

NORWALK REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



BETTY T. YEE
California State Controller

June 2015



BETTY T. YEE
California State Controller

June 24, 2015

Jana Stuard, Finance Director
City of Norwalk Redevelopment
Successor Agency
12700 Norwalk Boulevard
Norwalk, CA 90650

Dear Ms. Stuard:

Pursuant to Health and Safety Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Norwalk Redevelopment Agency (RDA) to the City of Norwalk (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 \$52,946,713 in assets after January 1, 2011, including unallowable transfers to the City of Norwalk (City) totaling \$16,400,331, or 30.98% of the transferred assets.

However, as of June 30, 2014, the City had expended \$846,576 of bond proceeds for the City's Water Infrastructure projects. Also, on various dates, the remaining \$1,737,847 in land, \$7,425,440 in land held for resale, and \$6,390,468 in bond proceeds were turned over to the Successor Agency. Therefore, no further action is necessary.

If you have any questions, please contact Elizabeth González 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/as

Attachment

cc: 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
Tuan Tran, Auditor-in-Charge
Division of Audits, State Controller's Office
Venus Sharifi, Auditor
Division of Audits, State Controller's Office
John Naimo, Auditor-Controller
County of Los Angeles
David Botelho, Program Budget Manager
California Department of Finance
Michael J. Egan, Oversight Board Chair
Norwalk Redevelopment/ Successor Agency

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Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Norwalk 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 \$52,946,713 in assets after January 1, 2011, including unallowable transfers to the City of Norwalk (City) totaling \$16,400,331, or 30.98% of the transferred assets.

However, as of June 30, 2014, the City had expended \$846,576 of bond proceeds for the City's Water Infrastructure projects. Also, on various dates, the remaining \$1,737,847 in land, \$7,425,440 in land held for resale, and \$6,390,468 in bond proceeds were turned over to the Successor Agency. Therefore, no further action is necessary.

Background

In January of 2011, the Governor of the State of California proposed statewide elimination of redevelopment agencies (RDAs) beginning with the fiscal year (FY) 2011-12 State budget. The Governor's proposal was incorporated into Assembly Bill 26 (ABX1 26, Chapter 5, Statutes of 2011, First Extraordinary Session), which was passed by the Legislature, and signed into law by the Governor on June 28, 2011.

ABX1 26 prohibited RDAs from engaging in new business, established mechanisms and timelines for dissolution of the RDAs, and created RDA successor agencies and oversight boards to oversee dissolution of the RDAs and redistribution of RDA assets.

A California Supreme Court decision on December 28, 2011 (*California Redevelopment Association et al. v. Matosantos*), upheld ABX1 26 and the Legislature's constitutional authority to dissolve the RDAs.

ABX1 26 was codified in the Health and Safety (H&S) Code beginning with section 34161.

H&S Code section 34167.5 states in part, ". . . the Controller shall review the activities of redevelopment agencies in the state to determine whether an asset transfer has occurred after January 1, 2011, between the city or county, or city and county that created a redevelopment agency or any other public agency, and the redevelopment agency."

The SCO identified asset transfers that occurred after January 1, 2011, between the RDA, the City and/or any other public agency. By law, the SCO is required to order that such assets, except those that already had been committed to a third party prior to June 28, 2011, the effective date of ABX1 26, be turned over to the Successor Agency. In addition, the SCO may file a legal 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 RDA transferred \$52,946,713 in assets after January 1, 2011, including unallowable transfers to the City of Norwalk (City) totaling \$16,400,331, or 30.98% of the transferred assets.

However, as of June 30, 2014, the City had expended \$846,576 of bond proceeds for the City's Water Infrastructure projects. Also, on various dates, the remaining \$1,737,847 in land, \$7,425,440 in land held for resale, and \$6,390,468 in bond proceeds were turned over to the Successor Agency. Therefore, no further action is necessary.

