



JOHN CHIANG
California State Controller

September 18, 2013

Mark Linder, City Manager
Campbell Redevelopment/Successor Agency
70 N. First Street
Campbell, CA 95008

Dear Mr. Linder:

Pursuant to Health and Safety (H&S) Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Campbell Redevelopment Agency to the City of Campbell or any other public agency after January 1, 2011. This statutory provision states, "The Legislature hereby finds that a transfer of assets by a redevelopment agency during the period covered in this section is deemed not to be in furtherance of the Community Redevelopment Law and is thereby unauthorized." Therefore, our review included an assessment of whether each asset transfer was allowable and whether it should be turned over to the Successor Agency.

Our review applied to all assets including, but not limited to, real and personal property, cash funds, accounts receivable, deeds of trust and mortgages, contract rights, and rights to payment of any kind. We also reviewed and determined whether any unallowable transfers to of assets to the City of Campbell or any other public agencies have been reversed.

Our review found that the Campbell Redevelopment Agency appropriately transferred \$57,318,961 in assets after January 1, 2011, to the Successor Agency. These assets consisted of \$44,402,476 in non-housing assets and \$12,916,485 in housing assets.

If you have any questions, please contact Steven Mar, Bureau Chief, Local Government Audits Bureau, by phone at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/nh

Attachment

cc: Ed Maduli, Oversight Board Chair
Campbell Redevelopment/Successor Agency
Vinod Sharma, Director of Finance
County of Santa Clara
Steven Szalay, Local Government Consultant
Department of Finance
Richard J. Chivaro, Chief Legal Counsel
State Controller's Office
Steven Mar, Bureau Chief
Division of Audits, State Controller's Office
Betty Moya, Audit Manager
Division of Audits, State Controller's Office
Anita Bjelobrk, Auditor-in-Charge
Division of Audits, State Controller's Office

CAMPBELL REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

September 2013

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Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Campbell Redevelopment Agency after January 1, 2011. Our review included, but was not limited to, real and personal property, cash funds, accounts receivable, deeds of trust and mortgages, contract rights, and rights to payments of any kind from any source.

Our review found that the Campbell Redevelopment Agency appropriately transferred \$57,318,961 in assets after January 1, 2011, to the Successor Agency. These assets consisted of \$44,402,476 in non-housing assets and \$12,916,485 in housing assets.

Background

In January of 2011, the Governor of the State of California proposed statewide elimination of redevelopment agencies (RDAs) beginning with the fiscal year (FY) 2011-12 State budget. The Governor's proposal was incorporated into Assembly Bill 26 (ABX1 26, Chapter 5, Statutes of 2011, First Extraordinary Session), which was passed by the Legislature, and signed into law by the Governor on June 28, 2011.

ABX1 26 prohibited RDAs from engaging in new business, established mechanisms and timelines for dissolution of the RDAs, and created RDA Successor Agencies to oversee dissolution of the RDAs and redistribution of RDA assets.

A California Supreme Court decision on December 28, 2011 (*California Redevelopment Association et al. v. Matosantos*), upheld ABX1 26 and the Legislature's constitutional authority to dissolve the RDAs.

ABX1 26 was codified in the Health and Safety Code (H&S Code) beginning with section 34161.

In accordance with the requirements of H&S Code section 34167.5, the State Controller is required to review the activities of RDAs, "to determine whether an asset transfer has occurred after January 1, 2011, between the city or county, or city and county that created a redevelopment agency, or any other public agency, and the redevelopment agency," and the date on which the RDA ceases to operate, or January 31, 2012, whichever is earlier.

The SCO has identified transfers of assets that occurred after January 1, 2011, between the Campbell Redevelopment Agency, the City of Campbell, and/or other public agencies. By law, the SCO is required to order that such assets, except those that already had been committed to a third party prior to June 28, 2011, the effective date of ABX1 26, be turned over to the Successor Agency. In addition, the SCO may file a legal order to ensure compliance with this order.

Objective, Scope, and Methodology

Our review objective was to determine whether asset transfers that occurred after January 1, 2011, and the date upon which the RDA ceased to operate, or January 31, 2012, whichever was earlier, between the city or county, or city and county that created an RDA, or any other public agency, and the RDA, were appropriate.

We performed the following procedures:

- Interviewed Successor Agency personnel to gain an understanding of the Successor Agency operations and procedures.
- Reviewed meeting minutes, resolutions, and ordinances of the City of Campbell, Successor Agency, and Oversight Board.
- Reviewed accounting records relating to the recording of assets.
- Verified the accuracy of the Asset Transfer Assessment Form. This form was sent to all former RDAs to provide a list of all assets transferred between January 1, 2011, and January 31, 2012.
- Reviewed applicable financial reports to verify assets (capital, cash, property, etc.).

Conclusion

Our review found that the Campbell Redevelopment Agency appropriately transferred \$57,318,961 in assets after January 1, 2011, to the Successor Agency. These assets consisted of \$44,402,476 in non-housing assets and \$12,916,485 in housing assets.

Details of our finding are in the Finding and Order of the Controller section of this report.

Views of Responsible Officials

We issued a draft review report on June 7, 2013. Jesse Takahashi, Finance Director, City of Campbell, responded by letter dated July 10, 2013, agreeing with the review results. The response is included in this final review report as an attachment.

Restricted Use

This report is solely for the information and use of the SCO and the Successor Agency; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record when issued final.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

September 18, 2013

Finding and Order of the Controller

**FINDING—
Unallowable asset
transfer to the
entity assuming
housing functions**

The Campbell Redevelopment Agency (RDA) made an unallowable asset transfer of \$12,916,482 (\$11,983,409 of current assets, including unencumbered cash, and \$933,073 of capital assets), described in Schedule 1, to the City of Campbell, the entity designated to receive housing assets. The asset transfers occurred during the period of January 1, 2011, through February 1, 2012, and the assets were not contractually committed to a third party prior to June 28, 2011.

