

SANTA CRUZ COUNTY REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



BETTY T. YEE
California State Controller

June 2015



BETTY T. YEE
California State Controller

June 30, 2015

Susan A. Mauriello, County Administrative Officer
Santa Cruz County Redevelopment/Successor Agency
701 Ocean Street, Room 520
Santa Cruz, CA 95060

Dear Ms. Mauriello:

Pursuant to Health and Safety Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Santa Cruz County Redevelopment Agency (RDA) to the County of Santa Cruz (County) or any other public agency after January 1, 2011. This statutory provision states, "The Legislature hereby finds that a transfer of assets by a redevelopment agency during the period covered in this section is deemed not to be in furtherance of the Community Redevelopment Law and is thereby unauthorized." Therefore, our review included an assessment of whether each asset transfer was allowable and whether the asset should be turned over to the Successor Agency.

Our review applied to all assets including, but not limited to, real and personal property, cash funds, accounts receivable, deeds of trust and mortgages, contract rights, and rights to payment of any kind. We also reviewed and determined whether any unallowable transfers to the County or any other public agency have been reversed.

Our review found that the RDA transferred \$214,041,456 in assets after January 1, 2011, including unallowable transfers to the County totaling \$34,209,643, or 15.98% of transferred assets.

However, the following corrective actions have been taken:

- On various dates after February 1, 2012, the County turned over \$12,925,546 in cash to the Successor Agency.
- On various dates after February 1, 2012, the County sold three properties totaling \$646,951 in land held for resale to a third party, deposited the proceeds into the Low- and Moderate-Income Housing Fund, and turned over the remaining four properties, totaling \$1,397,019, to the Successor Agency.
- On November 18, 2012, the County turned over \$16,993,060 in land to the Successor Agency.
- On October 1, 2012, the County turned over \$1,940,207 in construction-in-progress to the Successor Agency.

- On November 18, 2012, the County turned over \$285,773 in building assets to the Successor Agency.

Therefore, the remaining \$21,087 in unallowable transfers must be turned over to the Successor Agency.

If you have any questions, please contact Elizabeth González, Chief, Local Government Compliance Bureau, by telephone at (916) 324-0622 or by email at egonzalez@sco.ca.gov.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: The Honorable Mary Jo Walker, CPA, Auditor-Controller
County of Santa Cruz
John Leopold, Oversight Board Chair
Santa Cruz County Successor Agency
David Botelho, Program Budget Manager
California Department of Finance
Richard J. Chivaro, Chief Legal Counsel
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Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Santa Cruz County 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 \$214,041,456 in assets after January 1, 2011, including unallowable transfers to the County of Santa Cruz (County) totaling \$34,209,643, or 15.98% of transferred assets.

However, the following corrective actions have been taken:

- On various dates after February 1, 2012, the County turned over \$12,925,546 in cash to the Successor Agency.
- On various dates after February 1, 2012, the County sold three properties totaling \$646,951 in land held for resale to a third party, deposited the proceeds into the Low- and Moderate-Income Housing Fund, and turned over the remaining four properties, totaling \$1,397,019, to the Successor Agency.
- On November 18, 2012, the County turned over \$16,993,060 in land to the Successor Agency.
- On October 1, 2012, the County turned over \$1,940,207 in construction-in-progress to the Successor Agency.
- On November 18, 2012, the County turned over \$285,773 in building assets to the Successor Agency.

Therefore, the remaining \$21,087 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 and oversight boards to oversee dissolution of the RDAs and redistribution of RDA assets.

A California Supreme Court decision on December 28, 2011 (*California Redevelopment Association et al. v. Matosantos*), upheld ABX1 26 and the Legislature's constitutional authority to dissolve the RDAs.

ABX1 26 was codified in the 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 County and/or any other public agency. By law, the SCO is required to order that such assets, except those that already had been committed to a third party prior to June 28, 2011, the effective date of ABX1 26, be turned over to the Successor Agency. In addition, the SCO may file a legal action to ensure compliance with this order.

