

# **GREENFIELD REDEVELOPMENT AGENCY**

## **ASSET TRANSFER REVIEW**

### Review Report

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



**JOHN CHIANG**  
California State Controller

August 2013



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California State Controller

August 1, 2013

Ann Rathbun, City Clerk/Finance Manager  
City of Greenfield Redevelopment Successor Agency  
599 El Camino Real  
Greenfield, CA 93927

Dear Ms. Rathbun:

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

Our review found that the Greenfield RDA transferred \$8,065,663 in assets, which included unallowable transfers of assets totaling \$1,182,000, or 14.65%, that must be turned over to the Successor Agency. Additionally, \$19,246,833 in RDA assets have not yet been transferred to the Successor Agency and must be transferred to the Successor Agency.

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/nh

Attachment

cc: Honorable Michael J. Miller, Auditor-Controller  
County of Monterey  
Roy Morris, Chairperson  
City of Greenfield Redevelopment Successor Agency Oversight Board  
Susan Stanton, City Manager  
City of Greenfield  
Steven Szalay, Local Government Consultant  
California Department of Finance  
Richard J. Chivaro, Chief Legal Counsel  
State Controller's Office  
Steven Mar, Bureau Chief  
Division of Audits, State Controller's Office  
Scott Freesmeier, Audit Manager  
Division of Audits, State Controller's Office  
Robert Brasfield, Auditor-in-Charge  
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 Greenfield 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 Greenfield RDA transferred \$8,065,663 in assets, which included unallowable transfers of assets totaling \$1,182,000, or 14.65%, that must be turned over to the Successor Agency. Additionally, \$19,246,833 of RDA assets have not yet been transferred to the Successor Agency and must be transferred to the Successor Agency for disposition in accordance with ABX1 26.

## 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 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 Greenfield RDA, the City of Greenfield, 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 Greenfield RDA and the City of Greenfield.
- 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 Greenfield RDA transferred \$8,065,663 in assets, which included unallowable transfers of assets totaling \$1,182,000, or 14.65%, that must be turned over to the Successor Agency. Additionally, \$19,246,833 of RDA assets have not yet been transferred to the Successor Agency and must be transferred to the Successor Agency.

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

## **Views of Responsible Officials**

We issued a draft review report on April 19, 2013. Susan Stanton, City Manager, responded by letter dated May 13, 2013, agreeing with the review results with the exception of Finding 2. The City of Greenfield'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 Greenfield Redevelopment Agency, the Successor Agency, the Oversight Board, the City of Greenfield, 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

August 1, 2013

# Findings and Orders of the Controller

## **FINDING 1— Assets not transferred to Successor Agency**

The Greenfield Redevelopment Agency (RDA) failed to transfer \$19,246,833 in assets to the Successor Agency by January 31, 2012. These assets included assets recorded in the former RDA Capital Projects Fund (Fund #420), construction-in-process projects and improvements listed on the RDA Fixed Asset Schedule, and a promissory note not recorded in the RDA accounting records (See Schedule 1).

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.

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.

All of the construction-in-process projects appear to be related to a governmental purpose. If so, their disposition would be governed by H&S Code section 34181, which 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 governmental 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 an asset...

In addition, the construction-in-process projects listed appear to be in progress, which indicates that H&S Code section 34177(i) may apply as well. Under that section, the Oversight Board is to "...continue to oversee development of properties until the contracted work has been completed or the contractual obligations of the former redevelopment agency can be transferred to other parties."

### Order of the Controller

Based on H&S Code section 34175 (b), the City of Greenfield is ordered to ensure that the remaining Greenfield RDA assets, which are described in Schedule 1, in the amount of \$19,246,833, be transferred to the Successor Agency. The Successor Agency is directed to properly dispose of these assets in accordance with H&S Code sections 34177(d), (e) and (i), and 34181(a).

### City of Greenfield's Response

The City agrees that it failed to transfer \$19,246,833 to the Successor Agency; this amount included assets recorded in the former Redevelopment Agency Capital Projects Fund (#420), construction-in-process, improvements listed on the RDA fixed-asset schedule, and an unrecorded promissory note.

The City stated the following in its response:

- The City will comply with the SCO's order to transfer all assets of the former RDA capital projects fund to a successor redevelopment capital project fund.
- The \$900,000 promissory note appears in the draft annual audit report prepared by the City's outside auditing firm; that report should be finalized in the next few days.
- The note would be repaid from the sale of the former police site, which was sold for \$575,000.
- The City will request that the Oversight Board reduce the amount owed for the promissory note from \$900,000 to \$575,000 which was the actual sales price of the former police site.

See the attachment for the City's full response.

### SCO's Comments

The City stated that it would transfer all assets of the former capital projects fund to a successor redevelopment capital projects fund. However, the city did not comment concerning the resolution of the construction-in-process and improvements listed on the RDA fixed asset schedule. These assets are also required to be transferred to the Successor Agency.

The Finding and Order of the Controller remains as stated.

## **FINDING 2— Ineligible real estate transfer to the City**

On June 24, 2011, the former RDA purchased real estate (a police station and Old City Hall) from the City at a cost of \$1,182,000; the purchase was recorded in the former RDA Capital Asset Fund (Fund #420). Pursuant to H&S Code section 34167.5, the RDA is prohibited from transferring funds to the city after January 1, 2011.

Order of the Controller

Based on H&S Code section 34167.5 the City of Greenfield is ordered to reverse the above transaction and return the proceeds of \$1,182,000 to the Successor Agency, and the Successor Agency is directed to return the properties to the City. The Successor Agency is also directed to properly dispose of those assets in accordance with H&S Code sections 34177(d) and (e).

