



September 11, 2014

Ms. Sylvia Miledi, Accountant
City of Needles
817 Third Street
Needles, CA 92363

Dear Ms. Miledi:

Subject: Other Funds and Accounts Due Diligence Review

This letter supersedes the California Department of Finance's (Finance) original Other Funds and Accounts (OFA) Due Diligence Review (DDR) determination letter dated August 7, 2014. The City of Needles Successor Agency (Agency) submitted an oversight board approved OFA DDR to Finance on May 23, 2014. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Since the Agency did not meet the January 15, 2013 submittal deadline pursuant to HSC section 34179.6 (c), Finance is not bound to completing its review and making a determination by the April 1, 2013 deadline pursuant to HSC section 34179.6 (d). Finance issued an OFA DDR determination letter on August 7, 2014. Subsequently, the Agency requested a Meet and Confer session on one or more items adjusted by Finance. The Meet and Confer session was held on August 20, 2014.

HSC section 34179.6 (d) authorizes Finance to adjust the DDR's stated balance of OFA available for distribution to the taxing entities. Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of the specific items being disputed. Specifically, the following adjustments were made:

- Repayment of a city loan in the amount of \$50,000 is not allowed. Finance continues to object to this payment. This obligation was denied by Finance during the January through June 2013 Recognized Obligation Payment Schedule (ROPS III) review. The Agency did not provide any additional documents during the Meet and Confer process to support that this item is an enforceable obligation. Therefore, Finance continues to increase the amount available for distribution by \$50,000.

Based on our review of the city loan on the ROPS III, the agreement was entered into in 1984 or within the first two years of the date of creation. However, the initial loan and interest had already been paid off through payments made over the years. The additional advances or loans occurred in 1989 and 1992, which is after the first two years of the former redevelopment agency's (RDA) creation. Therefore, the city loan is not an enforceable obligation.

Per HSC section 34179.5 (c) (2), the dollar value of assets and cash transferred by the former RDA or successor agency to the city, county, or city and county that formed the former RDA between January 1, 2011 through June 30, 2012, must be evidenced by documentation of the enforceable obligation that required the transfer. HSC section 34179.5 states enforceable obligation includes any of the items listed in subdivision (d) of section 34171, contracts detailing specific work that were entered into by the former RDA prior to June 28, 2011, with a third party other than the city, county, or city and county that created the former RDA.

- The Agency requested to retain \$1,474,285 in current unencumbered OFA balances. Finance initially determined that the Agency was allowed to retain \$101,125 for the July through December 2012 (ROPS II) period. Based on further review during the Meet and Confer process, the Agency is allowed to retain a total of \$347,409 (\$146,849 + \$200,560) for enforceable obligations, as detailed below. However, the Agency's request to retain the remaining \$1,126,876 (\$1,474,285 – \$347,409) to cover future enforceable obligations is not allowed because the Agency has not adequately demonstrated there will be insufficient property tax revenues. Therefore, Finance will increase the amount available for distribution by \$1,126,876.

For the ROPS II period, Finance approved \$164,627 and the County Auditor Controller (CAC) distributed \$146,849 from the Redevelopment Property Tax Trust Fund (RPTTF) in June 2012. The Agency reported actual expenditures of \$141,975 for the ROPS II period and a Prior Period Adjustment of \$4,874 was made during the July through December 2013 (ROPS 13-14A) period. Therefore, the Agency may retain the \$146,849 distributed by the CAC for the ROPS II period because the ROPS II distribution was included in the June 30, 2012 cash balance.

For the ROPS III period, Finance approved \$276,813 and the CAC distributed \$205,982 from the RPTTF in January 2013. However, the Agency reported actual expenditures of \$170,006 for the ROPS III period and a Prior Period Adjustment of \$35,976 was made during the January through June 2014 (ROPS 13-14B) period. As such, the Agency does not need to retain additional funds for the ROPS III period because the ROPS III actual expenditures were fully funded by the RPTTF distribution and the RPTTF distribution was not part of the June 30, 2012 cash balance.

For the ROPS 13-14A period, Finance approved \$410,126 and the CAC distributed \$141,378 from the RPTTF and applied a \$4,874 Prior Period Adjustment from the ROPS II period. The Agency reported actual expenditures of \$346,812, which resulted in the Agency expending \$200,560 (\$346,812 - \$141,378 - \$4,874) from Reserve balances. Therefore, the Agency may retain \$200,560 to cover the ROPS 13-14A RPTTF shortfall.

