

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES ON
THE LOW AND MODERATE INCOME HOUSING FUND
ASSOCIATED WITH CALIFORNIA HEALTH AND SAFETY
CODE SECTIONS 34179.5(c)(1) THROUGH 34179.5(c)(3)
AND SECTIONS 34179.5(c)(5) THROUGH 34179.5(c)(6)
FOR THE SUCCESSOR AGENCY OF THE
CITY OF RICHMOND
COMMUNITY REDEVELOPMENT AGENCY**

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AND SECTIONS 34179.5(c)(5) THROUGH 34179.5(c)(6)**

To the Oversight Board of the Successor Agency of
the City of Richmond Community Redevelopment Agency
Richmond, California

We have applied the procedures below, which were agreed to by the Successor Agency of the City of Richmond Community Redevelopment Agency (Successor Agency), solely to assist you with respect to the procedures required under California Health and Safety Code Sections 34179.5(c)(1) through 34179.5(c)(3) and Sections 34179.5(c)(5) through 34179.5(c)(6) for the Low and Moderate Income Housing Fund of the Successor Agency for the year ended June 30, 2012, also referred to as the Due Diligence Review by the Code. These procedures were suggested by the Governmental Auditing and Accounting Committee, as agreed to by the California State Department of Finance and State Controller's Office. Management of the Successor Agency is responsible for the accounting records, the Attachments and information provided pertaining to the statutory compliance pursuant to Health and Safety Code Section 34179.5. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures you requested us to perform and our findings were as follows:

Citation:

34179.5(c)(1) The dollar value of assets transferred from the former redevelopment agency to the successor agency on or about February 1, 2012.

Suggested Procedure(s):

1. Obtain from the Successor Agency a listing of all assets that were transferred from the former redevelopment agency to the Successor Agency on February 1, 2012. Agree the amounts on this listing to account balances established in the accounting records of the Successor Agency. Identify in the Agreed-Upon Procedures (AUP) report the amount of the assets transferred to the Successor Agency as of that date.

Results:

We obtained the following listing from City of Richmond staff and agreed the amount transferred to the Successor Agency to the accounting records without exception.

	Redevelopment Agency Low and Moderate Income Fund Balances January 31, 2012 (Prior to transfer)	Balances transferred to Housing Successor on February 1, 2012	Balances transferred to the Successor Agency on February 1, 2012
ASSETS			
Cash and Investments	\$2,682,973		\$2,682,973
Restricted Cash and Investments	888,839		888,839
Restricted Cash and Investments with Fiscal Agent:			
Debt Service Reserves and Debt Payment Funds	3,278,889		3,278,889
Project Funds	5,520,997		5,520,997
Grant Receivable - Miraflores	1,699,735		1,699,735
Loans Receivable	16,286,781	\$16,286,781	-
Advance to Richmond Housing Authority	174,067	174,067	-
Total Assets	<u>\$30,532,281</u>	<u>\$16,460,848</u>	<u>\$14,071,433</u>

Citation:

34179.5(c)(2) The dollar value of assets and cash and cash equivalents transferred after January 1, 2011, through June 30, 2012, by the redevelopment agency or the successor agency to the city, county, or city and county that formed the redevelopment agency and the purpose of each transfer. The review shall provide documentation of any enforceable obligation that required the transfer.

Suggested Procedure(s):

2. If the State Controller’s Office has completed its review of transfers required under both Sections 34167.5 and 34178.8 and issued its report regarding such review, attach a copy of that report as an exhibit to the AUP report. If this has not yet occurred, perform the following procedures:
 - A. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the former redevelopment agency to the city, county, or city and county that formed the redevelopment agency for the period from January 1, 2011 through January 31, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency’s enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.
 - B. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the Successor Agency to the city, county, or city and county that formed the redevelopment agency for the period from February 1, 2012 through June 30, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency’s enforceable obligations or other legal requirements. Provide this listing as an attachment to this Agreed Upon Procedures report.

- C. For each transfer, obtain the legal document that formed the basis for the enforceable obligation that required any transfer. Note in the AUP report the absence of any such legal document or the absence of language in the document that required the transfer.

Results:

The State Controller's Office has completed its review of transfers under Section 34167.5 and issued its report dated November 12, 2013. See Attachment A.

Attachment A indicates the transfer of loans receivable in the amount of \$16,460,848 to the Housing Successor was unallowable because it had not been approved by the Successor Agency's Oversight Board. The Oversight Board approved the transfer of the Housing Assets, including these loans receivable, to the Housing Successor with Resolution 2-14 on February 25, 2014. Therefore, the transfer is not included as an unallowable transfer in Attachment B.

Although the above review was not performed under Section 34178.8, that Section is related to transfers to the City or another public agency after January 31, 2012. Per City staff, the Successor Agency did not make any such transfers.

Citation:

34179.5(c)(3) The dollar value of any cash or cash equivalents transferred after January 1, 2011, through June 30, 2012, by the redevelopment agency or the successor agency to any other public agency or private party and the purpose of each transfer. The review shall provide documentation of any enforceable obligation that required the transfer.

