



April 1, 2013

Mr. Bryan Cook, Assistant City Manager
City of South Gate
8560 California Avenue
South Gate, CA 90280

Dear Mr. Cook:

Subject: Other Funds and Accounts Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the Community Development Commission of the City of South Gate 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 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. 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:

- Transfers to the City totaling \$3.2 million are disallowed. In September 2011, the former redevelopment agency (RDA) made payments totaling \$3.2 million for City advances. HSC section 34171(d) (2) states that agreements and contracts between the city, county, or city that created the redevelopment agency (RDA) are not enforceable obligations, unless issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. As such, the OFA balance available for distribution to the taxing entities will be adjusted by \$3.2 million.

After the Agency receives a Finding of Completion from Finance, these loans may become enforceable and eligible to be repaid through the Recognized Obligation Payment Schedule (ROPS) process.

- Long-term receivables related to the South Gate Towne Center Plaza totaling \$7.2 million. It is our understanding in July 2010 the RDA and Southland Corporation were the plaintiffs in connection to Los Angeles County Superior Court Cases # VC050274 and #VC047162 whereby the resulting Settlement and Mutual General Release Agreement was signed in accordance to court rulings. Under the Settlement Agreement, a new promissory note was signed for \$6 million with the balance being due to the RDA by March 31, 2013. In addition, an existing promissory note was acknowledged with a balance of \$1.2 million which is also payable by March 31, 2013. These two notes are

no longer considered long-term receivables in Procedure 7. As such, the OFA balance available for distribution to the taxing entities will be adjusted by \$7.2 million.

- Finance is adjusting your request to restrict balances in the amount of \$939,908 by \$515,546. Included in this amount are items that were not reported on any Recognized Obligation Payment Schedule (ROPS). Specifically, the Agency indicates they need to retain balances to make pass through payments that should have been made prior to and during the ROPS I period. If these are valid monies owed to the affected taxing entities, they should be placed on a ROPS to obtain expenditure authority. Since this duty has transferred to the County Auditor Controller, the Agency should be clear of the time period associated with the pass through funding requests. Therefore, your OFA DDR balance will be adjusted by \$199,030.

In addition, the Agency is requesting to retain \$316,516 in current OFA balances to cover future payments associated with the 2002 COP Series A & B. Based on our review of your DDR, the Agency has not adequately proven there will be insufficient property tax revenues to pay for the \$316,516 in obligations. HSC section 34179.5 (c) (5) (D) states that a successor agency shall provide a listing of all approved enforceable obligations that includes a projection of annual spending requirements to satisfy each obligation and a projection of annual revenues available to fund those requirements.

If a DDR review finds that future revenues together with dedicated or restricted balances are insufficient to fund future obligations and thus retention of current balances is required, it shall identify the amount of current balances necessary for retention. The review shall also detail the projected property tax revenues and other general purpose revenues to be received by the successor agency, together with both the amount and timing of the bond debt service payments of the successor agency, for the period in which the oversight board anticipates the successor 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 revenues will be insufficient. Therefore, your request to retain current OFA balances for future obligations is denied and the LMIHF available for distribution to the affected taxing entities will be adjusted by \$316,516.

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 \$13,103,056 (see table on the next page).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ 2,272,498
Finance Adjustments	
Add:	
Disallowed transfers:	\$ 3,155,940
Assets incorrectly categorized as non-cash	7,159,072
Requested retained balance not supported:	515,546
Total OFA available to be distributed:	\$ 13,103,056

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.

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

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Nellie Ruiz, Senior Accountant, City of South Gate
Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office