

PARAMOUNT REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

May 2014



JOHN CHIANG
California State Controller

May 7, 2014

Linda Benedetti-Leal, City Manager
Paramount Redevelopment Successor Agency
16400 Colorado Avenue
Paramount, CA 90723

Dear Ms. Benedetti-Leal:

Pursuant to Health and Safety (H&S) Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Paramount Redevelopment Agency (RDA) to the City of Paramount (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 it 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 \$37,148,585 in assets after January 1, 2011, including unallowable transfers totaling \$11,738,979 to the City, or 31.6% of transferred assets.

However, on April 18, 2012, the Oversight Board retroactively approved \$1,466,716 in transfers. In addition, the City incurred \$60,876 in expenditures related to transferred assets. Therefore, the remaining \$10,211,387 in unallowable transfers must be turned over to the Successor Agency.

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/mh

Attachment

cc: Peggy Lemons, Chairperson
Oversight Board
Paramount Redevelopment Successor Agency
Karina Lam, Finance Director
City of Paramount
Wendy Watanabe, Auditor-Controller
Los Angeles County Auditor-Controller
David Botelho, Program Budget Manager
Department of Finance
Richard J. Chivaro, Chief Legal Counsel
State Controller's Office
Elizabeth Gonzalez, Bureau Chief
Division of Audits, State Controller's Office
Betty Moya, Audit Manager
Division of Audits, State Controller's Office
Wan Ting Lo, Auditor-in-Charge
Division of Audits, State Controller's Office
Kevin Kanemasu, Auditor
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 Paramount 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 \$37,148,585 in assets after January 1, 2011, including unallowable transfers totaling \$11,738,979 to the City of Paramount (City), or 31.6% of transferred assets.

However, on April 18, 2012, the Oversight Board retroactively approved \$1,466,716 in transfers. In addition, the City incurred \$60,876 in expenditures related to transferred assets. Therefore, the remaining \$10,211,387 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 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.

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 identified 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 Successor Agency personnel to gain an understanding of the Successor Agency operations and procedures.
- Reviewed meeting minutes, resolutions, and ordinances of the Paramount City Council, 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 Paramount Redevelopment Agency (RDA) transferred \$37,148,585 in assets after January 1, 2011, including unallowable transfers totaling \$11,738,979 to the City of Paramount (City), or 31.6% of transferred assets.

However, on April 18, 2012, the Oversight Board retroactively approved \$1,466,716 in transfers. In addition, the City incurred \$60,876 in expenditures related to transferred assets. Therefore, the remaining \$10,211,387 in unallowable transfers must be turned over to the Successor Agency.

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

**Views of
Responsible
Officials**

At an exit conference on July 11, 2013, we discussed the review results with John Moreno, Assistant City Manager; Karina Lam, Finance Director; and Terry Cahoon, Assistant Finance Director. We stated that the final report will include the views of responsible officials.

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

May 7, 2014

Finding and Order of the Controller

FINDING— Unallowable asset transfers to the City of Paramount

The Paramount Redevelopment Agency (RDA) made unallowable asset transfers of \$11,738,979, described in Schedule 1, to the City of Paramount (City). The asset transfers to the City occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011. The transfers were made as follows:

- From March 7, 2011 to March 9, 2011, the RDA transferred \$1,574,314 in cash to the City for the repayment of a loan agreement that the RDA and the City entered into on June 12, 2000. To accomplish this transfer, the RDA passed Resolution No. PRA 007-11 on March 8, 2011, authorizing the transfer of funds within the RDA's Tax Increment accounts to pay off the City loan obligation.
- Also under Resolution No. PRA 007-11, the RDA transferred \$5,994,544 in Land Held for Resale, with the Rosewood Restaurant and Southern California Pizza Kitchen lease agreements, to the City. Between March 2011 and January 2012, the City collected \$51,389 and \$40,605, respectively, in lease revenue from the Rosewood Restaurant and the Southern California Pizza Kitchen leases.
- In addition, on various dates, the RDA transferred \$2,578,761 in real properties, with the Gateway Cities Partnership and Senate Rules Committee-California Legislature lease agreements, to the City. Between March 2011 and January 2012, the City collected \$30,322 and \$2,328, respectively, in lease revenue from the Gateway Cities Partnership and Senate Rules Committee-California Legislature leases. The City also encumbered expenses totaling \$60,876 to maintain the four leased properties.

