

RICHMOND COMMUNITY REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

November 2013



JOHN CHIANG
California State Controller

November 12, 2013

Patrick Lynch, A.I.C.P., Housing Director
Richmond Community Redevelopment Agency
440 Civic Center Plaza
Richmond, CA 94804-1630

Dear Mr. Lynch:

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

Our review found that the Richmond Community Redevelopment Agency transferred \$173,925,297 in assets after January 1, 2011, including unallowable transfers totaling \$64,644,907 (\$48,184,059 to the City and \$16,460,848 to the entity assuming the housing functions), or 37.17% of the total assets. Unallowable transfers include:

- \$42,612,267 for improvements to City-owned capital assets. On June 20, 2013, the Oversight Board approved the transfer; therefore, no further action is necessary.
- \$5,571,792 in land to the City. On May 2, 2013, the journal entry for this transfer was reversed; therefore, no further action is necessary.

The remaining \$16,460,848 in assets 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) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

cc: Bill Lindsay, City Manager
Richmond Community Redevelopment Agency
Robert Campbell, Auditor-Controller
Contra Costa County
David Botelho, Program Budget Manager
State Department of Finance
Linda Jackson-Whitmore, Oversight Board Chairman
c/o Richmond Community Redevelopment/Successor Agency
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 Richmond 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 \$173,925,297 in assets after January 1, 2011, including unallowable transfers totaling \$64,644,907 (\$48,184,059 to the City of Richmond and \$16,460,848 to the entity assuming the housing functions), or 37.17% of the total assets. Unallowable transfers include:

- \$42,612,267 for improvements to City-owned capital assets. On June 20, 2013, the Oversight Board approved the transfer of the improvements to City owned assets; therefore, no further action is necessary.
- \$5,571,792 in land to the City. On May 2, 2013, the journal entry for this transfer was reversed; therefore, no further action is necessary.

The remaining \$16,460,848 in assets 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.

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 RDA, the City of Richmond, 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 City and the RDA.
- 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 RDA transferred \$173,925,297 in assets after January 1, 2011, including unallowable transfers totaling \$64,644,907 (\$48,184,059 to the City of Richmond and \$16,460,848 to the entity assuming the housing functions), or 37.17% of the total assets. Unallowable transfers include:

- \$42,612,267 for improvements to City-owned capital assets. On June 20, 2013, the Oversight Board approved the transfer of the improvements to City owned assets; therefore, no further action is necessary.
- \$5,571,792 in land to the City. On May 2, 2013, the journal entry for this transfer was reversed; therefore, no further action is necessary.

The remaining \$16,460,848 in assets 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. We also have included a detailed schedule of assets to be turned over to, or transferred to, the Successor Agency.

**Views of
Responsible
Official**

We issued a draft report on September 19, 2013. Patrick Lynch, A.I.C.P., Housing Director, responded by letter dated October 3, 2013, agreeing with the review results. Mr. Lynch indicated that he had no additional comments to the draft report. The City's response is included in this final review report as an attachment.

Restricted Use

This report is solely for the information and use of the City of Richmond, 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

November 12, 2013

Findings and Orders of the Controller

FINDING 1— Unallowable assets transferred to the City of Richmond

The Richmond Community Redevelopment Agency (RDA) transferred \$48,184,059 in assets to the City of Richmond. All of 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.

Unallowable asset transfers were as follows:

- The RDA transferred \$42,612,267 to the City in capital improvements for various City properties. The title to the properties remained with the City during the construction. On June 20, 2013, the Oversight Board retroactively approved this transfer by Resolution No 4-13 because the assets were deemed to be for a governmental purpose. Therefore, no further action is necessary.
- On March 26, 2011, the RDA transferred \$5,571,792 in land to the City. The transfer was reversed on May 2, 2013. Therefore, no further action is necessary.

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 sections 34177 (d) and (e). However, it appears that some of those assets also may 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 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, police, fire stations, libraries, and local agency administrative buildings, 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 assets and turn them over to the Successor Agency for disposition in accordance with H&S Code sections 34177(d) and (e). However, as the Oversight Board approved the transfer of the governmental purpose assets and the City reversed the transfer of the land, no further action is necessary.

Note that, with regards to the governmental purpose assets that were approved by the Oversight Board, the Department of Finance (DOF) must approve the Oversight Board's decision in this matter. If the DOF does not approve this decision, the City is ordered to transfer those assets to the Successor Agency pursuant to H&S Code section 34167.5.

City's Response

The City agreed with the findings noted in the draft report and did not have any additional comments.

SCO's Comments

The finding and Order of the Controller remains as stated.

FINDING 2— Unallowable assets transferred to the entity assuming the housing functions

The RDA made an unallowable asset transfer of \$16,460,848 to the entity assuming the housing functions. Those assets consisted of loan receivables.

