PALM SPRINGS COMMUNITY REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012

JOHN CHIANG
California State Controller

April 2014

JOHN CHIANG

California State Controller

April 1, 2014

David H. Ready, City Manager
Successor Agency to the Palm Springs Community
Redevelopment Agency
3200 E. Tahquitz Canyon Way
P.O. Box 2743
Palm Springs, CA 92263

Dear Mr. Ready:

Pursuant to Health and Safety (H&S) Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Palm Springs Community Redevelopment Agency (RDA) to the City of Palm 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 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 $58,992,307 in assets after January 1, 2011, including unallowable transfers totaling $40,484,932 ($25,872,013 to the City, and $14,612,919 to the Entity Assuming the Housing Functions), or 68.63% of transferred assets.

However, the following actions were taken by the Oversight Board and the City:

- March 6, 2013: Oversight Board retroactively approved the transfer of $20,897,762 in governmental use properties to the City
- March 6, 2013: Oversight Board approved the transfer of $13,112,919 in housing assets to the Entity Assuming the Housing Functions
- March 6, 2013: City returned $1,482,347 in land held for resale to the Successor Agency
- September 4, 2013: City distributed $34,500 (lease revenue from Prairie Schooner) to the other taxing entities

- September 4, 2013: City distributed $24,750 (lease revenue from Cork 'N Bottle) to the other taxing entities
- September 4, 2013: City distributed $2,132,492 (loan repayment for FY 09-10 Annual Loan) to the other taxing entities
- September 4, 2013: City distributed $73,620 (loan repayment for the Wastewater Loan) to the other taxing entities
- September 4, 2013: City distributed $204,730 (loan repayment for the Sustainability Loan) to the other taxing entities

Therefore, the remaining amount of unallowable transfers, totaling $2,521,812, must be turned over to the Successor Agency.

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

Sincerely,

Original Signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/vb

cc: Thomas Flavin, Chairperson of the Oversight Board of the
Successor Agency to the Palms Springs Community
Redevelopment Agency
City of Palm Springs
Geoffrey S. Kiehl, Director of Finance and Treasurer
Palm Springs Community Redevelopment Successor Agency
City of Palm Springs
David Botelho, Program Budget Manager
California Department of Finance
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
Richard J. Chivaro, Chief Legal Counsel
State Controller's Office

Contents

Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Palm Springs Community 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 $58,992,307 in assets after January 1, 2011, including unallowable transfers totaling $40,484,932 ($25,872,013 to the City of Palm Springs [City], and $14,612,919 to the Entity Assuming the Housing Functions), or 68.63% of transferred assets.

However, the following actions were taken by the Oversight Board and the City:

- March 6, 2013: Oversight Board retroactively approved the transfer of $20,897,762 in governmental use properties to the City
- March 6, 2013: Oversight Board approved the transfer of $13,112,919 in housing assets to the Entity Assuming the Housing Functions
- March 6, 2013: City returned $1,482,347 in land held for resale to the Successor Agency
- September 4, 2013: City distributed $34,500 (lease revenue from Prairie Schooner) to the other taxing entities
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- September 4, 2013: City distributed $204,730 (loan repayment for the Sustainability Loan) to the other taxing entities

Therefore, the remaining amount of unallowable transfers, totaling $2,521,812, 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 (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," and the date on which the RDA ceases to operate, or January 31, 2012, whichever is earlier.

The SCO has 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 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 RDA, the City Council, and the Successor Agency.

- 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 Palm Springs Community Redevelopment Agency (RDA) transferred $58,992,307 in assets after January 1, 2011, including unallowable transfers totaling $40,484,932 ($25,872,013 to the City of Palm Springs [City], and $14,612,919 to the Entity Assuming the Housing Functions), or 68.63% of transferred assets.

However, the following actions were taken by the Oversight Board and the City:

- March 6, 2013: Oversight Board retroactively approved the transfer of $20,897,762 in governmental use properties to the City
- March 6, 2013: Oversight Board approved the transfer of $13,112,919 in housing assets to the Entity Assuming the Housing Functions
- March 6, 2013: City returned $1,482,347 in land held for resale to the Successor Agency
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- September 4, 2013: City distributed $73,620 (loan repayment for the Wastewater Loan) to the other taxing entities
- September 4, 2013: City distributed $204,730 (loan repayment for the Sustainability Loan) to the other taxing entities

Therefore, the remaining amount of unallowable transfers, totaling $2,521,812, must be turned over to the Successor Agency.

