

**COMMUNITY DEVELOPMENT
COMMISSION OF THE CITY OF
BALDWIN PARK**

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

November 2014



JOHN CHIANG
California State Controller

November 26, 2014

Craig A. Graves, Director of Finance
City of Baldwin Park/Successor Agency
14403 E. Pacific Avenue
Baldwin Park, CA 91706

Dear Mr. Graves:

Pursuant to Health and Safety Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Community Development Commission of the City of Baldwin Park (RDA) to the City of Baldwin Park (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 included an assessment of whether each asset transfer was allowable and whether the asset 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 the City or any other public agency have been reversed.

Our review found that the RDA transferred \$21,812,191 in assets after January 1, 2011, including unallowable transfers to the City totaling \$8,483,156, or 38.89% of transferred assets. However, on September 4, 2014, the City provided additional documentation for the adjustment of \$5,009,320 related to the acquisition and transfer of various real properties. Therefore, the remaining \$3,473,836 in unallowable transfers must be turned over to the Successor Agency.

If you have any questions, please contact Elizabeth González, Chief, Local Government Compliance Bureau, by telephone at (916) 324-0622, or by email at egonzalez@sco.ca.gov.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

cc: Marc Castagnola, AICP, Community Development Manager
City of Baldwin Park
Manuel Lozano, Chair
Oversight Board of Baldwin Park Successor Agency
John Naimo, Auditor-Controller
Los Angeles County
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California Department of Finance

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Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Community Development Commission of the City of Baldwin Park (RDA) 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 RDA transferred \$21,812,191 in assets after January 1, 2011, including unallowable transfers to the City of Baldwin Park (City) totaling \$8,483,156, or 38.89% of transferred assets. However, on September 4, 2014, the City provided additional documentation for the adjustment of \$5,009,320 related to the acquisition and transfer of various real properties. Therefore, the remaining \$3,473,836 in unallowable transfers 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 and oversight boards 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 identified asset transfers that occurred after January 1, 2011, between the RDA, the City and/or any other public agency. 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 action 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's operations and procedures.
- Reviewed meeting minutes, resolutions, and ordinances of the City, the RDA, the Successor Agency, and the 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 Community Development Commission of the City of Baldwin Park transferred \$21,812,191 in assets after January 1, 2011, including unallowable transfers to the City of Baldwin Park totaling \$8,483,156, or 38.89% of transferred assets. However, on September 4, 2014, the City provided additional documentation for the adjustment of \$5,009,320 related to the acquisition and transfer of various real properties. Therefore, the remaining \$3,473,836 in unallowable transfers must be turned over to the Successor Agency.

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

Views of Responsible Officials

We issued a draft review report on August 20, 2014. Craig A. Graves, Director of Finance, responded by letter dated September 4, 2014, disagreeing with the review results. The City's response is included in this final review report as an attachment.

Restricted Use

This report is solely for the information and use of the City of Baldwin Park, the Successor Agency, the Oversight Board, 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

November 26, 2014

Finding and Order of the Controller

FINDING— Unallowable asset transfers to the City of Baldwin Park

The Community Development Commission of the City of Baldwin Park (RDA) made unallowable asset transfers of \$8,483,156 to the City of Baldwin Park (City). The transfers occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

The transfers consisted of the following:

- On January 25, 2011, the RDA transferred \$3,473,836 in cash to the City for payments against loans made between the RDA and City.
- On January 25, 2011, the RDA transferred \$5,009,320 in cash to the City for the purchase of five land parcels and a parking easement. The parcels and parking easement were subsequently included on the Long-Range Property Management Plan (LRPMP).

Health and Safety (H&S) Code section 34167.5 states that any asset transfers performed by the RDA to a city, county, city and county or any other public agency after January 1, 2011, that are not contractually committed to a third party for the expenditure or encumbrance of those assets, must be returned to the Successor Agency for disposition in accordance with H&S Code section 34177(d).

Order of the Controller

Pursuant to H&S Code section 34167.5, the City is ordered to reverse the transfers totaling \$8,483,156, and turn over the assets to the Successor Agency. However, on September 4, 2014, the City turned over \$5,009,320 in real property to the Successor Housing Agency. Therefore, the remaining \$3,473,836 in assets must be turned over to the Successor Agency.

