



March 8, 2013

Ms. Marissa Christiansen, Assistant to the City Manager  
City of Redondo Beach  
415 Diamond Street  
Redondo Beach, CA 90277

Dear Ms. Christiansen:

Subject: Other Funds and Accounts Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Redondo Beach 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:

- The DDR request to restrict \$36,001 for interest due and accrued for the refinancing of Bank of the West letter of credit is not allowed. It is our understanding this obligation was not included on the original Recognized Obligation Payment Schedule (ROPS) III submitted to Finance on August 28, 2012. On October 2, 2012, the Agency submitted a revised ROPS III to include this obligation requesting Redevelopment Property Tax Trust Fund (RPTTF) as a funding source. Finance issued our ROPS III determination letter dated October 9, 2012 based on the original ROPS III submittal, as such this line item was not approved for funding.

Based on our review of your DDR, the Agency has not adequately proven there will be insufficient property tax revenues to pay for this obligation. HSC section 34179.5 (c) (5) (D) states that a successor agency shall provide a listing of all approved enforceable obligations that includes a projection of annual spending requirements to satisfy each obligation and a projection of annual revenues available to fund those requirements.

It is not evident the thorough analysis required by HSC section 34179.5 (c) (5) (D) was conducted. Further, it is not evident that future property tax revenues will be insufficient. Therefore, your request to retain current OFA balances for future obligations is denied and the OFA available for distribution to the affected taxing entities will be adjusted by \$36,001.

- The DDR requests to retain \$15.4 million for fiscal year 2012-13 obligations. Of this amount requested to be retained, Finance approved obligations totaling \$352,441 to be funded with RPTTF for the July through December 2012 Recognized Obligation Payment Schedule (ROPS) II period.

For the ROPS III period, 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 \$15 million.

It is our understanding \$14.1 million of the \$15.4 million is for repayment of the County deferral loans. These loans are enforceable obligations and are allowed to be put on subsequent ROPS requesting RPTTF as a funding source.

- Finance noted the county auditor controller adjusted the ROPS III January 2, 2013 distribution by \$485,022 pursuant to HSC section 34186 (a). Therefore, Finance is allowing the retention of these funds in order to adequately fund approved ROPS III expenditures.

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/](http://www.dof.ca.gov/redevelopment/meet_and_confer/)

The Agency's OFA balance available for distribution to the affected taxing entities is \$1,221,341 (see table below).

<b>OFA Balances Available For Distribution To Taxing Entities</b>	
Available Balance per DDR:	\$ (13,367,427)
Finance Adjustments	
Add:	
Requested restricted balance not supported:	\$ 36,001
Requested retained balance not supported:	15,390,230
Approved OFA expenditures for ROPS II:	(352,441)
HSC section 34186 (a) retention:	(485,022)
<b>Total OFA available to be distributed:</b>	<b>\$ 1,221,341</b>

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.

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 Kylie Le, Supervisor or Michael Barr, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY  
Local Government Consultant

cc: Mr. Peter Grant, Assistant City Manager, City of Redondo Beach  
Ms. Diana Moreno, Financial Services Director, City of Redondo Beach  
Mr. Joe Hoefgen, Recreation, Transit, and Community Services Director, City of Redondo Beach  
Mr. Doug Kaku, Grants Financial Administrator, City of Redondo Beach  
Ms. Elizabeth Hull, Agency Counsel, Best, Best & Krieger  
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller  
California State Controller's Office