

CORONA REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



BETTY T. YEE
California State Controller

June 2015



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California State Controller

June 23, 2015

Darrel Talbert, Administrative Services Director
Corona Redevelopment/Successor Agency
400 S. Vicentia Avenue, Suite 310
Corona, CA 92882

Dear Mr. Talbert:

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

Our review found that the RDA transferred \$126,020,210 in assets after January 1, 2011, including unallowable transfers totaling \$74,631,894, or 59.22% of transferred assets. The unallowable transfers included \$5,377,337 transferred to the City and \$69,254,557 transferred to the Corona Housing Authority.

However, the following corrective actions have been taken:

- On April 5, 2012, the Successor Agency effectuated the transfer of \$4,366,706 in housing functions and assets to the Entity Assuming the Housing Functions.
- On January 7, 2013, \$5,377,337 in cash was turned over to the Successor Agency.
- On January 7, 2013, the Corona Housing Authority reversed the transfer of \$8,033,621 in cash.
- On August 9, 2013, the Corona Housing Authority transferred \$56,854,230 in non-housing assets to the Successor Agency.

Therefore, no further action is necessary.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Paul Angulo, Auditor-Controller
County of Riverside
Ed Sloman, Oversight Board Chair
KWC Engineers
David Botelho, Program Budget Manager
California Department of Finance
Richard J. Chivaro, Chief Legal Counsel
State Controller's Office
Elizabeth González, Bureau Chief
Division of Audits, State Controller's Office
Betty Moya, Audit Manager
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Cecilia Michaels, 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 Corona 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 \$126,020,210 in assets after January 1, 2011, including unallowable transfers totaling \$74,631,894, or 59.22% of transferred assets. The unallowable transfers included \$5,377,337 transferred to the City of Corona (City) and \$69,254,557 transferred to the Corona Housing Authority.

However, the following corrective actions have been taken:

- On April 5, 2012, the Successor Agency effectuated the transfer of \$4,366,706 in housing functions and assets to the Entity Assuming the Housing Functions.
- On January 7, 2013, \$5,377,337 in cash was turned over to the Successor Agency.
- On January 7, 2013, the Corona Housing Authority reversed the transfer of \$8,033,621 in cash.
- On August 9, 2013, the Corona Housing Authority transferred \$56,854,230 in non-housing assets to the Successor Agency.

Therefore, no further action is necessary.

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 City 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 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’s operations and procedures.
- Reviewed meeting minutes, resolutions, and ordinances of the City, 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 Corona Redevelopment Agency (RDA) transferred \$126,020,210 in assets after January 1, 2011, including unallowable transfers totaling \$74,631,894, or 59.22% of transferred assets. The unallowable transfers included \$5,377,337 transferred to the City of Corona (City) and \$69,254,557 transferred to the Corona Housing Authority.

However, the following corrective actions have been taken:

- On April 5, 2012, the Successor Agency effectuated the transfer of \$4,366,706 in housing functions and assets to the Entity Assuming the Housing Functions.
- On January 7, 2013, \$5,377,337 in cash was turned over to the Successor Agency.
- On January 7, 2013, the Corona Housing Authority reversed the transfer of \$8,033,621 in cash.

- On August 9, 2013, the Corona Housing Authority transferred \$56,854,230 in non-housing assets to the Successor Agency.

Therefore, no further action is necessary.

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

Views of Responsible Official

We issued a draft review report on February 3, 2014. Darrell Talbert, Administrative Services Director, responded by letter dated January 31, 2014. 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 Corona, the Successor Agency, the Oversight Board, the Corona Housing Authority, 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 23, 2015

Findings and Orders of the Controller

FINDING 1— Unallowable asset transfers to the City of Corona

The Corona Redevelopment Agency (RDA) transferred \$5,377,337 in assets to the City of Corona (City). The 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.

On February 9, 2011, the RDA transferred \$5,377,337 in cash to repay seven loans the City made to the RDA for upfront project costs.

