



REVISED

May 27, 2015

Mr. Travis C. Hickey, Director of Finance and Administrative Services  
City of Santa Fe Springs  
11710 East Telegraph Road  
Santa Fe Springs, CA 90670

Dear Mr. Hickey:

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 letters dated March 11, 2013, and April 8, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Santa Fe Springs Successor Agency (Agency) submitted an oversight board approved OFA DDR to Finance on January 10, 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 11, 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 25, 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:

- Cash transfers to the City of Santa Fe Springs (City) in the amount of \$18,704,841 were disallowed. The former redevelopment agency (RDA) transferred cash totaling \$18,704,841 to the City on March 10, 2011 and January 31, 2012 for principal and interest payments on operating loans executed through promissory notes dated September 23, 2010 and August 25, 2011, respectively.

For the September 2010 loan principal and interest repayment totaling \$9,337,498, HSC section 34179.5 states "enforceable obligation" includes any of the items listed in subdivision (d) of section 34171. HSC section 34171 (d) (2) states "enforceable obligation" does not include any agreements, contracts, or arrangements between the city that created the RDA and the former RDA. It is our understanding the RDA was created in 1961 and the loan was made in 2010, which is well after the first two years of creation. Therefore, the transfer was not made pursuant to an enforceable obligation and is not permitted. Consequently, Finance is increasing the available OFA balance by \$9,337,498.

The repayment of the loan may become an enforceable obligation after the Agency receives a Finding of Completion from Finance. If the oversight board makes a finding

that the loan was for legitimate redevelopment purposes, the loan should be placed on future Recognized Obligation Payment Schedules for repayment. Refer to HSC section 34191.4 (b) for more guidance.

For the August 2011 loan principal and interest repayment totaling \$9,367,343, the former RDA no longer had the authority to incur additional debt and the original loan of \$8,902,000 should not have occurred. As such, the \$8,902,000 is an allowable transfer to return the funds back to the City; however, no interest should have accrued; therefore, Finance is increasing the available balance by \$465,343.

- Subsequent to the Meet and Confer process, the Agency provided accounting records and City Planning Commission documents related to two developer deposits that were received by the City, but erroneously recorded in the former RDA's accounts. The deposits received from Milco Development Inc. and Terraden Corp. in the amounts of \$35,037 and \$13,289, respectively, are not former RDA funds and should not be included in the beginning balance. Therefore, Finance is decreasing the amount available for distribution to the affected taxing entities by \$48,326.

The Agency's OFA balance available for distribution to the affected taxing entities is \$15,030,570 (see table below).

<b>OFA Balances Available For Distribution To Taxing Entities</b>	
Available Balance per DDR:	\$ 5,276,055
Finance Adjustments	
Adjustment to beginning balance:	\$ (48,326)
Disallowed transfers:	\$ 9,802,841
<b>Total OFA available to be distributed:</b>	<b>\$ 15,030,570</b>

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, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-3274.

Sincerely,



JUSTYN HOWARD  
Program Budget Manager

cc: Mr. Jose Gomez, Assistant City Manager/Director of Finance, Santa Fe Springs  
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller  
California State Controller's Office