DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

March 15, 2013

Mr. David Spilman, Interim Finance Director
City of Clearlake
14050 Olympic Dr.
Clearlake, CA 95422

Dear Mr. Spilman:

Subject: Other Funds and Accounts Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Clearlake 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 14, 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, there are no balances available for distribution to the affected taxing entities. However, the following adjustments were made:

- Properties transferred to the City of Clearlake in the period between January and June 2011 with a book value of $3,248,418 is partially denied. HSC section 34179.5 (c) (2) only allows asset transfers within this period that are required by an enforceable obligation or meet the definition of governmental use. No documents received support the transfers were required by an enforceable obligation. The asset referred to as City Hall 14050 Olympic Dr Parcel #039-530-21 valued at $1,880,238 meets the definition of governmental use as defined in the HSC 34181 (a). This amount has been reduced from the asset transfer total resulting in a book value of $1,404,708 which was inappropriately transferred to the City.

  HSC section 34181 (a) requires that properties be used for a government purpose at the time of transfer. An intended government use of the property does not permit the transfer under this HSC section.

  Since these properties are illiquid, they are considered a non-cash asset of the RDA. Therefore, an offsetting adjustment is being made by a like amount to reflect the fact that these are non-cash assets and not eligible for distribution to the affected taxing entities at this time. In effect, these adjustments balance out and do not affect the ending OFA available balance. The assets in question include the following:

- 14295 Lakeshore Dr, Parcel #040-092-08
- 6393 James St, Parcel #042-052-19
- 6820 Old Hwy 53, Parcel #010-043-38-39
- 6828 Old Hwy 53, Parcel #010-043-36
- 6356 Armijo, Parcel #042-121-25
- 6377 Armijo, Parcel #042-122-26
- 6439 Vallejo, Parcel #042-123-11
- 6459 Vallejo, Parcel #042-123-31

These non-liquid assets transferred to the City are subject to the California State Controller's Office review of asset transfers. To the extent these properties do not meet criteria outlined in HSC section 34181 (a), they should be returned to the Agency and disposed of in a manner consistent to the Agency's Long Range Property Management Plan pursuant to HSC section 34191.5.

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/

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 Wendy Griffe, Supervisor or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Maryna Smith, Account Clerk, City of Clearlake
Ms. Cathy Saderlund, Auditor-Controller, Lake County
Ms. Liz Martinez, Accountant II, Lake County
California State Controller's Office