City's Response

The City's response in regard to the finding was, in part:

With regards to the SCO's determinations in the Draft Report regarding the CDC's repayment of \$3,473,836 of loans to the City, the Successor Agency requests that the SCO's final report state that:

1. The SCO is only making a determination that the \$3,473,836 payment made to the City to reduce the CDC's outstanding loan amount should be returned to the Successor Agency because the payment was made after January 1, 2011 and that the SCO is not questioning the validity of the loans or the eventual repayment of the loans.
2. While the SCO is ordering the return of the repaid loan funds to the Successor Agency, the \$3,473,836 being returned to the Successor Agency can be added back to the current outstanding loan amount and submitted to the Oversight Board for approval on

the City's ROPS for repayment in the future as allowed under Health and Safety Code Section 34191.4(b)(1).

The Successor Agency originally inadvertently included these properties in the Long Range Property Management Plan ("LRPMP"). However, because these properties are housing assets the properties are not subject to transfer under the LRPMP. The City and Successor Agency submit that these assets have been dealt with through the appropriate channels and that the Department of Finance's approval of the Housing Asset Transfer List constitutes a final determination that the properties are housing assets and that the funds expended by the CDC to acquire those properties were not improperly spent.

See Attachment for the City's complete response.

SCO's Comment

With regard to the RDA-purchased properties, the SCO acknowledges the receipt of additional documents supporting the conveyance of \$5,009,320 in real property to the Successor Housing Agency. The Order of the Controller and Schedule 1 have been modified accordingly.

With regard to the loan repayments totaling \$3,473,836, the SCO does not question the validity of the loan. The loan's enforceability is the responsibility of the Successor Agency's Oversight Board. Repayments must be made through the Recognized Obligation Payment process. Therefore, the City is ordered to reverse the transfers and turn over the assets to the Successor Agency.

**Schedule 1—
Unallowable Asset Transfers to
the City of Baldwin Park
January 1, 2011, through January 31, 2012**

Payments to the City

Date	Fund	Purpose	Fund Asset Total
January 25, 2011	801	Repayment of principal on loan from the city	\$ 67,752
January 25, 2011	801	Repayment of principal on loan from the city	131,205
January 25, 2011	801	Payment of accrued interest on loan from the city	50,295
January 25, 2011	801	Payment of accrued interest on loan from the city	86,583
January 25, 2011	803	Repayment of principal on loan from the city	51,693
January 25, 2011	803	Payment of accrued interest on loan from the city	29,654
January 25, 2011	806	Repayment of principal on loan from the city	44,676
January 25, 2011	806	Repayment of principal on loan from the city	2,237,413
January 25, 2011	806	Payment of accrued interest on loan from the city	23,814
January 25, 2011	806	Payment of accrued interest on loan from the city	40,311
January 25, 2011	806	Payment of accrued interest on loan from the city	182,886
January 25, 2011	834	Repayment of principal on loan from the city	1,974
January 25, 2011	890	Repayment of principal on loan from the city	444,561
January 25, 2011	890	Payment of accrued interest on loan from the city	81,019
Total unallowable cash transfers			<u>\$ 3,473,836</u>

Purchase of five land parcels and parking easement from the City

Date	APN	Description	Acquisition Cost
January 25, 2011	8544-020-901	Land	\$ 920,100
January 25, 2011	8437-013-905	Land	1,948,200
January 25, 2011	8554-001-901, 904, & 907	Land	675,000
January 25, 2011	n/a	Parking easement	400,000
January 25, 2011	8554-001-910	Land	216,000
January 25, 2011	8553-011-901	Land	850,020
Total unallowable property transfers			<u>5,009,320</u>
Total unallowable transfers			8,483,156
Less adjustments for various properties turned over to the Successor Housing Agency on September 4, 2014			<u>(5,009,320)</u>
Total transfers subject to H&S Code section 34167.5			<u>\$ 3,473,836</u>

**Attachment—
City of Baldwin Park’s Response to
Draft Review Report**



CITY OF BALDWIN PARK

DEPARTMENT OF FINANCE

14403 E. Pacific Avenue
Baldwin Park, CA 91706
Phone (626) 960-4011

September 4, 2014

Ms. Elizabeth Gonzalez
Chief, Local Government Compliance Bureau
Division of Audits
State Controller's Office
P.O. 942850
Sacramento, CA 94250-5874

VIA E-MAIL and CERTIFIED MAIL

Dear Ms. Gonzalez:

The City of Baldwin Park (the "City") and the Successor Agency to the Community Development Commission of the City of Baldwin Park (the "Successor Agency") have reviewed the draft audit report prepared by the State Controller's Office ("SCO") in connection with the requirements set forth in Health and Safety Code Section 34167.5 (the "Draft Report").

