



March 15, 2013

Ms. Jennifer Hennessy, Agency Treasurer
City of Chico
411 Main Street
P.O. Box 3420
Chico, CA 95927

Dear Ms. Hennessy:

Subject: Other Funds and Accounts Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Chico 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 10, 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:

- Legally restricted assets in the amount of \$4,472,695. Our review indicates two items listed below are not legally restricted assets.
 - City Loan in the amount of \$3,029,528. Agency requested and was approved for Redevelopment Property Tax Fund (RPTTF) funding for the loan on the Recognized Obligation Payment Schedule for the January through June 2013 period (ROPS III) except for the true-up portion of \$961,207. Since the Agency received RPTTF for the balance of the payment and can continue to request RPTTF on future ROPS, the amount is not legally restricted.
 - Pledge of Revenue Agreement in the amount of \$1,443,167. The agreement requires funding of post-closure monitoring, maintenance and reporting of the Humboldt Road Burn Dump landfill over a 30-year period. Agency can request RPTTF on future ROPS when the payments come due. Therefore, the \$1,443,167 is not considered legally restricted.
- Balances retained for funding of an enforceable obligation in the amount of \$56,005. Agency is requesting to retain the funds for Harvest Park Apartments which was not listed

on ROPS for January through June 2012 period. Therefore, the balance has been adjusted by \$56,005.

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 \$4,528,700 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments:	
Legally restricted balances not supported	\$ 4,472,695
Request to retain balances not supported	56,005
Total OFA available to be distributed:	\$ 4,528,700

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.

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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 Mindy Patterson, 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: Mr. Shawn Tillman, Senior Planner, City of Chico
Ms. Maria Solis, Auditor-Accountant, Butte County Auditor Controller
California State Controller's Office