

April 17, 2013

Ms. Nancy Manchester, Program Specialist
City of Santa Rosa
90 Santa Rosa Avenue
Santa Rosa, CA 95404

Dear Ms. Manchester:

Subject: Other Funds and Accounts Due Diligence Review

The City of Santa Barbara 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 January 31, 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:

- Assets transferred to the City of Santa Rosa (City) on June 30, 2011 in the amount of \$1,135,491. The transfers were for the repayment of principal of the 2005 Santa Rosa Center and Gateway Redevelopment Project Area agreements between the former redevelopment agency (RDA) and the City. These agreements were determined not to be enforceable obligations during the January through June 2012 Recognized Obligation Payment Schedule (ROPS I) period. HSC 34171 section (d) (2) states that agreements, contracts or arrangements between the city that created the RDA and the former RDA are not enforceable, unless issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. Therefore, the OFA available for distribution to the taxing entities will be adjusted by \$1,135,491.

However, pursuant to HSC 34191.4 (b), upon the receipt of a Finding of Completion by the Department of Finance, the successor agency, with the approval of the Oversight Board, may deem the agreements enforceable obligations.

- Balances legally restricted totaling \$7,809,340 should be adjusted by \$4,590,070. The Agency requests to restrict \$4,558,228 for capital project debt agreements. Finance was unable to determine whether the \$4,558,228 is for enforceable obligations or the nature

of their restriction. The 2012 and 2005 loan agreements related to the capital projects debt were denied by Finance in ROPS III. In addition, the Agency requests to restrict \$31,842 for various payments for goods and services. Finance was unable to determine the specific restriction imposed or the enforceability for the outstanding payments. The OFA balances available for distribution to the taxing entities will be adjusted by \$4,590,070.

- The DDR's exhibit for balances needed for fiscal year 2012-13 totals \$19,596,058. Therefore, the Agency requested to retain their remaining asset balance of \$10,776,627 under Procedure 9 of the DDR. Of the \$10,776,627, Finance determined that balances totaling \$5,991,376 are permitted to be retained. Therefore, the OFA balances available for distribution to the taxing entities will be adjusted by \$4,785,251. Finance noted the following as it relates to this adjustment.
 - The Agency's request to retain \$1,104,427 for July through December 2012 ROPS II obligations is denied. The Agency requested to retain a total of \$4,737,463 to satisfy ROPS II obligations. Included in this amount is \$285,000 that was denied by Finance. In addition, the DDR list three items for the ROPS II period that were not listed on ROPS II for a total of \$9,031. Additionally, two items totaling \$810,396 were listed in the DDR and approved on ROPS II with bond proceed funding. Because these obligations were approved to be bond funded, the Agency cannot restrict additional OFA balances because the unspent bond amounts are already restricted in the DDR under Procedure 6.
 - The Agency's request to retain \$3,202,032 for January through June 2013 ROPS III obligations funded with Redevelopment Property Tax Trust Funds (RPTTF) is denied. Included in this amount is \$1,609,973 of ROPS III obligations that were approved with RPTTF funding. Since the County Auditor Controller distributed RPTTF for approved ROPS III obligations on January 2, 2013, after the June 30, 2012 OFA balances delineated in the DDR, it is inappropriate for the Agency to retain current OFA balances for obligations that have already been funded through a separate process. In addition, the Agency included \$1,592,059 of ROPS III obligations that were denied by Finance.
 - The Agency's request to retain \$9,298,223 for January through June 2013 ROPS III obligations funded with sources other than RPTTF is denied. The Agency requests to retain \$11,656,563 for ROPS III obligation funded with sources other than RPTTF. Included in this amount is \$8,379,222 of ROPS III expenditures that were denied by Finance. In addition, two obligations funded with bond proceeds totaling \$919,001 were approved by Finance in a Meet and Confer. However, because these obligations were approved to be bond funded, the Agency cannot restrict additional OFA balances because the unspent bond amounts are already restricted in the DDR under Procedure 6.
- Finance noted the county auditor controller adjusted the ROPS III January 2, 2013 distribution by \$1,012,825 pursuant to HSC section 34186 (a). Therefore, Finance is allowing the retention of these funds in order to adequately fund approved ROPS III expenditures.

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 \$9,497,987 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Disallowed transfers:	\$ 1,135,491
Request to retain legally restricted balance not supported:	4,590,070
Request to retain balance not supported:	4,785,251
HSC section 34186 (a) retention:	(1,012,825)
Total OFA available to be distributed:	\$ 9,497,987

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, 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.

Ms. Nancy Manchester
April 17, 2013
Page 4

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 Wendy Griffe, Supervisor or Derk Symons, Lead Analyst at (916) 445-1546.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Steve Szalay', with a stylized flourish extending to the left.

STEVE SZALAY
Local Government Consultant

cc: Mr. Erick Roeser, Property Tax Manager, Sonoma County
California State Controller's Office