DEPARTMENT OF FINANCE

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May 1, 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

This letter supersedes the California Department of Finance's (Finance) original Other Funds and Accounts (OFA) Due Diligence Review (DDR) determination letter dated March 26, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Glendale 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 26, 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 15, 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:

- The Agency requested to restrict $7,665,974 in Procedure 8 to cover future obligations and $16,743,782 to satisfy ROPS obligations for fiscal year 2012-13. The Agency may retain $30,414,029 ($2,753,389 + $18,438,873 + $9,221,767) for enforceable obligations and the OFA balances available for distribution is being decreased by $6,004,273 ($7,665,974 + $16,743,782 - $30,414,029), as further discussed below.

  For the Recognized Obligation Payment Schedule (ROPS) period of January through June 2012 (ROPS I), the Agency accrued a total of $2,753,389 in expenditures that were paid during the July through December ROPS II period. During the Meet and Confer process, the Agency provided supporting documents showing the payments were made after June 30, 2012. Therefore, the Agency may retain $2,753,389 for ROPS I expenditures.

  Finance notes that amounts requested and approved in a ROPS are effective only for the six-month period covered. To the extent the Agency does not expend funds approved and received on a ROPS until a subsequent period, the Agency should relist the unexpended amounts that need to be retained for those enforceable obligations on the subsequent ROPS with the funding source as "Reserves" or "Other" and an entry in the Notes section indicating the funds were received in a prior ROPS period.

For the July through December 2012 ROPS (ROPS II) period, Finance approved $18,070,878 and the County Auditor Controller (CAC) distributed $12,913,360 from the Redevelopment Property Tax Trust Fund (RPTTF). On the July through December 2013 ROPS (ROPS 13-14A) form, the Agency reported actual expenditures of $13,937,408 for enforceable obligations in the ROPS II period. Therefore, the Agency may retain $1,024,048 ($13,937,408 - $12,913,360) from the OFA balances to cover the shortfall. Additionally, Finance approved and the Agency expended $816,567 from the OFA balances for enforceable obligations. Furthermore, the Agency provided additional information showing that $3,684,898 needs to be retained as required by the Disney Owner Participation Agreement that is an enforceable obligation. Therefore, the Agency may retain $18,438,873 ($12,913,360 + $1,024,048 + $816,567 + $3,684,898) for the ROPS II period.

For the January through June 2013 ROPS (ROPS III) period, Finance approved and the CAC distributed $13,945,501 from the RPTTF. The CAC did not make any adjustments for the January through June 2012 period (ROPS I) on the January 2, 2013 ROPS III distribution pursuant to HSC section 34186 (a). As such, the Agency received sufficient funds from the RPTTF to cover all of the approved expenditures in the ROPS III period and it is unnecessary for the Agency to retain current OFA balances for obligations that have already been funded through a separate process. However, Finance also approved $9,221,767 to be expended from the OFA balances. Therefore, the Agency may retain $9,221,767 for approved enforceable obligations in the ROPS III period.

Should deficits 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 ROPS when a future balloon or uneven payment is expected pursuant to HSC section 34177 (d) (1) (A), 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.

The Agency did not object to the following adjustments made by Finance during the Meet and Confer process. HSC section 34179.6 (d) authorizes Finance to make adjustments. We maintain that the following adjustments are appropriate:

- Assets transferred in the amount of $26,234,013 to the City of Glendale (City) are not allowed. It is our understanding the Agency transferred assets (construction in progress and improvements) totaling $26,234,013 to the City from February through 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 $91,440,426 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. Therefore, the OFA balance available for distribution to the taxing entities will be increased by $118,000.

Further, $11,454,569 is debt service obligations for the July through December 2012 Recognized Obligation Payment Schedule (ROPS II) period. As such, an adjustment was made to move $11,454,569 to Procedure 9, which accounts for all funds needed to cover fiscal year 2012-13 obligations. While the Agency did not agree that this restriction should be taken out of Procedure 6, the Agency did agree that the funds could be restricted in Procedure 9. Therefore, the OFA balance available for distribution to the taxing entities will be increased by an additional $11,454,569.

- The DDR reports assets that are not cash or cash equivalents in the amount of $50,584,609. This amount was increased by $26,234,013 for the non-liquid assets that transferred to the City included in Procedure 2.

  Further, under Procedure 5, capital assets totaling $34,909,485 are reported net of accumulated depreciation. Under Procedure 7, capital assets totaling $38,816,593 are reported as non-liquid assets without accounting for accumulated depreciation. Consequently, the assets were overstated in Procedure 7 by $3,907,108. Since the beginning balance in Procedure 5 did not include the accumulated depreciation, the amount restricted in Procedure 7 should not include the accumulated depreciation either.

  As a result of these adjustments, total assets that are not cash or cash equivalents reported under Procedure 7 were increased by $22,326,905 ($26,234,013 – $3,907,108).

The Agency's OFA balance available for distribution to the affected taxing entities is $11,951,220 (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
Adjustment for assets that are not cash or cash equivalents:		(22,326,905)
Requested restricted balances not supported:		11,572,569
Appproved OFA expenditures for ROPS II and III:		(6,004,273)
Total OFA available to be distributed:	$	11,951,220

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 Mary Halterman, 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