

SHAFTER COMMUNITY DEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

September 2014



JOHN CHIANG
California State Controller

September 2, 2014

Jim Zervis, Administrative Services Director
City of Shafter
336 Pacific Avenue
Shafter, CA 93263

Dear Mr. Zervis:

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

Our review found that the RDA transferred \$10,839,137 in assets after January 1, 2011, including unallowable transfers to the City totaling \$2,622,901, or 24.20% of the transferred assets.

However, the following corrective actions have taken place:

- On December 9, 2013, the City turned over \$1,051,005 in real property to the Successor Agency.
- On August 5, 2014, the City turned over \$1,438,610 in real property to the Successor Agency.
- On December 20, 2013, the City remitted \$382,459 (\$133,286 in book value and \$249,173 in proceeds from the sale of property) to the Kern County Auditor-Controller.

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/mh

cc: Jim Zervis, Administrative Services Director
City of Shafter
Silvia Granillo, Accounting Manager
City of Shafter
John D. Guinn, Chairman
Oversight Board
Shafter Community Development/Successor Agency
Mary B. Bedard, CPA, Auditor-Controller-County Clerk
County of Kern
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Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Shafter Community Development 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 \$10,839,137 in assets after January 1, 2011, including unallowable transfers to the City totaling \$2,622,901, or 24.20% of the transferred assets.

However, the following corrective actions have taken place:

- On December 9, 2013, the City turned over \$1,051,005 in real property to the Successor Agency.
- On August 5, 2014, the City turned over \$1,438,610 in real property to the Successor Agency.
- On December 20, 2013, the City remitted \$382,459 (\$133,286 in book value and \$249,173 in proceeds from the sale of property) to the Kern County Auditor-Controller.

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 Shafter Community Development Agency transferred \$10,839,137 in assets after January 1, 2011, including unallowable transfers to the City of Shafter (City) totaling \$2,622,901, or 24.20% of the transferred assets.

However, the following corrective actions have taken place:

- On December 9, 2013, the City turned over \$1,051,005 in real property to the Successor Agency.
- On August 5, 2014, the City turned over \$1,438,610 in real property to the Successor Agency.
- On December 20, 2013, the City remitted \$382,459 (\$133,286 in book value and \$249,173 in proceeds from the sale of property) to the Kern County Auditor-Controller.

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**

At an exit conference on January 16, 2014, we discussed the review results with Jim Zervis, Administrative Services Director, who agreed with the review results. Mr. Zervis further agreed that a draft review report was not necessary and that the report could be issued as final.

Restricted Use

This report is solely for the information and use of the City of Shafter, 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

September 2, 2014

Finding and Order of the Controller

**FINDING—
Unallowable asset
transfers to the
City of Shafter**

The Shafter Community Development Agency (RDA) made unallowable asset transfers of \$2,622,901 to the City of Shafter (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 asset transfers were as follows:

- On March 11, 2011, the RDA transferred \$1,184,291 in capital assets to the City. The transfer consisted of various parcels of land. Additionally, on December 5, 2012, the City sold one of the properties transferred (APN 028-180-71) with a book value of \$133,286.
- On March 15, 2011, the RDA transferred \$1,438,610 in capital assets to the City. The transfer consisted of RDA low- and moderate-income housing capital assets.

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 to H&S Code section 34167.5, the City of Shafter is ordered to reverse the transfers in the amount of \$2,622,901 and turn over the assets to the Successor Agency. However, on December 9, 2013, and August 5, 2014, the City turned over \$1,051,005 and \$1,438,610, respectively, to the Successor Agency. Furthermore, on December 20, 2013, the City remitted \$382,459 (\$133,286 in book value and \$249,173 in proceeds from the sale of property) to the Kern County Auditor-Controller. Therefore, no further action is necessary.

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

Capital Assets – March 11, 2011

Address/Description	APN	
Skate Park	028-180-47	\$ —
PM #9901 Parcel #2 - Vacant Lot	089-230-45	12,611
PM #9800 Parcel #1 - Sump	089-230-18	21,079
PM #9901 Parcel #3 - Vacant Lot	089-230-43	22,772
Railroad Parkway Strip CVH	027-380-05	47,515
PM #10276 Parcel #2 - Vacant Lot – Sump	028-180-70	57,807
336 Central-Downtown Park	027-240-14	80,403
PM #10276 Parcel #2 - Vacant Lot	028-180-72	89,855
Railroad Parkway Strip CVH	027-360-07	93,485
PM #10276 Parcel #2 - Vacant Lot	028-180-71	133,286
Cemex Lot	091-180-18	625,478
		1,184,291

Housing Assets – March 15, 2011

Address/Description	APN	
Residential Lot	026-720-02	90,344
Residential Lot	026-720-03	90,344
Residential Lot	026-720-04	90,344
Residential Lot	026-720-05	90,344
Residential Lot	026-720-06	90,344
Residential Lot	026-720-07	90,344
Residential Lot	026-720-08	90,344
Residential Lot	026-720-09	90,344
Residential Lot	026-720-10	90,343
Residential Lot	026-720-11	90,343
Residential Lot	026-720-12	90,343
Residential Lot	026-720-13	90,343
Residential Lot	026-720-14	90,343
Residential Lot	028-251-07	75,227
Residential Lot	028-251-08	75,227
Residential Lot	028-252-21	12,505
Residential Lot	028-252-22	101,184
		1,438,610

Total unallowable transfers - City of Shafter

2,622,901¹

Less: capital assets turned over to the Successor Agency on December 9, 2013

(1,051,005)

Housing assets turned over to the Successor Agency on August 5, 2014

(1,438,610)

Cash remitted to the Kern County Auditor-Controller

Proceeds from the sale of a property sold to a third party on December 5, 2012 (book value)

(133,286)

Total transfers subject to H&S code section 34167.5

\$ —

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