



June 4, 2013

Ms. Devon Rodriguez, Development Specialist
City of Citrus Heights
6237 Fountain Square Drive
Citrus Heights, CA 95621

Dear Ms. Rodriguez:

Subject: Other Funds and Accounts Due Diligence Review

The City of Citrus Heights 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 30, 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:

- Our review indicates the total amount of assets held as of June 30, 2012 should be \$2,099,436. The DDR reported the June 30, 2012 balance of \$ 1,658,377. As such, the amount has been adjusted by \$441,059 to include cash and cash equivalent balances attributable to the Redevelopment Agency Public Improvement Grant Fund available as of June 30, 2012.
- Transfers to the City of Citrus Heights (City) totaling \$7,381,311 are not allowed. HSC section 34171(d)(2) states that agreements, contracts, or arrangements between the city that created the redevelopment agency (RDA) and the former RDA are not enforceable, unless issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. Because the agreements were not entered into after the first two years of the former RDA's creation, and were not associated with the issuance of debt, the repayments are not allowed.

Upon receiving a Finding of Completion from Finance, and after the oversight board makes a finding the loans was for legitimate redevelopment purposes, HSC section 34191.4(b) may cause these items to be enforceable. The Agency may then request funding for these items on a Recognized Obligation Payment Schedule (ROPS).

- The request to retain funds for the Housing Replacement Plan in the amount of \$405,259 is not allowed. This obligation was transferred to the Successor Housing Agency of the City on the Housing Asset Transfer form, and was denied as an inclusion to the ROPS for the period July through December 2013. The denial was later upheld through the Meet and Confer process in our letter dated May 17, 2013. The Agency does not have a contract in place for the Housing Replacement Plan. HSC section 34163 (b) prohibits an RDA from entering into a contract with any entity after June 27, 2011.
- The request to retain funds for the RDA startup cost loan in the amount of \$46,600 is not allowed. This obligation was denied by Finance in our letter dated May 31, 2012 as an inclusion to the January through December 2012 ROPS reviews. Because the obligation is not enforceable, the request to retain funds 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 \$8,274,229 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Adjustment to the June 30, 2012 balance	\$ 441,059
Disallowed transfer	7,381,311
Denied ROPS items	46,600
Requested retained balance not supported	405,259
Total OFA available to be distributed:	\$ 8,274,229

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, please 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 Nichelle Thomas, Supervisor or Susana Medina Jackson, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Rhonda Sherman, Community & Economic Development Director, City of Citrus Heights
Mr. Carlos Valencia, Senior Accounting Manager, County of Sacramento
California State Controller's Office