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

Views of Responsible Official

We issued a draft report on April 12, 2013. David H. Ready, City Manager, responded by letter dated April 25, 2013, partially agreeing with the review results. Subsequently, we issued a revision of Finding 1 on September 10, 2013. John Raymond, Director of Community & Economic Development, responded by emails dated October 15, 2013, and November 8, 2013, agreeing with the revised Finding 1 report with the exception of the Sustainability Loan. The City's responses are included in this final review report as an attachment.

Restricted Use

This report is solely for the information and use of the Successor Agency, the Oversight Board the Entity Assuming the Housing Functions, 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

April 1, 2014

Findings and Orders of the Controller

FINDING 1—Unallowable asset transfers to the City of Palm Springs

The Palm Springs Community Redevelopment Agency (RDA) made an unallowable asset transfer of $25,872,013, described in Schedule 1, to the City of Palm Springs (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:

- On March 16, 2011, the RDA transferred $5,778,696 in land held for resale, and $16,601,413 in capital assets, to the City. In addition, the Cork 'N Bottle and the Prairie leases were transferred to the City. To accomplish the transfer, the City and the RDA entered into Resolution No.1417. Between the period of May 1, 2011 and January 31, 2012, the City collected lease revenue from the Cork 'N Bottle and Prairie Schooner leases ($24,750, and $34,500, respectively).

- On June 1, 2011, the RDA transferred $2,132,492 in cash to the City for the repayment of the fiscal year (FY) 09-10 Annual Loan. Payment included $2,011,785 in principle and $120,707 in interest.

- On June 1, 2011, the RDA transferred $73,620 in cash to the City for the interest repayment of the Wastewater Loan.

- On June 1, 2011, the RDA transferred $101,106 in cash to the City for the repayment of the Sustainability Loan (also known as the Recycling Loan). Payment included $44,112 in principle and $56,994 in interest. Subsequently, on January 23, 2012, the RDA transferred an additional $1,125,436 in cash to the City to pay the loan in full. Payment included $1,095,759 in principle and $29,677 in interest.

- On March 6, 2013, the Oversight Board retroactively approved $20,897,762 of the properties transferred on March 16, 2011, as governmental-use properties, under Oversight Board Resolution No. 013. The exceptions were for properties listed on Schedule 2, including the Cork 'N Bottle property.

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, 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.

Order of the Controller

Pursuant to H&S Code section 34167.5, the City is ordered to reverse the transfer of the above assets in the amount of $25,872,013. However, on March 6, 2013, the Oversight Board retroactively approved the transfer of governmental-use properties totaling $20,897,762 (including the Prairie Schooner property). Because of the Oversight Board's approval, the City may keep the Prairie Schooner lease revenue totaling $34,500. In addition, the City reversed most of the transfers identified above and turned them over to the affecting taxing entities. These transfers included $24,750 in Cork n Bottle's lease revenue, $2,132,492 in FY 09-10 Annual Loan repayment, $73,620 in Wastewater loan repayment, and $204,730 in Sustainability Loan repayment. Therefore, the remaining $1,021,812 in unallowable transfers must be turned over to the Successor Agency.

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

The City responded to an initial version of Finding 1 in a letter dated April 25, 2013 (Attachment 1). Subsequently, the SCO issued a revised Finding 1 Report on September 10, 2013, and the City responded to the revision with emails dated October 15, 2013, and November 8, 2013 (Attachment 2). The City's and SCO's comments to the responses are given below.

City's Response to the Draft Report (dated April 25, 2013)

The City of Palm Springs agrees that the Successor Agency will properly dispose of the land held for resale, and that the lease revenue from Cork 'n Bottle will be transferred back to the Successor Agency. However, the City disagrees with the rest of the findings. In particular, the City believes that the lease revenue from Prairie Schooner should have remained with the City, and raised concerns regarding the lease revenue received after February 1, 2012, and the $1,125,435 loan repayment made to the City using unexpended bond proceeds. Please see Attachment 1 for more detail.

SCO's Comment

The SCO agrees that the Prairie Schooner lease revenue in the amount of $34,500 should have remained with the City, as the Oversight Board retroactively approved the transfer of the property in March of 2013.

