

HEMET REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



BETTY T. YEE
California State Controller

March 2015



BETTY T. YEE
California State Controller

March 27, 2015

John Jansons, Community Investment Director
Hemet Redevelopment/Successor Agency
445 E. Florida Avenue
Hemet, CA 92543

Dear Mr. Jansons:

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

Our review found that the RDA transferred \$24,031,398 in assets after January 1, 2011, including unallowable transfers to the Successor Agency totaling \$1,594,725, or 6.64% of transferred assets.

However, \$1,594,725 in assets were placed on the Long-Range Property Management Plan approved by the Department of Finance on February 21, 2014. 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/kw

John Jansons,
Community Investment Director

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March 27, 2015

cc: Larry Smith, Mayor
City of Hemet
Wally Hill, City Manager
City of Hemet
Vince Christakos, Oversight Board Chair
c/o Hemet Unified School District
Paul A. Angulo, CPA, Auditor-Controller
Riverside County
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
Scott Freesmeier, Audit Manager
Division of Audits, State Controller's Office
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 Hemet 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 \$24,031,398 in assets after January 1, 2011, including unallowable transfers to the Successor Agency totaling \$1,594,725, or 6.64% of transferred assets.

However, \$1,594,725 in assets were placed on the Long-Range Property Management Plan approved by the Department of Finance on February 21, 2014. 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 of Hemet (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 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 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 Hemet Redevelopment Agency transferred \$24,031,398 in assets after January 1, 2011, including unallowable transfers to the Successor Agency totaling \$1,594,725, or 6.64% of transferred assets. These assets must be turned over to the Successor Agency.

However, \$1,594,725 in assets were placed on the Long-Range Property Management Plan approved by the Department of Finance on February 21, 2014. 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 August 12, 2014. John Jansons, Community Investment Director, responded by letter dated August 28, 2014. The City provided additional documentation in response to the Order of the Controller. 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 Hemet, 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 27, 2015

Finding and Order of the Controller

**FINDING—
Unrecorded assets
not transferred to
the Successor
Agency**

The Hemet Redevelopment Agency (RDA) owned 12 parcels of Land Held for Resale with a value of \$1,594,725. These parcels were not recorded on the books and records of the RDA. All of the assets existed after January 1, 2011, and were not contractually committed to a third party prior to June 28, 2011.

Various parcels of land known as the Fire Station, the Public Library, the Adult Literacy Center, and several parking lots, all owned by the RDA, were not transferred to the Successor Agency because they were not recorded on the books and records of the RDA. The parcels were reported on the Long-Range Property Management Plan, but were not included in the RDA's financial statements for the period ending June 30, 2011.

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. However, these assets were never turned over to the Successor Agency for disposition in accordance with H&S Code sections 34175(b) and 34177(d) and (e). The assets must be turned over to the Successor Agency for disposition in accordance with H&S Code section 34177(e).

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 as asset...

Order of the Controller

Pursuant to H&S Code section 34167.5, the City is ordered to record assets in the books of the RDA, in the amount of \$1,594,725, and turn over the assets to the Successor Agency.

However, \$1,594,725 in assets were placed on the Long-Range Property Management Plan approved by the Department of Finance on February 21, 2014. Therefore, no further action is necessary.

City's Response

The City stated that it was a matter of interpretation of accounting principles. The City provided a copy of the updated general ledger (due to size, the document was not included in this report) and a list of RDA Land Held for Resale properties.

The City provided a property profile for the property located at 623 Mobley Lane. The document shows the property's primary owner as "Housing Authority of City of Hemet" with a transfer date of February 10, 2011.

SCO's Comment

The SCO removed 623 Mobley Lane from its findings.

The unrecorded properties were added to the Long-Range Property Management Plan approved by the Department of Finance on February 21, 2014. Therefore, no further action is necessary for this item. The Finding and Order of the Controller has been modified accordingly.

**Schedule 1—
Unrecorded Assets Not Transferred to the Successor Agency
January 1, 2011, through January 31, 2012**

Capital Assets

Unrecorded land held for resale:

APN 433-201-016	\$ 435,000
APN 433-201-018	83,000
APN 433-201-019	1
APN 433-201-020	1
APN 433-201-021	16,720
APN 433-201-027	1
APN 433-233-003	244,000
APN 433-233-005	72,000
APN 456-020-009	1
APN 551-180-024	650,000
APN 445-262-031	94,000
APN 443-232-010	1

Total unrecorded assets not transferred to the Successor Agency	1,594,725
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Less assets on Long-Range Property Management Plan approved by the Department of Finance on February 21, 2014	(1,594,725)
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Assets subject to H&S Code section 34167.5	\$ —
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**Attachment 1—
City of Hemet’s Response to
Draft Review Report**



City of Hemet

445 E. FLORIDA AVE • HEMET, CALIFORNIA 92543 • (951)765-2308

August 28, 2014

Via Electronic Mail

Cecilia R. Michaels
Auditor, Division of Audits
State of California
State Controller's Office
3301 C Street, Suite 710
Sacramento, CA 95816

DRAFT ASSET TRANSFER REVIEW

Dear Cecilia:

We received the draft Asset Transfer Review Report for the former Hemet Redevelopment Agency ("Review") via mail on August 19, 2014. The draft Finding on page 3 states the following:

- The former Hemet Redevelopment Agency ("Former Agency") owns twelve (12) parcels of Land Held for Resale with a value of \$1,614,724; and
- These parcels were not recorded on the books and records of the former Agency and therefore were not transferred to the Successor Agency to the former Agency ("Successor Agency").

