

# **ROSEVILLE REDEVELOPMENT AGENCY**

## **ASSET TRANSFER REVIEW**

### **Review Report**

*January 1, 2011, through January 31, 2012*



**JOHN CHIANG**  
California State Controller

November 2013



**JOHN CHIANG**  
**California State Controller**

November 21, 2013

Ray Kerridge, City Manager  
City of Roseville/Successor Agency  
311 Vernon Street  
Roseville, CA 95678

Dear Mr. Kerridge:

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

Our review found that the RDA transferred \$40,889,781 in assets after January 1, 2011. These included unallowable transfers of assets totaling \$10,783,249, or 26.37% in current assets, that must be turned over to the Successor Agency.

If you have any questions, please contact Elizabeth Gonzalez, Chief, Local Government Compliance Bureau, by phone at (916) 324-0622.

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD, CPA**  
Chief, Division of Audits

JVB/kw

cc: Melissa Hogan, Financial Analyst  
City of Roseville  
Jan Shonkwiler, Housing Programs Manager  
City of Roseville  
John Allard, Oversight Board Chair  
Roseville Redevelopment Successor Agency  
Andrew C. Sisk, Auditor-Controller  
County of Placer  
David Botelho, Program Budget Manager  
California Department of Finance  
Richard J. Chivaro, Chief Legal Counsel  
State Controller's Office  
Elizabeth Gonzalez, Bureau Chief  
Division of Audits, State Controller's Office  
Betty Moya, Audit Manager  
Division of Audits, State Controller's Office  
Nesha Neycheva, Auditor-in-Charge  
Division of Audits, State Controller's Office  
Anita Bjelobrk, Auditor  
Division of Audits, State Controller's Office  
Mathew Rios, Auditor  
Division of Audits, State Controller's Office

# Contents

## Review Report

|   |    |
|---|----|
| <b>Summary</b> .....  | 1  |
| <b>Background</b> .....   | 1  |
| <b>Objective, Scope, and Methodology</b> .....  | 2  |
| <b>Conclusion</b> .....   | 2  |
| <b>Views of Responsible Official</b> .....  | 2  |
| <b>Restricted Use</b> .....   | 2  |
| <b>Findings and Orders of the Controller</b> .....  | 3  |
| <b>Schedule 1—Unallowable RDA Asset Transfers to the City of Roseville</b> .....                                      | 9  |
| <b>Schedule 2—Unallowable RDA Asset Transfers to the Roseville Community<br/>Development Corporation (RCDC)</b> ..... | 10 |
| <b>Attachment 1—City of Roseville’s Response to the Draft Review Report</b>   |    |
| <b>Attachment 2—SCO Revised Finding 1</b>   |    |
| <b>Attachment 3—City of Roseville’s Response to Revised Finding 1 of Draft Review Report</b>                          |    |

# Asset Transfer Review Report

## Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Roseville 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 \$40,889,781 in assets after January 1, 2011. These included unallowable transfers of assets totaling \$10,783,249, or 26.37%, that must be turned over to the Roseville 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 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.

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 RDA, the City of Roseville, 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 of Roseville, the RDA, the Successor Agency, and the Roseville Community Development Corporation.
- 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 \$40,839,781 in assets after January 1, 2011. These included unallowable transfers of assets totaling \$10,733,249, or 26.28% in current assets, that must be turned over to the Successor Agency.

Details of our findings are in the Findings and Orders of the Controller section of this report.

## **Views of Responsible Official**

We issued a draft review report on May 7, 2013. Ray Kerridge, City Manager, responded by letter dated May 23, 2013, disagreeing with the review results. We issued a revision of Finding 1 on September 10, 2013. Mr. Kerridge responded by letter dated September 19, 2013. The city's responses are included in this final review report as an attachment.

## **Restricted Use**

This report is solely for the information and use of the City of Roseville, the Successor Agency, the Oversight Board, the Roseville Community Development Corporation, 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

November 21, 2013

# Findings and Orders of the Controller

## **FINDING 1— Unallowable asset transfer to the City of Roseville**

The Roseville Redevelopment Agency (RDA) made an unallowable asset transfer of \$7,314,200 in cash on January 31, 2012 to the City of Roseville for repayment of loans, as described in Schedule 1. The asset transfer occurred after January 1, 2011, and the asset was not contractually committed to a third party prior to June 28, 2011.

Health and Safety (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.

Pursuant to H&S Code section 34175(b) the RDA was required to transfer all assets, including housing assets, to the Successor Agency.

H&S Code section 34177(d) states:

Remit unencumbered balances of redevelopment agency funds to the county auditor-controller for distribution to the taxing entities, including, but not limited to, the unencumbered balance of the Low and Moderate Income Housing Fund of a former redevelopment agency . . . for allocation and distribution . . . [in accordance with] . . . Section 34188.

Pursuant to H&S Code section 34177(e) the “Successor Agency is to dispose of all former RDA assets . . . as directed by the oversight board. . .”

Pursuant to 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(e).

### Order of the Controller

Pursuant to H&S Code section 34167.5, the City of Roseville is ordered to reverse the transfer of assets in the amount of \$7,314,200, plus any interest earned, and to turn over the assets to the Successor Agency.

The Successor Agency is directed to properly dispose of those assets in accordance with H&S Code section 34177(e).

### City's Response to Draft Report

The city responded to an initial version of the Finding 1 in a letter dated May 23, 2013 (Attachment 1). The SCO issued a revised Finding 1 (Attachment 2) on September 10, 2013, and the City responded to the revision by letter dated September 19, 2013 (Attachment 3). The SCO's comments to the two responses are given below.

### City's May 23, 2013 Response

The City of Roseville does not agree with the SCO's order. See Attachment 1 for the City's official response.

### SCO Comments

The SCO agreed to reduce the total unallowable transfer of \$8,061,836 by \$797,636 due to a clerical error. The Order of the Controller remains as stated for the remaining cash transfer of \$7,264,200.

H&S Code section 34167.5, provides that 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).

### City's September 19, 2013 Response:

The city stated that on August 21, 2013, the unallowable asset transfer of \$7,314,200 in cash was turned over to the Successor Agency. See city's official response on Attachment 2.

### SCO Comments

The SCO acknowledges that the city has complied with revised Finding 1 by turning over the assets to the Successor Agency. The city provided documentation to the SCO showing the reversal of the asset transfers in the amount of \$7,304,420, which is \$9,780 less than amount ordered to be turned over to the Successor Agency. The city stated that the variance is due to the California Department of Finance's (DOF) due diligence report determination letter calculation, and that the city turned over the cash asset based on the DOF's letter.

It should be noted that the July 17, 2013 letter issued by the DOF to the City of Roseville regarding the DOF's review of the Due Diligence Report states:

Pursuant to HSC section 34167.5 and 34178.8, the California State Controller's Office (Controller) has the authority to claw back assets that were inappropriately transferred to the city, county, or any other public agency. Determinations outlined in this letter do not in any way eliminate the Controller's authority.

Therefore, the remaining assets, totaling \$9,780, must be turned over to the Successor Agency.

