

# **NAPA COMMUNITY 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 30, 2014

Roberta Raper, Finance Director  
Napa Redevelopment/Successor Agency  
P.O. Box 660  
Napa, CA 94559-0660

Dear Ms. Raper:

Pursuant to Health and Safety Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Napa Community Redevelopment Agency (RDA) to the City of Napa (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 \$17,967,679 in assets after January 1, 2011, including unallowable transfers to the City totaling \$9,469,156, or 52.70% of transferred assets. However, the following corrective actions have been taken:

- On March 6, 2012, and October 16, 2012, the City turned over \$1,500,000 and \$2,909,500 in cash, respectively, to the Successor Agency.
- On October 16, 2012, the City turned over \$3,639,374 in land to the Successor Agency.
- On October 16, 2012, the City turned over \$1,420,282 in capital assets (building and improvements) 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/kw

cc: Shirley Perkins, Chair  
Oversight Board  
Napa Redevelopment/Successor Agency  
Tracy A. Schulze, Auditor-Controller  
Napa County  
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  
John Mellas, 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 Napa Community 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 \$17,967,679 in assets after January 1, 2011, including unallowable transfers to the City of Napa (City) totaling \$9,469,156, or 52.70% of transferred assets. However, the following corrective actions have been taken:

- On March 6, 2012, and October 16, 2012, the City turned over \$1,500,000 and \$2,909,500 in cash, respectively, to the Successor Agency.
- On October 16, 2012, the City turned over \$3,639,374 in land to the Successor Agency.
- On October 16, 2012, the City turned over \$1,420,282 in capital assets (building and improvements) 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 Napa Community Redevelopment Agency transferred \$17,967,679 in assets after January 1, 2011, including unallowable transfers to the City of Napa (City) totaling \$9,469,156, or 52.70% of transferred assets. However, the following corrective actions have been taken:

- On March 6, 2012, and October 16, 2012, the City turned over \$1,500,000 and \$2,909,500 in cash, respectively, to the Successor Agency.
- On October 16, 2012, the City turned over \$3,639,374 in land to the Successor Agency.
- On October 16, 2012, the City turned over \$1,420,282 in capital assets (building and improvements) to the Successor Agency.

Therefore, no further action is necessary.

**Views of  
Responsible  
Officials**

We issued a draft review report on July 28, 2014. Roberta Raper, City Finance Director, responded by letter dated August 15, 2014, agreeing with the review results. 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 Napa, 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 30, 2014

# Findings and Orders of the Controller

## **FINDING 1— Unallowable cash transfers to the City of Napa**

The Napa Community Redevelopment Agency (RDA) made unallowable asset transfers of \$4,324,500 to the City of Napa (City). All transfers occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

The City and the RDA entered into a cooperative agreement in January 2011 for financing redevelopment project area public improvement costs. In April 2011, the RDA adopted Resolution A1184 approving an appropriation of \$4,324,500 from RDA bond and tax increment funds. On July 5, 2011, the following cash transfers were recorded:

- \$2,575,000 bond cash transfer to the City CIP Fund for project costs
- \$249,500 bond cash transfer to the City General Fund for project costs
- \$1,500,000 tax increment cash transfer to the City General Fund for the Opera House Loan

Subsequently, the City recognized that the transfers were unallowable, and on:

- March 6, 2012, the City Council adopted Resolution 2012-26 turning over \$1,500,000 to the Successor Agency from the City's General Fund. The transfer was recorded on April 3, 2012 (journal entry #1204-AH127).
- October 16, 2012, the City adopted Resolution 2012-134 turning over \$2,824,500 to the Successor Agency from the City's General Fund for the amounts of \$2,575,000 and \$249,500 transferred in 2011 pursuant to Resolution A1184 and related agreements. The transfer was recorded on October 16, 2012 (journal entry #1310-AM121).

Pursuant to Health and Safety (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 turned over to the Successor Agency for disposition in accordance with H&S Code section 34177(d).

### Order of the Controller

Pursuant to H&S Code section 34167.5, the City is ordered to reverse the transfer of the above assets in the amount of \$4,324,500 and turn over the assets to the Successor Agency. However, on April 3, 2012, and October 16, 2012, the City turned over \$1,500,000 and \$2,824,500, respectively, in cash to the Successor Agency. Therefore, no further action is necessary.



