

**COMMUNITY REDEVELOPMENT
AGENCY OF THE CITY
OF LOS ANGELES**

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

July 2014



JOHN CHIANG
California State Controller

July 7, 2014

Steve Valenzuela, Chief Executive Officer and CFO
CRA/LA, A Designated Local Authority
448 S. Hill Street, Suite 1200
Los Angeles, CA 90013

Dear Mr. Valenzuela:

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

Our review found that the RDA transferred \$1,086,001,900 in assets after January 1, 2011, including unallowable transfers to the City totaling \$163,985,900, or 15.10% of transferred assets.

However, on December 4, 2012, the City turned over \$163,985,900 in assets to the Successor Agency. Therefore, no further action is necessary.

If you have any questions, please contact Elizabeth González, 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/mh

cc: John Naimo, Auditor-Controller
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Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Community Redevelopment Agency of the City of Los Angeles (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 \$1,086,001,900 in assets after January 1, 2011, including unallowable transfers to the City of Los Angeles (City) totaling \$163,985,900, or 15.10% of transferred assets.

However, on December 4, 2012, the City turned over \$163,985,900 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 an asset transfer 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 Community Redevelopment Agency of the City of Los Angeles transferred \$1,086,001,900 in assets after January 1, 2011, including unallowable transfers to the City of Los Angeles (City) totaling \$163,985,900, or 15.10% of transferred assets.

However, on December 4, 2012, the City turned over \$163,985,900 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 Official

At an exit conference on April 17, 2014, we discussed the review results with Steve Valenzuela, CEO and CFO, who agreed with the review results. Mr. Valenzuela further agreed that a draft review report was not necessary and that the report could be issued as final.

Restricted Use

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

July 7, 2014

Finding and Order of the Controller

**FINDING—
Unallowable asset
transfers to the
City of Los Angeles**

The Community Redevelopment Agency of the City of Los Angeles (RDA) made unallowable asset transfers of \$163,985,900 to the City of Los Angeles (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.

Unallowable asset transfers were as follows:

- Between January 1, 2011, and January 31, 2012, the RDA transferred \$113,314,900 in property to the City.
- On March 11, 2011, the RDA transferred \$50,671,000 in land fee rights to the City.

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. Those assets should be turned over to the Successor Agency for disposition in accordance with H&S Code section 34177(d) and (e). However, it appears that some of those 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 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 government purpose, such as roads, school buildings, parks, 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.

However, in November 2012, the City returned \$113,314,900 in property and \$50,671,000 in land fee rights to the Successor Agency.

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 \$163,985,900. However, in November 2012, the City turned over \$163,985,900 in current assets to the Successor Agency. Therefore, no further action is necessary.

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

Unallowable Asset Transfers to the City of Los Angeles:

Transfers to the City of Los Angeles:

Property transferred on various dates	\$ 113,314,900
Land Fee Rights transferred on March 11, 2011	<u>50,671,000</u>

Total Unallowable Asset Transfer	<u>163,985,900</u>
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Corrective Actions taken in November 2012:

Properties Returned to the Successor Agency	(113,314,900)
Land Fee Rights Returned to the Successor Agency	<u>(50,671,000)</u>

Total asset transfers subject to H&S Code section 34167.5	<u>\$ —</u>
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