



June 12, 2013

Ms. Leslie Fritzsche, Senior Project Manager
City of Sacramento
915 I Street
Sacramento, CA 95814

Dear Ms. Fritzsche:

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 May 7, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Sacramento Successor Agency (Agency) submitted an oversight board approved OFA DDR to Finance (Finance) on February 20, 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 May 7, 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 May 23, 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 request to retain \$46,513,401 to cover unfunded obligations for the 2012-13 fiscal year is approved. Finance previously adjusted the OFA balance available for distribution by \$7,855,591. Additional review indicates these funds are needed to satisfy approved obligations for the Recognized Obligations Payment Schedules (ROPS) for the July through December 2012 (ROPS II) and January through June 2013 (ROPS III) periods. This amount is for approved obligations unfunded by the Redevelopment Property Tax Trust Fund (RPTTF) distributions for ROPS II and ROPS III as well as approved items funded with "Other" funds. Therefore, we no longer believe the original adjustment is necessary.

We note that some of the items included in the Agency's request to retain funds were denied through the ROPS review; however, Finance has determined these funds totaling \$2,623,542 should be used to make the 1998 bond debt service payments for ROPS Item 180 as indicated in our July through December 2013 (ROPS 13-14A) Determination Letter.

- The Agency will be permitted to retain an additional \$767,692 in reserve funds for enforceable obligations approved on ROPS 13-14A. This amount is permitted due to a technical correction made by Finance on the ROPS 13-14A. Since RPTTF had already been distributed on June 3, 2013, Finance is allowing additional OFA balances needed to be retained to satisfy the 1998 bond debt service payment for Item 180 during the ROPS 13-

14A period. Therefore, the OFA balance available for distribution will be decreased by \$767,692.

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:

- The request to retain security lending receivables in the amount of \$712,131 is not allowed. These receivables are short-term in nature, and have been collected by the Agency in September 2012. Additionally, the obligation related to these receivables was contingent and is not an enforceable obligation.

The Agency's OFA balance available for distribution to the affected taxing entities is \$4,585,213 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 4,640,774
Finance Adjustments:	
Additional retention	\$ (767,692)
Add:	
Request to restrict non-cash assets not supported	\$ 712,131
Total OFA available to be distributed:	\$ 4,585,213

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.

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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: Mr. Dennis Kauffman, Accounting Manager, City of Sacramento
Mr. Carlos Valencia, Senior Accounting Manager, Sacramento County
California State Controller's Office