



JOHN CHIANG
California State Controller

October 17, 2013

Kim Sarkovich, CFO
City of Rocklin
3970 Rocklin Road
Rocklin, CA 95677

Dear Ms. Sarkovich:

Pursuant to Health and Safety (H&S) Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Rocklin Redevelopment Agency (RDA) to the City of Rocklin 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 Rocklin 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 Rocklin or any other public agencies have been reversed.

Our review found that the RDA transferred \$11,146,086 in non-housing assets after January 1, 2011, including unallowable transfers of assets totaling \$962,261, or 8.63% of the assets transferred. However, on September 11, 2013, and July 13, 2013, the City took corrective action, so no further action is required in regards to the non-housing assets. Additionally, the former RDA's housing assets of \$11,470,667 were not yet transferred to any successor agency. Those assets must be turned over to the Successor Agency for disposition in accordance with H&S Code sections 34177(d) and (e) and 34181.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

Attachment

cc: Andrew Sisk, Auditor-Controller
Placer County
Jerry Mitchell, Chair
Oversight Board
David Botelho, Program Budget Manager
California Department of Finance
Richard J. Chivaro, Chief Legal Counsel
State Controller's Office
Scott Freesmeier, Audit Manager
Division of Audits, State Controller's Office
John Mellas, Auditor-in-Charge
Division of Audits, State Controller's Office

ROCKLIN REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

October 2013

Contents

Review Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Views of Responsible Official	2
Restricted Use	3
Findings and Orders of the Controller	4
Schedule 1—Unallowable RDA Assets Transferred to the City of Rocklin	7
Schedule 2—Housing Assets Not Transferred	8
Attachment—City’s Response to Draft Review Report	

Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Rocklin 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 \$11,146,086 in non-housing assets after January 1, 2011, including unallowable transfers of assets totaling \$962,261, or 8.63% of the assets transferred. However, on September 11, 2013, and July 13, 2013, the City took corrective action, so no further action is required in regards to the non-housing assets. Additionally, the former RDA's housing assets of \$11,470,667 were not yet transferred to any successor agency. Those assets must be turned over to the Successor Agency for disposition in accordance with H&S Code sections 34177(d) and (e) and 34181.

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 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 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 Rocklin RDA, the City of Rocklin, 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.

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 operations and procedures.
- Reviewed meeting minutes, resolutions, and ordinances of the City Council, RDA, and 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 \$11,146,086 in non-housing assets after January 1, 2011, including unallowable transfers of assets totaling \$962,261, or 8.63% of the assets transferred. However, on September 11, 2013, and July 13, 2013, the City took corrective action, so no further action is required in regards to the non-housing assets. Additionally, the former RDA's housing assets of \$11,470,667 were not yet transferred to any successor agency. Those assets must be turned over to the Successor Agency for disposition in accordance with H&S Code sections 34177(d) and (e) and 34181.

Details of our findings are in the Findings and Orders of the Controller section of this report. We also have included a detailed schedule of assets to be turned over to, or transferred to, the Successor Agency.

Views of Responsible Officials

We issued a draft review report on August 29, 2013. Mary Rister, Finance Director, responded by letter dated September 12, 2013. The City of Rocklin'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 Rocklin, 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

October 17, 2013

Findings and Orders of the Controller

FINDING 1— Unallowable loan payments to the City of Rocklin

The State Controller's Office (SCO) noted that the RDA made installment loan repayments to the City during the dissolution period of January 1, 2011, to February 1, 2012. The SCO considers the loan repayments to the City to be unallowable asset transfers.

In 2007, the RDA purchased a building and land parcel, located at 4980 Granite Drive in Rocklin, at a cost of approximately \$3.7 million. The RDA entered into a long-term lease in 2010 with Placer County for the County's use of the building as the Rocklin Branch of the Placer County Library.

To finance the purchase, the RDA borrowed funds from the City and entered into a loan agreement for \$1,408,708. The loan agreement was approved by the RDA Board (Resolution No. 2011-414 RDA) on January 25, 2011. Its terms pledged tax increment funds and included a payment schedule that required annual payments from June 30, 2011, to June 30, 2017. The first scheduled payment of June 30, 2011, was made for \$192,261. The RDA also made two additional pre-payments to the City as follows:

- \$200,000 on February 28, 2011
- \$110,000 on April 30, 2011

A combined total of \$502,261 was paid to the City in repayment of the loan.

Order of the Controller

Based on Health and Safety (H&S) Code section 34167.5, the City of Rocklin is ordered to reverse the transfer of the above assets, in the amount of \$502,261, and turn them over to the Rocklin Redevelopment Successor Agency. The Successor Agency is directed to properly dispose of the assets in accordance with H&S Code section 34177. Upon receiving a Department of Finance (DOF) Finding of Completion, the Successor Agency may be allowed to place loan agreements between the former RDA and sponsoring entity on the Recognized Obligation Payment Schedule (ROPS), as an enforceable obligation, provided that the Oversight Board finds that the loan was for legitimate redevelopment purposes per H&S Code section 34191.4 (b)(1).

However, on September 11, 2013, the funds were transferred back to the Bond Fund; therefore, no further action is required. The asset details, as of January 31, 2012, are presented in Schedule 1.

City's Response

Per the State Controller's Order, the City has transferred the \$192,261 to the Successor Agency. Regarding the \$200,000 and \$110,000 payments which were made from legally restricted bond proceeds, these payments have been transferred back to the bond fund to be expended in a manner consistent with the original bond covenants. The transfers were documented by a journal entry, dated September 11, 2013.

SCO's Response

The finding remains as stated. However, the Order of the Controller has been modified to reflect the corrective action taken by the City on September 11, 2013.