Objective, Scope, and Methodology

Our review objective was to determine whether asset transfers that occurred after January 1, 2011, and the date upon which the RDA ceased to operate, or January 31, 2012, whichever was earlier, between the city or county, or city and county that created an RDA or any other public agency, and the RDA, were appropriate.

We performed the following procedures:

- Interviewed Successor Agency personnel to gain an understanding of the Successor Agency’s operations and procedures.
- Reviewed meeting minutes, resolutions, and ordinances of the County, the RDA, the Successor Agency, and the Oversight Board.
- Reviewed accounting records relating to the recording of assets.
- Verified the accuracy of the Asset Transfer Assessment Form. This form was sent to all former RDAs to provide a list of all assets transferred between January 1, 2011, and January 31, 2012.
- Reviewed applicable financial reports to verify assets (capital, cash, property, etc.).

Conclusion

Our review found that the Santa Cruz County Redevelopment Agency transferred \$214,041,456 in assets after January 1, 2011, including unallowable transfers to the County of Santa Cruz (County) totaling \$34,209,643, or 15.98% of transferred assets.

However, the following corrective actions have been taken:

- On various dates after February 1, 2012, the County turned over \$12,925,546 in cash to the Successor Agency.

- On various dates after February 1, 2012, the County sold three properties totaling \$646,951 in land held for resale to a third party, deposited the proceeds into the Low- and Moderate-Income Housing Fund, and turned over the remaining four properties, totaling \$1,397,019, to the Successor Agency.
- On November 18, 2012, the County turned over \$16,993,060 in land to the Successor Agency.
- On October 1, 2012, the County turned over \$1,940,207 in construction-in-progress to the Successor Agency.
- On November 18, 2012, the County turned over \$285,773 in building assets to the Successor Agency.

Therefore, the remaining \$21,087 in unallowable transfers must be turned over to the Successor Agency.

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

Views of Responsible Officials

We issued a draft review report on October 22, 2014. Susan A. Mauriello, County Administrative Officer, responded by letter dated November 21, 2014. The County provided additional documentation in its response regarding properties located at 1240 Rodriguez Street, 2340 Harper Street, 210 Pajaro Circle, and 606 Calle Cuesta, valued at \$1,864,069. After reviewing the documents, the SCO removed these properties from its findings. The SCO's comment to the County's response addresses the remaining unallowable transfers only. The County'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 County of Santa Cruz, 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

June 30, 2015

Finding and Order of the Controller

**FINDING—
Unallowable asset
transfer to the
County of Santa
Cruz**

The Santa Cruz County Redevelopment Agency (RDA) made unallowable asset transfers of \$34,209,643 to the County of Santa Cruz (County). The transfers occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

On March 8, 2011, the RDA transferred \$34,209,643 in assets to the County per the amended and restated agreement dated February 8, 2011, and Resolution 83-2011 in order to continue the former RDA projects.

Unallowable asset transfers to the County were as follows:

- \$12,946,633 in cash
- \$2,043,970 in land held for resale
- \$16,993,060 in land
- \$1,940,207 in construction-in-progress
- \$285,773 in buildings

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

Order of the Controller

Pursuant to H&S Code section 34167.5, the County is ordered to reverse the transfers totaling \$34,209,643 and turn over the assets to the Successor Agency.

However, the following corrective actions have been taken:

- On various dates after February 1, 2012, the County turned over \$12,925,546 in cash to the Successor Agency.
- On various dates after February 1, 2012, the County sold three properties totaling \$646,951 in land held for resale to a third party, deposited the proceeds into the Low-and Moderate- Income Housing Fund, and turned over the remaining four properties, totaling \$1,397,019, to the Successor Agency.
- On November 18, 2012, the County turned over \$16,993,060 in land to the Successor Agency.
- On October 1, 2012, the County turned over \$1,940,207 in construction-in-progress to the Successor Agency.
- On November 18, 2012, the County turned over \$285,773 in building assets to the Successor Agency.

