950 represent the receivables from SHRA, and were collected by the Agency in November 2012. Additionally, the Agency collected interest receivables in the amount of \$8,244 in August and October 2012. These receivables were short term in nature, and therefore, available for distribution to the affected taxing entities.
- The request to retain funds to satisfy enforceable obligations totaling \$10,213,783 is not allowed. The Agency requested Other Funds, or Redevelopment Property Tax Trust Fund funds for the items listed in the Recognized Obligation Payment Schedule, and not

LMIHF. Therefore, the request to retain LMIHF for these same obligations is not allowed.

- Finance identified invalid property transfers in the amount of \$688,053. These property transfers were denied by Finance in our letter dated August 31, 2012 and March 18, 2013, as inclusions to the HAT form review. Because properties are not considered cash or cash-equivalent assets, Finance has made no adjustment to the amount available for distribution to the affected taxing entities. The Agency should reverse the improper transfers and recover the assets from the SHRA.
- Finance identified invalid transfers of unspent bond proceeds to the City of Sacramento Housing Authority totaling \$16,268,947. This amount was transferred to satisfy housing-related obligations; these obligations were approved as encumbrances during our HAT review. HSC section 34176 (a) (1) states that if a city elects to retain the authority to perform housing functions previously performed by the RDA, all rights, powers, duties, and obligations, *excluding any amounts on deposit in the LMIHF and enforceable obligations retained by the successor agency*, shall be transferred to the city. Therefore, bond proceeds should have been retained by the Agency. Because the Agency is allowed to retain unspent bond proceeds for their specified purpose, Finance has made no adjustment to the amount available for distribution to the affected taxing entities. However, the Agency should reverse the improper transfer of unspent bond proceeds and request authority to spend these bond proceeds on a duly authorized Recognized Obligation Payment Schedule for the period specified.

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 \$10,582,482 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Disallowed transfers	\$ 105,505
Requested retained non-cash balance not allowed	263,194
Requested retained balance not supported	10,213,783
Total LMIHF available to be distributed:	\$ 10,582,482

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. Upon submission of payment, it is requested you provide proof of payment to Finance within five business days.

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 its sales and use tax allocation or to its property tax allocation. 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.

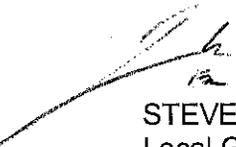
Failure to transmit the identified funds will also prevent the Agency from being able to receive a finding of completion from Finance. Without a finding of completion, the Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4. Specifically, these provisions allow certain 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.

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

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Dennis Kauffman, Accounting Manager, City of Sacramento
Mr. Carlos Valencia, Senior Accounting Manager, Sacramento County
California State Controller's Office