

CITY OF SACRAMENTO REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

February 2013



JOHN CHIANG
California State Controller

February 7, 2013

John Shirey, City Manager
City of Sacramento Redevelopment/Successor Agency
915 I Street, 5th Floor
Sacramento, CA 95814

Dear Mr. Shirey:

Pursuant to Health and Safety code section 34167.5, the State Controller's Office reviewed all asset transfers made by the City of Sacramento Redevelopment Agency to the City of Sacramento 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 it should be turned over to the City of Sacramento Redevelopment 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 of Sacramento or any other public agencies have been reversed.

Our review found that the City of Sacramento Redevelopment Agency transferred \$203,662,101 in assets. These included unallowable transfers of assets totaling \$301,095, or 0.15% that should have been turned over to the Successor Agency. However, on December 3, 2012, the City of Sacramento Redevelopment Agency Successor Agency Oversight Board approved the transfer because the assets are used for housing purposes. The City of Sacramento does not need to reverse the transfer of those assets.

If you have any questions, please contact Steven Mar, Bureau Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: Jay Schenirer, Chair of Oversight Board
City of Sacramento Redevelopment/Successor Agency
Dennis W. Kauffman, Jr., Account Division Manager
City of Sacramento Redevelopment/Successor Agency
Steven Szalay, Local Government Consultant
California Department of Finance
Richard J. Chivaro, Chief Legal Counsel
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Asset Transfer Assessment Review Report

Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the City of Sacramento 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 any rights to payments of any kind from any source.

Our review found that the City of Sacramento RDA transferred \$203,662,101 in assets. These included unallowable transfers of assets totaling \$301,095, or 0.15%, that should have been turned over to the City of Sacramento Redevelopment Successor Agency (Successor Agency). However, on December 3, 2012, the Successor Agency Oversight Board approved the transfer because the assets are used for housing purposes. The City of Sacramento does not need to reverse the transfer of those assets.

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 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 Code (H&S Code) beginning with section 34161.

In accordance with the requirements of H&S Code section 34167.5, the State Controller is required to review the activities of RDAs, "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," and the date at which the RDA ceases to operate, or January 31, 2012, whichever is earlier.

The SCO has identified transfers of assets that occurred during that period between the City of Sacramento RDA, the City of Sacramento, and/or other public agencies. 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 order to ensure compliance with this order.

Objectives, 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 operations and procedures.
- Reviewed meeting minutes, resolutions, and ordinances of the Sacramento City Council, RDA, and City of Sacramento Housing Authority.
- 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 City of Sacramento RDA transferred \$203,662,101 in assets. These included unallowable transfers of assets totaling \$301,095, or 0.15%, that should have been turned over to the City of Sacramento Redevelopment Successor Agency.

Unallowable Assets Transferred:

Unallowable assets transferred to City of Sacramento Housing Authority (See Schedule 1 and Attachment 1)	\$ 301,095
Total Unallowable Transfers	<u>\$ 301,095</u>

However, on December 3, 2012, the Oversight Board approved the transfer because the assets are used for housing purposes. The City of Sacramento does not need to reverse the transfer of those assets. Details of our findings are in the Finding and Order of the Controller section of this report.

Views of Responsible Official

We issued a draft review report on December 20, 2012. Dennis W. Kauffman, Jr., Accounting Division Manager of the City of Sacramento Redevelopment Successor Agency, responded by e-mail dated December 28, 2012. The city's response is included in this final review report.

Restricted Use

This report is solely for the information and use of the City of Sacramento, the Successor Agency, the City of Sacramento RDA Successor Agency Oversight Board, the Successor Housing Authority, 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
Chief, Division of Audits

February 7, 2013

Finding and Order of the Controller

FINDING— Unallowable asset transfers to the Housing Authority of the City of Sacramento

The City of Sacramento Redevelopment Agency (RDA) transferred \$301,095 in assets to the City of Sacramento Housing Authority (Housing Authority). All of the asset transfers to the Housing Authority occurred during the period of January 1, 2011, through January 31, 2012, and the assets were not contractually committed to a third party prior to June 28, 2011. Those assets consisted of real property.

Unallowable asset transfers were as follows:

- On April 5, 2011, the RDA transferred real property with a book value of \$301,095 to the Housing Authority. To accomplish those transfers, the Housing Authority and the RDA entered into a disposition and development agreement under RDA Resolution No. 2011-021. Based on Health and Safety (H&S) Code section 34167.5, the RDA was not allowed to transfer physical assets or cash to a public agency after January 1, 2011.
- On December 3, 2012, the City of Sacramento RDA Successor Agency (Successor Agency) Oversight Board (Oversight Board) approved the transfer of assets to the City under Oversight Board Resolution 2012-021, pursuant to H&S code Section 34181(c).

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. Those assets should be turned over to the City of Sacramento Redevelopment Successor Agency for disposition in accordance with H&S Code section 34177(d) and (e).

However, it appears that some of those assets may be subject to the provisions of H&S Code section 34181(c). H&S Code section 34181(c) states:

The Oversight Board shall direct the successor agency to do the following:

(c) Transfer housing responsibilities and all rights, powers, duties, and obligations along with any amounts on deposit in the Low and Moderate Income Housing Fund to the appropriate entity pursuant to Section 34176.

Order of the Controller

On December 3, 2012, the Oversight Board approved the transfer because the assets are used for housing purposes under H&S code section 34181(c). Therefore, the City of Sacramento does not need to reverse the transfer of those assets.

City's Response

“The City of Sacramento received and accepts the Asset Transfer Review Report. We do not have any comments to provide.”

SCO's Comment

The SCO notes the statement made by the City of Sacramento. The order remains the same.

**Schedule 1—
RDA Assets Transferred to the Housing
Authority of the City of Sacramento
After January 1, 2011**

	<u>Amount</u>
Capital Assets	
3700 Rio Linda Boulevard ¹	\$ 176,443
*3714 Rio Linda Boulevard ¹	<u>124,652</u>
Total Unallowable Asset Transfers	<u>\$ 301,095</u>

¹ Detail listing of assets on Attachment 1.

* Value includes APN 251-0093-024.

**Attachment 1—
Summary of Asset Transfers, Capital Assets
After January 1, 2011**

Section 3. The Properties are to be conveyed from the Agency to the Housing Authority at no cost, pursuant to Health and Safety code Section 33442 by the execution of the DDA, attached hereto as Exhibit A and conditional on satisfactory completion of the project. Conveyance of the following properties as approved:

3700 Rio Linda Boulevard APN: 251-0093-013
3714 Rio Linda Boulevard APN: 251-0093-014
0 Rio Linda Boulevard APN: 251-0093-024

Resolution 2011-021

April 5, 2011

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Source - Redevelopment Agency of the City of Sacramento Resolution Authorizing transfer of Capital Assets.

**State Controller's Office
Division of Audits
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Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>