

INGLEWOOD REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



BETTY T. YEE
California State Controller

May 2015



BETTY T. YEE
California State Controller

May 13, 2015

Artie Fields, City Manager
Inglewood Redevelopment/
Successor Agency
One Manchester Boulevard
Inglewood, CA 90301

Dear Mr. Fields:

Pursuant to Health and Safety Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Inglewood Redevelopment Agency (RDA) to the City of Inglewood (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 \$225,351,559 in assets after January 1, 2011, including unallowable transfers to the City totaling \$204,519,513, or 90.76% of transferred assets.

However, the City made the following corrective actions:

- On August 22, 2012, the City effectuated the transfer of \$47,764,680 in housing assets to the Housing Successor. Of that amount, \$2,431,496 has been remitted to the County Auditor-Controller for distribution to the affected taxing entities.
- On May 28, 2013, the City turned over three capital asset properties totaling \$5,628,161, and land held for resale totaling \$31,979,827, to the Successor Agency.
- On August 27, 2014, the Oversight Board passed Resolution OB-14-03, terminating the January 25, 2011 cooperation agreement totaling \$113,296,485, between the City and the former RDA.
- On September 11, 2014, the City turned over \$5,850,000 in cash to the former RDA bond trustee account.

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 or by email at egonzalez@sco.ca.gov.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/lis

cc: Wendy Watanabe, Auditor-Controller
County of Los Angeles
David Esparza, Assistant City Manager
Inglewood Redevelopment/Successor Agency
James T. Butts, Jr., Mayor/Oversight Board Chair
City of Inglewood Successor Agency
Margarita Cruz, Economic and Business Development Manager
City of Inglewood Successor Agency
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
Reginald Nidoy, Audit Manager
Division of Audits, State Controller's Office
Mathew Rios, Auditor-in-Charge
Division of Audits, State Controller's Office
Nesha Neycheva, Auditor
Division of Audits, State Controller's Office

Contents

Review Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Views of Responsible Officials	3
Restricted Use	3
Finding and Order of the Controller	4
Schedule 1—Unallowable Asset Transfers to the City of Inglewood	6
Attachment—City of Inglewood’s Response to Draft Review Report	

Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Inglewood 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 \$225,351,559 in assets after January 1, 2011, including unallowable transfers to the City of Inglewood (City) totaling \$204,519,153, or 90.76% of transferred assets.

However, the City made the following corrective actions:

- On August 22, 2012, the City effectuated the transfer of \$47,764,680 in housing assets to the Housing Successor. Of that amount, \$2,431,496 has been remitted to the County Auditor-Controller for distribution to the affected taxing entities.
- On May 28, 2013, the City turned over three capital asset properties totaling \$5,628,161, and land held for resale totaling \$31,979,827, to the Successor Agency.
- On August 27, 2014, the Oversight Board passed Resolution OB-14-03 terminating the January 25, 2011 cooperation agreement, totaling \$113,296,485, between the City and the former RDA.
- On September 11, 2014, the City turned over \$5,850,000 in cash to the former RDA bond trustee account.

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 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 Inglewood Redevelopment Agency transferred \$225,351,559 in assets after January 1, 2011, including unallowable transfers to the City of Inglewood (City) totaling \$204,519,153, or 90.76% of transferred assets.

However, the City made the following corrective actions:

- On August 22, 2012, the City effectuated the transfer of \$47,764,680 in housing assets to the Housing Successor. Of that amount, \$2,431,496 has been remitted to the County Auditor-Controller for distribution to the affected taxing entities.
- On May 28, 2013, the City turned over three capital asset properties totaling \$5,628,161, and land held for resale totaling \$31,979,827, to the Successor Agency.

- On August 27, 2014, the Oversight Board passed Resolution OB-14-03 terminating the January 25, 2011 cooperation agreement, totaling \$113,296,485, between the City and the former RDA.
- On September 11, 2014, the City turned over \$5,850,000 in cash to the former RDA bond trustee account.

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 July 15, 2014. David Esparza, Assistant City Manager, responded by letter dated September 15, 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 Inglewood, 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

May 13, 2015

Finding and Order of the Controller

FINDING— Unallowable asset transfers to the City of Inglewood

The Inglewood Redevelopment Agency (RDA) made unallowable asset transfers of \$204,519,153 to the City of Inglewood (City). The asset transfers occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

On March 9, 2011, the RDA transferred \$5,850,000 in cash to the City for the purchase of real property. These transfers were accomplished per Resolution R11-13.

