

SEBASTOPOL COMMUNITY DEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

June 2014



JOHN CHIANG
California State Controller

June 19, 2014

Lawrence McLaughlin, City Manager
City of Sebastopol
P.O. Box 1776
Sebastopol, CA 95473

Dear Mr. McLaughlin:

Pursuant to Health and Safety Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Sebastopol Community Development Agency (RDA) to the City of Sebastopol (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 \$9,956,107 in assets after January 1, 2011, including unallowable transfers to the City, totaling \$329,888, or 3.31% of transferred assets.

However, on November 15, 2012, the City turned over \$329,888 in cash 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/sk

cc: David Botelho, Program Budget Manager
California Department of Finance
Richard J. Chivaro, Chief Legal Counsel
State Controller's Office
Elizabeth González, Bureau Chief
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Asset Transfer Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Sebastopol Community Development 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 \$9,956,101 in assets after January 1, 2011, including unallowable transfers to the City of Sebastopol (City), totaling \$329,888, or 3.31% of transferred assets.

However, on November 15, 2012, the City turned over \$329,888 in cash 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 Sebastopol Community Development Agency transferred \$9,956,101 in assets after January 1, 2011, including unallowable transfers to the City of Sebastopol (City), totaling \$329,888, or 3.31% of transferred assets.

However, on November 15, 2014, the City turned over \$329,888 in cash 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 March 12, 2014, we discussed the review results with Lawrence McLaughlin, City Manager, who agreed with the review results. Mr. McLaughlin 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 Sebastopol, 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

June 19, 2014

Finding and Order of the Controller

**FINDING—
Unallowable asset
transfer to the City
of Sebastopol**

The Sebastopol Community Development Agency made an unallowable transfer totaling \$329,888 to the City of Sebastopol (City). On March 2, 2011, the RDA made a payment to the City for Clean Renewable Energy Bonds. The asset transfer to the City occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

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 that were not contractually committed to a third party must be returned to the Successor Agency for disposition in accordance with H&S Code sections 34177(d).

Order of the Controller

Pursuant to H&S Code section 34167.5, the City is ordered to turn over \$329,888 in cash to the Successor Agency. However, on November 15, 2012, the City of Sebastopol turned over \$329,888 in cash to the Successor Agency. Therefore, no further action is necessary.

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

Current assets	
Cash – unallowable payment	\$ 329,888
Total unallowable transfers to the City of Sebastopol	329,888
Cash turned over to the Successor Agency on November 15, 2012	<u>(329,888)</u>
Total amount subject to Health and Safety Code section 34167.5	<u>\$ —</u>

¹ See the Finding and Order of the Controller section.

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