

LAKEWOOD REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

April 2014



JOHN CHIANG
California State Controller

April 4, 2014

Howard L. Chambers, City Manager
Lakewood Redevelopment/Successor Agency
5050 Clark Avenue
Lakewood, CA 90712

Dear Mr. Chambers:

Pursuant to Health and Safety Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Lakewood Redevelopment Agency (RDA) to the City of Lakewood (City) or any other public agency after January 1, 2011. This statutory provision states, "The Legislature hereby finds that a transfer of assets by a redevelopment agency during the period covered in this section is deemed not to be in furtherance of the Community Redevelopment Law and is thereby unauthorized." Therefore, our review included an assessment of whether each asset transfer was allowable and whether the asset should be turned over to the Successor Agency.

Our review applied to all assets including but not limited to, real and personal property, cash funds, accounts receivable, deeds of trust and mortgages, contract rights, and rights to payment of any kind. We also reviewed and determined whether any unallowable transfers of assets to the City or any other public agencies have been reversed.

Our review found that the RDA transferred \$33,823,536 in assets after January 1, 2011, including unallowable transfers totaling \$32,289,961 (\$15,508,583 to the City and \$16,781,378 to the Entity Assuming the Housing Functions), or 95.47%, of transferred assets.

However, the following actions were taken by the Successor Agency/Oversight Board:

- On December 20, 2012, the Successor Agency remitted the unencumbered balance in the amount of \$4,230,171 to the Los Angeles County Auditor-Controller.
- On June 11, 2013, the Oversight Board retroactively approved the transfer of housing assets, totaling \$16,781,378, to the Entity Assuming the Housing Functions.
- On June 20, 2013, the Oversight Board retroactively approved the land transfer in the amount of \$4,320,000 to the City.

Therefore, the remaining amount of unallowable transfers, totaling \$11,188,583, must be turned over to the Successor Agency.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/nh

Attachment

cc: Marc Titel, Chairman

Oversight Board of Successor Agency to Lakewood Redevelopment Agency

Diane Perkin, Director of Administrative Services

Lakewood Redevelopment/Successor Agency

Wendy Watanabe, Auditor-Controller

Los Angeles County Auditor-Controller

David Botelho, Program Budget Manager

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

Kevin Kanemasu, Auditor-in-Charge

Division of Audits, State Controller's Office

Wan Ting Lo, Auditor

Division of Audits, State Controller's Office

Contents

Review Report

| | |
|---|---|
| Summary | 1 |
| Background | 1 |
| Objective, Scope, and Methodology | 2 |
| Conclusion | 2 |
| Views of Responsible Official | 3 |
| Restricted Use | 3 |
| Findings and Orders of the Controller | 4 |
| Schedule 1—Unallowable RDA Asset Transfers to the City of Lakewood | 8 |
| Attachment—City of Lakewood’s Response to Draft Review Report | |

Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Lakewood 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 \$33,823,536 in assets after January 1, 2011, including unallowable transfers totaling \$32,289,961 (\$15,508,583 to the City of Lakewood [City] and \$16,781,378 to the Entity Assuming the Housing Functions), or 95.47%, of transferred assets.

However, the following actions were taken by the Successor Agency/Oversight Board:

- On December 20, 2012, the Successor Agency remitted the unencumbered balance in the amount of \$4,230,171 to the Los Angeles County Auditor-Controller.
- On June 11, 2013, the Oversight Board retroactively approved the transfer of housing assets, totaling \$16,781,378, to the Entity Assuming the Housing Functions.
- On June 20, 2013, the Oversight Board retroactively approved the land transfer in the amount of \$4,320,000 to the City.

Therefore, the remaining amount of unallowable transfers, totaling \$11,188,583, must be turned over to the 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.

H&S Code section 34167.5 states, in part, “. . .the Controller shall review the activities of redevelopment agencies, to determine whether an asset transfer has occurred after January 1, 2011, between the city or county, or city and county that created a redevelopment agency, or any other public agency, and the redevelopment agency.”

The SCO has identified transfers of assets that occurred after January 1, 2011, between the RDA, the City, 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 Lakewood City Council, the RDA, the Successor Agency, and the Oversight Board.
- Reviewed accounting records relating to the recording of assets.
- Verified the accuracy of the Asset Transfer Assessment Form. This form was sent to all former RDAs to provide a list of all assets transferred between January 1, 2011, and January 31, 2012.
- Reviewed applicable financial reports to verify assets (capital, cash, property, etc.).

