



April 24, 2013

Mr. Kofi Sefa-Boakye, Director
City of Compton
205 South Willowbrook Avenue
Compton, CA 90220

Dear Mr. Sefa-Boakye:

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 19, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Compton (Agency) submitted an oversight board approved OFA DDR to Finance on January 15, 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 19, 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:

- Cash transfers to the City of Compton (City) in the amount of \$4,305,700 are disallowed as follows:
 - Our review indicates that \$4,105,700 was transferred to the City between March 2011 and January 2012 for self insurance costs. The Agency claims it incurred this liability immediately once the former redevelopment agency (RDA) was formed. The Agency provided a City resolution dated July 23, 1991 for the self insurance costs and a City resolution dated May 24, 2011 authorizing the City Manager to accept funds in the amount of \$7,753,406 for liability insurance and insurance related expenditures. The Agency did not provide resolutions from the former RDA confirming acceptance of the terms. HSC section 34179.5 states "enforceable obligation" includes any of the items listed in subdivision (d) of section 34171. HSC section 34171 (d) (2) states "enforceable obligation" does not include agreements, contracts, or arrangements between the city that created the RDA and the former RDA are not enforceable, unless issued within two years of the RDA's creation. Therefore, the City resolutions and reimbursements are not enforceable obligations and are not permitted. The OFA balance available for distribution will be increased by \$4,105,700.

- Our review indicates that \$200,000 was transferred to the City for reimbursement of costs incurred by the City on the Agency's behalf. However, as stated above, pursuant to HSC 34179.5 and 34171 (d) (2), this is not an enforceable obligation and is not permitted. The OFA balance available for distribution will be increased by \$200,000.
- Our review indicates that \$1,210,941 of OFA balances was transferred to the City. The Agency contends the transfer was made for disbursements made by the City's general fund for salaries related to bond projects. Per the OFA DDR, the amount is listed with the restricted bond proceeds as a restriction on cash until the City is reimbursed through a draw-down of cash held in trust. However, documentation provided does not demonstrate the amount should be legally restricted pursuant to HSC section 34179.6 (c) (5) (B). Additionally as stated above, pursuant to HSC 34179.5 and 34171 (d) (2), this is not an enforceable obligation and is not permitted. As such, the OFA balance available for distribution will be increased by \$1,210,941.
- The DDR requests to retain 982,832 for January through June 2013 Recognized Obligation Payment Schedule (ROPS III) expenditures that were approved with Redevelopment Property Tax Trust Fund (RPTTF) funding. Our review indicates the Agency did not receive all approved RPTTF for the July through December 2012 ROPS period (ROPS II); therefore, the Agency will be permitted to retain this amount for approved ROPS II expenditures not funded by RPTTF. The OFA balances available for distribution will not be adjusted for this amount.

The Agency's OFA balance available for distribution to the affected taxing entities is \$5,516,641 (see table on the next page).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Disallowed transfers:	\$ 4,305,700
Adjustment to the legally restricted asset balance:	\$ 1,210,941
Total OFA available to be distributed:	\$ 5,516,641

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.

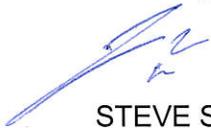
Failure to transmit the identified funds will also prevent the Agency from being able to receive a finding of completion from Finance. Without a finding of completion, the Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4. Specifically, these provisions allow certain 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 Danielle Brandon, Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Michael Antwine, Deputy Director, City of Compton
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office