Suggested Procedure(s):

3. If the State Controller's Office has completed its review of transfers required under both Sections 34167.5 and 34178.8 and issued its report regarding such review, attach a copy of that report as an exhibit to this Agreed Upon Procedures report. If this has not yet occurred, perform the following procedures:
 - A. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the former redevelopment agency to any other public agency or to private parties for the period from January 1, 2011 through January 31, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to this Agreed Upon Procedures report.
 - B. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the Successor Agency to any other public agency or private parties for the period from February 1, 2012 through June 30, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to this Agreed Upon Procedures report.
 - C. For each transfer, obtain the legal document that formed the basis for the enforceable obligation that required any transfer. Note in the AUP report the absence of any such legal document or the absence of language in the document that required the transfer.

Results:

The State Controller's Office has completed its review of transfers under Section 34167.5 and issued its report dated November 12, 2013. See Attachment A.

Attachment A indicates the transfer of loans receivable in the amount of \$16,460,848 to the Housing Successor was unallowable because it had not been approved by the Successor Agency's Oversight Board. The Oversight Board approved the transfer of the Housing Assets, including these loans receivable, to the Housing Successor with Resolution 2-14 on February 25, 2014. Therefore, the transfer is not included as an unallowable transfer in Attachment B.

Although the above review was not performed under Section 34178.8, that Section is related to transfers to the City or another public agency after January 31, 2012. Per City staff, the Successor Agency did not make any such transfers.

Citation:

34179.5(c)(4) The review shall provide expenditure and revenue accounting information and identify transfers and funding sources for the 2010–11 and 2011–12 fiscal years that reconciles balances, assets, and liabilities of the successor agency on June 30, 2012 to those reported to the Controller for the 2009–10 fiscal year.

Suggested Procedure(s):

4. Perform the following procedures:
 - A. Obtain from the Successor Agency a summary of the financial transactions of the Redevelopment Agency and the Successor Agency in the format set forth in Attachment A for the fiscal periods indicated in the schedule. For purposes of this summary, the financial transactions should be presented using the modified accrual basis of accounting. End of year balances for capital assets (in total) and long-term liabilities (in total) should be presented at the bottom of this summary schedule for information purposes.
 - B. Ascertain that for each period presented, the total of revenues, expenditures, and transfers accounts fully for the changes in equity from the previous fiscal period.
 - C. Compare amounts in the schedule relevant to the fiscal year ended June 30, 2010 to the state controller's report filed for the Redevelopment Agency for that period.
 - D. Compare amounts in the schedule for the other fiscal periods presented to account balances in the accounting records or other supporting schedules. Describe in the report the type of support provided for each fiscal period.

Results:

Not applicable for the Low and Moderate Income Housing Fund. We have been engaged to perform procedures and issue a separate report on the non-housing assets of the Successor Agency and will provide the results of this procedure in that report.

Citation:

34179.5(c)(5) A separate accounting for the balance for the Low and Moderate Income Housing Fund for all other funds and accounts combined shall be made as follows:

(A) A statement of the total value of each fund as of June 30, 2012.

Suggested Procedure(s):

5. Obtain from the Successor Agency a listing of all assets of the Low and Moderate Income Housing Fund as of June 30, 2012 for the report that is due October 1, 2012 and a listing of all assets of all other funds of the Successor Agency as of June 30, 2012 (excluding the previously reported assets of the Low and Moderate Income Housing Fund) for the report that is due December 15, 2012. When this procedure is applied to the Low and Moderate Income Housing Fund, the schedule attached as an exhibit will include only those assets of the Low and Moderate Income Housing Fund that were held by the Successor Agency as of June 30, 2012 and will exclude all assets held by the entity that assumed the housing function previously performed by the former redevelopment agency. Agree the assets so listed to recorded balances reflected in the accounting records of the Successor Agency. The listings should be attached as an exhibit to the appropriate AUP report.

Results:

We obtained the listing of assets of the Low and Moderate Income Housing Fund of the Successor Agency from City staff and noted that the assets as of June 30, 2012 were comprised of the following:

Cash and Investments	\$2,610,252
Restricted Cash and Investments	888,839
Restricted Cash and Investments with Fiscal Agent:	
Debt Service Reserves	2,865,332
Debt Service Payment Funds	303,393
Project Funds	5,521,155
Grant Receivable - Miraflores	<u>1,532,327</u>
Total Assets	<u><u>\$13,721,298</u></u>

We agreed the balances to the accounting records without exception.

Citation:

34179.5(c)(5)(B) An itemized statement listing any amounts that are legally restricted as to purpose and cannot be provided to taxing entities. This could include the proceeds of any bonds, grant funds, or funds provided by other governmental entities that place conditions on their use.

Suggested Procedure(s):

6. Obtain from the Successor Agency a listing of asset balances held on June 30, 2012 that are restricted for the following purposes:

- A. Unspent bond proceeds:
- i. Obtain the Successor Agency’s computation of the restricted balances (e.g., total proceeds less eligible project expenditures, amounts set aside for debt service payments, etc.)
 - ii. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).
 - iii. Obtain from the Successor Agency a copy of the legal document that sets forth the restriction pertaining to these balances. Note in the AUP report the absence of language restricting the use of the balances that were identified by the Successor Agency as restricted.

