



May 5, 2013

Mr. Jim DellaLunga, Senior Project Manager/Administrative Officer
Economic Development Department
City of Garden Grove
11222 Acacia Parkway
Garden Grove, CA 92840

Dear Mr. DellaLunga:

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 April 1, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Garden Grove Successor Agency (Agency) submitted an oversight board approved OFA DDR to Finance on December 3, 2012. 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 April 1, 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 23, 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:

- Finance previously determined the Agency transferred \$10,825,031 in property to the City of Garden Grove (City). During the Meet and Confer process, additional documentation was provided by the Agency demonstrating that the property was not transferred to the City and is owned by the Agency.

We also noted the Agency transferred housing assets in the amount of \$39,037,769. Based on the information provided in the Housing Asset Transfer form in August 2012, the total value of housing assets to be transferred to the housing successor was \$23,830,289; therefore, the remaining transfer amount of \$15,207,480 is disallowed. The Agency did not object to this item during the Meet and Confer process.

Because these transfers are not cash or cash equivalents, the disallowance will not affect the amount available for distribution to the affected taxing entities. However, the Agency should reverse the transactions, recover the assets from the City and Housing Successor, and describe the planned disposition of each property in its long-range property management plan as required by HSC section 34191.5.

- The request to restrict assets that are not cash or cash equivalent was adjusted by \$85,619.
 - The Agency's request to restrict assets that are not cash or cash equivalents in the amount of \$16,645 is allowed. This amount is related to a 40-year term mortgage assistance loan dated April 27, 1995, in the total amount of \$40,000. The remaining outstanding loan balance is not expected to be paid in full until 2035. Therefore, Finance is reversing \$16,645 of its adjustment.
 - The Agency's request to restrict assets that are not cash or cash equivalents in the amount of \$68,974 is denied. Section 203 of the Westbrook Commercial Rehabilitation Agreement states that, "As set forth in the Promissory Note, the entire balance of principal outstanding upon the Agency Rehabilitation Loan shall be payable by the Participant to the Agency upon demand of the Agency." Per HSC section 34179.5 (b) (1), "cash" and "cash equivalents" include payables on demand. Therefore, the OFA balance available for distribution will be increased by \$68,974.
- The Agency requested to retain \$15,342,863 in OFA balances to cover obligations. Based on further review during the Meet and Confer process, the Agency may retain \$13,051,905 to fund approved enforceable obligations and the OFA balance available will be increased by \$2,290,958 (\$15,342,863 - \$13,051,905), as further discussed below.

For the July through December 2012 (ROPS II) period, Finance approved \$11,914,934 and the County Auditor Controller (CAC) distributed \$3,382 from the Redevelopment Property Tax Trust Fund (RPTTF). On the July through December 2013 ROPS form (ROPS 13-14A) the Agency reported expenditures on approved enforceable obligations totaling \$10,397,082 (\$281,176 + \$10,065,906 + \$50,000). Additionally, the Agency reported \$2,654,823 in expenditures from reserve funds during the ROPS II period. Finance initially denied this item during the ROPS II review, but subsequently approved the item during the January to June 2013 (ROPS III) period. Therefore, the Agency may retain \$13,051,905 (\$10,397,082 + \$2,654,823) for the ROPS II period.

The Agency's OFA balance available for distribution to the affected taxing entities has been revised to \$2,359,932 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per Oversight Board:	\$ -
Finance Adjustments	
Add:	
Requested restricted balance not supported	\$ 68,974
Requested retained balance not supported	\$ 2,290,958
Total OFA available to be distributed:	\$ 2,359,932

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.

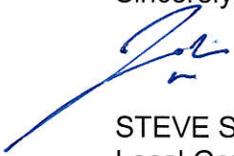
Failure to transmit the identified funds will also prevent the Agency from being able to receive a finding of completion from Finance. Without a finding of completion, the Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4. Specifically, these provisions allow certain 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. Matthew Fertal, City Manager, City of Garden Grove
Mr. Kingsley Okereke, Director of Finance, City of Garden Grove
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office