
From: J Hunter <jehunter51@msn.com>
Sent: Friday, February 05, 2016 7:58 PM
To: msoubirous@rivesideca.gov; Perry, Jim; Burnard, John
Cc: russ.hissom@bakertilly.com; Balachandran, Girish
Subject: [External] Re: REPORT ON THE EXAMINATION OF NORTHSIDE PROPERTY TRANSACTIONS TO BE PRESENTED BY AUDITORS, BAKER TILLY VIRCHOW KRAUSE, LLP
Attachments: Scott-Coe 10_04_14.pdf; Report of Northside Property Transactions.pdf; Northside Property-FAQs.pdf

Follow Up Flag: Flag for follow up
Flag Status: Flagged

Chairman Soubirous,

I was informed at the Board of Public Utilities this morning that the auditor's report on the Northside Properties transactions will be coming before the Finance Committee next for review.

I have attached the auditor's report, my letter of 16 months ago questioning the appropriateness of some of the transaction, and a recent FAQ released by our utility department.

I find two major faults: one with the auditors report itself, and one with the answers presented in the FAQs. These need further discussion that was lacking at today's Board meeting.

Fault 1: the auditor's report does not mention that when the General Fund transferred the Pellisier Ranch property back to the Water Fund in 2009, no independent appraisal was obtained. In fact, the consultant's report reads, "Appraisals were provided for Pellisier Ranch, Ab Brown and Reid Park properties." This is a terrible misleading statement as the only appraisal for the property was conducted in preparation for the 2005 initial sale to the General Fund. We all know what happened to the commercial real estate market between 2005 and 2009 in California. The Water Fund was ripped off by the General Fund here and everyone knows it...where is the accountability?

The consultant, Baker Tilly, as can be seen in the email below, was made aware of this fact but did not change their report despite having over a week to do so. I now have serious concerns regarding their credibility over the remaining audits they will conduct of RPU. If an auditor has integrity issues, they are useless to the public.

Fault #2: Allow me to provide for you this answer from RPU to the following question:

Did the transfer of the Riverside Golf Course and Reid Park from Water Utility to Electric Utility violate City Charter Section 1204?

"No. This section of the Charter provides broad categories for the use of utility revenues. One such category is for operation and maintenance of the utility. Operation and maintenance of the utility includes construction of new utility infrastructure and facilities, some of which is paid for by the issuance of bonds. A better bond rating means that the utility's cost of borrowing money is greatly decreased, resulting in financial savings for the ratepayer. RPU, with Board approval, undertakes financial planning to increase the rating of its bonds by

the three bond rating agencies currently rating RPU's debt. These rating agencies evaluate a number of factors in assigning ratings to the each utility, including diversification of investments and cash on hand. The Board approved the transfers between the Water Utility and the Electric Utility "to improve the overall financial positions [of each utility], and to help maintain the high credit ratings, of both Utilities." Both utilities currently have excellent ratings, and the Water Utility's rating was upgraded from AA+ to AAA, the highest rating, by Standard and Poor's subsequent to these 2011 property transfers."

This answer is so pathetic it actually made me laugh. Section 1204 does not allow for cross-subsidization of our utilities. It reads in relevant part, "The revenue of **each** public utility for each fiscal year **shall be kept separate and apart from all other moneys of the City** by deposit in the appropriate revenue fund and shall be used for the purposes and in the order as follows".

The Electric Fund cannot buy the Water Fund assets so as to strengthen the Water Fund's balance sheet so as to strengthen the Water Fund's credit rating. The Electric Fund must buy property which serves an electric need. Violating the Charter to even accomplish this is tantamount to committing bond fraud. Where is the accountability for putting the City at risk of this exposure? Reid Park, Ab Brown, and the former Golf Course need to be transferred back to the Water Fund immediately.

Sincerely,
Jason Hunter

p.s. How many scandals do we need to uncover over at RPU before there is a change within executive management? Why does the Board fail to properly oversee RPU, instead allowing these bombs to be dropped at the feet of the Council?

From: J Hunter <jehunter51@msn.com>
Sent: Tuesday, January 26, 2016 3:49 PM
To: russ.hissom@bakertilly.com
Cc: cmacarthur@riversideca.gov; msoubirous@riversideca.gov
Subject: REPORT ON THE EXAMINATION OF NORTHSIDE PROPERTY TRANSACTIONS TO BE PRESENTED BY AUDITORS, BAKER TILLY VIRCHOW KRAUSE, LLP

Mr. Hissom,

I glanced at the report you'll be presenting before the Riverside Board of Public Utilities in a few weeks. I have attached the letter I sent to the Chairman of that body 15 months ago that I imagine, in some part, led to your firm being hired to review the Northside properties transactions.

I have two primary concerns:

- 1) For the AB Brown soccer complex, Reid Park, and former Riverside Golf Course properties: **you do not address my concerns that these transactions violated our City Charter and/or State law as detailed in my letter.**
- 2) For the Pellisier transactions: **you do not list the lack of any form of a timely appraisal being conducted when the property was returned to the water fund in 2009.** Given the dramatic difference in the California real estate market between 2005 and 2009, I find your omission of this fact quite alarming.

Until the above concerns are addressed satisfactorily, I would suggest delaying your presentation to the Board of Public Utilities. I have cc:ed the Councilmembers in charge of our Utility Services/Land Use/Energy

Development and Finance Committees to this email. I am available to discuss these matters should you desire.

Sincerely,
Jason Hunter
c. 202-321-2630

Jason Hunter
1325 Century Ave.
Riverside, CA 92506
October 4, 2014

ATTN: Mr. Justin Scott-Coe
Chairman, Board of Public Utilities
Riverside Public Utilities
3750 University Ave.
Riverside, CA 92501

Re: Former Riverside Golf Course, Ab Brown Soccer Complex, Reid Park

Chairman Scott-Coe:

Two weeks ago, I attended a Board of Public Utilities meeting at which long range planning efforts for the Ab Brown soccer complex and the former Riverside Golf Course were discussed. No mention of the institutional history of these properties was given, so I requested records of past Board and City Council meetings discussing such. What I found was rather distressing: it appears these properties, along with Reid Park, were purchased by the Electric Fund in direct violation of the City Charter and State law.

