



March 19, 2013

Ms. Sharon Deuker, Senior Accountant
City of Chowchilla
130 S. Second Street
Chowchilla, CA 93610

Dear Ms. Deuker:

Subject: Other Funds and Accounts Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Chowchilla 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 December 13, 2012. 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:

- Assets held by the Agency as of June 30, 2012 in the amount of \$72,601. Our review of Agency's trial balance as of June 30, 2012 indicated that cash balance should be \$456,356 and not \$383,735. Therefore, the balance was adjusted for the difference of \$72,601.
- Disallowed transfers totaling \$1,351,005. The DDR, Attachment C, lists numerous asset transfers made to the City of Chowchilla (City) in accordance with various Redevelopment Agency (RDA) Resolutions and two Chowchilla City Council Budget Resolutions.
 - Cash transfers - Attachment C, Item numbers 3, 4 and 5 in the amount of \$211,580. HSC section 34167.5 states that asset transfers which occurred after January 1, 2011 between the RDA and the City that created the RDA are to be contractually committed to a third party. No supporting documentation was provided to demonstrate that there were contracts executed with a third party. Resolutions and Budgets provided are not considered contracts; therefore, the transfers are not allowed.
 - Property transfers - Attachment C, Item numbers 6 through 14 in the amount of \$1,139,425. Pursuant to HSC section 34167.5, transfer of assets by a

redevelopment agency after January 1, 2011 without a contract with a third party and therefore is deemed not to be in the furtherance of the Community Redevelopment Law and is thereby unauthorized. Since property is not considered cash or cash-equivalent asset, Finance has made no adjustment to the available balance to the affecting taxing entities for this amount. However, the Agency is required to reverse the improper transfers of property and recover the assets from the City.

- Advance Receivable in the amount of \$1,647,270. Assets of the Agency include a receivable related to an unallowable advance made to the City of Chowchilla (City) from bond proceeds. The advance to the City was approved on March 8, 2011 for \$2 million and was later reduced to \$1,647,270 on June 27, 2011. The Agency was not able to provide supporting documentation to demonstrate an enforceable obligation existed for this transfer. Pursuant to HSC section 34167.5, asset transfers after January 1, 2011, between the city or county, or city and county that created a redevelopment agency for which an enforceable obligation does not exist is not permitted. Therefore, the transfer of funds and the related advance receivable is not allowed.

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 \$1,931,451 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Adjustment to the June 30, 2012 DDR balance	72,601
Disallowed Transfers	211,580
Retained Cash or Cash Equivalent balance not supported	1,647,270
Total OFA available to be distributed:	\$ 1,931,451

Absent a Meet and Confer request, HSC section 34179.6 (f) requires successor agencies to transmit to the county auditor-controller the amount of f./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)

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(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

Local Government Consultant

cc: Mr. Mark Lewis, City Administrator, City of Chowchilla
Mr. Jim Boyajian, Assistant Auditor-Controller, County of Madera
California State Controller's Office