DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

April 24, 2012

Mr. Thomas Prill, Acting Finance Director
City of San Jacinto
595 S. San Jacinto Avenue
San Jacinto, CA 92583

Dear Mr. Prill:

Subject: Other Funds and Accounts Due Diligence Review

The City of San Jacinto Successor Agency (Agency) submitted an oversight board approved Other Funds and Accounts (OFA) Due Diligence Review (DDR) to the California Department of Finance (Finance) on February 7, 2013. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Since the Agency did not meet the January 15, 2013 submittal deadline pursuant to HSC section 34179.6 (c), Finance is not bound to completing its review and making a determination by the April 1, 2013 deadline pursuant to HSC section 34179.6 (d). However, Finance has completed its review of your DDR, which may have included obtaining clarification for various items.

HSC section 34179.6 (d) authorizes Finance to adjust the DDR's stated balance of OFA available for distribution to the taxing entities. Based on our review of your DDR, the following adjustments were made:

- Disallowed cash transfers in the amount of $700,208. Our review indicates that the former Redevelopment Agency (RDA) transferred cash to the City of San Jacinto (City) during the period January 1, 2011 through June 30, 2011 to repay city loans. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the RDA are not enforceable unless the loan agreements were entered within the first two years of the date of the creation of the RDA. These loans were issued after the first two years of the RDA's creation; therefore, the payments for these loans are not permitted.

- Disallowed asset transfers in the amount of $661,252. Our review indicates that the former RDA transferred property including cash for demolition funding to the City during the period January 1, 2011 through June 30, 2011. Per HSC section 34191.3, the requirements in subdivision (e) of Section 34177 and subdivision (a) of Section 34181 shall be suspended, except as those provisions apply to the transfers for governmental use, until Finance has approved a long-range property management plan (LRPMP). The non-liquid assets transferred to the City are subject to the California State Controller's Office review of asset transfers. To the extent these properties do not meet criteria outlined in HSC section 34181 (a), they should be returned to the Agency and disposed

of in a manner consistent with the Agency's LRPMP pursuant to HSC section 34191.5. Finance only made adjustments to the available balance for the cash amount transferred totaling $661,252.

If you disagree with Finance's adjusted amount of OFA balances available for distribution to the taxing entities, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

http://www.dof.ca.gov/redevelopment/meet_and_confer/

The Agency's OFA balance available for distribution to the affected taxing entities is $4,539,575 (see table below).

OFA Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	3,178,115
Finance Adjustments:		
Disallowed cash transfers	$	700,208
Disallowed property transfers	$	661,252
Total OFA available to be distributed:	$	4,539,575

Absent a Meet and Confer request, 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, please 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 Beliz Chappuie, Supervisor or Anna Kyumba, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Sharon Paisley, Development Director, City of San Jacinto
Ms. Pam Elias, Chief Accountant Property Tax Division, Riverside County Auditor-Controller
California State Controller's Office