Results:

We obtained the computation of unspent bond proceeds from City Staff and traced the amounts below to the accounting records without exception:

Unspent Project Funds held by Fiscal Agent:	
Loans from Richmond Joint Powers Financing Authority:	
2000B Housing Set-Aside Tax Allocation Revenue Bonds	\$945,057 (A)
2004A Tax Allocation Revenue Bonds	734,022 (A)
2004B Tax Allocation Revenue Bonds	1,170,142 (A)
2007B Housing Set-Aside Subordinate Tax Allocation Bonds	2,671,934 (B)
Debt Service Reserve Funds held by Fiscal Agent:	
2000B Housing Set-Aside Tax Allocation Bonds	480,448 (C)
2004A Tax Allocation Revenue Bonds	499,918 (C)
2004B Tax Allocation Revenue Bonds	199,967 (C)
2007B Housing Set-Aside Subordinate Tax Allocation Bonds	1,684,999 (D)
Debt Service Payment Funds held by Fiscal Agent:	
2004A Tax Allocation Revenue Bonds	<u>303,393 (E)</u>
	<u><u>\$8,689,880</u></u>

- (A) The respective Loan Agreements dated November 1, 2000 and October 1, 2004 indicate the loan proceeds are to be used for housing purposes. This restriction appears to be in effect until the funds are expended for the intended purpose.
- (B) The Indenture of Trust dated July 1, 2007 indicates the bond proceeds are to be used to finance low and moderate income housing activities of the Redevelopment Agency pursuant to the Redevelopment Plan and California Redevelopment Law. This restriction appears to be in effect until the funds are expended for the intended purpose.
- (C) The respective Indentures of Trust dated November 1, 2000 and October 1, 2004 indicate that the Debt Service Reserve Accounts were established by the Trustee solely for the purpose of replenishing the Interest account or Principal account of the respective Bonds. This restriction appears to be in effect until the funds are used for the last debt service payment on the Bonds. Although the Indentures of Trust are in the name of Richmond Joint Powers Financing Authority, the former Redevelopment Agency was a member of the Authority and the Successor Agency holds the Debt Service Reserve funds.

- (D) The Indenture of Trust dated July 1, 2007 indicates the Debt Service Reserve account was established to “equal the Debt Service Reserve Requirement for the Bonds then Outstanding” and any excess funds in the Debt Service Reserve are to be transferred to the Interest Account for debt service payments on the Bonds. This restriction appears to be in effect until it is used for the last debt service payment on the Bonds.
 - (E) The Indenture of Trust dated October 1, 2004 indicates the Interest and Principal Accounts are to be used solely to pay debt service on the Bonds. This restriction appears to be in effect until the funds are expended for the intended purpose. Although the Indentures of Trust are in the name of Richmond Joint Powers Financing Authority, the former Redevelopment Agency was a member of the Authority and the Successor Agency holds the Interest and Principal Account funds.
- B. Grant proceeds and program income that are restricted by third parties:
- i. Obtain the Successor Agency’s computation of the restricted balances (e.g., total proceeds less eligible project expenditures).
 - ii. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).
 - iii. Obtain from the Successor Agency a copy of the grant agreement that sets forth the restriction pertaining to these balances. Note in the AUP report the absence of language restricting the use of the balances that were identified by the Successor Agency as restricted.

Results:

Per inquiry of City staff, there were no such grant proceeds or program income related to the Low and Moderate Income Housing Fund as of June 30, 2012.

- C. Other assets considered to be legally restricted:
- i. Obtain the Successor Agency’s computation of the restricted balances (e.g., total proceeds less eligible project expenditures).
 - ii. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).
 - iii. Obtain from the Successor Agency a copy of the legal document that sets forth the restriction pertaining to these balances. Note in the AUP report the absence of language restricting the use of the balances that were identified by Successor the Agency as restricted.

Results:

We obtained the listing from City staff of the other assets considered legally restricted as follows:

Sakai Settlement	\$300,000 (A)
2007B Housing Set-Aside Subordinate Tax Allocation Bonds Reserve Subaccount	<u>588,839 (B)</u>
	<u><u>\$888,839</u></u>

- (A) The cash balance of the Sakai settlement in the amount of \$300,000 is restricted for the Miraflores Historical Preservation project until all funds are spent. We traced the balance of the Sakai settlement to the settlement agreement dated June 26, 2006 and the accounting records of the Successor Agency without exception.
- (B) The cash balance of the Reserve Subaccount is based on the requirement of Section 2.06 of the First Supplemental Indenture of Trust dated July 1, 2007 that requires the Trustee to establish and maintain within the Debt Service Reserve Account a sub account. The balance in the sub account is to be based on an annual calculation included in the Certificate of an Independent Redevelopment Consultant. This requirement appears to be in effect so long as the Bonds are outstanding.

The balance of the sub account in the Successor Agency’s accounting records at June 30, 2012 was \$588,839, which agrees to the Certificate of the Independent Redevelopment Consultant Report dated October 31, 2011.

- D. Attach the above mentioned Successor Agency prepared schedule(s) as an exhibit to the AUP report. For each restriction identified on these schedules, indicate in the report the period of time for which the restrictions are in effect. If the restrictions are in effect until the related assets are expended for their intended purpose, this should be indicated in the report.

Results:

See responses at Procedures 6A and 6C.

Citation:

34179.5(c)(5)(C) An itemized statement of the values of any assets that are not cash or cash equivalents. This may include physical assets, land, records, and equipment. For the purpose of this accounting, physical assets may be valued at purchase cost or at any recently estimated market value. The statement shall list separately housing-related assets.

