

# **CITY OF SIGNAL HILL REDEVELOPMENT AGENCY**

## **ASSET TRANSFER REVIEW**

Review Report

*January 1, 2011, through January 31, 2012*



**JOHN CHIANG**  
California State Controller

December 2012



**JOHN CHIANG**  
**California State Controller**

December 21, 2012

Kenneth C. Farfsing, City Manager  
City of Signal Hill  
Signal Hill Redevelopment/Successor Agency  
2175 Cherry Avenue  
Signal Hill, CA 90755

Dear Mr. Farfsing:

Pursuant to Health and Safety (H&S) code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Signal Hill Redevelopment Agency to the City of Signal Hill or any other public agency during the period of January 1, 2011, through January 31, 2012. This statutory provision explicitly states that, "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 assets should be returned to the Signal Hill 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 any rights to payment of any kind. We also reviewed and determined whether any unallowable transfers of assets to the City of Signal Hill or any other public agencies have been reversed.

Our review disclosed that the City of Signal Hill Redevelopment Agency transferred \$72,402,636 in assets, including unallowable transfers of assets totaling \$16,017,371, or 22.12% of the transferred assets. However, the City subsequently transferred \$12,009,678 in assets to the Successor Agency as required on November 8, 2012; that same day, the Oversight Board directed the Successor Agency to transfer the \$4,007,693 in housing assets to the Signal Hill Housing Authority as required.

As of February 1, 2012, \$79,201 of the RDA Assets had not yet been transferred to the Successor Agency and should have been transferred to the Successor Agency. The City/former RDA transferred \$79,201 in loans receivable on November 8, 2012 as required. The City of Signal Hill is not required to take additional action for any of these transfers.

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/bf

cc: Wendy L. Watanabe, Auditor-Controller  
County of Los Angeles  
Steve Szalay, Local Government Consultant  
Department of Finance  
Tina L. Hansen, Chairperson  
Oversight Board, Signal Hill RDA Successor Agency  
Scott Freesmeier, Audit Manager  
Division of Audits, State Controller's Office  
Si Lau, Auditor-in-Charge  
Division of Audits, State Controller's Office

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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 Signal Hill Redevelopment Agency (RDA) for the period of January 1, 2011, through January 31, 2012. 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 disclosed that the RDA transferred \$72,402,636 in assets during the period of January 1, 2011, through January 31, 2012, including unallowable transfers of assets totaling \$16,017,371, or 22.12% of the transferred assets. Additionally, \$79,201 of the RDA assets have not yet been transferred to the Successor Agency and must be transferred to the Successor Agency for disposition in accordance with ABX1 26.

## Background

In January of 2011, the Governor of the State of California proposed statewide elimination of 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 redevelopment agencies (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 Signal Hill Redevelopment Agency, the City of Signal Hill, 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 Signal Hill City Council, Signal Hill RDA, and the City of Signal Hill 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 disclosed that the City of Signal Hill RDA transferred \$72,402,636 in assets during the period of January 1, 2011, through January 31, 2012, including unallowable transfers of assets totaling \$16,017,371, or 22.12% of the transferred assets. Additionally, \$79,201 of the RDA assets has not yet been transferred to the Successor Agency and must be transferred to the Successor Agency.

Unallowable assets transferred to the:

City of Signal Hill (Schedule 2)	\$ 12,009,678
City of Signal Hill Housing Authority	4,007,693
	<hr/>
Unallowable asset total	16,017,371
Signal Hill Redevelopment Agency assets that have not yet been transferred	79,201
	<hr/>
Grand total	<u>\$ 16,096,572</u>

Details of our findings and Orders of the Controller 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 review report on November 6, 2012. Kenneth C. Farfsing, City Manager, responded by letter dated November 15, 2012. The City's response is included in the final report as an attachment.

**Restricted Use**

This report is solely for the information and use of the City of Signal Hill, the Successor Agency, the Successor Agency 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  
Chief, Division of Audits

December 21, 2012

# Findings and Orders of the Controller

## **FINDING 1— Unallowable asset transfers to the City of Signal Hill**

The Signal Hill Redevelopment Agency (RDA) transferred \$12,009,678 in assets to the City of Signal Hill. The asset transfer 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. The assets consisted of capital assets.