In addition, as of January 31, 2012, the RDA had transferred a total of \$198,669,153 (\$5,628,161 and \$193,040,992) to the City in newly created funds maintained by the City. The transfer was accomplished based on a cooperation agreement entered into between the City and the RDA on January 25, 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. Those assets should be turned over 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 Inglewood is ordered to reverse the transfers totaling \$204,519,153, and turn over the assets to the Successor Agency.

However, the City made the following corrective actions:

- On August 22, 2012, the City effectuated the transfer of \$47,764,680 in housing assets to the Housing Successor. Of that amount, \$2,431,496 has been remitted to the County Auditor-Controller for distribution to the affected taxing entities.
- On May 28, 2013, the City turned over three capital asset properties totaling \$5,628,161, and land held for resale totaling \$31,979,827, to the Successor Agency.
- On August 27, 2014, the Oversight Board passed Resolution OB-14-03 terminating the January 25, 2011 cooperation agreement, totaling \$113,296,485, between the City and the former RDA.
- On September 11, 2014, the City turned over \$5,850,000 in cash to the former RDA bond trustee account.

Therefore, no further action is necessary.

City's Response:

\$47,764,680 in housing assets have been placed on the Housing Asset Transfer form to the Inglewood Housing Authority (IHA) to which the Department of Finance did not object; \$2,431,496 of that amount was remitted to the County Auditor-Controller.

The City turned over \$31,979,827 in land held for resale, and \$5,628,161 in capital assets to the Successor Agency, and submitted the grant deed in Exhibit D demonstrating the transfer.

The Oversight Board took action on August 27, 2014, in Resolution OB-14-03, directing termination of the January 25, 2011 cooperation agreement between the City and RDA. However, the City believes \$113,296,486 has always been vested with the Successor and provided the Consolidated Treasurer's Report for the City as of January 31, 2012, Exhibit E.

On September 11, 2014, the City returned \$5,850,000 to the former RDA bond trustee account at U.S. Bank National Association.

Lastly, the City and Successor Agency believe the audit report is premature and respectfully request that the Controller consider deferring the audit report until the City of Brentwood vs. California Department of Finance legal action is fully litigated and final following all appeals.

SCO's Comments:

The SCO disagrees that \$113,296,486 has always been vested with the Successor Agency. Those assets have been under the control of the City pursuant to the January 25, 2011 cooperation agreement. However, the cooperation agreement has been terminated; therefore, no further action is necessary for this transfer.

In addition, documents submitted by the City for the remaining transfers have been reviewed. The SCO concurs that corrective actions have been taken; therefore, no further actions are necessary for the remaining transfers. The Order of the Controller has been modified accordingly. As there are no further actions necessary, the SCO will not hold or delay the report issuance due to pending litigation.

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

Unallowable Transfers to the City of Inglewood:

	Transfer Date	Amount
Cash transfer for property purchase	3/9/2011	\$ 5,850,000
Capital assets transfer per cooperation agreement	as of 1/31/12	5,628,161
Current asset transfer per cooperation agreement	as of 1/31/12	193,040,992
Total unallowable transfers		<u>204,519,153</u>
Less:		
Effectuated Housing Asset Transfers (includes \$2,431,496 remitted to the county Auditor-Controller)	8/22/2012	(47,764,680)
Capital assets turned over to Successor Agency	5/28/2013	(5,628,161)
Land held for resale turned over to Successor Agency	5/28/2013	(31,979,827)
Dissolved cooperation agreement	8/27/2014	\$ (113,296,485)
Funds deposited into Agency Trust Fund	9/11/2014	(5,850,000)
Total unallowable transfers subject to H&S Code section 34167.5		<u><u>\$ —</u></u>

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

In addition to the attached letter, the city provided additional documents. Due to their size we are not including them as an attachment to this report. Please contact the City of Inglewood for copies of the following documents:

EXHIBIT A—Oversight Board Resolution Disannulment of Purchase of Hollywood Park Civic Center site by the former Inglewood Redevelopment Agency from the City of Inglewood.