The City Charter states in relevant part:

Sec. 1204. Use of revenue.

The revenue of each public utility for each fiscal year shall be kept separate and apart from all other moneys of the City by deposit in the appropriate revenue fund and shall be used for the purposes and in the order as follows:

(a) For the payment of the operating and maintenance expenses of such utility, including any necessary contribution to retirement of its employees.

(b) For the payment of interest on the revenue bonded debt of such utility. As used in this section "revenue bonded debt of such utility" means the debt evidenced by revenue bonds, revenue notes or other evidences of indebtedness payable only out of the revenues pertaining to the utility involved, whether the same are issued under the provisions of this Charter or under the provisions of any general law of the State of California.

(c) For the payment, or provision for the payment of the principal of said debt as it may become due, and of premiums, if any, due upon the redemption of any thereof prior to maturity.

(d) For the establishment and maintenance of any reserves for B and C above.

(e) For capital expenditures of such utility.

(f) For the annual payment by each utility into the general fund in twelve equal monthly installments during each fiscal year, an amount not to exceed 11.5 percent of the gross operating revenues, exclusive of surcharges, of each specific utility for the last fiscal year ended and reported upon by independent public auditors.

I have attached as Exhibit A the staff memorandums that were given to the Council on January 4, 2011, and January 25, 2011. Included as Exhibit B are the minutes of these Council meetings, recording the votes on these matters. Exhibit C details the Board's approval of these purchases by the Electric Fund from the Water Fund.

The reason given by staff for acquiring the Ab Brown soccer complex was to, "better balance the Utilities' [Electric and Water] respective short-term and long-term investment and reserve assets [...] allow[ing] the Electric Fund to capitalize on future appreciation of real estate values, while increasing the financial liquidity of the Water Fund."

The reason given by staff for acquiring Reid Park was so that its, "use as a public park can be made permanent." For the former Riverside Golf Course it was for, "the creation of employment and recreation opportunities on the site." These two properties were in turn flipped to the former Redevelopment Authority (RDA), with the Electric Utility itself actually financing the sale through the use of "interagency loans". RDA has yet to make any principal payments on these long term loans.

While these are all noble purposes, none of the reasons given to purchase these properties for the Electric Fund falls within the constraints provided by Section 1204 of the City Charter. Worse, it appears the purchase of the soccer complex in order to engage in real estate speculation violates Government Code Section 53601, which governs the investment of public funds by local agencies.

As such, unless I'm missing some relevant information, I recommend these transactions be unwound as soon as can be orderly achieved, with the original purchase price plus interest (at the cash pool of investment's rate) paid to the Electric Fund and these properties returned to the Water Fund.

Lastly, I call for an investigation into how these transactions, which seem to quite glaringly violate the Charter and State law came to be recommended to the Board by staff. The names of Belinda Graham, Deanna Lorson, Dave Wright, Gary Nolff, and Kevin Milligan are attached as submitting and approving these recommendations to both Board and Council. The Assistant General Manager of Finance at the time, Reiko Kerr, of course would be primarily responsible for understanding how the Charter and State law provisions I've mentioned above affected these transactions.

I also find the utility's role as lender to RDA via the use of "interagency loans," to be highly problematic, but that is a discussion to be had another time, and perhaps at another venue.

I can be reached at the address above or contacted via my phone number on file with the City Clerk's Office if you would like to discuss further. I ask that the Board please address this matter promptly.

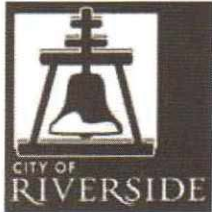
Sincerely,

A handwritten signature in black ink, appearing to read "Jason Hunter", written in a cursive style.

Jason Hunter

Enc: Exhibits A-C

EXHIBIT A



City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE:** January 4, 2011

FROM: PUBLIC UTILITIES DEPARTMENT **ITEM NO:** 41

WARD: 1

SUBJECT: TRANSFER OF AB BROWN SPORTS COMPLEX PROPERTY FROM PUBLIC UTILITIES WATER FUND TO PUBLIC UTILITIES ELECTRIC FUND – SUPPLEMENTAL APPROPRIATION

ISSUE:

The issue for City Council consideration is to approve the transfer of the Ab Brown Sports Complex (the "Complex") Assessor Parcel No. 246-060-001 (Exhibit A), from the Water Fund to the Electric Fund.

RECOMMENDATIONS:

That the City Council:

1. Approve the transfer of the Complex from the Water Fund to the Electric Fund at fair market value in the amount of \$11,600,000 effective December 31, 2010; and
2. Approve a supplemental appropriation from the unappropriated Electric Fund Balance in the amount of \$11,600,000 to an account number as assigned by the Finance Division and increase revenue for the Water Fund in the same amount for the transfer of the Complex.

BOARD RECOMMENDATION:

The Board of Public Utilities unanimously approved this item at their regularly scheduled meeting on December 17, 2010.

BACKGROUND:

Over its one-hundred year history, the Water Utility has acquired significant real property assets, including the Complex property. Conversely, the Electric Utility has very limited real property holdings. To better balance the Utilities' respective short-term and long-term investment and reserve assets, staff is seeking the Board's approval to transfer this 56-acre property at fair market value (as required to comply with applicable bond covenants) from the Water Fund to the Electric Fund. This allows the Electric Fund to capitalize on future appreciation of real estate values, while increasing the financial liquidity of the Water Fund. This transaction is anticipated to improve the overall financial positions, and help maintain the high credit ratings, of both Utilities. Based on a November 2009 appraisal of the land underlying the Complex, the Electric Fund will pay the Water

Fund the fair market value amount of \$11,600,000. While the appraisal is over one year old, staff is confident that market trends in relation to the subject property indicate that property values have stabilized and as a result, valuation adjustments would be minimal and offset by the time and expense involved in obtaining an updated appraisal report.