The SCO is reviewing asset transfers that occurred in the period from January 1, 2011 to January 31, 2012. Any asset transfer occurring after this period is not subject to the current review, thus, the SCO will not comment on the lease revenue collected on Prairie Schooner after February 1, 2012, as requested by the City. Furthermore, it is beyond the SCO's scope to make specific recommendations regarding what action the Successor Agency should take with the Oversight Board regarding the finding on the Sustainability Loan repayment.

City's Response to the Revised Finding 1 Report (Dated October 15, 2013 and November 8, 2013)

The City of Palm Springs agrees with the SCO's findings and has undertaken all of the actions listed under the Order of the Controller. The City stated that they reversed the rental income from the Cork 'n Bottle; and reversed certain City loan repayments as shown in Schedule 1.

The City stated,

> . . . DOF made the same determination as SCO and required the rental income and City loans to be clawed back, too. That $6.6 million contains all of the cash "clawed back" in your Schedule 1, less approximately $1,021,000 in unexpended bond proceeds that were used to make the payment to the Sustainability Fund. Because they were bond proceeds, DOF directed those to be held for future redevelopment purposes and can be used once we receive our Finding of Completion.

In addition, the City returned the Cork 'n Bottle and other properties back to the Successor Agency via the Oversight Board's Resolution No. 013. Please see Attachment 2 for more detail.

SCO's Comment

The SCO acknowledged all the actions taken by the City and adjusted the claw-back amount to $1,021,812. In reviewing the City's response to the loan repayment in the amount of $1,021,812 for the Sustainability Loan, the City asserted that the Department of Finance (DOF) has directed the fund to be held for future redevelopment purposes and can be used once the City received the DOF's Finding of Completion. However, these funds were not encumbered to any third parties prior to June 28, 2011.

FINDING 2—
Unallowable asset transfer to the entity assuming the housing functions

As of February 1, 2012, the RDA had transferred a total of $14,612,919 in housing assets to the entity assuming the housing functions. Pursuant to 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. Those assets should be turned over to the Successor Agency for disposition in accordance with H&S Code Section 34177(d) and (e).

Order of the Controller

Based on H&S Code section 34167.5, the entity assuming the housing functions would have been ordered to reverse the transfer of the above assets in the amount of $14,612,919. On March 4, 2013, the Oversight Board retroactively approved the transfer of all housing assets totaling $13,112,919 to the entity assuming the housing functions via Resolution No. 013, with the exception of the loan receivable from the Sunset Palm apartment complex in the amount of $1,500,000. Therefore, the loan receivable in the amount of $1,500,000 is ordered to be turned 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) and (e), and 34181(c).

Note that the DOF must approve the Oversight Board's decision in this matter. If the DOF does not approve this decision, then the City or other local agency is ordered to transfer the assets to the Successor Agency pursuant to H&S Code section 34167.5.

<u>City's Response</u>

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

<u>SCO's Comment</u>

The finding and Order of the Controller remains as stated.

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

Current assets	
Land held for resale	$ 5,778,696 [1]
Lease revenue from Prairie Schooner lease	34,500
Lease revenue from Cork ‘n Bottle lease	24,750
Cash transfer–repayment of FY 09-10 Annual Loan	2,132,492
Cash transfer–repayment of the Wastewater Loan	73,620
Cash transfer–repayment of the Sustainability Loan	1,226,542
Capital assets	
Land, building, equipment	16,601,413
Total unallowable asset transfers to the City	25,872,013
Oversight Board’s approval (March 4, 2013)	
Governmental-use properties	(20,897,762)
SCO’s adjustment	
Prairie Schooner lease revenue	(34,500)
Reversals of transfers by the City	
Distributed Cork ‘n Bottle lease revenue	(24,750)
Distributed loan repayment for FY 09-10 Annual Loan	(2,132,492)
Distributed loan repayment for Wastewater Loan	(73,620)
Distributed loan repayment for Sustainability Loan	(204,730)
Returned land held for resale to the Successor Agency	(1,482,347)
Total reversals of transfers by the City	(3,917,939)
Total transfers subject to H&S Code section 34167.5	$ 1,021,812

[1] See Schedule 2 for land held for resale subject to H&S Code section 34167.5.

Schedule 2—
Detail Listing of Land Held for Resale Transferred to the City of Palm Springs

Description	Parcel #	Amount
Cork 'n Bottle property	513-081-017	$ 619,125
Casa Del Camino property	505-182-004	593,871
McKinney parcel	508-131-009	6,325
Desert Hotel property	513-091-003	263,026
Total		$ 1,482,347 [1]

[1] Source: Oversight Board Resolution No. 013 dated March 4, 2013.