**FINDING 2—  
Unallowable asset  
transfers to the  
Roseville  
Community  
Development  
Corporation**

The RDA made five unallowable cash payments totaling \$3,469,049 to the Roseville Community Development Corporation (RCDC) for start-up costs, as described in Schedule 2. The asset transfers occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

The RCDC was created and the Articles of Incorporation signed on January 29, 2011. The initial Board of Directors and staff consisted of City Council members, and the corporate officers are City of Roseville/RDA employees. They are:

- Jim Gray, City Council
- John Sprague, City of Roseville
- Kevin Payne, City of Roseville

Health and Safety 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.

Pursuant to H&S Code section 34175(b) the RDA was required to transfer all assets, including housing assets, to the Successor Agency.

Pursuant to 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).

The city contends that the RCDC is a public nonprofit corporation created to provide “physical, economic and educational development throughout the community” and that transfers from the RDA to the RCDC are not prohibited under H&S Code section 34167.5.

However, H&S Code section 34167.10 states:

- (a) Notwithstanding any other law, for purposes of this part and Part 1.85 (commencing with Section 34170), the definition of a city, county, or city and county includes, but is not limited to, the following entities:
- (1) Any reporting entity of the city, county, or city and county for purposes of its comprehensive annual financial report or similar report.
  - (2) Any component unit of the city, county, or city and county.
  - (3) Any entity which is controlled by the city, county, or city and county, or for which the city, county, or city and county is financially responsible or accountable.

- (b) The following factors shall be considered in determining that an entity is controlled by the city, county, or city and county, and are therefore included in the definition of a city, county, or city and county for purposes of this part and Part 1.85 (commencing with section 34170):
- (1) The city, county, or city and county exercises substantial municipal control over the entity's operations, revenues, or expenditures.
  - (2) The city, county, or city and county have ownership or control over the entity's property or facilities.
  - (3) The city, county, or city and county and the entity share common or overlapping governing boards, or coterminous boundaries.
  - (4) The city, county, or city and county were involved in the creation or formation of the entity.
  - (5) The entity performs functions customarily or historically performed by municipalities and financed through levies of property taxes.
  - (6) The city, county, or city and county provide administrative and related business support for the entity, or assume the expenses incurred in the normal daily operations of the entity.
- (c) For purposes of this section, it shall not be relevant that the entity is formed as a separate legal entity, nonprofit corporation, or otherwise or is not subject to the constitution debt limitation otherwise applicable to a city, county, or city and county. The provisions in this section are declarative of existing law as the entities described herein are and were intended to be included within the requirements of this part and Part 1.85 (commencing with section 34170) and any attempt to determine otherwise would thwart the intent of these two parts.

The current relationship between the city and the RCDC is as follows:

- The RCDC financial statements are a part of the City of Roseville's Comprehensive Annual Financial Report (H&S Code section 34167.10(a)(1)).
- The city, county, or city and county have ownership or control over the RCDC's property or facilities (H&S Code section 34167.10(b)(2)).
- The city, county, or city and county were involved in the creation or formation of the RCDC (H&S Code section 34167.10(b)(4)).
- The RCDC's performs functions customarily or historically performed by municipalities and financed through levies of property taxes (H&S Code section 34167.10(b)(5)).
- The city, county, or city and county provide administrative and related business support for the RCDC, or assume the expenses incurred in the normal daily operations of the RCDC (H&S Code section 34167.10(b)(6)).

Therefore, the RCDC is considered part of the city for purposes of H&S Code section 34167.5.

#### Order of the Controller

Pursuant to H&S Code sections 34167.5 and 34167.10, the Roseville Community Development Corporation is ordered to reverse the transfers of cash in the amount of \$3,469,049, plus any interest earned, and turn the assets over to the Successor Agency.

The Successor Agency is directed to properly dispose of those assets in accordance with H&S Code sections 34177(d) and (e).

#### City's Response

The city disagreed with the SCO's order. See Attachment 1 for the city's official response.

#### SCO's Comments

The SCO acknowledges the city's clarification of the date on which the RCDC was formed and the Articles of Incorporation were recorded.

Regarding Jim Gray and his relationship with the RCDC, the SCO found that on October 3, 2012, Jim Gray was appointed as a board member to the RCDC per Agenda Item #8.1. Further, at the Roseville City Council meeting on October 28, 2010, Jim Gray, as a City Council member, was directly involved with, and approved the creation of the RCDC.

The city's analysis does not override the provisions of H&S Code section 34167.5, which requires the SCO to order the return of unallowable asset transfers from the RDA to the Successor Agency for disposition in accordance with the provisions of law.

Also, contrary to the city's assertion, the RCDC is controlled by the city, and H&S Code section 34167.10 applies to the RCDC. The city believes that some of the H&S Code factors do not apply in determining the relationship between the city and the RCDC. However, the creator of the RCDC is only one of six factors that must be considered to determine whether an entity is controlled by the city.

Specifically, H&S Code 34167.10(b) states that the following factors shall be considered in determining that an entity is controlled by the city, county, or city and county, and are therefore included in the definition of a city, county, or city and county:

1. The city, county, or city and county exercises substantial municipal control over the entity's operations, revenues, or expenditures.
2. The city, county, or city and county has ownership or control over the entity's property or facilities.
3. The city, county, or city and county and the entity share common or overlapping governing boards, or coterminous boundaries.

4. The city, county, or city and county was involved in the creation or formation of the entity.
5. The entity performs functions customarily or historically performed by municipalities and financed through levies of property taxes.
6. The city, county, or city and county provides administrative and related business support for the entity, or assumes the expenses incurred in the normal daily operations of the entity.

City control is achieved by Items (1), (3), and (4) above.

For Item (1), the city exercises substantial municipal control over the entity's operations, revenues, or expenditures. The RCDC's current Board of Directors member, Jim Gray, was a City Council Member when the RCDC was created.

For Item (3), the city and the RCDC share common or overlapping governing boards. As stated above, under item (1), the RCDC governing board members are composed of a past city council member and city staff.

For Item (4), the city, county, or city and county were involved in the creation or formation of the entity. Per the city's response, members of the RCDC's Board of Directors were appointed by the Roseville City Council. In addition, the Roseville City Council, at its meeting on October 20, 2010, authorized the formation of the RCDC.

The Finding and Order of the Controller remain as stated.