The draft "Order of the Controller" (also on page 3) states that the City of Hemet is ordered to record certain specified assets in the books of the RDA and then record them as having been transferred to the books of the Successor Agency. The City's Auditor, VanLant and Fankhanel ("VLF"), CPA, previously told City staff that Land Held for Resale should only be land that is held for future use or with the intent to sell in the future. VLF feels that none of the properties on Schedule 1 in the draft Review qualified as land held for future use or with the intent to sell, because each parcel is being used and was purchased for Public Use (i.e., Library, Literacy Center, Fire Stations and Public Parking).

However, because the Successor Agency would like to comply with the Review and the direction provided by the State Controller's office and because we are aware that parking lots are considered land held with the intent to sell (notwithstanding VLF's interpretation of general accounting rules), we have amended the account statements for the former Agency to include the value of the 12 properties (See Attachment 1 to this letter). Attachment 2 to this letter provides a list of all Successor Agency properties.

The Successor Agency plans to properly dispose of these assets in accordance with Health and Safety Code Sections 34177(d) and (e), and 34181(a). Specifically, the Oversight Board for the Successor Agency has already approved a Long Range Property Management Plan and the Department of Finance has not challenged or taken issue with the disposition of properties listed

Cecilia R. Michaels
State Controller's Office
August 28, 2014
Page 2

therein. The Property Management Plan is Attachment 3 to this letter. The Oversight Board has also, by resolution, directed the transfer of government use properties and of affordable housing properties to the appropriate recipient entities (see Attachments 4 and 5 to this letter). Finally, at the next Oversight Board meeting scheduled for August 28, 2014, the Oversight Board will be considering Property Disposition Procedures for those properties identified in the Long Range Property Management Plan as properties held for sale —specifically, the parking lot properties.

Please note that the 623 Mobley Lane property referenced in the Review is owned, and has always been owned, by the Hemet Housing Authority and is not an asset of the Former Agency. A copy of the preliminary title report is provided as Attachment 6 to this letter. Therefore, this property has not been included in Attachments 1 and 2.

Please contact me with any questions or comments as we would like to complete all actions that would result in no findings in the final Review. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "John Jansons", with a long horizontal line extending to the right.

John Jansons, Director of Community Investment
City of Hemet

**Attachment 2—
List of Successor Agency
Land Held for Resale**

Attachment
2

Successor Agency for the former Hemet Redevelopment Agency- Land Held for Resale				
APN	Location	Size	Purchase Date	
443-140-003	401 N Juanita St	4.06 acres 17,720 sq ft bldg	Nov 2006	\$2,015,945
443-140-001	319 E Oakland	1.26 acres	July 2007	\$192,827
443-201-016	Land under City Library			\$435,000
443-201-018	Land under City Library			\$83,000
443-201-019	Land under City Library			\$1
443-201-020	Land under City Library			\$1
443-201-021	Land under City Library			\$16,720
443-201-027	Land under City Library			\$1
443-233-003	Adult Literacy Center			\$244,000
443-233-005	Adult Literacy Center			\$72,000
456-020-009	Land under Fire Station #4			\$1
551-180-024	Land under Fire Station #5			\$650,000
445-262-031	154 South Santa Fe-Parking Lot			\$94,000
443-232-010	119 N Carmalita St- Parking Lot			\$1
			Total:	\$3,803,497

**Attachment 3—
Property Profile for
623 Mobley Lane**

Property Profile

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Property Data:

Site Address: 623 Mobley Ln Hemet, CA 92543 Mail Address: 445 E Florida Ave Hemet, CA 92543	Primary Owner: HOUSING AUTHORITY OF CITY OF HEMET Secondary Owner: APN: 443-090-031 Census Tract: 0435.07 Housing Tract Number: 12270 Legal Description: LOT:11 CITY:HEMET TR#: 12270 LOT 11 MB 109/068 TR 12270 Subdivision: Property County: Riverside County
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Property Characteristics:

Bedrooms: 0	Year Built:	Square Feet: 0
Bathrooms: 0	Use Code: Multi-Family Dwellings (Generic, any combination 2+)	Lot Size: 0
Total Rooms:	Number of Units: 0	Garage:
Zoning: R3	Amenities:	Coords:
Number of Stories:	Building Style:	33.755885,-116.96585

Sale & Loan Information:

Transfer Date: 02/10/2011	Seller: VANBUSKIRK, DAVID; VANBUSKIRK, GRACE	Document: 2011-0066337
Transfer Value: \$0.00	Cost/Sq Feet: NaN	Title Company: First American Title Company
First Loan Amt: \$0.00	Lender:	

Assessed & Tax Information:

Assessed Value: \$0.00	Percent Improvement: NaN	Homeowner Exemption:
Land Value: \$0.00	Tax Amount: \$0.00	Tax Rate Area: 6-132
Improvement Value: \$0.00	Tax Status: Current	

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Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

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