

REDEVELOPMENT AGENCY OF THE CITY OF AZUSA

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 4, 2015

Donald Penman, Executive Director
Successor Agency c/o City of Azusa
213 E Foothill Boulevard
Azusa, CA 91702

Dear Mr. Penman:

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 Azusa (RDA) to the City of Azusa (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 \$64,453,446 in assets after January 1, 2011, including unallowable transfers to the City totaling \$14,052,937, or 21.80%, of transferred assets. However, on January 7, 2015, the Oversight Board passed and adopted Resolution No. OB-2-2015 directing and approving the conveyance of \$1,250,458 in governmental-purpose property to the City. Therefore, the remaining \$12,802,479 in unallowable transfers must be turned over to the Successor Agency.

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/sk

cc: Robert Gonzales, Chair

Oversight Board to the Successor Agency

John Naimo, Auditor-Controller

County of Los Angeles

Susan Paragas, Finance Director

City of Azusa/Successor Agency

Henry Quintero, Senior Accountant

City of Azusa/Successor Agency

Kurt Christiansen, AICP Director of Economic and Community Development

City of Azusa/Successor Agency

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

Trisha L. Quiambao, Auditor-in-Charge

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	2
Restricted Use	3
Finding and Order of the Controller	4
Schedule 1—Unallowable Asset Transfers to the City of Azusa	6
Attachment—City of Azusa’s Response to Draft Review Report	

Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Redevelopment Agency of the City of Azusa (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 \$64,453,446 in assets after January 1, 2011, including unallowable transfers to the City of Azusa (City) totaling \$14,052,937, or 21.80%, of transferred assets. However, on January 7, 2015, the Oversight Board passed and adopted Resolution No. OB-2-2015 directing and approving the conveyance of \$1,250,458 in governmental-purpose property to the City. Therefore, the remaining \$12,802,479 in unallowable transfers 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 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 Redevelopment Agency of the City of Azusa transferred \$64,453,446 in assets after January 1, 2011, including unallowable transfers to the City of Azusa (City) totaling \$14,052,937, or 21.80%, of transferred assets. However, on January 7, 2015, the Oversight Board passed and adopted Resolution No. OB-2-2015 directing and approving the conveyance of \$1,250,458 in governmental-purpose property to the City. Therefore, the remaining \$12,802,479 in unallowable transfers must be turned over to the Successor Agency.

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 November 19, 2014. Donald Penman, Executive Director responded by letter dated December 11, 2014 disagreeing with the review results. 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, 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 4, 2015

Finding and Order of the Controller

FINDING— Unallowable asset transfers to the City of Azusa

The Redevelopment Agency of the City of Azusa (RDA) made unallowable asset transfers of \$14,052,937 to the City of Azusa (City). The transfers occurred after January 1, 2011 and the assets were not contractually committed to a third party prior to June 28, 2011.

On March 7, 2011, the City and the RDA passed the following resolutions to transfers various land held for resale (see Schedule 1):

- The RDA adopted Resolution 11-R10 transferring various properties to the City for financing of certain future public improvements within the redevelopment project area. This transfer was accepted by the City via adoption of Resolution 11-C21. Properties were valued at \$648,888.
- The RDA adopted Resolutions 11-R11, 11-R12, 11-R13, and 11-R14 transferring various properties to the City for payment of outstanding loans owed to the City. These transfers were accepted by the City via adoption of Resolution 11-C22. Properties were valued at \$13,404,049.

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 (e).

Order of the Controller

Pursuant to H&S Code section 34167.5, the City is ordered to reverse the transfers totaling \$14,052,937 and turn over the assets to the Successor Agency.

However, on January 7, 2015, the Oversight Board passed and adopted Resolution No. OB-2-2015 directing and approving the conveyance of governmental-purpose property worth \$1,250,458 to the City. Therefore, the remaining \$12,802,479 in unallowable transfers must be turned over to the Successor Agency.

The Department of Finance (DOF) must approve the Oversight Board resolution. If the resolution is not approved, then the City is ordered to turn over the assets to the Successor Agency.

City's Response

The City's response in regard to the finding stated, in part:

The Successor Agency strongly believes that the RDA complied with the California Health and Safety Code, and applicable rules and regulations, in its transactions from January 1, 2011 through January 31, 2012, and respectfully disagrees with the SCO Report.

See Attachment for the City's complete response.

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. As a result, properties transferred by the RDA to the City as loan repayments are unallowable. Any loan repayments by the RDA to the City must be made through the Recognized Obligation Payment process.

