



August 7, 2013

Mr. Oscar G. Rodriguez, City Manager
City of Calexico
608 Herber Avenue
Calexico, CA 92231

Dear Mr. Rodriguez:

Subject: Other Funds and Accounts Due Diligence Review

The City of Calexico 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 May 23, 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 January 15, 2013 submittal deadline pursuant to HSC section 34179.6 (c), Finance is not bound to completing its review and making a determination by the April 1, 2013 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 OFA available for distribution to the taxing entities (ATEs). Based on our review of your DDR, the following adjustments were made:

- The DDR reported legally restricted assets in the amount of \$19,377,007. However, our review indicates that a total of \$6,035,076 of cash and investment balances are not legally restricted. Therefore, the OFA available balance has been adjusted as follows:
 - A balance in the amount of \$2,491,516 in the former redevelopment agency's administrative account (Fund 219). The fund was used to account for the former redevelopment agency's (RDA) tax increment. However, the Agency could not provide documentation to demonstrate a legal restriction on the balance. Therefore, the balance to be distributed to the ATEs is adjusted by \$2,491,516.
 - Balances of \$1,037,107 from capital project fund (Fund 405) and \$29,751 from capital project fund (Fund 407) of the former RDA. The Agency provided approximately fifteen years of accounting records for these two cash accounts documenting funding from tax increment and interest earned on this tax increment. However, the Agency could not provide documentation restricting this balance. Therefore, the balance to be distributed to the ATEs is adjusted by \$1,066,858 (\$1,037,107 + \$29,751).

- o A balance of \$2,476,701 in the former RDA's debt service funds. The Agency explained that tax increment was allocated as follows to pay the debt service for several of the Agency's bonds.
 - RDA Debt Service of \$1,292,848
 - RDA 2000 Debt Service of \$45,331
 - RDA 2003C Debt Service of \$502,570
 - RDA 2006 Debt Service of \$388,730
 - RDA 2011 of \$53,934
 - RDA 2011 Debt Service of \$193,288

However, the Agency did not request to retain balances for ROPS II period and was not able to provide documentation to demonstrate any legal restriction on these funds. The agency has been receiving redevelopment property tax trust fund to pay its debt service. Therefore, the balance has been adjusted by \$2,476,701 (\$1,292,848 + \$45,331 + \$502,570 + \$388,730 + \$53,934 + \$193,288).

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 \$6,035,075 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Legally restricted balances not supported	6,035,075
Total OFA available to be distributed:	\$ 6,035,075

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, please 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 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 Beliz Chappuie, Supervisor or Todd Vermillion, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY for
Local Government Consultant

Cc: Mr. John Quinn, Finance Director, City of Calexico
Ms. Ann McDonald, Auditor-Controller, Imperial County
California State Controller's Office