MANTECA
REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012

BETTY T. YEE
California State Controller

February 2015

BETTY T. YEE
California State Controller

February 18, 2015

Karen McLaughlin, City Manager
Manteca Redevelopment Successor Agency
1001 West Center Street, Suite B
Manteca, CA 95337

Dear Ms. McLaughlin:

Pursuant to Health and Safety Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Manteca Redevelopment Agency (RDA) to the City of Manteca (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 $102,672,991 in assets after January 1, 2011, including unallowable transfers to the City totaling $58,959,477, or 57.42% of transferred assets.

However, on June 30, 2012, the City turned over $14,829,795 in cash to the Successor Agency. Also, on December 31, 2012, the City turned over $43,670,205 in bond proceeds to the Successor Agency. Therefore, the remaining $459,477 in unallowable transfers 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 or by email at egonzalez@sco.ca.gov.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

cc: Jerome Wilverding, Auditor-Controller
San Joaquin County
Daryll Quaresma, Oversight Board Chair
Manteca Redevelopment Successor Agency
Suzanne Mallory, Finance Director
City of Manteca
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
Nicole Baker, 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 Manteca 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 $102,672,991 in assets after January 1, 2011, including unallowable transfers to the City of Manteca (City) totaling $58,959,477, or 57.42% of transferred assets.

However, on June 30, 2012, the City turned over $14,829,795 in cash to the Successor Agency. Also, on December 31, 2012, the City turned over $43,670,205 in bond proceeds to the Successor Agency. Therefore, the remaining $459,477 in unallowable transfers 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 Manteca Redevelopment Agency transferred $102,672,991 in assets after January 1, 2011, including unallowable transfers to the City of Manteca (City) totaling $58,959,477, or 57.42% of transferred assets.

However, on June 30, 2012, the City turned over $14,829,795 in cash to the Successor Agency. Also, on December 31, 2012, the City turned over $43,670,205 in bond proceeds to the Successor Agency. Therefore, the remaining $459,477 in unallowable transfers must be turned over to the Successor Agency.

Details of our findings are described in the Findings and Orders of the Controller section of this report.

Views of Responsible Officials

We issued a draft review report on October 30, 2014. Karen McLaughlin, City Manager, responded by letter dated November 7, 2014. 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 Manteca, 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

February 18, 2015

Finding and Order of the Controller

FINDING— Unallowable asset transfers to the City of Manteca

The Manteca Redevelopment Agency (RDA) made unallowable asset transfers totaling $58,959,477 to the City of Manteca (City). The transfers 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:

- On March 7, 2011, the RDA made an unallowable transfer of $14,829,795 in cash to the City.
- On March 7, 2011, the RDA made an unallowable transfer of $43,670,205 in bond proceeds to the City.
- On March 7, 2011, the RDA made an unallowable transfer of $459,477 in property 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. 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 transfer of assets totaling $58,959,477, and turn them over to the Successor Agency. However, on June 30, 2012 the City turned over $14,829,795 in cash to the Successor Agency, and on December 31, 2012 the City turned over $43,670,205 in bond proceeds to the Successor Agency. Therefore, the remaining amount of $459,477 must be turned over to the Successor Agency.

City's Response to Draft

The City states that the property in question is City property. Furthermore, subsequent to the SCO asset transfer review, the California Department of Finance (DOF) instructed the Successor Agency to amend its Long-Range Property Management Plan (LRPMP) and remove Parcel No. 8, as the DOF recognized that this property is owned by the City.

See Attachment for the City's complete response.

SCO's Comment

The property in question became City-owned property as a result of an unallowable transfer by the RDA to the City on March 7, 2011, per RDA Resolution No. 2011-07R. The property must be turned over to the Successor Agency for proper disposition on the LRPMP.

The finding and Order of the Controller remain as stated.

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

Cash transferred to the City on March 7, 2011	$ 14,829,795
Bond Proceeds transferred to the City on March 7, 2011	43,670,205
Properties transferred on March 7, 2011 (APN: 221-030-21, 221-020-28, 221-020-24)[1]	459,477
Total Unallowable Asset Transfers to the City of Manteca	58,959,477
Cash turned over to the Successor Agency on June 30, 2012	(14,829,795)
Bond Proceeds turned over to the Successor Agency on December 31, 2012	(43,670,205)
The amount subject to Health and Safety Code section 34167.5	$ 459,477

[1] Note: APN's were subsequently consolidated into other APN's.

Attachment—
Auditee's Response to Draft Review Report

November 7, 2014

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

RE: Manteca Redevelopment Agency Asset Transfer Review – Draft Report

Dear Ms. Gonzalez:

The following information regarding the above-referenced draft report is being submitted for your consideration. The $459,477 listed as an unallowable transfer is associated with real property that has been included in the Successor Agency's Long-Range Property Management Plan (LRPMP), identified as Parcel No. 8. The LRPMP was submitted to the California Department of Finance (DOF) on November 19, 2013 and is currently under review.

On September 30, 2014, subsequent to the Manteca Redevelopment Agency Asset Transfer Review, the Agency was informed by the DOF to amend the Agency's LRPMP. As part of the amendment, the Agency was advised to remove Parcel No. 8 from the LRPMP, as the DOF is recognizing this property as being owned by the City of Manteca. The draft Amended Long-Range Property Management Plan has been submitted to the DOF for final review and comment. Once approval has been received by the DOF, the amended document will be presented to the Successor Agency and the Oversight Board for final approval.