Therefore, the remaining \$21,087 in unallowable transfers must be turned over to the Successor Agency.

County's Response

The County provided additional documentation and clarification for the unallowable transfers identified in the draft review report. Four properties were subsequently removed from the findings, reducing the total unallowable transfers to \$34,209,643. The County's response and the SCO's comment address the remaining unallowable transfers only.

- \$646,951 in land held for resale was sold to third parties on various dates, and the proceeds deposited into the Low- and Moderate-Income Housing:
 - 218 Pajaro Circle, Freedom
 - 560 30th Ave #55, Santa Cruz
 - 201 Amador, Watsonville

The remaining \$1,397,019 in land held for resale was turned over to the Successor Agency per Resolution No.276-14 (Attachment 4, in the County's response):

- 755 14th Avenue #108, Santa Cruz
- 5313 Soquel Drive, Soquel
- 111 Atherton Loop, Aptos
- 119 Atherton Loop, Aptos
- \$1,940,207 in construction-in-progress was turned over to the Successor Agency on October 1, 2012, per Board of Supervisors Resolution No. 234-2012, dated September 25, 2012 (Attachment 5, in the County's response).
- The County did not respond to the remaining unallowable cash transfer of \$21,087.

SCO's Comment

The SCO reviewed the County's response and supporting documentation dated November 21, 2014, and accepts the County's corrective actions.

The Finding and Order of the Controller has been modified accordingly.

**Schedule—
Unallowable Asset Transfers to
the County of Santa Cruz
January 1, 2011, through January 31, 2012**

	Total Unallowable Asset Transfers on March 8, 2011	Assets Transferred to Successor Agency or Sold to 3rd Parties after February 1, 2012	Total Transfers Subject to H&S Code section 34167.5
Cash transfer to the County of Santa Cruz (March 8, 2011)	\$ 12,946,633	\$ (12,925,546)	\$ 21,087
Land held for resale			
560 30th Ave #55, Santa Cruz	57,088	(57,088)	—
755 14th Avenue #108, Santa Cruz	234,544	(234,544)	—
5313 Soquel Drive, Soquel	339,662	(339,662)	—
111 Atherton Loop, Aptos	411,545	(411,545)	—
119 Atherton Loop, Aptos	411,268	(411,268)	—
218 Pajaro Circle, Freedom	286,857	(286,857)	—
201 Amador, Watsonville	303,006	(303,006)	—
Total land held for resale	2,043,970	(2,043,970)	—
Capital asset transfers to the County of Santa Cruz (March 8, 2011)			
Land			
Commercial Way	100,000	(100,000)	—
40 Moran Way	1,601,921	(1,601,921)	—
Ashe Property-0 Porter St	146,127	(146,127)	—
Heart of Soquel Mobile Home Park	706,326	(706,326)	—
Smith Property, East Cliff	121,078	(121,078)	—
Cunnison Lane Park (both pieces)	1,825,246	(1,825,246)	—
1965-1975-1985 Chanticleer Ave	901,707	(901,707)	—
1925 Chanticleer Ave	1,787,074	(1,787,074)	—
7th & Brommer/ 855 7th Ave	803,495	(803,495)	—
901 7th Ave, Santa Cruz	5,870,779	(5,870,779)	—
905 7th Ave, Santa Cruz	735,714	(735,714)	—
1412 Capitola Rd, Santa Cruz	454,936	(454,936)	—
Library site-Johnson/1438 Capitola Rd, Santa Cruz	421,005	(421,005)	—
Library Dell Aqua/1500 Capitola Rd, Santa Cruz	411,495	(411,495)	—
Library Dell Aqua/1514 Capitola Rd, Santa Cruz	400,000	(400,000)	—
Soquel Parking Adelita/Soquel Dr lot	219,688	(219,688)	—
Soquel Parking Lombardi/Soquel Dr lot	275,452	(275,452)	—
Soquel Parking Lot 18/Daubenbiss lot	20,097	(20,097)	—
Soquel Parking Sobey/Daubenbiss lot	90,413	(90,413)	—
Soquel Parking Chen/Daubenbiss lot	100,507	(100,507)	—
Total land	16,993,060	(16,993,060)	—

