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**Via E-Mail and U.S. Mail**

Andy Angle, Director of Housing and Economic  
Development  
City of Santa Monica  
1717 4<sup>th</sup> Street, Suite 250  
Santa Monica, CA 90401

Re: ***December 15 2012 Determination of Santa Monica Successor Agency Housing DDR***

Dear Mr. Angle:

You have informed us that the State Department of Finance (DOF) has determined that the former Redevelopment Agency's Low and Moderate Income Housing Fund (LMIHF) balance available for distribution to the affected taxing entities is \$54,515,252, including \$19,361,188 in Bank of America proceeds that were transferred to the City on March 10, 2011 to pay for certain affordable housing projects identified by the Successor Agency. Successor Agency staff has also advised us that the DOF may have concluded that the Bank of America proceeds were deemed as unrestricted because these assets were not identified as restricted per procedure 5 of the of the Due Diligence Review Agreed Upon Procedures Report (DDR) form. The purpose of this correspondence is to clarify any misunderstanding that the exclusion of these assets from procedure 5 in the DDR is based upon Macias Gini & O'Connell LLP's (MGO) determination that these assets were not restricted assets.

As part of the DDR process, we reviewed the Bank of America Loan Agreement associated with the \$19,361,188 in proceeds and found that the Loan Agreement restricted these proceeds as to purpose given that Section 1.1 of the Loan Agreement specifically requires that these loan proceeds be used "to provide financing for housing activities eligible for funding from the Borrower's Low and Moderate Income Housing Fund from the Earthquake Recovery Redevelopment Project Area." Please note that we did not list these proceeds in procedure 5 of the DDR form because the DDR form approved by the DOF only required the listing of restricted assets held by the Successor Agency as of June 30, 2012. The Successor Agency informed us that these assets were not held as of June 30, 2012. Therefore, we did not include them in procedure 5. The exclusion of these assets from Procedure 5 was not a result of the proceeds being unrestricted but rather a result of the assets not being held by the Successor Agency as of June 30, 2012. The DOF approved the form and content of the DDR in August 2012.

It is not our intention to take a position on the DOF's determination. However, we believe that it is appropriate for us to clarify that we, as the Successor Agency's auditor, did not make a determination that the Bank of America proceeds are unrestricted.

Sincerely,



Los Angeles, California  
December 18, 2012