In the letter transmitting the Draft Report, the SCO provides the Successor Agency an opportunity to submit any comments concerning the Draft Report within 10 calendar days after receipt of the letter (or by September 5, 2014). The Successor Agency respectfully submits this letter as the Successor Agency's written comments on the specified findings of the Draft Report and to request that these comments be incorporated somewhere in the final report to be issued by the SCO.

With regards to the SCO's determinations in the Draft Report regarding the CDC's repayment of \$3,473,836 of loans to the City, the Successor Agency requests that the SCO's final report state that:

1. The SCO is only making a determination that the \$3,473,836 payment made to the City to reduce the CDC's outstanding loan amount should be returned to the Successor Agency because the payment was made after January 1, 2011 and that the SCO is not questioning the validity of the loans or the eventual repayment of the loans.
2. While the SCO is ordering the return of the repaid loan funds to the Successor Agency, the \$3,473,836 being returned to the Successor Agency can be added back to the current outstanding loan amount and submitted to the Oversight Board for approval on the City's ROPS for repayment in the future as allowed under Health and Safety Code Section 34191.4(b)(1).

With regards to the SCO's determinations in the Draft Report regarding the \$5,009,320 of funds used by the CDC to acquire affordable housing properties from the City, the City and the Successor Agency respectfully request that the SCO remove the finding from the final report for the reasons specified below.

In the Draft Report, the SCO has called into question a transfer of \$5,009,320 of funds from the CDC's Low- and Moderate-Income Housing Fund ("LMIHF"). The property transfer was completed pursuant to a Purchase and Sale Agreement executed January 2011, which constituted an enforceable obligation through February 1, 2012. Under that agreement, in exchange for the transfer of the funds, the CDC received several parcels of equivalent value for purposes of creating affordable housing in the City. Because the real property assets were acquired by the CDC using proceeds from the CDC's LMIHF, the real properties received in exchange are considered "housing assets" of the CDC under Health and Safety Code Section 34176(e)(1), real property acquired with LMIHF for affordable housing purposes. At the time the CDC was dissolved on February 1, 2012, the housing assets were required to be transferred to the entity assuming the housing functions of the Former RDA under 34176(b).

As required under Health and Safety Code Section 34176(a)(2), the Successor Agency and the City submitted a Housing Asset Transfer List, to the Department of Finance, identifying all of the housing assets of the CDC transferred to the housing successor meeting the definition under Health and Safety Code Section 34176(e). A copy of the Housing Asset Transfer List (including all of the properties acquired under the Purchase and Sale Agreement) is attached for your review. As part of the DOF's review of the Housing Asset Transfer list, the City and Successor Agency were required to provide documentation establishing that the real properties included in Exhibit A of that document were in fact housing assets. The City provided the Department of Finance a copy of the Purchase and Sale Agreement and additional documents related to acquisition of the properties. The City and Successor Agency representatives attended a meet and confer with the Department of Finance to discuss the Housing Asset Transfer List. As a result of the meet and confer and the City and Successor Agency's ability to establish that the properties were acquired for affordable housing purposes, the Department of Finance approved the Housing Asset Transfer List, including the properties acquired for the \$5,009,320 LMIHF payment. Also attached for your review is the Department of Finance's final determination letter approving the Housing Asset Transfer List.

The Successor Agency originally inadvertently included these properties in the Long Range Property Management Plan ("LRPMP"). However, because these properties are housing assets the properties are not subject to transfer under the LRPMP. The City and Successor Agency submit that these assets have been dealt with through the appropriate channels and that the Department of Finance's approval of the Housing Asset Transfer List constitutes a final determination that the properties are housing assets and that the funds expended by the CDC to acquire those properties were not improperly spent. The City and Successor Agency is currently submitting a revised "LRPMP" to reflect the proper placement of these assets. The City and Successor Agency requests that language be added to clarify the City's has no responsibility for repayment of any of the \$5,009,320 of the funds.

The City appreciates being able to comment before the final report is issued. We look forward to reviewing a revised draft of the report to ensure that these comments are incorporated into the final report. If you have further questions or would like to discuss our comments further please contact me by telephone at (626) 960-4011, ext. 288 or email at cgraves@baldwinpark.com as Mark Castagnola is currently away on vacation.