Of the real properties that were transferred, the RDA held legal title to seven land parcels, although the assets were recorded on the City's books since 2003. City staff asserted that the transfer was done to correct title the RDA held incorrectly. However, title was vested with the RDA until the transfer; therefore, the ownership belongs to the RDA, not the City.

In addition, the RDA transferred the police station parking lot to the City while it was still in escrow. The total value of the parking lot was \$1,466,716. However, on April 18, 2012, the Oversight Board retroactively approved the transfer of the police station parking lot to the City.

Pursuant to Health and Safety (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 section 34177(e). However, it appears that some of those assets may also be subject to the provisions of H&S Code Section 34181(a). 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 that were funded by tax increment revenues of the dissolved 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 government purpose, such as roads, school buildings, parks, and fire stations, to the appropriate public jurisdiction pursuant to any existing agreements relating to the construction or use of such an asset. Any compensation to be provided to the successor agency for the transfer of the asset shall be governed by the agreements relating to the construction or use of that asset. Disposal shall be done expeditiously and in a manner aimed at maximizing value.”

Order of the Controller

Pursuant to H&S Code section 34167.5, the City of Paramount is ordered to reverse the transfer of the above assets in the amount of \$11,738,979. However, on April 18, 2012, the Oversight Board retroactively approved \$1,466,716 in transfers related to the police station parking lot. In addition, the City expensed \$60,876 to maintain the leased properties. Therefore, the remaining \$10,211,387 in unallowable transfers must be turned over to the Successor Agency. (See Schedules 1 and 2).

The Successor Agency is directed to properly dispose of those assets in accordance with H&S Code sections 34177(e) and 34181(a).

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.

City’s Response

The City of Paramount disagrees with various findings identified by the SCO regarding the transfer of properties. In particular, the City raised concerns to the definition of “Agency asset” and asserted that the assets were held erroneously in the RDA’s name due to administrative error. (See Attachment.)

City Loan Repayment

City’s Response

The City of Paramount did not comment on the SCO’s finding.

SCO’s Comment

The finding and Order of the Controller remain as stated.

Land Held for Resale and Lease Revenue Transfer – 8205 Alondra Boulevard

The City of Paramount disagrees with the SCO's findings as follows. (See Attachment.)

This property was purchased specifically with bond proceeds from the former Redevelopment Agency's 2010 tax allocation bond issue... By disallowing the transfer of this property, underlying control of the asset is compromised which could lead to a use or disposition of the property that is not consistent or conflicts with the descriptions provided to bond purchasers and holders who relied on the Agency's original representations.

SCO's Comment

The transfer of this property was made within the scope period to the City, which is unallowable pursuant to H&S Code section 34167.5. The City argued that by disallowing the transfer of this property to the City, it could lead to a use or disposition of the property that is not consistent with the description provided to bond purchasers. The Oversight Board shall determine the disposition of this property.

The finding and Order of the Controller remain as stated.

All Other Land Held for Resale Transfers and the Rosewood Restaurant Lease RevenueCity's Response

The City of Paramount did not comment on the SCO's finding.

SCO's Comment

The finding and Order of the Controller remain as stated.

Transfer of Real Properties – Six Land ParcelsCity's Response

The City of Paramount disagrees with the SCO's findings as follows. (See Attachment.)

Many of the "assets" identified in the review are merely valueless remnants of land that include such things as a 488 sq. ft. utility easement or a landscaped parkway. Due to the very nature of these small, remnant parcels, which were mostly sheared off from larger parcels, there was a lack of regard for title in general, and the remnants were never formally transferred from the Agency to the City; however, the long history of the City's treatment of these parcels clearly shows that they were never assets of the Agency, despite how title was held. Moreover, even if, through some tortured definition of the term, these parcels are considered "assets", their size and remnant nature, along with their virtual lack of value, render them immaterial.