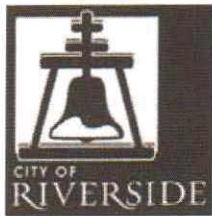
FISCAL IMPACT:

The cost to transfer the Complex land from the Water Fund to the Electric Fund is \$11,600,000. Sufficient funds are available in the Electric Fund Balance to complete this transfer.

Prepared by:	David H. Wright, Public Utilities General Manager
Certified as to availability of funds:	Paul C. Sundeen, Assistant City Manager/CFO/Treasurer
Approved by:	Belinda J. Graham, Assistant City Manager for Bradley J. Hudson, City Manager
Approved as to form:	Gregory P. Priamos, City Attorney

Attachments:

1. Exhibit A – Map of Ab Brown Sports Complex
2. Board of Public Utilities Minutes of December 17, 2010



City Council/Redevelopment Agency Memorandum

TO: HONORABLE MAYOR, CITY COUNCIL
AND AGENCY MEMBERS

DATE: January 25, 2011

ITEM NO: 19

FROM: DEVELOPMENT DEPARTMENT

WARD: 1

SUBJECT: AGREEMENTS BETWEEN THE REDEVELOPMENT AGENCY AND RIVERSIDE PUBLIC UTILITIES FOR REID PARK AND A PORTION OF THE FORMER RIVERSIDE GOLF COURSE LOCATED ON THE NORTH SIDE OF COLUMBIA AVENUE BETWEEN MAIN AND ORANGE STREETS – PUBLIC BENEFIT FINDINGS - MERGED DOWNTOWN/ AIRPORT INDUSTRIAL - HUNTER PARK/NORTHSIDE REDEVELOPMENT PROJECT AREA

ISSUE

The issue jointly before the City Council and Agency Board is whether to approve Agreements between the Redevelopment Agency and Public Utilities paying \$720,000 to Public Utilities for Reid Park land, identified as assessors parcel number 246-060-010, and paying \$4,837,500 to acquire 64 acres of the former Riverside Golf Course as identified on Exhibit A, located on portions of assessors parcel numbers 246-060-001, 206-070-002 and 003.

RECOMMENDATIONS

That the City Council:

1. Adopt the attached Resolution (Exhibit B) making certain findings regarding the payment to Public Utilities for the value of Reid Park land that is of benefit to the Project Area.
2. Authorize and approve the preparation and execution of agreements and a promissory note providing \$720,000 to Public Utilities for Reid Park land and \$4,837,500 for the acquisition of a 64 acre portion of the former Riverside Golf Course, based on a fair market value, secured by a note, financed over a 20 year term, at the Public Utilities surplus fund interest rate.
3. Authorize the City Manager, or designee, to execute all documents and instruments including making minor non-substantive changes necessary to implement and carry out the transaction.

That the Redevelopment Agency:

1. Adopt the attached Resolution (Exhibit B) making certain findings regarding the reimbursement to Public Utilities for the Reid Park land that is of benefit to the Project Area.
2. Authorize and approve the preparation and execution of agreements and a promissory note providing \$720,000 to Public Utilities for Reid Park land and \$4,837,500 for the acquisition of a 64 acre portion of the former Riverside Golf Course, based on the fair market value, secured by a note, financed over a 20 year term, at the Public Utilities surplus fund interest rate.
3. Authorize the Executive Director, or designee, to execute all documents and instruments including making minor non-substantive changes necessary to implement and carry out the transaction.

BACKGROUND

The property, which includes Reid Park and the former Riverside Golf Course, was originally acquired by Public Utilities on June 5, 1930. The property was purchased as part of a large acquisition to acquire water rights and well locations to serve the City. Since that time an extensive network of wells has been facilitated and Reid Park and the Golf Course were allowed to develop for public use as they did not interfere with its primary use for water rights.

Public Utilities has determined that the use as a public park can be made permanent. It is proposed the Redevelopment Funds be used to reimburse Public Utilities for the fair market value of the property to ensure its long term use as a public park. The water rights associated with the property will be retained by Public Utilities.

With the closure of the Riverside Golf Course in September 2009, the City commenced various assessments of the site to determine viable re-use options in partnership with the surrounding neighborhood. During that process, it was determined that the Redevelopment Agency could play a vital role in the planned development of the site through its acquisition. The Agency can conduct any necessary site preparation and development solicitation activities to repurpose the 64 Acre Parcel to meet the goals of the neighborhood and City through the creation of employment and recreation opportunities on the site.

As a part of the purchase, various portions of the property will be retained by Public Utilities, either in fee or through easements, to allow critical water infrastructure to be protected long-term. The acquisition and reimbursement values for the properties will be based on an appraisal. It is proposed that the purchase be financed by Public Utilities over 20 years, through a promissory note, at an interest rate equivalent to that earned on the Public Utilities surplus funds.

Pursuant to Health and Safety Code Section 33445, the City Council and Redevelopment Agency are required to adopt respective resolutions making certain findings for the payment of public facilities using redevelopment funds. The proposed reimbursement of Public Utilities funds will allow Reid Park to remain a public recreational and community center facility for the Project Area. Funding for key public facilities is specifically anticipated by Section 318 of the Redevelopment Plan. As the 64 Acre Parcel is being acquired for redevelopment purposes, no findings are necessary for this portion of the request.

The Board of Public Utilities concurs with the proposal.

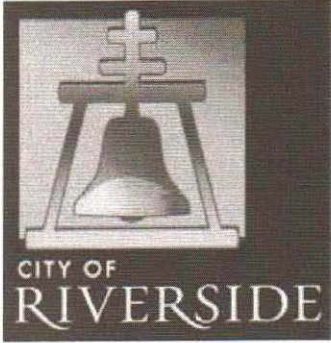
FISCAL IMPACT

There is no fiscal impact to the General Fund. The cost related to this proposal is \$5,557,500 plus interest over a twenty year period. Future tax increment from the Merged Downtown/Airport Industrial – Hunter Park/Northside Redevelopment Project Area will provide sufficient funding for the proposed transaction.