Sincerely,



Craig A. Graves
Director of Finance

Attachments: California Department of Finance Findings of Completion
California Department of Finance Housing Approval of Housing Transfer List
Housing Transfer List

Cc: Shannon Yauchzee, CEO
City of Baldwin Park
Robert Tafoya, City Attorney
City of Baldwin Park
Marc Castagnola, Community Development Manager
City of Baldwin Park
Rose Tam, Assistant Accounting Manager
City of Baldwin Park
Rafael Yaquian, Special Counsel
Goldfarb & Lipman
Jeffery V. Brownfield, CPA, Chief,
Division of Audits, State Controller's Office



DEPARTMENT OF
FINANCE

EDMUND G. BROWN JR. ■ GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

April 26, 2013

Mr. Vijay Singhal, Chief Executive Officer
City of Baldwin Park
14403 East Pacific Avenue
Baldwin Park, CA 91706

Dear Mr. Singhal:

Subject: Request for a Finding of Completion

The California Department of Finance (Finance) has completed the Finding of Completion for the City of Baldwin Park Successor Agency.

Finance has completed its review of your documentation, which may have included reviewing supporting documentation submitted to substantiate payment or obtaining confirmation from the county auditor-controller. Pursuant to Health and Safety Code (HSC) section 34179.7, we are pleased to inform you that Finance has verified that the Agency has made full payment of the amounts determined under HSC section 34179.6, subdivisions (d) or (e) and HSC section 34183.5.

This letter serves as notification that a Finding of Completion has been granted. The Agency may now do the following:

- Place loan agreements between the former redevelopment agency and sponsoring entity on the ROPS, as an enforceable obligation, provided the oversight board makes a finding that the loan was for legitimate redevelopment purposes per HSC section 34191.4 (b) (1). Loan repayments will be governed by criteria in HSC section 34191.4 (a) (2).
- Utilize proceeds derived from bonds issued prior to January 1, 2011 in a manner consistent with the original bond covenants per HSC section 34191.4 (c).

Additionally, the Agency is required to submit a Long-Range Property Management Plan to Finance for review and approval, per HSC section 34191.5 (b), within six months from the date of this letter.

Please direct inquiries to Andrea Scharffer, Staff Finance Budget Analyst, or Chris Hill, Principal Program Budget Analyst, at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Mr. Marc Castagnola, Community Development Manager, City of Baldwin Park
Ms. Rose Tam, Assistant Accounting Manager, City of Baldwin Park
Ms. Kristina Burns, Los Angeles County Department of Auditor-Controller
California State Controller's Office



DEPARTMENT OF
FINANCE

EDMUND G. BROWN JR. ■ GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

August 29, 2013

Ms. Rose Tam, Assistant Accounting Manager
City of Baldwin Park
14403 East Pacific Avenue
Baldwin Park, CA 91706

Dear Mr. Singhal:

Subject: Housing Assets Transfer Form

This letter supersedes Finance's Housing Asset Transfer Form letter dated August 31, 2012. Pursuant to Health and Safety Code (HSC) section 34176 (a) (2), the City of Baldwin Park as Housing Successor Agency (Agency) submitted a Housing Assets Transfer Form (Form) to the California Department of Finance (Finance) on August 1, 2012, for the period February 1, 2012 through August 1, 2012. Finance issued its determination related to those transferred asset on August 31, 2012. Subsequently, the Agency requested a Meet and Confer session on one or more items that was objected to by Finance. The Meet and Confer session was held on January 28, 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.

- Exhibit D, Items 4 and 5 – Loan receivables totaling \$1,680,806. Our review indicates these items are receivables for loans made from the Low and Moderate Income Housing Fund to the Supplemental Educational Revenue Augmentation Fund. Finance notes that while these receivables can be transferred to the Agency, they should be included in Exhibit G, not Exhibit D. Finance recommends this change should be made.
- Exhibit D, Item 14 – Loans Receivable totaling \$42,075. Finance continues to object to the transfer of the asset. Our review indicates the loan was issued on October 24, 2011. HSC section 34163 (b) prohibits an agency from entering into agreements, obligations, or contracts with any entity for any purpose after June 27, 2011. Therefore, this loan receivable should remain with the Baldwin Park Successor Agency (Successor Agency). If and when repayments are made, the Successor Agency should use those funds to satisfy approved enforceable obligations.

This is Finance's final determination related to the assets reported on your Form. Except for items disallowed as noted above, Finance is not objecting to the remaining items listed on your Form. Assets transferred deemed not to be a housing asset shall be returned to the successor agency.

Mr. Singhal
August 29, 2013
Page 2

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Marc Castagnola, Community Development Manager, City of Baldwin Park
Ms. Kristina Burns, Manager, Community Redevelopment Administration Section,
Property Tax Division, Los Angeles County Auditor-Controller's Office
Mr. Steven Mar, Bureau Chief, Local Government Audit Bureau, California State
Controller's Office

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

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