DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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April 18, 2013

Mr. David A. Klug, Redevelopment Manager
City of Pasadena
100 North Garfield Avenue, Room S116
Pasadena, CA 91101

Dear Mr. Klug:

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 13, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Pasadena Successor Agency (Agency) submitted an oversight board approved OFA DDR to Finance on January 14, 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 13, 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 March 28, 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:

- An advance to the City of Pasadena (City) to purchase 600 parking spaces located in the Del Mar Gold Line Station parking facility in the amount of $2,959,136 is not allowed. It is our understanding no contract or repayment schedule is in place between the Agency and the City. Per the Agenda Report the loan is to be repaid in the future and does not state the specific dates of when the loan will be paid. Without a valid contract or repayment schedule, this loan is considered payable on demand and should be included as part of the June 30, 2012 balance. Per HSC section 34179.5 (b) (1), "cash" and "cash equivalents" include payables on demand. As such, the OFA available for distribution to the taxing entities will be adjusted by $2,959,136.

- The Agency's request to retain $28,125,906 is partially denied. Based on our review of the DDR, Finance notes the following:

    - Obligations totaling $2,207,365 pertains to expenditures for the January through June 2012 Recognized Obligation Payment Schedule (ROPS I) period. Per discussion with Agency representatives, $2,015,697 of the $2,207,365 was paid during the ROPS I period and therefore, should have already been accounted for in the June 30, 2012 balance stated in the DDR. The balance of $191,668 was paid subsequent to ROPS I. Due to the timing of when the obligation was

actually paid, the Agency's request will be adjusted to allow the retention of $191,668.

In the future, the Agency should ensure amounts approved in each six-month period covered by a Recognized Obligation Payment Schedule (ROPS) are expended in that six-month period. To the extent the Agency does not expend funds received within that six-month period, the Agency should relist unexpended amounts that need to be retained on the subsequent ROPS with the funding source as "Reserves" or "Other" and a note in the Notes section indicating that funds were received in a prior ROPS period.

- Although Finance approved $25,918,544 for obligations during the July through December 2012 ROPS (ROPS II) period, the County Auditor Controller distributed only $13,871,818 on June 1, 2012. In the ROPS II Prior Period Payments reported with the July through December 2013 ROPS (ROPS 13-14A), the Agency reported $14,064,577 in expenditures. Therefore, the Agency may retain $14,064,577 for ROPS II enforceable obligations.

Therefore, the Agency's request to retain $28,125,906 in OFA balances is partially denied and the OFA available for distribution to the taxing entities will be increased by $13,869,661 ($28,125,906 - $191,668 - $14,064,577).

- The Agency requested to retain OFA balances for fiscal year 2012-13 in the amount of $18,130,963. The $18,130,963 represents what the Agency believes to be enforceable obligations for the January through June 2013 ROPS III period. However, Finance approved and the County Auditor Controller distributed $3,262,432 from the RPTTF. 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. Therefore, the OFA balances available for distribution to the taxing entities will be adjusted by $18,130,963.

  During the Meet and Confer process, the Agency stated that $12.5 million of this amount is the subject of ongoing litigation. Finance recognizes there is an injunction in place sequestering funds and an ongoing lawsuit that will impact the currently sequestered funds and future ROPS requests. These amounts are already accounted for through other processes. Therefore, the amounts required for remittance to the affected taxing entities as identified in this letter is owed regardless of the outcome of the lawsuit.

The Agency's OFA balance available for distribution to the affected taxing entities is $6,991,563 (see table below).

OFA Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	(27,968,197)
Finance Adjustments		
Add:		
Adjustment to cash and cash equivalent balance:	$	2,959,136
Requested retained balance not supported:	$	32,000,624
Total OFA available to be distributed:	$	6,991,563

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: Mr. Steve Mermell, Assistant City Manager, City of Pasadena
Mr. Robert Ridley, Controller, City of Pasadena
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office