The unallowable asset transfer was as follows: On March 4, 2011, the Signal Hill City Council and RDA approved the transfer of real property assets to the City of Signal Hill.

Pursuant to Health and Safety (H&S) Code section 34167.5, any asset transfers by the RDA to a city, county, city and county or any other public agency after January 1, 2011, must be returned 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 that were funded by tax increment revenues of the dissolved 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 and fire stations, to the appropriate public jurisdiction pursuant to any existing agreements relating to the construction or use of such an asset...[emphasis added]

### Order of the Controller

Based on H&S Code section 34167.5, the City of Signal Hill would have been ordered to reverse the transfer of the above assets, described in Schedule 2, in the amount of \$12,009,678 and turn them over to the Successor Agency. The Successor Agency would have been directed to properly dispose of those assets in accordance with H&S Code sections 34177(d) and (e) and 34181(a). However, the City transferred these assets to the Successor Agency on November 8, 2012.

### City's Response

The State Controller found several unallowable transfers to the City — 3100 California (Eyestone); 1400 E. Spring Street (3-acres storage site); 2745 Walnut Avenue (police station site); 859 Patterson (boatyard); 2475 and 2485 Gardena (Heistead and RRH), 1850 28<sup>th</sup> Street (Best Buy), the Anastasi & 700 Spring Street sites, for a total of \$12,009,678.

In the report, it is recommended that these assets be transferred to the Successor Agency. Staff has completed a journal entry transferring these assets to the Successor Agency totaling \$12,009,678. This course of action was agreeable with the auditors from the State Controller's Office when we met to discuss the initial findings on October 4, 2012.

#### SCO's Comment

We agree with the City's response that the transfer has been corrected.

### **FINDING 2— Unallowable asset transfers to the City of Signal Hill Housing Authority**

The Signal Hill Redevelopment Agency transferred \$4,007,693, to the City of Signal Hill Housing Authority. All of the asset transfers 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. The assets consisted of capital assets.

The unallowable asset transfers were as follows: On March 4, 2011, the Signal Hill City Council and Redevelopment Agency approved the transfers of real property assets to the City of Signal Hill Housing Authority. Furthermore, on April 5, 2011, these transfers were accepted by the Signal Hill Housing Authority.

<u>Asset Description</u>	<u>APN</u>	<u>Value</u>
1500 Hill Street	7210-043-900	
1456 Hill Street	7210-043-901	\$ 3,000,000
2170 Gundry Avenue	7210-043-902	452,373
967 Las Brisas	7211-005-928	555,320
Total		<u>\$ 4,007,693</u>

Pursuant to H&S Code section 34167.5, any asset transfers by the RDA to a city, county, city and county or any other public agency after January 1, 2011 must be returned 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(c).

H&S Code section 34181(c) states, "The oversight board shall direct the successor agency to do the following: 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

Based on H&S Code section 34167.5, the City of Signal Hill Housing Authority would have been ordered to reverse the transfers of the above assets, in the amount of \$4,007,693, and turn the assets over to the Successor Agency. The Successor Agency would have been directed to

properly dispose of those assets in accordance with H&S sections 34177(d) and (e) and 34181(a). However, the Redevelopment Successor Agency Oversight Board approved the transfer of the housing asset under H&S Code 34176.

#### City's Response

The draft report also points out that the former Signal Hill City Council and Redevelopment Agency made unallowable housing asset transfers on April 5, 2011 totaling \$4,007,693 to the Signal Hill Housing Authority. Pursuant to Health and Safety Code 34181(c), the Oversight Board will direct the Successor Agency to transfer the housing assets to the Signal Hill Housing Authority Pursuant to Section 34176. The transfer was approved by the Oversight Board at its regular meeting on November 8, 2012. As soon as the meeting minutes are finalized, we will forward a copy to you for your records.

#### SCO's Comment

We agree with the City's response that the Successor Agency has approved the housing transfers as of November 8, 2012.

### **FINDING 3— RDA assets that have not yet been transferred to the Successor Agency**

The City of Signal Hill RDA has not yet transferred \$79,201 in assets to the Successor Agency as of January 31, 2012.

Assets that have not yet been transferred are First Time Homebuyer Program loan receivables of \$79,201.

