



May 1, 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

This letter supersedes the California Department of Finance's (Finance) original Other Funds and Accounts (OFA) Due Diligence Review (DDR) determination letter dated March 26, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Petaluma Successor Agency (Agency) submitted an oversight board approved OFA DDR to 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. Finance issued an OFA DDR determination letter on March 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 April 12, 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:

- Assets transferred to the City of Petaluma (City) 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 an enforceable obligation or meet the definition of governmental use. No documents received support that the transfers were required by an enforceable obligation or were previously utilized for a governmental purpose. However, the amount for the disallowed capital assets will be restricted as a non-liquid asset, resulting in a net zero adjustment. This adjustment will not affect the total amount to be distributed to the 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 for bond repayment obligations totaling \$5,055,394 is partially allowed. The Agency is permitted to retain \$4,753,015 (\$3,111,384 + \$1,590,000 + \$51,631) and the OFA balance is increased by \$302,379 (\$5,055,394 - \$4,753,015), as discussed below:

Of the total \$5,055,391 requested to be retained, \$3,111,384 represents the June 1, 2012 Redevelopment Property Tax Trust Fund (RPTTF) distribution for enforceable obligations for the July through December 2012 Recognized Obligation Payment Schedule period; therefore, the Agency will be permitted to retain these funds to satisfy approved obligations on the Recognized Obligation Payment Schedule (ROPS) for the July through December 2012 period (ROPS II).

The Agency also requested to retain \$1,590,000 for bond debt service. On the January through June 2012 ROPS (ROPS I), the Agency listed debt service payments for the entire year due to the uneven payments required. However, the Agency did not receive sufficient RPTTF funding during the ROPS I period to satisfy its obligations. In addition, because the ROPS I and July through December 2012 ROPS (ROPS II) were submitted almost at the same time, the Agency did not list the additional funding for the ROPS II period. As such, the Agency used bond reserves to make the necessary debt service payments during the ROPS II period. The amount requested is needed to replenish the bond reserves and is allowed.

The Agency requested to retain \$51,631 for expenditures accrued during the ROPS I period and paid after June 30, 2012. Documentation provided by the Agency shows payments made for Finance approved items as listed on the ROPS I.

The Agency concurs the remaining \$302,379 is not needed. Therefore, the OFA balance available for distribution will be increased by \$302,379.

- During the Meet and Confer process, the Agency requested that \$8,448,437 be retained as the amount is related to ongoing litigation. However, the amount required for remittance to the affected taxing entities, as identified in this letter, are owed regardless of the outcome of the lawsuit. Therefore, the request to retain 8,448,437 is not permitted and the available balance for distribution to the taxing entities is increased by the same amount.

The Agency's OFA balance available for distribution to the affected taxing entities is \$8,750,816 (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 retani balances not supported	\$ 302,379
Total OFA available to be distributed:	\$ 8,750,816

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 Danielle Brandon, 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