Schedule (continued)

	Total Unallowable Asset Transfers on March 8, 2011	Assets Transferred to Successor Agency or Sold to 3rd Parties after February 1, 2012	Total Transfers Subject to H&S Code section 34167.5
Construction-in-progress			—
Chanticleer Ave Park	624,455	(624,455)	—
7th & Brommer Site	15,961	(15,961)	—
Farm Park & Community Center	1,209,689	(1,209,689)	—
Soquel Creek Linear Park & Parking Impr	35,374	(35,374)	—
Parksite Acquisition	54,728	(54,728)	—
Total construction-in-progress	1,940,207	(1,940,207)	—
Buildings			—
522 Capitola Rd Ext, Santa Cruz	285,773	(285,773)	—
Capital asset transfers	19,219,040	(19,219,040)	—
Total unallowable asset transfers	<u>\$ 34,209,643</u>	<u>\$ (34,188,556)</u>	<u>\$ 21,087</u>

**Attachment—
County of Santa Cruz’s Response to
Draft Review Report**

In addition to the attached letter, the County provided additional documents. Due to their size we are not including them as an attachment to this report. Please contact the County of Santa Cruz and the Santa Cruz Redevelopment Successor Agency for copies of the following attachments to the response:

- Attachment 1 – California Residential Purchase Agreement and Joint Escrow Instructions
- Attachment 2 – Grant Deeds for properties with the following APN Nos.: 048-371-15; 048-371-19; 051-621-01; 051-631-19
- Attachment 3 – Resolution No. 276-14, resolution for transfer of certain Redevelopment Agency acquired properties to the Santa Cruz County Redevelopment Successor Agency
- Attachment 4 – Grant Deeds for the transfer of each property recorded in the Santa Cruz County Recorder’s Office on November 18, 2014
- Attachment 5 – Resolution No. 234-2012, resolution for transfer of certain Redevelopment Agency acquired properties to the Santa Cruz County Redevelopment Successor Agency
- Attachment 6 – Oversight Board Resolution Nos. 14-2012; 15-2012; 16-2012; 17-2012; 18-2012; 19-2012; 20-2012; 21-2012; resolutions to direct transfer of governmental-use properties to the County of Santa Cruz
- Attachment 7 – Copy of construction-in-progress turned over to the Successor Agency



County of Santa Cruz

SANTA CRUZ COUNTY REDEVELOPMENT SUCCESSOR AGENCY

701 OCEAN STREET, ROOM 510, SANTA CRUZ, CA 95060-4073

(831) 454-2280 FAX: (831) 454-3420 TDD: (831) 454-2123

November 21, 2014

State Controller's Office
Jeffrey V. Brownfield, CPA
Chief, Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Brownfield:

On October 29, 2014, we received a revised draft Asset Transfer Review Report for the Santa Cruz County Redevelopment Agency. In subsequent discussions by phone and e-mail, Elizabeth Gonzalez of the State Controller's Office agreed that the deadline for our response would be November 21, 2014. Although the cover letter was addressed to the Santa Cruz County Redevelopment/Successor Agency, the order of the Controller contained in the revised draft report is addressed to the County of Santa Cruz. We appreciate the opportunity to respond on behalf of both the Santa Cruz County Redevelopment Successor Agency and the County of Santa Cruz.