H&S Code section 34175(b) states:

All assets, properties, contracts, leases, books and records, buildings, and equipment of the former redevelopment agency are 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 redevelopment agency as of February 1, 2012.

#### City's Response

The third finding states that there are additional assets that need to be transferred to the Successor Agency. Specially, the First Time Homebuyer Program loan receivables totaling \$79,201 and the Sewer Pump Station located at 2001 Alamos Avenue. In terms of the Alamos Avenue sewer pump station, a transfer of this property to the Los Angeles County Sanitation District No. 29 was approved by the Department of Finance on September 20, 2012. I have attached the letter received from the Department of Finance approving the transfer and resolution Nos. 2012-08-02(SA) and 2012-08-02(OB) for your information. In addition, accounting audit trail entries in the Successor Agency's general ledger for these transactions has been processed. They are attached here too.

SCO's Comment

We agree with the City's response that the transfer of the First Time Homebuyer Program Loan receivable has been corrected. In addition we agree with the City that the sewer pumping station was an approved transfer by the Department of Finance and we will adjust our finding accordingly.

Order of the Controller

Based on H&S Code section 34175(b), the City of Signal Hill would have been ordered to transfer the remaining RDA assets, in the amount of \$79,201, to the Successor Agency, and the Successor Agency would have been directed to properly dispose of these assets in accordance with H&S Code sections 34177(d), (e), and (l); and 34181(a). However, the City transferred these assets to the Successor Agency on November 8, 2012.

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**Schedule 1—  
RDA Assets Transferred  
to the City of Signal Hill  
After January 1, 2011**

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Unallowable Transfers to the City of Signal Hill:

RDA assets transferred to the City of Signal Hill Housing Authority	\$ 4,007,693
RDA assets transferred to the City of Signal Hill	<u>12,009,678</u>
Total unallowable transfers to the City of Signal Hill	<u>\$ 16,017,371</u>

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<sup>1</sup> See the Findings and Orders of the Controller section.

## Schedule 2— RDA Unallowable Transfers to City of Signal Hill

Asset Description	Assessor Parcel Number	Value
3100 California Avenue	7212-001-933	\$ 841,127
1400 E. Spring Street	7212-008-906	926,119
2745 Walnut Avenue	7212-008-913 thru 915	277,100
859 Patterson Street	7207-022-900	174,749
2485 Gardena Avenue	7214-005-902	409,200
2475 Gardena Avenue	7214-005-901	243,000
Anastasi	7207-004-900, 271 & 272, 7207-005-900	4,214,674
1850 East 28 <sup>th</sup> Street	7212-012-901 thru 916	
Best Buy	7212-012-901	2,550
Best Buy	7212-012-902	54,860
Best Buy	7212-012-903	27,000
Best Buy	7212-012-904 thru 906	304,800
Best Buy	7212-012-907 thru 909	265,031
Best Buy	7212-012-910	28,696
Best Buy	7212-012-911	12,650
Best Buy	7212-012-912	51,393
Best Buy	7212-012-913	57,375
Best Buy	7212-012-914	25,320
Best Buy	7212-012-915	6,150
Best Buy	7212-012-915	18,450
Best Buy	7212-012-916	30,881
700 Spring Street	7207-006-900 thru 945, & 7207-007-900 thru 941	
700 Spring Street	7207-006-900	39,893
700 Spring Street	7207-006-901	39,893
700 Spring Street	7207-006-902	10,350
700 Spring Street	7207-006-903 thru 905 & 906	110,000
700 Spring Street	7207-006-907	95,250
700 Spring Street	7207-006-908	85,750
700 Spring Street	7207-006-909 thru 912	265,000
700 Spring Street	7207-006-913 thru 917	206,250
700 Spring Street	7207-006-918	27,500
700 Spring Street	7207-006-919 & 920	91,000
700 Spring Street	7207-006-921 & 922	101,750
700 Spring Street	7207-006-923	27,500
700 Spring Street	7207-006-924	60,500
700 Spring Street	7207-006-925 & 926	66,000
700 Spring Street	7207-006-927 thru 933	338,000
700 Spring Street	7207-006-927 thru 933	281,942
700 Spring Street	7207-006-934	48,750
700 Spring Street	7207-006-935	41,250
700 Spring Street	7207-006-936	32,500
700 Spring Street	7207-006-937 thru 944, & 7207-007-929 thru 941	880,498