As the Agency has been instructed by the DOF to amend the LRPMP to indicate that the property in question (APN No. 221-030-25) is a City asset, we respectfully request the Draft Report be amended or annotated to indicate that the listed property has been deemed City property, and does not need to be turned over to the Successor Agency as part of the Asset Transfer Review.

Correspondence received from the DOF regarding the LRPMP amendment has been included for your reference.

If you have any questions, please feel free to contact me by telephone at (209) 456-8062 or email at kmclaughlin@ci.manteca.ca.us, or Suzanne Mallory by telephone at (209) 456-8765 or email at smallory@ci.manteca.ca.us.

Sincerely,

Karen L. McLaughlin

KAREN L. McLAUGHLIN
City Manager

Enclosures

c: Suzanne Mallory, Finance Director, City of Manteca
Jeffrey V. Brownfield, CPA, Chief, Division of Audits, State Controller's Office
Richard J. Chivaro, Chief Legal Counsel, State Controller's Office
Scott Freesmeier, Audit Manager, Division of Audits, State Controller's Office
Nicole Baker, Auditor-in-Charge, Division of Audits, State Controller's Office

McLaughlin, Karen

From: Smail, Don
Sent: Thursday, October 02, 2014 1:40 PM
To: Lamorena, Medy
Cc: Mallory, Suzanne; Griffe, Wendy; Morgan, Seymour
Subject: RE: Manteca - LRPMP

Hello Medy,

Many thanks for your email and summary of our recent conference call pertaining to the Manteca LRPMP. I am working on making the requested revisions to the document, and will send it to you and Seymour for preview and final comment, prior to proceeding with submitting to our Successor Agency and Oversight Board for approval of the amended version.

Many thanks for your prompt response to my questions and request for a conferenc call. We look forward to bringing closure to the Manteca LRPMP very soon.

Best Regards,

Don Smail

From: Lamorena, Medy [Medy.Lamorena@dof.ca.gov]
Sent: Thursday, October 02, 2014 12:41 PM
To: Smail, Don
Cc: Mallory, Suzanne; Griffe, Wendy; Morgan, Seymour
Subject: Manteca - LRPMP

Good Afternoon Don,

As discussed on Tuesday, 9/30/14, here's a brief summary of the revisions that the Agency will be addressing in the amended LRPMP:

1. Parcel Nos. 1, 2, and 3 (APN: 241-310-22; 221-050-14; and 221-190-36) – The stated permissible use of these properties: Sale of Property; however, the intended use of sale proceeds need to be included in the LRPMP to comply with HSC section 34191.5 (c) (2) (B). As you have mentioned, the Agency is planning to get Parcel Nos. 1 and 2 re-appraised.

2. Parcel No. 3 (APN 221-190-36) – The stated permissible use: Sale of Property; however, the permissible use detail also stated that the property will be leased at a discounted rate. Leasing the property is not a permissible use pursuant to HSC section 34191.5 (c) (2).

3. Parcel No. 5 (APN 221-020-35) – The stated permissible use: Governmental Use. The Agency will amend this to "Sale of Property" and comply with HSC section 34191.5 (c) (2) (B).

4. Parcel Nos. 4, 6, and 8 (APN: 221-040-61; 241-300-06; and 221-030-25) – Agency will amend the LRPMP to remove these properties as these are owned by the City of Manteca. Please provide a copy of the grant deed verifying ownership of these properties.

Once you have a draft of the Amended LRPMP, please feel free to send it to me and Seymour prior to submitting it to your Oversight Board for final approval.

In addition, I have included the information below as a reference:

Permissible Use Key (HSC section 34191.5 (c) (2))

1. **Governmental Use** - The transfer of those assets that were constructed and used for governmental purposes, such as roads, school buildings, parks, police and fire stations, libraries, and local administrative buildings, to the proper public jurisdiction (HSC section 34180 (a)).
   - If a property is going to be developed into a governmental use property in the future (i.e. the use of the property after development will qualify as Governmental Use), the property may qualify and be eligible for transfer as Governmental Use.

2. **Future Development** – The transfer of property to the sponsoring entity for those properties to be used pursuant to a project identified in an approved Redevelopment Plan, Community Plan, or Five-Year Implementation Plan. This permissible use requires that the sponsoring entity and the other taxing entities enter into a compensation agreement, pursuant to HSC section 34180 (f). Therefore, the LRPMP must at least mention the *intent* for the sponsoring entity (in this case the City) to enter into a compensation agreement with the other taxing entities (i.e. Finance does not require an executed compensation agreement for the approval of a LRPMP, as long as there is language expressing the intent). Please read HSC section 34180 (f) for more information.

3. **Sale of Property** – Self-explanatory. Per HSC section 34191.5 (c) (2) (B), the LRPMP must address the use of sale proceeds as (1) to fulfill an enforceable obligation(s) or (2) to be distributed as property tax to the taxing entities (a combination of both is allowable).

4. **Fulfill an Enforceable Obligation** - Continued use (retention) or disposition of a property as mandated by an existing enforceable obligation. In cases of retention until an enforceable obligation expires, a secondary permissible use must be addressed in the LRPMP.

Thank you and please let me know if your have any questions or if I missed anything from our discussion.

Medy Lamorena
Department of Finance
Phone: (916) 445-1546 ext. 3724
E-mail: Medy.Lamorena@dof.ca.gov

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