EXHIBIT B—Bank of America statement for payment of \$5,850,000 to the Inglewood Redevelopment Agency fund

EXHIBIT C—Oversight Board Resolution directing termination of the Cooperation Agreement dated January 25, 2011 by and between the City of Inglewood and the former Inglewood Redevelopment Agency

EXHIBIT D—Grant deeds from the City of Inglewood to the Successor Agency unwinding property transfers

EXHIBIT E—Consolidated Treasurer’s Report



CITY OF INGLEWOOD

as Successor Agency to the
Inglewood Redevelopment Agency

September 15, 2014

*Via United States Postal Service
Certified Mail Parcel No.
7007 3020 0000 3248 7647
with Return Receipt Requested
and E-Mail to EGonzalez@sco.ca.gov*

Jeffrey V. Brownfield, CPA, Chief
Elizabeth González, Bureau Chief
Local Government Compliance Bureau
Division of Audits
California State Controller
P.O. Box 942850
Sacramento, California 94250-5874

Re: Response to July 15, 2014 letter and review report from State Controller Division of Audits per Health & Safety Code section 34167.5 and the Redevelopment Dissolution Statutes Parts 1.8 and 1.85 of Division 24 of the Health & Safety Code

Dear Ms. González and Mr. Brownfield:

This correspondence is the response of the City of Inglewood (the "City") and the City of Inglewood, as Successor Agency to the former Inglewood Redevelopment Agency (the "Successor Agency") to the July 15, 2014 letter (the "Letter") and the attached Review Report accompanying the Letter prepared in connection with the Inglewood Redevelopment Agency Asset Transfer Review for the period January 1, 2011 through January 31, 2012 (collectively the "Audit Report"). The City and the Successor Agency have reviewed the Audit Report, including its conclusion, findings and order. The Audit Report allegedly found that the former Inglewood Redevelopment Agency (the "Former Agency") transferred Two Hundred Twenty Five Million Three Hundred Fifty One Thousand Five Hundred Fifty Nine Dollars (\$225,351,559) in assets after January 1, 2011, including alleged unallowable transfers to the City totaling Two Hundred Four Million Five Hundred Nineteen Thousand Five Hundred Thirteen Dollars (\$204,519,513), or 90.76% of the transferred assets. The Audit Report also states that on April 25, 2013, the City turned over Two Million Four Hundred Thirty One Thousand Four Hundred Ninety Six Dollars (\$2,431,496) in cash to the Los Angeles County Auditor-Controller thereby reducing the alleged unallowable transfer amount to Two Hundred



Two Million Eighty Seven Thousand Six Hundred Fifty Seven Dollars (\$202,087,657) the amount that allegedly must be turned over to the Successor Agency (the "**Finding**"). Both the City and the Successor Agency respectfully disagree with the Finding for the reasons set out below.

The City and Successor Agency wish to confirm via this correspondence two telephone conversations with an authorized representative of your office at about 4:00 p.m., on July 24, 2014 and again on August 14, 2014 allowing the response in this correspondence to be delivered to your office on or before Monday, September 15, 2014. We also thank you for the opportunity and additional time to comment and respond to the Audit Report.

The Finding identifies two underlying transaction dates on page 4 with regard to the Two Hundred Four Million Five Hundred Nineteen Thousand One Hundred Fifty Three Dollars (\$204,519,153) unallowable asset transfer. The first involves a March 9, 2011 purchase and sale transaction concerning an exchange of Former Agency cash in the amount of Five Million Eight Hundred Fifty Thousand Dollars (\$5,850,000) for the purchase of certain former City-owned real property (the "**Land Purchase**"). The second involves an alleged January 25, 2011 transfer of Former Agency assets totaling One Hundred Ninety Eight Million Six Hundred Sixty Nine Thousand One Hundred Fifty Three Dollars (\$198,669,153) which includes the following three separate components: (a) Five Million Six Hundred Twenty Eight Thousand One Hundred Sixty One Dollars (\$5,628,161) booked as capital assets; (b) Forty Seven Million Seven Hundred Sixty Four Thousand Six Hundred Eighty Dollars (\$47,764,680) in housing assets, and (c) One Hundred Forty Five Million Two Hundred Seventy Six Thousand Three Hundred Twelve Dollars (\$145,276,312) in current assets comprised of certain other non-housing land and cash.