Submitted by: Deanna Lorson, Development Director
Certified as to
availability of funds: Paul C. Sundeen, Assistant City Manager/CFO/Treasurer
Approved by: Belinda J. Graham, Assistant City Manager
for Bradley J. Hudson, City Manager
Approved as to form: Gregory P. Priamos, City Attorney

Attachments: Site Map – Exhibit A
City and Agency Resolutions – Exhibit B

EXHIBIT B



**CITY COUNCIL
AND
REDEVELOPMENT AGENCY
MINUTES**

TUESDAY, JANUARY 4, 2011, 2 P.M.
ART PICK COUNCIL CHAMBER
CITY HALL
3900 MAIN STREET

**COUNCIL/AGENCY
MEMBERS**

WARDS	G A R D N E R	M E L E N D R E Z	B A I L E Y	D A V I S	M A C A R T H U R	H A R T	A D A M S
	1	2	3	4	5	6	7

SEIZING OUR DESTINY - POWER SALES AGREEMENT - LA PAZ SOLAR TOWER PROJECT - ORDINANCE INTRODUCED

The City Council (1) approved the Power Sales Agreement with Southern California Public Power Authority (SCPPA) for the purchase of renewable energy through the La Paz Solar Tower Project; (2) introduced an ordinance approving the Power Sales Agreement with the SCPPA for the La Paz Solar Tower Project with subsequent signature by the Mayor; and (3) authorized the Public Utilities General Manager, or his designee, to attest to the California Energy Commission compliance filing required pursuant to Chapter 11, Section 2909 of the Commission's regulations, certifying the agreement's compliance with California's Greenhouse Gas Emission Performance Standard; whereupon, an ordinance entitled, "An Ordinance of the Council of the City of Riverside Approving the Power Sales Agreement by the City with the Southern California Public Power Authority for the La Paz Solar Tower Project", was presented and introduced.

AB BROWN SPORTS COMPLEX PROPERTY TRANSFER - 3700 PLACENTIA - SUPPLEMENTAL APPROPRIATION

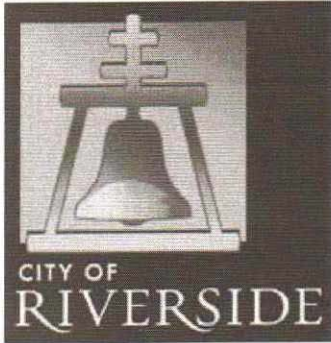
The City Council (1) approved the transfer of the Ab Brown Sports Complex located at 3700 Placentia Lane, in the amount of \$11,600,000 from the Water Fund to the Electric Fund effective December 31, 2010; and (2) approved a supplemental appropriation from the unappropriated Electric Fund Balance in the amount of \$11,600,000 to an account number as assigned by the Finance Division and increased revenue for the Water Fund in the same amount for the transfer of the complex.

SEIZING OUR DESTINY - NON-RESIDENTIAL PHOTOVOLTAIC SYSTEM REBATE - 2241 UNIVERSITY

The City Council approved a rebate in the amount of \$171,930 to McDonald's Restaurant located at 2241 University Avenue, for the installation of a 57.31 kW photovoltaic system through the Non-Residential Photovoltaic Rebate Program.

SEIZING OUR DESTINY - COOPERATIVE AGREEMENT - NON-POTABLE/RECYCLED WATER DELIVERIES

The City Council approved the Cooperative Agreement for Non-Potable/Recycled Water Deliveries with Western Municipal Water District of Riverside County to optimize local groundwater production and the use of recycled water for the maximum benefit of the respective customers and the local region.



**CITY COUNCIL,
REDEVELOPMENT AGENCY,
AND HOUSING AUTHORITY
MINUTES**

TUESDAY, JANUARY 25, 2011, 3 P.M.
ART PICK COUNCIL CHAMBER
CITY HALL
3900 MAIN STREET

**COUNCIL/AGENCY
MEMBERS**

G A R D N E R	M E L E N D R E Z	B A I L E Y	D A V I S	M A C A R T H U R	H A R T	A D A M S
1	2	3	4	5	6	7

WARDS

JOINT ITEM WITH REDEVELOPMENT AGENCY - MINUTES

The Minutes of the City Council/Redevelopment Agency Meeting of January 18, 2011, were approved as presented.

JOINT ITEM WITH REDEVELOPMENT AGENCY - RIVERSIDE GOLF COURSE - AGREEMENTS - SUPPLEMENTAL APPROPRIATION - RESOLUTIONS - 1011 ORANGE STREET

The City Council (1) adopted a resolution making certain findings regarding payment to Public Utilities for the value of the Reid Park land that is of benefit to the Merged Downtown/Airport Industrial - Hunter Park/Northside Redevelopment Project Area; (2) authorized the preparation and execution of agreements and a promissory note providing \$720,000 to Public Utilities for Reid Park land and \$4,837,500 for the acquisition of a 64-acre portion of the former Riverside Golf Course, based on a fair market value, secured by a note, and financed over a 20-year term, at the Public Utilities surplus fund interest rate; and (3) authorized the City Manager, or his designee, to execute all documents and instruments, including making minor, non-substantive changes necessary to implement and complete the transaction; whereupon, the title having been read and further reading waived, Resolution No. 22157 of the City Council of the City of Riverside, California, Adopting Findings Pursuant to Health & Safety Code Section 33445 and Authorizing Payment of the Value of Land for Publicly Owned Projects Within the Merged Downtown/Airport Industrial and Hunter Park/Northside Redevelopment Project Area for Reid Park, was presented and adopted.

The Redevelopment Agency (1) adopted a resolution making certain findings regarding the reimbursement to Public Utilities for the Reid Park land that is of benefit to the Merged Downtown/Airport Industrial and Hunter Park/Northside Redevelopment Project Area; (2) authorized the preparation and execution of agreements and a promissory note providing \$720,000 to Public Utilities for Reid Park land and \$4,837,500 for the acquisition of a 64-acre portion of the former Riverside Golf Course, based on the fair market value, secured by a note, financed over a 20-year term, at the Public Utilities surplus fund interest rate; and (3) authorized the Executive Director, or his designee, to execute all documents and instruments including making minor, non-substantive changes necessary to implement and complete the transaction; whereupon, the title having been read and further reading waived, Resolution No. 938 of the Redevelopment Agency of the City of Riverside, California, Adopting Findings Pursuant to Health & Safety Code Section 33445 and Authorizing Payment of the Value of Land for Publicly Owned Projects Within the Merged Downtown/Airport Industrial and Hunter Park/Northside Redevelopment Project Area for Reid Park, was presented

EXHIBIT C

-Unapproved December 17, 2010 Minutes of the Board of Public Utilities
-Scheduled for approval by the Board of Public Utilities at its scheduled
Meeting on January 7, 2011.

