



August 30, 2013

Mr. Paul Mugan, Interim Deputy City Manager  
City of Greenfield  
559 El Camino Real  
Greenfield, CA 93927

Dear Mr. Mugan:

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 July 26, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Greenfield Successor Agency (Agency) submitted an oversight board approved OFA DDR to Finance on May 13, 2013. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Since the Agency did not meet the January 15, 2013 submittal deadline pursuant to HSC section 34179.6 (c), Finance was not bound to complete its review and make a determination by the April 1, 2013 deadline pursuant to HSC section 34179.6 (d). Finance issued an OFA DDR determination letter on July 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 August 20, 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 transferred bond proceeds totaling \$2,291,783 (\$1,400,000 + \$891,753 in 2011 and 2012, respectively) to the City of Greenfield (City) for the Greenfield Civic Center project (Project). Based on our review during the Meet and Confer, the Agency was able to support that the amount represents bond proceeds that should be restricted. For DDR purposes, the improper transfer of bond proceeds will not affect the amount available for distribution to the affected taxing entities. As such, the previous adjustment to the OFA balance is no longer necessary.

Finance initially adjusted the OFA balance as the Agency was not able to show that the transfer was made pursuant to an enforceable obligation or that the amount represents restricted bond proceeds. Our review indicates the Project was not listed on any Recognized Obligation Payment Schedule (ROPS) and the contract for services provided is between the City and a third party. The Agency is neither a party to the agreement nor responsible for payment; therefore, the transfer of funds was not made pursuant to an enforceable obligation and is not permitted.

For purposes of the DDR, HSC section 34179.5 (c) (2) states 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. HSC section 34171 (d) (2) states enforceable obligation does not include any agreements, contracts, or arrangements between the city that created the RDA and the former RDA.

Finance notes the improper transfer should be reversed and the Agency should recover the transferred bond proceeds. Pursuant to HSC section 34191.4 (c), successor agencies that have been issued a Finding of Completion by Finance will be allowed to use excess proceeds from bonds issued prior to December 31, 2010 for the purposes for which the bonds were issued.

- The Agency transferred \$470,000 in bond proceeds to the City to create a new Economic Recovery Fund. The Agency claims the funds were consolidated back into the debt service fund on February 1, 2012 when the former redevelopment funds were closed and collapsed into the new Successor Agency funds. The Agency provided adequate documentation that these bond funds were transferred back to the Agency; therefore, Finance no longer believes the funds were transferred to the City.
- The request to restrict assets in the amount of \$7,931,389 had been adjusted by \$2,063,459. Finance no longer believes this adjustment is necessary. Finance previously determined that the restricted funds claimed included 2002 and 2006 Tax Allocation Bond proceeds on deposit with the fiscal agent totaling \$5,865,977. The remaining \$2,063,459, representing the amount previously adjusted, is cash with the Agency. The Agency provided adequate documentation supporting the balance of the Capital Improvement Project Fund consists of only bond proceeds. Therefore, Finance has determined that the balance of the Capital Improvements Fund, \$2,063,459, is restricted.
- The Agency's request to retain the remaining \$1,001,261 in OFA balances to satisfy ROPS items was previously adjusted by \$292,745. Finance no longer believes this adjustment is needed. Specifically, our review indicates the following:
  - For the July through December ROPS period (ROPS II), the Agency was approved to spend \$892,516; however, the County Auditor Controller (CAC) only distributed \$708,517. The Agency will be permitted to retain the amount actually spent up to the amount approved by Finance. According to the Prior Period Reconciliation tab in the July through December 2013 ROPS period, the Agency expended \$724,093. Because these funds were included in the June 30, 2012 balance, the Agency will be permitted to retain \$724,093 to satisfy ROPS II enforceable obligations.
  - For the January through June 2013 period (ROPS III), the Agency was approved to expend \$1,367,450 for enforceable obligations. However, the CAC only distributed \$1,013,538. Therefore, the Agency will be permitted to retain the remaining OFA balances to satisfy all approved ROPS III enforceable obligations.

Finance notes that HSC section 34177 (a) (3) states that only those payments listed in the approved ROPS may be made from the funding source specified in the ROPS. However, HSC section 34177 (a) (4) goes on to state that with prior approval from the oversight board, the successor agency can make payments for enforceable obligations from sources other than those listed in the ROPS. In the future, the Agency should obtain prior oversight board approval when making payments for enforceable obligations from a funding source other than those approved by Finance.

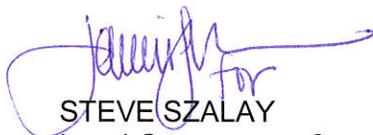
Should a deficit occur in the future, HSC provides successor agencies with various methods to address short term cash flow issues. These may include requesting a loan from the city pursuant to HSC section 34173 (h), or subordinating pass-through payments pursuant to HSC section 34183 (b). The Agency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

The Agency's OFA balance available for distribution to the affected taxing entities has been revised to \$0, as reported on the DDR.

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) 445-1546.

Sincerely,

A handwritten signature in blue ink, appearing to read "Steve Szalay", with a long horizontal flourish extending to the right. The signature is written over the printed name "STEVE SZALAY".

STEVE SZALAY  
Local Government Consultant

cc: Ms. Susan Stanton, City Manager  
Ms. Julie Aguero, Auditor Controller Analyst II, Monterey County  
California State Controller's Office