The City and the Successor Agency hereby respectfully submit their objections to the Finding on the following basis:

- I. The Report should be revised to demonstrate that the March 9, 2011 Land Purchase has been unwound pursuant to Health & Safety Code¹ sections 34171(d)(2) and 34181(b) thereby accordingly correcting and reducing the alleged unallowable transfer Finding to reflect the return of the sales proceeds to the Successor Agency.

At the time staff of the California State Controller ("**Controller**") visited and interviewed City and Successor Agency staff, certain details of the Land Purchase were identified. City and Successor Agency staff at the time indicated that the Land Purchase would be unwound consistent with the order contained in the Audit Report. As such, on September 11, 2014, the City returned the amount of Five Million Eight Hundred Fifty Thousand Dollars (\$5,850,000) to the Former Agency bond trustee account at U.S. Bank National Association. Moreover, and

¹ All code sections referenced herein shall relate to the California Health & Safety Code unless otherwise specified.



consistent with the Letter, the City of Inglewood Oversight Board to the Successor Agency (“Oversight Board”) took an action on August 27, 2014 pursuant to Resolution No. OB-14-04 disannulling the Land Purchase. We attach Resolution No. OB-14-04 dated August 27, 2014 as Exhibit A as well as the outgoing payment report dated September 11, 2014 as Exhibit B demonstrating the City’s and Successor Agency’s responsive action to the Audit Letter and Finding.

Therefore, the Finding should be corrected to accurately reflect the Oversight Board’s action unwinding the March 9, 2011 transaction and reducing the alleged unallowable transfer amount by Five Million Eight Hundred Fifty Thousand Dollars (\$5,850,000).

- II. The Report should be revised to demonstrate that the January 25, 2011 agreement between the City and Former Agency totaling One Hundred Ninety Eight Million Six Hundred Sixty Nine Thousand One Hundred Fifty Three Dollars (\$198,669,153) has been terminated pursuant to section 34171(d)(3) and 34181(b) thereby accordingly reducing the alleged unallowable transfer Finding.

At the time staff of the Controller visited and interviewed both City and Successor Agency staff, details of the January 25, 2011 cooperation agreement between the City and Former Agency were revealed as well as the actions taken to reverse all transactions taken pursuant thereto. In addition, the Oversight Board took an action on August 27, 2014 in Resolution OB-14-03 in response to the Letter and Finding formally directing termination of the January 25, 2011 cooperation agreement with the City and Former Agency. A copy of Resolution OB-14-03 is attached hereto as Exhibit C.

Furthermore, in conformance with the conversations of Successor Agency staff with the Controller staff, capital assets in the amount of Five Million Six Hundred Twenty Eight Thousand One Hundred Sixty One Dollars (\$5,628,161) shown on page 5 of the Audit Report are not in the name of the City but the Successor Agency. A grant deed from the City to the Successor Agency was recorded in the Office of the Los Angeles County Recorder on May 28, 2013 as Instrument No. 20130791804 showing that title to all three capital assets—111 North Locust Street, 115 South Locust Street, and 104 Queen Street—are now vested in the name of the Successor Agency representing the City’s return of these assets to the Successor Agency. We attach a copy of that grant deed as Exhibit D which reflects the return of these three capital assets --- the legal descriptions for the three capital assets are shown on pages 8, 10, and 23 of the legal description to the grant deed. Therefore, the amount of Five Million Six Hundred Twenty Eight Thousand One Hundred Sixty One Dollars (\$5,628,161) should be deducted from the amount alleged to be an unallowable transfer as the subject capital assets are vested with the Successor Agency in conformance with the Letter and Finding.