SCO's Response

The SCO's authority under H&S Code Section 34167.5 is to determine if any unallowable asset transfers are made between the RDA and the City or other public entities. If an RDA asset is moved to the City, an unallowable asset transfer has occurred. After validating the deeds and records, we have concluded that all of the above RDA assets were unallowably transferred to the City. They are deemed as RDA assets because the RDA held the titles despite the fact that they have been carried on the City's books. Furthermore, the definition of assets includes land parcels. A land parcel, regardless of its value, is still an asset. The City asserted that some of the transferred land parcels have no value. However, this is incorrect because the RDA's accounting record shows that all of the land parcels have an assigned value. Thus, the SCO cannot concur that these real properties are not the types of "assets" envisioned by H&S Code Section 34167.5 as requested by the City. H&S Code Section 34167.5 states if an asset transfer was made to the City and the asset was not encumbered to third parties prior to June 28, 2011, or if the transfer back would be prohibited by state or federal law, it is deemed an unallowable transfer of assets.

While the City is concerned that by disallowing these transfers, it will create unnecessary confusion and senseless work for both the City and the State, this issue is particularly handled by the Oversight Board. One of the primary responsibilities of the Oversight Board is to direct the disposition of RDA assets. By ordering the return of unallowable asset transfers to the Successor Agency, the Oversight Board will decide on the appropriate action to be taken in regards to these assets.

The finding and Order of the Controller remain as stated.

Transfer of Real Properties – 16435 Paramount Boulevard

City's Response

...this "asset" is part of a larger Civic Center Campus, which contains City Hall, the offices of the Gateway Cities Council of Governments, and a hospital. Since purchased in 2005, this property has been carried on the City's books and has been maintained by the City, utilizing no Agency funds...Again, failure to transfer title to the City was an administrative oversight, as the City has always maintained and held this property on its own books. Also, by its location and nature, this parcel cannot stand alone and, therefore, it is of no value and not an "asset" in any meaningful sense of the word.

SCO's Comment

It is incorrect for the City to say that this parcel has no value because it does carry a value of \$963,284. Even though the City was maintaining this parcel, the RDA held the legal title, which evidences that it is a RDA asset.

The finding and Order of the Controller remain as stated.

Transfer of Real Properties – 16401 Paramount Blvd.

City's Response

The City of Paramount did not comment on the SCO's finding.

SCO's Comment

The finding and Order of the Controller remain as stated.

Transfer of Police Station Parking Lot

City's Response

The City of Paramount did not comment on the SCO's finding.

SCO's Comment

The finding and Order of the Controller remain as stated.

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

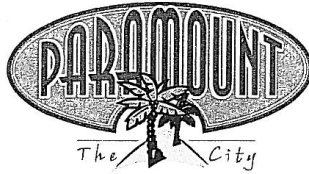
Current assets	
Cash transfer—City loan repayment	\$ 1,574,314
Revenue from the Rosewood lease	51,389
Revenue from the Southern California Pizza lease	40,605
Revenue from the Gateway Cities Partnership lease	30,322
Revenue from the Senate Rules Committee-California Legislature lease	2,328
Land held for resale	5,994,544
Capital assets	
Real properties ¹	2,578,761
Police station parking lot (7919 Somerset)	<u>1,466,716</u>
Total unallowable asset transfers	11,738,979
Oversight Board approval (April 18, 2012)	
Police station parking lot (7919 Somerset)	(1,466,716)
Adjustment	
City's expenditures for maintaining leased properties	<u>(60,876)</u>
Total transfers subject to H&S Code section 34167.5	<u><u>\$ 10,211,387</u></u>

¹ See Schedule 2 for detail listing of real properties transferred to the City

**Schedule 2—
Detail Listing of Real Properties
Transferred to the City of Paramount**

Description	Parcel #	Value
16435 Paramount	7102-027-908	\$ 963,284
Alondra Grade separation	6240-025-900	17,104
Progress Park parking lot	6268-013-913	5,758
Utility easement	6236-034-910	565
Landscape (Orange Industrial Park)	6236-036-921	469
The Pond	7103-011-966	72,499
Median (Orange Industrial Park)	6236-036-908	16,646
16401 Paramount	7102-027-907	1,502,436
Total		<u>\$ 2,578,761</u>

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



GENE DANIELS
Mayor

DIANE J. MARTINEZ
Vice Mayor

TOM HANSEN
Councilmember

DARYL HOFMEYER
Councilmember

PEGGY LEMONS
Councilmember

October 17, 2013

Mr. Steven Mar
Chief, Local Government Audits Bureau
State Controller's Office, Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Paramount Redevelopment Agency Asset Transfer Review
Report (Review Report)

The Paramount Successor Agency and the City of Paramount appreciate the opportunity to comment on and respond to the findings, conclusions and orders of the draft Review Report. The State Controller's Office has requested that we particularly address the accuracy of the findings, and our comments will do this in a most fundamental way.