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

| Asset   | Transfer Date | Amount             |
|---|---------------|--------------------|
| Riverside project - loan repayment                                | 1/31/2012     | \$ 4,000,000       |
| Principal, 330 Vernon - loan repayment                            | 1/31/2012     | 1,050,000          |
| Interest payment to Vernon  | 1/31/2012     | 522,939            |
| Interest payment to Riverside                                     | 1/31/2012     | 39,723             |
| Automall project - loan repayment                                 | 1/31/2012     | 968,223            |
| Return of RCDC loan   | 1/31/2012     | 1,530,951          |
| Adjustment  |               | <u>(797,636)</u>   |
| Total RDA assets transferred to the City of Roseville             |               | 7,314,200          |
| Turned over to the Successor Agency                               |               | <u>(7,304,420)</u> |
| Total transfers subject to Health and Safety Code section 34167.5 |               | <u>\$ 9,780</u>    |

**Schedule 2—  
Unallowable RDA Assets Transfers to the  
Roseville Community Development Corporation (RCDC)  
January 1, 2011, through January 31, 2012**

---

| <u>Asset</u>                             | <u>Transfer Date</u> | <u>Amount</u>       |
|--|----------------------|---------------------|
| Start-up money for RCDC                  | 10/05/2011           | \$ 100,000          |
| Start-up money for RCDC                  | 08/30/2011           | 350,205             |
| Start-up money for RCDC                  | 09/06/2011           | 1,115,000           |
| Start-up money for RCDC                  | 12/02/2011           | 153,000             |
| Start-up money for RCDC                  | 01/13/2012           | <u>1,750,844</u>    |
| Total RDA assets transferred to the RCDC |                      | <u>\$ 3,469,049</u> |

**Attachment 1—  
City of Roseville’s Response to  
Draft Review Report**

---



City Manager  
311 Vernon Street  
Roseville, California 95678-2649

May 23, 2013

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

Dear Mr. Mar:

In response to the letter from the State Controller's Office dated May 7, 2013, regarding the Draft Roseville Redevelopment Agency Asset Transfer Review, the City of Roseville/Successor Agency is taking the opportunity to respond to the two findings outlined in the report within the 10 day period allowed by law.

The State Controller's Office (SCO) has identified a total of \$11,530,885 in unallowable transfers that occurred after January 1, 2011, between the Roseville Redevelopment Agency (RDA) and the City of Roseville (City) and through its Findings and Orders of the Controller, (H&S Code 34167.5) has ordered the City of Roseville to reverse those transfers and turn over the assets to the Successor Agency (Agency) whereby the Agency is then directed to properly dispose of those assets in accordance to H&S Code 34177(d) and (e).

The following discussion will attempt to provide the SCO with a detailed response to each of the two findings and include back up documentation that will hopefully support its case as to why the Agency disagrees in part with the SCO's findings as they relate to the legislation.

#### **Finding #1 – Unallowable Transfer of \$8,061,836**

In order to begin our discussion regarding the transfer, we are providing two tables that break out the total amount identified in Finding #1 (and presented in Schedule 1 of the Due Diligence Review), to identify the source of the funds in question which we believe is paramount to our case. In addition, we are providing other documentation:

- 1) a reversal in the general ledger in the amount of \$797,636 that had already been processed and presented to the auditors which reduces the total transferred to \$7,264,200 (Attachment #1);
- 2) the Council Communication staff report and resolution that supports the origin and nature of the funds that were transferred (Attachment #2; and #3);
- 3) the Council Communication staff report and resolution that support the documentation of the loans between the RDA and the City (Attachment #3 and #4).
- 4) Pages from the 2006A Bonds Official Statement indicating use of bond proceeds (Attachment #9)

The total transfer of \$8,061,836 needs to reflect a correction that was made, due to clerical error, to the original transfer in the amount of \$797,636. This amount was merely transferred to City in error and a

journal entry/correction was processed on January 31, 2012, returning the funds to the Agency and therefore bringing the total amount in question down to \$7,264,200.

In Table 1, the transfers for Line Item #2 and #3 were made using RDA unspent bond funds. Construction began on the projects sometime after the bonds proceeds were secured (2006). At that time, the RDA elected to reserve some of those bond funds for future planned projects as the City was willing to loan funds to the RDA from the City's Strategic Improvement Fund (a separate city general fund account. By the time that ABx1 26 had gone into effect and realizing that redevelopment activities would stop, the RDA decided to "swap" \$4,765,026 of the reserved bond funds for the aforementioned loans. Although the bond covenants do not restrict the use of the funds to particular projects, the entire downtown revitalization plan, which includes both of these streetscape projects, is clearly identified in the official statement discussion regarding the use of the bond proceeds (Attachment #9).

The first transfer in Table 2 was made using unspent City Strategic Improvement loan funds, returned to the City as cost savings for the Automall project which was completed under budget. These funds were originally a loan from the City to the Agency ("Automall Loan"). The Automall Loan was intended to be used specifically for this project and was not authorized to be used for any other Agency purpose.

The second transfer of \$1,530,951, "Return of RCDC Loan," will be discussed as part of Finding #2.

**Table 1**

| <b>Asset</b>  | <b>Source of Funds</b> | <b>Amount</b>      |
|---|------------------------|--------------------|
| 1-Correction to Transfer – Error                            | 2006A Bond Funds       | -797,636           |
| 2-Riverside Project – Principal and Interest Loan Payment   | 2006A Bond Funds       | \$4,039,723        |
| 3- Vernon St Project – Principal and Interest               | 2006A Bond Funds       | 1,522,939          |
| <b>Total Unspent Bond Funds Transferred to offset Loans</b> |                        | <b>\$4,765,026</b> |

**Table 2**

| <b>Asset</b>  | <b>Source of Funds</b> | <b>Amount</b>      |
|---|------------------------|--------------------|
| Automall Project Loan Payment                         | City General Fund      | \$968,223          |
| Return of RCDC Loan                                   | City General Fund      | 1,530,951          |
| <b>Total City Loan Funds Returned to offset Loans</b> |                        | <b>\$2,499,174</b> |
| <b>Grand Total</b>                                    |                        | <b>\$7,264,200</b> |

The Successor Agency is additionally maintaining that the \$4,765,026 in bond funds and \$968,223 in City funds do not fall under the definition of H&S Code 34162(a) and were not excess tax increment that would be due to the affected taxing entities per H&S Code 34177(d). The bond funds are protected by their covenants from being redistributed to the affected taxing entities and excess City Strategic Improvement loan funds, by their nature, would also not be subject to redistribution.

If the City returned the Automall cost savings to the Agency, the loan would increase thereby increasing the liability of the Agency. The Automall loan, which presently is on the Agency's ROPS as an enforceable obligation, is now eligible to be paid back with tax increment or any Agency funds. With the passage of AB1484 and with the Agency eligible to receive its Finding of Completion pending the requirements are fulfilled, the Agency would then be free to use the returned funds to again repay the Automall loan (the Oversight Board approved the reinstatement of all City to RDA loans on April 22, 2013). Because this process appears to be circular, the Agency is requesting that the funds remain with the City as a repayment on the loan.

That being said however, in order to comply with the requirements for the Successor Agency to receive its Finding of Completion, the City will reverse the transfer of the bond proceeds in the amount of \$4,765,026. The bonds will be held in reserve by the Agency until they can be used for their intended purpose.