Additionally, conversation between the Successor Agency staff and the Controller staff involved a review of the transfer of housing assets of the Former Agency to the Inglewood Housing



Authority, as the successor housing entity (“IHA”) pursuant to AB X1 26 and the approval of this transfer by the Department of Finance (“Finance”). Under the public process administered by Finance under the Housing Asset Transfer and Housing Due Diligence Review, Finance approved all transfers of the Former Agency housing assets to the IHA with the exception of a receivable that is currently the subject of a settlement with Finance and the California Attorney General’s Office. As such, the Letter and Finding should demonstrate that all receivables are properly vested with the IHA through a Finance-approved Housing Asset Transfer and the Housing Due Diligence Review has been satisfied by virtue of IHA’s payment of Two Million Four Hundred Thirty One Thousand Four Hundred Ninety Six Dollars (\$2,431,496) and the pending settlement involving the IHA, Successor Agency, Finance and the California Attorney General’s Office. In support of this, we direct the Controller to the Finance website demonstrating satisfaction of the Housing Asset Transfer and Housing Due Diligence Review which, *in toto*, demonstrates the proper administration and transfer of Forty Seven Million Seven Hundred Sixty Four Thousand Six Hundred Eighty Dollars (\$47,764,680) in housing assets. Therefore, the amount of Forty Seven Million Seven Hundred Sixty Four Thousand Six Hundred Eighty Dollars (\$47,764,680) should be deducted from the amount alleged to be an unallowable transfer. Since the housing assets of the Former Agency flowed through the administrative process with Finance and the Successor Agency the housing assets were properly transferred and vested with the Inglewood Housing Authority. The Letter and Finding should accordingly reflect the transfer of these housing assets as allowable.

Another amount alleged to be an unallowable transfer by the Controller is One Hundred Forty Five Million Two Hundred Seventy Six Thousand Three Hundred Twelve Dollars (\$145,276,312). This amount is broken down into two components of current assets: land held for resale and cash. The land held for resale totals Thirty One Million Nine Hundred Seventy Nine Thousand Eight Hundred Twenty Seven Dollars (\$31,979,827) and has been returned to the Successor Agency. Successor Agency previously communicated this to Controller staff and now submits the grant deed in Exhibit D—demonstrating the transfer of capital assets to the Successor Agency consisting of the Five Million Six Hundred Twenty Eight Thousand One Hundred Sixty One Dollars (\$5,628,161) and re-conveyance of the land held for resale of the Former Agency in the amount of Thirty One Million Nine Hundred Seventy Nine Thousand Eight Hundred Twenty Seven Dollars (\$31,979,827).

The remaining balance consisting of approximately One Hundred Thirteen Million Two Hundred Twenty Two Thousand Four Hundred Thirty Six Dollars (\$113,222,436) is cash of the Former Agency that has always been vested in the Successor Agency contrary to the Report. The attached Exhibit E, the City of Inglewood Consolidated Treasurer’s Report as of January 31, 2012 confirms that the subject cash, local agency investment funds, bond securities, certificates of deposit, bond proceeds, and investments held by the fiscal agent totaling One Hundred Thirteen Million Two Hundred Ninety-Six Thousand Four Hundred Thirty Six Dollars (\$113,296,486) consisting of cash in the amount of \$113,222,436 and accrued interest at that time in the amount of 74,287.26 was never transferred to the City.



As a result of the transfer of the land held for resale to the Successor Agency from the City, and the City of Inglewood Consolidated Treasurer's Report as of January 31, 2012, attached as Exhibit E, showing that the subject cash and interest, remained with the Former Agency and subsequently the Successor Agency, the Controller should correct and reduce the unallowable transfer amount by the One Hundred Forty Five Million Two Hundred Seventy-Six Thousand Three Hundred Twelve Dollars (\$145,276,312).

As a result of the foregoing evidence, the Finding should be corrected to accurately reflect the Oversight Board's action directing termination of the January 25, 2011 agreement and reducing the alleged unallowable transfer amount by One Hundred Ninety Eight Million Six Hundred Sixty Nine Thousand One Hundred Fifty Three Dollars (\$198,669,153).

III. The Audit Report is premature and the City and Successor Agency respectfully request that the Controller consider deferring the Audit Report until the *City of Brentwood vs. California Department of Finance* legal action (Sacramento Superior Court Case No. 34-2013-80001568 CUWMGDS and Court of Appeal Third Appellate District Case No. C076343) is fully litigated and final following all appeals.

There appear to be valid interpretations of Proposition 22 and California Supreme Court precedent supporting the actions taken by the Former Agency on March 9, 2011 and January 25, 2011. Until there are final and non-appealable decisions, it would appear premature to take any action at this time. It would also be just and prudent to defer issuance of the Audit Report until the differing interpretations of retroactive application of AB X1 26, as amended, are reconciled.