In the revised draft report the State Controller's Office (SCO) found that the Santa Cruz County Redevelopment Agency (RDA) transferred \$214,613,210 in assets, which included unallowable transfers of \$36,073,716. It is our assertion that all of the transfers were allowable and lawful at the time they were made. We do agree that ABX1 26 made asset transfers of the RDA made after December 31, 2010, subject to retroactive invalidation and, where they were not contractually committed to a third party prior to the effective date of ABX1 26, subject to return to the Successor Agency.

In the report, the SCO identified \$6,155,106 in remaining unallowable transfers that must be turned over to the Successor Agency, accounting for various corrective actions which had already taken place prior to the review.

In the report, the SCO contends that two housing assets, 1240 Rodriguez Street, Santa Cruz, CA 95062 valued at \$1,001,478, and 2340 Harper Street, Santa Cruz, CA 95062 valued at \$290,837, were not contractually committed to a third party prior to June 28, 2011. In fact, the asset, 1240 Rodriguez Street, Santa Cruz, CA 95062 valued at \$1,001,478, was contractually committed to a third

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party in a Residential Purchase Agreement and Joint Escrow Instructions between the County of Santa Cruz and Habitat for Humanity Santa Cruz, dated June 20, 2011. The asset, 2340 Harper Street, Santa Cruz, CA 95062 valued at \$290,837, was contractually committed to a third party in a Residential Purchase Agreement and Joint Escrow Instructions between the County of Santa Cruz and CFSC, Inc., dated June 20, 2011. Both agreements were provided to State Controller staff during the review, in our response to the first revised draft, and are again attached. (Attachment 1)

As it states in the revised draft report, "the SCO identified asset transfers that occurred after January 1, 2011, between the RDA, the County and/or any other public agency. By law, the SCO is required to order that such assets, except those that already had been committed to a third party prior to June 28, 2011, the effective date of ABX1 26, be turned over to the Successor Agency." We respectfully request that the revised draft report be corrected to reflect the fact that the assets, 1240 Rodriguez Street, Santa Cruz, CA 95062 and 2340 Harper Street, Santa Cruz, CA 95062, were each contractually committed to a third party prior to June 28, 2011, and thus are not subject to the order that they be turned over to the Successor Agency.

Of the Land held for resale, capital assets which were transferred to the County of Santa Cruz on March 8, 2011, five properties have since been sold. APN 051-631-19, 606 Calle Cuesta, Watsonville, CA 95076, valued at \$284,708, was sold to a 3rd party private purchaser on March 16, 2011, prior to the dissolution of the former RDA, and the sale proceeds, \$258,780.04, were deposited in the Low and Moderate Income Housing Tax Increment fund of the former RDA on March 22, 2011. APN 048-371-19, 210 Pajaro Circle, Freedom, CA 95019, valued at \$287,046, was sold to a 3rd party private purchaser on May 18, 2011, prior to the dissolution of the former RDA, and the sale proceeds, \$257,630.88, were deposited in the Low and Moderate Income Housing Tax Increment fund of the former RDA on May 19, 2011. APN 051-621-01, 201 Amador, Watsonville, CA 95076, valued at \$303,006, was sold to a 3rd party private purchaser on September 27, 2011, prior to the dissolution of the former RDA, and the sale proceeds, \$254,647.51, were initially deposited in a County fund and transferred to the County's Low and Moderate Income Housing Fund on April 9, 2014.

APN 048-371-15, 218 Pajaro Circle, Freedom, CA 95019, valued at \$286,857, was sold to a 3rd party private purchaser on April 3, 2012, after the dissolution of the former RDA, and the sale proceeds, \$198,150.56, were deposited in the County's Low and Moderate Income Housing Fund on April 11, 2012. The mobile home at 560 30th Avenue #55, Santa Cruz, CA 95062, valued at \$57,088, was sold to a 3rd party private purchaser on August 22, 2014, after the dissolution of the former RDA, and the sale proceeds, \$101,963.79, were deposited in the County's Low and Moderate Income Housing Fund on July 13, 2014, and August 29, 2014. (Attachment 2)

