



April 13, 2013

Ms. Inez Kiriu, Finance Director
City of Galt
380 Civic Drive
Galt, CA 95670

Dear Ms. Kiriu:

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 8, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Galt Successor Agency (Agency) submitted an oversight board approved OFA DDR to Finance on January 9, 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 8, 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 March 25, 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:

- Repayment of loans or advances from the City of Galt (City) totaling \$1,334,769 are disallowed.
 - The Agency transferred \$62,341 to the City pursuant to a loan consolidation agreement entered into between the City and the Agency on May 3, 2011. Per HSC section 34179.5 (c) (2), the dollar value of assets and cash transferred by the former redevelopment agency or successor agency to the city, county, or city and county that formed the former RDA between January 1, 2011 through June 30, 2012 must be evidenced by documentation of the enforceable obligation that required the transfer. HSC section 34179.5 states "enforceable obligation" includes any of the items listed in subdivision (d) of section 34171, contracts detailing specific work that were entered into by the former redevelopment agency prior to June 28, 2011 with a third party other than the city, county, or city and county that created the former RDA. Therefore, the transfer was not made pursuant to an enforceable obligation and is not permitted. The balance available for distribution will be increased by \$62,341.
 - The Agency transferred \$1,272,428 to the City for repayment of loans. The Agency claims these were funds advanced to the Agency by the City during the

fall of 2011 and repaid to the City when property tax increment was received in January 2012. Documents provided show the City wired funds to the Agency between August and October 2011 and funds were transferred back to the City on January 31, 2012; however, the Agency did not provide sufficient documentation that would allow us to determine if the payments made to the City were related to the advanced funds. Therefore, the balance available for distribution will be increased by \$1,272,428.

- The request to retain balances in the amount of \$280,351 for the Cosumnes Community College District obligation in the January through June 2013 Recognized Obligation Payment Schedule (ROPS III) period is partially allowed. The payment was made during the July through December 2012 Recognized Obligation Payment Schedule (ROPS II) period in accordance with a settlement agreement between the City, the former redevelopment agency, and a third party. We note, although the Agency was not permitted to make the payment during the ROPS II period, the settlement agreement requires payment within 60 days of the fiscal year end and the amount due was not known at the time the ROPS II was submitted. This item was later included and approved on the ROPS III; however, the Agency did not receive all Finance approved Redevelopment Property Tax Trust Fund due to a prior period adjustment made by the county auditor controller pursuant to HSC 34186 (a). The Agency will be permitted to retain the unfunded ROPS III amount totaling \$263,299. The remaining \$17,052 is not allowed and the balance available for distribution will be increased by this amount.
- The DDR reported \$8,914,315 as legally restricted assets. The Agency held unspent bond proceeds and reserves in the amount of \$8,908,213 and Finance previously disallowed retention of the remaining \$6,102. However, the Agency was able to provide sufficient documentation to support the remaining balance of \$6,102 is, in fact, restricted bond proceeds. Therefore, the request to retain \$8,914,315 is allowed.

The Agency's OFA balance available for distribution to the affected taxing entities is \$1,094,086 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ (257,735)
Finance Adjustments	
Add:	
Disallowed transfers	\$ 1,334,769
Requested retained balances not supported	17,052
Total OFA available to be distributed:	\$ 1,094,086

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: Ms. Michelle Neeley, Accounting Manager, City of Galt
Mr. Carlos Valencia, Senior Accounting Manager, Sacramento County
California State Controller's Office