Schedule 3—
Unallowable RDA Asset Transfers to the Entity Assuming the Housing Functions January 1, 2011, through January 31, 2012

Housing assets transferred	$	14,612,919
Oversight Board's approval (March 6, 2013)		
Transfer of housing assets to the Entity Assuming the Housing Functions		(13,112,919)
Total transfers subject to H&S Code section 34167.5	$	1,500,000

Attachment 1— City's Response to the Draft Review Report

Insert 5

City of Palm Springs

David H. Ready, Esq., Ph.D.
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Tel 760.322.8350 • Fax 760.323.8207 • TDD 760.864.9527
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April 25, 2013

Steven Mar, Chief
Local Government Audits Bureau
State Controller's Office, Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874

RE: Review of Asset Transfers of the former Community Redevelopment Agency of the City of Palm Springs Pursuant to Health and Safety (H&S) Code Section 34167.5 by the State Controller's Office (SCO)

Dear Mr. Mar:

The Successor Agency to the former Community Redevelopment Agency of the City of Palm Springs (RDA) received the letter from Jeffrey V. Brownfield, CPA, Chief of the Division of Audits along with the draft audit findings by the SCO. We received it in our offices on April 16, 2013.

During February, 2013 an SCO audit team reviewed all asset transfers made by the RDA to the City of Palm Springs or any other public agency after January 1, 2011, with the exit meeting occurring on February 21, 2013.

The SCO's review included an assessment of whether each asset transfer was allowable and whether it should be turned over to the Successor Agency and 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. The SCO also reviewed and determined whether any unallowable asset transfers to the City of Palm Springs or any other public agencies have been reversed.

The SCO preliminarily found that the RDA transferred $56,685,089 in assets to the City and the entity assuming the housing functions, which included unallowable asset transfers totaling $38,177,714. However, on March 4. 2013, the Oversight Board of the Successor Agency retroactively approved the transfer of $20,897,762 in government-use properties to the City of Palm Springs, and the transfer of $13,112,919 in housing assets to the entity assuming the housing functions.

The remaining $4,167,033, or 7.35%, was ordered by the Controller to be turned over to the Successor Agency. This letter is in response to that directive from SCO.

Unallowable asset transfers to the City of Palm Springs – Cork 'n Bottle and Prairie Schooner Lease Revenue

On March 16, 2011, the RDA transferred $5,778,696 in land held for resale, and $16,601,413 in capital assets, to the City. In addition, the Cork 'n Bottle and Prairie Schooner leases to third parties were transferred to the City. To accomplish the transfer, the City and the RDA entered into Resolution No. 1417. Between the period of May 1, 2011 and January 31, 2012, the City collected lease revenue from the Cork 'n Bottle and Prairie Schooner leases ($24,750, and $34,500, respectively).

On March 4, 2013, the Oversight Board retroactively approved most of the property transfers on March 16, 2011, as government-use properties, totaling $20,897,762, under Resolution No. 013. The exceptions were from properties listed on Schedule 2, including the Cork 'n Bottle property. The Prairie Schooner transfer was accepted by SCO as government-use; therefore, *would it be correct that the lease revenue collected on that property ($34,500) and transferred to the City also be allowed to remain with the City? Would the same apply to Prairie Schooner lease revenue received after February 1, 2012?* The City agrees that the Cork 'n Bottle lease revenue ($24,750) would be transferred back to the Successor Agency, since the property will also transfer back to the Successor Agency, as would any revenue received after February 1, 2012.

Unallowable asset transfers to the City of Palm Springs - Sustainability Loan Repayment.

On January 23, 2012, the RDA transferred a total of $1,125,435 in cash to the City for the repayment of the Sustainability Loan (also known as the Recycling Loan). To accomplish the transfer, the City and the RDA entered into City Resolution No. 22236. Based on H&S Code section 34162(a)(3), the SCO determined that the RDA was not allowed to refund, restructure, or refinance indebtedness or obligations that existed as of January 1, 2011.

Based on H&S Code section 34167.5, the City would be ordered to reverse the transfer of the above assets in the amount of $1,184,685 in cash from lease revenues and loan payments, including the repayment of the Sustainability Loan. However, the $1,125,435 was paid from unexpended bond proceeds from the Series A 2007 Tax Allocation Bonds of the former RDA. *The Successor Agency is requesting the Order of the Controller be modified to direct the Successor Agency to return to the Oversight Board for approval of the use of those unexpended bond funds for redevelopment purposes, as is provided for in the statute.* Once the Successor Agency has received its Finding of Completion the funds would be spent for the purposes for which the bonds were issued.