**Finding #2 – Unallowable Transfer of \$3,469,049 (and Return of RCDC Loan \$1,530,951)**

The Roseville Community Development Corporation (RCDC) was formed in November of 2010 (Attachment #5 and #6) well before the January 2011 date specified by the ABX1 26. The RCDC is a not-for-profit public benefit corporation and was funded with a \$5 million startup loan from the RDA (Attachment #7). This startup loan to the RCDC was funded from a loan to the RDA from the City's Strategic Improvement Fund (Attachment #3 and Attachment #4). The RDA was acting as a mere conduit between the City and the RCDC and all of the funds originated from the City's Strategic Improvement Fund specifically for the RCDC. The five loan drawdowns that were processed totaled \$3,469,049. These funds were spent by the RCDC for property acquisitions, commercial loans and general and administrative costs associated with furthering the City, the RCDC and the RDA's goals as outlined in the staff reports (Attachment #5, #6 and #7).

To address other items discussed in the finding, the SCO report has outlined definitions and characterizations of the RCDC on pages 5 through 7 of the report to determine its relationship to the City. The Agency would like to provide clarification, for the record, on those items:

1. The RCDC was formed in October of 2010 (Attachment #5), not January 29, 2011;
2. The Articles of Incorporation (Attachment #10) were recorded on January 3, 2011, not January 29, 2011;
3. The initial Board of Directors is not comprised of City Council members however; it is appointed by the City Council and is a separate group of individuals from the business community. As a Board, they are able to exercise their independent judgment on all matters pertaining to the business of the RCDC.
4. Jim Gray is not a corporate officer of the RCDC nor is he a City employee.
5. Under the section outlining the current relationship criteria between the City and the RCDC there are five bullet points that were used to determine this relationship per H&S Code 34167.10:
  - a. Bullet Point # 2 is False; the City does not have ownership or control of the RCDC's properties;
  - b. Bullet Point #4 is False – the RCDC does not perform functions financed through the levy of property taxes.

The \$3,469,049 in cash advanced to the RCDC through the RDA has already been spent and therefore is not available to return to the Agency. The Agency contends that had the funds been directly loaned to the RCDC from the City in the first place (as was eventually done with the final \$1.5 million), this would not have been an issue to be challenged.

The "Return of RCDC Loan" in the amount of \$1,530,951, which is referenced in Finding #1, is the unspent balance of the original \$5 million loan authorized in Attachment #7. These funds, which originally came from the City's general fund, were returned to the City, thereby reducing the RDA/City loan (Attachment #2 and #4) to \$3,469,049 (plus accrued interest). The \$1,530,951 was eventually authorized to be directly loaned from the City to the RCDC in November of 2012 (Attachment #8) and wired to the RCDC in April of 2013. Consequently, there are no funds to return to the Agency. Additionally, the funds were general funds of the City not subject to redistribution to affected taxing entities.

**In Summary**

The Agency will request that the City reverse the bond transfer of \$4,765,026 as ordered by the SCO. The Agency will hold the funds in reserve. Upon receiving the Finding of Completion from the Department of Finance, the Agency will use the bond funds for their intended purpose per H&S Code 34191.4. Thank you for allowing the City of Roseville/Successor Agency to respond. Please don't hesitate to contact us if you have any questions.

Sincerely,

  
Ray Kerridge  
City Manager/Executive Director

**List of Attachments:**

- Attachment #1 – General Ledger transfer of \$797,636 from RDA to Strategic Improvement Fund (SIF)
- Attachment #2 – Budget Adjustment for Legally Enforceable Obligations and Ord 5022
- Attachment #3 – City of Roseville Strategic Improvement Fund Loan Documentation and Reso 11-52
- Attachment #4 – Ordinance 4906 Effecting transfer of \$5 million from SIF to RDA
- Attachment #5 – Roseville Community Development Corporation Formation and Reso 10-392
- Attachment #6 – Roseville Community Development Corporation Bylaws and Reso 10-425
- Attachment #7 – Advance Funding and Support Services Agreement and Reso 9-11
- Attachment #8 – Completion of Budget Adjustment for City/RCDC Loan and Ord 5124
- Attachment #9 – Pages from 2006A Bonds Official Statement

DDR Sched 1 picked up 8061,836 from the  
GL; \$50k difference in the principal for the  
Vernon Loan

0103-10-02  
0201-01



### SUCCESSOR AGENCY MEMO

*ORIGINAL*

# 4398

City Clerk Use Only

|                 |  |
|-----------------|--|
| <b>DATE:</b>    | January 18, 2012   |
| <b>TITLE:</b>   | Budget Adjustment for "Legally Enforceable Obligations"                      |
| <b>CONTACT:</b> | Kevin Payne, Assistant Director, (916) 774-5256 or<br>kpayne@roseville.ca.us |

Meeting Date: January 30, 2012

#### SUMMARY RECOMMENDATION

It is recommended that the Successor Agency take the following action:

1. Approve the requested budget adjustment of \$8,111,836 from the Redevelopment Agency's (Agency) project savings, 2006 tax-exempt bond funds and 2006 taxable bond funds to reimburse the City's Strategic Improvement Fund for loan funds extended to construct capital improvement projects in the redevelopment plan area and to fund the start-up loan for the Roseville Community Development Corporation; and,
2. Adopt the attached ordinance to be immediately effective as an appropriation measure to amend the 2011/12 budget.

#### BACKGROUND

At the City Council meeting of January 9, 2012, the Council elected to become the Successor Agency for the City of Roseville Redevelopment Agency (Attachment 1). As such, all of the assets, properties, contracts, leases and records of the Agency are now transferred to the Successor Agency. Subject to monitoring, and in some cases the approval of a future Oversight Board, the Successor Agency is responsible for the winding up of the Agency's obligation's and affairs.

In compilation of an amended Enforceable Obligation Payment Schedule (EOPS), consistent with Assembly Bill 1X-26, a review of the Agency's "legally enforceable obligations" has been undertaken. The results of this effort revealed that funds were allocated from the Strategic Improvement Fund (SIF) and the General Fund to assist in financing past Agency capital projects. The SIF is a General Fund account that is funded through development fees, not Tax Increment (T.I.). Associated with these actions are loan documents evidencing these "legally enforceable obligations".

These funds have been applied principally to capital improvement projects, but they were also utilized to provide the start-up funding for the Roseville Community Development Corporation (RCDC). The two capital improvement projects the SIF funds were expended on include the Automall Wall Façade and the Riverside Avenue Streetscape and Infrastructure project. The Automall Wall Façade project received \$3 million in loan funds and the Riverside Avenue Project received \$4 million in loan funds. In completing these projects there was approximately \$1 million in project savings. Since these funds were extended as a loan it is being recommended that these funds be transferred back to the City to pay down this debt.

Routing Approval:

     ASD      ACM      ATTY

**AGENDA ITEM**

# 4.1

In November of 2010, the Council authorized \$5 million from the SIF to fund the future operations and investments of the RCDC. A formal budget adjustment that transferred these funds in a form of a loan from the City to the Redevelopment Agency was acted upon as part of this past Council action. The purpose of this action was to establish the Redevelopment Agency as a conduit for the future loan from the Redevelopment Agency to the RCDC. In the course of the RCDC's work program approximately \$3.5 million dollars of these loan funds have been drawn down, to date. Since the remaining \$1.5 million dollars are an extension of the SIF funds in the form of a Redevelopment Agency loan, it is recommended that the remaining funds be reimbursed back to the City's SIF reducing the Redevelopment Agency debt.