**FINDING 2—  
Unallowable asset  
transfers to the  
City of Napa**

The Napa Community Redevelopment Agency (RDA) made unallowable asset transfers of \$85,000 to the City of Napa (City). All transfers occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

In May of 2011, the RDA transferred previously collected fees of \$48,958 to the City and reassigned subsequent collections directly to the City, which produced an additional \$36,042 in parking fee revenue from facilities conveyed by the RDA, for a total of \$85,000. See Schedule 1.

On October 16, 2012, City Council adopted Resolution 2012-134 acknowledging that asset transfers from the former RDA to the City were unallowable, and authorized the return of parking fees of \$85,000, plus interest of \$2,739, to the Successor Agency.

Pursuant to Health and Safety (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 turned over to the Successor Agency for disposition in accordance with H&S Code sections 34177(e)).

**Order of the Controller**

Pursuant to H&S Code section 34167.5, the City is ordered to reverse the transfer of the above assets in the amount of \$85,000 and turn over the assets to the Successor Agency. However, on October 16, 2012, the City turned over \$85,000 in cash to the Successor Agency. Therefore, no further action is necessary.

**City's Response**

The City indicated in their response that we reported a return of parking fees to the Successor Agency of only \$85,000; whereas the City actually returned an amount of \$96,666, which represented a collection of parking fees by the City for a time period through October 2012:

In May of 2011, the RDA transferred previously collected fees of \$487,958 to the City and reassigned subsequent collections directly to the City. The subsequent collections were stated in the draft report to have produced an additional \$36,042 in parking fee revenue from facilities conveyed by the RDA, for a total of \$85,000. The subsequent collections actually totaled \$47,708 (\$36,042 collected prior to June 30, 2012, and \$11,666 collected through October, 2012) for a total of \$96,666.

The City also noted in their response that City Council passed City Resolution 2012-134 to authorize the return of the parking fees to the Successor Agency on October 16, 2012, rather than October 16, 2013, as shown in the report.

SCO's Comment

Our report excluded the \$11,666 because it represented fees beyond the scope of the period under review, which was January 1, 2011 through January 31, 2012. We revised the date of passing Resolution 2012-134.

The finding and Order of the Controller remain as stated.

**FINDING 3—  
Unallowable transfer  
of land and capital  
assets to the City of  
Napa**

The Napa Community Redevelopment Agency (RDA) made unallowable asset transfers of \$5,059,656 to the City of Napa (City). All transfers occurred after January 1, 2011 and the assets were not contractually committed to a third party prior to June 28, 2011.

In March of 2011 the RDA transferred land and capital assets to the City. The assets consisted of 19 land parcels valued at \$3,639,374 and three parking garage structures valued at \$1,420,282.

However, on October 16, 2012, the City Council adopted Resolution 2012-134 acknowledging that the transfers were unallowable, and turned over \$5,059,656 in assets to the Successor Agency. However, property titles were not yet reconveyed to the Successor Agency.

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 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 reverse the transfer of the above assets in the amount of \$5,059,656 and turn over the assets to the Successor Agency. The City has subsequently recorded the assets in the Successor Agency's accounting records. However, legal title must still be transferred to the Successor Agency.

City's Response

The City concurred with the findings and noted that it is in the process of transferring the title to the assets identified in Schedule 2 to the Successor Agency.

SCO's Comment

The finding and Order of the Controller remain as stated.

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

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Cash transfer (bond) to CIP Fund (Finding 1)	\$ 2,575,000
Cash transfer (bond) to General Fund (Finding 1)	249,500
Cash transfer (tax increment) to General Fund (Finding 1)	1,500,000
Cash transfer (parking fees) (Finding 2)	<u>85,000</u>
Total unallowable transfers	4,409,500
Less cash turned over to the Successor Agency	
April 3, 2012	(1,500,000)
October 16, 2012	(2,824,500)
October 16, 2012	<u>(85,000)</u>
Total transfers subject to H&S Code section 34167.5	<u>\$ —</u>

**Schedule 2—  
Unallowable Land and Capital  
Asset Transfers to the City of Napa  
January 1, 2011, through January 31, 2012**

