

# **SANTA FE SPRINGS REDEVELOPMENT AGENCY**

## **ASSET TRANSFER REVIEW**

### Review Report

*January 1, 2011, through January 31, 2012*



**BETTY T. YEE**  
California State Controller

March 2015



**BETTY T. YEE**  
**California State Controller**

March 30, 2015

Thaddens McCormack, City Manager  
Santa Fe Springs Redevelopment/Successor Agency  
11710 E. Telegraph Road  
Santa Fe Springs, CA 90670

Dear Mr. McCormack:

Pursuant to Health and Safety (H&S) Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Santa Fe Springs Community Development Commission (RDA) to the City of Santa Fe Springs (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 \$107,072,314 in assets after January 1, 2011, including unallowable transfers to the City totaling \$24,490,129, or 22.87% of transferred assets.

However, the following corrective actions have been taken:

- On June 30, 2012, the City transferred \$5,006,722 in capital assets to the Successor Agency.
- On August 1, 2012, the Successor Agency effectuated the transfer of \$9,680,566 in housing functions and assets to the City as Housing Successor in accordance with H&S Code section 34176(b)(2).
- On December 15, 2013, the City remitted \$9,802,841 in cash to the Los Angeles County-Auditor Controller for distribution to the taxing entities.

Therefore, no further action is necessary.

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

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/kw

Attachment

cc: Jose Gomez, Director of Finance and Administrative Services  
City of Santa Fe Springs  
John Naimo, Auditor-Controller  
Los Angeles County  
Gerald Caton, Chair of the Oversight Board  
City of Santa Fe Springs  
Richard J. Chivaro, Chief Legal Counsel  
State Controller's Office  
Elizabeth González, Bureau Chief  
Division of Audits, State Controller's Office  
Reginald Nidoy, Audit Manager  
Division of Audits, State Controller's Office  
Venus Sharifi, Auditor-in-Charge  
Division of Audits, State Controller's Office  
Gerry Kwan, Auditor  
Division of Audits, State Controller's Office

# Contents

## Review Report

<b>Summary</b> .....	1
<b>Background</b> .....	1
<b>Objective, Scope, and Methodology</b> .....	2
<b>Conclusion</b> .....	2
<b>Views of Responsible Officials</b> .....	3
<b>Restricted Use</b> .....	3
<b>Finding and Order of the Controller</b> .....	4
<b>Schedule 1—Unallowable Asset Transfers to the City of Santa Fe Springs</b> .....	6
<b>Attachment—City’s Response to Draft Review Report</b>	

# Asset Transfer Review Report

## Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Santa Fe Springs Community Development Commission (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 \$107,072,314 in assets after January 1, 2011, including unallowable transfers to the City of Santa Fe Springs (City) totaling \$24,490,129, or 22.87% of transferred assets. The unallowable transfers include \$9,802,841 in cash and \$14,687,289 in capital assets.

However, the following corrective actions have been taken:

- On June 30, 2012, the City transferred \$5,006,722 in former RDA capital assets to the Successor Agency.
- On August 1, 2012, the Successor Agency effectuated the transfer housing functions and assets of \$9,680,566 to the City as Housing Successor in accordance with Health & Safety (H&S) Code section 34176(b)(2).
- On December 15, 2013, the City remitted \$9,802,841 in cash assets to the Los Angeles County-Auditor Controller for distribution to the affected taxing entities.

Therefore, no further action is necessary.

## 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 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 Santa Fe Springs Community Development Commission (RDA) transferred \$107,072,314 in assets after January 1, 2011, including unallowable transfers to the City of Santa Fe Springs (City) totaling \$24,490,129, or 22.87% of transferred assets. The unallowable transfers include \$9,802,841 in cash and \$14,687,289 in capital assets.

However, the following corrective actions have been taken:

- On June 30, 2012, the City transferred \$5,006,722 in former RDA capital assets to the Successor Agency.
- On August 1, 2012, the Successor Agency effectuated the transfer housing functions and assets of \$9,680,566 to the City as Housing Successor in accordance with Health & Safety Code section 34176(b)(2).

- On December 15, 2013, the City remitted \$9,802,841 in cash assets to the Los Angeles County-Auditor Controller for distribution to the affected taxing entities.

Therefore, no further action is necessary.

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 December 26, 2014. Thaddeus McCormack, City Manager, responded by letter dated January 23, 2015. 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 Santa Fe Springs, 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

March 30, 2015

# Finding and Order of the Controller

**FINDING—  
Unallowable cash  
transfers to the  
City of Santa Fe  
Springs**

The Santa Fe Springs Community Development Commission (RDA) made unallowable asset transfers of \$24,490,129 to the City of Santa Fe Springs (City). The transfers occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

Unallowable asset transfers were as follows:

- On March 10, 2011 the RDA transferred \$9,337,498 in cash to the City for repayment of principal and accrued interest under an Advance agreement between the RDA and the City, dated September 23, 2010.
- On January 31, 2012 the RDA transferred \$465,343 in cash to the City for the payment of interest accrued under an Advance agreement between the City and the RDA, dated August 25, 2011.
- On March 10, 2011 the RDA transferred capital assets in the amount of \$14,687,289 to the City; \$5,006,722 of the capital assets were non-housing assets and the remaining \$9,680,560 were housing assets.

Pursuant to Health & Safety (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. The assets must be turned over to the Successor Agency for disposition in accordance with H&S Code section 34177(d) and (e).

## Order of the Controller

Pursuant to H&S Code section 34167.5, the City of Santa Fe Springs is ordered to reverse the transfers totaling \$24,490,129 and turn over the assets to the Successor Agency.

However, on June 30, 2012, the City transferred \$5,006,722 in capital assets to the Successor Agency.

