



May 21, 2013

Ms. Jan Sprague, Administrative Secretary
City of California City
21000 Hacienda Boulevard
California City, CA 93505

Dear Ms. Sprague:

Subject: Other Funds and Accounts Due Diligence Review

The City of California City 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 March 6, 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. Based on our review of your DDR, the following adjustments were made:

- Cash balances legally restricted in the amount of \$2 million is partially denied. Included in this amount is \$695,722 held for the SDI Fund obligation which was denied in Finance's ROPS determination letters dated October 29, 2012 and April 14, 2013, as well as Finance's Meet and Confer determination letters dated December 18, 2012 and May 17, 2013. As such, the OFA balance available for distribution to the taxing entities has been adjusted by \$695,722.
- Retention of current balances totaling \$1.2 million to satisfy the ROPS periods covering fiscal year 2012-13 is denied. The Agency's cash flow analysis indicates a negative cash flow starting fiscal year 2014-15; however, the cash flow analysis inappropriately includes the Subdivision Deferred Improvement Fund (SDI Fund) obligations which were denied in Finance's ROPS III and 13-14A determination letters dated October 29, 2012 and April 14, 2013, as well as Finance's Meet and Confer determination letters dated December 18, 2012 and May 17, 2013. Finance agrees the judgment validates the promissory notes as contracts, but does not make them enforceable obligations in light of section 34171 (d) (2). These promissory notes may become enforceable once the Agency receives a Finding of Completion from Finance, and the request for repayment can be placed on the Recognized Obligation Payment Schedule. As such this item is not an enforceable obligation.

Finance recalculated the cash flow analysis excluding the denied obligation. As a result, the Agency will now have a positive cash flow and no need to retain current balances in the amount of \$1.2 million. However, should the Agency experience a cash flow shortage when obligations are due, HSC provides successor agencies with various methods to address short term cash flow issues. These may include requesting a loan from the city pursuant to HSC section 34173 (h), or requesting the accumulation of reserves on the ROPS when a future balloon or uneven payment is expected. The Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation. Since the Agency has alternatives to address short term cash flow shortages, Finance deems it is not necessary for Agency to retain the requested funds.

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 \$1,932,779 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Requested restricted balance not supported:	695,722
Requested retained balance not supported:	1,237,057
Total OFA available to be distributed:	\$ 1,932,779

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

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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 Kylie Le, Supervisor or Brian Dunham, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Tom Weil, City Manager, City of California City
Ms. Ann Barnett, Auditor-Controller, Kern County
California State Controller's Office