The remaining properties of Land held for resale and Buildings, 755 14th Avenue #108, Santa Cruz, CA 95062; 5313 Soquel Drive, Soquel, CA 95073; 111 Atherton Loop, Aptos, CA 95003, 119 Atherton Loop, Aptos, CA 95003, and 522 Capitola Rd. Ext., Santa Cruz, CA 95062, were transferred to the Successor Agency from the County per Resolution No. 276-14, approved by the Board of Supervisors on November 18, 2014. (Attachment 3) The grant deeds for the transfer of each property were recorded in the Santa Cruz County Recorder' Office on November 18, 2014. (Attachment 4)

Of the Construction in progress amount of \$1,940,207, all has since been removed from the category Construction in progress and the amounts added to the matching properties. The properties associated with the Construction in progress amounts: APN 029-071-38, 1965-1975-1985 Chanticleer Avenue, Santa Cruz, CA 95062; APN 026-261-13, 855 7th Avenue, Santa Cruz, CA 95062; APN 037-101-58, 5555 Soquel Drive, Soquel, CA 95073; APN 030-153-24, 4740-4744 Soquel Drive, Soquel, CA 95073; APN 028-302-04, 40 Moran Way, Santa Cruz, CA 95062, were all originally transferred from the RDA to the County in March 2011. Those properties were all transferred back to the Successor Agency on October 1, 2012, per Board of Supervisors Resolution No. 234-2012, dated September 25, 2012. (Attachment 5) At that time, the Construction in progress amounts were not officially transferred and remained with the County.

APN 029-071-38, 1965-1975-1985 Chanticleer Avenue, Santa Cruz, CA 95062, was transferred from the Successor Agency to the County on June 10, 2013, per Santa Cruz County Redevelopment Successor Agency Oversight Board Resolution No. 15-2012OB, dated October 2, 2012. APN 037-101-58, 5555 Soquel Drive, Soquel, CA 95073, was transferred from the Successor Agency to the County on June 10, 2013, per Santa Cruz County Redevelopment Successor Agency Oversight Board Resolution No. 20-2012OB, dated October 2, 2012. APN 030-153-24, 4740-4744 Soquel Drive, Soquel, CA 95073, was transferred from the Successor Agency to the County on June 10, 2013, per Santa Cruz County Redevelopment Successor Agency Oversight Board Resolution No. 17-2012OB, dated October 2, 2012. APN 028-302-04, 40 Moran Way, Santa Cruz, CA 95062, was transferred from the Successor Agency to the County on June 10, 2013, per Santa Cruz County Redevelopment Successor Agency Oversight Board Resolution No. 18-2012OB, dated October 2, 2012. (Attachment 6)

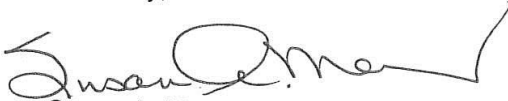
APN 026-261-13, 855 7th Avenue, Santa Cruz, CA 95062, remains Successor Agency owned. As of November 19, 2014, the Construction in Progress amounts have been added to the associated properties as part of the capital asset values of the properties, and thus become assets of the entity which currently owns the properties. \$15,961 was added to APN 026-261-13, 855 7th Avenue, Santa Cruz,

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Nov. 21, 2014
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CA 95062, which is Successor Agency owned. \$1,924,246 was added to the other properties, which are County owned. (Attachment 7)

Thank you for the opportunity to respond to the revised draft report. Please contact Kim Namba, Administrative Services Manager at (831) 454-7913 or Kim.Namba@santacruzcounty.us if you have any questions or require further information regarding our response.

Sincerely,



Susan A. Mauriello
County Administrative Officer

Attachments

cc: Dana McRae, County of Santa Cruz
Carol Kelly, County of Santa Cruz
Kim Namba, Santa Cruz County Redevelopment Successor Agency
Kathy Previsich, County of Santa Cruz

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