

COACHELLA 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

David Garcia, City Manager
City of Coachella/Successor Agency
1515 Sixth Street
Coachella, CA 92236

Dear Mr. Garcia:

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

Our review found that the Coachella RDA transferred to the City of Coachella assets totaling \$14,917,549 after January 1, 2011, of which \$2,106,943, or 14.12%, is unallowable. The city must reverse the transfers and return the assets to the Successor Agency. Additionally, \$663,442 in RDA assets have yet to be turned over to the Successor Agency. The City did place \$2,002,201 in bond proceeds and \$663,442 in cash on a Recognized Obligation Payment Schedule (ROPS) that was approved by the Successor Agency. The City of Coachella is required to reverse the remaining, unallowable loan payments in the amount of \$104,742 and turn over these assets to the Successor Agency.

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: John Aguilar, Chairman
Coachella Redevelopment Successor Agency
Paul Angulo, Auditor-Controller
Riverside County
Steven Szalay, Local Government Consultant
Department of Finance
Richard J. Chivaro, Chief Legal Counsel
State Controller's Office
Steven Mar, Bureau Chief
Division of Audits, State Controller's Office
Scott Freesmeier, Audit Manager
Division of Audits, State Controller's Office
Kandy Liu, 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 Coachella 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 Coachella RDA transferred to the City of Coachella assets totaling \$14,917,549 after January 1, 2011, of which \$2,106,943, or 14.12%, is unallowable. The city must reverse the transfers and return the assets to the Successor Agency. Additionally, \$663,442 in RDA assets have yet to be turned over to the Successor Agency. The City did place \$2,002,201 in bond proceeds and \$663,442 in cash on a Recognized Obligation Payment Schedule (ROPS) that was approved by the Successor Agency. The City of Coachella is required to reverse the remaining, unallowable loan payments in the amount of \$104,742 and turn over these assets 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 Coachella 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 Coachella City Council, Coachella 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 Coachella RDA transferred to the City of Coachella assets totaling \$14,917,549 after January 1, 2011, of which \$2,106,943, or 14.12%, is unallowable. The city must reverse the transfers and return the assets to the Successor Agency. Additionally, \$663,442 in RDA assets have yet to be turned over to the Successor Agency. The City did place \$2,002,201 in bond proceeds and \$663,442 in cash on a ROPS that was approved by the Successor Agency. The City of Coachella is required to reverse the remaining, unallowable loan payments in the amount of \$104,742 and turn over these assets to the Successor Agency.

Details of our findings are in the Findings and Orders of the Controller section of this report. We also have included detailed schedules of assets to be turned over to, or transferred to, the Successor Agency.

Views of Responsible Official

We issued a draft review report on May 22, 2013. David Garcia, City Manager, responded by letter dated May 29, 2013, disagreeing with the review results. The city's response is included in this final report as an attachment.

Restricted Use

This report is solely for the information and use of the City of Coachella, the Successor Agency, and the Oversight Board; 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 Transfers to the City of Coachella

The Coachella Redevelopment Agency (RDA) transferred \$2,002,201 in bond proceeds to the City of Coachella on December 8, 2011, and December 31, 2011, to fund the city's Sixth Street Project. These assets were not contractually committed to a third party prior to June 28, 2011.

Unallowable transfers of assets were as follows:

	City Fund #182	City Fund #415	Total
December 8, 2011 GJ# 1112-12013			
RDA fund #845	\$ 1,734,255	\$ 12,077	\$ 1,746,332
December 31, 2011 GJ# 1112-12017			
City fund #181 (RDA bond proceeds overdrawn from previous years)	852,979		852,979
Total RDA assets transferred to the city	\$ 2,587,234	\$ 12,077	2,599,311
Adjustments made—returned to RDA			(597,110) ¹
Adjusted total			\$ 2,002,201

¹ This amount was returned to RDA fund #842 on January 31, 2012, by GJ#1112-01053 after the completion of the Sixth Street Project.

Health and Safety (H&S) Code section 34163(d)(1) states:

An agency shall not have the authority to, and shall not, do any of the following: Dispose of assets by sale, long-term lease, gift, grant, exchange, transfer, assignment, or otherwise for any purpose including, but not limited to, any of the following: Assets, including, but not limited to, real property, deeds of trust, and mortgages held by the agency, moneys, accounts receivable, contract rights, to receive rents, and other right to payments of whatever kind.

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, that were not contractually committed to a third party must be returned to the Successor Agency for disposition in accordance with H&S Code sections 34177 (d), (e) and (i).