The Redevelopment Agency has secured two past bond acquisitions (2002 and 2006). These bonds are comprised of both tax exempt and taxable bond funds with the purpose of providing capital improvements in the Downtown and developing affordable housing. As part of securing the bonds the Vernon Street Streetscape and Infrastructure and the Riverside Avenue Streetscape and Infrastructure projects were listed as projects that would be constructed utilizing these funds. In order to extend the Agency's funds and complete other desired projects in the plan area, the City provide loans to complete their construction. These funds were extended through the SIF and some General Fund monies. Both projects have loan documents in place between the City and the Agency. The proposed budget adjustment would pay-off these two loans utilizing the remaining tax-exempt and taxable bond funds that were secured in the 2006 bond allocation and a limited amount of project savings noted previously.

#### **DISCUSSION**

Section 34170.5(d)(2) of AB1X-26 is directed towards defining what is an "enforceable obligation". Per this provision, it states:

*..."enforceable obligations" does not include any agreements, contracts, or arrangements between the city, county, or city and county that created the redevelopment agency and the former redevelopment agency. However, written agreements entered into (A) at the time of issuance, but in no event later than December 31, 2010, of indebtedness obligations, and (B) solely for the purpose of securing or repaying those indebtedness obligations may be deemed enforceable obligations for purposes of this part. Notwithstanding this paragraph, loan agreements entered into between the redevelopment agency and the city, county or city and county that created it, within two years of the date of creation of the redevelopment agency, may be deemed to be enforceable obligations."*

The City Attorney's office has reviewed the loan agreements that are currently in place that secured the funding arrangements between the City and the Redevelopment Agency, with regard to this definition. Based on their legal opinion the contracts that are in place are considered to be "legally enforceable" contracts due to federal contract law.

Additionally, following the Supreme Court action staff met with the City Attorney, Bond Counsel and our Redevelopment Financial consultant to discuss the financial implications of AB1X-26. As part of this discussion, our bond counsel and consultant were of the opinion that the use of these funds to repay existing legally contracted debt and reimburse the City's SIF is appropriate. This conclusion is supported by the following:

- These are documented loans from the City to the Agency, as such they are contracts, as prescribed by federal contract law and are "legally enforceable obligations";
- These loans have been reflected in the past Agency's Statement of Indebtedness (SOI) to be paid by future Tax Increment;

- These loans have been consistently shown on the approved Enforceable Obligation Payment Schedule (EOPS);
- The Automall Wall Façade and Riverside Avenue projects received a combined total of \$7 million in SIF monies, so any project savings is a justified re-imbursement of this fund;
- Use of the bond funds to pay for debt incurred to construct capital improvements for projects that were called out as part of the bond issuance process is appropriate;
- Both the Vernon Street Streetscape and Infrastructure project and the Riverside Avenue Streetscape and Infrastructure were included in the projects for which bond funds would be utilized;
- The Vernon Street Streetscape and Infrastructure project and the Riverside Avenue Streetscape and Infrastructure have constructed significant capital improvements and comply with the provisions of the bond issuance;
- The repayment of these loans reduces the future payment towards the Agency's debt and therefore provides funding back to the State; and,
- This action is consistent with the purpose of AB1X-26 and the role of the Successor Agency.

Although there is some risk that the State could make a determination that these loan reimbursements are not consistent with the provisions of the law, our legal counsel is confident, for the reasons stated above, that they can be justified as "legally enforceable obligations".

The following provides a brief summary of the requested fund transfers and the debt that will be alleviated as part of these actions:

| <u>Resources</u>                | <u>Debt</u>         | <u>Available Funds</u> | <u>Transfer to SIF</u> | <u>Loan Balance</u> |
|---------------------------------|---------------------|------------------------|------------------------|---------------------|
| 2006 Bond Funds                 |                     | \$5,570,286            |                        |                     |
| Automall Project Savings – SIF  |                     | 320,059                |                        |                     |
| Riverside Project Savings – SIF |                     | 690,540                |                        |                     |
| RCDC Loan Proceeds - SIF        |                     | 1,530,951              |                        |                     |
| <u>Loans/Obligations*</u>       |                     |                        |                        |                     |
| RCDC Loan – SIF                 | \$5,000,000         |                        | (\$1,530,95)           | \$3,469,049         |
| Vernon Streetscape - Bonds      | 1,572,939           |                        | (1,572,939)            | \$0                 |
| Riverside Streetscape - Bonds   | 3,997,347           |                        | (3,997,347)            | \$0                 |
| Riverside Streetscape - SIF     | 42,376              |                        | (42,376)               | \$0                 |
| Automall Wall Façade - SIF      | 3,000,000           |                        | (968,223)              | \$2,031,777         |
| <b>TOTALS =</b>                 | <b>\$13,612,662</b> | <b>\$8,111,836</b>     | <b>-\$8,111,836</b>    | <b>\$5,500,826</b>  |

\*Note: Indicates the source used to pay down prior SIF or GF loans.

As shown in this table, the four prior loans made with SIF or GF monies will be affected as follows:

- **Loan #1 - RCDC Loan** – The Corporation has drawn down approximately \$3.5 million in funds from the original \$5,000,000 loan which will remain as debt. The remaining approximately \$1.5 million in funds will be transferred back to the SIF. Overall, RCDC future obligation will be approximately \$3.5 million.
- **Loan #2 – Vernon Streetscape Loan** – This \$1.5 million dollar General Fund loan will be completely paid off with the 2006 bond funds, including principal and interest.

- **Loan #3 - Riverside Streetscape Loan** – The \$4 million dollar loan for the Riverside Avenue Streetscape and Infrastructure project will be completely paid off through the use of the remaining 2006 bond funds and a portion of the project savings from the Riverside project. This loan pay-off includes both principal and interest completely eliminating this loan balance.
- **Loan #4 – Automall Wall Façade** – The original \$3 million dollar loan will be reduced by \$968,223, leaving a remaining loan balance of \$2,031,777.

The aforementioned actions reduce the debt obligations of the Redevelopment Agency accomplishing the directive of the Successor Agency in "unwinding" the business of the prior Agency. In achieving a reduction in future payments through the reallocation of past Tax Increment, it is recommended that the requested budget adjustment be approved.

**FISCAL IMPACT**

As the Successor Agency to the City of Roseville Redevelopment Agency this action supports the provisions of the "unwinding" provisions of AB1X-26. This action will reduce the Redevelopment Agency's debt obligations by \$8,111,836 and repay binding obligations to the City for past loan funds extended for the construction of capital improvements and start-up funds for the RCDC.

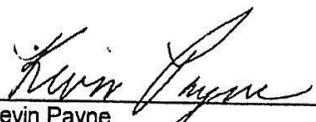
**ECONOMIC DEVELOPMENT/JOBS CREATED**

This action is in response to past legislation and a subsequent court action. The purpose is not to promote economic development or jobs, but to ease the burden on the State budget. The Successor Agency's role is to "unwind" the assets and reduce the revenue necessary to be diverted to pay down the Redevelopment Agency's debt.