**Schedule 2 (continued)**

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<u>Asset Description</u>	<u>Assessor Parcel Number</u>	<u>Value</u>
700 Spring Street	7207-006-945	\$ 64,625
Near 700 Spring Street	7207-007-900 thru 904	156,000
700 Spring Street	7207-007-905 thru 908	90,000
700 Spring Street	7207-007-909 & 910	19,500
Near 700 Spring Street	7207-007-910 & 911	5,000
Near 700 Spring Street	7207-007-910 & 911	5,000
700 Spring Street	7207-007-911 thru 913	224,250
700 Spring Street	7207-007-914 thru 928	78,602
700 Spring Street	7207-007-914 thru 928	546,000
Total		<u>\$ 12,009,678</u>

**Attachment 1—  
City's Response to  
Draft Review Report**

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CITY OF SIGNAL HILL

2175 Cherry Avenue • Signal Hill, California 90755-3799

November 15, 2012

Mr. Jeffrey V. Brownfield  
Chief, Division of Audits  
California State Controller  
PO Box 942850  
Sacramento, CA 94250-5874

**RE: State Controller's Office Review of Asset Transfers – City of Signal Hill**

Dear Mr. Brownfield:

The City of Signal Hill is in receipt of the Draft Asset Transfer Review, Review Report, dated November 6, 2012. The State Controller's Office (SCO) reviewed the asset transfers made by the City of Signal Hill Redevelopment Agency for the period of January 1, 2011 through January 31, 2012. We want to take this opportunity to thank Scott Freesmair, Si Lau and the entire audit team for their efforts in working with our City and Successor Agency staff.

Finding One

The State Controller found several unallowable transfers to the City – 3100 California (Eyestone); 1400 E. Spring Street (3-acre storage site); 2745 Walnut Avenue (police station site); 859 Patterson (Boatyard); 2475 and 2485 Gardena (Heistead and RRH), 1850 28<sup>th</sup> Street (Best Buy), the Anastasi & 700 Spring Street sites, for a total of \$12,009,678.

In the report, it is recommended that these assets be transferred to the Successor Agency. Staff has completed a journal entry transferring these assets to the Successor Agency totaling \$12,009,678. This course of action was agreeable with the auditors from the State Controller's Office when we met to discuss the initial findings on October 4, 2012.

Finding Two

The draft report also points out that the former Signal Hill City Council and Redevelopment Agency made unallowable housing asset transfers on April 5, 2011 totaling \$4,007,693 to the Signal Hill Housing Authority. Pursuant to Health and Safety Code 34181(c), the Oversight Board will direct the Successor Agency to transfer the housing assets to the Signal Hill Housing Authority pursuant to Section 34176. The transfer was approved by the Oversight Board at its regular meeting on November 8, 2012. As soon as the meeting minutes are finalized, we will forward a copy to you for your records.

Finding Three

The third finding states that there are additional assets that need to be transferred to the Successor Agency. Specifically, the First Time Homebuyer Program loan receivables totaling \$79,201 and the Sewer Pump Station located at 2001 Alamitos Avenue. In terms of the Alamitos Avenue sewer pump station, a transfer of this property to the Los Angeles County Sanitation District No. 29 was approved by the Department of Finance on September 20, 2012. I have attached the letter received from the Department of Finance approving the transfer and Resolution Nos. 2012-08-02(SA) and 2012-08-02(OB) for your information. In addition, accounting audit trail entries in the Successor Agency's general ledger for these transactions has been processed. They are attached here too.

I believe that we have addressed all of the findings in your letter. If you require further clarifications as to any of my responses, please feel free to call me at (562) 989-7302, or my assistant, Elise McCaleb, Economic Development Manager at (562) 989-7379. We appreciate your including this response in the final report on the Asset Transfer Review for the City of Signal Hill Redevelopment Agency.

Sincerely,



Kenneth C. Farfajng  
City Manager / Chief Administrative Officer  
to the Signal Hill Successor Agency

C: Steven Mar, CPA / Bureau Chief  
State Controller's Office, Division of Audits - Local Government Audits Bureau

Scott Freesmeier, Audit Manager  
State Controller's Office, Division of Audits

Si Lau, Auditor-in-Charge  
State Controller's Office, Division of Audits

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