Conclusion

Our review found that the Lakewood Redevelopment Agency transferred \$33,823,536 in assets after January 1, 2011, including unallowable transfers totaling \$32,289,961 (\$15,508,583 to the City of Lakewood (City) and \$16,781,378 to the Entity Assuming the Housing Functions), or 95.47%, of transferred assets.

However, the following actions were taken by the Successor Agency and the Oversight Boards:

- On December 20, 2012, the Successor Agency remitted the unencumbered balance in the amount of \$4,230,171 to the Los Angeles County Auditor-Controller.

- On June 11, 2013, the Oversight Board retroactively approved the transfer of housing assets, totaling \$16,781,378, to the Entity Assuming the Housing Functions.
- On June 20, 2013, the Oversight Board retroactively approved the land transfer in the amount of \$4,320,000 to the City.

Therefore, the remaining amount of unallowable transfers, totaling \$11,188,583, 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 September 30, 2013. Diane Perkin, Director of Administrative Services, responded by letter dated October 14, 2013, disagreeing with the review results. The City of Lakewood's response is included in this final review report as an attachment.

Restricted Use

This report is solely for the information and use of the City, the Successor Agency, the Oversight Board, the Entity Assuming the Housing Functions, 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

April 4, 2014

Findings and Orders of the Controller

FINDING 1— Unallowable asset transfers to the City of Lakewood

The Lakewood Redevelopment Agency (RDA) made unallowable asset transfers of \$15,508,583 to the City of Lakewood. The asset transfers to the City occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011. The transfers were made as follows:

- On March 22, 2011, the RDA transferred land in the amount of \$4,320,000 to the City. However, on June 20, 2013, the Oversight Board retroactively approved the transfer to the City, per Oversight Board Resolution 2013-7. Therefore, no further action is necessary.
- On June 30, 2011, the RDA transferred a total of \$7,849,062 in cash to the City for the repayment of loans for RDA Project Areas 1, 2, and 3. To accomplish the transfer, the City consolidated various loans provided to the RDA. The RDA accepted the loans on June 22, 2010, via RDA Resolution No. LRA 2010-7. Subsequently, on February 22, 2011, the RDA adopted RDA Resolution No. LRA 2011-3, and amended the loan to include the payment schedule of each of the notes with the City. Based on Health and Safety (H&S) Code section 34162(a)(3), the RDA was not allowed to refund, restructure or refinance indebtedness or obligations that existed as of January 1, 2011.
- On January 23, 2012, the RDA transferred an additional \$3,339,521 in cash to the City for repayment of the loans with the city for RDA Project Areas 1, 2, and 3.

Pursuant to H&S Code section 34167.5, any asset transfers by the RDA to a city, county, city and county, or any other public agency after January 1, 2011, must be returned to the Successor Agency for disposition in accordance with H&S Code section 34177(e).

Order of the Controller

Based on H&S Code section 34167.5, the City is ordered to reverse the transfer of assets in the amount of \$15,508,583. However, because the Oversight Board retroactively approved the transfer of land totaling \$4,320,000, the remaining amount of \$11,188,583 in loan repayments is ordered to be turned over to the Successor Agency (see Schedule 1).

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

Please note that the California Department of Finance (DOF) must approve the Oversight Board's decision regarding the \$4,320,000. If the DOF does not approve this transfer, then the City is ordered to transfer those assets to the Successor Agency pursuant to H&S Code section 34167.5

City's Response to Draft Report

The City of Lakewood disagreed with the findings (see Attachment 1).

The City and the Successor Agency respectfully disagree with SCO staff in its characterization of payments made pursuant to a written payment schedule for a long-standing loan agreement, as an "unallowable transfer." Payments made on an "enforceable obligation" under a written repayment schedule cannot, as a matter of law, be considered an "unallowable transfer."

SCO's Comment

The City believes that loan agreements between the City and the RDA qualify as enforceable obligations. However, AB 1484 amended many of the code sections created by ABX1 26, which included the definition of an enforceable obligation. Specifically, H&S Code section 34171(d)(2) states that "enforceable obligation" 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. . . . 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 DOF also has disqualified the loan repayment to the City of Lakewood as an "enforceable obligation" in its Other DDR Determination Letter dated May 2, 2013.