In particular, we would like to address the meaning of "Agency asset" as it relates to the review, and the issue of materiality. Many of the "assets" identified in the review are merely valueless remnants of land that include such things as a 488 sq. ft. utility easement or a landscaped parkway. Due to the very nature of these small, remnant parcels, which were mostly sheared off from larger parcels, there was a lack of regard for title in general, and the remnants were never formally transferred from the Agency to the City; however, the long history of the City's treatment of these parcels clearly shows that they were never assets of the Agency, despite how title was held. Moreover, even if, through some tortured definition of the term, these parcels are considered "assets", their size and remnant nature, along with their virtual lack of value, render them immaterial.

We would hope that, in the few instances related below, common sense would prevail and it will become apparent that the transfer of the "assets" from the Agency to the City was done simply as "clean up" to correct long-standing administrative errors regarding the recording of title that were not discovered until the redevelopment dissolution process brought them to light. Disallowing the transfers creates unnecessary confusion regarding the long term ownership responsibility for these remnants and provides no benefit to the State whatsoever. We also contend, and are requesting, that these transfers be deemed allowable as the underlying assets are valueless and, therefore, immaterial.

The following six bits of land were identified in the Review Report as disallowable asset transfers. All of them have been included as fixed assets of the City and reported as such on City financial statements for the last 10 years (since FY2003 when GASB first required this reporting.) Many were held as city assets for longer periods of time, going back as far as 1976. For each asset, from inception, the responsibility for the maintenance, upkeep, and liability for all the properties rested with the City. Titles were not changed from the Agency to the City due to administrative error, most likely because

the "assets" themselves were not typical parcels of land with pre-existing legal identities. These bits of land, remnants of prior developments, were of such small size and insignificance that, decades ago, transfer of title was overlooked.

1.) 6240-025-900 - This remnant parcel from 1990 arose from a railroad grade separation project funded through a combined \$10 million grant from Union Pacific Railroad and the Public Utilities Commission. Only a small portion of the project was funded with Agency funds and the resulting development is clearly a 4-lane city arterial street, a median, supporting infrastructure and a railway bridge. The "asset" in question here is a piece of landscaped slope of no value whatsoever.

2.) 6268-013-913 - This is a small piece of a larger parking lot for a city community center, purchased in 1978. All of the parcels which were acquired for this parking lot, with this sole exception, were recorded in the City's name. As this parcel is smack dab in the middle of the rest of the parking lot, it is apparent that not placing this parcel in the City's name as well was simply an oversight. The location of this "asset" also renders it valueless.

3.) 6236-034-910 - This is a remnant parcel from 1979 of only 488 sq. ft. which contains a utility easement. Transfer to the Successor Agency would be fruitless.

4.) 6236-036-908 - This is a landscaped parkway within an industrial park which has been maintained by the City through a landscape assessment district since its creation in 1979. The original owner of the park preferred that maintenance of the median be done through the mechanism of an assessment district, so this median was carved out of the rest of the development and the city created the assessment district. Disallowance of this transfer is particularly troublesome, as the Successor Agency has no authority to administer the assessment district, paid for by the tenants in the park, to cover the costs of maintenance.

5.) 7103-011-966 - This parcel, from 1987, was a remnant from a larger development and is, itself, non-developable. City records show that the bulk of the costs associated with the development of this parcel into a public sculpture park were paid for from non-Agency funds, such as the City's Art in Public Places fund. Not only was development of the "asset" funded largely by the City, but upkeep and maintenance has also been paid for by the City. Again, this parcel was a small piece of a former larger parcel that was not transferred to the City's name due to administrative oversight, and the parcel itself is non-developable and of no value.

6.) 6236-036-921 - This is a miniscule landscaped street setback of no value.