Finance notes that HSC section 34177 (a) (3) states that only those payments listed in the approved ROPS may be made from the funding source specified in the ROPS. However, HSC section 34177 (a) (4) goes on to state that with prior approval from the oversight board, the successor agency can make payments for enforceable obligations from sources other than those listed in the ROPS. In the future, the Agency should obtain prior oversight board approval when making payments for enforceable obligations from a funding source other than those approved by Finance.

For the ROPS 13-14B period, Finance approved \$322,837 and the CAC distributed \$261,970 from the RPTTF and applied a \$35,976 Prior Period Adjustment from the ROPS III period for a total of \$297,946 (\$261,970 + \$35,976) in available funding for the ROPS 13-14B. The Agency reported actual expenditures of \$263,813. Therefore, the Agency does not need to retain additional funds for the ROPS 13-14B period because the ROPS 13-14B actual expenditures were fully funded.

During the Meet and Confer process, the Agency provided a cash flow analysis and contends the Agency anticipates RPPTF funding shortfall in future ROPS periods. HSC section 34179.5 (c) (5) (D) requires an extensive analysis before retention of current unencumbered balances can be contemplated. This includes, but is not limited to, providing a detailed projection of the property tax revenues and other general purpose revenues to be received by the Agency, together with both the amount and timing of the bond debt service payments. This projection should cover the period in which the oversight board anticipates the Agency will have insufficient property tax revenue to pay the specified enforceable obligations. However, based on the analysis provided, it is not evident that future property tax revenues will be insufficient to cover the debt service payments or that there is a need to retain additional OFA balances.

Should a deficit occur in the future, HSC provides successor agencies with various methods to address short term cash flow issues. These may include requesting a loan from the city pursuant to HSC section 34173 (h) or subordinating pass-through payments pursuant to HSC section 34183 (b). The Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation if a deficiency should occur.

The Agency did not object to the following adjustment made by Finance during the Meet and Confer process. HSC section 34179.6 (d) authorizes Finance to make adjustments. We maintain that the following adjustment is appropriate:

- Our review indicates the total amount of assets held as of June 30, 2012 should be \$1,656,438. The Agency did not report a negative cash balance for Fund 270 in the amount of \$25,014. As such, the total amount of assets held as of June 30, 2012 has been decreased by \$25,014, from \$1,681,452 to \$1,656,438.

The Agency's OFA balance available for distribution to the affected taxing entities is \$994,958 (see table below).

OFA Balances Available for Distribution to Taxing Entities	
Available Balance per DDR	(156,904)
Finance Adjustments	
Add:	
Adjustment to the June 30, 2012 balance	(25,014)
Disallowed transfers	50,000
Requested retained balance not supported	1,126,876
Total OFA available to be distributed	994,958

HSC section 34179.6 (f) requires successor agencies to transmit to the county auditor-controller the amount of funds identified in the above table within five working days, plus any interest

those sums accumulated while in the possession of the recipient. Upon submission of payment, please provide proof of payment to Finance within five business days.

If funds identified for transmission are in the possession of the successor agency, and if the successor agency is operated by the city or county that created the former redevelopment agency, then failure to transmit the identified funds may result in offsets to the city's or the county's sales and use tax allocation, as well as its property tax allocation. If funds identified for transmission are in the possession of another taxing entity, the successor agency is required to take diligent efforts to recover such funds. A failure to recover and remit those funds may result in offsets to the other taxing entity's sales and use tax allocation or to its property tax allocation. If funds identified for transmission are in the possession of a private entity, HSC section 34179.6 (h) (1) (B) states that any remittance related to unallowable transfers to a private party may also be subject to a 10 percent penalty if not remitted within 60 days.

Failure to transmit the identified funds will also prevent the Agency from being able to receive a finding of completion from Finance. Without a finding of completion, the Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4. Specifically, these provisions allow certain loan agreements between the former redevelopment agency (RDA) and the city, county, or city and county that created the RDA to be considered enforceable obligations. These provisions also allow certain bond proceeds to be used for the purposes in which they were sold and allows for the transfer of real property and interests into the Community Redevelopment Property Trust Fund once Finance approves the Agency's long-range property management plan.

In addition to the consequences above, willful failure to return assets that were deemed an unallowable transfer or failure to remit the funds identified above could expose certain individuals to criminal penalties under existing law.

Pursuant to HSC section 34167.5, the California State Controller's Office (Controller) has the authority to claw back assets that were inappropriately transferred to the city, county, or any other public agency. Determinations outlined in this letter do not in any way eliminate the Controller's authority.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Bonnie Luttrell, Director of Finance, City of Needles
Ms. Linda Santillano, Property Tax Manager, San Bernardino County
California State Controller's Office