Pursuant to Health and Safety (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

Pursuant to H&S Code section 34167.5, the City is ordered to turn over the assets totaling \$5,377,337 to the Successor Agency.

However, on January 7, 2013, the City returned cash in the amount of \$5,377,337 to the Successor Agency. Therefore, no further action is necessary.

City's Response

The City and the Successor Agency object to the representation of the loan payments as invalid or illegal. At the time the loans were repaid they were due and payable. The RDA was legally operating and the repayment of the loans was authorized by law at that time.

SCO's Comment

The SCO's authority under H&S Code section 34167.5 extends to all assets transferred after January 1, 2011, by the RDA to the city or county, or city and county that created the RDA, or any other public agency. This responsibility is not limited by the other provisions of the RDA dissolution legislation including H&S Code section 34167(d), which allowed the RDA to continue to make payments under enforceable obligations to private third parties. As a result, the cash transfers made by the RDA to the City during the periods of January 1, 2011 through January 31, 2012, are unallowable.

However, on April 8, 2013, the Successor Agency received a Department of Finance Finding of Completion. The Successor Agency may place loan agreements between the RDA and the City on the Recognized Obligation Payment Schedule, as an enforceable obligation, provided that the Oversight Board finds that the loans were for a legitimate redevelopment purpose.

**FINDING 2—
Unallowable asset
transfers to the
Corona Housing
Authority**

The RDA made an unallowable asset transfer of \$69,254,557 to the Corona Housing Authority (Authority). The asset transfers occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

Unallowable assets transferred were as follows:

- On June 29, 2011, the RDA transferred \$8,033,621 in cash from the Low- and Moderate-Income Housing Fund to the Authority for financial assistance in accordance with the Cooperation Agreement between the RDA, the City, and the Authority, that was approved by the City Council on February 16, 2011.
- On October 3, 2011, the RDA transferred \$4,366,706 in land held for resale to the Authority. The properties were purchased using Low- and Moderate-Income Housing Fund cash.
- On October 3, 2011, the RDA transferred \$56,854,230 in non-housing land held for resale to the Authority.

H&S Code section 34176(b)(2) states:

(b) If a city, county, or city and county does not elect to retain the responsibility for performing housing functions previously performed by a redevelopment agency, all rights, powers, assets, duties, and obligations associated with the housing activities of the agency, excluding enforceable obligations retained by the successor agency and any amounts in the Low and Moderate Income Housing Fund, shall be transferred as follows:

(2) If there is one local housing authority in the territorial jurisdiction of the former redevelopment agency, to that local housing authority.

H&S Code section 34177(g) states:

Successor agencies are required to do all of the following:

(g) Effectuate transfer of housing functions and assets to the appropriate entity designated pursuant to Section 34176.

Pursuant to Health and Safety (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 Entity Assuming the Housing Functions is ordered to reverse the transfers totaling \$69,254,557, and turn over the assets to the Successor Agency.

However the following corrective actions have been taken:

- On April 5, 2012, the Successor Agency effectuated the transfer of \$4,366,706 in housing functions and assets to the Entity Assuming the Housing Functions under Resolution OB 2012-06.
- On January 7, 2013, \$5,377,337 in cash was turned over to the Successor Agency.
- On January 7, 2013, the Corona Housing Authority reversed the transfer of \$8,033,621 in cash.
- On August 9, 2013, the Corona Housing Authority transferred \$56,854,230 in non-housing assets to the Successor Agency.

Therefore, no further action is necessary

City's Response

. . .the City and Successor Agency object to the representation that these transfers were invalid or illegal at the time the transfers occurred. . . We acknowledge that the law was subsequently changed, and based upon that change. . . corrective actions. . . were taken.

SCO's Comment

The finding and Order of the Controller remains as stated.

