DEPARTMENT OF FINANCE

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REVISED

June 6, 2013

Ms. Linda Daniels, Assistant City Manager
City of Rancho Cucamonga
10500 Civic Center Drive
Rancho Cucamonga, CA 91730

Dear Ms. Daniels:

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 April 1, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Rancho Cucamonga Successor Agency (Agency) submitted an oversight board approved OFA DDR to the California Department of Finance (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 April 1, 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 23, 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:

- The request to restrict assets that are legally restricted for uses specified by debt covenants or other legal restrictions, in the amount of $63,606,199 is approved. Finance previously increased the OFA balance available for distribution by $8,518,776 for discrepancies in bond proceeds balances. Our review indicates these are bond proceeds from 2001-2004 Tax Allocation Bonds and bond proceeds are restricted assets per bond indenture documents and can only be used for the purpose in which they were issued. Therefore, these bond proceeds are not available for distribution to the affected taxing entities. No adjustment to the OFA balance is necessary.

- The request to restrict assets that are not cash or cash equivalents was previously adjusted by $705,020 due to the difference between the reported non-cash value as of June 30, 2012 versus the listing of the non-cash assets. During the Meet and Confer, the Agency provided additional explanation and clarification on this adjustment. Finance verified the difference is comprised of: (1) adjustments for fair market valuation in accordance with Governmental Accounting Standards Board Statement No. 31, (2) receivables converted to cash within 60 days, and (3) interest on bond proceeds. Therefore, the adjustment to the OFA balance is not necessary.

Additionally, Finance previously determined an advance from the former RDA to the City of Rancho Cucamonga (City) totaling $3,953,624 was payable on demand. Based on further review during the Meet and Confer process, Finance determined that the former RDA entered into an agreement on February 19, 2003, to advance funds to the City for project expenditures. These funds were intended to supplement project expenditures for "Non-Participating Parcels," owners that did not consent to the tax levy for the project. The agreement also states that the City will only repay the former RDA if and when future payments are received from the "Non-Participating Parcels" after the improvements have been made. Therefore, Finance has determined the amount is not payable on demand as payment is not definite. Should future payments be received towards this advance, the Agency should request use of the funds to pay enforceable obligations prior to requesting funding from the Redevelopment Property Tax Trust Fund. As such, no adjustment to the OFA balances is needed.

- The request to retain balances in the amount of $66,535,170 for the funding of enforceable obligations was originally decreased by $59,942,306. Based on additional information provided during the Meet and Confer process, the OFA balance to be distributed will be decreased by $8,873,294, as further discussed below.

    - Agency's request to retain pass-through payments totaling $48,073,930 is permitted. Our review indicates that on April 22, 1982, the former Redevelopment Agency (RDA) entered into an agreement with the Foothills Fire Protection District (District) to alleviate any financial burden caused by the redevelopment project to the District. Per the agreement, the former RDA was to allocate to its Special Fund those taxes attributed to the agreement and use those funds to pay principal and interest payments on debt incurred as a result of the construction of a fire station. When the taxes allocated exceeded the annual debt service for construction and maintenance of the new fire station, the former RDA was to pay the balances to the District upon request. The unencumbered balance of the fund as of June 30, 2012, is $35,531,276. Initially, the Agency did not provide any additional information on why the funds had not been distributed. Additionally, the Agency did not substantiate what amounts, if any, are owed for the pass through payments that the former RDA had allegedly failed to pay pursuant to the agreements. Finally, there was no documentation provided that the District had requested these funds as required by the agreement. Therefore, Finance increased the OFA balance available for distribution by $35,531,276. However, subsequent to Finance's letter dated May 8, 2013, the Agency received a request for payment from the District. Additionally, we note that this item was not denied by Finance for expenditure on the January through June 2013 Recognized Obligation Payment Schedule (ROPS III); therefore, the Agency is be permitted to retain these funds and no adjustment to the OFA balance available for distribution is needed.

      In addition, on February 21, 1982, the former RDA entered into a pass-through agreement with, among other parties, the San Bernardino Flood Control District (Flood Control) to provide the portion of the tax increment the Flood Control would have been allocated if the redevelopment plan had not been adopted. However, as of June 30, 2012, the balance of this fund was $12,542,654 and had not been distributed. The Agency did not provide any additional information on why these funds had not been disbursed. Additionally, the Agency did not substantiate what amounts, if any, are owed for the pass through payments that

the former RDA had allegedly failed to pay pursuant to the agreements. Therefore, Finance increased the OFA balance available for distribution by $12,542,654; however, this item was not denied by Finance for expenditure on the ROPS III. Therefore, the Agency will be permitted to retain these funds and no adjustment to the OFA balance available for distribution is needed.

- Request to retain $871,465 for administrative and personnel services attributed to the January through June 2012 ROPS (ROPS I) period is not allowed. The Agency claims these cost were accrued for the ROPS I period, but were not paid until after June 30, 2012. Our review indicates the Agency was approved for $1,341,018 in administrative costs for the ROPS I period. On the Prior Period Estimates vs. Actual tab of the ROPS III, the Agency reported it paid $1,822,234 in administrative costs. This is $481,216 ($1,822,234 - $1,341,018) more than the approved amount; therefore, the amount allowed to be retained for ROPS I costs would be limited to $390,249 ($871,465 - $481,216). However, documentation provided by the Agency indicates the $446,562 was not paid until April 25, 2013, after the OFA DDR Meet and Confer when the request for supporting documentation of payment was requested. Therefore, the Agency will not be permitted to retain these funds as payment was not made during the ROPS I period. The OFA balance available for distribution will be increased by $871,465.

  Finance notes that amounts requested and approved in a ROPS are effective only for the six-month period covered. To the extent the Agency does not expend funds approved and received on a ROPS until a subsequent period, the Agency should relist the unexpended amounts that need to be retained for those enforceable obligations on the subsequent ROPS with the funding source as "Reserves" or "Other" and an entry in the Notes section indicating the funds were received in a prior ROPS period.

- Various payables totaling $11,083,018. For the July through December 2012 ROPS (ROPS II) period, the County Auditor Controller distributed $20,827,777 to fund enforceable obligations. This amount should be included in the OFA DDR balances as of June 30, 2012. As such, the Agency is permitted to retain an additional $9,744,759 ($20,827,777 - $11,083,018) to satisfy approved enforceable obligations for the ROPS II period. Therefore, the OFA balance available will be decreased by $9,744,759.

The Agency's OFA balance available for distribution to the affected taxing entities is $153,199,137 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	$ 162,072,431
Finance Adjustments	
Add:	
Requested retained balance not supported:	871,465
Additonal allowable retention:	(9,744,759)
Total OFA available to be distributed:	$ 153,199,137

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. Flavio Nunez, Management Analyst I, City of Rancho Cucamonga
Ms. Vanessa Doyle, Auditor Controller Manager, San Bernardino County
California State Controller's Office