

# **FARMERSVILLE REDEVELOPMENT AGENCY**

## **ASSET TRANSFER REVIEW**

### Review Report

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



**JOHN CHIANG**  
California State Controller

December 2014



**JOHN CHIANG**  
California State Controller

December 9, 2014

Mario Krstic, Interim City Manager  
City of Farmersville  
909 W. Visalia Road  
Farmersville, CA 93223

Dear Mr. Krstic:

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

Our review found that the RDA transferred \$6,496,250 in assets after January 1, 2011, including unallowable transfers to the City totaling \$5,556,205, or 85.53% of transferred assets. These assets must be turned over to the Successor Agency.

However, on December 9, 2013, the City turned over \$5,556,205 in assets to the Successor Agency. Therefore, no further action is necessary.

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

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/mh

Attachment

cc: Leonel Benavides, Chairman  
Oversight Board  
Rita Woodward, Auditor-Controller  
County of Tulare  
Steve Huntley, Finance Director  
City of Farmersville  
David Botelho, Program Budget Manager  
California Department of Finance  
Richard J. Chivaro, Chief Legal Counsel  
State Controller's Office  
Elizabeth González, Bureau Chief  
Division of Audits, State Controller's Office  
Scott Freesmeier, Audit Manager  
Division of Audits, State Controller's Office  
Ernesto Pangilinan, 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 Farmersville 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 \$6,496,250 in assets after January 1, 2011, including unallowable transfers to the City of Farmersville (City) totaling \$5,556,205, or 85.53% of transferred assets. These assets must be turned over to the Successor Agency.

However, on December 9, 2013, the City turned over \$5,556,205 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 and oversight boards 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 in the state 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 identified asset transfers that occurred after January 1, 2011, between the RDA, the City and/or any other public agency. 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 action 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's operations and procedures.
- Reviewed meeting minutes, resolutions, and ordinances of the City, 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 Farmersville Redevelopment Agency transferred \$6,496,250 in assets after January 1, 2011, including unallowable transfers to the City of Farmersville (City) totaling \$5,556,205, or 85.53% of transferred assets.

However, on December 9, 2013, the City turned over \$5,556,205 in assets to the Successor Agency. Therefore, no further action is necessary.

Details of our finding are described in the Finding and Order of the Controller section of this report.

## **Views of Responsible Officials**

We issued a draft review report on August 11, 2014. Mario Krstic, Interim City Manager, responded by letter dated September 3, 2014. The City's response is included in this final review report as an attachment.

## **Restricted Use**

This report is solely for the information and use of the City of Farmersville, 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

December 9, 2014

# Finding and Order of the Controller

## **FINDING— Unallowable asset transfer to the City of Farmersville**

The Farmersville Redevelopment Agency (RDA) made unallowable asset transfers of \$5,556,205 to the City of Farmersville (City). The transfers occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

On January 4, 2012, the RDA transferred properties totaling \$5,556,205 to the City as follows:

- 623 N. Avery – Community Center Building and Land: \$3,177,379
- 881 N. Farmersville Road – Church Museum and Land: \$1,056,878
- 909 W. Visalia Road – Civic Center: \$1,003,881
- 240 W. Front Street – Future Police and Fire Station Land: \$302,971
- 842 S. Farmersville Road – Roy’s Park Addition: \$7,896
- 253 E. Visalia Road – Bus Stop Property: \$7,200

Pursuant to Health and Safety (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. The assets should be turned over to the Successor Agency for disposition in accordance with H&S Code section 34177 (e). However, some of the assets also may be subject to the provisions of H&S Code section 34181(a).

H&S Code section 34181(a) 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; 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, police and fire stations, libraries, and local agency administrative buildings, to the appropriate public jurisdiction pursuant to any existing agreements relating to the construction or use of such an asset.

### Order of the Controller

Pursuant to H&S Code section 34167.5, the City is ordered to reverse the transfers in the amount of \$5,556,205 and turn over the assets to the Successor Agency. However, on December 9, 2013, the Oversight Board directed the Successor Agency to transfer ownership of \$5,556,205 in governmental-purpose properties to the City via Resolution SA 2013-001. Therefore, no further action is necessary.