December 17., 2010
Board of Public Utilities
"UNOFFICIAL" Minutes

DISCUSSION CALENDAR

5. TRANSFER OF AB BROWN SPORTS COMPLEX PROPERTY FROM PUBLIC UTILITIES WATER FUND TO PUBLIC UTILITIES ELECTRIC FUND – SUPPLEMENTAL APPROPRIATION

General Manager Wright gave a presentation to the Board regarding this report.

Following discussion, the Board of Public Utilities recommended that the City Council:

1. Approve the transfer of the Complex from the Water Fund to the Electric Fund at fair market value in the amount of \$11,600,000; and
2. Approve a supplemental appropriation from the unappropriated Electric Fund balance in the amount of \$11,600,000 to an account number as assigned by the Finance Division and increase revenue for the Water Fund in the same amount for the transfer of the Complex.

Motion – Elliott. Second – Titus.

Ayes: Sutter, Elliott, Curtin, Titus, Davidson, Scott-Coe, Segura, and Ament.

-Unapproved January 21, 2011 Minutes of the Board of Public Utilities
-Scheduled for approval by the Board of Public Utilities at its scheduled Meeting on February 4, 2011.

January 21 2011
Board of Public Utilities
"UNOFFICIAL" Minutes

DISCUSSION CALENDAR

The following item was on the "Special" Board meeting agenda that the Board decided to discuss at this time.

11b. CONSIDERATION OF SALE OF APPROXIMATELY 110 ACRES OF PROPERTY WITHIN THE BORDERS OF MAIN STREET, COLUMBIA AVENUE, ORANGE STREET AND GARNER ROAD

The original recommendations that were on the Notice of "Special" Meeting of the Board of Public Utilities of the City of Riverside Agenda were revised as follows and approved after discussion.

The Board of Public Utilities recommended that the City Council:

1. Approve the sale by the Riverside Public Water Utility to the Riverside Public Electric Utility of approximately 60 acres of the land previously occupied by the Riverside Golf Course;
2. Approve the sale by the Riverside Public Water Utility to the Riverside Public Electric Utility of approximately 45 acres of land occupied by Reid Park;
3. Approve the sale by the Riverside Public Water Utility to the Riverside Public Electric Utility of approximately 1.5 acres adjacent to Reid Park occupied by park facilities;
4. Approve the sale by the Riverside Public Water Utility to the Riverside Public Electric Utility of approximately 2.5 acres of land which includes the existing club house;
5. Concurrent with the development of the Soccer Park improvements, direct the Development Department to seek rezoning of the 10 acre commercial site retained by RPU to Commercial Zoning suitable for retail development;
6. Concurrent with the development of the Soccer Park improvements, direct the Development Department to seek rezoning of the balance of the golf course retained by RPU to Industrial Zoning suitable for light industrial development;
7. Approve the sale price at fair market value, currently estimated at approximately \$5,557,000, **with informational review to** the Riverside Public Utility Finance/Marketing Committee;
8. Approve the sale of all four parcels by the Riverside Public Electric Utility to the City's General Fund or Redevelopment Agency with the Electric Utility amortizing the loan for 20 years at an interest rate equivalent to that earned on the City of Riverside's surplus funds.

Motion – Davidson. Second – Titus.

Ayes: Sutter, Elliott, Curtin, Titus, Davidson, and Scott-Coe.

Absent: Gustavo Segura (excused absence due to other)
Darrell Ament (excused absence due to business)

Cc: Mayor

City Council
City Manager
City Attorney
Development

CITY OF RIVERSIDE

Riverside, California

REPORT OF NORTHSIDE PROPERTY TRANSACTIONS

Including Independent Accountants' Report

January 12, 2016

CITY OF RIVERSIDE

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Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
fax 608 249 8532
bakertilly.com

INDEPENDENT ACCOUNTANTS' REPORT

To the City Council of
City of Riverside
Riverside, California

We have examined management's assertion that the Northside property transactions, identified as Pellisier Ranch, Ab Brown, Reid Park and the Golf Course, have been recorded in accordance with Generally Accepted Accounting Principles, the property transfers were properly approved by the City Council, the purchase price paid for the property was appropriately supported, title remained with the City, and the transfers were completed within the City's approved policies. The City of Riverside management is responsible for the assertion. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting management's assertion and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, management's assertion referred to above presents, in all material respects, the Northside property transactions based on Generally Accepted Accounting Principles and the criteria noted above.

Our examination was conducted for the purpose of forming an opinion on management's assertion referred to above. The supplemental information is presented for purposes of additional analysis and is not a required part of management's assertion. Such information is the responsibility of management and was derived from and relates directly to management's assertion referred to above. The information has been subjected to the examination procedures applied in the examination of management's assertion referred to above and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare management's assertion, and other additional procedures in accordance with attestation standards established by the American Institute of Certified Public Accountants. In our opinion, the information is fairly stated in all material respects in relation to management's assertion referred to above.

This report is intended solely for the information and use of the management and City Council of the City of Riverside and is not intended to be and should not be used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
January 12, 2016

SUPPLEMENTAL INFORMATION

CITY OF RIVERSIDE

SUPPLEMENTAL INFORMATION

Executive Summary

Baker Tilly was engaged to review and give an opinion as to whether the City's Northside property transfers have been recorded in accordance with Generally Accepted Accounting Principles, the property transfers were properly approved by the City Council, the purchase price paid for the property was appropriately supported, title remained with the City, and the transfers were completed within the City's approved policies. We reviewed the transactions and gave an opinion in this report that the City's Northside property transfers were properly recorded under GAAP, the property transfers were approved by the City Council, the purchase price was appropriately supported, the title remained with the City and the transfers were completed within the City's approved policies.

