



May 3, 2013

Mr. Paul Melikian, Director of Finance & Administrative Services
City of Reedley
1733 Ninth Street
Reedley, CA 93654

Dear Mr. Melikian:

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 28, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Reedley Successor Agency (Agency) submitted an oversight board approved OFA DDR to Finance on December 14, 2012. 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 28, 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 17, 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:

- Transfers totaling \$540,928 were not allowed. However, based on additional information provided during the Meet and Confer process, \$25,000 of the adjustments is being reversed, as further discussed below.
 - The former Redevelopment Agency (RDA) loaned the City of Reedley (City) \$390,928 for the Reedley Municipal Airport in March 2011. However, the Agency did not provide an agreement between the former RDA and the City establishing repayment terms. The only documentation provided for the loan was a resolution from the City Council approving a loan from the former RDA. Without a valid contract or repayment schedule, this loan is considered payable on demand and should be included as part of the June 30, 2012 balance. Per HSC section 34179.5 (b) (1), "cash" and "cash equivalents" include payables on demand.

On the July through December 2013 Recognized Obligation Payment Schedule (ROPS 13-14A), the Agency had requested and Finance approved that \$51,479 of the funds be used to fund the 2011 bond debt service. As such, the OFA balance available for distribution to the taxing entities will be increased by \$339,449 (\$390,928 - \$51,479).

- A transfer in the amount of \$125,000 for the Downtown Streetscape Grant. The Agency provided a resolution approving and adopting the Five-Year Implementation Plan and the development plan in lieu of a grant agreement or award letter. However, no valid contract was provided to support the transfer. The Agency provided additional documents during the Meet and Confer process showing that expenditures have been incurred; however, all of the expenditures were after June 27, 2011, when the former RDA no longer had the authority to enter into new contracts or incur obligation. Therefore, the expenditures are not associated with an enforceable obligation and the OFA balance available for distribution to the taxing entities will be increased by \$125,000.
- A transfer in the amount of \$25,000 for the Façade Improvement Grant. During the Meet and Confer process, the Agency provided additional information showing that this transfer was related to an item approved on the January through June 2012 Recognized Obligation Payment Schedule. Therefore, Finance is reversing its adjustment of \$25,000.
- The request to retain \$1,160,303 for fiscal year 2012-13 obligations is partially disallowed.

For the Recognized Obligation Payment Schedule (ROPS) for the period of July through December 2012 (ROPS II), Finance approved and the County Auditor Controller distributed \$483,631 from the Redevelopment Property Tax Trust Fund (RPTTF). However, the ROPS II distribution was received in July 2012, and the funds were not part of the June 30, 2012 balance. Therefore, it is not necessary to restrict the funds.

For the January through June 2013 ROPS period (ROPS III), Finance approved \$761,449 and the County Auditor Controller distributed \$690,818 from the RPTTF. This resulted in a \$70,631 shortfall in the ROPS III period. Therefore, the Agency may retain \$70,631 to ensure sufficient funds are available for the ROPS III period.

Therefore, the OFA balance available for distribution is being increased by \$1,089,672 (\$1,160,303 - \$70,631).

- During the Meet and Confer process, the Agency identified an error in the DDR related to bond reserves held by a fiscal agent not being restricted in Procedure 6. The Agency provided documents showing that \$755,111 was being held by a fiscal agent for the 2011 Series A and B bonds. Therefore, Finance is reducing the OFA balance available by \$755,111.

The Agency's OFA balance available for distribution to the affected taxing entities is \$795,306 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ (3,704)
Finance Adjustments	
Add:	
Disallowed transfers	\$ 464,449
Assets restricted with fiscal agent	(755,111)
Requested retained balance not supported	1,089,672
Total OFA available to be distributed:	\$ 795,306

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.

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Please direct inquiries to Evelyn Suess, Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Darlene Mata, Planning Manager
Mr. George Gomez, Accounting Financial Manager, Fresno County
California State Controller's Office