DEPARTMENT OF FINANCE

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April 1, 2013

Ms. Suzanne Mallory, Finance Director
City of Manteca
1001 West Center Street, Suite B
Manteca, CA 95337

Dear Ms. Mallory:

Subject: Other Funds and Accounts Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Manteca 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 8, 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 to the City of Manteca (City) in the amount of $54,500,000 should be increased by $3,055,523 to $57,555,522. This amount includes transfers of $2,280,000 in cash not supported by enforceable obligations. HSC section 34179.5 (c) (2) only allows transfers to the City that are required of an enforceable obligation. The documentation provided does not prove the agreement is an enforceable obligation pursuant to HSC section 34179.5 (b) (2).

  In addition, capital assets were transferred in the amount of $775,523. HSC section 34179.5 (c) (2) only allows asset transfers within this period that are required by enforceable obligation and meet the definition of governmental use. No documents received support the transfer was required by an enforceable obligation. Since these properties are illiquid, they are considered a non-cash asset of the RDA. Therefore, another adjustment is being made to increase the assets restricted as non-cash in the amount of $775,523.

  Therefore, the OFA balances available for distribution to the taxing entities will be adjusted by $3,055,523.

- Assets that are not cash or cash equivalents should be adjusted by $1,700,000. The former Redevelopment Agency previously advanced this amount to the City. However,

no loan agreement was entered into and no repayment schedule was created; therefore, this item is considered payable upon demand as defined in Commercial Code section 3108. Therefore, the OFA balances available for distribution to the taxing entities will be adjusted by $1,700,000. If full payment and recovery of these loans is not currently feasible, pursuant to Health and Safety code section 34179.6 (h) (1) (D) (3), the Agency may submit an installment plan for Finance's review and approval.

- Current unencumbered balances requested to be retained totaling $6,267,451 to cover future obligations is not allowed. Since Finance has only approved funding through the January through June 2013 Recognized Obligation Payment Schedule (ROPS III) period, the Agency's fund balances are only encumbered to the extent they have been approved on a ROPS through the June 30, 2013 period. The cash flow analysis provided by the Agency does not demonstrate an immediate need to retain these unencumbered OFA balances, nor does it suggest available funding will be insufficient to service the Agency's bond debt.

  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 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 demonstrated an immediate need to retain unencumbered OFA balances and possesses alternatives to address short term cash flow shortages, Finance deems it is not necessary for the Agency to retain $6,267,451 in OFA unencumbered balances.

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 $10,267,452 (see table below).

OFA Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	1
Finance Adjustments		
Add:		
Disallowed transfers to the City of Manteca:		3,055,523
Amount transferred considered non-cash:		(755,523)
Amount transferred considered payable on demand:		1,700,000
Requested retained balance not supported:		6,267,451
Total OFA available to be distributed:	$	10,267,452

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 Wendy Griffe, Supervisor or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Mr. Donald Smail, Economic Development Manager, City of Manteca
Mr. Adrian Van Houten, Auditor Controller, County of San Joaquin
Ms. Sandra Chan, Chief Deputy Auditor Controller, County of San Joaquin
Mr. Jeff Woltkamp, Assistant County Auditor Controller, County of San Joaquin
California State Controller's Office