The case *City of Brentwood vs. California Department of Finance* (Sacramento Superior Court Case No. 34-2013-80001568 CUWMGDS) contained a tentative decision which would appear to confirm the validity of the March 9, 2011 Land Purchase and January 25, 2011 cooperation agreement under Proposition 22 and the California Supreme Court case *California Redevelopment Association vs. Matosantos* (2011) 53 Cal.4th 231. However, the ultimate outcome in the *Brentwood* case changed based on a different interpretation of Proposition 22 and the *Matosantos* decision. As a result of the equally valid interpretations issued by the Court, the *Brentwood* case is now on appeal and appellate tribunals will likely take up which interpretation of Proposition 22, *Matosantos*, or such other legal precedent, prevails. Such a final and non-appealable interpretation would likely address the retroactive application of AB X1 26, as amended, with respect to actions akin to the March 9, 2011 Land Purchase and January 25, 2011 cooperation agreement. In other words, at the time the March 9, 2011 Land Purchase and January 25, 2011 cooperation agreement were entered, the transfers alleged by the Controller as unallowable were legal and valid. However due to the chaptering of AB X1 26 and AB X1 27 and the decision in *California Redevelopment Association vs. Matosantos* (2011) 53 Cal.4th 231 on December 29, 2011, the actions are allegedly subject to challenge and potentially

Response to the California State Controller's July 15, 2014 letter
to the City of Inglewood and Successor Agency
to the Inglewood Redevelopment Agency
Page 6 of 7




characterized as unallowable. The dispute in the *Brentwood* case would likely be dispositive in deciding which interpretation of Proposition 22 and *Matosantos* prevails.

The outcome of the *Brentwood* case would alter the Audit Report and change the Finding. Given this pending appellate activity on the *Brentwood* case, which is not yet final with all appeals concluded, the Audit Report should be deferred and held in abeyance until that time in the future.

As such, this response is being provided subject to the abovementioned court decisions and neither the City nor the Successor Agency waive their respective and collective rights to later provide additional information or statements as part of the review process or any other proceeding or action that may follow. The City and the Successor Agency retain the right to raise new positions or material as required. These objections and responses are made without prejudice to, and are not a waiver of, the City and the Successor Agency's right to rely on other documents, facts, information, or responses at a later proceeding or in the Controller review process or any other proceeding or action that may follow. By making the aforesaid objections and responses, the City and the Successor Agency do not waive, and hereby expressly reserve, their respective rights to assert any and all objections to the Controller statements and findings in this review, or in any other proceedings, on any and all grounds including, without limitation, scope, jurisdiction, relevancy, competency and materiality. In addition, the City and the Successor Agency make the responses herein without in any way implying that they each consider all of the Controller's findings and statements to be within the scope of AB X1 26, as amended, or legally valid, or material or relevant to the subject matter hereof. The City and the Successor Agency each reserve the right to clarify, supplement, correct or revise any and all of the statements and responses herein and to assert additional arguments or information, in one or more subsequent supplemental responses or in any other proceeding or action that may follow. The rights and reservations herein include, but are not limited to, express reference to (i) the potential reservation of the Oversight Board to consider a ratification of Former Agency actions in making the repayment of the Funds under section 34181(a) which would render the Finding null and void and (ii) the numerous challenges to AB X1 26, as amended, including but not limited to *City of Brentwood vs. California Department of Finance* legal action (Sacramento Superior Court Case No. 34-2013-80001568 CUWMGDS and Court of Appeal Third Appellate District Case No. C076343).

Should you desire additional information regarding the matters referenced above or anything else concerning Report, please feel free to contact me.

Sincerely,


David Esparza
Assistant City Manager
Chief Financial Officer

Response to the California State Controller's July 15, 2014 letter
to the City of Inglewood and Successor Agency
to the Inglewood Redevelopment Agency
Page 7 of 7



cc: James T. Butts, Jr. Mayor
Artie Fields, City Manager/Executive Director
Michael Falkow, Assistant City Manager
Margarita Cruz, Redevelopment Manager
Ken Campos, Esq., Acting City Attorney/Acting General Counsel
Royce K. Jones, Esq., Special City/Successor Agency Counsel

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

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