

ISLETON REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through June 30, 2011



JOHN CHIANG
California State Controller

April 2014



JOHN CHIANG
California State Controller

April 1, 2014

Daniel Hinricks, City Manager
City of Isleton/Successor Agency
101 Second Street
Isleton, CA 95641

Dear Mr. Hinricks:

Pursuant to Health and Safety (H&S) Code section 34167.5, the State Controller's Office (SCO) is required to review all asset transfers made by the Isleton Redevelopment Agency (RDA) to the City of Isleton (City) 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 was to include an assessment of whether each asset transfer was allowable and whether it should be turned over to the Successor Agency.

Our scope was to include all assets, 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 attempted to determine whether any unallowable transfers of assets to the City of Isleton or any other public agencies have been reversed.

Our review found that although the City elected to become the Successor Agency for the RDA, it appears that, based on Resolution No. 2012-05, no assets were transferred to the Successor Agency. Furthermore, the RDA was not able to provide sufficient evidence for our review, resulting in a scope limitation. Therefore, based on the revised 2011 Financial Statements and Independent Auditor's Report, the City agreed that \$1,490,640 in assets should have been transferred to the Successor Agency. Those assets must be turned over to the Successor Agency for disposition in accordance with H&S Code sections 34175(b), 34177(d) and (e), and 34181(a) and (c).

If you have any questions, please contact Elizabeth Gonzalez, Bureau Chief, Local Government Compliance Bureau, by phone at (916) 324-0622.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

cc: Ben Lamera, Assistant Auditor-Controller
Sacramento County
David Botelho, Program Budget Manager
California Department of Finance
Richard J. Chivaro, Chief Legal Counsel
State Controller's Office
Elizabeth Gonzalez, Bureau Chief
Division of Audits, State Controller's Office
Scott Freesmeier, Audit Manager
Division of Audits, State Controller's Office
Daniela Anechitoaie, Auditor-in-Charge
Division of Audits, State Controller's Office

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Asset Transfer Review Report

Summary

The State Controller's Office (SCO) attempted to review the asset transfers made by the Isleton Redevelopment Agency (RDA) after January 1, 2011. Our scope was to include, 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 although the City of Isleton (City) elected to become the Successor Agency for the RDA, it appears that, based on Resolution No. 2012-05, no assets were transferred to the Successor Agency. Furthermore, the RDA was not able to provide sufficient evidence for our review, resulting in a scope limitation. Therefore, based on the revised 2011 Financial Statements and Independent Auditor's Report, the City agreed that \$1,490,640 in assets should have been transferred to the Successor Agency. Those assets must be turned over to the Successor Agency for disposition in accordance with Health and Safety (H&S) Code sections 34175(b), 34177(d) and (e), and 34181(a) and (c).

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 (H&S) Code beginning with section 34161.

H&S Code section 34167.5 states in part, ". . . the Controller shall review the activities of redevelopment agencies in the state 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."

The SCO has not reviewed transfers of assets that occurred after January 1, 2011, between the RDA, the City, 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 the city manager to gain an understanding of Successor Agency operations and procedures.
- Attempted to review meeting minutes, resolutions, and ordinances of the RDA and the City.
- Attempted to verify the accuracy of the Asset Transfer Assessment Form.
- Reviewed applicable financial reports to verify assets (capital, cash, etc.):
 - The Redevelopment Agency of the City of Isleton (A Component Unit of the City of Isleton) Financial Statements and Independent Auditor's Report as of June 30, 2010, could not be reconciled to the ledgers provided by Michael Ocenosak, external CPA.
 - The Redevelopment Agency of the City of Isleton (A Component Unit of the City of Isleton) Financial Statements and Independent Auditor's Report as of June 30, 2011; original report issued in December was revised by Don Cole, CPA and sent to us on June 6, 2013. Because both of the audited reports received could be reconciled to the ledgers provided, we relied on the Audited Financial Statements only as the basis of the review process.
 - The Redevelopment Agency of the City of Isleton (A Component Unit of the City of Isleton) Financial Statements and Independent Auditor's Report as of June 30, 2012; the RDA should have ceased to exist as of January 31, 2012; therefore, we could not rely on this report.

Conclusion

Our review found that although the City of Isleton elected to become the Successor Agency for the Isleton RDA, based on Resolution No. 2012-05, it appears that no assets were transferred to the Successor Agency. Furthermore, the RDA was not able to provide sufficient evidence for our review, resulting in a scope limitation. Therefore, based on the revised 2011 Financial Statements and Independent Auditor's Report, the City agreed that \$1,490,640 in assets should have been transferred to the Successor Agency. Those assets must be turned over to the Successor Agency for disposition in accordance with H&S Code sections 34175(b), 34177(d) and (e), and 34181(a) and (c).