From the descriptions of the properties provided above, we would hope that, through the exercise of common sense and reasonableness, the State Controller's Office will concur that these properties are not the types of "assets" envisioned by the H&S Code Section 34167.5; in fact, if an asset implies something of value, you'd be hard pressed to define the properties as assets at all. Additionally, all of the above-referenced "assets" have

Mr. Steven Mar
October 17, 2013
Page 3


always been carried on the City's books, despite how title was held, and the City has maintained them since they were created. Failure to transfer title was an administrative oversight due to the physical attributes of the parcels themselves, many of which were valueless remnants or small pieces of larger developments. Disallowing the transfers from the former Agency to the City will create unnecessary confusion and senseless work for both the City and the State, while providing no value to the State whatsoever.

With regard to 16435 Paramount Boulevard, this "asset" is part of a larger Civic Center Campus, which contains City Hall, the offices of the Gateway Cities Council of Governments, and a hospital. Since purchased in 2005, this property has been carried on the City's books and has been maintained by the City, utilizing no Agency funds. Any buildings on the site were demolished and the site developed into a park within the Civic Center Campus. Again, failure to transfer title to the City was an administrative oversight, as the City has always maintained and held this property on its own books. Also, by its location and nature, this parcel cannot stand alone and, therefore, it is of no value and not an "asset" in any meaningful sense of the word.

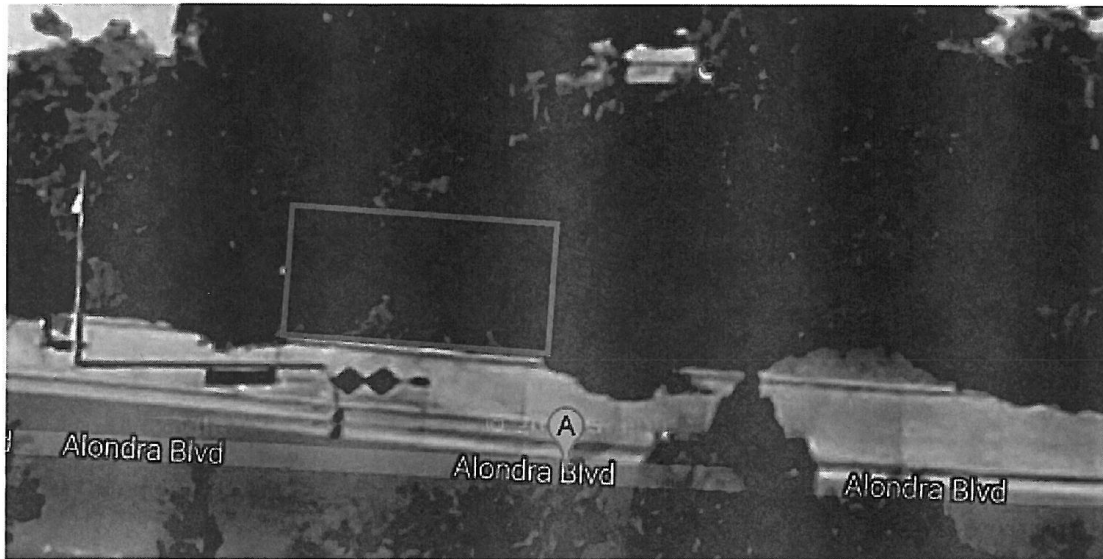
Attached we have provided photographs of the "assets" referenced above. It would indeed be a pitiful waste of both City and State resources, and taxpayers' money, to require the transfer of these bits and pieces of land to the Successor Agency. We sincerely hope that the State Controller can avoid a robotic application of Health and Safety Code Section 34167.5 and determine that these "assets" are not assets as envisioned by the redevelopment dissolution law; were held erroneously in the Redevelopment Agency's name due to nothing more than administrative error, and; are immaterial to the audit performed.

Finally, the transfer of title for the property at 8205 Alondra Boulevard, along with lease revenues, were disallowed in the Review Report. This property was purchased specifically with bond proceeds from the former Redevelopment Agency's 2010 tax allocation bond issue. The prospectus for the issue states that the bonds were to be used for redeveloping this specific parcel within the Agency area. By disallowing the transfer of this property, underlying control of the asset is compromised which could lead to a use or disposition of the property that is not consistent or conflicts with the descriptions provided to bond purchasers and holders who relied on the Agency's original representations. The State Controller's order with regard to this property introduces volatility and uncertainty for bond holders. Other provisions in the laws setting out the redevelopment dissolution scheme have recognized the unique status of projects funded by bond proceeds. We request that the State Controller review their order regarding 8205 Alondra Boulevard in this light.

