



April 26, 2013

Mr. Barry Tippin, Assistant City Manager
City of Redding
777 Cypress Avenue
Redding, CA 96001

Dear Mr. Tippin:

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 21, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Redding 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 21, 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 8, 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 transfer to the City of Redding (City) in the amount of \$650,000 was based on a loan agreement between the former redevelopment agency (RDA) and the City. Per HSC section 34179.5 (c) (2), the dollar value of assets and cash transferred to the city, county, or city and county that formed the former RDA by the former redevelopment agency or successor agency between January 1, 2011 through June 30, 2012 must be evidenced by documentation of the enforceable obligation that required the transfer. HSC section 34179.5 states "enforceable obligation" includes any of the items listed in subdivision (d) of section 34171. HSC section 34171 (d) (2) states "enforceable obligation" does not include any agreements, contracts, or arrangements between the city that created the RDA and the former RDA. Therefore, the transfer was not made pursuant to an enforceable obligation and is not permitted. The OFA balance available for distribution is increased by \$650,000.

The repayment of the loan may become an enforceable obligation after the Agency receives a Finding of Completion from Finance. If the oversight board makes a finding that the loans were for legitimate redevelopment purposes, these loans should be placed on future Recognized Obligation Payment Schedules (ROPS) for repayment. Refer to HSC section 34191.4 (b) for more guidance.

- The request to retain balances in the amount of \$5,921,283 is partially allowed. During the meet and confer process, the Agency requested to retain \$992,515 to fund Finance approved ROPS III obligations for the January through June 2013 ROPS (ROPS III) period. Our review indicates the Agency was approved for \$2,068,526 in RPTTF for the ROPS III period but was only distributed \$393,484. In addition, the Agency did not relist the items on the July through December 2013 ROPS for funding or obtain a loan from the City in accordance with HSC section 34173 (h). Therefore, the Agency will be permitted to retain the funds requested through the meet and confer process totaling \$992,515. The balance available for distribution will be increased by \$4,928,768, not \$5,921,283 as previously determined.

Should any further deficits occur in the future, HSC provides successor agencies with various methods to address short term cash flow issues. These may include requesting a loan from the city pursuant to HSC section 34173 (h), requesting the accumulation of reserves on the ROPS when a future balloon or uneven payment is expected pursuant to HSC section 34177 (d) (1) (A), or subordinating pass-through payments pursuant to HSC section 34183 (b). The Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation if a deficiency were to occur.

The Agency did not object to the following adjustment made by Finance during the Meet and Confer process. HSC section 34179.6 (d) authorizes Finance to make adjustments. We maintain that the following adjustment is appropriate:

- Balances requested to be retained for the July through December 2012 (ROPS II) period obligations in the amount of \$3,746,648 are partially denied. Although the Agency wishes to retain \$3,746,648, the County Auditor Controller only distributed \$3,513,704 on June 1, 2012. Therefore, the Agency is limited to retaining \$3,513,704 for ROPS II enforceable obligations. As such, the OFA balance available for distribution to the taxing entities will be adjusted by \$232,944.

To the extent these constitute enforceable obligations, the Agency should request funding for these in a future ROPS.

The Agency's OFA balance available for distribution to the affected taxing entities is \$13,086,232 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 7,274,520
Finance Adjustments	
Add:	
Disallowed transfers:	\$ 650,000
Requested retained balance not supported:	\$ 4,928,768
ROPS II balances not distributed by CAC:	\$ 232,944
Total OFA available to be distributed:	\$ 13,086,232

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: Ms. Sarah Haddox, Sr. Redevelopment Project Coordinator, City of Redding
Ms. Sherri Jenkins, Managing Accountant Auditor, Shasta County
California State Controller's Office