**FINDING 2—
Unallowable loan
to city**

On March 8, 2011, the RDA loaned \$460,000 to the City of Rocklin Public Financing Authority (RPFA) to provide gap financing for the Croftwood Sewer Lift Station Project. The RPFA is a component unit of the City of Rocklin.

Order of the Controller

Based on H&S Code section 34167.5, the City of Rocklin is ordered to turn over cash in the amount of \$460,000 to the Successor Agency. The Successor Agency is directed to properly dispose of the assets in accordance with H&S Code section 34177. However, on July 13, 2013, the funds were transferred back to the Bond Fund; therefore, no further action is required. The asset details, as of January 31, 2012, are presented in Schedule 1.

City's Response

The \$460,000 loan was made from legally restricted bond proceeds to the Rocklin Public Finance Authority (RPFA) and the RPFA transferred the \$460,000 back to the bond fund as directed by the Department of Finance in their April 27, 2013 letter. The transfers were documented by a journal entry, dated July 13, 2013.

SCO's Response

The finding remains as stated. However, the Order of the Controller has been modified to reflect the corrective action taken by the City on July 13, 2013.

**FINDING 3—
Housing assets not
transferred to
Successor Agency**

The RDA held a total of \$11,470,667 in Low to Moderate Income Housing fund assets at January 31, 2012. These assets have not been transferred to the Successor Agency. On January 24, 2012, by resolution (Resolution No. 2012-15), the City Council elected to not retain responsibility for performing housing functions previously performed by the RDA. The Successor Agency Oversight Board has continued to seek transfer of housing assets to both the County of Placer Housing Authority and the State of California Department of Housing and Community Development.

H&S Code section 34175(b) states:

All assets, properties, contracts, leases, books and records, buildings, and equipment of the former redevelopment agency are transferred on February 1, 2012, to the control of the successor agency, for administration pursuant to the provisions of this part. This includes all cash or cash equivalents and amounts owed to the redevelopment agency as of February 1, 2012.

Order of the Controller

Based on H&S Code section 34167.5, the City of Rocklin is ordered to transfer all former RDA assets in the Low and Moderate Income Housing Fund to designated Successor Agency funds for custodial control, as an interim measure, pending a final determination of an agency to assume responsibility for the housing functions previously administered by the RDA. The asset details, as of January 31, 2012, are presented in Schedule 2.

The Successor Agency is directed to administer the housing responsibilities until it is able to transfer them, with approval of the Oversight Board, pursuant to H&S Code section 34181(c).

City's Response

The City of Rocklin protests the authority of the State Controller's Office to order the City of Rocklin acting as the Successor Agency to assume responsibility for the housing functions.

SCO's Response

The City exercised the provision of H&S Code section 34176(b) in making an election not to retain responsibility for performing housing functions previously performed by the RDA. The SCO recognized the City made this election properly, as provided by Code. Until a housing successor is named, however, the assets must be maintained in custody of the Successor Agency (City acting as Successor).

The Finding and Order of the Controller remains as stated.

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

Cash (installment and advance loan payments to the City)	\$ 502,261
Cash (loan to the City Public Financing Authority)	<u>460,000</u>
Total unallowable assets transferred	<u>\$ 962,261</u>

**Schedule 2—
Housing Assets Not Transferred
January 1, 2011, through January 31, 2012**

Cash and investments	\$ 50,953
Loans receivable	<u>11,419,714</u>
Total housing assets not transferred	<u>\$ 11,470,667</u>

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



City of Rocklin

3970 Rocklin Road
Rocklin, California 95677-2720
O | 916.625.5000
F | 916.625.5095
www.rocklin.ca.us

September 12, 2013

Steven Mar, Chief
Local Government Audits Bureau
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Mar,

The City of Rocklin (City) has received and reviewed the State Controller's Asset Transfer Review Report (Draft) on the Rocklin Redevelopment Agency.

With regard to Finding 1: Per the State Controller's Order, the City has transferred the \$192,261 to the Successor Agency. Regarding the \$200,000 and \$110,000 payments which were made from legally restricted bond proceeds, these payments have been transferred back to the bond fund to be expended in a manner consistent with the original bond covenants.

Regarding Finding 2: The \$460,000 loan was made from legally restricted bond proceeds to the Rocklin Public Finance Authority (RPFA) and the RPFA transferred the \$460,000 back to the bond fund as directed by the Department of Finance in their April 27, 2013 letter.

Regarding Finding #3: The City of Rocklin protests the authority of the State Controller's Office to order the City of Rocklin acting as Successor Agency to assume responsibility for the housing functions. Per H&S Code section 34176 (b) the City elected not to retain responsibility for performing housing functions previously performed by the Agency. Responsibility for the housing functions belongs to the Department of Housing and

Information 916.625.5000

Administrative Services 916.625.5000 • City Hall 916.625.5560 • Community Development 916.625.5100
Community Services & Facilities 916.625.5200 • Fire 916.625.5300 • Police 916.625.5400 • Public Works 916.625.5500



City of Rocklin

3970 Rocklin Road
Rocklin, California 95677-2720
O | 916.625.5000
F | 916.625.5095
www.rocklin.ca.us

Community Development or the appropriate Housing Authority pursuant to H&S section 34176 (b).

Sincerely,

A handwritten signature in blue ink that reads "Mary Rister".

Mary Rister
Finance Officer
City of Rocklin

Information 916.625.5000

Administrative Services 916.625.5000 • City Hall 916.625.5560 • Community Development 916.625.5100
Community Services & Facilities 916.625.5200 • Fire 916.625.5300 • Police 916.625.5400 • Public Works 916.625.5500

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

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