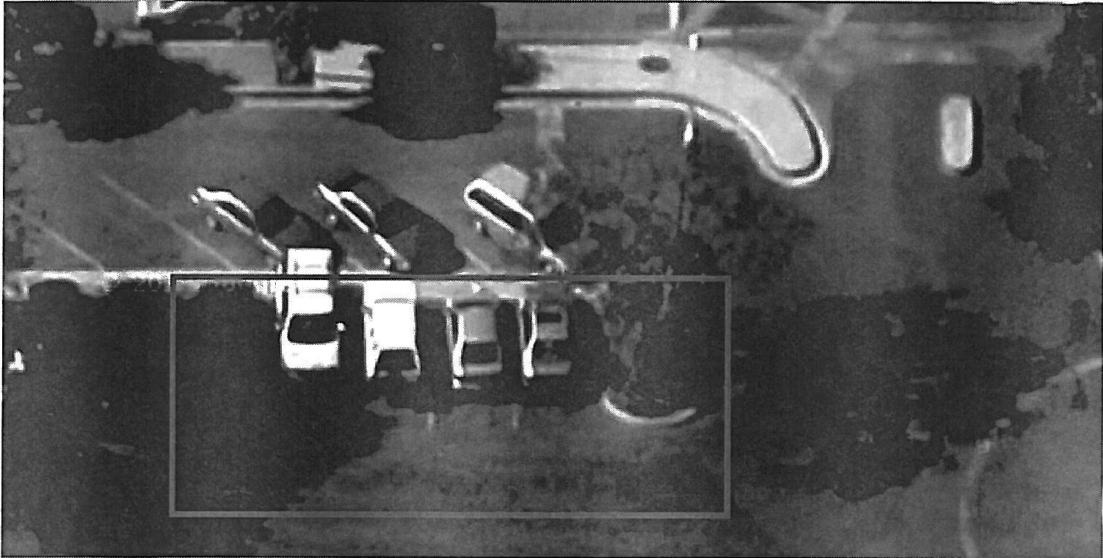
CITY OF PARAMOUNT


Linda Benedetti-Leal
City Manager

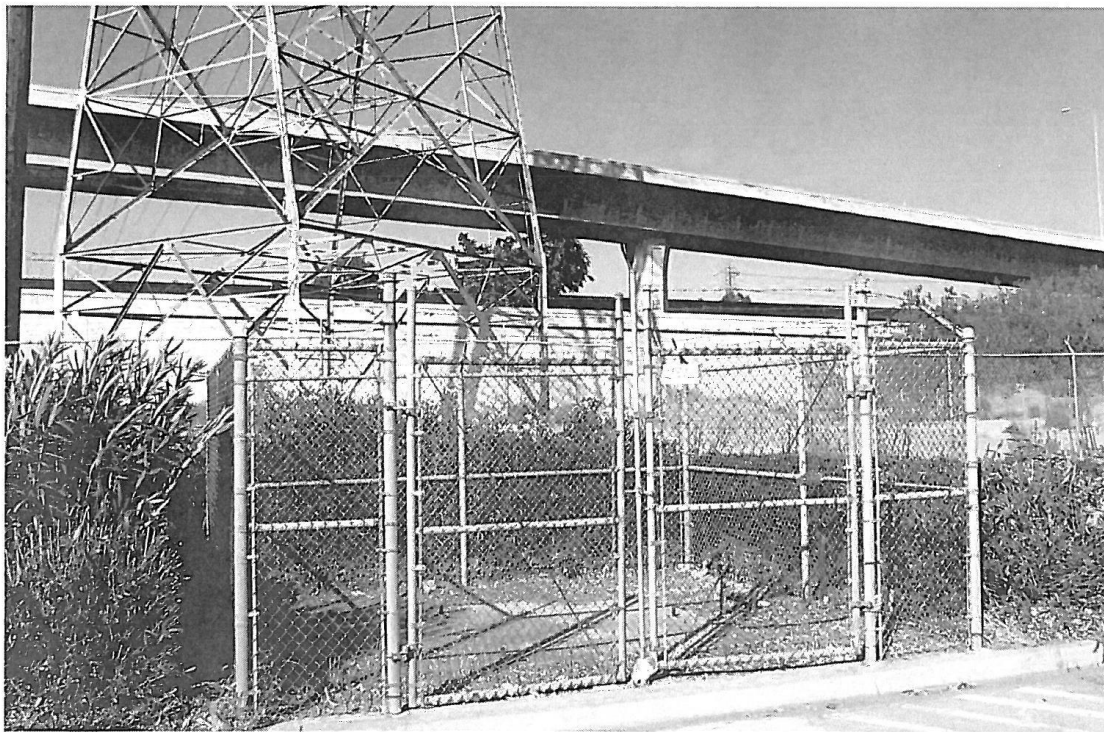
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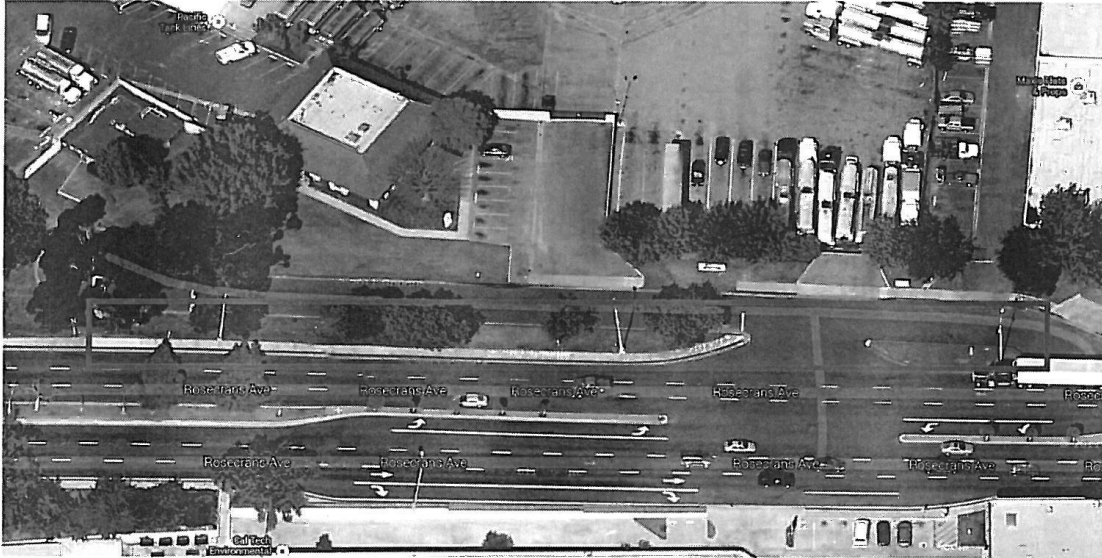
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6236-034-910