The property at 229 S. Azusa, transferred by the RDA to the City as a loan repayment, was committed to a third party in August 2014, while in the City's possession, and is currently in escrow. The City must turn over the sale proceeds to the Successor Agency.

With regard to the properties located at 303 E. Foothill (\$648,888) and 850 W. Tenth St. (\$601,570), the City provided us with a copy of Oversight Board Resolution No. OB-2-2015, adopted on January 7, 2015, directing and approving conveyance of governmental-purpose real properties to the City by the Successor Agency.

The DOF must approve the Oversight Board resolution. If the resolution is not approved, then the City is ordered to turn over the assets to the Successor Agency.

The City's response also included a comment regarding properties transferred to the City via adoption of RDA Resolution No. 11-R9 and 11-R10 and City Resolution No. 11-C20 and 11-C21 (with exception of 303 E. Foothill/Zerbe). These transfers were subsequently removed from the findings due to additional information provided confirming existence of a third-party agreement prior to June 28, 2011.

The Finding and Order of the Controller has been modified to reflect the above-mentioned adjustments.

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

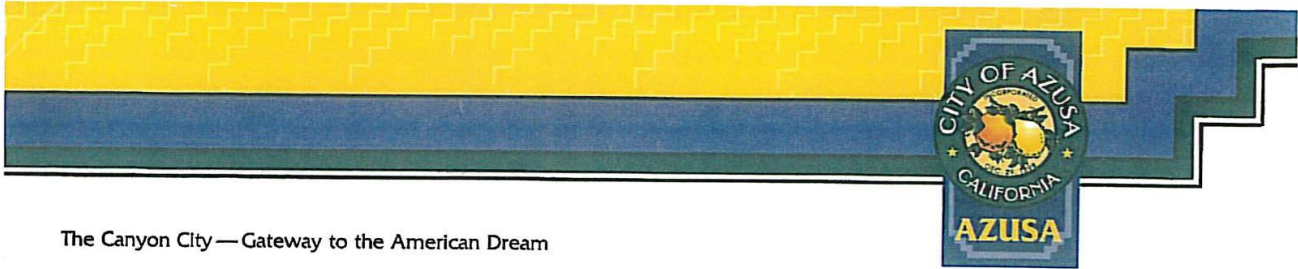
On March 7, 2011, the RDA and the City adopted various resolutions to transfer Land Held for Resale.

RDA Resolution 11-R10		
303 E. Foothill/Zerbe		648,888
RDA Resolution 11-R11		
850 W. Tenth St/Transportation Ctr	601,570	
975 W. Foothill/D-Club	2,259,466	
444 N. Azusa (5th & Azusa)/Rogers	58,610	
RDA Resolution 11-R12		
229 S. Azusa	3,312,788	
RDA Resolution 11-R13		
805 N. Dalton/Moritz	705,601	
803 N. Dalton/Ramirez	987,585	
826 N. Azusa/Habern	540,000	
810 N. Alameda Ave. (Nunez)	1,285,000	
858 N. Azusa Ave (Choi)	1,760,000	
832 N. Azusa Ave. (Vagenas)	580,000	
830 N. Azusa	181,986	
809 and 813 Dalton	1,131,443	<u>13,404,049</u>
Total unallowable transfers to the City		<u>14,052,937</u>
Less: OB Resolution No. OB-2-2015, adopted January 7, 2015		
303 E Foothill/Zerbe	(648,888)	
850 W Tenth Street/Transportation Center	(601,570)	<u>(1,250,458)</u>
Total transfers subject to H&S Code section 34167.5		<u><u>\$ 12,802,479</u></u>

Attachment— City of Azusa’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 for copies of the following documents:

- Attachment 1 a, b, c – Block 37 Parking Agreement
- Attachment 2 – 150 E. Foothill Blvd Parking Agreement
- Attachment 3 – Block 36 Parking Agreement
- Attachment 4 – Grant Deed 716 720 728 Dalton
- Attachment 5 – 714 716 720 726 728 Dalton Quitclaim frm City to RDA
- Attachment 6 – Original Prurchase-850 W. 10th St
- Attachment 7 – 850 W. Tenth Note
- Attachment 8 – 850 W. 10th St 2008 Sale Agreement
- Attachment 9 – 229 S Azusa Loan
- Attachment 10 – Enterprise Reso 09-R63-Promissory-RDA Loan
- Attachment 11 – DDA-229 S. AZUSA-ENTERPRISE
- Attachment 12 – \$11M Loan
- Attachment 13 – Arrow Hwy Loan-RDA and Light
- Attachment 14 – Azusa Arrow Property Promissory Note
- Attachment 15 – CHARVAT SALE AGREEMENT
- Attachment 16 – Oversight Board Resolution No. OB-2-2015



