



April 2, 2013

Ms. Daphne Hodgson, Deputy City Manager  
City of Seaside  
440 Harcourt Avenue  
Seaside, CA 93955

Dear Ms. Hodgson:

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 8, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Seaside Successor Agency (Agency) submitted an oversight board approved OFA DDR to Finance on January 14, 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 8, 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 March 18, 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 balances in the amount of \$1,446,154 to satisfy enforceable obligations. For the Recognized Obligation Payment Schedule for the July 1, 2012 through December 31, 2012 period (ROPS II), Finance approved \$3,458,296 in funding from the Redevelopment Property Tax Trust Fund (RPTTF). In June 2012, the Monterey County Auditor Controller (CAC) distributed \$1,446,154 from the RPTTF. This amount is included in the total assets held by the Agency as of June 30, 2012. Therefore, Finance is reversing its prior adjustment and noting that the \$1,446,154 amount should have been included under balances needed to satisfy ROPS for the current fiscal year.

The CAC also distributed \$1,666,678 for ROPS II in December 2012, for a total of \$3,112,832 (\$1,446,154 + \$1,666,678). The \$1,666,678 distribution is not included in the total assets held by the Agency as of June 30, 2012, and does not need to be restricted on the OFA DDR as a balance needed to satisfy ROPS for the current fiscal year. In the ROPS II Prior Period Payments reported with the July through December 2013 ROPS (ROPS 13-14A), the Agency reported \$2.25 million in expenditures. The Agency received sufficient funds from the RPTTF to cover all of its expenditures in the ROPS II period and no additional OFA balances need to be retained. To the extent

excess RPTTF was provided during the ROPS II period, the CAC may make an adjustment to the ROPS 13-14A distribution pursuant to HSC section 34186 (a).

For the January through June 2013 period (ROPS III), Finance approved and the CAC distributed \$870,480 from the RPTTF. The CAC did not make any adjustments for the January through June 2012 period (ROPS I) to the ROPS 3 January 2, 2013 distribution pursuant to HSC section 34186 (a). As such, the Agency received sufficient funds from the RPTTF to cover all of the approved expenditures in the ROPS III period and it is unnecessary for the Agency to retain current OFA balances for obligations that have already been funded through a separate process.

Furthermore, the Agency has not demonstrated there will be insufficient property tax revenues to pay for future obligations. HSC section 34179.5 (c) (5) (D) requires an extensive analysis before retention of current unencumbered balances can be contemplated. This includes but is not limited to, providing a detail of the projected property tax revenues and other general purpose revenues to be received by the Agency, together with both the amount and timing of the bond debt service payments, for the period in which the oversight board anticipates the Agency will have insufficient property tax revenue to pay the specified obligations. It is not evident that a thorough analysis required by HSC section 34179.5 (c) (5) (D) was conducted. Further, it is not evident that future property tax revenue will be insufficient or that there is an immediate need to retain OFA balances.

Therefore, we are increasing the balance to be remitted by \$3,473,483. This brings the total OFA available to be distributed to \$9,078,630, which corresponds with the unencumbered and unrestricted cash and investments balance reported in the DDR.

- An adjustment to the total amount of assets held as of June 30, 2012 in the amount of \$1,777,181. Our initial review of the Agency's trial balance showed cash and investments totaling \$10,855,811 while the DDR listed cash and investments totaling \$9,078,630. As such, the total amount of assets held as of June 30, 2012 was adjusted accordingly ( $\$10,855,811 - \$9,078,630 = \$1,777,181$ ). However, based on further review, the amount was already accounted for in the restricted cash and investments. Therefore, Finance is reversing its prior adjustment.

The Agency's OFA balance available for distribution to the affected taxing entities is \$9,078,630 (see table below).

<b>OFA Balances Available For Distribution To Taxing Entities</b>	
Available Balance per DDR:	\$ 5,605,147
Finance Adjustments	
Add:	
Retained balances to satisfy ROPS 2012-13 fiscal year	3,473,483
<b>Total OFA available to be distributed:</b>	<b>\$ 9,078,630</b>

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.

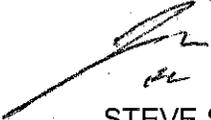
Failure to transmit the identified funds will also prevent the Agency from being able to receive a finding of completion from Finance. Without a finding of completion, the Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4. Specifically, these provisions allow certain 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: Ms. Lisa Brinton, Redevelopment Project Manager, City of Seaside  
Ms. Julie Aguero, Auditor Controller Analyst II, Monterey County  
California State Controller's Office