

GALT REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

August 2014



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California State Controller

August 26, 2014

Inez Kiriv, Finance Director
Galt Redevelopment/Successor Agency
300 Civic Drive
Galt, CA 95632-2039

Dear Ms. Kiriv:

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

Our review found that the RDA transferred \$20,664,642 in assets after January 1, 2011, including unallowable transfers to the City totaling \$1,147,341, or 5.55% of transferred assets.

However, the City remitted \$1,085,000 in cash to the Sacramento County Auditor-Controller, to be distributed to the taxing entities. In addition, there was a \$62,341 adjustment/repayment made through the California Department of Finance Due Diligence Review process. 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/mh

cc: David Botelho, Program Budget Manager
California Department of Finance
Richard J. Chivaro, Chief Legal Counsel
State Controller's Office
Elizabeth González, Bureau Chief
Division of Audits, State Controller's Office
Scott Freesmeier, Audit Manager
Division of Audits, State Controller's Office
Robert Brasfield, 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) reviewed the asset transfers made by the Galt Redevelopment Agency (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 \$20,664,642 in assets after January 1, 2011, including unallowable transfers to the City of Galt (City) totaling \$1,147,341, or 5.55% of transferred assets.

However, the City remitted \$1,085,000 in cash to the Sacramento County Auditor-Controller, to be distributed to the taxing entities. In addition, there was a \$62,341 adjustment/repayment made through the California Department of Finance Due Diligence Review (DDR) process. 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 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 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 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 operations and procedures.
- Reviewed meeting minutes, resolutions, and ordinances of the RDA, the City, 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 Galt Redevelopment Agency transferred \$20,664,642 in assets after January 1, 2011, including unallowable transfers to the City totaling \$1,147,341, or 5.55% of transferred assets.

However, the City remitted \$1,085,000 in cash to the Sacramento County Auditor-Controller to be distributed to the taxing entities. In addition, there was a \$62,341 adjustment/repayment made through the California Department of Finance DDR process. Therefore, no further action is necessary.

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

Views of Responsible Officials

We issued a draft review report on March 26, 2014. Michelle Neeley responded by email dated July 29, 2014, agreeing 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, 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

August 26, 2014

Findings and Orders of the Controller

**FINDING—
Unallowable asset
transfers to the
City of Galt**

The Galt Redevelopment Agency (RDA) made unallowable asset transfers of \$1,147,341, to the City of Galt (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 June 29, 2011, the RDA transferred \$62,341 to the City for a loan repayment.
- On June 29, 2011, the RDA transferred \$148,000 to the City for a loan repayment.
- On July 31, 2011, the RDA transferred \$148,000 to the City for a loan repayment.
- On October 3, 2011, the RDA transferred \$789,000 to the City for City Impact Fees.

Pursuant to Health and 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).

Order of the Controller

Pursuant to H&S Code section 34167.5, the City is ordered to reverse the transfer of assets in the amount of \$1,147,341, plus any interest earned, and turn over the assets to the Successor Agency. The Successor Agency is directed to properly dispose of those assets in accordance with H&S Code section 34177(d).

However, the City remitted \$1,085,000 in cash to the Sacramento County Auditor-Controller, to be distributed to the taxing entities. In addition, there was a \$62,341 adjustment/repayment made through the California Department of Finance DDR process. Therefore, no further action is necessary.

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

Asset	Transfer Date	Amount
Repayment of loan (Loan Consolidation)	06/29/11	\$ 62,341
Galt Place—loan repayment	06/29/11	148,000
Galt Place—loan repayment	07/31/11	148,000
Payment to City for Impact Fees—Galt Place	10/3/11	<u>789,000</u>
Total unallowable transfers		1,147,341
Less assets transferred to the Sacramento County Auditor-Controller	01/16/13	(1,085,000)
Less adjustments/repayments made through the DDR process	04/13/13	<u>(62,341)</u>
Total unallowable transfers subject to H&S Code section 34167.5		<u>\$ —¹</u>

¹ See the Findings and Orders of the Controller section.

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

From: Neeley, Michelle [<mailto:MNeeley@ci.galt.ca.us>]

Sent: Tuesday, July 29, 2014 10:05 AM

To: Brasfield, Robert

Subject: RE: RDA Review- Revised Finding

Hi Bob,

The Draft looks great. Please proceed with final.

Thank you,

Michelle Neeley
Accounting Manager
City of Galt
209 366-7156

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