The Canyon City — Gateway to the American Dream

December 11, 2014

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

Re: Response to State Controller's Office Asset Transfer Audit for the Successor Agency to the Redevelopment Agency of the City of Azusa

Dear Ms. Gonzalez:

This letter serves as the Successor Agency to the Redevelopment Agency of the City of Azusa's ("Successor Agency") response to the State Controller's Office draft audit report, which was received by the Successor Agency on December 1, 2014 ("SCO Report"), regarding all asset transfers by the former Redevelopment Agency of the City of Azusa ("RDA") to the City of Azusa ("City") between January 1, 2011, and January 31, 2012.

The Successor Agency strongly believes that the RDA complied with the California Health and Safety Code, and applicable rules and regulations, in its transactions from January 1, 2011 through January 31, 2012, and respectfully disagrees with the SCO Report for the following reasons:

Properties Listed as Unallowable Asset Transfers to the City of Azusa (Schedule 1)

RDA Resolution No. 11-R9 and City Resolution No. 11-C20The first 4 items disallowed by the SCO Report, listed as 600 N. San Gabriel/Gallant, 604 N. San Gabriel/Arenas, 624-630 N. San Gabriel Ave (JK Partners) and 622 N. San Gabriel (collectively, the "N. San Gabriel Properties"), in the total amount of \$2,651,529, are a public parking lot. Well in advance of its dissolution, the RDA entered into enforceable obligations with neighbors adjacent to the N. San Gabriel Properties requiring these properties to remain in use as a public parking lot. (Attachment 1) The RDA then transferred the N. San Gabriel Properties to the City in March 2011 to allow for the continued use of these properties as a public parking lot. Even if the N. San Gabriel Properties had not been transferred by the RDA to the City prior to its dissolution, Health and Safety Code sections 34181(a) and 34191.5(c)(2) would have required the Successor Agency to transfer these properties to the City for their continued use for the governmental purpose of providing a public parking lot.

The fifth item disallowed by the SCO Report, listed as 150 E. Foothill Parking Lot/Bank of America ("150 E. Foothill Parking Lot"), in the amount of \$853,567, is also a public parking lot. Indeed, the very description of this property in the SCO Report's notes its current use as a public parking lot. Similar to the N. San Gabriel Properties, the 150 E. Foothill Parking Lot was

transferred to the City in March 2011 to ensure its continued use for a governmental purpose of providing a public parking lot. Additionally, the 150 E. Foothill Parking Lot is restricted by existing enforceable obligations mandating its continued use as a public parking lot, including an agreement with Bank of America, which is located across the street from this property, to provide parking for its employees. (Attachment 2)

Item 6, listed as 614-620 N. Azusa/Singleton, and items 7-15, listed as Blk 36 Site (collectively, the "Block 36 Properties"), in the total amount of \$2,369,976, are also a public parking lot and was transferred to the City in March 2011. A portion of the Block 36 Properties is subject to an enforceable obligation with Bank of America, which is located adjacent to this property that requires its continued use as a public parking lot for Bank of America customers. (Attachment 3) Similar to the N. San Gabriel Properties and 150 E. Foothill Parking Lot, the Block 36 Properties are being used for a governmental purpose and thus would have been transferred to the City pursuant to Health and Safety Code sections 34181(a) and 34191.5(c)(2) regardless of whether they were transferred pre- or post-dissolution of the RDA.

In accordance with Health and Safety Code section 34181(a), the Oversight Board is scheduled at its December 18, 2014 meeting to ratify the transfer of the N. San Gabriel Properties, 150 E. Foothill Parking Lot, and Block 36 Properties from the RDA to the City to allow for the continued use of these properties for the governmental purpose of providing public parking lots.¹