Furthermore, under H&S Code section 34167.5, all transfers of assets (including cash) made after December 31, 2010, by the former RDA to the City are unallowable. Therefore, the transfer of cash for the loan repayment by the RDA to the City in the amount of \$11,188,583 is an unallowable asset transfer and must be turned over to the Successor Agency.

The finding and Order of the Controller remains as stated.

**FINDING 2—
Unallowable asset
transfers to the
Entity Assuming
the Housing
Functions**

On February 1, 2012, the RDA had transferred a total of \$16,781,378 in housing assets to the Entity Assuming the Housing Functions. 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

Based on H&S Code section 34167.5, the Entity Assuming the Housing Functions would have been ordered to reverse the transfer of the above assets in the amount of \$16,781,378. However, on December 20, 2012, the Successor Agency remitted \$4,230,171 to the Los Angeles County Auditor-Controller for distribution to the taxing entities. Additionally, on June 11, 2013, the Oversight Board retroactively approved the transfer of all housing assets totaling \$16,781,378 to the Entity Assuming the Housing Functions via Resolution OB-2013-4. Therefore, no further action is needed from the Entity Assuming the Housing Functions.

Please note that the DOF must approve the Oversight Board's decision in this matter. If the DOF does not approve the transfer, then the Entity Assuming the Housing Functions is ordered to transfer the assets to the Successor Agency pursuant to H&S Code section 34167.5.

City's Response to Draft Report

The City of Lakewood disagreed with the findings (see Attachment 1).

We are troubled by the SCO's initial characterization that 95.47% of all assets transferred by the former Lakewood RDA to the City of Lakewood were "unallowable" under AB 1X 26 or AB 1484. That is simply not accurate; the SCO report goes on to clarify, that \$16,371,378 of this total was actually housing assets which were appropriately transferred to the City in its capacity as housing Successor Agency. In fact, this transfer occurred by operation of law once the former Lakewood RDA dissolved on February 1, 2012. . . . Because the Oversight Board to the Successor Agency did not exist until late spring 2012, it was not possible for that entity to do anything other than "ratify" the earlier transfer which occurred by operation of law in any event. Accordingly, we object to the characterization that either the former Lakewood RDA or the City of Lakewood violated the law in any way. . . .

SCO's Comment

The transfer of RDA housing assets valued at \$16,371,378 was unallowable because the transfer was made on February 1, 2012, by the former RDA directly to the City as the Entity Assuming the Housing Functions.

As of February 1, 2012, all former RDA's assets, including housing assets, should have been transferred to the Successor Agency. Because the housing assets were transferred to the City as the Entity Assuming the Housing Functions, the transfer was unallowable.

While we understand that the Oversight Board was not created until late in the spring of 2012, the transfer of housing assets should not have been made to the City as the Entity Assuming the Housing Functions without Oversight Board approval. The Oversight Board can only retroactively approve the transfer of housing assets. Although this is a corrective action, it does not change the fact that an unallowable asset transfer occurred.

The finding and Order of the Controller remains as stated, although no further action is necessary.

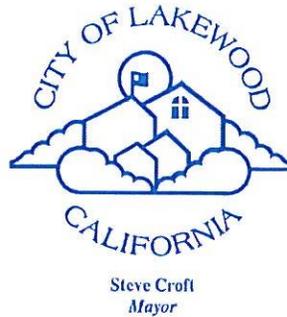
**Schedule 1—
Unallowable RDA Asset Transfers to
the City of Lakewood
January 1, 2011, through January 31, 2012**

| | |
|---|----------------------|
| Current assets | |
| Cash transfer on June 30, 2011 | \$ 7,849,062 |
| Cash transfer on January 23, 2012 | 3,339,521 |
| Capital assets | |
| Land – 4900 Clark Avenue | <u>4,320,000</u> |
| Total unallowable transfers to the City of Lakewood | 15,508,583 |
| Oversight Board’s retroactive approval of transfers (June 20, 2013) | |
| Land – 4900 Clark Avenue | <u>(4,320,000)</u> |
| Total asset transfers subject to H&S Code section 34167.5 | <u>\$ 11,188,583</u> |

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

Todd Rogers
Vice Mayor

Diane DuBois
Council Member



Jeff Wood
Council Member

Ron Piazza
Council Member

October 14, 2013

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

Re: Response to State Controller's Office Draft Asset Transfer Review

Dear Mr. Mar:

The City of Lakewood and the Lakewood Successor Agency each respectfully disagree with certain characterizations and findings set forth in the Draft Asset Transfer Review, which was received by the Successor Agency on October 7, 2013, as follows:

FINDING 1/CHARACTERIZATION OF TRANSFERS AS "UNALLOWABLE"

"The Lakewood RDA made unallowable asset transfers of \$15,508,583 described in Schedule 1, to the City of Lakewood. The asset transfer occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011." The assets were made as follows:

- On March 22, 2011, the RDA transferred land in the amount of \$4,320,000 to the City. However, on June 20, 2013, the Oversight Board retroactively approved the transfer of land in the amount of \$4,320,000 from the RDA to the City, under Oversight Board Resolution 2013-7. Therefore no further action is needed by the City.
- On June 20, 2011, the RDA transferred a total of \$7,849,062 in cash to the City for repayment of loans with the City for RDA Project Areas Nos. 1, 2 and 3. To accomplish the transfer the City consolidated the various loans provided to the RDA and the RDA accepted the loans on June 20, 2010 via RDA Resolution NO. LRA 2010-7. Subsequently, on February 22, 2011, the RDA adopted RDA Resolution No. LRA 2011-3, which was amended to include the payment schedule of each of the notes with the City.
- On January 23, 2012, the RDA transferred an additional \$3,339,521 in cash to the City for repayment of the loans."

RESPONSE: The City and the Successor Agency respectfully disagree with SCO staff in its characterization of payments made pursuant to a written payment schedule for a long-

Lakewood

standing loan agreement, as an "unallowable transfer." Payments made on an "enforceable obligation" under a written repayment schedule cannot, as a matter of law, be considered an "unallowable transfer."

The loan of City funds to the RDA was permissible under Community Redevelopment Law. There is substantial documentation of the loans and the purposes for the loans, including but not limited to, advances made for RDA expenditures, including leases, economic development and payment of RDA bond debt service; these advances culminated in the June 2010 RDA/City Loan Consolidation for each of the three Project Areas, Promissory Notes for each Project Area Loan and a repayment schedule. (See attached copy of 2010 RDA/City Loan Agreement) In February 2011, the RDA and City amended the loan repayment schedule to more specifically break down annual payments of principle and interest within each Project Area. (See attached copy of February 2011 amended repayment schedule) All of this documentation was provided to SCO audit staff for review. Consistent with the written loan agreement, promissory note and written repayment schedule, the RDA made its debt payments to the City of both principle and interest in June 2011 and in January 2012, exactly as it was required to do by AB 1X 26.

Specifically, Health & Safety Code Section 34169 states that:

"until successor agencies are authorized pursuant to Part 1.85 (commencing with Section 34170), redevelopment agencies shall ...continue to make all scheduled payments for enforceable obligations, as defined in subdivision (d) of Section 34167."

Health & Safety Code Section 34167(d) defines "enforceable obligation" of an RDA to include:

"...(2) Loans of moneys borrowed by the redevelopment agency for a lawful purpose, including, but not limited to, moneys borrowed from the Low and Moderate Income Housing Fund, to the extent they are legally required to be repaid pursuant to a required repayment schedule or other mandatory loan terms.

...5) Any legally binding and enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy."

Under either subsection (d)(2) or (d)(5) of Health & Safety Code Section 34167, the loan agreement between the RDA and the City of Lakewood qualifies as an "enforceable obligation." And as the former RDA was mandated to continue to make all payments of enforceable obligations, it follows that these same payments cannot be considered "unallowable transfers" by the SCO.

In fact, Health & Safety Code Section 34167(f) goes further to clarify this mandate:

"(f) Nothing in **this part** shall be construed to interfere with a redevelopment agency's authority, pursuant to enforceable obligations as defined in this chapter, to (1) make payments due, (2) enforce existing covenants and obligations, or (3) perform its obligations."

"This part" refers to Part 1.8, of AB 1x26, which was applicable to the redevelopment agency before its dissolution by operation of law as of February 1, 2012. The "clawback" provision under Health & Safety Code Section 34167.5 falls within Part 1.8. Accordingly, the direction to the SCO here is that its authority under Section 34167.5 shall not interfere with the redevelopment agency's mandate to make payments of any enforceable obligation.