Suggested Procedure(s):

7. Perform the following procedures:

- A. Obtain from the Successor Agency a listing of assets as of June 30, 2012 that are **not** liquid or otherwise available for distribution (such as capital assets, land held for resale, long-term receivables, etc.) and ascertain if the values are listed at either purchase cost (based on book value reflected in the accounting records of the Successor Agency) or market value as recently estimated by the Successor Agency.

Results:

We obtained a listing of non-liquid assets of the Low and Moderate Income Housing Fund of the Successor Agency as of June 30, 2012 provided by City staff and noted that the non-liquid assets are comprised of grants receivable in the amount of \$1,532,327, less \$1,457,490 of net collections subsequent to June 30, 2012, for a net non-liquid asset balance of \$74,837.

The collections subsequent to June 30, 2012 were greater than the \$1,457,490, but Successor Agency staff indicated that the total amount collected included costs incurred prior to and subsequent to June 30, 2012. The balance of \$74,837 is the Successor Agency's estimate of the outstanding net grant receivable that has not been collected to date. The Successor Agency provided a list of vendor payments for the period September 17, 2013 through December 31, 2013 that comprise the reported receivable balance of \$74,837. We noted that the amount is listed at book value (cost).

- B. If the assets listed at 7(A) are listed at purchase cost, trace the amounts to a previously audited financial statement (or to the accounting records of the Successor Agency) and note any differences.

Results:

We agreed the grants receivable balance of \$1,532,327 to the June 30, 2012 accounting records of the Successor Agency. See 7A above for the net non-liquid asset balance.

- C. For any differences noted in 7(B), inspect evidence of disposal of the asset and ascertain that the proceeds were deposited into the Successor Agency trust fund. If the differences are due to additions (this generally is not expected to occur), inspect the supporting documentation and note the circumstances.

Results:

This procedure is not applicable – the assets were not disposed.

- D. If the assets listed at 7(A) are listed at recently estimated market value, inspect the evidence (if any) supporting the value and note the methodology used. If no evidence is available to support the value and/or methodology, note the lack of evidence.

Results:

Not applicable- the assets are listed at book value (cost).

Citation:

34179.5(c)(5)(D) An itemized listing of any current balances that are legally or contractually dedicated or restricted for the funding of an enforceable obligation that identifies the nature of the dedication or restriction and the specific enforceable obligation. In addition, the successor agency shall provide a listing of all approved enforceable obligations that includes a projection of annual spending requirements to satisfy each obligation and a projection of annual revenues available to fund those requirements. If a review finds that future revenues together with dedicated or restricted balances are insufficient to fund future obligations and thus retention of current balances is required, it shall identify the amount of current balances necessary for retention. The review shall also detail the projected property tax revenues and other general purpose revenues to be received by the successor agency, together with both the amount and timing of the bond debt service payments of the successor agency, for the period in which the oversight board anticipates the successor agency will have insufficient property tax revenue to pay the specified obligations.

Suggested Procedure(s):

8. Perform the following procedures:
 - A. If the Successor Agency believes that asset balances need to be retained to satisfy enforceable obligations, obtain from the Successor Agency an itemized schedule of asset balances (resources) as of June 30, 2012 that are dedicated or restricted for the funding of enforceable obligations and perform the following procedures. The schedule should identify the amount dedicated or restricted, the nature of the dedication or restriction, the specific enforceable obligation to which the dedication or restriction relates, and the language in the legal document that is associated with the enforceable obligation that specifies the dedication of existing asset balances toward payment of that obligation.
 - i. Compare all information on the schedule to the legal documents that form the basis for the dedication or restriction of the resource balance in question.
 - ii. Compare all current balances to the amounts reported in the accounting records of the Successor Agency or to an alternative computation.
 - iii. Compare the specified enforceable obligations to those that were included in the final Recognized Obligation Payment Schedule approved by the California Department of Finance.
 - iv. Attach as an exhibit to the report the listing obtained from the Successor Agency. Identify in the report any listed balances for which the Successor Agency was unable to provide appropriate restricting language in the legal document associated with the enforceable obligation.

Results:

Per City staff, the Successor Agency believes that cash balances in the amount of \$7,934,094 at June 30, 2012 need to be retained to satisfy enforceable obligations as detailed in the table below. For each obligation listed in the table below, we traced to legal documentation as noted below the table.

Miraflores Pollution Liability	\$1,956,639 (A)
EPA Brownfields Revolving Loan Fund Advance to Miraflores Project	600,000 (B)
Lillie Mae Jones	1,516,455 (C)
Metrowalk Housing	<u>3,861,000 (D)</u>
Total	<u><u>\$7,934,094</u></u>

