

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

March 2014



JOHN CHIANG
California State Controller

March 28, 2014

Jim Sadro, Interim City Manager
City of La Habra
201 E. La Habra Boulevard
La Habra, CA 90633-0337

Dear Mr. Sadro:

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

Our review found that the RDA transferred \$16,838,154 in assets after January 1, 2011, including unallowable transfers to the City totaling \$1,442,882, or 8.57% of transferred assets. However, on January 30, 2014, the City turned over \$1,442,882 in cash to the Successor Agency. Therefore, no further action is necessary.

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/sk

cc: James Byerrum, Chairman
City of La Habra Oversight Board
Mel Shannon, Acting Director of Finance
City of La Habra
Jan Grimes, Auditor-Controller
Orange County
David Botelho, Program Budget Manager
California Department of Finance
Richard J. Chivaro, Chief Legal Counsel
State Controller's Office
Elizabeth Gonzalez, Bureau Chief
Division of Audits, State Controller's Office
Scott Freesmeier, Audit Manager
Division of Audits, State Controller's Office
Steven Noguchi, 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 Redevelopment Agency of the City of La Habra (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 \$16,838,154 in assets after January 1, 2011, including unallowable transfers to the City of La Habra (City) totaling \$1,442,882, or 8.57% of transferred assets. However, on January 30, 2014, the City turned over \$1,442,882 in cash 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 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 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 La Habra City Council, 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 Redevelopment Agency of the City of La Habra transferred \$16,838,154 in assets after January 1, 2011, including unallowable transfers to the City of La Habra (City) totaling \$1,442,882, or 8.57% of transferred assets. However, on January 30, 2014, the City turned over \$1,442,882 in cash to the Successor Agency. Therefore, no further action is necessary.

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 January 28, 2014. Jim Sadro, Interim City Manager, responded by letter dated February 3, 2014, agreeing with the review results. The City of La Habra's response is included in this report as an attachment.

Restricted Use

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

March 28, 2014

Finding and Order of the Controller

**FINDING—
Unallowable asset
transfers to the
City of La Habra**

The Redevelopment Agency of the City of La Habra (RDA) transferred cash in the amount of \$1,442,882 to the City of La Habra (City) on June 30, 2011. The RDA utilized cash from unspent bond proceeds from the 2000 Tax Allocation Bonds to pay down existing RDA debt to the City.

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

Order of the Controller

Pursuant to H&S Code section 34167.5, the City of La Habra is ordered to turn over the assets in the amount of \$1,442,882 to the Successor Agency. The Successor Agency is then directed to properly dispose of those assets in accordance with H&S Code section 34177.

However, on January 30, 2014, the City turned over \$1,442,882 in cash to the Successor Agency. Therefore, no further action is necessary.

City's Response

My staff and I have reviewed the contents of the report and are in agreement with its findings. The only change that I would request is that the report be amended to indicate that the City and Agency are in agreement with the findings and have already taken corrective action to reverse the disallowed \$1,442,882 transaction as part of the approved 13-14B ROPS.

SCO's Comment

The SCO has revised the Order of the Controller for the corrective actions taken by the City.

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

Payment of city loan	\$ 1,442,882
Total unallowable asset transfers	1,442,882 ¹
Cash returned to the Successor agency on January 30, 2014	<u>(1,442,882)</u>
Total amount subject to Health and Safety Code section 34167.5	<u>\$ —</u>

¹ See the Finding and Order of the Controller section.

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



City of La Habra

"A Caring Community"

Administration

201 E. La Habra Boulevard
La Habra, CA 90633-0785
Office: (562) 383-4010
Fax: (562) 383-4474

February 3, 2014

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

Dear Ms. Gonzalez:

I am writing in response to the draft "Redevelopment Agency of the City of La Habra Asset Transfer Review Report" issued by the State Controller's Office, dated January 2014, that I received on February 2, 2014.

My staff and I have reviewed the contents of the report and are in agreement with its findings. The only change that I would request is that the report be amended to indicate that the City and Agency are in agreement with the findings and have already taken corrective action to reverse the disallowed \$1,442,882 transaction as part of the approved 13-14B ROPS.

The Agency's 13-14B ROPS submission was reviewed and approved in September 2013 by both the La Habra Redevelopment Successor Agency Board (Successor Agency) and the Oversight Board of the Successor Agency to the Dissolved La Habra Redevelopment Agency (Oversight Board). The specific transaction reversing the disallowed asset transfer was reviewed and approved by the Department of Finance in December 2013. The City of La Habra subsequently transferred \$1,442,882 from its General Fund to the Successor Agency's bank account on January 30th, 2014.

I would ask that the State Controller's final report indicate that these steps have been taken and that no additional corrective action is required by the City of La Habra, the Successor Agency or the Oversight Board. I have attached documentation for your review which provides approval for the corrective action that we have taken.

Please call me if you have any questions or require additional information.

Sincerely,

James D. Sadro
Interim City Manager

Attachments: Approved 13-14B ROPS Resolution and Schedules
Department of Finance ROPS Approval Letter

cc: Michael Haack, Director of Community Development
Linda Padilla-Smyth, Housing & Economic Development Manager
Mel Shannon, Acting Director of Finance

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

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