RDA Resolution No. 11-R10 and City Resolution No. 11-C21

The four items under Resolution No. 11-R10 (City Resolution No. 11-C21), listed as 714/716/720 Dalton, 726 N. Dalton Ave., 728 N. Dalton Ave. and 303 E. Foothill/Zerbe (collectively, the "Dalton Properties"), in the total amount of \$2,157,700², are a public parking lot for the City Senior Center. The Dalton Properties, with the exception of 303 E. Foothill/Zerbe, were originally purchased by the City between 1988 and 2005. (Attachment 4.) The City originally purchased the Dalton Properties for the purpose of building a public library; however, the City was unable to secure funding for construction and the properties were instead used as a public parking lot for the adjacent City Senior Center. In May 2006 the RDA entered into an Exclusive Negotiating Agreement with Watt Genton to develop a master planned project known as the Downtown North transit oriented development. Under this agreement, the Dalton Properties were anticipated to be developed as a residential and retail mixed-use project. To facilitate this development, on January 7, 2008, the City Council authorized the execution of a quitclaim deed conveying the Dalton Properties to the RDA, as it was necessary for the RDA to own all the Dalton Properties in order to prepare a development agreement with Watt Genton. (Attachment 5.) Due to the dissolution of the RDA, the Dalton Properties were never developed for this purpose. Instead, because the Dalton Properties were originally purchased by the City, with City funds, they were transferred back to the City. Further, because the current use of the Dalton Properties is for the governmental purpose of a public parking lot, pursuant to Health and Safety Code sections 34181(a) and 34191.5(c)(2), the properties were correctly transferred to the City.

¹The Oversight Board will submit a copy of the resolution ratifying the transfer of these properties to the Department of Finance as soon as it is adopted, if applicable. Please let us know if the SCO would also like a copy of the resolution.

²Incorrectly listed as \$2,157,701 on the SCO Report.

RDA Resolution No. 11-R11 and City Resolution No. 11-C22³

850 W. Tenth St/Transportation Ctr, commonly known as the "City Transportation Yard," was originally purchased by the City in June 1993 with funds loaned to the City by the City Light and Water Fund. (Attachment 6) The City purchased the property for the purpose of improving the property with a 5,000 square foot maintenance facility and associated improvements and parking. In July 2007, the City sold the City Transportation Yard to the RDA, with the proceeds of the sale to be used by the City to repay the City Light and Water Fund loan originally used by the City to purchase the property. The RDA issued a Promissory Note, dated July 3, 2007, to the City in the amount of \$1,615,877.55 for payment of the purchase price of the property, which the City in turn would pay to the City Light and Water Fund. (Attachment 7) Because the RDA had not paid back the City for the purchase of the City Transportation Yard, pursuant to the terms of the Promissory Note the RDA transferred the City Transportation Yard back to the City Light and Water Fund in satisfaction of the loan. Thus, the property was not purchased with RDA funds, but solely with City Light and Water Fund monies, it is owned by the City Light and Water Fund.

The City Transportation Yard, in the amount of \$1,615,877.55, was subdivided into two parcels in 2007: 850 W. Tenth Street and 943 N. Vernon Avenue. 850 W. Tenth Street was sold to a third party in 2008. (Attachment 8) The remaining parcel, 943 N. Vernon Avenue Dalton, was transferred from the RDA to the City in March 2011 as repayment for the Light and Water Fund loan.

The City's Light and Water Fund is an Enterprise Fund constitutionally protected and required to be repaid pursuant to California Constitution Article XIII D, Section 6. Article XIID, Section 6(b) prohibits the use of Enterprise Fund revenue for any purpose other than the specific purpose for which the fees or charges were collected. (*Howard Jarvis Taxpayers Assn. v. Roseville* (2002) 97 Cal.App.4th 637, 647-48.) An Enterprise Fund is designed to guarantee the availability of funds for the specified municipal enterprise. However, because this fund provides funding for long-term capital projects, until the funds are required for this purpose the City, like a trustee for any fund, is charged with managing these funds on behalf of the ratepayers and may invest these funds to generate additional income for the Enterprise Fund. Thus, the City may and did, on behalf of the Enterprise Fund ratepayers, make a loan from the City Light and Water Fund to the RDA to generate interest income. The California Constitution allows borrowing from the Enterprise Funds so long as the borrowed funds are well-documented, the Enterprise Funds ultimately expend the funds for the specific purpose for which the fees and charges were authorized to be collected, and any borrowed funds are repaid. (*Rancho Santa Anita, Inc. v. City of Arcadia* (1942) 20 Cal.2d 319; 21 Ops.Cal.Atty.Gen. 70, 71 (1953).)

Because the loan for the purchase of the City Transportation Yard was with an Enterprise Fund, and not with the City's general fund, the California Constitution requires the full repayment of the loan. Thus, the repayment procedure set forth in Health and Safety Code

³ The Successor Agency does not contest the SCO Report's disallowance of the transfer of 975 W. Foothill/D-Club and 444 N. Azusa (5th & Azusa)/Rogers ("D-Club Property") from the RDA to the City. The D-Club Property was transferred from the RDA to the City in March 2011 to repay a loan previously made by the City's Light and Water Fund to the RDA, which was used to make its Supplemental Educational Revenue Augmentation Fund ("SERAF") payment. The Successor Agency is not challenging this determination on the SCO Report and understands that repayment of SERAF loans is governed by Health and Safety Code section 34191.4.

section 34191.4, which requires a 20 percent deduction of the repayment amount to be placed in the Low and Moderate Income Housing Asset Fund, is not applicable to this loan.

