

MAYWOOD COMMUNITY DEVELOPMENT COMMISSION

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

October 2014



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California State Controller

October 28, 2014

Lilian Myers, City Manager/Chairperson of the Oversight Board
Maywood Community Development
Commission/Successor Agency
4319 East Slauson Avenue
Maywood, CA 90270

Dear Ms. Myers:

Pursuant to Health and Safety Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Maywood Community Development Commission (RDA) to the City of Maywood (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 \$10,271,000 in assets after January 1, 2011, including unallowable transfers to the City totaling \$2,600,000, or 25.31% of transferred assets. These assets must be turned over to the Successor Agency

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: John Naimo, Auditor-Controller
Los Angeles County Auditor-Controller
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
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

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Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Maywood Community Development Commission (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 \$10,271,000 in assets after January 1, 2011, including unallowable transfers to the City of Maywood (City) totaling \$2,600,000, or 25.31% of transferred assets. These assets 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 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 Maywood Community Development Commission transferred \$10,271,000 in assets after January 1, 2011, including unallowable transfers to the City of Maywood totaling \$2,600,000, or 25.31% of transferred assets. These assets must be turned over to the Successor Agency.

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 June 30, 2014. Lilian Myers, City Manager, responded by letter dated September 24, 2014, disagreeing 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 Maywood, 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

October 28, 2014

Finding and Order of the Controller

FINDING— Unallowable asset transfers to the City of Maywood

The Maywood Community Development Commission (RDA) made unallowable asset transfers totaling \$2,600,000 to the City of Maywood (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.

- On June 29, 2011, the RDA transferred cash for a loan repayment to the City in the amount of \$1,100,000.
- On January 31, 2012, the RDA transferred cash for a loan repayment to the City in the amount of \$1,500,000.

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 returned to the Successor Agency for disposition in accordance with H&S Code sections 34177 (d) and (e). However, it appears that some of those assets may also be subject to the provisions of H&S Code section 34181(a).

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 \$2,600,000 and turn them over to the Successor Agency.

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

City's Response

Please note that we respectfully disagree with the finding identified during the course of the RDA asset transfer review. It is the City's position that the \$2.6 million dollars identified in connection with the finding contained in the above referenced document should have been more accurately classified and treated as a recognized obligation of the former Maywood Redevelopment Agency.

See Attachment for the City's complete response.

SCO's Response

On November 1, 2013, the Successor Agency received a Department of Finance Finding of Completion. The Successor Agency may place loan agreements between the RDA and the City on the Recognized Obligation Payment Schedule, as an enforceable obligation, provided that the Oversight Board finds that the loan was for legitimate redevelopment purposes.

The Finding and Order of the Controller remain as stated.

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

Current assets	
Cash transfer – repayment of loan to the City on 6/29/2011	\$ 1,100,000
Cash transfer – repayment of loan to the City on 1/31/2012	<u>1,500,000</u>
Total unallowable asset transfers	<u>\$ 2,600,000</u>

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



City of Maywood

4319 East Slauson Avenue • Maywood, California 90270
Tel: (323) 562-5700 • Fax (323) 773-2806

September 24, 2014

Ms. Elizabeth Gonzalez, Chief
Local Government Compliance Bureau
State Controller's Office
Division of Audits
P.O. Pox 942850
Sacramento, CA 94258-5874

Re: RDA Asset Transfer Draft Report

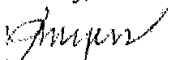
Dear Ms. Gonzalez,

I would like to take this opportunity to acknowledge the high level of professionalism exhibited by the State Controller's Office review staff during the visit to Maywood.

This letter will serve as the City's official response to the State Controller's Office review of the former Maywood Redevelopment Agency assets. Please note that we respectfully disagree with the finding identified during the course of the RDA asset transfer review. It is the City's position that the \$2.6 million dollars identified in connection with the finding contained in the above referenced document should have been more accurately classified and treated as a recognized obligation of the former Maywood Redevelopment Agency.

I would like to thank you in advance for your assistance in this matter. Should you, or anyone from your office, have any questions regarding this letter or require additional information, please do not hesitate to contact me. I look forward to working with your office in hope that we may reach a mutually agreeable course of action.

Sincerely,


Lilian Myers
City Manager

cc: Wan Tin (Sarah) Lo, Auditor

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

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