Order of the Controller

Based on H&S Code sections 34163(d)(1) and 34167.5, the City of Coachella is ordered to reverse the transfers in the amount of \$2,002,201 and turn them over to the Successor Agency. The Successor Agency is directed to properly dispose of those assets in accordance with H&S Code sections 34177 (d), (e) and (i).

City's Response

Asset Transfer Review Draft Report Finding 1 identifies unallowable transfers totaling \$2,002,201. It should be noted that these expenditures were for work done on the City's Sixth Street Project. The City was advised by the Department of Finance that following completion and acceptance of our Due Diligence review that our use of bond proceeds for the Sixth Street Project as well as Bagdouma Park would be allowed. The City's Due Diligence review was completed and a Finding of Completion Verification Request Form was filed with the Department of Finance on April 2, 2013. The Department of Finance granted the City a Finding of Completion in a letter dated April 12, 2013 (copy attached).

SCO's Comment

We have received the Finding of Completion issued by the Department of Finance; however, bond proceeds were not allowed to be used prior to this issuance. The bond proceeds were transferred to the City of Coachella for the Sixth Street Project on December 8, 2011, and December 31, 2011. This was during the period in which the RDA was required to wind down, and not engage in new projects. Also, the contracts for the projects were signed by the city and not by the RDA. The transfers occurred during January 1, 2011, and January 31, 2012, during the period in which they were considered to be unallowable. As the Successor Agency did receive a Finding of Completion dated April 12, 2013, and the projects were listed on the ROPS with Oversight Board approval, no further action is required.

FINDING 2— Assets have not yet been transferred to the Successor Agency

The Coachella RDA has not yet transferred \$663,442 in cash held in RDA fund #845 to the Successor Agency.

H&S Code section 34175(b) states:

All assets, properties, contracts, leases, books and records, buildings, and equipment of the former redevelopment agency are 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. Any legal or contractual restrictions on the use of these funds or assets shall also be transferred to the successor agency.

Pursuant to H&S Code section 34167.5, any asset transfers by the RDA to a city, county, city and county or any other local public agency after January 1, 2011, that were not contractually committed to a third party prior to June 28, 2011, must be returned to the Successor Agency for disposition in accordance with H&S Code sections 34177.

Order of the Controller

Pursuant to H&S Code section 34167.5, the City of Coachella is ordered to transfer the above asset, in the amount of \$663,442, to the Successor Agency. The Successor Agency is directed to properly dispose of this asset in accordance with H&S Code sections 34177.

City's Response

Asset Transfer Review Draft Report Finding 2 identifies cash in the amount of \$663,442 that was not transferred to the Successor Agency. The City agrees that fund #845 had cash in the amount of \$663,442 but it also had recorded liabilities for the same amount. Since the cash totaling \$663,442 was used to pay the liabilities there are no remaining funds to transfer to the Successor Agency.

SCO's Comment

The liabilities presented to offset the assets were not valid expenditures for the RDA. The amount was paid to Doug Wall Construction for the Sixth Street Project which was unallowable because the contracts for the project were signed on June 28, 2011, after the effective date of ABX1 26, and by the city and not the RDA. However, as the Successor Agency did obtain a Finding of Completion from the Department of Finance dated April 12, 2013, and the projects were listed on the ROPS with Oversight Board approval, no further action is required.

**FINDING 3—
Unallowable loan
payment to the
City of Coachella**

The Coachella RDA repaid a loan in the amount of \$104,742 to the city on January 31, 2012. Neither the city nor the RDA provided loan contracts to validate the original loan amount, repayment schedule, or loan terms.

The unallowable loan payment was as follows:

January 31, 2012
GJ #1112-01031
\$104,742
From RDA fund #821 to city fund #101

Order of the Controller

Based on H&S Code section 34167.5 the City of Coachella is ordered to return the loan payment, in the amount of \$104,742, to the Successor Agency. The Successor Agency is then directed to properly dispose of these assets in accordance with H&S code section 34177.

City's Response

Asset Transfer Review Draft Report Finding 3 identified an unallowable loan payment to the City of Coachella in the amount of \$104,742. The City agrees that they made a loan payment to the City of Coachella from the RDA in the amount of \$104,742. It should be noted, however, that at the same time that the payment of \$104,742 was

made to the City the City made a payment of \$150,000 to the RDA. The two transfers resulted in a net gain by the RDA of \$45,259. As the State Controller has disallowed the transfer, the city will reverse both transfers and have the Successor Agency remit \$45,259 back to the City.

