DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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March 26, 2013

Ms. Elena Bolbolian, Principal Administrative Officer
City of Glendale
633 East Broadway, Suite 201
Glendale, CA 91206

Dear Ms. Bolbolian:

Subject: Other Funds and Accounts Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Glendale 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 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. 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, the following adjustments were made:

- Assets transferred in the amount of $26.2 million to the City is not allowed. It is our understanding the Agency transferred assets (construction in progress and improvements) totaling $26.2 million to the City from February to June 2012. As such, an adjustment was made to Procedure 2 to include this as part of the assets transferred as of June 30, 2012. Since these are not cash or cash equivalents, an offsetting adjustment in a like amount will be made to Procedure 7 discussed below.

- Cash balances legally restricted in the amount of $91.4 million is partially denied. Included in this amount is $271,715 for pass-through obligations; of this amount $199,163 was due to the Glendale Unified School District. However, the Agency made a pass-through payment of $81,163; therefore the need to restrict excess balances is not necessary. As such, the OFA balance available for distribution to the taxing entities will be adjusted by $118,000.

  Further, $11.5 million is debt service obligations for ROPS II. As such an adjustment was made to move $11.5 million to Procedure 9. Therefore, the OFA balance available for distribution to the taxing entities will be adjusted by an additional $11.5 million, totaling $11.6 million

- The DDR reports assets that are not cash or cash equivalents in the amount of $50.6 million. This amount was increased by $26.2 million for the non-liquid assets that transferred to the City included in Procedure 2.

  Further, under Procedure 5, capital assets totaling $34.9 million are reported net of accumulated depreciation. Under Procedure 7, capital assets totaling $38.8 million are reported as non-liquid assets without accounting for accumulated depreciation. Consequently, the assets were overstated in Procedure 7 by $3.9 million.

  As a result of these adjustments, total assets that are not cash or cash equivalents reported under Procedure 7 were increased by $22.3 million ($26.2 million – $3.9 million).

- Retention of current unencumbered OFA balances in the amount of $7.7 million to cover future obligations is not allowed. The cash flow analysis provided does not adequately incorporate all the requirements detailed in HSC section 34179.5 (c) (5) (D). HSC section 34179.5 (c) (5) (D) requires an extensive analysis before retention of current unencumbered balances can be contemplated. This includes but is not limited to, providing a detail of the projected property tax revenues and other general purpose revenues to be received by the Agency, together with both the amount and timing of the bond debt service payments, for the period in which the oversight board anticipates the Agency will have insufficient property tax revenue to pay the specified obligations. As such, it is not evident that future property tax revenue will be insufficient or that there is an immediate need to retain these balances.

  Should a deficit occur in the future, HSC provides successor agencies with various methods to address short term cash flow issues. These may include requesting a loan from the city pursuant to HSC section 34173 (h), requesting the accumulation of reserves on the Recognized Obligation Payment Schedule (ROPS) when a future balloon or uneven payment is expected, or subordinating pass-through payments pursuant to HSC section 34183 (b). The Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation if a deficiency were to occur.

  Since the Agency has not met the requirements detailed in HSC section 34179.5 (c) (5) (D) and possesses alternatives to address short term cash flow shortages, Finance deems it is not necessary for the Agency to retain $7.7 million in OFA unencumbered balances.

- Balances needed to satisfy ROPS for the 2012-13 fiscal year in the amount of $16.7 million should be adjusted. The County Auditor Controller distributed $12.9 million for ROPS II enforceable obligations. Therefore the Agency is limited in retaining the amount distributed by the County Auditor Controller in ROPS II. In addition, Finance approved $9.2 million for obligations to be funded with reserves and other sources on ROPS III. Therefore, the amount requested to be retained for 2012-13 fiscal year will be adjusted by an additional $5.4 million.

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/

The Agency's OFA balance available for distribution to the affected taxing entities is $20,229,711 (see table below).

OFA Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	2,475,816
Finance Adjustments		
Add:		
Disallowed transfers:	$	26,234,013
Requested restricted balances not supported:		11,572,569
Adjustment for assets that are not cash or cash equivalents:		(22,326,905)
Requested retained balances not supported:		7,665,974
Appproved OFA expenditures for ROPS II and III:		(5,391,756)
Total OFA available to be distributed:	$	20,229,711

Absent a Meet and Confer request, 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 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 Kylie Le, Supervisor or Brian Dunham, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Anne Bockenkamp, Housing Coordinator, City of Glendale
Ms. Kristina Burns, Manager, Los Angeles County Auditor Controller's Office
California State Controller's Office