- (A) We agreed the obligation to the calculation of the future estimated pollution remediation liability as of June 30, 2012 and the Successor Agency’s accounting records. The Redevelopment Agency entered into a voluntary Cleanup Agreement with the California Department of Toxic Substance Control on November 31, 2005, and the Department of Finance approved the project as an Enforceable Obligation in its letter to the Successor Agency dated December 18, 2012.
- (B) We agreed the obligation to the loan agreement dated February 16, 2011 for a loan from the Redevelopment Agency’s U.S. EPA Brownfields Revolving Loan Funds to the Redevelopment Agency’s Miraflores housing remediation project and to the Successor Agency’s accounting records. Repayment of the loan is due within five years of disbursement. We traced the project to the approved ROPS for the period January 1, 2014 through June 30, 2014. The Successor Agency has indicated that no disbursements were made through June 30, 2013 and the repayment to the revolving loan fund remains an encumbrance against its available cash balance at June 30, 2012.
- (C) We agreed the obligation to a loan agreement dated January 19, 2010, as amended on April 30, 2010, between the Redevelopment Agency and the Lillie Mae Jones LP. We noted that the agreement indicates that the loan obligation was intended to be funded from 2007B Bond Proceeds (\$1,953,709) and Section 108 loan proceeds (\$84,000). The balance of the undisbursed loan funding as of June 30, 2012 was comprised of 2007B Housing Bond Proceeds of \$1,432,455 and Section 108 loan proceeds of \$84,000. Although the loan agreement states it is intended to be funded by the 2007B Housing Bond Proceeds and Section 108 loan proceeds, the Successor Agency has assigned those funds to other projects. Therefore, the Successor Agency has indicated that its loan obligation remains an encumbrance against its available housing cash balance at June 30, 2012.
- (D) We agreed the obligation to the tri-party Disposition and Development Agreement (DDA) dated April 11, 2002 between the Redevelopment Agency, the San Francisco Bay Area Rapid Transit District and Richmond Transit, LLC, indicating the loan is to fund the Phase Two Development Loan which is for payment of a portion of the costs of construction and development of the Phase Two Residential/Retail Improvements. Although the DDA does not specify what portion of the Phase Two Development Loan is to be funded by low and moderate income housing funds, Section 403.1 indicates that “...not fewer than half of the Residential Units...shall be sold to Moderate Income Households...”

Since the Successor Agency is unsure of the final composition of funding under the loan between housing and non-housing funds, the Successor Agency has included that the full amount of the Phase Two Development Loan as a restriction of housing funds and no amount has been reflected as a restriction in Procedure 8 of the All Other Funds Due Diligence Review.

The Department of Finance indicated the agreement was not an enforceable obligation for the July 2012 to December 2012 ROPS period. The Successor Agency has indicated that it provided additional information to the Department of Finance in October 2012. The project was subsequently included in the approved ROPS for the period January 2013 to December 2013.

- B. If the Successor Agency believes that future revenues together with balances dedicated or restricted to an enforceable obligation are insufficient to fund future obligation payments and thus retention of current balances is required, obtain from the Successor Agency a schedule of approved enforceable obligations that includes a projection of the annual spending requirements to satisfy each obligation and a projection of the annual revenues available to fund those requirements and perform the following procedures:
- i. Compare the enforceable obligations to those that were approved by the California Department of Finance. Procedures to accomplish this may include reviewing the letter from the California Department of Finance approving the Recognized Enforceable Obligation Payment Schedules for the six month period from January 1, 2012 through June 30, 2012 and for the six month period July 1, 2012 through December 31, 2012.
 - ii. Compare the forecasted annual spending requirements to the legal document supporting each enforceable obligation.
 1. Obtain from the Successor Agency its assumptions relating to the forecasted annual spending requirements and disclose in the report major assumptions associated with the projections.
 - iii. For the forecasted annual revenues:
 1. Obtain from the Successor Agency its assumptions for the forecasted annual revenues and disclose in the report major assumptions associated with the projections.

Results:

Per inquiry of City staff, there are no projected future housing revenues and no enforceable obligations other than those included in Procedure 8A for the Low and Moderate Income Housing Fund of the Successor Agency for the periods January 1, 2012 through June 30, 2012 and July 1, 2012 through December 31, 2012.

- C. If the Successor Agency believes that projected property tax revenues and other general purpose revenues to be received by the Successor Agency are insufficient to pay bond debt service payments (considering both the timing and amount of the related cash flows), obtain from the Successor Agency a schedule demonstrating this insufficiency and apply the following procedures to the information reflected in that schedule.
- i. Compare the timing and amounts of bond debt service payments to the related bond debt service schedules in the bond agreement.
 - ii. Obtain the assumptions for the forecasted property tax revenues and disclose major assumptions associated with the projections.
 - iii. Obtain the assumptions for the forecasted other general purpose revenues and disclose major assumptions associated with the projections.

Results:

Not applicable, as the Successor Agency believes that projected property tax revenues are sufficient to pay bond debt service payments.

- D. If procedures A, B, or C were performed, calculate the amount of current unrestricted balances necessary for retention in order to meet the enforceable obligations by performing the following procedures.
- i. Combine the amount of identified current dedicated or restricted balances and the amount of forecasted annual revenues to arrive at the amount of total resources available to fund enforceable obligations.
 - ii. Reduce the amount of total resources available by the amount forecasted for the annual spending requirements. A negative result indicates the amount of current unrestricted balances that needs to be retained.
 - iii. Include the calculation in the AUP report.

Results:

See Procedure 8A above. The Low and Moderate Income Housing Fund did not receive any distributions from the ROPS period January 2012 to June 2012 or the ROPS period July 2012 to December 2012.

Citation:

34179.5(c)(5)(E) An itemized list and analysis of any amounts of current balances that are needed to satisfy obligations that will be placed on the Recognized Obligation Payment Schedules for the current fiscal year.

