DEPARTMENT OF FINANCE

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915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

July 17, 2013

Ms. Melissa Hagan, Financial Analyst
City of Roseville
311 Vernon Street
Roseville, CA 95678

Dear Ms. Hagan:

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 June 10, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Roseville Successor Agency (Agency) submitted an oversight board approved OFA DDR to Finance on March 26, 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 June 10, 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 June 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:

- Transfers made to the City of Roseville (City) totaling $7,304,420 on July 1, 2011 and January 31, 2012 continue to be denied. The Agency stated that the transfers of cash to the City of Roseville were loan payments to repay the City for loans it had made to the former Redevelopment Agency (RDA) in previous years. Per HSC section 34179.5 (c) (2), the dollar value of assets and cash transferred by the former RDA or successor agency to the city, county, or city and county that formed the former RDA 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, contracts detailing specific work that were entered into by the former RDA prior to June 28, 2011, with a third party other than the city, county, or city and county that created the former RDA. 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. The repayments of the former RDA's loans to the City (as further discussed in the following bullets) are not enforceable obligations. Therefore, Finance is adjusting the OFA DDR to increase the balance in the amount of $7,304,420.

- Per documentation provided during the Meet and Confer process, the former RDA transferred $5,354,603 in unspent bond proceeds as part of the $7,304,420 transfer. The Agency stated that the City arranged to loan the former RDA funding for projects that would have originally used these bond funds so the former RDA could preserve the bond funds for other projects. When RDA dissolution was announced, the City Council and the RDA took a joint action on January 31, 2012 to "swap" bond proceeds for the amounts originally loaned from the City's General Fund. The Agency maintains that the unspent bond funds were intended for projects and would have been utilized if the City had not loaned funds to the former RDA. The $5,354,603 in bond proceeds are considered restricted assets and are not available for disbursement to the affected taxing entities. However, the City should immediately return the unspent bond funds to the Agency. Finance notes that the $5,354,603 in transferred bond proceeds is included in the $5,944,943 bond funds accounted for in the Low and Moderate Income Housing Fund (LMIHF) DDR, as noted in the last bullet on Page 4.

- The Agency also stated that $1,530,951 of the $7,304,420 funds transferred to the City were excess loan proceeds that did not originate from tax increment. A review of the documents provided identifies that the funds were unspent loan proceeds received from the City in 2005, 2007, 2009, and 2010. As previously stated, HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the former RDA are not enforceable unless the loan agreements were entered within the first two years of the date of the creation of the RDA. Therefore, the transfer of the $1,530,951 was not made pursuant to an enforceable obligation and is not allowable.

- The Agency also stated that there were additional loan payments to the City in the amounts of $381,628 from tax increment and $37,238 from lease revenues included in the $7,304,420 that was transferred. A review of the documents provided identifies that the transfers were made to repay loans received from the City in 2005, 2007, 2009, and 2010. Therefore, the transfer of $418,866 ($381,628 + $37,238) was not made pursuant to an enforceable obligation and is not allowable.

The Agency recognizes the payments were not allowable at the time of repayment but would be allowable once a finding of completion has been issued. However, because a finding of completion has not been issued, the transfer or repayment of these loans is not allowed. In addition, when the loans do become eligible for repayment, the Agency must follow requirements established under HSC section 34191.4.

- The Agency requested to retain $2,693,164 to cover enforceable obligations. Based upon further review during the Meet and Confer process, the Agency may retain $1,902,136 ($1,531,316 + $370,820) and the OFA balance available will be decreased by $791,028 ($2,693,164 – $1,902,136), as further discussed below.

  - For the ROPS II period, Finance approved $1,694,681 for enforceable obligations (including pass-through payments) and the County Auditor Controller (CAC) distributed $1,694,681 from the Redevelopment Property Tax Trust Fund (RPTTF). On the July through December 2013 ROPS form (ROPS 13-14A), the Agency reported expenditures totaling $1,611,573 (including pass-through

payments) funded by the RPTTF for the ROPS II period; however, in the Meet and Confer request form, the Agency requested to retain $163,365 for SERAF loan payments due July 1, 2013 even though the Agency reported expending these funds on the ROPS 13-14A form. During the Meet and Confer conference, the Agency stated that they had not actually expended the $163,365 for the SERAF loan repayment, but was requesting to retain the funds for a future payment. HSC section 34176 (e) (6) (B) specifies loan or deferral repayments to the LMIHF shall not be made prior to the 2014-15A fiscal year and subject to the repayment formula outlined in HSC section 34176 (e) (6) (B). Therefore, the Agency will not be allowed to retain $163,365 in RPTTF received in the ROPS II period and the amount the Agency expended in ROPS II period will be reduced to $1,448,208 ($1,611,573 - $163,365). In addition, the CAC made an $83,108 adjustment for the ROPS I3-14A period on the July 1, 2013 distribution pursuant to HSC section 34186 (a). As such, the Agency may retain $1,531,316 ($1,448,208 + $83,108) for the ROPS II period.

- For the January through June 2013 ROPS period (ROPS III), Finance approved $2,362,079 and the CAC distributed $2,296,751 from the RPTTF. ROPS III RPTTF funds were received in January 2013 and would not have been included in the OFA DDR. However, because the Agency suffered a funding shortfall during the ROPS III period, the Agency is approved to retain $65,328 (2,362,079 - $2,296,751) in OFA balances. Additionally, Finance approved $305,492 for enforceable obligations to be paid out of OFA balances. As such, the Agency may retain $370,820 ($65,328 + $305,492) to cover approved enforceable obligations during the ROPS III period.

- The request to retain $319,006 in OFA balances for the United State Postal Service (USPS) relocation continues to be denied. The Agency stated that a contract was signed prior to June 27, 2011 regarding a future relocation of the USPS, and the Agency has created a reserve fund to pay for this future obligation. The Agency desires to retain the $319,006 in funds to fund a portion of the agreed relocation expenses. The Agency recognizes that this obligation has not been placed and approved on a ROPS. Although HSC section 34177 (b) allows reserves required for indentures, trust indentures, or similar documents governing the issuance of outstanding RDA bonds, it does not currently recognize anticipated obligations for future ROPS period, and thus creation of reserves for such items are not permissible. The Agency should place the obligation on a future ROPS for approval when expenses are scheduled to be incurred.

Should 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:

- Unspent bond proceeds in the amount of $5,944,943. These bond proceeds were accounted for in the LMIHF DDR and should not be included in the Agency's OFA balances.

The Agency's OFA balance available for distribution to the affected taxing entities is $1,831,499 million (see next page).

OFA Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	(319,006)
Finance Adjustments		
Adjustment to June 31, 2012 balance	$	(5,944,943)
Disallowed transfers	$	7,304,420
Disallowed balances retained for 2012-13 obligations		791,028
Total OFA available to be distributed:	$	1,831,499

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, Dispute Resolution Supervisor or Derk Symons, Analyst at (916) 445-1546.

Sincerely,

for

STEVE SZALAY
Local Government Consultant

cc: Mr. Kevin Payne, Revitalization Manager, City of Roseville
Ms. Jayne Goulding, Managing Accountant Auditor, Placer County
California State Controller's Office