



April 2, 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

This letter supersedes the California Department of Finance's (Finance) original Other Funds and Accounts (OFA) Due Diligence Review (DDR) determination letter dated March 8, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Redondo Beach 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 8, 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 March 20, 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 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 January through June 2013 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 the DDR, the Agency has not adequately demonstrated 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. However, the item is an enforceable obligation and should be placed on a subsequent ROPS for Finance's review and approval for funding out of RPTTF.

- 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. As such, it is inappropriate for the Agency to retain current OFA balances for obligations that have already been funded through a separate process. However, Finance notes 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 \$485,022 in order to adequately fund approved ROPS III expenditures.

It is our understanding \$14.1 million of the \$15.4 million is for repayment of the County of Los Angeles deferral loans. The Agency should submit an Oversight Board approved repayment plan to Finance for review. Once a repayment plan is approved by Finance and the County of Los Angeles, these loans are enforceable obligations and are allowed to be placed on subsequent ROPS for Finance's review and approval for funding out of RPTTF.

Therefore, the OFA balances available for distribution to the taxing entities will be adjusted by \$14,552,767 (\$15,390,230 – \$352,441 – \$485,022).

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>

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 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 Evelyn Suess, Supervisor or Mary Halterman, 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