DEPARTMENT OF FINANCE

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April 8, 2013

Ms. Adela G. Gonzalez, City Manager
City of Soledad
248 Main Street
Soledad, CA 93960

Dear Ms. Gonzalez:

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 14, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Soledad 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 March 14, 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 26, 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:

- Total assets held as of June 30, 2012 were adjusted by $1,118,682. Finance previously determined that the amount represents the total cash withdrawn from the former Redevelopment Agency (RDA) Redevelopment Project Account before the net balance was reclassified to the Successor Agency account; however, the Agency did not provide sufficient documentation. During the Meet and Confer process, the Agency provided supporting documents showing the transfers of 2007 Series A Bond funds from the former RDA's accounts to the Agency's corresponding accounts. Therefore, Finance is reversing its original adjustment.

- The request to retain restricted balances totaling $4,201,470 was adjusted by $2,561,464. The DDR reported $4,201,470 as legally restricted assets. Per Finance's initial review of the documents, only $1,640,006 was supported by bank statements. During the Meet and Confer process, the Agency provided additional information showing the remaining funds were bond proceeds; accounting reports provided show the bond proceeds being transferred from the former RDA's account to the Agency's account. Therefore, Finance is reversing its original adjustment.

The Agency's OFA balance available for distribution to the affected taxing entities has been revised to $0, as reported on the DDR.

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: On following page

cc: Mr. Steven McHarris, Community Development Director, City of Soledad
Ms. Julie Aguero, Auditor Controller Analyst II, Monterey County
California State Controller's Office