Suggested Procedure(s):

9. If the Successor Agency believes that cash balances as of June 30, 2012 need to be retained to satisfy obligations on the Recognized Obligation Payment Schedule (ROPS) for the period of July 1, 2012 through June 30, 2013, obtain a copy of the final ROPS for the period of July 1, 2012 through December 31, 2012 and a copy of the final ROPS for the period January 1, 2013 through June 30, 2013. For each obligation listed on the ROPS, the Successor Agency should add columns identifying (1) any dollar amounts of existing cash that are needed to satisfy that obligation and (2) the Successor Agency's explanation as to why the Successor Agency believes that such balances are needed to satisfy the obligation. Include this schedule as an attachment to the AUP report.

Results:

Per inquiry of City staff, the cash balances of the Low and Moderate Income Housing Fund of the Successor Agency do need to be retained to satisfy obligations on the Recognized Obligation Payment Schedule for the period of July 1, 2012 through June 30, 2013, which are included in Procedure 8 above.

Citation:

34179.5(c)(6) The review shall total the net balances available after deducting the total amounts described in subparagraphs (B) to (E), inclusive, of paragraph (5). The review shall add any amounts that were transferred as identified in paragraphs (2) and (3) of subdivision (c) if an enforceable obligation to make that transfer did not exist. The resulting sum shall be available for allocation to affected taxing entities pursuant to Section 34179.6. It shall be a rebuttable presumption that cash and cash equivalent balances available to the successor agency are available and sufficient to disburse the amount determined in this paragraph to taxing entities. If the review finds that there are insufficient cash balances to transfer or that cash or cash equivalents are specifically obligated to the purposes described in subparagraphs (B), (D), and (E) of paragraph (5) in such amounts that there is insufficient cash to provide the full amount determined pursuant to this paragraph, that amount shall be demonstrated in an additional itemized schedule.

Suggested Procedure(s):

10. Include (or present) a schedule detailing the computation of the Balance Available for Allocation to Affected Taxing Entities (Attachment B). Amounts included in the calculation should agree to the results of the procedures performed in each section above. The schedule should also include a deduction to recognize amounts already paid to the County Auditor-Controller on July 12, 2012 as directed by the California Department of Finance. The amount of this deduction presented should be agreed to evidence of payment. The attached example summary schedule may be considered for this purpose. Separate schedules should be completed for the Low and Moderate Income Housing Fund and for all other funds combined (excluding the Low and Moderate Income Housing Fund).

Results:

See Attachment B.

Suggested Procedure(s):

11. Obtain a representation letter from Successor Agency management acknowledging their responsibility for the data provided to the practitioner and the data presented in the report or in any attachments to the report. Included in the representations should be an acknowledgment that management is not aware of any transfers (as defined by Section 34179.5) from either the former redevelopment agency or the Successor Agency to other parties for the period from January 1, 2011 through June 30, 2012 that have not been properly identified in the AUP report and its related exhibits. Management's refusal to sign the representation letter should be noted in the AUP report as required by attestation standards.

Results:

Management signed and provided the representation letter dated June 11, 2014 without exception.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the information provided for the purposes of the agreed-upon procedures and the Attachments. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we performed an audit of the information provided for the purposes of the agreed-upon procedures and the Attachments, matters might have come to our attention which would have been reported to you.

This report is intended solely for the information and use of management and the Oversight Board, the State Department of Finance and the State Controller's Office; however, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

Maize & Associates

June 11, 2014

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RICHMOND COMMUNITY REDEVELOPMENT AGENCY

ASSET TRANSFER REVIEW

Review Report

January 1, 2011, through January 31, 2012



JOHN CHIANG
California State Controller

November 2013



JOHN CHIANG
California State Controller

November 12, 2013

Patrick Lynch, A.I.C.P., Housing Director
Richmond Community Redevelopment Agency
440 Civic Center Plaza
Richmond, CA 94804-1630

Dear Mr. Lynch:

Pursuant to Health and Safety (H&S) Code section 34167.5, the State Controller's Office reviewed all asset transfers made by the Richmond Community Redevelopment Agency to the City of Richmond 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 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 Richmond or any other public agencies have been reversed.

Our review found that the Richmond Community Redevelopment Agency transferred \$173,925,297 in assets after January 1, 2011, including unallowable transfers totaling \$64,644,907 (\$48,184,059 to the City and \$16,460,848 to the entity assuming the housing functions), or 37.17% of the total assets. Unallowable transfers include:

- \$42,612,267 for improvements to City-owned capital assets. On June 20, 2013, the Oversight Board approved the transfer; therefore, no further action is necessary.
- \$5,571,792 in land to the City. On May 2, 2013, the journal entry for this transfer was reversed; therefore, no further action is necessary.

The remaining \$16,460,848 in assets must be turned over to the Successor Agency.

Patrick Lynch, A.I.C.P., Housing Director -2-

November 12, 2013

If you have any questions, please contact Elizabeth Gonzalez, Bureau Chief, Local Government Compliance Bureau, by phone at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

cc: Bill Lindsay, City Manager
Richmond Community Redevelopment Agency
Robert Campbell, Auditor-Controller
Contra Costa County
David Botelho, Program Budget Manager
State Department of Finance
Linda Jackson-Whitmore, Oversight Board Chairman
c/o Richmond Community Redevelopment/Successor Agency
Richard J. Chivaro, Chief Legal Counsel
State Controller's Office
Elizabeth Gonzalez, Bureau Chief
Division of Audits, State Controller's Office
Betty Moya, Audit Manager
Division of Audits, State Controller's Office
Cecelia Michaels, 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 Richmond Community 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 \$173,925,297 in assets after January 1, 2011, including unallowable transfers totaling \$64,644,907 (\$48,184,059 to the City of Richmond and \$16,460,848 to the entity assuming the housing functions), or 37.17% of the total assets. Unallowable transfers include:

- \$42,612,267 for improvements to City-owned capital assets. On June 20, 2013, the Oversight Board approved the transfer of the improvements to City owned assets; therefore, no further action is necessary.
- \$5,571,792 in land to the City. On May 2, 2013, the journal entry for this transfer was reversed; therefore, no further action is necessary.

