

REEDLEY REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

August 2013



JOHN CHIANG
California State Controller

August 30, 2013

Paul Melikian, Director of Finance
and Administrative Services
City of Reedley
845 G Street
Reedley, CA 93654

Dear Mr. Melikian:

Pursuant to Health and Safety (H&S) Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Reedley Redevelopment Agency to the City of Reedley 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 Reedley Redevelopment 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 of assets to the City of Reedley or any other public agencies have been reversed.

Our review found that the Reedley Redevelopment Agency (RDA) transferred \$11,583,629 in assets after January 1, 2011, to the City of Reedley, the Successor Agency, the housing authority, and the school district. These assets included unallowable transfers totaling \$2,551,990 (\$515,928 to the city, \$1,787,492 to the housing authority, and \$248,570 to the school district), or 22.03%, that must be turned over to the Successor Agency. Please note that in the Findings and Orders of the Controller section of the report, the city and the Successor Agency have already taken actions to address some of these unallowable transfers.

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/vb

cc: Nicole Zieba, City Manager
City of Reedley
Lawrence Wilder, Chair
City of Reedley – Oversight Board to the Successor Agency
Vicki Crow, CPA
Fresno County Auditor-Controller
Steven Szalay, Local Government Consultant
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Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Reedley 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 Reedley Redevelopment Agency (RDA) transferred \$11,583,629 in assets after January 1, 2011, to the City of Reedley, the Successor Agency, the housing authority, and the school district. These assets included unallowable transfers totaling \$2,551,990 (\$515,928 to the city, \$1,787,492 to the housing authority, and \$248,570 to the school district), or 22.03%, that must be turned over to the Successor Agency.

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 Reedley Redevelopment Agency, the City of Reedley, 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 Reedley Redevelopment Agency and the City of Reedley.
- 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 Reedley Redevelopment Agency (RDA) transferred \$11,583,629 in assets after January 1, 2011, to the City of Reedley, the Successor Agency, the housing authority, and the school district. These assets included unallowable transfers totaling \$2,551,990 (\$515,928 to the city, \$1,787,492 to the housing authority, and \$248,570 to the school district), or 22.03%, that must be turned over to the Successor Agency.

Details of our findings are in the Findings and Orders of the Controller section of this report.

Views of Responsible Official

At an exit conference on Friday, June 14, 2013, we discussed the review results with Paul Melikian, Finance Director, who agreed with the review results. Mr. Melikian further agreed that a draft report was not necessary and that the report could be issued as final.

Restricted Use

This report is solely for the information and use of the City of Reedley 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 final.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

August 30, 2013

Findings and Orders of the Controller

FINDING 1— Unallowable asset transfers to the City of Reedley

The Reedley Redevelopment Agency (RDA) made unallowable asset transfers of \$515,928 to the City of Reedley.

- On March 23, 2011, by city resolution No. 2011-024, the RDA loaned the city \$390,928 in RDA cash (fund 097-Debt Service) for the city's Reedley Municipal Airport project.
- On April 4, 2011, by RDA resolution No. 143, the RDA transferred \$125,000 in RDA cash (fund 097-Debt Service) to the city for the Streetscape Capital Project based on the RDA's five-year implementation plan. However, no valid contract was provided to support the transfer.

The Department of Finance's Due Diligence Review determination included the \$515,928 as part of the amount of cash and cash equivalents available for distribution to the affected taxing entities. On May 16, 2013, the city transferred the balance available for distribution to the Fresno County Auditor-Controller's Office.

Order of the Controller

Pursuant to H&S Code section 34167.5, any asset transfers by the RDA to a city, county, city and county, or any other public agency after January 1, 2011, must be returned to the Successor Agency for disposition in accordance with H&S Code sections 34177(d) and (e).

Based on H&S Code section 34167.5, the City of Reedley would have been ordered to return \$515,928 to the Successor Agency and the Successor Agency would have been directed to properly dispose of the assets in accordance with H&S Code section 34177(d) and (e). As the funds were subsequently transferred to the Fresno County Auditor-Controller's Office, no further action is needed.