**Land**

003-166-008	1142 Coombs Street	\$	—
003-157-004	1219 Main Street		—
003-157-007	1102 Pearl Street		8,500
003-137-006	1100 Pearl Street		15,500
003-134-002	1118 Pearl Street		30,000
003-198-022	1401/1429/1441 Clay Street		70,553
003-134-001	1241 Brown Street		82,500
003-164-017	1201 Pearl Street		85,494
003-134-003	1150 Pearl Street		132,000
003-172-001	970 First Street		132,600
003-166-011	1115 Pearl Street		209,277
003-137-008	1231 Main Street		224,400
003-214-013	1100 Second Street		235,000
003-172-009	1105 West Street		409,913
003-167-020	1147 Main Street		980,504
003-198-002; 003-198-003; 003-198-004; 003-198-021	1523/1511/1503/1501 Clay Street		1,023,133
Total land			3,639,374
<b>Capital Assets (Building and Improvements)</b>			
003-164-017	1201 Pearl Street, parking garage		2,554,258
003-198-022	1401 Clay Street, parking garage		2,680,720
003-214-013	Second Street parking garage		2,014,513
	Accumulated depreciation		(5,829,209)
Total capital assets			1,420,282
Total unallowable transfers			5,059,656
Assets turned over to Successor Agency			(5,059,656)
Total transfers subject to H&S Code section 34167.5			\$ —

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

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**FINANCE DEPARTMENT**

955 School Street  
Mailing Address:  
P.O. Box 660  
Napa, California 94559-0660  
Accounting: (707) 257-9510  
Revenue: (707) 257-9508  
Fax: (707) 257-9251  
*California Relay Service (CRS) Dial 7-1-1*

August 15, 2014

Ms. Elizabeth Gonzalez  
Chief, Local Government Compliance Bureau  
California State Controller's Office  
Division of Audits  
P.O. Box 942850  
Sacramento, CA 94250-5874

RE: DRAFT Napa Community Redevelopment Agency Asset Transfer Review

Dear Ms. Gonzalez,

The City of Napa received the State Controller's Office Draft Asset Transfer Review report on Wednesday, July 30, 2014. On August 6, 2014, you approved an extension of our time to file a response to Friday, August 15, 2014. We have reviewed the report and would like to provide the following additional clarifying information.

**FINDING #2 – Unallowable asset transfers to the City of Napa**

The draft report states that the Napa Community Redevelopment Agency (RDA) made unallowable transfers of \$85,000 to the City of Napa (City) after January 1, 2011 which were not contractually committed to a third party prior to June 28, 2011.

In May of 2011, the RDA transferred previously collected fees of \$48,958 to the City and reassigned subsequent collections directly to the City. The subsequent collections were stated in the draft report to have produced an additional \$36,042 in parking fee revenue from facilities conveyed by the RDA, for a total of \$85,000. The subsequent collections actually totaled \$47,708 (\$36,042 collected prior to June 30, 2012, and \$11,666 collected through October, 2012) for a total of \$96,666.

Finding #2 also references an October 16, **2013** resolution, 2012-134, approved by City Council acknowledging that asset transfers from the former RDA to the City were invalid, and authorizing the return of parking fees plus interest to the Successor Agency. The resolution was passed by City Council on October 16, **2012**.

Attachment:

- JE1310AM121 – Journal Entry with back-up documentation, including GL reports, showing the parking fee revenue collections after the parking fee revenues were conveyed to the City, and the transfer returning \$96,666 in total parking revenues to the Successor Agency.

**SUMMARY & CONCLUSION**

Both the Summary and Conclusion sections state that while unallowable transfers were made from the former RDA to the City, the City subsequently turned over all of the previously unallowable asset transfers to the Successor Agency. Therefore, no further action is necessary for cash. And although accounting reclassifications have been made for land and capital assets, property titles had not yet been conveyed as of the timing of the audit, and property titles must be reconveyed to the Successor Agency.

The City's Real Property Manager has drafted grant deeds to first transfer the properties to the Successor Agency, and then to transfer them back to the City as per the DOF approved Long Range Property Management Plan (LRPMP). It is anticipated that the initial deeds conveying the properties to the Successor Agency will be recorded within the next week. We would be happy to forward final copies of the recorded deeds to the State Controller's Office once they are recorded.

Attachments:

- Final Drafts - Grant Deeds City Transfer to Successor Agency

We respectfully request that the State Controller's Office review the additional facts outlined above and the enclosed supporting documentation.

Please don't hesitate to contact me should you have any questions or require additional documentation.

Respectfully,



Roberta Raper  
Finance Director

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

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