RDA Resolution No. 11-R12 and City Resolution No. 11-C22

229 S. Azusa, in the amount of 3,312,788, was transferred to the City as repayment for a loan made by the City to the RDA. On December 21, 2009, the City and RDA governing bodies approved the loan from the City to the RDA for the sole purpose of purchasing this property. (Attachment 9.) The RDA executed a promissory note evidencing its obligations under this loan. (Attachment 10.) Pursuant to the terms of that promissory note, the loan was called in March 2011. The property is currently in escrow with a third party, Kevin Coleman, to purchase the property from the City. (Attachment 11.) The sale of the property to Mr. Coleman was agreed to prior to the issuance of the SCO Report. Pursuant to Health and Safety Code section 34167.5, the SCO Report shall not order a former RDA asset to be returned to the Successor Agency if the governmental entity that received the asset is contractually committed to a third party for the encumbrance of that asset. Further, as discussed in detail above, 229 S. Azusa was purchased solely with City monies, not tax increments. If the SCO Report ultimately concludes that the transfer of the property as payment of the loan from the City is deemed invalid, this would result in 229 S. Azusa being properly purchased by the City and thus owned by the City, without any right of ownership by the RDA.

RDA Resolution No. 11-R13 and City Resolution No. 11-C22⁴

Seven of the properties disallowed by the SCO Report, listed as 803 N. Dalton/Ramirez, 826 N. Azusa/Habern, 812 N. Azusa/801 Alameda (Cortez), 810 N. Alameda Ave. (Nunez), 858 N. Azusa Ave (Choi), 832 N. Azusa Ave (Vagenas) and 830 N. Azusa, in the total amount of \$8,239,571, were transferred by the RDA to the City to repay a loan made by the City to the RDA. The City loaned funds to the RDA for the sole purpose of purchasing these properties, and no RDA funds were used to purchase the properties. The RDA executed a Promissory Note, dated March 3, 2008, for repayment of the loan. (Attachment 12.) Because these seven properties were not purchased with RDA tax increments, but were instead purchased with City funds, the properties were properly transferred to the City as the purchaser of the properties. Additionally, the City has an existing Memorandum of Understanding with Foothill Transit, dated October 4, 2010, to construct a public parking structure, an electric bus charging station, and bus bays and turnouts, for the benefit of Foothill Transit, on 812 N. Azusa/801 Alameda.

RDA Resolution No. 11-R14 and City Resolution No. 11-C22

17525 E. Arrow Hwy, in the amount of \$5,278,308, was purchased with a loan from the City Electric Fund to the RDA, which was approved by the City Electric Fund and the RDA at its March 24, 2008 meeting for the sole purpose of purchasing this property. (Attachment 13.) The RDA issued a Promissory Note, dated March 24, 2008, to the City Light and Water Fund in the amount of \$5,300,000, to repay this loan. (Attachment 14.) The RDA transferred the property to the City in 2011 and the City subsequently entered into a Disposition and Development Agreement, dated June 6, 2011, to sell the property to a third party. (Attachment 15.) The sale of the property concluded on November 11, 2011. Pursuant to Health and Safety Code section 34167.5, the SCO cannot order the return of assets that are encumbered by an

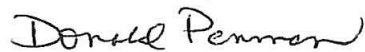
⁴The Successor Agency does not contest the SCO Report's disallowance of the transfer of 805, 809 and 813 N. Dalton from the RDA to the City. These properties were transferred from the RDA to the City in March 2011 as repayment for a City loan.

obligation to a third party. Here, 17252 E. Arrow Hwy has already been sold by the City to a third party and thus cannot be included in the SCO Report.

Conclusion

Based on the foregoing, we respectfully request that the State Controller's Office reconsider its findings pursuant to the SCO Report. Please do not hesitate to contact Susan Paragas, City of Azusa Director of Finance, at (626) 812-5202 if you require additional information regarding the validity of the transfer made by the RDA or the specific properties.

Sincerely,



Donald Penman
Executive Director, Successor Agency to the
Redevelopment Agency of the City of Azusa

cc: Susan Paragas, Director of Finance, City of Azusa
Elizabeth Hull, Special Counsel, Successor Agency to the Redevelopment Agency of the
City of Azusa

Attachments

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

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