April 6, 2013

Ms. Justine Menzel, Deputy Executive Director
City of Artesia
18747 Clarkdale Avenue
Artesia, CA 90701

Dear Ms. Menzel:

Subject: Other Funds and Accounts Due Diligence Review

This letter supersedes the California Department of Finance's (Finance) original Other Funds and Accounts (OFA) Due Diligence Review (DDR) determination letter dated March 5, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Artesia Successor Agency (Agency) submitted an oversight board approved OFA DDR to Finance on January 14, 2013. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Finance issued an OFA DDR determination letter on March 5, 2013. 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 March 13, 2013.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of those specific items being disputed. Specifically, the following adjustments were made:

- The Agency requested to retain funds for unencumbered OFA balances related to the following items:
    - The Agency claims $29,569 is needed to pay for Finance approved January through June 2012 Recognized Obligation Payment Schedule (ROPS) expenditures. Documentation was provided to support the Agency incurred $23,119 in ROPS items approved by Finance for payment out of the Redevelopment Property Tax Trust Fund (RPTTF). The remaining $6,449 was approved on the ROPS for payment with bond proceeds and bond proceeds were, in fact, also expended for this item, beyond the Finance approved amount; therefore, the Agency is not permitted to retain the $6,449.
    - The Agency claims $99,259 is needed to pay for AB 1290 and Educational Revenue Augmentation Fund (ERAF) obligations; however, the amount due, if any, and the date payment is due are unknown. As such, the Agency is not permitted to retain these funds. Future payments required for ERAF obligations be included on a future ROPS for Finance's review and approval for funding out of RPTTF.

- The Agency exceeded Finance approved RPTTF ROPS items by $46,857. The Agency reported the actual January through June 2012 ROPS expenditures in its January through June 2013 ROPS under the Prior Period Payment worksheet. Per HSC section 34177 (a) (3), commencing on the date the ROPS is valid, only those payments listed on the ROPS may be made by the Agency from the funds specified on the ROPS. While the county auditor-controller generally makes this adjustment pursuant to HSC section 34186 (a), no adjustment was made and the full Finance approved RPTTF amounts were distributed for the January through June 2013 ROPS period. Therefore, Finance is increasing the OFA balance available for distribution to the taxing entities by $46,857 to reflect this prior period adjustment.

In addition, the following adjustment from Finance's March 5, 2013 letter was not contested by the Agency during the Meet and Confer:

- Request to retain balances in the amount of $823,585 for fiscal year 2012-13 obligations is partially denied. Included in this amount is $254,336 of January through June 2013 ROPS expenditures that were approved with RPTTF funding. Since the county auditor-controller distributed RPTTF for approved January through June 2013 ROPS obligations on January 2, 2013, after the June 30, 2012 OFA balances delineated in the DDR, it is inappropriate for the Agency to retain current OFA balances for obligations that have already been funded through a separate process. Therefore, the OFA balances available for distribution to the taxing entities will be adjusted by $254,336.

The Agency's OFA balance available for distribution to the affected taxing entities is $324,934 (see table below).

OFA Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	(81,967)
Finance Adjustments		
Add:		
Requested retained balance not supported:		360,044
Unallowed expenditures		46,857
Total OFA available to be distributed:	$	324,934

This is Finance's final determination of the OFA 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. 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 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 sections 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 Evelyn Suess, Supervisor or Danielle Brandon, Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Maria Dadian, Executive Director, City of Artesia
Ms. Kristina Burns, Tax Division Manager, Los Angeles County Auditor-Controller
California State Controller's Office