



March 26, 2013

Ms. Marie Marron Berkuti, Finance Manager/Treasurer
City of Solana Beach
635 South Highway 101
Solana Beach, CA 92075

Dear Ms. Berkuti:

Subject: Other Funds and Accounts Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Solana 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 11, 2013. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Pursuant to HSC section 34179.6 (d), 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:

- Total amount of assets held as of June 30, 2012 should be \$1,637,830. Our review identified additional assets in the amount of \$1,116,610 that were not included in the DDR. Therefore, the OFA balance available for distribution to the taxing entities will be adjusted by \$1,116,610.
- Assets transferred to the City of Solana Beach in the period from January 2011 to June 2012 in the amount of \$648,308. HSC section 34179.5 (c) (2) only allows assets transfers within this period that are required by an enforceable obligation. No documents received support the transfers were required by an enforceable obligation. Therefore, the OFA balance available for distribution to the taxing entities will be adjusted by \$648,308.
- Balances legally restricted totaling \$519,726 should be adjusted by \$197,381. Our review identified cash with the fiscal agent in the amount of \$235,815 and unspent bond funds in the amount of \$86,530 for a total of \$322,345. HSC section 34179.5 allows assets to be retained if legally restricted; however, no documents received support the remaining \$197,381. Therefore, the OFA balance available for distribution to the taxing entities will be adjusted by \$197,381.

- Balance requested to be retained totaling \$459,695 for fiscal year 2012-13 obligations should be adjusted by \$ 371,677. Specifically:
 - The Agency's request to retain \$79,165 in current OFA balances to cover obligations remaining from the January through June 2012 Recognized Obligation Payment Schedule (ROPS I) period is not allowed. Since these are ROPS 1 obligations that have not been spent as of the date of this letter, we are disallowing the Agency's request to retain these amounts. Although, ROPS 1 obligations were approved, these obligations can be put on a future ROPS to be funded with Redevelopment Property Tax Trust Fund (RPTTF). Therefore, the OFA balance available for distribution to the taxing entities will be adjusted by \$78,012.

The balances in question were approved for the 2006 Tax Allocation Bond payments. The Agency has not adequately proven there will be insufficient property tax revenues to pay for these 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.

- The Agency's request to retain \$380,530 for July through December 2012 ROPSI obligations is partially denied. Although the Agency wishes to retain \$380,530, the County Auditor Controller only distributed \$88,018 on June 1, 2012. The Agency is limited to retaining the \$88,018 from the County Auditor Controller. As such, the OFA balance available for distribution to the taxing entities will be adjusted by \$292,512.

To the extent the unfunded obligations remain enforceable, the Agency can request funding on a future ROPS.

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 \$1,962,305 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	-\$371,677
Finance Adjustments	
Add:	
Adjustment to the June 30, 2012 balance:	\$1,116,616
Disallowed transfers:	\$648,308
Request to retain legally restricted balance not supported:	\$197,381
Request to retain unencumbered balances not supported:	\$371,677
Total OFA available to be distributed:	\$ 1,962,305

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.

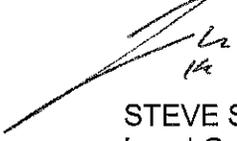
In addition to the consequences above, willful failure to return assets that were deemed an unallowable transfer or failure to remit the funds identified above could expose certain individuals to criminal penalties under existing law.

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.

Ms. Marie Marron Berkuti
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Please direct inquiries to Wendy Griffe, Supervisor or Jenny DeAngelis, Lead Analyst at
(916) 445-1546.

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: Mr. Juan Perez, Senior Auditor and Controller Manager, San Diego Auditor Controller
Ms. Nenita DeJesus, Senior Accountant, San Diego Auditor Controller
California State Controller's Office