FINDING 2— Unallowable asset transfers to the Successor Housing Authority

All RDA housing assets totaling \$1,787,492 were transferred to the Successor Housing Authority through RDA resolution No. 160, as described in Schedule 2.

The Department of Finance's Due Diligence Review determination included \$328,240 of this amount as part of the amount of cash and cash equivalents available for distribution to the affected taxing entities. On May 16, 2013, the city transferred the balance available for distribution, to the Fresno County Auditor-Controller's Office.

The Department of Finance also determined that \$54,000 of Low-Moderate Income Housing Funds were not housing assets. Funds were transferred to a non-housing account on February 12, 2013, to correct the misclassification.

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 sections 34177(d) and (e).

Order of the Controller

Based on H&S Code section 34167.5, the Reedley Housing Authority is ordered to reverse the transfer of the above assets, in the adjusted amount of \$1,405,252 (\$1,787,492 - \$328,240 - \$54,000), and return them 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) and 34181(a).

FINDING 3— Unallowable asset transfers to the Kings Canyon Unified School District

On July 26, 2011, the RDA transferred \$248,570 in capital assets to the Kings Canyon Unified School District. The Kings Canyon Unified School District and the RDA entered into a purchase and sale of real property agreement on April 26, 2011.

H&S Code section 34175(b) states that all assets, properties, contracts, leases, books and records, buildings, and equipment of the former redevelopment agency are to be 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 34167.5, any asset transfers by the RDA to a city, county, city and county, or any other public agency after January 1, 2011 must be turned over to the Successor Agency for disposition in accordance with H&S Code sections 34177(d) and (e).

Order of the Controller

Pursuant to H&S Code section 34167.5, the city would have been ordered to return the asset to the Successor Agency for disposition under H&S Code sections 34177(d) and (e) with approval by the Oversight Board pursuant to H&S Code sections 34181 (a) and (c). However since the Oversight Board approved the transfer retroactively on June 11, 2013, no further action is necessary.

Please note that the Department of Finance (DOF) must approve the Oversight Board's decision in this matter. If the DOF does not approve this decision, then the city is ordered to transfer the assets to the Successor Agency pursuant to H&S Code section 34167.5.

**Schedule 1—
Unallowable RDA Assets Transferred to
the City of Reedley
January 1, 2011, through January 31, 2012**

Cash	<u>\$ 515,928</u> ¹
Total	<u>\$ 515,928</u>

¹ See Findings and Orders of the Controller.

**Schedule 2—
Unallowable RDA Assets Transferred to
the Successor Housing Authority
January 1, 2011, through January 31, 2012**

Unallowable transfers to the Successor Housing Authority:

Low and moderate income housing current assets

Cash-LMI A	\$ 65,177
Cash	1,064,406
Accounts receivable	(293)
Notes receivable—Limitless Living due February 2016	54,000
Notes receivable—trust deeds	<u>604,202</u>

Total unallowable transfers to the Successor Housing Authority 1,787,493

Subsequent events

\$54,000 of LMIF were deemed non-housing assets. Funds were transferred to non-housing funds account on February 12, 2013	(54,000)
Department of Finance’s DDR determination of LMIHF balance available for taxing entities funds transmitted to Fresno County Auditor-Controller on December 21, 2012	<u>(328,240)</u>

Total transfers subject to H&S Code section 34167.5 \$ 1,405,252¹

¹ See Findings and Orders of the Controller.

**Schedule 3—
Unallowable RDA Assets Transferred to
the Kings Canyon Unified School District
January 1, 2011, through January 31, 2012**

Capital asset—Bret’s Ford Automobile Dealership (2.028 acre portion)	\$ 248,570
Total	<u>\$ 248,570</u> ¹

¹ See Findings and Orders of the Controller.

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