

VISALIA REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

February 2014



JOHN CHIANG
California State Controller

February 13, 2014

Mike Olmos, City Manager
City of Visalia/Successor Agency
425 E. Oak Avenue
Visalia, CA 93291

Dear Mr. Olmos:

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

Our review found that the RDA transferred \$28,128,890 in assets after January 1, 2011, including unallowable transfers to the City totaling \$4,369,011, or 15.53% of transferred assets.

However, on May 10, 2013, the City turned over \$670,000 to the Tulare County Auditor-Controller's Office. In addition, on June 30, 2013, the City turned over \$3,699,011 in assets to the Successor Agency. Therefore, no further action is necessary.

If you have any questions, please contact Elizabeth Gonzalez, Bureau 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

Attachment

cc: Eric Frost, Administrative Services Director
City of Visalia
Ruth Peña, Financial Analyst
City of Visalia
Rita Woodard, Auditor-Controller
Tulare County Auditor-Controller
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
Mathew Rios, Audit Staff
Division of Audits, State Controller's Office

Contents

Review Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Views of Responsible Officials	2
Restricted Use	3
Finding and Order of the Controller	4
Schedule 1—Unallowable RDA Asset Transfers to the City of Visalia	5
Attachment—City of Visalia’s Response to Draft Review Report	

Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Visalia 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 \$28,128,890 in assets after January 1, 2011, including unallowable transfers to the City of Visalia (City) totaling \$4,369,011, or 15.53% of transferred assets.

However, on May 10, 2013, the City turned over \$670,000 to the Tulare County Auditor-Controller's Office. In addition, on June 30, 2013, the City turned over \$3,699,011 in assets to the Successor Agency. Therefore, no further action is necessary.

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, 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, the RDA, and the Successor Agency.
- Reviewed accounting records relating to the recording of assets.
- Verified the accuracy of the Asset Transfer Assessment Form. This form was sent to all former RDAs to provide a list of all assets transferred between January 1, 2011, and January 31, 2012.
- Reviewed applicable financial reports to verify assets (capital, cash, property, etc.).

Conclusion

Our review found that the Visalia Redevelopment Agency transferred \$28,128,890 in assets after January 1, 2011, including unallowable transfers to the City of Visalia, totaling \$4,369,011, or 15.53% of transferred assets.

However, on May 10, 2013, the City turned over \$670,000 to the Tulare County Auditor-Controller's Office. In addition, on June 30, 2013, the City turned over assets totaling \$3,699,011 to the Successor Agency. Therefore, no further action is necessary.

Details of our finding are in the Finding and Order of the Controller section of this report. We also have included a schedule of assets.

Views of Responsible Officials

We issued a draft review report on October 28, 2013. Eric Frost, Administrative Services Director, Visalia Redevelopment Successor Agency, responded by letter dated November 8, 2013, agreeing with the review results. The City of Visalia'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, 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

February 13, 2014

Finding and Order of the Controller

FINDING— Unallowable asset transfers to the City of Visalia

The Visalia Redevelopment Agency (RDA) made unallowable asset transfers of \$4,369,011 to the City of Visalia (City). 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. Those assets consisted of cash and land held for resale.

- On March 7, 2011, the RDA transferred \$670,000 in cash to the City for the Property Business Improvement District.
- On March 7, 2011, the RDA prepaid the City's General Fund advance agreements by transferring the land held for resale in the amount of \$3,534,327.
- On June 30, 2011, the RDA transferred \$164,684 in cash to the City to pay outstanding loans for the Central Visalia Project Area.

Pursuant to Health and Safety (H&S) Code section 34167.5, any asset transfers by the RDA to the City after January 1, 2011, that were not contractually committed to a third party prior to June 28, 2011, must 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 is ordered to turn over assets in the amount of \$4,369,011 to the Successor Agency, described in Schedule 1. The Oversight Board is directed to dispose of these assets in accordance with H&S Code section 34177(e).

However, on May 10, 2013, the City transferred \$670,000 in cash to the Tulare County Auditor-Controller's Office after receiving the Department of Finance's Due Diligence Report determination letter. Therefore, the remaining assets, totaling \$3,699,011, must be turned over to the Successor Agency.

City's Response:

The City of Visalia (City) responded to the draft review report with a letter dated November 8, 2013, stating that the City agrees with the Finding and Order of the Controller. See Attachment for details of the City of Visalia's response.

SCO's Comment:

The State Controller's Office (SCO) is in agreement with the City.

The City of Visalia provided supporting documentation that shows that assets totaling \$3,699,011 have been turned over to the Successor Agency. No further action is necessary.

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

Cash transfer to the City of Visalia June 30, 2011	\$ 834,684
Land Held for Resale transferred to the City March 7, 2011	<u>3,534,327</u>
Total unallowable transfers to the City of Visalia	\$ 4,369,011
Less assets turned over to the Successor Agency May 10, 2013	
Prepayment of the City's PBID obligations	<u>(670,000)</u>
Transfers subject to Health and Safety Code section 34167.5	\$ 3,699,011
Less assets turned over to the Successor Agency June 30, 2013	
Debt service payment	\$ (164,684)
Land held for resale	<u>(3,534,327)</u>
Total transfers subject to Health and Safety Code section 34167.5	<u><u>\$ —</u></u>

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

City of Visalia

707 W. Acequia Ave., Visalia CA 93291



Finance Division

Tel: (559) 713-4474 Fax: (559) 713-4801

November 8, 2013

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

SUBJECT: Assets Transfer Review Report

The City has received the State Controller's Office's Draft Assets Transfer Review Report under a cover letter dated October 28, 2013. The City agrees with the information contained in the report and is taking appropriate actions.

- 1) At the end of fiscal year 2010/11 during our closing process, the amount due for the year on an advance was charged to the fund. This \$164,684 debt service payment was declared invalid. It may still be recovered as an advance from the General Fund when the City obtains a finding of completion but the City's books are being revised to show that change.
- 2) In May of 2011, the City transferred \$670,000 to the General Fund as prepayment of the City's PBID obligations for 10 years. This was found invalid and the City has since paid this \$670,000 to Tulare County Auditor Controller.
- 3) In March 2011, the City transferred land valued at \$3,534,327 to the General Fund in exchange for forgiveness of advances totaling that amount of money. The SCO is directing that this land be returned to the Successor Agency. The City will proceed ahead to seeking a finding of completion so that the advance can become an enforceable obligation in the City's General Fund and the land returned to the Successor Agency.

Sincerely,

A handwritten signature in black ink, appearing to read "Eric Frost".

Eric Frost
Administrative Services Director

CC Michael Olmos, City Manager
Seth Merewitz, Attorney
Ken Richardson, Attorney
Ruth Pena, Financial Analyst



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

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