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

**Views of
Responsible
Official**

We issued a draft review report on December 9, 2013. On January 29, 2014, Daniel Hinricks, City Manager, responded by email stating that he had no comment on the draft report. This response is included in this final review report as an attachment.

Restricted Use

This report is solely for the information and use of the Successor Agency, the City, and the SCO; 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 as final.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

April 1, 2014

Finding and Order of the Controller

**FINDING—
Assets not
transferred to the
Successor Agency**

Our review found that the Isleton Redevelopment Agency (RDA) did not transfer any assets to the Successor Agency as of January 31, 2012. Although the City of Isleton could not provide us with financial records, we relied on audited financial statements for June 30, 2012 and (revised) June 30, 2011. The RDA should have transferred \$1,490,640 to the Successor Agency by January 31, 2012.

Health and Safety (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 redevelopment agency as of February 1, 2012. . . .

H&S Code section 34177(d) states:

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. In making the distribution, the county auditor-controller shall utilize the same methodology for allocation and distribution of property tax revenues provided in Section 34188.

H&S Code section 34177(e) states:

Dispose of assets and properties of the former redevelopment agency as directed by the oversight board; provided, however, that the oversight board may instead direct the successor agency to transfer ownership of certain assets pursuant to subdivision (a) of Section 34181. . . .

H&S Code section 34181(a) states:

The oversight board shall direct the successor agency to do all of the following:

- (a) Dispose of all assets and properties of the former redevelopment agency; provided however, that the oversight board may instead direct the successor agency to transfer ownership of those assets that were constructed and used for a governmental purpose, such as roads, school buildings, parks, police and fire stations, libraries, and local agency administrative buildings to the appropriate public jurisdiction pursuant to any existing agreements relating to the construction or use of such an asset.

H&S Code section 34181(c) states that the Oversight Board shall direct the Successor Agency to transfer housing assets pursuant to section 34176.

Order of the Controller:

Based on H&S Code section 34175(b), the Isleton RDA is ordered to transfer \$1,490,640 in assets to the Successor Agency. The Successor Agency is directed to properly dispose of these assets in accordance with H&S Code sections 34177(d) and (e) and 34181(a). In addition, in accordance with H&S Code section 34177(d), the Successor Agency is directed to transmit any balance of Low and Moderate Income Housing funds to the Sacramento County Auditor-Controller for disposition in accordance with H&S Code section 34188.

**Schedule 1—
RDA Assets Not Transferred to
the Isleton Successor Agency
January 1, 2011, through June 30, 2011**

	<u>Total Assets as of June 30, 2011*</u>
RDA assets not transferred to the Isleton Successor Agency, based on the 2011 revised Financial Statements and Independent Auditor's Report:	
Current assets:	
Cash and cash equivalents	\$ 313,251
Taxes receivable	4,462
Due from City of Isleton (City)	<u>1,020,496</u>
Total current assets	<u>1,366,206</u>
Capital assets net of depreciation:	
Land	82,500
Buildings, improvements, equipment	<u>69,931</u>
Total net capital assets	<u>152,431</u>
Total assets to be transferred to the Successor Agency	<u>\$ 1,490,640</u>

* Note: We used the June 30, 2011 audited amounts, as the City could not provide reliable information regarding the asset balances for our review period.

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

Anechitoaie, Daniela

From: Daniel Hinrichs <djhengineering@hughes.net>
Sent: Wednesday, January 29, 2014 5:47 AM
To: Anechitoaie, Daniela
Subject: RE: Isleton RDA Review-no response to draft report received

Hi Dana,

I have no comments on the report.

Dan
Dan Hinrichs, P.E.
DJH Engineering
4541 Luneman Road
Placerville, CA 95667
530-626-4802
Fax 530-626-9427

From: DAnechitoaie@sco.ca.gov [mailto:DAnechitoaie@sco.ca.gov]
Sent: Tuesday, January 28, 2014 3:17 PM
To: djhengineering@hughes.net
Cc: sfreesmeier@sco.ca.gov
Subject: Isleton RDA Review-no response to draft report received
Importance: High

Hi Daniel,

We have not yet received an answer to the former Isleton RDA draft report that was sent to you on December 9th, 2013, so we would like to inform you that the report is going final. Please let us know if you have any concerns.

Thank you,

Dana

From: Daniel Hinrichs [mailto:djhengineering@hughes.net]
Sent: Monday, October 14, 2013 6:54 AM
To: Anechitoaie, Daniela
Subject: RE: Isleton RDA Representation Letter

Hi Dana,

Here is the signed letter as you requested. Do you need an original mailed to you?

Dan
Dan Hinrichs, P.E.
DJH Engineering
4541 Luneman Road
Placerville, CA 95667
530-626-4802

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

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