6236-036-908



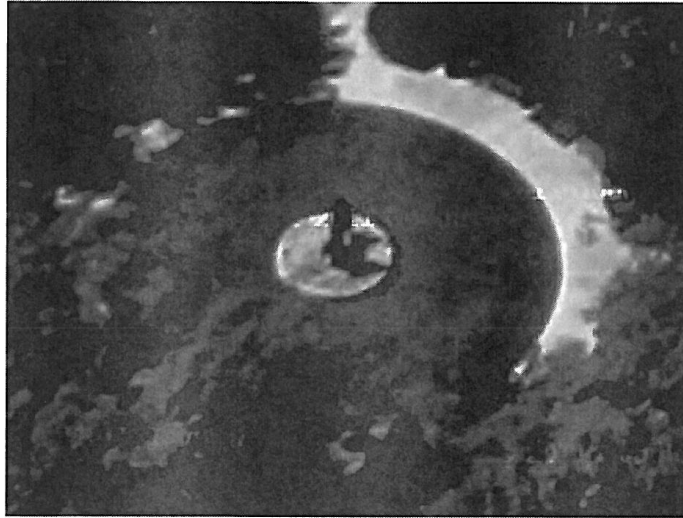
7103-011-966



6236-036-921



16435 Paramount Blvd.



**State Controller's Office
Division of Audits
Post Office Box 942850
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<http://www.sco.ca.gov>