**ENVIRONMENTAL REVIEW**

The California Environmental Quality Act (CEQA) does not apply to activities that will not result in a direct or reasonably foreseeable indirect physical change in the environment (CEQA Guidelines §15061(b) (3)). The reimbursement of SIF monies that are considered "legally enforceable obligations" does not include the potential for a significant environmental effect, and therefore is not subject to CEQA.

Respectfully submitted,

  
Kevin Payne  
Assistant Director

  
John Sprague  
Assistant City Manager

**APPROVED:**

  
Ray Kerridge  
City Manager

**Attachments:**

1. Resolution designating the City of Roseville the Successor Agency
2. Budget Adjustment Ordinance

RESOLUTION NO. 12-01

**ELECTING TO SERVE AS THE SUCCESSOR AGENCY TO THE REDEVELOPMENT  
AGENCY OF THE CITY OF ROSEVILLE PURSUANT TO CALIFORNIA HEALTH  
AND SAFETY CODE SECTION 34173**

WHEREAS, the Redevelopment Agency of the City of Roseville ("Agency") is a public body, corporate and politic, organized and existing under the California Community Redevelopment Law (Health & Safety Code §33000 *et seq.* ("CRL"); and

WHEREAS, the City of Roseville is a municipal corporation and charter city under the Constitution of the State of California ("City"); and

WHEREAS, on December 29, 2011, in *California Redevelopment Association v. Matosantos*, Case No. S194861, the California Supreme Court upheld Assembly Bill 1X26 (AB1X26), which dissolves all of the redevelopment agencies in California, and invalidated Assembly Bill 1x27, which would have allowed redevelopment agencies to remain in existence under certain conditions; and

WHEREAS, AB1X26 designates "successor agencies" to fulfill the enforceable obligations of the former redevelopment agencies and to perform other specified functions in the dissolution of redevelopment agencies; and

WHEREAS, the City Council has determined that it would be in the best interests of the community for the City of Roseville to serve as the successor agency to the Redevelopment Agency of the City of Roseville; and

WHEREAS, the City's affirmation election to serve as successor agency would eliminate any ambiguity or uncertainty in the interpretation and application of AB1X26 regarding designation of a successor agency and would facilitate performance of the successor agency's responsibilities;

<sup>1</sup> NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Roseville, California, as follows:

SECTION 1. The above recitals are true and correct and are adopted as the findings of the City Council.

SECTION 2. The City Council hereby affirmatively elects pursuant to Health and Safety Code Section 34173 that the City of Roseville shall serve as the successor agency to the Redevelopment Agency of the City of Roseville.

SECTION 3. The City Manager is hereby authorized and directed to execute documents and take such other and further actions as may be necessary and proper in order to implement this Resolution.

PASSED AND ADOPTED by the Council of the City of Roseville this 9th day of  
January, 2012, by the following vote on roll call:

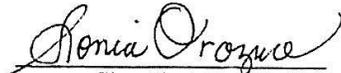
AYES COUNCILMEMBERS: Allard, Herman, Garcia, Rohan, Rocucci

NOES COUNCILMEMBERS: None

ABSENT COUNCILMEMBERS: None

  
MAYOR

ATTEST:

  
City Clerk

ORDINANCE NO. 5022

ORDINANCE OF THE COUNCIL OF THE CITY OF ROSEVILLE  
AUTHORIZING CERTAIN AMENDMENTS TO THE 2011-12  
BUDGET AND DECLARING THIS ORDINANCE TO BE IMMEDIATELY  
EFFECTIVE AS AN APPROPRIATION MEASURE

THE CITY OF ROSEVILLE ORDAINS:

SECTION 1. The City of Roseville Annual Budget, Fiscal Year 2011-12, is hereby amended by transferring an additional appropriation to and from the activities indicated below:

| <u>From:</u>  | <u>To:</u>   |                |
|---|--|----------------|
| 00110-3910<br>Riverside Avenue Loan Principal<br>Payoff | 00295-8910<br>Riverside Avenue Loan Principal<br>Payoff  | \$4,000,000.00 |
| 00100-3910<br>Vernon SS Loan Principal Payoff           | 00295-8910<br>Vernon SS Loan Principal Payoff            | \$1,050,000.00 |
| 00100-3102<br>Vernon SS Loan Interest Payoff            | 00295-8105<br>Vernon SS Loan Interest Payoff             | \$522,939.00   |
| 00110-3102<br>Riverside Avenue Loan Interest<br>Payoff  | 00295-8105<br>Riverside Avenue Loan Principal.<br>Payoff | \$39,723.00    |
| 00110-3910<br>Automall Wall Loan Principal<br>Payment   | 00295-8910<br>Automall Wall Loan Principal<br>Payment    | \$968,223.00   |
| 00110-3910<br>RCDC Loan Principal Return                | 00295-8910<br>RCDC Loan Principal Return                 | \$1,530,951.00 |
| 00295-3900<br>2006 Bond Proceeds                        | 00273-8900<br>2006 Bond Proceeds                         | \$5,570,286.00 |

SECTION 2. This ordinance is hereby declared to be an appropriation measure, immediately effective pursuant to the provisions of Section 5.03 of the Charter.

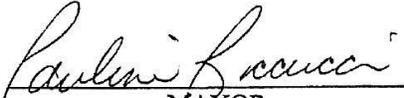
SECTION 3. The City Clerk is hereby authorized and directed to post a true copy of the foregoing ordinance in each of three (3) conspicuous locations in the City and she shall immediately after such posting enter in the ordinance book, under the record of the ordinance, a certificate under her hand stating the time and place of such publication by posting.

PASSED AND ADOPTED by the Council of the City of Roseville, this  
\_\_\_\_ 30th \_\_\_\_ day of \_\_\_\_ January \_\_\_\_, 20 12, by the following vote on roll call:

AYES COUNCILMEMBERS: Allard, Herman, Garcia, Rohan, Roccucci

NOES COUNCILMEMBERS: None

ABSENT COUNCILMEMBERS: None

  
MAYOR

ATTEST:

  
City Clerk



**CITY OF ROSEVILLE  
REQUEST FOR BUDGET ADJUSTMENT  
FINANCE DEPARTMENT**

Instructions: Fill in all requested information completely and accurately. When complete, print 3 copies for distribution to (1) Council Communication; (2) Budget Department; (3) Requesting Department

