



July 6, 2015

Ms. Jessica O'Connell, Accountant II
City of Cotati
201 West Sierra Avenue
Cotati, CA 94931

Dear Ms. O'Connell:

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 letters dated June 2, 2015. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Cotati Successor Agency (Agency) submitted an oversight board approved OFA DDR to Finance on September 12, 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 June 2, 2015. 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 June 17, 2015.

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:

- Balances requested to be retained totaling \$1,055,654 for fiscal year 2012-13 obligations were previously reduced by \$397,129. Based on additional review of this item during the Meet and Confer process, the recalculated amount needed to be retained is \$955,541, as further discussed below:
 - For the July through December 2012 (ROPS II) period, Finance approved \$533,674 and the county auditor-controller (CAC) distributed \$533,674. The Agency subsequently reported expending all \$533,674 on the June through December 2013 (ROPS 13-14A) Prior Period Adjustment (PPA) tab. Therefore, because these funds were distributed prior to June 30, 2012 and were included in the June 30, 2012 balance, the Agency will be permitted to retain these funds for use during the ROPS II period.

In addition, for the ROPS II period the Agency was permitted to spend \$432,519 from Reserve Balances. On the ROPS 13-14A PPA tab however, the Agency reported actual expenditures of \$49,103 from the Reserve Balances. Therefore, the Agency will be permitted to retain the actual amount spent, or \$49,103.

- For the July through December 2014 (ROPS 14-15A) period Finance reclassified \$74,960 of the Agency's RPTTF request to Reserve Balances. The Agency subsequently reported these funds as expended on the June through December 2015 (ROPS 15-16A) Prior Period Adjustment tab. Our review indicates that the Reserve Balances were funds remaining from the June 30, 2012 balance. Therefore, the Agency will be permitted to retain these funds from the June 30, 2012 balance to prevent a funding shortfall.
- For the January through June 2015 (ROPS 14-15B) period the Agency requested and was approved \$235,119 from Other Funds for use on debt service in the ROPS 15-16A period. The Agency claims that the Other Funds requested are the same funds as the Reserve Balances and are not rental income or income from receivables. Our review indicates that the Agency does not have any rent generating properties and the Agency's only receivable remains uncollected. Therefore, Finance has determined that the \$235,119 approved on the ROPS 14-15B is Reserve Balances from the June 30, 2012 balance. Finance also confirmed that these same funds were approved for use on ROPS 15-16A. Therefore, the Agency will be permitted to retain these fund to ensure the debt service payments are adequately funded in ROPS 15-16A.
- Finally, for the ROPS 15-16A period, Finance reclassified \$62,685 of the Agency's request for RPTTF to Reserve Balances. Our review indicates that these Reserve Balances are part of the June 30, 2012 balance; therefore, the Agency will be permitted to retain these funds for use in ROPS 15-16A. The Agency will report its actual ROPS 15-16A expenditures on a future ROPS. To the extent these funds are not expended in ROPS 15-16A, the Agency should request the use of these funds on a future ROPS to pay enforceable obligations prior to requesting RPTTF.

As a result of the above analyses, the Agency will be permitted to retain a total of \$955,541 ($\$533,674 + \$49,103 + \$74,960 + \$235,119 + \$62,685$) and the balance available for distribution to the affected entities will increased by the remaining \$100,113.

Finance continues to make the following adjustments not contested by the Agency during the Meet and Confer process:

- Finance noted the Sonoma County Auditor-Controller adjusted the Agency's ROPS III January 2, 2013 distribution by \$4,273, pursuant to HSC section 34186 (a). Therefore, Finance is allowing the retention of \$4,273 in order to adequately fund approved ROPS III expenditures.

In addition, based on our review of the DDR, the following adjustments were made that do not affect the amount of OFA balances available for distribution to the taxing entities:

- The Agency's non-cash assets should be increased by \$2,448,463. During our review and with clarification from the Agency, Finance determined the following non-cash assets in the form of real properties were held by the Agency as of June 30, 2012 and should have been reported in the June 30, 2012 OFA DDR balances:
 - 320 East School Street (Assessor's Parcel Number (APN) 144-250-010-000)
 - 351 West Sierra Avenue (APN 144-250-013-000)

- o 203 West Sierra Avenue (APN 144-250-017-000)
- o 8734 Gravenstein Way (APNs 144-180-054-000 and 144-180-055-000)
- o 8220 La Plaza (APN 144-264-001-000)
- o 8110 La Plaza (APN 144-265-001-000)
- o 1 East Cotati Avenue (APN 144-275-001-000)
- o 8139 La Plaza (APN 144-276-001-000)
- o 8167 La Plaza (APN 144-277-001-000)

As a result of the addition of the above properties to the Agency's beginning OFA DDR balances, Finance also increased the adjustment to non-cash balances by \$2,448,463, resulting in no effect to the amounts available for distribution to the taxing entities.

- During our review, Finance noted the following properties located in the City of Cotati were transferred from the former City of Cotati Community Redevelopment Agency (RDA) to the City of Cotati in March 2011:
 - o Various parcels located at East Cotati Avenue and Santero Way (the parcels have since been combined into one APN, APN 144-320-027-000)
 - o 80 George Street (APN 144-272-007-000)

Pursuant to HSC section 34167.5, the 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.

The Agency's OFA balances available for distribution to the affected taxing entities is \$1,255,776 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 1,159,936
Finance Adjustments	
Add:	
Adjustment to the June 30, 2012 balance	2,448,436
Increased retention of non-cash assets	(2,448,436)
Request to retain balances not supported	100,113
ROPS III HSC section 34186 (a) adjustment	(4,273)
Total OFA available to be distributed:	\$ 1,255,776

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, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-3274.

Sincerely,



JUSTYN HOWARD
Program Budget Manager

cc: Mr. David Spilman, Interim Director of Finance, City of Cotati
Mr. Randy Osborn, Property Tax Manager, Sonoma County
California State Controller's Office