SCO's Comment

The SCO agrees with the City of Coachella reversing the \$104,742 and returning it to the Successor Agency. In addition, any payments made by the Successor Agency to the City must be approved by Department of Finance through the ROPS process.

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

Unallowable bond proceeds transfer	\$ 2,002,201
Unallowable loan repayment	<u>104,742</u>
Total unallowable transfers and repayments	2,106,943
Approved by Oversight Board after obtaining a notice of completion	<u>2,002,201</u>
Total amount subject to Health and Safety Code section 34167.5	<u>\$ 104,742</u>

**Schedule 2—
RDA Assets That Have Not Yet Been
Transferred to the Successor Agency
As of February 1, 2012**

Cash	<u>\$ 663,442</u>
Total assets that have not been transferred	663,442
Assets expended by an approved ROPS	<u>663,442</u>
Remaining assets that have not yet been transferred	<u>\$ —</u>

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



CITY OF COACHELLA

1515 SIXTH STREET, COACHELLA, CALIFORNIA 92236

PHONE (760) 398-3502 • FAX (760) 398-8117 • WWW.COACHELLA.ORG

May 29, 2013

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Steven Mar, Chief
Local Government Audits Bureau
State Controller's Office
Division of Audits
300 Capitol Mall, Suite 1850
Sacramento, CA 95814

Re: California State Controller Asset Transfer Letter dated May 22, 2013

Dear Mr. Mar:

In your letter dated May 22, 2013 (copy attached) you indicate that the Coachella RDA transferred \$2,106,943 in unallowable assets to the City of Coachella. You also state that an additional \$663,442 in RDA assets have not yet been transferred to the Successor Agency and must be transferred to the Successor Agency. The City of Coachella disagrees with your findings for the following reasons:

- Asset Transfer Review Draft Report Finding 1 identifies unallowable transfers totaling \$2,002,201. It should be noted that these expenditures were for work done on the City's Sixth Street Project. The City was advised by the Department of Finance that following completion and acceptance of our Due Diligence review that our use of bond proceeds for the Sixth Street Project as well as Bagdouma Park would be allowed. The City's Due Diligence review was completed and a Finding of Completion Verification Request Form was filed with the Department of Finance on April 02, 2013. The Department of Finance granted the City a Finding of Completion in a letter dated April 12, 2013 (copy attached).
- Asset Transfer Review Draft Report Finding 2 identifies cash in the amount of \$663,442 that was not transferred to the Successor Agency. The City agrees that fund #845 had cash in the amount of \$663,442 but it also had recorded liabilities for the same amount. Since the cash totaling \$663,442 was used to pay the liabilities there are no remaining funds to transfer to the Successor Agency.
- Asset Transfer Review Draft Report Finding 3 identified an unallowable loan payment to the City of Coachella in the amount of \$104,742. The City agrees that they made a loan payment to the City of Coachella from the RDA in the amount of \$104,742. It should be noted, however, that at the same time that the payment of \$104,742 was made to the City the City made a payment of \$150,000 to the RDA. The two transfers resulted in a net gain by the RDA of \$45,259. As the State Controller has disallowed the transfer, the city will reverse both transfers and have the Successor Agency remit \$45,259 back to the City.

An Affirmative Action/Equal Opportunity Employer

Should you have any questions or wish to discuss this further, please contact William B. Pattison, Jr., Finance Director at (760) 398-3502.

Sincerely,

A handwritten signature in black ink, appearing to read "David Garcia". The signature is fluid and cursive, with a long horizontal stroke at the end.

David Garcia
City Manager

Attachments

cc: William B. Pattison, Jr., Finance Director
City of Coachella
Kaye Reynolds, Controller
City of Coachella



DEPARTMENT OF
FINANCE

EDMUND G. BROWN JR. ■ GOVERNOR

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

April 12, 2013

Mr. William B. Pattison, Jr. Finance Director
City of Coachella
1515 Sixth Street
Coachella, CA 92236

Dear Mr. Pattison:

Subject: Request for a Finding of Completion

The California Department of Finance (Finance) received the City of Coachella's request for a Finding of Completion.

Finance has completed its review of your request, 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 concurs 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: Ms. Kaye Reynolds, Controller, City of Coachella
Ms. Pam Elias, Chief Accountant, Property Tax Division, County of Riverside
Auditor-Controller
California State Controller's Office

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