

August 29, 2013

Mr. Jeff Kiser, City Manager
City of Anderson
1887 Howard Street
Anderson, CA 96007

Dear Mr. Kiser:

Subject: Other Funds and Accounts Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the Anderson Successor Agency (Agency) submitted an oversight board approved Other Funds and Accounts (OFA) Due Diligence Review (DDR) to the California Department of Finance (Finance) on November 6, 2012. Finance originally overlooked the fact that OFA balances were included in the DDR because the submitted DDR did not separately report OFA balances. Instead, the DDR submitted included all funds, including the Low-Moderate Income Housing Fund (LMIHF). A separate LMIHF DDR determination letter was issued on November 9, 2012. To attain the OFA balances, Finance took the difference between the total funds reported and LMIHF. This process was applied to each procedure in the DDR review, as discussed below.

The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Pursuant to HSC section 34179.6 (d), Finance has completed its review of your OFA 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 OFA available for distribution to the taxing entities. Based on our review of your DDR, the following adjustments were made:

- Total amount of assets held as of June 30, 2012 (Procedure 5 of the DDR) in the amount of \$2,726,128 should be increased to \$2,761,297. The OFA available balance has been adjusted as follows:
 - Balance of \$160,865 from the Low to Moderate Income Housing Fund (LMIHF) was erroneously included. Therefore, the OFA balances available for distribution to the taxing entities will be adjusted downward by \$160,865.
 - A balance in the amount of \$196,034 from the 2005 Bond Funds (Fund 446). This fund was inadvertently left off the total amount of assets balance. Therefore, the OFA balances available for distribution to the taxing entities will be increased by \$196,034.

- Balances legally restricted (Procedure 6 of the DDR) in the amount of \$1,203,386 should be increased to \$1,369,873. Specifically:
 - A balance of \$182,578 from Fund 446 was erroneously excluded from the DDR. Included in this amount is \$4,854 of bond proceeds and \$177,724 of bond reserves. Therefore, the legally restricted balances will be increased by \$182,578.
 - The DDR reported restricted assets in the amount of \$1,203,386. However, the accounting record's provided by the Agency show a balance in the amount of \$1,192,147. Therefore, the OFA balances available for distribution to the taxing entities will be adjusted by \$11,239.
- Non-cash asset balances (Procedure 7 of the DDR) in the DDR totaling \$1,274,848 are overstated. Included in this amount is \$1,223,124 from LMIHF that should have not been included in the OFA DDR. Also, land in the amount of \$13,456 from Fund 446 was not restricted in the total balance and is considered a non-cash asset. Therefore, the OFA balances available for distribution to the taxing entities will be adjusted by \$1,209,668 (\$1,274,848-\$1,223,124+\$13,456).
- Balances requested to satisfy ROPS for the 2012-13 fiscal year (Procedure 9 of the DDR) in the amount of \$247,894 are partially denied. Although the Agency wishes to retain \$247,894, included in this amount is \$33,906 from LMIHF that should have not been included in the OFA DDR. Therefore, the Agency is limited to retaining \$213,998 for ROPS enforceable obligations. As such, the OFA balance available for distribution to the taxing entities will be adjusted by \$33,906.

If you disagree with Finance's adjusted amount of OFA 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 OFA balance available for distribution to the affected taxing entities is \$1,112,256 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Adjustment to the June 30, 2012 balance:	\$ 35,169
Adjustment to legally restricted balance:	\$ (166,487)
Adjustment to non-cash asset balance:	\$ 1,209,668
Adjustment to balance needed to be retained:	\$ 33,906
Total OFA available to be distributed:	\$ 1,112,256

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.

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 do not in any way eliminate the Controller's authority.

Please direct inquiries to Wendy Griffe, Supervisor or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Liz Cottrell, Finance Director/Treasurer, City of Anderson
Ms. Connie Regnell, County Auditor Controller, Shasta County
Ms. Sheri Jenkins, Managing Accountant Auditor, Shasta County
California State Controller's Office