The remaining \$16,460,848 in assets 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 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 on which the RDA ceases to operate, or January 31, 2012, whichever is earlier.

The SCO has identified transfers of assets that occurred after January 1, 2011, between the RDA, the City of Richmond, 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.

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 operations and procedures.
- Reviewed meeting minutes, resolutions, and ordinances of the City and the RDA.
- 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 RDA transferred \$173,925,297 in assets after January 1, 2011, including unallowable transfers totaling \$64,644,907 (\$48,184,059 to the City of Richmond and \$16,460,848 to the entity assuming the housing functions), or 37.17% of the total assets. Unallowable transfers include:

- \$42,612,267 for improvements to City-owned capital assets. On June 20, 2013, the Oversight Board approved the transfer of the improvements to City owned assets; therefore, no further action is necessary.
- \$5,571,792 in land to the City. On May 2, 2013, the journal entry for this transfer was reversed; therefore, no further action is necessary.

The remaining \$16,460,848 in assets must be turned over to the Successor Agency.

Details of our findings are in the Findings and Orders of the Controller section of this report. We also have included a detailed schedule of assets to be turned over to, or transferred to, the Successor Agency.

**Views of
Responsible
Official**

We issued a draft report on September 19, 2013. Patrick Lynch, A.I.C.P., Housing Director, responded by letter dated October 3, 2013, agreeing with the review results. Mr. Lynch indicated that he had no additional comments to the draft report. 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 Richmond, the Successor Agency, the Oversight Board, the entity assuming the housing functions, 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

November 12, 2013

Findings and Orders of the Controller

FINDING 1— Unallowable assets transferred to the City of Richmond

The Richmond Community Redevelopment Agency (RDA) transferred \$48,184,059 in assets to the City of Richmond. All of the asset transfers to the City 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:

- The RDA transferred \$42,612,267 to the City in capital improvements for various City properties. The title to the properties remained with the City during the construction. On June 20, 2013, the Oversight Board retroactively approved this transfer by Resolution No 4-13 because the assets were deemed to be for a governmental purpose. Therefore, no further action is necessary.
- On March 26, 2011, the RDA transferred \$5,571,792 in land to the City. The transfer was reversed on May 2, 2013. Therefore, no further action is necessary.

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 Successor Agency for disposition in accordance with H&S Code sections 34177 (d) and (e). However, it appears that some of those assets also may be subject to the provisions of H&S Code section 34181(a). H&S Code section 34181(a) states:

The oversight board shall direct the successor agency to do all of the following:

- (a) Dispose of all assets and properties of the former redevelopment agency provided however, that the oversight board may instead direct the successor agency to transfer ownership of those assets that were constructed and used for a government purpose, such as roads, school buildings, parks, police, fire stations, libraries, and local agency administrative buildings, to the appropriate public jurisdiction pursuant to any existing agreements relating to the construction or use of such an asset.

Order of the Controller

Pursuant to H&S Code section 34167.5, the City is ordered to reverse the transfer of the assets and turn them over to the Successor Agency for disposition in accordance with H&S Code sections 34177(d) and (e). However, as the Oversight Board approved the transfer of the governmental purpose assets and the City reversed the transfer of the land, no further action is necessary.

Note that, with regards to the governmental purpose assets that were approved by the Oversight Board, the Department of Finance (DOF) must approve the Oversight Board's decision in this matter. If the DOF does not approve this decision, the City is ordered to transfer those assets to the Successor Agency pursuant to H&S Code section 34167.5.

City's Response

The City agreed with the findings noted in the draft report and did not have any additional comments.

SCO's Comments

The finding and Order of the Controller remains as stated.

FINDING 2— Unallowable assets transferred to the entity assuming the housing functions

The RDA made an unallowable asset transfer of \$16,460,848 to the entity assuming the housing functions. Those assets consisted of loan receivables.

The asset transfer to the entity assuming the housing functions occurred after January 1, 2011, and the assets were not contractually committed to a third party prior to June 28, 2011.

Pursuant to H&S Code section 34175(b), the RDA was required to transfer all assets, including housing assets, to the Successor Agency. Those assets should be turned over to the Successor Agency for disposition in accordance with H&S Code sections 34177(d) and (e).

H&S Code section 34175(b) states that all assets, properties, contracts, leases, books and records, buildings, and equipment of the former were transferred on February 1, 2012, to the control of the Successor Agency, for administration pursuant to the provisions of this part. This includes all cash or cash equivalents and amounts owed to the RDA as of February 1, 2012.

Additionally, H&S Code section 34181(c) requires the oversight board to direct the Successor Agency transfer housing assets pursuant to Section 34176.

Order of the Controller

Based on H&S Code section 34167.5, the entity assuming the housing functions is ordered to return the assets, described in Schedule 2, in the amount of \$16,460,848, and turn them over to the Successor Agency.