Views of Responsible Officials

We issued a draft review report on November 20, 2014. Jana Stuard, Finance Director/Treasurer, responded by letter dated December 4, 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 Norwalk, 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

June 24, 2015

Finding and Order of the Controller

FINDING— Unallowable asset transfers to the City of Norwalk

The Norwalk Redevelopment Agency (RDA) transferred \$16,400,331 in assets to the City of Norwalk (City). The transfers occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

Unallowable transfers were as follows:

- On February 25, 2011, the RDA transferred \$2,854,043 in bond proceeds to the City's Water Fund for City-related water infrastructure projects, under RDA Resolution No. NRA 11-197. Of the total amount of bond proceeds transferred to the City, \$1,616,999 was paid to a third party as of June 30, 2011.
- On March 8, 2011, the RDA transferred \$6,000,000 in bond proceeds to the City for repayment of the Metro Project loan, under RDA Resolution No. NRA 11-198.
- On March 21, 2011, the RDA transferred \$5,632,901 in land held for resale to the City, under RDA Resolution Nos. NRA 11-203 and NRA 11-201.
- On March 23, 2011, the RDA transferred \$1,792,539 in land held for resale to the City, under RDA Resolution Nos. NRA 11-202, NRA 11-204, and NRA 11-206.
- On March 23, 2011, the RDA transferred \$1,737,847 in land to the City, under RDA Resolution No. NRA 11-205.

Pursuant to Health and Safety (H&S) Code section 34167.5, the RDA may not transfer assets to a city, county, city and county, or any other public agency after January 1, 2011. The assets must be turned over to the Successor Agency for disposition in accordance with H&S Code section 34177(d) and (e).

Order of the Controller

Pursuant H&S Code section 34167.5, the City is ordered to reverse the transfers of the assets totaling \$16,400,331 and turn over the assets to the Successor Agency. However, as of June 30, 2014, the City had expended \$846,576 of bond proceeds for the City's water infrastructure projects. Also, on various dates, the remaining \$1,737,847 in land, \$7,425,440 in land held for resale, and \$6,390,468 in bond proceeds were turned over to the Successor Agency. Therefore, no further action is necessary.

City's Response

The City had no comments on the SCO's findings.

SCO's Comment

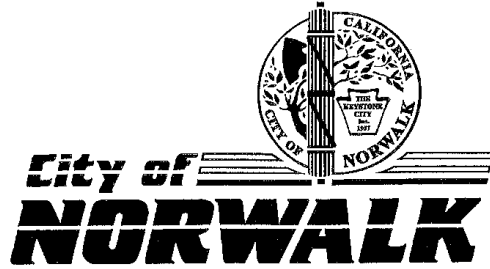
The Finding and Order of the Controller remain as stated.

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

Current assets:	
Bond proceeds transfer (February 25, 2011)	\$ 1,237,044
Bond proceeds transfer (March 8, 2011)	6,000,000
Land held for resale transfer (March 21, 2011)	5,632,901
Land held for resale transfer (March 23, 2011)	1,792,539
Land transfer (March 23, 2011)	<u>1,737,847</u>
Total unallowable transfers to the City	16,400,331
Less:	
Bond proceeds paid to a third party	(846,576)
Bond proceeds turned over to the Successor Agency (November 6, 2012)	(6,000,000)
Land held for resale turned over to the Successor Agency (November 19, 2012)	(7,425,440)
Land turned over to the Successor Agency (November 19, 2012)	(1,737,847)
Bond proceeds turned over to the Successor Agency (August 19, 2014)	<u>(390,468)</u>
Total transfers subject to H&S Code section 34167.5	<u>\$ —</u>

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

MARCEL RODARTE
Mayor
LEONARD SHRYOCK
Vice Mayor
CHERI KELLEY
Councilmember
MICHAEL MENDEZ
Councilmember
LUIGI VERNOLA
Councilmember
MICHAEL J. EGAN
City Manager



12700 NORWALK BLVD., P.O. BOX 1030, NORWALK, CA 90651-1030 * PHONE: 562/929-5700 * FACSIMILE: 562/929-5773 * WWW.NORWALKCA.GOV

December 4, 2014

Ms. Elizabeth Gonzalez
Chief Local Government Compliance Bureau
State Controller's Office
Divisions of Audits
PO BOX 942850
Sacramento, CA 94250-5874


Dear Ms. Gonzalez:

This letter is to confirm that on December 1, 2014 the City of Norwalk Successor Agency received your letter dated November 20, 2014 in reference to the State Controller's Office (SCO) review of all asset transfers made by the Norwalk Redevelopment Agency to the City of Norwalk after January 1, 2011.

We reviewed the draft report and have no comments to the SCO's findings. I would like to thank your staff that conducted the review for their professionalism and efforts they have put into completing the review.

If you should have any questions, or need additional information, you can reach me at (562) 929-5748.

Sincerely,


Jana Stuard
Finance Director/Treasurer

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

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