City's Response

During our review it was pointed out to us that the original transfer of property was inappropriate due to a timing issue. The property, all government use, was transferred in January of 2012 and according to information we had been provided this should not have taken place prior to February 1, 2012...

...The properties in question are all clearly government use and have been since their acquisition. To state that there was a procedural error of an otherwise allowable transfer would seem a more accurate way of describing what had taken place. As stated these are clearly government use, have been used by the City for years, and will continue to be used for government purposes in the future. The properties were transferred to the Successor Agency and then from the Successor Agency to the City with the approval of the Oversight Board...

Please see Attachment for the City's complete response.

SCO's Comment

The SCO reviewed the December 9, 2013 Successor Agency Oversight Board resolution. Although the original transfer to the City was an unallowable action, the resolution directing the Successor Agency to transfer the ownership of the governmental-purpose properties to the City corrects the finding. The Order of the Controller has been modified accordingly.



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

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Address/Description

623 N. Avery – Community Center Building and Land	\$ 3,177,379
881. N Farmersville Rd – Church Museum and Land	1,056,878
909 W. Visalia Rd – Civic Center	1,003,881
240 W. Front St – Future Police and Fire Station Land	302,971
842 S. Farmersville Rd – Roy’s Park Addition	7,896
253 E. Visalia Rd – Bus Stop Property	<u>7,200</u>
Total unallowable transfers	5,556,205
Assets turned over to the Successor Agency on December 9, 2013	<u>(5,556,205)</u>
Total unallowable transfers subject to H&S Code section 34167.5	<u>\$ —</u>

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

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# City of Farmersville

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Jeffery V. Brownfield, CPA  
Chief, Division of Audits  
State Controller's Office  
P.O. Box 942850  
Sacramento, CA 95816-5874

Dear Jeffery V. Brownfield, CPA:

Upon review of your letter and the attached draft report related to the Asset Transfer Review of the Farmersville Redevelopment Agency Dated August, 2014 I have the following comments.

During our review it was pointed out to us that the original transfer of property was inappropriate due to a timing issue. The property, all government use, was transferred in January of 2012 and according to information we had been provided this should not have taken place prior to February 1, 2012. We were advised that this would need to be corrected and as a result of that conversation the successor agency considered a new resolution on December 9<sup>th</sup> of 2013 in an effort to rectify this timing error. A copy of this resolution was forwarded to our Auditor –In-Charge as soon as it was passed by the Successor Agency. Having heard nothing more on the issue we had a belief that we were now in compliance. With the arrival of the Draft Report and the attached letter arriving some eight months later it appears that this did not correct this issue.

We are concerned by the terminology used in the report stating that the transfer was “unallowable”. The properties in question are all clearly government use and have been since their acquisition. To state that there was a procedural error of an otherwise allowable transfer would seem a more accurate way of describing what had taken place. As stated these are clearly government use, have been used by the City for years, and will continue to be used for government purposes in the future. The properties were transferred to the Successor agency and then from the Successor Agency to the City with the approval of the Oversight Board it appears that the timing of this is what has caused this issue. In our opinion terminology and wording within the report that clearly depicts that this was a procedural error of otherwise allowable transfers of assets would be more accurate. We would also request language that once the “procedural” issue is resolved the transfer is allowable.

My understanding now is that we must transfer the property, all government use, back to the Successor Agency and go through the procedure once again obtaining oversight board approval and Department of Finance Approval. Thereafter the property will be transferred from the Successor Agency back to the City. If this is a correct depiction of what must take place we would request written confirmation of this. If there is some other action that needs to take place a detailed description of what that action or procedure is would be greatly appreciated.

Sincerely,

A handwritten signature in blue ink, appearing to read "Mario Krstic".

Mario Krstic,  
Interim City Manager

Cc: M. Farley City Attorney  
M. Dias Assistant City Attorney

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Division of Audits  
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