City of Greenfield's Response

The City disagrees with the finding, as the transaction occurred before June 26, 2011. Specifically, the City's position is that the Legislature cannot retroactively invalidate transfers that took place prior to June 27, 2011. See the attachment for the City's full response.

SCO's Comments

Pursuant to H&S Code section 34167.5, if an asset transfer occurred after January 1, 2011, between the city that created the redevelopment agency and the redevelopment agency, and the asset was not contractually committed to a third party by the effective date of the law, which is June 28, 2011, the available asset must be returned to the Successor Agency.

The RDA transferred funds to the City after January 1, 2011; therefore, the asset transfer is unallowable under H&S Code section 34167.5.

The Finding and Order of the Controller remains as stated.

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**Schedule 1—  
Assets That Should Have Been  
Transferred to the Successor Agency  
January 1, 2011, through January 31, 2012**

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Capital Projects Fund #420 (excludes Property Held for Resale described in Finding 2)	\$ 7,875,063
Unrecorded Promissory Note	900,000
Construction in Process and Improvements	<u>10,471,770</u>
Total	<u>\$ 19,246,833</u>

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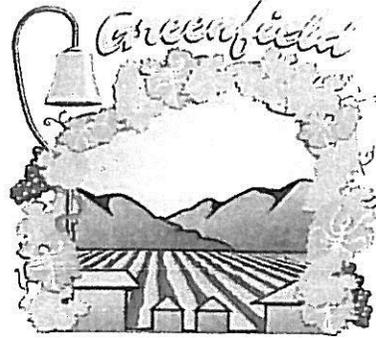
<sup>1</sup> See the Findings and Orders of the Controller section.

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

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May 13, 2013

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



Subject: Asset Transfer Review Report - Draft

Mr. Mar:

The City of Greenfield Successor Redevelopment Agency (City) received the draft report on April 25, 2013. Again, I'd like to thank you for providing a time extension for the City to provide comments relative to the draft report.

I will address the findings in the order presented in the report.

Finding #1 – The City failed to transfer assets totaling \$19,246,833. This amount includes assets recorded in the former Redevelopment Agency (RDA) Capital Projects Fund (#420), construction in progress and improvements listed on the RDA fixed asset schedule and an unrecorded promissory note.

Staff thought that because these were "bond proceeds" a successor agency fund need not be created in the same manner as the former RDA's administration, debt service and low & moderate income housing funds. These other successor agency funds were created effective 2/1/12 but due to some misinformation/misunderstanding similar treatment was given to the capital projects fund. It is important to note that this capital projects fund (#420) consists solely of bond proceeds and investment earnings on said funds. The City will comply with the State Controller's order to transfer all assets of the former RDA capital projects fund to a successor redevelopment capital projects fund (to become #425). Said transfer will be retroactively applied back to July 1, 2012.

With regards to the promissory note in the amount of \$900,000, this obligation does appear in the draft annual audit report prepared by the City's outside auditing firm. The audit should be finalized in the next few days. The City will follow up with a journal entry adjustment booking the note on the general ledger of the City. However, there are issues regarding the note.

It was always intended and there is language in the note itself that the note would be repaid from the sale of the former police site. The \$900,000 amount was the former city manager's best guessimate as to what the sale may bring. However, the actual sale was only for \$575,000, which should be the maximum amount owed pursuant to the promissory note. The sale price was determined by a third party licensed real estate appraiser. The parties to the sale were the former

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Redevelopment Agency (buyer) and the City (seller). It is important to note the purchase by the former RDA was made from bond proceeds.

Subject to Finding #2 below, it would appear that the City must repay a portion of the note equal to \$575,000 (the actual purchase price) from the sale proceeds. It is the City's intent to take the note to the Oversight Board and request that the Oversight Board authorize writing-off the difference as it was always intended that the note be equal to the sale price.

Should the property in question plus a second property that was similarly sold remain in successor agency ownership it would then be subject to disposal by sale with the proceeds being forwarded to the Monterey County Auditor-Controller for distribution as property taxes.

Finding #2 – The former RDA purchased real estate after January 1, 2011, the deadline for transferring assets of the former RDA to another agency or private party. Although escrow didn't close until June 24, 2011, the purchase was in the works for several months prior. It is important to note that the transfer was complete prior to the effective date of AB 1X 26.

It was and continues to be the City's position that the legislature cannot retroactively invalidate transfers that took place prior to June 27, 2011, the effective date of AB 1X 26. We suggest that the City and the State Controller's Office enter into a Tolling Agreement until the validity of the "claw-back" provisions of AB 1X 26 is resolved by the courts. The City entered into the sale agreement in a fully transparent fashion with the intent that both the City and former RDA would fully benefit. The City would be paid from bond proceeds not tax increment sources and the former RDA would have a valuable piece of property which may be developed to a higher, better use or sold providing the former RDA with cash resources to further implement the adopted Redevelopment Plan and project area.

Should the properties remain with the successor agency, they would be subject to re-sale with the proceeds being forwarded to the Monterey County Auditor-Controller for distribution to all taxing agencies. A win-win scenario for everyone. If the City is forced to unravel the transaction, there will be no funds to distribute to other taxing agencies and the return of the sale proceeds, bond proceeds, would be returned to the successor agency capital projects fund (new #425) and be spent in accordance with bond covenants and the purposes identified in the Official Statement.

In conclusion, the City disagrees with the finding as the transactions occurred before June 26, 2011 and respectfully request that this finding be removed from the final report.

We are hopeful that we can reach a common understanding on these issues and would welcome the opportunity to discuss this further by way of a conference call.

Respectfully,



Susan Stanton  
City Manager  
City of Greenfield

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

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