H&S Code section 34175(b) states, “All assets, properties, contracts, leases, books and records, buildings, and equipment of the former redevelopment agency are transferred on February 1, 2012, to the control of the successor agency, for administration pursuant to the provisions of this part. This includes all cash or cash equivalents and amounts owed to the redevelopment agency as of February 1, 2012.” Pursuant to H&S Code section 34175(b) the RDA was required to transfer all assets, including housing assets, to the Successor Agency.

Pursuant to H&S Code section 34167.5, the RDA may not transfer assets to a city, county, city and county, or any other public agency after January 1, 2011. Those assets should be turned over to the Successor Agency for disposition in accordance with H&S Code section 34177 (d) and (e).

Pursuant to H&S Code section 34177(e) the “Successor Agency is to dispose of all former RDA assets” . . . as directed by the oversight board. . .” This includes housing assets.

Pursuant to H&S Code section 34177(g) the Successor Agency is to “[e]ffectuate transfer of housing functions and assets to the appropriate entity designated pursuant to Section 34176.” However, H&S Code section 34181(c) requires the oversight board to direct the Successor Agency to transfer housing assets to the appropriate entity pursuant to Section 34176.

Pursuant to H&S Code section 34177(d) the Successor Agency is to, “Remit unencumbered balances of redevelopment agency funds to the county auditor-controller for distribution to the taxing entities, including, but not limited to, the unencumbered balance of the Low and Moderate Income Housing Fund of a former redevelopment agency. . .for allocation and distribution. . .[in accordance with]. . .Section 34188.”

On November 13, 2012, the City of Campbell, acting as the entity assuming housing functions, remitted the unencumbered cash of \$6,463,539, plus interest, to the county auditor-controller, pursuant to a Department of Finance letter dated November 6, 2012.

Order of the Controller

Pursuant to H&S Code section 34167.5, the entity assuming housing functions is ordered to reverse the transfer of the assets listed in Schedule 1, except for the cash of \$6,463,539, plus any interest earned, to the Successor Agency.

The Successor Agency is directed to properly dispose of those assets in accordance with H&S Code sections 34177(d) and (e).

While the transfer of \$6,463,539 to the county auditor-controller should have been approved by the Oversight Board, no further action is ordered related to this transfer of assets.

Response from City

The City agrees with the finding except for the transfer of the unencumbered cash. The City states that the \$6,463,539 in unencumbered cash and investments remained in the Successor Agency Low/Mod Income Housing Fund until it was remitted to the County Auditor-Controller on November 13, 2012, upon completion of the state-mandated due diligence review which was approved by the Oversight Board.

SCO's Comments

The SCO agrees with the City.

The City provided the SCO with additional information in regard to the \$6,463,539 in unencumbered cash. Based on the information provided, the unencumbered cash was appropriately transferred to the Successor Agency, followed by a transfer to the county auditor-controller which was approved by the Oversight Board through the approval of the state-mandated due diligence review. In addition, after the City's original response to the draft review, the City provided the SCO with information showing that the remaining \$6,452,943 in assets were appropriately transferred to the Successor Agency.

Therefore, \$57,318,961 in assets were appropriately transferred to the Successor Agency. No further action is necessary. See Schedule 1 for adjustments.

**Schedule 1—
Unallowable RDA Assets Transferred to
the Entity Assuming Housing Functions
January 1, 2011, through January 31, 2012**

Asset	Transfer Date	Draft Report Amount	Adjustments	Final Report Amount
Cash and Investments (unencumbered)	1/31/2012	\$ 6,463,539	\$ (6,463,539)	—
Homebuyer Loan Receivable	1/31/2012	1,432,500	(1,432,500)	—
Rehab Loan Receivable	1/31/2012	1,683,602	(1,683,602)	—
Accounts Receivable	1/31/2012	2,395,292	(2,395,292)	—
Due From Other Funds	1/31/2012	8,476	(8,476)	—
Capital Assets	1/31/2012	933,073	(933,073)	—
Total RDA assets transferred to the entity assuming housing functions		<u>\$ 12,916,482¹</u>	<u>\$ (12,916,482)</u>	<u>—</u>

¹ See the Finding and Order of the Controller section.

**Attachment—
City's Response to
Draft Review Report**



CITY OF CAMPBELL
Finance Department

July 10, 2013

Steven Mar
Local Government Audits Bureau
Division of Audits
PO Box 942850
Sacramento CA 94250-5874

We are responding to your draft report dated June 7, 2013 concerning asset transfers from the Campbell Redevelopment Agency.

Overall, we concur with the findings noted in your report, with the following exception:

The \$6,463,539 in unencumbered cash and investments were not transferred to the City's Housing Trust Fund; but, rather, they remained in the Successor Agency LMHF until such time it was remitted to the County Auditor-Controller on November 13, 2012, upon the completion of the State mandated Due Diligence Review (DDR) performed in accordance with California Health and Safety Code Section 34179.5. Further, this amount, which was included in the final DDR, was, in fact, approved by the Oversight Board as part of the approval of the DDR prior to being remitted to the Auditor-Controller. Additionally, the Department of Finance subsequently issued a Finding of Completion upon review of this report indicating the process was properly followed and agreeing with the findings.

With respect to the remaining assets that were transferred to the City's Housing Trust Fund, these assets are being agendaized for an upcoming Oversight Board meeting on September 4, 2013 for approval as noted in your report.

If you have any further questions, I may be reached at 408-866-2113 or jesset@cityofcampbell.com.

Thank you for the opportunity to respond to your report.

Sincerely,

Jesse Takahashi
Finance Director

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>