



March 26, 2013

Ms. Ingrid Alverde, Redevelopment Manager
City of Petaluma
27 Howard Street
Petaluma, CA 94952

Dear Ms. Alverde:

Subject: Other Funds and Accounts Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the Petaluma Community Development 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 15, 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 Petaluma during the period of January 1, 2011 through June 30, 2012 in the amount of \$11,674,078 are not allowable. HSC section 34179.5 (c) (2) only allows asset transfers within this period that are required by enforceable obligation or meet the definition of governmental use. No documents received support that the following transfers were required by an enforceable obligation or were previously utilized for a government purpose. However, the amount for the disallowed capital assets will be restricted as a non-liquid asset, resulting in a net zero. This adjustment will not affect the total amount distributed to taxing entities.

The non-liquid assets transferred to the City are subject to the California State Controller's Office review of asset transfers. To the extent these assets that transferred are not for a government purpose or pursuant to an enforceable obligation, these assets should be returned to the Agency and disposed of in a manner consistent to the Agency's Long Range Property Management Plan pursuant to HSC section 34191.5.

- Balances requested to be retained for fiscal year 2012-13 bond repayment obligations totaling \$5,055,394 is partially denied. During our review, we identified that the Agency was approved to receive their entire fiscal year bond payments, totaling \$5,745,788, on their January through December 2012 Recognized Obligation Payment Schedule (ROPS I). The Agency then was approved to receive \$2,872,863 for their second half of

the fiscal year bond payments on the July through December 2012 ROPS II. In both ROPS periods, the bond payment obligations were approved with Redevelopment Property Tax Trust Fund funding. Therefore, the Agency is not allowed to retain the duplicate bond payment distributions and the OFA balances available for distribution to the taxing entities will be adjusted by \$3,409,415.

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 \$11,857,852 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 8,448,437
Finance Adjustments	
Subtract:	
Innapropriate Transfer:	\$ 11,674,078
Reversal for non-liquid asset:	\$ (11,674,078)
Request to retain balance not supported:	\$ 3,409,415
Total OFA available to be distributed:	\$ 11,857,852

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 Derk Symons, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. John C. Brown, City Manager, City of Petaluma
Ms. Sue Castellucci, Housing Coordinator, City of Petaluma
Mr. Erick Roeser, Property Tax Manager, Sonoma County
California State Controller's Office