There is nothing in the "clawback" provision of Health & Safety Code Section 34167.5 that overrides the mandate of the Health & Safety Code Sections 34167 and 34169. Specifically, the SCO is empowered to clawback any "asset transfer" made after January 2011 between the RDA and any public agency to the extent not prohibited by state and federal law. The City asserts that state law under Health & Safety Code Section 34167(f) and 34169, both requiring the RDA to continue to make its enforceable obligation payments according to the written loan repayment schedule, is a state law prohibiting the clawback. It would be anomalous to mandate that the RDA proceed to make enforceable obligation payments when due, and yet also mandate that the SCO clawback those very same payments made. That is not a rational interpretation of what the law requires and is inconsistent with Health & Safety Code Section 34167(f).

Health & Safety Code Section 34167.5 cannot be read in a vacuum by the SCO, without consideration of whether an "asset transfer" was actually authorized as an "enforceable obligation." The proper interpretation of the "clawback" provision is that the SCO is authorized to order the return of any assets transferred **where the transfer was not made pursuant to an enforceable obligation of the RDA.** The purpose of the clawback provision under Health & Safety Code Section 34167.5 was to reverse the wholesale transfer of property, monies and other RDA assets that occurred after January 1, 2011 but before the effective date of AB 1X 26, when cities and redevelopment agencies became aware of the proposed redevelopment dissolution legislation and sought to protect **uncommitted** RDA assets from distribution to the state or other taxing entities. An example of an asset transfer susceptible to an SCO finding of being an "unallowable transfer of RDA assets," would be a Cooperative Agreement between a city and its redevelopment agency in which all uncommitted agency assets are transferred to the city without legal commitment via a third party agreement to any redevelopment purpose or project by June 28, 2011. According to the Legislation such agreements and transfers are deemed to "not be in furtherance of Community Redevelopment Law and [are] thereby unauthorized."

FINDING 2/CHARACTERIZATION OF TRANSFERS AS "UNALLOWABLE":

"As of February 1, 2012, the RDA had transferred a total of \$16,371,378 in housing assets to the Entity Assuming the Housing Functions. Pursuant to H&S 34167.5, the RDA may not transfer assets to the 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)."

RESPONSE: We are troubled by the SCO's initial characterization that 95.47% of all assets transferred by the former Lakewood RDA to the City of Lakewood were "unallowable" under AB 1X 26 or AB 1484. That is simply not accurate; the SCO report goes on to clarify, that \$16,371,378 of this total was actually housing assets which were appropriately transferred to the

City in its capacity as housing Successor Agency. In fact, this transfer occurred by operation of law once the former Lakewood RDA dissolved on February 1, 2012. See **Health & Safety Code Section 34175(b)** (" **All assets, properties, contracts, leases, books and records, buildings, and equipment of the former redevelopment agency are transferred on October 1, 2011, 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 October 1, 2011."¹). Because the Oversight Board to the Successor Agency did not exist until late spring 2012, it was not possible for that entity to do anything other than "ratify" the earlier transfer which occurred by operation of law in any event. Accordingly, we object to the characterization that either the former Lakewood RDA or the City of Lakewood violated the law in any way. We respectfully request you correct your characterization and remove the term "unallowable" when describing the initial transfer of these assets to the housing Successor Agency and entirely delete Finding 2 from your report.

CONCLUSION

The City and the Successor Agency request that the SCO revise the findings of its draft Asset Transfer Review to reflect that the June 2011 and January 2012 transfer of RDA funds in satisfaction of a portion of the long-standing debt owed to the City, pursuant to a written repayment schedule which was legally enforceable under Community Redevelopment Law, was a required payment and an enforceable obligation of the RDA pursuant to Health & Safety Code sections 34167 and 34169. Accordingly, the repayment of the loan in accordance with the terms of the loan agreement was not an "unallowable transfer of RDA assets to the city" and is not subject to an SCO order pursuant to Health & Safety Code section 34167.5, to return these "assets" to the Successor Agency.

The City and the Successor Agency also request that the SCO revise Finding No. 2 to eliminate the mis-characterization of the transfer of \$16,371,378 as an "unallowable transfer."

Sincerely,



Diane Perkin
Director of Administrative Services

Attachment

cc: City Manager
City Attorney

¹ The October 1, 2011 date was extended to February 1, 2012 by the California Supreme Court pursuant to its order in the matter of *California Redevelopment Association, et al. v. Ana Matosantos, et al.*, Case No S194861.

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