The asset transfer to the entity assuming the housing functions occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

Pursuant to H&S Code section 34175(b), the RDA was required to transfer all assets, including housing assets, to the Successor Agency. Those assets should be turned over to the Successor Agency for disposition in accordance with H&S Code sections 34177(d) and (e).

H&S Code section 34175(b) states that all assets, properties, contracts, leases, books and records, buildings, and equipment of the former were 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 RDA as of February 1, 2012.

Additionally, H&S Code section 34181(c) requires the oversight board to direct the Successor Agency transfer housing assets pursuant to Section 34176.

Order of the Controller

Based on H&S Code section 34167.5, the entity assuming the housing functions is ordered to return the assets, described in Schedule 2, in the amount of \$16,460,848, 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) and (e) and 34181(c).

City's Response

The City agreed with the findings noted in the draft report and did not have any additional comments.

SCO's Comments

The finding and Order of the Controller remains as stated.

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

Unallowable Asset Transfers to the City of Richmond:

Capital Assets

Capital improvements to City property	\$ 42,612,267
Oversight Board retroactively approved the transfer on June 20, 2013	(42,612,267)
Land parcels transferred to the City	5,571,792
Land parcel transfers were reversed by the Successor Agency on May 2, 2013	<u>(5,571,792)</u>
Total Transfers subject to H&S Code section 34167.5	<u>\$ —</u>

**Schedule 2—
Unallowable RDA Asset Transfers
to the Entity Assuming the Housing Functions
January 1, 2011, through January 31, 2012**

Unallowable Asset Transfers to the Entity Assuming the Housing Functions:

Current assets

Loans receivable	\$ 16,460,848
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Total unallowable asset transfers	<u>\$ 16,460,848</u>
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**Attachment—
City of Richmond’s Response to
Draft Review Report**



October 3, 2013

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

Re: Draft Asset Transfer Review Report

Dear Mr. Mar

The Successor Agency to the Richmond Community Redevelopment Agency ("Agency") is in receipt of the State Controller's Office letter of September 19, 2013 and accompanying draft report prepared pursuant to Health and Safety Code ("HSC") Section 34167.5 and dated September 2013 ("Draft Report"). The Agency appreciates the assistance provided by the State Controller to help ensure that we understand our responsibilities to successfully comply with new state redevelopment laws. We offer the following responses to the State Controller's two findings in the Draft Report.

Finding #1 - Unallowable Capital Asset transfers to the City of Richmond

We are pleased that the State Controller has acknowledged the Agency's actions to self-correct \$48 million in asset capital asset transfers. With approval of the Oversight Board for the Successor Agency to the Richmond Community Redevelopment Agency ("Oversight Board"), the Agency has already taken the corrective actions necessary to bring its capital asset transfers into compliance with new state laws. The Agency's \$48 million investment in important infrastructure improvements to City capital assets is now properly recorded in the City's financial records.

Finding #2 - Low/Moderate Income Housing Loans

The Agency is also pleased that \$16.4 million in redevelopment housing loan assets have helped deliver important low/moderate income housing projects in the City of Richmond. Consistent with the requirements of AB 1X 26 and AB 1484, this investment in low/moderate income housing programs has been preserved by the transfer of the low/moderate income loan portfolio to the new Successor Housing Agency that is charged with ongoing accountability for housing assets. The Agency's transfer to the Successor Housing Agency has been reported and approved by the State Department of Finance in its Housing Asset Transfer review.

We appreciate the additional recommendation provided by the State Controller to report and seek approval of this transfer by the Oversight Board. We understand the important role the Oversight Board serves in monitoring the financial affairs of the Agency and, in particular, monitoring the distribution of its assets in conformance with redevelopment dissolution law. An agenda report has been drafted to

Steven Mar, SCO
10/3/2013
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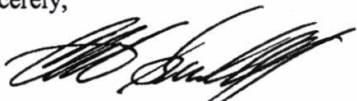
request Oversight Board review and approval of this housing loan portfolio transaction. With Oversight Board approval, we understand this finding will be resolved.

Finally, we would like to clarify that the housing loan portfolio is held by the City in its capacity as the Successor Housing Agency. The references to the Richmond Housing Authority in this report appear to be an oversight; the Housing Authority has not been involved with this transaction or with redevelopment dissolution.

Thank you for the opportunity to comment on the draft report. Please feel free to contact Agency staff at (510) 621-1730 with any questions.

Sincerely,

Pp:



Patrick Lynch, AICP, Housing Director
Successor Agency to the Richmond Community Redevelopment Agency

Cc (VIA EMAIL):

Bill Lindsay, City Manager, City of Richmond
Cecelia Michaels, Auditor-in-charge, State Controller's Office

**State Controller's Office
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