



March 19, 2013

Ms. Linda Mann, Principal Administrative Analyst
City of Carson
701 E. Carson St.
Carson, CA 90745

Dear Ms. Mann

Subject: Other Funds and Accounts Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City Carson 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 January 15, 2013. 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 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 transfers totaling \$5 million in June 2011 for FY 2010-11 and 2011-12 to the City for administrative cost is disallowed. The DDR indicated these transfers were supported by the reimbursement agreement dated June 17, 1993. Upon request for the reimbursement agreement, the Agency provided a Report to the Mayor and City Council dated March 16, 2011 authorizing the Agency Treasurer to make these payments to the City's General Fund. These transfers were approved by the former RDA Board and the City Council on March 16, 2011. These payments were reimbursements for the cost of services provided for FY 2010-11 and an advance payment for services anticipated to be provided for FY 2011-12. Although reimbursement agreements between the Agency and City for administrative purposes might be considered an enforceable obligation, no valid reimbursement agreement between the Agency and the City was provided. Therefore, the OFA balances available for distribution to the taxing entities will be adjusted by \$5 million.

In addition, on June 15, 2011, the Agency made a lump sum payment in the amount of \$1.1 million to the City for a 20 year lease period using bond funds. HSC 34177 (a) (5) prohibits agencies from accelerating payment or making any lump-sum payments that are intended to prepay loans. Since bond proceeds were used, which are considered a non-liquid asset and accounted for under Procedure 6; this will not impact the balance as of June 30, 2012.

Further, the transfer of \$93,934 in three installment payments to the City totaling \$281,802 was denied by Finance in our letter dated October 14, 2012. Finance's determination for these items were further confirmed in our December 18, 2012 Meet and Confer Determination letter. As such, your request to retain \$281,802 for these obligations is denied because the installment payments were not enforceable. Therefore, the OFA balances available for distribution to the taxing entities will be adjusted by an additional \$281,802, totaling \$5,421,026.

- Legally restricted assets in the amount of \$74.1 million reported under Procedure 6 are partially disallowed. This amount is comprised of unspent bond proceeds and cash restricted with the fiscal agent. The DDR reported \$57,867,809 of unspent bond proceeds as of June 30, 2012. BNY Mellon account statements as of December 31, 2011 reported \$63,802,043. The prior period adjustment for the January through June 2013 Recognized Obligation Payment Schedule (ROPS III) reported \$6,588,562 of bond proceeds spent during the ROPS I period, bringing the BNY Mellon reported balance down to \$57,213,481. This equates to a 654,327 difference between the DDR and the BNY Mellon account statements. As such, \$654,327 is not a legally restricted asset. Therefore, the OFA balance available for distribution to the taxing entities will be adjusted by \$654,327.
- Balances requested to be retained for fiscal year 2012-13 obligations in the amount of \$19 million are partially denied. Included in this amount is \$14.5 million of January through June 2013 Recognized Obligation Payment Schedule (ROPS III) expenditures that were approved with Redevelopment Property Tax Trust Fund (RPTTF) funding. Since the County Auditor Controller distributed RPTTF for approved ROPS III 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.

Further, included in this amount is \$1.2 million of ROPS III obligations denied by Finance in our letter dated October 14, 2012. Finance's determination for these obligations were further confirmed in our December 18, 2012 Meet and Confer Determination letter. As such your request to retain \$19 million is partially denied since it inappropriately includes ROPS III obligations that were funded through a separate process and also includes denied ROPS III items, totaling \$15.7 million. Therefore, the OFA balances available for distribution to the taxing entities will be adjusted by \$15.7 million.

- Finance noted the county auditor controller adjusted the ROPS III January 2, 2013 distribution by \$5 million pursuant to HSC section 34186 (a). Therefore, Finance is allowing the retention of these funds in order to adequately fund approved ROPS III expenditures.
- A balance of \$2.8 million was adjusted under Procedure 10 by the CPA firm as an amount that was remitted to the county auditor controller during the Low and Moderate Income Housing (LMIHF) DDR process. It is our understanding these funds was inadvertently included in the LMIHF DDR when they should have been included in the OFA DDR. Subsequently, the county auditor controller returned the balance remitted so that the funds would be remitted during the OFA DDR process. As such the OFA balance available for distribution to the taxing entities has been adjusted by \$2.8 million.

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 \$21,103,953 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 1,524,956
Finance Adjustments	
Add:	
Disallowed transfers:	\$ 5,421,026
Unsupported legally restricted balance:	654,327
Requested retained balance not supported:	15,655,497
HSC section 34186 (a) adjustment:	(4,940,343)
Remittance to the County Auditor Controller:	2,788,489
Total OFA available to be distributed:	\$ 21,103,952

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, 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 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 Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,

A handwritten signature in black ink, appearing to read 'Steve Szalay', with a stylized flourish extending to the left.

STEVE SZALAY
Local Government Consultant

cc: Ms. Kim Sao, Accounting Manager, Carson Successor Agency
Ms. Denise Marrufo, Project Analyst, Carson Successor Agency
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office