This section of our report includes several findings for consideration by the City and also a discussion on best practices followed for the recording of similar transactions.

Findings, Recommendations, and Management's Responses

While we give an opinion in this report that the Northside property transfers were properly recorded under GAAP, we have several findings and recommendations for management's consideration:

Finding	Recommendation
1. During discussions with management and review of council minutes, it appeared the AB Brown and Reid Park / Golf Course properties included water wells and other land associated with water property. It was unclear based on review of the detailed fixed asset listings if the land specific to the water fund was retained in that fund.	<i>We recommend the City review its detailed fixed asset listings to ensure the specific property is recorded in the correct fund.</i>
<p>Management's response:</p> <p>Management agrees with this recommendation when the value of the property is material. These parcels were acquired many decades ago, and are carried at a book value reflecting the purchase prices paid at that time. As a result, the value of the small portions of the properties' value that relate to water wells, water rights, and easements is deemed to be immaterial. These portions of the property were documented in the maps presented to the Board and City Council at the time of the transfer, and at such time as the properties are sold to third parties appropriate parcel maps will be recorded that clearly illustrate the property retained by the Utility with title remaining with the City for the benefit of the Utility.</p> <p>Additionally, recognizing that in the future similar immaterially-valued assets may be retained at the time of sales or transfers, the City will include a statement in the related Board/City Council report and/or resolution that acknowledges that the utility will retain ownership of all wells, water rights, and easements.</p>	

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Findings, Recommendations and Management's Response (cont.)

Finding	Recommendation
2. During review of the transactions, we noted one instance when an independent appraisal was not performed. For the golf course property the City prepared a comparable property listing based on the best information on hand to determine a reasonable estimate of the fair market value of the property.	<i>We recommend the City obtain an appraisal from an independent source for any property transfers, when possible.</i>
Management's response: Management agrees with the recommendation. The City follows best practices in recording property transactions and makes an effort to obtain third-party appraisals whenever possible. In certain limited instances, circumstances may not afford the time to complete an independent appraisal. City staff will make every reasonable effort, time permitting, to procure appraisals for property, especially for those properties that are likely to exceed \$1 million in value. In instances where this is not possible, analysis will be conducted by City staff to determine a reasonable value based on an analysis of recent comparable sales and the Board and/or City Council reports related to the transaction will specifically indicate whether or not an independent appraisal was obtained, and if none was obtained the reason why it was not possible to do so. The City will modify its existing Administrative Manual policy relative to real property acquisition to reflect these changes.	

Best Practices

As part of this project we performed a comparison of the City's practices in this area to best practices. True best practices in this area are those put forth by generally accepted accounting principles and the standards of establishing strong internal controls through the COSO¹ framework, an industry standard.

The accounting standards for recording property transfers in public sector entities is governed by Governmental Accounting Standards Board (GASB) Statement No. 48 - *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, deals with transfers of capital assets between funds. Best practices #1 and #2 in the following table refer to transfers of property within the same reporting entity – ie. the City, all its funds and RPU would constitute the same reporting entity.

¹ Committee of Sponsoring Organizations

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Best Practices (cont.)

The comparison follows:

Best Practice	City Approach
<p>1. Property transferred should be recorded by the entity receiving the property at the carrying value of the entity transferring the property.</p> <p>For example: No payment is part of this transaction. The City has a property parcel recorded on its books at \$100,000. It transfers that property to RPU. RPU should record it at \$100,000.</p>	<p>The City followed best practices in properly recording the transactions.</p>
<p>2. If a payment is made as part of the transaction, any gain or loss over the carrying value should be recognized.</p> <p>For example: RPU pays the City \$150,000 for the parcel in #1 above. The City general fund should report an <i>“other financing source”</i> of \$50,000 from the transaction for the proceeds over the carrying value. RPU should record the parcel at \$100,000 and record a <i>“transfer”</i> out to the general fund for \$50,000.</p>	<p>The City followed best practices in properly recording the transactions.</p>
<p>3. Best business practices are that properties are independently appraised on sale or transfer to another entity to ensure that they are valued at fair value and the transferring entity receives the market price for the property.</p>	<p>Best practices are that independent appraisals are obtained for all property transfers. City staff will make every reasonable effort, to procure appraisals for property, especially for those properties that are most likely in excess of \$1 million in value.</p>

Our conclusion is that the City and RPU followed best industry practices in recording the Northside property transfers.

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Exhibit 1 – Scope of Services

This exhibit is to show a detailed scope of the services provided by Baker Tilly Virchow Krause, LLP (“Baker Tilly”) for the examination related to management’s assertion that the City’s Northside property transfers have been recorded in accordance with Generally Accepted Accounting Principles, the property transfers were properly approved by the City Council, the purchase price paid for the property was appropriately supported, title remained with the City, and the transfers were completed within the City’s approved policies. Under AICPA standards, Baker Tilly developed a work plan, completed the necessary testing and reporting that would provide the proper assurance regarding the City’s assertion.

Baker Tilly’s work plan included:

- > obtaining a full population of the Northside property transfers;
- > reviewing the City’s prior and current use of the properties;
- > reviewing board approvals and discussions related to the properties;
- > reviewing the journal entries for the transfers;
- > reviewing journal entries related to the related interfund loans;
- > reviewing the valuation of the properties at the time of transfer; and
- > observing the transfers in the City’s detailed fixed asset listing.

Exhibit 2 – Schedule of Procedures Performed and Support for Findings and Recommendations

This exhibit details the testing procedures performed by Baker Tilly and the results of that test work.

Procedure #1: Complete a walkthrough with City management to identify the population of property transfers, gain an understanding of the purpose of the transfers and obtain historical background of the prior and current use of the properties. Obtain and review internal audit report dated August 5, 2008 regarding the proper recording of interfund loans.

Results: The City identified the properties as listed on the Summary of Northside Property Transfers, exhibit 1 of this Report, which we examined in the subsequent procedures.

