

PLEASANT HILL REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

July 2013



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California State Controller

July 15, 2013

June Catalano, City Manager
City of Pleasant Hill Redevelopment/Successor Agency
100 Gregory Lane
Pleasant Hill, CA 94523

Dear Mr. Catalano:

Pursuant to Health and Safety Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Pleasant Hill Redevelopment Agency (RDA) to the City of Pleasant Hill 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 it should be turned over to the Pleasant Hill Redevelopment 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 of Pleasant Hill or any other public agencies have been reversed.

Our review found that the RDA transferred \$13,551,567 in assets after January 1, 2011, including unallowable transfers of assets totaling \$3,166,094, or 23.4%, of the transferred assets. However, on November 18, 2012, the City of Pleasant Hill returned \$3,166,094 in cash to the Successor Agency. Therefore, no further action is required.

If you have any questions, please contact Steven Mar, Bureau Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

cc: Robert Stewart, Redevelopment Administrator
City of Pleasant Hill Redevelopment/Successor Agency
Mary McCarthy, Finance Director
Pleasant Hill Redevelopment Successor Agency
Robert R. Campbell, Auditor-Controller
County of Contra Costa
Matt Regan, Oversight Board Chairman
City of Pleasant Hill Redevelopment Successor Agency
Steve Szalay, Local Government Consultant
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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 Pleasant Hill 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 \$13,551,567 in assets after January 1, 2011, including unallowable transfers of assets totaling \$3,166,094, or 23.4%, of the transferred assets. However, on November 18, 2012, the City of Pleasant Hill returned \$3,166,094 in cash to the Successor Agency. Therefore, no further action is required.

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 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 Code (H&S Code) beginning with section 34161.

In accordance with the requirements of H&S Code section 34167.5, the State Controller is required to review the activities of redevelopment agencies (RDAs), "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," and the date on which the RDA ceases to operate, or January 31, 2012, whichever is earlier.

The SCO has identified transfers of assets that occurred after January 1, 2011, between the RDA, the City of Pleasant Hill, and/or other public agencies. 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 order to ensure compliance with this order.

Objectives, 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 operations and procedures.
- Reviewed meeting minutes, resolutions, and ordinances of the RDA, the City of Pleasant Hill, and the Oversight Board for Successor Agency.
- 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 \$13,551,567 in assets after January 1, 2011, including unallowable transfers of assets totaling \$3,166,094, or 23.4%, of the transferred assets. However, on November 18, 2012, the City of Pleasant Hill returned \$3,166,094 in cash to the Successor Agency. Therefore, no further action is required.

Details of our findings are in the Finding and Order of the Controller section of this report.

View of Responsible Officials

At an exit conference on April 18, 2013, we discussed the review results with Robert Stewart, Redevelopment Administrator and Mary McCarthy, Finance Director of the City of Pleasant Hill, who agreed with the audit results. Mr. Stewart and Ms. McCarthy further agreed that a draft audit 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 Successor Agency, the Successor Agency 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

July 15, 2013

Finding and Order of the Controller

FINDING 1— Unallowable asset transfer to the City of Pleasant Hill

The Pleasant Hill Redevelopment Agency (RDA) transferred \$3,166,094 in assets to the City of Pleasant Hill (City). All of the asset transfers to the City occurred after January 1, 2011. These assets were not contractually committed to a third party prior to June 28, 2011.

On March 10, 2011, the RDA transferred \$3,166,094 in surplus cash as “prepayment” on 15 future construction projects. This transfer was accomplished in accordance with the March 9, 2011 City Resolution No. 19-11 and RDA Resolution No. 785-11 during a special joint meeting.

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 section 34177 (d) and (e). However, it appears that some of those assets also may be subject to the provisions of H&S Code section 34181(a). H&S Code section 34181(a) states:

The oversight board shall direct the successor agency to do all of the following:

- (a) Dispose of all assets and properties of the former redevelopment agency that were funded by tax increment revenues of the dissolved redevelopment agency; provided however, that the oversight board may instead direct the successor agency to transfer ownership of those assets that were constructed and used for a government purpose, such as roads, school buildings, parks, and fire stations, to the appropriate public jurisdiction pursuant to any existing agreements relating to the construction or use of such as asset....

Order of the Controller

Based on H&S Code section 34167.5, the Successor Agency would have been ordered to return the above assets, described in Schedule 1, in the amount of \$3,166,094, and return them to the Successor Agency. However, on November 18, 2012, the City of Pleasant Hill returned \$3,166,094 in cash to the Successor Agency. Therefore, no further action is required.

**Schedule 1—
RDA Assets Transferred to
the City of Pleasant Hill
January 1, 2011, through January 31, 2012**

Unallowable transfers to the City of Pleasant Hill

Current Assets

Cash	\$ 3,166,094 ¹
Cash returned to the RDA on November 18, 2012	<u>(3,166,094)</u>
Total unallowable transfers—City of Pleasant Hill	<u><u>\$ —</u></u>

¹ See the Finding and Order of the Controller section.

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