Also, on August 1, 2012, the Successor Agency effectuated the transfer of \$9,680,566 in housing functions and assets to the City as Housing Successor in accordance with H&S Code section 34176(b)(2) and 34177(g).

In addition, on December 15, 2013, the City remitted \$9,802,841 in cash to the Los Angeles County-Auditor Controller for distribution to the affected taxing entities.

Therefore, no further action is necessary.



City's Response

The City stated that it believes its March 2011 capital asset transfer of \$5,006,722 was made in accordance with then-existing law, as the formal dissolution of redevelopment did not become effective until June 2012.

The City also stated that it provided a short-term loan to the RDA in September 2010 to allow it to continue its activities until it received its allocation of tax increment to the County. The City believes this loan is an enforceable obligation of the RDA under H&S Code section 34167(d)(2) and (5). The City remitted payment to the Los Angeles County Auditor-Controller for distribution to the affected taxing agencies, but did so under protest. The City has filed a lawsuit against the DOF contesting the need to make such payment.

SCO's Comment

Even though the City disagrees with the Order of the Controller, the appropriate corrective action has been taken.

The Finding and Order of the Controller remain as stated.

**Schedule 1—  
Unallowable Asset Transfers to  
the City of Santa Fe Springs  
January 1, 2011, through January 31, 2012**

Cash		
March 10, 2011	\$ 9,337,498	
January 31, 2012	<u>465,343</u>	\$ 9,802,841
Capital assets - March 10, 2011		
Heritage Corporate Center	2,564,861	
10203 Alburdis (walkway to Town Center)	87,485	
87/88 So Pacific Prop	415,530	
88/89 10202 Flallon	127,000	
ACTV Ctr Parking Lot Expansion	1,811,846	
01/02 Fulton Wells Sr Housing-Land	2,049,057	
Cella Property Fulton Wells Sr Land	517,860	
Lakeland & Laurel Housing Project	<u>7,113,649</u>	<u>14,687,288</u>
Total unallowable asset transfers		24,490,129
Less:		
Capital assets turned over to the Successor Agency on June 30, 2012		
Heritage Corporate Center	(2,564,861)	
10203 Alburdis (walkway to Town Center)	(87,485)	
87/88 So Pacific Prop	(415,530)	
88/89 10202 Flallon	(127,000)	
ACTV Ctr Parking Lot Expansion	<u>(1,811,846)</u>	(5,006,722)
Capital assets turned over to the Housing Successor on August 1, 2012		
01/02 Fulton Wells Sr Housing-Land	(2,049,057)	
Cella Property Fulton Wells Sr Land	(517,860)	
Lakeland & Laurel Housing Project	<u>(7,113,649)</u>	(9,680,566)
Cash remitted to the Los Angeles County Auditor-Controller on December 15, 2013		<u>(9,802,841)</u>
Total Transfers Subject to H&S Code section 34167.5		<u><u>\$ —</u></u>

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

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*"A great place to live, work, and play"*

January 23, 2015

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

Dear Ms. Gonzalez,

The purpose of this letter is to provide you with our response to the Asset Transfer Review draft report dated December 2014.

While we concur with the report's conclusion that no further action is necessary, we believe that our comments can provide needed clarification and context to your findings.

There are two specific items that we would like to address and clarify:

- 1) In March 2011 the City of Santa Fe Springs Community Development Commission (RDA) transferred \$5,006,722 in non-capital assets (properties) to the City. While the City has taken the necessary action and transferred the assets to the Successor Agency (as noted), the City firmly believes that the transfers were made in accordance with the then-existing law. The formal dissolution of redevelopment did not become effective until June 2012.
- 2) In December 2013, the City remitted payment to the Los Angeles County Auditor-Controller for distribution to the affected taxing agencies. It is important to note that the City did so under protest in order to obtain the State Department of Finance (DOF)-issued Finding of Completion. The City has filed a lawsuit against the DOF contesting the need to provide such payment.

The City of Santa Fe Springs provided an advance of \$9,337,498 to the RDA as a short-term loan made prior to the passage of AB 1X 26/AB 1484 for the sole purpose of allowing the RDA to continue its lawful redevelopment activities until it received its allocation of tax increment from the County. The loan in question was made in September 2010, and then repaid by the RDA in March 2011. This loan was an enforceable obligation of the RDA under Health & Safety Code Section

Juanita Trujillo, Mayor • Laurie M. Rios, Mayor Pro Tem  
City Council  
Richard J. Moore • William K. Rounds • Jay Sarno  
City Manager  
Thaddeus McCormack

January 23, 2015  
Response to Asset Transfer Review Report  
Page 2

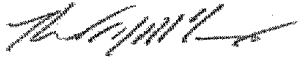
34167(d)(2) and (5). Further, Health & Safety Code Section 34167(f) states that: "Nothing in this part shall be construed to interfere with a redevelopment agency's authority, pursuant to enforceable obligations as defined in this chapter, to (1) make payments due, (2) enforce existing covenants and obligations, or (3) perform its obligations.

The Agency is reserving all rights with respect to \$9,353,730 (comprised of \$9,337,498 plus \$16,232 in interest) paid under protest and has filed a petition for writ of mandate to recoup these funds (with interest).

Again, while we concur with the report's conclusion that no further action is necessary, we firmly believe that our comments are needed to provide clarification and context to your findings.

Please contact me if you have any questions or concerns.

Sincerely,



Thaddeus McCormack  
City Manager

Juanita Trujillo, Mayor • Laurie M. Rios, Mayor Pro Tem  
City Council  
Richard J. Moore • William K. Rounds • Jay Sarno  
City Manager  
Thaddeus McCormack

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