



REVISED

April 25, 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

This letter supersedes the California Department of Finance's (Finance) original Other Funds and Accounts (OFA) Due Diligence Review (DDR) determination letter dated March 15, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Chico Successor Agency (Agency) submitted an oversight board approved OFA DDR to 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. Finance issued an OFA DDR determination letter on March 15, 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 April 2, 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:

- Legally restricted assets in the amount of \$4,472,695. Our initial review indicated two items were not legally restricted assets:
 - City Loan in the amount of \$3,029,528. The City advanced funds to the Agency to cover the expected shortfall in the January through June 2012 Recognized Obligation Payment Schedule (ROPS I) period. However, the Agency expended less than the anticipated amounts reported on ROPS I and the funds were not needed. On the January through June 2013 Recognized Obligation Payment Schedule (ROPS III), the Agency has requested and Finance had approved \$1 million from the Redevelopment Property Tax Trust Fund (RPTTF) to repay the loan. Since the original loan was never expended, the Agency should not expend any of the RPTTF received for the ROPS III period to repay the loan. The Agency should cancel the original cash advance and loan agreement of \$3,029,528. Therefore, Finance is reversing its adjustment of \$3,029,528.
 - Pledge of Revenue Agreements in the amount of \$1,443,167. The agreements require a total of \$1,034,900 to be maintained in separate accounts for funding of

post-closure monitoring, maintenance, and reporting of the Humboldt Road Burn Dump landfill over a 30-year period. Therefore, Finance is reversing the adjustment by \$1,034,900 and continues to increase the OFA balances available by \$408,267.

- Balances retained for funding of an enforceable obligation in the amount of \$56,005. The Agency requested to retain the funds for the Harvest Park Apartments, which was listed and approved on the ROPS I. The payment was made in August 2012, which means the funds were included in the cash balance as of June 30, 2012. Therefore, Finance is reversing its original adjustment of \$56,005.

In the future, the Agency should ensure that amounts requested and approved in each six-month period covered by a Recognized Obligation Payment Schedule (ROPS) are expended in that six-month period. To the extent the Agency does not expend the funds received within that six-month period, the Agency should relist the unexpended amounts that need to be retained on the subsequent ROPS with the funding source as "Reserves" or "Other" and an entry in the Notes section indicating that the funds were received in a prior ROPS period.

- During the Meet and Confer process, the Agency also identified that the prior period adjustment for the ROPS I required per HSC section 34186 (a) in the amount of \$773,072 was not made in ROPS III. Therefore, Finance is increasing the OFA balance available by \$773,072.

The Agency's OFA balance available for distribution to the affected taxing entities is \$1,181,339 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments:	
ROPS I Prior Period Adjustment	\$ 773,072
Legally restricted balances not supported	\$ 408,267
Total OFA available to be distributed:	\$ 1,181,339

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 Mary Halterman, Analyst at (916) 445-1546.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Steve Szalay', with a small 'k' or similar mark below it.

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