



July 2, 2013

Ms. Karen Johnston, Assistant Director of Finance
City of Palmdale
38300 Sierra Highway, Suite D
Palmdale, CA 93550

Dear Ms. Johnston:

Subject: Other Funds and Accounts Due Diligence Review

The City of Palmdale 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 April 23, 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 is not bound to completing its review and making a determination by the April 1, 2013 deadline pursuant to HSC section 34179.6 (d). However, 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:

- Transfers of assets to the City are disallowed. Specifically, Finance noted the following:
 - Cash transfers to the City of Palmdale in the amount of \$7.3 million are disallowed. It is our understanding these transfers occurred from January 31, 2011 through June 30, 2012. These transfers were pursuant to the Agreement Regarding Reimbursement of Sales and Use Taxes and Transfer of Appropriations Limit (Agreement) dated March 1, 1989 between the City and the Agency. The Agreement references the Palmdale Municipal Code section 3.20.180 stating any amounts not needed to pay, or pledged to secure obligations of the Agency were to be transferred to the city for reimbursement of sales and use tax. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the former RDA are not enforceable, unless issued within two years of the RDA's creation date or were entered into at the time of issuance of an indebtedness obligation solely for the purpose of securing that debt. As such, the Agreement is not enforceable and the OFA balance available for distribution to the taxing entities has been adjusted by \$7.3 million.

- Asset transfers to the City of Palmdale in the amount of \$11.1 million are disallowed. This amount consists of three transfers of notes receivable totaling \$5.3 million and three transfers of permits held for resale totaling \$5.8 million. These are assets of the Agency and should be transferred back. As such, an adjustment was made 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 resulting in no effect on the available cash to be remitted to county for disbursement to the taxing entities.
- The Agency's request to retain \$5 million in current unencumbered OFA balances to cover Recognized Obligation Payment Schedule (ROPS) I obligations is denied. It is our understanding payments for the ROPS I obligations were made from the ROPS II distribution. As a result, the Agency obtained a loan to cover the ROPS II shortfall. It appears the ROPS I obligations have been fully funded and Finance deems it is not necessary for the Agency to retain \$5 million in OFA unencumbered balances.
- Your request to retain OFA balances for fiscal year 2012-13 in the amount of \$23 million is partially denied. Of this amount requested to be retained, Finance approved obligations totaling \$25.7 million to be funded with RPTTF for the ROPS II period. However, the County Auditor Controller distributed only \$10.6 million. As such the Agency is limited to retaining \$10.6 million for ROPS II enforceable obligations.

Further, included in the \$23 million retention amount is \$12.4 million of ROPS III expenditures that were approved with Redevelopment Property Tax Trust Fund (RPTTF) funding. Since the County Auditor Controller distributed RPTTF for approved ROPS III obligations on January 2, 2013, after the June 30, 2012 OFA balances delineated in the DDR, it is inappropriate for the Agency to retain current OFA balances for obligations that have already been funded through a separate process. As such your request to retain \$12.4 million for ROPS III obligations is denied.

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 \$7,263,434. (See table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ (17,385,366)
Finance Adjustments	
Add:	
Disallowed cash transfers:	\$ 7,262,930
Requested restricted balance not supported:	12,367,260
Requested retained balance not supported:	5,018,610
Total OFA available to be distributed:	\$ 7,263,434

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.

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 Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Hamed Jones, Budget Manager
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office