REQUESTER: Kevin Payne  
 DEPARTMENT: Redevelopment Agency  
 DATE OF PROPOSED COUNCIL ACTION: 1/30/2012

| USE OF FUNDS |                |        |      |         |          |                                      |
|--------------|----------------|--------|------|---------|----------|--------------------------------------|
| AMOUNT       | ACCOUNT NUMBER |        |      |         |          | Account Title/Activity Description   |
|              | GL             |        |      | JL      |          |                                      |
|              | ORG KEY        | OBJECT | FUND | PROJECT | ACTIVITY |                                      |
| \$ 4,000,000 | 00295          | 8910   |      |         |          | Riverside Ave Loan Principal Payoff  |
| \$ 1,050,000 | 00295          | 8910   |      |         |          | Vernon SS Loan Principal Payoff      |
| \$ 522,939   | 00295          | 8105   |      |         |          | Vernon SS Loan Interest Payoff       |
| \$ 39,723    | 00295          | 8105   |      |         |          | Riverside Ave Loan Interest Payoff   |
| \$ 968,223   | 00295          | 8910   |      |         |          | Automall Wall Loan Principal Payment |
| \$ 1,530,951 | 00295          | 8910   |      |         |          | RCDC Loan Principal Return           |
|              |                |        |      |         |          |                                      |
| \$ 8,111,836 | TOTAL          |        |      |         |          |                                      |

| SOURCE OF FUNDS |                |        |      |         |          |                                      |
|-----------------|----------------|--------|------|---------|----------|--------------------------------------|
| AMOUNT          | ACCOUNT NUMBER |        |      |         |          | Account Title/Activity Description   |
|                 | GL             |        |      | JL      |          |                                      |
|                 | ORG KEY        | OBJECT | FUND | PROJECT | ACTIVITY |                                      |
| \$ 4,000,000    | 00110          | 3910   |      |         |          | Riverside Ave Loan Principal Payoff  |
| \$ 1,050,000    | 00100          | 3910   |      |         |          | Vernon SS Loan Principal Payoff      |
| \$ 522,939      | 00100          | 3102   |      |         |          | Vernon SS Loan Interest Payoff       |
| \$ 39,723       | 00110          | 3102   |      |         |          | Riverside Ave Loan Interest Payoff   |
| \$ 968,223      | 00110          | 3910   |      |         |          | Automall Wall Loan Principal Payment |
| \$ 1,530,951    | 00110          | 3910   |      |         |          | RCDC Loan Principal Return           |
|                 |                |        |      |         |          |                                      |
| \$ 8,111,836    | TOTAL          |        |      |         |          |                                      |

APPROVED: *Andrew P. Bergquist* DATE: 1/24/2012  
BUDGET MANAGER / REQUESTER

Justification for Budget Adjustment:

*Kevin Payne*



**CITY OF ROSEVILLE  
REQUEST FOR BUDGET ADJUSTMENT  
FINANCE DEPARTMENT**

Instructions: Fill in all requested information completely and accurately. When complete, print 3 copies for distribution to (1) Council Communication; (2) Budget Department; (3) Requesting Department.

**REQUESTER:** Kevin Payne  
**DEPARTMENT:** Redevelopment Agency  
**DATE OF PROPOSED COUNCIL ACTION:** 1/30/2012

| USE OF FUNDS |                |        |      |         |          |                                    |
|--------------|----------------|--------|------|---------|----------|------------------------------------|
| AMOUNT       | ACCOUNT NUMBER |        |      |         |          | Account Title/Activity Description |
|              | GL             |        |      | JL      |          |                                    |
|              | ORG KEY        | OBJECT | FUND | PROJECT | ACTIVITY |                                    |
| \$ 5,570,286 | 00273          | 8900   |      |         |          | 2006 Bond Proceeds                 |
|              |                |        |      |         |          |                                    |
|              |                |        |      |         |          |                                    |
|              |                |        |      |         |          |                                    |
|              |                |        |      |         |          |                                    |
|              |                |        |      |         |          |                                    |
|              |                |        |      |         |          |                                    |
| \$ 5,570,286 | TOTAL          |        |      |         |          |                                    |

| SOURCE OF FUNDS |                |        |      |         |          |                                    |
|-----------------|----------------|--------|------|---------|----------|------------------------------------|
| AMOUNT          | ACCOUNT NUMBER |        |      |         |          | Account Title/Activity Description |
|                 | GL             |        |      | JL      |          |                                    |
|                 | ORG KEY        | OBJECT | FUND | PROJECT | ACTIVITY |                                    |
| \$ 5,570,286    | 00295          | 3900   |      |         |          | 2006 Bond Proceeds                 |
|                 |                |        |      |         |          |                                    |
|                 |                |        |      |         |          |                                    |
|                 |                |        |      |         |          |                                    |
|                 |                |        |      |         |          |                                    |
|                 |                |        |      |         |          |                                    |
| \$ 5,570,286    | TOTAL          |        |      |         |          |                                    |

*[Handwritten signatures and dates are present in this section, including "1/30/2012" and "1/30/2012".]*

Justification for Budget Adjustment:

*[This section is currently blank.]*

*[This section contains a large, dark, illegible stamp or signature.]*

ORDINANCE NO. 4906

ORDINANCE OF THE COUNCIL OF THE CITY OF ROSEVILLE  
AUTHORIZING CERTAIN AMENDMENTS TO THE 2010-2011  
BUDGET AND DECLARING THIS ORDINANCE TO BE IMMEDIATELY  
EFFECTIVE AS AN APPROPRIATION MEASURE

THE CITY OF ROSEVILLE ORDAINS:

SECTION 1. The City of Roseville Annual Budget, Fiscal Year 2010-2011, is hereby amended by transferring an additional appropriation to and from the activities indicated below:

| <u>From:</u>                          | <u>To:</u>   |                |
|---------------------------------------|--|----------------|
| 8910                                  | 3910   | \$5,000,000.00 |
| Transfer to RDA – Fund 295<br>Project | Transfer from Strategic Improvement<br>Fund for loan to Roseville Community<br>Development Corporation |                |

SECTION 2. This ordinance is hereby declared to be an appropriation measure, immediately effective pursuant to the provisions of Section 5.03 of the Charter.

SECTION 3. The City Clerk is hereby authorized and directed to post a true copy of the foregoing ordinance in each of three (3) conspicuous locations in the City and she shall immediately after such posting enter in the ordinance book, under the record of the ordinance, a certificate under her hand stating the time and place of such publication by posting.

PASSED AND ADOPTED by the Council of the City of Roseville, this 29<sup>th</sup>  
day of November, 2010 by the following vote on roll call:

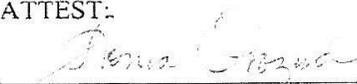
AYES COUNCILMEMBERS: Allard, Gray, Garcia, Roccucci, Garbolino

NOES COUNCILMEMBERS: None

ABSENT COUNCILMEMBERS: None

  
\_\_\_\_\_  
MAYOR

ATTEST:

  
\_\_\_\_\_  
City Clerk



**CITY OF ROSEVILLE  
REQUEST FOR BUDGET ADJUSTMENT  
FINANCE DEPARTMENT**

Instructions: Fill in all requested information completely and accurately. When complete, print 3 copies for distribution to (1) Council Communication, (2) Budget Department, (3) Requesting Department.

