

REDEVELOPMENT AGENCY OF THE CITY OF PLACENTIA

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



BETTY T. YEE
California State Controller

June 2015



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California State Controller

June 23, 2015

Linda G. Magnuson, Chief Financial Officer
City of Placentia/Successor Agency
401 East Chapman Avenue
Placentia, CA 92870

Dear Ms. Magnuson:

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 Placentia (RDA) to the City of Placentia (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 \$4,240,558 in assets after January 1, 2011, including unallowable transfers to the City totaling \$476,700, or 11.24% of transferred assets. These assets 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/gj

Attachment

cc: Michael Nguyen, Finance Services Manager
City of Placentia Successor Agency
Eric H. Woolery, CPA, Auditor-Controller
Orange 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
Reginald Nidoy, Audit Manager
Division of Audits, State Controller's Office
Sapna Paintal, Auditor-in-Charge
Division of Audits, State Controller's Office
Keith DeAnda, Auditor
Division of Audits, State Controller's Office

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Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Redevelopment Agency of the City of Placentia (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 \$4,240,558 in assets after January 1, 2011, including unallowable transfers to the City of Placentia (City) totaling \$476,700, or 11.24% of transferred assets. These assets 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 Placentia transferred \$4,240,558 in assets after January 1, 2011, including unallowable transfers to the City of Placentia totaling \$476,700, or 11.24% of transferred assets. These assets 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 December 8, 2014. Michael Nguyen, Finance Services Manager, responded on May 22, 2015. 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 Placentia, the Successor Agency, the Oversight Board, the Entity Assuming the Housing Functions, 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 23, 2015

Finding and Order of the Controller

FINDING— Unallowable asset transfers to the City of Placentia

The Redevelopment Agency of the City of Placentia (RDA) made unallowable asset transfers of \$476,700 to the City of Placentia (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 February 28, 2011, and December 19, 2011, the RDA transferred a total of \$476,700 in cash to the City for interest payments for two properties acquired in 2009.

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).

Order of the Controller

Pursuant to H&S Code section 34167.5, the City is ordered to reverse the transfers totaling \$476,700 and turn over the assets to the Successor Agency.

City's Response

In response to the State Controller's Office finding, the City recognizes that the interest payments were made during the period of January 1, 2011, through January 31, 2012. However, the City and RDA entered into an agreement on January 20, 2009, long before the City was made aware of a possible dissolution of the RDA.

Every fiscal year, the RDA was required to make an interest payment of \$158,900 for two properties acquired in 2009. Due to an inadvertent miscommunication and a turnover in City staff, the city did not book the interest payments within each appropriate fiscal year. The first payment (dated February 28, 2011) was for FY 2009/10. The second payment (dated December 19, 2011) was for FY 2010/11. The last payment (dated December 19, 2011) was for FY 2011/12.

Because the RDA had entered into an agreement with the City in 2009, we believe that all three interest payments should be considered allowable. The City believes that the essence of that particular Health and Safety Code was to prevent any new agreements or transactions between cities and RDA's. The City had no intention to raid the RDA coffers because the dissolution was imminent. We were merely accounting for interest payments, albeit late, from an agreement already in place.

SCO's Comment

The interest payments, regardless of the fiscal year for which they are intended, were made after January 1, 2011, to the City. 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. This responsibility is not limited by the other provisions of the RDA dissolution legislation. As a result, the cash transfers made by the RDA to the City during the period of January 1, 2011 through January 31, 2012 are unallowable.

On October 18, 2013, the Successor Agency received a Finding of Completion from the Department of Finance. Pursuant to H&S Code section 34191.4, the Successor Agency may place loan agreements between the RDA and the City on the Recognized Obligation Payment Schedule as an enforceable obligation, provided that the Oversight Board finds that the loans were for legitimate redevelopment purpose.

The Finding and Order of the Controller remain as stated.

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

Cash transfers to the City of Placentia:

Interest payment (February 28, 2011)	\$ 158,900
Interest payment (December 19, 2011)	158,900
Interest payment (December 19, 2011)	<hr/> <hr/> 158,900
Total unallowable asset transfers	<hr/> <hr/> \$ 476,700

Attachment—
City's Response to Draft Review Report

City response to SCO's letter dated 12/8/14:

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**State Controller's Office
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