DEPARTMENT OF FINANCE

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April 27, 2013

Mr. Don Reynolds, Project Manager
City of Salinas
200 Lincoln Avenue
Salinas CA 93901

Dear Mr. Reynolds:

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 22, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Salinas 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 22, 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 9, 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 funds totaling $624,223 was previously not allowed. During the Meet and Confer process, the Agency provided clarifying information that the amount requested for retention was related to the shortfall of funding from the Redevelopment Property Tax Trust Fund (RPTTF) for the Recognized Obligation Payment Schedule (ROPS) period July through December 2012 (ROPS II). For the ROPS II period, Finance had approved $3,942,317 in obligations and the County Auditor Controller disbursed $1,788,902 from the RPTTF. During the Meet and Confer process, the Agency provided clarifying information showing that the $624,223 is part of the RPTTF received from the ROPS II distribution. Therefore, Finance is reversing its adjustment of $624,223.

- Property transfers totaling $6,565,729 were not allowed. Finance identified 16 pieces of properties transferred to the City of Salinas without oversight board or Finance approval. Because these properties are not considered cash or cash-equivalent assets, Finance has made no adjustment to the amount available for distribution to the affected taxing entities.

  During the Meet and Confer process, the Agency provided additional documents showing that one of the items was a building on a parcel that Finance had allowed for transfer and two of the items were transferred pursuant to a third party agreement. The

building is valued at $49,500. However, the Land Disposition Agreement was not executed until September 2011. HSC section 34163 (d) states that an agency shall not have the authority to, and shall not, dispose of assets including real property. The Land Disposition Agreement could not have been entered into and the sale could not have occurred. Therefore, property transfers totaling $6,516,229 ($6,565,729 - $49,500) were not allowed.

However, the Agency should reverse the improper transfer of properties. Pursuant to HSC section 34191.5, within six months after receiving a Finding of Completion from the Finance, the Agency is required to submit for approval to the Oversight Board and Finance a Long-Range Property Management Plan (LRPMP) that addresses the disposition and use of the real properties of the former redevelopment agency (RDA). The Agency should include these properties in the inventory of all former RDA properties and describe the planned disposition of each vacant lot in its LRPMP.

The Agency's OFA balance available for distribution to the affected taxing entities has been revised to $0, as reported on the DDR.

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, Supervisor or Mary Halterman, Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Mr. Matt Pressey, Finance Director, City of Salinas
Ms. Julie Aguero, Auditor Controller Analyst II, Monterey County
California State Controller's Office