REQUESTER: Kevin Payne  
DEPARTMENT: Redevelopment Agency  
DATE OF PROPOSED COUNCIL ACTION:

| USE OF FUNDS |                |        |       |         |          |  |
|--------------|----------------|--------|-------|---------|----------|--|
| AMOUNT       | ACCOUNT NUMBER |        |       |         |          | Account Title/Activity Description   |
|              | GL             |        |       | JL      |          |  |
|              | ORG KEY        | OBJECT | FUND  | PROJECT | ACTIVITY |  |
| \$ 5,000,000 | 00295          | 3910   | 00295 |         |          | Transfer from Strategic Improvement Fund<br>for loan to Roseville Community Development<br>Corporation |
|              |                |        |       |         |          |  |
|              |                |        |       |         |          |  |
|              |                |        |       |         |          |  |
|              |                |        |       |         |          |  |
|              |                |        |       |         |          |  |
| \$ 5,000,000 | TOTAL          |        |       |         |          |  |

| SOURCE OF FUNDS |                |        |       |         |          |                                    |
|-----------------|----------------|--------|-------|---------|----------|------------------------------------|
| AMOUNT          | ACCOUNT NUMBER |        |       |         |          | Account Title/Activity Description |
|                 | GL             |        |       | JL      |          |                                    |
|                 | ORG KEY        | OBJECT | FUND  | PROJECT | ACTIVITY |                                    |
| \$ 5,000,000    | 00110          | 8910   | 00110 |         |          | Transfer to RDA - Fund 295         |
|                 |                |        |       |         |          |                                    |
|                 |                |        |       |         |          |                                    |
|                 |                |        |       |         |          |                                    |
|                 |                |        |       |         |          |                                    |
| \$ 5,000,000    | TOTAL          |        |       |         |          |                                    |

FINANCE USE: \_\_\_\_\_ Approved: Valerie DePaul Date: 11/22/2010  
BUDGET MANAGER/DESIGNEE

Justification for Budget Adjustment:  
Budget Adjustment to transfer \$5,000,000 from the Strategic Improvement Fund to the Redevelopment Agency in order to fund a loan from the Redevelopment Agency to the Roseville Community Development Corporation. Once the RDA loans the money to the CDC, interest will be based on the City's investment pool earnings as of January 1, 2011 plus 1 percent. The interest rate will be updated every five years. Payments are deferred for the first 10 years, with amortized payments starting on January 1, 2021 and final payment on January 1, 2031. Payments made by the RCDC will be passed through the Redevelopment Agency to the Strategic Improvement Fund.

|  |  |
|--|--|
| Approved: <u>John Drago</u><br>REQUESTING DEPARTMENT HEAD / DESIGNEE | Approved: <u>D. K.</u><br>CITY MANAGER |
|--|--|



**Attachment 2—  
SCO Revised Finding 1**

---

*Betty Moya*



**JOHN CHIANG**  
California State Controller

September 10, 2013

Ray Kerridge, City Manager  
City of Roseville/Successor Agency  
311 Vernon Street  
Roseville, CA 95678

Dear Mr. Kerridge:

The State Controller's Office has made a change to the findings in the draft redevelopment agency asset transfer review report dated May 7, 2013. This change was discussed with your staff in a phone conversation on July 18, 2013. A copy of the revised finding along with a revised Schedule 1 is enclosed.

Please submit any comments concerning the revised finding within 10 calendar days after you receive this letter. In particular, you should address the accuracy of our revised finding. We may modify the revised finding in the final report based on your comments. In the final report, we will include your comments regarding the revised finding, along with any other comments you previously provided regarding the other three findings included in the draft report.

Please send your response to Steven Mar, Chief, Local Government Audits Bureau, State Controller's Office, Division of Audits, Post Office Box 942850, Sacramento, California 94250-5874. If we do not receive your comments within the specified time, we will release the report, with the revised finding, as final.

The revised finding, like the original draft asset transfer review report, is confidential. We limit access to the revised finding and distribution to those referenced in the letter. However, when we issue the final report, it becomes a public record.

If you have any questions, please contact Mr. Mar by phone at (916) 324-7226.

Sincerely,

A handwritten signature in black ink that reads "Jeffrey V. Brownfield".

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/vb

Attachment

## Finding and Order of the Controller

**FINDING—  
Unallowable asset  
transfer to the City  
of Roseville**

The Roseville Redevelopment Agency (RDA) made an unallowable asset transfer of \$7,314,200 in cash on January 31, 2012 to the City of Roseville for repayment of loans, as described in Schedule 1. The asset transfers occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

Health and Safety (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." Pursuant to H&S Code section 34175(b) the RDA was required to transfer all assets, including housing assets, to the Successor Agency.

H&S Code section 34177(d) states, "Remit unencumbered balances of redevelopment agency funds to the county auditor-controller for distribution to the taxing entities, including, but not limited to, the unencumbered balance of the Low and Moderate Income Housing Fund of a former redevelopment agency . . . for allocation and distribution . . . [in accordance with] . . . Section 34188."

Pursuant to H&S Code section 34177(e) the "Successor Agency is to dispose of all former RDA assets" . . . as directed by the oversight board. . ."

Pursuant to 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).

### Order of the Controller

Pursuant to H&S Code section 34167.5, the City of Roseville is ordered to reverse the transfer of assets in the amount of \$7,314,200, plus any interest earned, and to turn over the assets to the Successor Agency.

The Successor Agency is directed to properly dispose of those assets in accordance with H&S Code sections 34177(d) and (e).

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

| <u>Asset</u>  | <u>Transfer Date</u> | <u>Amount</u>       |
|---|----------------------|---------------------|
| Riverside project - loan repayment                        | 1/31/2012            | \$ 4,000,000        |
| Principal, 330 Vernon - loan repayment                    | 1/31/2012            | 1,050,000           |
| Interest payment to Vernon                                | 1/31/2012            | 522,939             |
| Interest payment to Riverside                             | 1/31/2012            | 39,723              |
| Automall project - loan repayment                         | 1/31/2012            | 968,223             |
| Return of RCDC loan                                       | 1/31/2012            | <u>1,530,951</u>    |
| Total RDA assets transferred to the City of Roseville     |                      | 8,111,836           |
| Adjustments   |                      | <u>(797,636)</u>    |
| Total asset transfers subject to H&S code section 34167.5 |                      | <u>\$ 7,314,200</u> |

**Attachment 3—  
City of Roseville’s Response to  
Revised Finding 1 of Draft Review Report**

---



**City Manager**  
311 Vernon Street  
Roseville, California 95678-2649

September 19, 2013

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

Dear Mr. Mar:

This letter responds to your letter dated September 10, 2013, regarding the Draft Roseville Redevelopment Agency Asset Transfer Review and contains a revised Finding #1 (including revised Schedule #1) pertaining to an "unallowable asset transfer to the City of Roseville." We are taking this opportunity to respond within the 10 day comment period provided in your letter.

The City of Roseville has already complied with revised Finding #1 (Unallowable asset transfer to the City of Roseville - \$7,314,200) by reversing the asset transfer. The assets were returned to the Successor Agency on August 21, 2013.

We additionally take this opportunity to urge you to accept our explanation stated in our May 23, 2013, comment letter responding to draft Finding #2 (Unallowable asset transfer to the RCDC - \$3.4 million) as stated in your May 7, 2013, letter (received by City on May 13, 2013).

Please feel free to contact us if you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ray Kerridge".

Ray Kerridge  
City Manager / Executive Director

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

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