The Successor Agency is directed to properly dispose of those assets in accordance with H&S Code sections 34177(d) and (e) and 34181(c).

City's Response

The City agreed with the findings noted in the draft report and did not have any additional comments.

SCO's Comments

The finding and Order of the Controller remains as stated.

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

Unallowable Asset Transfers to the City of Richmond:

Capital Assets

Capital improvements to City property	\$ 42,612,267
Oversight Board retroactively approved the transfer on June 20, 2013	(42,612,267)
Land parcels transferred to the City	5,571,792
Land parcel transfers were reversed by the Successor Agency on May 2, 2013	<u>(5,571,792)</u>
Total Transfers subject to H&S Code section 34167.5	<u>\$ —</u>

**Schedule 2—
Unallowable RDA Asset Transfers
to the Entity Assuming the Housing Functions
January 1, 2011, through January 31, 2012**

Unallowable Asset Transfers to the Entity Assuming the Housing Functions:

Current assets

Loans receivable

\$ 16,460,848

Total unallowable asset transfers

\$ 16,460,848

**Attachment—
City of Richmond’s Response to
Draft Review Report**

SUCCESSOR AGENCY TO THE RICHMOND COMMUNITY REDEVELOPMENT AGENCY



October 3, 2013

Steven Mar, Chief
Local Government Audits Bureau
State Controller's Office – Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Draft Asset Transfer Review Report

Dear Mr. Mar

The Successor Agency to the Richmond Community Redevelopment Agency ("Agency") is in receipt of the State Controller's Office letter of September 19, 2013 and accompanying draft report prepared pursuant to Health and Safety Code ("HSC") Section 34167.5 and dated September 2013 ("Draft Report"). The Agency appreciates the assistance provided by the State Controller to help ensure that we understand our responsibilities to successfully comply with new state redevelopment laws. We offer the following responses to the State Controller's two findings in the Draft Report.

Finding #1 - Unallowable Capital Asset transfers to the City of Richmond

We are pleased that the State Controller has acknowledged the Agency's actions to self-correct \$48 million in asset capital asset transfers. With approval of the Oversight Board for the Successor Agency to the Richmond Community Redevelopment Agency ("Oversight Board"), the Agency has already taken the corrective actions necessary to bring its capital asset transfers into compliance with new state laws. The Agency's \$48 million investment in important infrastructure improvements to City capital assets is now properly recorded in the City's financial records.

Finding #2 - Low/Moderate Income Housing Loans

The Agency is also pleased that \$16.4 million in redevelopment housing loan assets have helped deliver important low/moderate income housing projects in the City of Richmond. Consistent with the requirements of AB 1X 26 and AB 1484, this investment in low/moderate income housing programs has been preserved by the transfer of the low/moderate income loan portfolio to the new Successor Housing Agency that is charged with ongoing accountability for housing assets. The Agency's transfer to the Successor Housing Agency has been reported and approved by the State Department of Finance in its Housing Asset Transfer review.

We appreciate the additional recommendation provided by the State Controller to report and seek approval of this transfer by the Oversight Board. We understand the important role the Oversight Board serves in monitoring the financial affairs of the Agency and, in particular, monitoring the distribution of its assets in conformance with redevelopment dissolution law. An agenda report has been drafted to

Steven Mar, SCO
10/3/2013
Page 2

request Oversight Board review and approval of this housing loan portfolio transaction. With Oversight Board approval, we understand this finding will be resolved.

Finally, we would like to clarify that the housing loan portfolio is held by the City in its capacity as the Successor Housing Agency. The references to the Richmond Housing Authority in this report appear to be an oversight; the Housing Authority has not been involved with this transaction or with redevelopment dissolution.

Thank you for the opportunity to comment on the draft report. Please feel free to contact Agency staff at (510) 621-1730 with any questions.

Sincerely,

Pp:



Patrick Lynch, AICP, Housing Director
Successor Agency to the Richmond Community Redevelopment Agency

Cc (VIA EMAIL):

Bill Lindsay, City Manager, City of Richmond
Cecelia Michaels, Auditor-in-charge, State Controller's Office

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

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

ATTACHMENT B

SUCCESSOR AGENCY TO THE CITY OF RICHMOND COMMUNITY REDEVELOPMENT AGENCY

**SUMMARY OF BALANCES AVAILABLE FOR ALLOCATION TO AFFECTED TAXING ENTITIES
(Low and Moderate Income Housing Fund)**

Total amount of assets held by the successor agency as of June 30, 2012 (procedure 5)	\$13,721,298
Add the amount of any assets transferred to the city or other parties for which an enforceable obligation with a third party requiring such transfer and obligating the use of the transferred assets did not exist (procedures 2 and 3)	-
Less assets legally restricted for uses specified by debt covenants, grant restrictions, or restrictions imposed by other governments (procedure 6)	(9,578,719)
Less assets that are not cash or cash equivalents (e.g., physical assets) - (procedure 7)	(74,837)
Less balances that are legally restricted for the funding of an enforceable obligation (net of projected annual revenues available to fund those obligations) - (procedure 8)	(7,934,094)
Less balances needed to satisfy ROPS for the 2012-13 fiscal year (procedure 9)	-
Less the amount of payments made on July 12, 2012 to the County Auditor-Controller as directed by the California Department of Finance	-
Amount to be remitted to county for disbursement to taxing entities	<u><u>(\$3,866,352)</u></u>

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