

COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF GRAND TERRACE

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

December 2014



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California State Controller

December 31, 2014

Cynthia Fortune, Finance Director
City of Grand Terrace/Successor Agency
22795 Barton Road
Grand Terrace, CA 92313

Dear Ms. Fortune:

Pursuant to Health and Safety Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Community Redevelopment Agency of the City of Grand Terrace (RDA) to the City of Grand Terrace (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 \$38,720,326 in assets after January 1, 2011, including unallowable transfers to the City totaling \$1,086,857, or 2.81% of transferred assets. However, on February 25, 2014, the City turned over \$1,086,857 in cash to the Successor Agency, which was subsequently remitted to the County Auditor-Controller. 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: Walt Stanckiewicz, Chair

City of Grand Terrace Redevelopment/Successor Agency

Larry Walker, Auditor and Controller

San Bernardino County

David Botelho, Program Budget Manager

California Department of Finance

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Contents

Review Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Views of Responsible Officials	2
Restricted Use	3
Finding and Order of the Controller	4
Schedule 1—Unallowable Asset Transfers to the City of Grand Terrace	5

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 Grand Terrace (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 \$38,720,326 in assets after January 1, 2011, including unallowable transfers to the City of Grand Terrace (City) totaling \$1,086,857, or 2.81% of transferred assets. However, on February 25, 2014, the City turned over \$1,086,857 in cash to the Successor Agency, which was subsequently remitted to the County Auditor-Controller. 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 Community Redevelopment Agency of the City of Grand Terrace transferred \$39,152,326 in assets after January 1, 2011, including unallowable transfers to the City of Grand Terrace (City) totaling \$1,086,857, or 2.81% of transferred assets. However, on February 25, 2014, the City turned over \$1,086,857 in cash to the Successor Agency, which was subsequently remitted to the County Auditor-Controller. 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

At an exit conference on July 10, 2014, we discussed the review results with Cynthia Fortune, Finance Director; Kenneth Henderson, City Manager; and Robert Khuu, Agency Counsel. On December 11, 2014, Ms. Fortune agreed that the 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 Grand Terrace, 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 31, 2014

Finding and Order of the Controller

**FINDING—
Unallowable asset
transfers to the
City of Grand
Terrace**

The Community Redevelopment Agency of the City of Grand Terrace (RDA) made unallowable asset transfers of \$1,086,857 to the City of Grand Terrace (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 February 8, 2011, the RDA performed an unallowable asset transfer in the form of a reduction of advance receivables due from the City in the amount of \$819,235. This transfer was to give credit for work the City performed for the RDA in regard to public infrastructure improvements performed on Mt. Vernon Avenue.
- On February 22, 2011, the RDA performed an unallowable asset transfer in the form of a reduction of advance receivables due from the City in the amount of \$267,622. This transfer was related to a loan the City general fund had authorized for the RDA in 2003 to acquire property at Reed Ave. and Van Buren Street, according to a memorandum dated February 19, 2003. On February 22, 2011, the RDA authorized repayment of the loan by crediting \$267,622 to advances receivables due from the City.

Pursuant to 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(d) and (e).

Order of the Controller

Pursuant to H&S Code section 34167.5, the City is ordered to reverse the transfers in the amount of \$1,086,857 and turn over the assets to the Successor Agency. However on February 25, 2014, the City turned over \$1,086,857 in cash to the Successor Agency, which was subsequently remitted to the San Bernardino County Auditor-Controller. Therefore, no further action is necessary.

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

Reduction of Advance Receivable Due from the City on February 8, 2011	\$ 819,235
Reduction of Advance Receivable Due from the City on February 22, 2011	<u>267,622</u>
Total Unallowable Transfers	1,086,857
Cash turned over to the Successor Agency on February 25, 2014	<u>(1,086,857)</u>
Total amount subject to H&S Code section 34167.5	<u>\$ —</u>

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