



April 22, 2013

Ms. Terri Marsh, Finance Director  
City of Signal Hill  
2175 Cherry Avenue  
Signal Hill, CA 90755

Dear Ms. Marsh:

Subject: Other Funds and Accounts Due Diligence Review

The City of Signal Hill 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 25, 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 legally restricted in the amount of \$21.2 million are partially denied. Included in this amount is a \$1.5 million loan repayment to the City of Signal Hill (City) which was denied by Finance in our ROPS III letter dated October 8, 2012. Our determination was further confirmed in the Meet and Confer letter dated November 26, 2012. Therefore, the OFA balance available for distribution to the taxing entities will be adjusted by \$1.5 million.
- The Agency's request to retain \$1.4 million in current unencumbered OFA balances to cover future obligations is not allowed. It is our understanding this request is for obligations approved in the ROPS I period, but not yet spent. Since we are approaching the ROPS 13-14A period, it is not evident these funds will be required. To the extent these items continue to be enforceable obligations and funding is actually needed, the Agency should place these items on a future ROPS.

In order to retain current funds to cover 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 the 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 these balances.

Should a deficit occur in the future, HSC provides successor agencies with various methods to address short term cash flow issues. These may include requesting a loan from the city pursuant to HSC section 34173 (h), requesting the accumulation of reserves on the Recognized Obligation Payment Schedule (ROPS) when a future balloon or uneven payment is expected, or subordinating pass-through payments pursuant to HSC section 34183 (b). The Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation if a deficiency were to occur.

Since the Agency has not met the requirements detailed in HSC section 34179.5 (c) (5) (D) and possesses alternatives to address short term cash flow shortages, Finance deems it is not necessary for the Agency to retain \$1.4 million in OFA unencumbered balances.

- The DDR requests to retain \$6.9 million for fiscal year 2012-13 obligations. Of this amount requested to be retained, Finance approved obligations totaling \$7.6 million to be funded with RPTTF for the July through December 2012 Recognized Obligation Payment Schedule (ROPS) II period. However, the County Auditor Controller distributed only \$5.6 million. As such the Agency is limited to retaining \$5.6 million for ROPS II enforceable obligations.

On the January through June 2013 (ROPS III) period, Finance approved obligations in the amount of \$225,965 to be funded with other funds. As such, Finance is adjusting the balance to reflect an additional \$225,965, totaling \$5.8 million in approved ROPS II and III expenditures.

To the extent the unfunded obligations from the ROPS II period constitute enforceable obligations, the Agency should request funding for these in future ROPS.

- Finance noted the county auditor controller adjusted the ROPS III January 2, 2013 distribution by \$328,035 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/](http://www.dof.ca.gov/redevelopment/meet_and_confer/)

The Agency's OFA balance available for distribution to the affected taxing entities is \$3,585,530 (see table).

<b>OFA Balances Available For Distribution To Taxing Entities</b>	
Available Balance per DDR:	\$ 8,704
Finance Adjustments	
Add:	
Legally restricted balance not supported:	1,500,000
Requested restricted balance not supported:	1,387,767
Requested retained balance not supported:	6,851,980
Approved OFA expenditures for ROPS II and III:	(5,834,886)
HSC section 34186 (a) adjustment:	(328,035)
<b>Total OFA available to be distributed:</b>	<b>\$ 3,585,530</b>

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.

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 Kylie Le, Supervisor or Brian Dunham, Lead Analyst at (916) 445-1546.

Ms. Marsh  
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Sincerely,

A handwritten signature in black ink, appearing to read 'Steve Szalay', with a long horizontal stroke extending to the left.

STEVE SZALAY  
Local Government Consultant

cc: Ms. Elise McCaleb, Redevelopment/Economic Development Manager, City of Signal Hill  
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller  
California State Controller's Office