



REVISED

August 2, 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

This letter supersedes the California Department of Finance's (Finance) original Other Funds and Accounts (OFA) Due Diligence Review (DDR) determination letter dated April 22, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Signal Hill 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 April 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 May 21, 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 Agency requested to retain \$8,239,747 (\$1,387,767 + \$6,851,980) to cover enforceable obligations. Based on further review during the Meet and Confer process, the Agency may retain \$7,439,561 (\$5,608,921 + \$1,830,640), as further discussed below. Accordingly, the OFA available balance will be increased by \$800,186 (\$8,239,747 - \$7,439,561).
 - On the Recognized Obligation Payment Schedule (ROPS) for the for the July through December 2012 (ROPS II) period, Finance approved \$7,632,914 and the County Auditor Controller (CAC) distributed \$5,608,921 from the Redevelopment Property Tax Trust Fund (RPTTF). On the July through December 2013 ROPS (ROPS 13-14A), the Agency reported and the CAC verified expenditures totaling \$5,430,993 and a prior period adjustment in the amount of \$177,928 funded by the RPTTF for the ROPS II period pursuant to HSC section 34186 (a). Therefore, sufficient RPTTF was received to cover the expenditures during the ROPS II period and the Agency may retain \$5,608,921 for the ROPS II period.
 - For the January through June 2013 ROPS period (ROPS III), Finance approved \$7,399,418 and the CAC distributed \$5,794,664 from the RPTTF; therefore, the Agency may retain \$1,604,754 (\$7,399,418 - 5,794,664) for the ROPS III

shortfall, which includes the CAC's prior period adjustment for the January through June 2012 ROPS amount of \$328,035 pursuant to HSC section 34186 (a). Additionally, Finance approved \$225,886 for enforceable obligations to be paid out of OFA balances. As such, the Agency may retain \$1,830,640 (\$1,604,754 + \$225,886) to cover approved enforceable obligations during the ROPS III period.

Should deficits 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 ROPS when a future balloon or uneven payment is expected pursuant to HSC section 34177 (d) (1) (A), 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.

- Subsequent to the Meet and Confer process, the Agency notified Finance that \$2,921,417 of legally restricted assets related to the October 2012 bond debt service payments was included in the beginning balance, but had not been restricted in Procedure 6. The Agency provided additional information and documents showing that these funds were requested and received as part of the January through June 2012 (ROPS I) distribution to build a reserve to ensure sufficient funding would be available for the ROPS II debt service payments. However, on the ROPS I form the Agency did not separately identify the amounts needed for the spring and fall payments. The \$2,921,417 reserves for the October 2012 payment were deposited with the trustee in June 2012. Therefore, Finance is reducing the OFA balance available by \$2,921,417. In the future, Finance recommends that the Agency list the spring payment and the reserves for the fall payment on separate line items on the ROPS in order to properly identify amounts needed.

The Agency did not object to the following adjustment made by Finance during the Meet and Confer process. HSC section 34179.6 (d) authorizes Finance to make adjustments. We maintain that the following adjustment is appropriate:

- Assets legally restricted in the amount of \$21,217,715 are partially denied. Included in this amount is \$1,500,000 restriction for a 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 ROPS III Meet and Confer letter dated November 26, 2012. The Agency failed to provide sufficient documentation that indicated that the loan was repaid and included in the OFA asset balance. Therefore, we continue to deny the restriction of the loan repayment and OFA balance available for distribution to the taxing entities will be adjusted by \$1,500,000.

The Agency's OFA balance available for distribution to the affected taxing entities is \$0 (see table on following page).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 8,704
Finance Adjustments	
Add:	
Legally restricted balance:	(1,421,417)
Requested retained balance not supported:	800,186
Total OFA available to be distributed:	\$ (612,527)

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.

Ms. Terri Marsh
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Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Derk Symons, Analyst, at (916) 445-1546.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Szalay for". The signature is written in a cursive style with a large initial "S".

STEVE SZALAY
Local Government Consultant

cc: Mr. Kenneth Farfsing, City Manager, City of Signal Hill
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