DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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June 19, 2013

Ms. Debra Lauchner, Finance Director
City of Vallejo Successor Agency
555 Santa Clara Street
Vallejo, CA 94590

Dear Ms. Lauchner:

Subject: Other Funds and Accounts Due Diligence Review

The City of Vallejo 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 April 4, 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:

- Pun and McGeady identified assets transferred to the City of Vallejo (City) during the period of January 1, 2011 through June 30, 2012 in the amount of $ 21,360,203. HSC section 34179.5 (c) (2) only allows asset transfers within this period that are required by an enforceable obligation or meet the definition of governmental use. The Agency executed a grant deed on September 16, 2011 to transfer ownership of two Agency owned parcels to the City who will construct a parking structure. However, no oversight board (OB) resolution was provided to Finance regarding these transfers, or in any previous submitted OB resolutions.

  These non-liquid assets transferred to the City are subject to the California State Controller's Office review of asset transfers. To the extent these transferred assets are not for a government purpose or pursuant to an enforceable obligation, these assets should be returned to the Agency and disposed of in a manner consistent to the Agency's Long Range Property Management Plan pursuant to HSC section 34191.5.

  Since the Properties in the amount of $21,360,203 are illiquid, they are considered a non-cash asset of the Agency. These adjustments were already made by Pun and McGeady; therefore, a Finance adjustment is not necessary.

- The Agency's request to retain $733,873 for current unencumbered OFA balances to cover future obligations is not allowed. The Agency was distributed the total amount of Redevelopment Property Tax Trust Fund (RPTTF) requested for each Recognized Obligation Payment Schedule (ROPS) period. The cash flow analysis provided by the Agency does not demonstrate an immediate need to retain these unencumbered OFA balances, nor does it suggest available funding will be insufficient to service the Agency's bond debt.

  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 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 demonstrated an immediate need to retain unencumbered OFA balances and possesses alternatives to address short term cash flow shortages, Finance deems it is not necessary for the Agency to retain $733,873 in OFA unencumbered balances.

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 $3,862,227 (see table below).

OFA Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	3,128,354
Finance Adjustments		
Add:		
Request to retain legally restricted balance not supported:		733,873
Total OFA available to be distributed:	$	3,862,227

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, please 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 Wendy Griffe, Supervisor or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Mr. Dan Marks, Interim Economic Development Director, City of Vallejo
Mr. Jun Adeva, Deputy Auditor Controller, County of Solano
California State Controller's Office