Based on the City’s internal audit review of interfund loans, it was recommended by the internal auditors to implement a interfund loan policy which would outline; which funds could make loans, purposes allowed, limiting a fund’s cash balance allowed to be lent, reasonable repayment terms, charging of interest at the City’s pooled cash rate and the specific accounting rules to be followed for recording interfund loans and the related interest accruals.

The City’s interfund loan policy was last amended in October 2011. When reviewing the policy it was noted that the policy directly addressed all items recommended by the internal audit as discussed in the preceding paragraph. During review of the specific interfund loans related to the property transfers, we noted no instances in which the City did not comply with its policy.

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Exhibit 2 – Schedule of Procedures Performed and Support for Findings and Recommendations (cont.)

Procedure #2: Obtain board minutes and other internal documents to gain additional understanding of the purpose of the property transfers and note approval of the property transfers.

Results: Viewed the following board minutes for approval of transfers of property:

Property	Sale From	Sale To	City Council Approval Date
Pellisier Ranch	Water	General Fund	Dec 6, 2005
Pellisier Ranch	General Fund	Water	June 16, 2009
Ab Brown	Water	Electric	Jan 4, 2011
Reid Park	Water	Electric	Jan 25, 2011
Reid Park	Electric	General Fund	Jan 25, 2011
Golf Course	Water	Electric	Jan 25, 2011
Golf Course	Electric	General Fund	Jan 25, 2011

Baker Tilly noted that each of the property transfers in the population was approved by the City Council.

The following outlines the purpose of each transfer.

Pellisier Ranch: Originally purchased to secure local water rights and resources for the water fund (an enterprise fund of the City). In 2005, the property was transferred to the general fund to facilitate development of the property in conjunction with the City of Colton. As a result of the economic downturn it was determined that the development of the property was not feasible and it was reverted back to the water fund in 2009 to be retained for future water treatment facility and potential water well developments.

Ab Brown: Was originally purchased to secure local water rights and future resources for water fund customers. In 2011, it was determined that the water fund did not anticipate future development on the property, but the electric fund, which had limited land holdings, would be able to redistribute its assets to acquire the property.

Reid Park / Golf Course: Originally purchased to secure local water rights and future resources for water fund customers. In 2011, it was determined that a portion of the land could be acquired by the general fund to maximize potential of the property and prevent blighted conditions within the neighborhood. The general fund acquired 100% of Reid Park and 64 acres of approximately 126 total acres of the golf course. The properties were first transferred to the electric fund as it was determined that it was more advantageous to have the interfund loan in the electric fund.

Based on the documentation obtained through detailed review of board minutes related to the Reid Park / Golf Course transaction, we were unable to determine if the water fund retained rights or a portion of the property for areas in which water wells are currently located. Based on the property map received and discussions with management regarding the current use of the land, the intention of the property is for the areas in which wells are placed be retained with the water utility.

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Exhibit 2 – Schedule of Procedures Performed and Support for Findings and Recommendations (cont.)

Procedure #2: (cont.)

Baker Tilly also noted that City staff indicated that the water fund had retained water rights and/or land associated with water property on the AB Brown property. Based on our review of the property transfer, it was unclear if the water fund had retained any rights or land associated with AB Brown.

Procedure #3: Obtain detailed accounting records for each property transfer. In addition, select a sample of transactions for any interfund loan related to the Northside property transactions to review, including interest accruals and loan payments, if applicable.

Results: Baker Tilly viewed journal entries made to record the initial property transfer to ensure the transactions were recorded in compliance with Generally Accepted Accounting Principles. We noted in one instance, related to the Pellisier Ranch initial transaction, accounting records were not available for our review. In accordance with the City's record retention policy, records prior to fiscal year 2010 are no longer retained. Baker Tilly viewed the City's fixed asset records and noted the water fund showed the property was disposed of when the original transfer occurred in 2005 and in 2009 was recorded as active for approximately the same price.

Furthermore, Baker Tilly selected a sample of transactions related to the interfund loans, including accrued interest and any principal payments. Baker Tilly noted no exceptions when recalculating accrued interest at the City's pooled investment rate and when reviewing the journal entries for proper accounting treatment.

Procedure #4: Complete detailed research of authoritative accounting guidance to determine proper accounting of the Northside property transfers.

Results: Baker Tilly reviewed GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, effective for periods beginning after December 15, 2006. It was noted that all but the initial property transfer would have occurred after the effective date of this standard. All transactions subsequent to fiscal 2008, when the City implemented the standard, were properly recorded in compliance with this standard.

Procedure #5: Review property appraisals or other supporting information to determine the fair market value at the time of the transfer.

Results: Appraisals were provided for Pellisier Ranch, Ab Brown and Reid Park properties. Baker Tilly reviewed the appraisals provided and noted that they were conducted by an outside vendor, not in relation to the City. The appraisals supported the fair market value at which the properties were transferred.

In relation to the golf course property, City staff prepared a comparable property listing similar to the process followed by appraisers to determine a reasonable estimate of the fair market value. The amount determined to be fair market value was the amount in which the property was transferred.

We recommend that the City obtain an appraisal, if an extended period of time has elapsed since the last appraisal, of each property prior to its transfer to accurately determine the current fair market value by someone independent of the property transaction. Obtaining a current appraisal of a property prior to transfer should allow for more clarity as to how the value was determined as it is specifically outlined in a report.

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Exhibit 2 – Schedule of Procedures Performed and Support for Findings and Recommendations (cont.)

Procedure #6: View City fixed asset records to determine how the assets are recorded in the detailed accounting records and to ensure the assets were recorded in the correct fund.

Results: Detailed fixed asset records were provided by the City for each property outlined in the population of transactions. For each property, Baker Tilly was able to view the current and prior recording of the property in the various funds of the City. We noted no exceptions during our review which would indicate that the properties were not properly recorded in the fixed asset listing over the course of the transfers.

City of Riverside – Northside Properties FAQs

What properties does the City own on the Northside?

The primary parcels that the City owns on the Northside include the Ab Brown Soccer Complex, Reid Park, and the former Riverside Golf Club parcels.

