DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
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March 21, 2013

Mr. Greg Franklin, Director of Administrative Services
City of Yucaipa
34272 Yucaipa Boulevard
Yucaipa, CA 92399

Dear Mr. Franklin:

Subject: Other Funds and Accounts Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Yucaipa 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:

- The request to restrict funds for uses specified by debt covenants, grant restrictions, or restrictions imposed by other governments has been adjusted by $878,768:
    - Pass-through payments to taxing entities totaling $370,368 for the Recognized Obligation Payment Schedule (ROPS) for the period January 2012 through June 2012 are not allowed. Pursuant to HSC section 34183.5 (a) (1), the county auditor-controller shall make the required payments to the taxing entities owed pass-through payments if the Agency did not pay any portion of an amount owed for the 2011-2012 fiscal year.
    - As identified in the DDR, there is no documentation to support $64,641 in miscellaneous payments disbursed after June 30, 2012.
    - The loan payable to the City of Yucaipa (City) in the amount of $443,759 is not allowed. The DDR indicates this loan was repaid as of June 30, 2012. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the redevelopment agency (RDA) and the former RDA are not enforceable, unless issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. Therefore, Finance denies this item as an enforceable obligation at this time. Upon receiving a Finding of Completion from Finance,

HSC section 34191.4 (b) may cause this item to be enforceable in future ROPS periods.

- The request to retain balances to satisfy ROPS for the 2012-13 fiscal year has been adjusted by $595,994. The Agency received $373,727 for the ROPS period July 2012 through December 2012. Retaining funds for purpose of cash flow smoothing pertaining to bond payments is not permitted; our records indicate sufficient Redevelopment Property Tax Trust Fund funding was received to cover bond payments due during ROPS for the period July 2012 through June 2013.

  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), 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.

Additionally, Finance identified real property transfers to the City, totaling $161,537, made without oversight board or Finance approval. Because these properties are not considered cash or cash equivalent assets, however, Finance has made no adjustment to the amount available for distribution to the affected taxing entities. Furthermore, we noted that properties were transferred back to the Agency in December 2012.

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 $1,571,529 (see table below).

OFA Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	96,767
Finance Adjustments		
Add:		
Requested retained balances not supported		1,474,762
Total OFA available to be distributed:	$	1,571,529

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.

Please direct inquiries to Nichelle Thomas, Supervisor or Susana Medina Jackson, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Mr. Dustin Gray, Accounting Manager, City of Yucaipa
Ms. Vanessa Doyle, Auditor Controller Manager, San Bernardino County
California State Controller's Office