Unallowable asset transfers to the City of Palm Springs – Land Held for Resale

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).

Real property valued at $1,482,347 in land held for resale was ordered by the Controller to be turned over to the Successor Agency. *The Successor Agency will properly dispose of those assets in accordance with H&S Code sections 34177(e) and 34181(a).*

We would like to receive clarifications on the above points prior to the SCO releasing the report as final. Once we have received clarification the SCO may modify the report based on our comments or additional data that develops as you complete the review. Also, we do appreciate the opportunity for our comments to be included in the final report.

If you have any questions in reference to the questions posed in this letter, please feel free to call Director of Community & Economic Development John Raymond at 760-323-8228. If you have questions related to the finance or accounting functions of the Successor Agency, please call Director of Finance, Geoffrey Kiehl at 760-323-8221.

Thank you for your cooperation and I look forward to your response.

Sincerely,

David H. Ready, Esq., Ph.D., City Manager
City of Palm Springs

cc: Douglas C. Holland, Esq., City Attorney
James Thompson, City Clerk/Chief of Staff
Geoffrey Kiehl, Finance Director/City Treasurer
Suzanne Harrell, Harrell & Co. Advisors
John S. Raymond, Director of Community & Economic Development

Attachment 2—
City's Response to the Revised Finding 1 Report

Attachment 2

In response to your email today, I have gone back and reviewed the Controller's September 10 once again. The letter referred us to Steve Mar and I believe I talked to Mr. Mar in September.

Palm Springs has undertaken all of the actions listed under "Order of the Controller."

There were a number of transactions ordered: reverse the transfer of Land Held for Resale (shown on Schedule 2) back to the Successor Agency from the City (four properties); the Oversight Board approved the transfer of "governmental use" properties to the Successor Agency; we reversed the rental income from Prairie Schooner and the Cork n Bottle; and, we reversed certain City loan payments as shown in Schedule 1.

All of those were done by September 10; however, at the time of the September 10 letter there were several governmental use property transfers that were in the process of being disallowed by DOF: namely, the Convention Center North Parking Lot, all of our downtown parking lots, the Plaza Theatre and the Prairie Schooner were disallowed as not being "exclusively governmental use." We made several attempts to change the mind of DOF but they have held to their position. Therefore, those properties have been transferred back to the Successor Agency and will be handled through the Long Term Property Management Plan once we receive our Finding of Completion. DOF concurred with the transfer of the PSL 315 parcel and the Foster Leasehold as governmental use.

At the September 4, 2013 Council meeting, the Council approved making the OFA DDR payment of approximately $6.6 million. The original DDR anticipated the payment to be $4.1 million, but DOF made the same determination as SCO and required the rental income and City loans to be clawed back, too. That $6.6 million contains all of the cash "clawed back" in your Schedule 1, less approximately $1,021,000 in unexpended bond proceeds that were used to make the payment to the Sustainability Fund. Because they were bond proceeds, DOF directed those to be held for future redevelopment purposes and can be used once we receive our Finding of Completion.

Thank you for your forbearance and I hope this email clears up any confusion as to our SCO Audit response.

John S. Raymond
Director of Community & Economic Development
City of Palm Springs
P.O. Box 2743
Palm Springs, California 92263-2743
office ph: 760.323.8228
cell: 760.902.1903
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This is what we provided DOF as evidence of reversing the loan proceeds for Cork n Bottle and Prairie Schooner. I have also included the staff report from the Council's approval of the budget adjustment on September 4 including those two actions.

I have attached Resolution No. 23315 and Oversight Board Resolution 013 from March, 2013 that returned the Cork n Bottle and other properties back to the Successor Agency.

In terms of the return of the final properties (the parking lots and the Plaza Theatre), we were still making an effort to have the DOF reconsider the governmental use of the properties – particularly the parking lots – well into September. We were unsuccessful but have not had an Oversight Board meeting since that time as the ROPS was already adopted. We intend to bring a Resolution to the Oversight Board at its next meeting sending those properties back to the Successor Agency, as we need to do in preparation for our Long Term Property Management Plan (PMP). The next scheduled Oversight Board meeting would be December 3 but it is possible that we may call a special meeting in November.

John

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