Do City departments own property, or does the City hold title to properties?

The City of Riverside, as a municipal corporation, holds title to all real property acquired by various departments. The individual departments do not “own” property. The City tracks acquisitions and transfers of parcels by and between departments and funds through its accounting records, which are audited annually by an independent Certified Public Accounting firm. Based upon the source of funding for the acquisition, the City assigns properties to certain departments. Reid Park is assigned to the Parks Department (within the City’s General Fund), Ab Brown Soccer complex is assigned to the Electric Utility, and the former Riverside Golf Club is assigned to the Water Utility and Parks Department in an approximate 45%-55% split, respectively.

When the Northside properties were originally acquired? Why?

City and department records indicate the parcels were acquired over an approximate 25 year period beginning in 1935 for the purpose of developing water rights and drilling water production wells.

How much property is there?

The former Riverside Golf Club encompasses 128 acres. Reid Park encompasses 45 acres. The Ab Brown Soccer complex encompasses 56 acres.

Some of these parcels were recently transferred between departments. How did that happen?

In 2010 and 2011, after reviewing the complete financial portfolios (cash and other) of the utility enterprises, staff recognized an opportunity to better balance the cash and non-cash financial positions of both the Water and Electric Utilities. Staff also discovered that a substantial portion of the developed Reid Park existed on land that should have been assigned to the Water Utility. To diversify the utility financial portfolios and correct the assignment of Reid Park, at RPU staff recommendation, in 2011 the RPU Board and City Council approved the transfers as outlined below.

Were the parcels appraised before the sale?

The parcels were appraised before the 2011 transfers. For the Riverside Golf Club property, RPU, General Services, Development Department, and Redevelopment Agency staff developed a series of comparable property values, as would be done in a formal appraisal, and met together to develop a set

of consensus values to recommend to the Board of Public Utilities and City Council. Reid Park was formally appraised in October 2010. The Ab Brown Soccer Complex was formally appraised in November of 2009.

When did the Board of Public Utilities approve the transfers of the former Riverside Golf Club, Ab Brown Soccer Complex and Reid Park?

1. December 17, 2010: RPU Board approved transfer of Ab Brown Soccer Complex from the Water Utility to the Electric Utility for \$11.6 million, to improve the overall financial positions [of each utility], and to help maintain the high credit ratings, of both Utilities.
2. January 4, 2011: City Council approved transfer of Ab Brown Soccer Complex from the Water Utility to the Electric Utility for \$11.6 million , “to improve the overall financial positions [of each utility], and to help maintain the high credit ratings, of both Utilities.”
3. January 21, 2011: RPU Board approved the following transfers:
 - 60 and 2.5 acres of Riverside Golf Course from the Water Utility to the Electric Utility for \$4,837,500;
 - 45 and 1.5 acres of Reid Park from the Water Utility to the Electric Utility for \$720,000; and
 - Transfer of all of these parcels to either the General Fund or the City’s Redevelopment Agency (the “RDA”)

RPU retains approximately 120 acres of the Northside lands
4. January 25, 2011: City Council approves purchase of the Riverside Golf Course and Reid Park by the RDA, to be repaid over a 20-year term, with interest.
5. March 1, 2011: City Council changes the “buyer” of the Riverside Golf Course and Reid Park from the RDA to the General Fund, with funding to be provided by the RDA with repayment over a 20-year term, with interest.

These actions were all approved during regular sessions of the Board and City Council.

What policies govern the purchase, sale or transfer of properties that the City owns?

The City has an administrative policy for the sale of City property or transfer to another fund. There is no specific policy for purchase of property, other than that RPU Board and City Council approval is needed.

Were these policies followed?

Yes, the policies were followed.

Did the transfer of the Riverside Golf Course and Reid Park from Water Utility to Electric Utility violate City Charter Section 1204?

No. This section of the Charter provides broad categories for the use of utility revenues. One such category is for operation and maintenance of the utility. Operation and maintenance of the utility includes construction of new utility infrastructure and facilities, some of which is paid for by the issuance of bonds. A better bond rating means that the utility's cost of borrowing money is greatly decreased, resulting in financial savings for the ratepayer. RPU, with Board approval, undertakes financial planning to increase the rating of its bonds by the three bond rating agencies currently rating RPU's debt. These rating agencies evaluate a number of factors in assigning ratings to the each utility, including diversification of investments and cash on hand. The Board approved the transfers between the Water Utility and the Electric Utility "to improve the overall financial positions [of each utility], and to help maintain the high credit ratings, of both Utilities." Both utilities currently have excellent ratings, and the Water Utility's rating was upgraded from AA+ to AAA, the highest rating, by Standard and Poor's subsequent to these 2011 property transfers.

How could the Electric Utility accept the transfer of property currently being used as a City park?

in 2010, the Electric Utility acquired the property in anticipation of a transfer to the RDA or the General Fund. The Board did not approve the transfer of park property from the Water Utility to the Electric Utility for continued use as park property.

Doesn't the Government Code preclude the utility from investing surplus funds in real property? Isn't this real estate speculation?

Government Code section 53601 regulates the investments that the City can make with third parties. Here, the approved land transfers were between City departments. There was no impact to the City's investment portfolio as a result of these transfers, because the City's total cash balance did not change. As discussed above, these transfers were undertaken "to improve the overall financial positions [of each utility], and to help maintain the high credit ratings, of both Utilities."

Does the dissolution of the RDA mean that the Electric Fund will never be repaid for the sale of Reid Park or Riverside Golf Course?

No. The State of California has challenged whether Riverside can use redevelopment tax increment funds to pay the Electric Fund for these properties because the transfers were financed using an internal loan. The trial court ruled in favor of the City, and the State appealed this ruling. Even if the appellate court rules in favor of the State, the Successor Agency to the Redevelopment Agency must pay the Electric Utility for 80% of the amount of the outstanding loan and the General Fund must pay the Electric Utility the remaining 20% of the loan balance. During the appeals process, no payments are

being made on the loan. Interest is being accrued and will be paid in full once the appeals process has concluded, along with all principal due consistent with the original loan payment schedule.