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

Current assets—on February 9, 2011, the RDA transferred the following:

Unencumbered cash	\$ 5,377,337
City returned the funds on January 7, 2013	<u>(5,377,337)</u>
Total	<u>\$ —</u>

**Schedule 2—
Unallowable RDA Asset Transfers to
the Corona Housing Authority
January 1, 2011, through January 31, 2012**

Current assets transferred on June 29, 2011:	
Unencumbered cash	\$ 8,033,621
Capital assets transferred on October 3, 2011:	
Land held for resale—housing assets	4,366,706
Land held for resale—non-housing assets	<u>56,854,230</u>
Total unallowable asset transfers:	69,254,557
Cash turned over to the Successor Agency on January 7, 2013	(8,033,621)
On April 5, 2012, the Successor Agency effectuated the transfer of housing functions and assets to the Entity Assuming the Housing Functions.	(4,366,706)
Non-housing assets turned over to the Successor Agency on August 9, 2013	<u>(56,854,230)</u>
Total asset transfers subject to H&S Code section 34167.5	<u>\$ —</u>

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



City of Corona: Administrative Services

400 South Vicentia Ave, Suite 310, Corona, CA 92882

Office: 951.736.2260
Fax: 951.736.2488

January 31, 2014

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

Dear Mr. Brownfield,

The Successor Agency to the Redevelopment Agency of the City of Corona has reviewed the Draft Corona Redevelopment Agency Asset Transfer Review Report, dated January 2014, prepared by the State Controller's Office pursuant to California Health and Safety Code Section 34167.5. We appreciate the opportunity to comment on the Draft Report and other than the items identified below do not object to the findings and conclusions in the Draft Report.

The Successor Agency has the following comments on the Draft Report:

Finding 1, regarding the transfer of \$5,377,337 in cash from the former Redevelopment Agency ("RDA") to the City, includes a discussion regarding Health and Safety Code Section 34181(a) which is inapplicable to the cash transfer being discussed. The cash amount transferred by the RDA to the City was for the repayment of seven (7) loans made to cover costs including administrative and operating expenses, plan adoption and planning studies. These loans were not related to governmental purpose properties that were constructed or being used for a governmental purpose at the time of the dissolution of the RDA. These funds were returned to the Successor Agency on January 7, 2013, not January 3, 2013, as your report indicates.

It should be noted that, at the time these loans were repaid, the loans were due and payable pursuant to the loan terms. Additionally, the RDA was legally operating and the repayment of the loans was authorized by law at that time. The City and Successor Agency object to the representation of these as invalid or illegal at the time the transfers occurred.

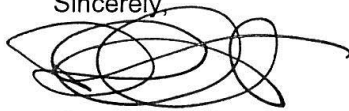
Finding 2, regarding the transfer of \$69,254,557 in assets to the housing successor agency, indicates that the transfer of \$8,033,621 in cash from the Low and Moderate Income Housing Fund was returned to the Successor Agency on January 3, 2013. That

action was taken on January 7, 2013. Additionally, the assets worth \$4,366,706 that were transferred to the Housing Successor Entity were affirmed by the Oversight Board in two actions, one on April 5, 2012 and the second on May 30, 2012.

Again, the City and Successor Agency object to the representation that these transfers were invalid or illegal at the time the transfers occurred. These funds and properties were transferred after complying with the law as it existed on the date the action to transfer the assets was taken by the RDA, the City and the Housing Authority. Additionally, these transfers occurred following all legally required, duly noticed, public hearings. We acknowledge that the law was subsequently changed and, based upon that change in the law, the corrective actions mentioned in the report were taken. The Successor Agency maintains that the original transfers were lawful at the time the transfers were made.

Should you have any questions or require additional information please contact Jennifer Schaefer, Finance/CDBG Manager, at 951-279-3569 or Cynthia Lara, Administrative Services Manager, at 951-739-4963.

Sincerely,

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

Darrell Talbert
Administrative Services Director

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>