

Successor Agency Oversight Board Presentation

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County of San Luis Obispo

Presented by the Property Tax & Audit Divisions
of the Auditor-Controller's Office



Agenda

- Auditor-Controller - RDA Dissolution Statutory Rolls
- Redevelopment Overview
- San Luis Obispo County Former RDAs
- Dissolution Terminology and Concepts
- Property Tax Distribution
- Redevelopment Dissolution Timeline
- Audit of RDAs and Successor Agencies



**AUDITOR-
CONTROLLER'S
STATUTORY ROLES**

Property Tax Division:

- Provide Tax Administration Services
 - a) Create two trust funds for each former RDA (RPTTF and Sales of Assets)
 - b) Calculate property tax revenues (formerly tax increment) for the RPTTF
 - c) Deposit monies into the trust funds
 - d) Make all payments out of trust funds
 - e) Reporting of the above activities to the appropriate State and local agencies

Internal Audit Division:

- Agreed upon procedures engagement



REDEVELOPMENT OVERVIEW

Redevelopment Overview

- When a Redevelopment Agency (RDA) was established, the property taxes generated within its boundaries were frozen.
- These amounts are known as the **Frozen Base**.
- This Base amount continues to be distributed as normal property taxes to taxing entities within the boundaries of the RDA.
- Over time, property taxes usually increase.
- Property tax increases above the Frozen Base are diverted to the RDA.
- These increases are known as **Tax Increment**.

Redevelopment Overview

- Tax Increment is shifted:
 - From the taxing entities (county, city, special districts and school districts)
 - To the RDA
- The State backfills the non-basic aid school districts for their loss in property taxes up to their revenue limit.
- RDAs must have O/S debt to receive tax increment.
- The concept was to issue debt to do capital improvements and remove blight quickly, then pay for it over the life of the improvements.

Redevelopment Overview

- Majority of debt was bonded indebtedness, but could have been loans from banks or the city.
- Before any tax increment was distributed, the law required that 20% was deducted and set aside exclusively for low and moderate income housing programs in the sponsoring community.
- Known as **Low/Moderate Income Housing set aside** or the **20% Housing set aside**.
- Some RDAs set aside more than 20%.

Redevelopment Overview

- Prior to 1994 the taxing entities could negotiate a return of any or all of the tax increment from the RDA.
- After 1994 RDAs were required by law to return (pass-through) a specific percentage of tax increment back to all the entities that gave it up (AB 1290).
- Return of increment is known as **pass-through**.
- The formulas are very complex.
- Auditor-Controller processes the pass-through payments on behalf of all the RDAs in San Luis Obispo County.



**SAN LUIS OBISPO
COUNTY FORMER
REDEVELOPMENT
AGENCIES**

Redevelopment Agencies

There were 5 Redevelopment Agencies in SLO County:

- Arroyo Grande RDA
- Atascadero RDA
- Grover Beach RDA – Project Area I & GBIE
- Paso Robles RDA
- Pismo Beach RDA (AKA Five Cities)

Redevelopment Agencies

All RDAs in the County FY 2010-11

	Gross Tax Increment to RDA	Pass- through Back to Entities	Net Tax Increment to RDA
Arroyo Grande RDA	\$1,491,114	(\$391,503)	\$1,099,611
Atascadero RDA	3,678,066	(735,613)	2,942,453
Grover Beach RDA	1,408,469	(322,706)	1,085,763
Paso Robles RDAs	4,449,778	(1,258,113)	3,191,665
Pismo Beach RDAs	1,216,117	(878,385)	337,732
Grand Total	\$12,243,544	(\$3,586,320)	\$8,657,224

- The above figures are only for the secured and unsecured annual tax increment distributed in 2010-11



ABXI 26 DISSOLUTION

TERMINOLOGY

&

CONCEPTS

Acronyms

- SA = Successor Agencies
- OB = Oversight Boards
- RPTTF = Redevelopment Property Tax Trust Fund
- EOPS = Enforceable Obligations Payment Schedule
- ROPS = Recognized Obligations Payment Schedule
- RDA = Former Redevelopment Agency
- DOF = Department of Finance
- SCO = State Controller's Office
- ATE = Affected Taxing Entity
- PTP = Pass-thru Payments
- AUP = Agreed-Upon Procedures
- EO = Enforceable Obligations
- SOI = Statement of Indebtedness
- LAO = Legislative Analyst Office
- RORF = Redevelopment Obligation Retirement Fund
- TI = Tax Increment
- PBC = Prepared By Client

Successor Agency

- **Successor Agency** is the sponsoring community (the city or county), H&S 34171(j).
- Sponsoring community may opt out of acting as the Successor Agency and Pismo Beach was one of 7 sponsoring communities which chose to do this.
- The Governor appointed 3 members to serve as the Designated Local Authority (DLA), H&S 34173(d)(3).
- Successor Agency or DLA conducts the day-to-day work of paying the bills, liquidating assets and winding down operations.

Oversight Board

The **Oversight Board** is the 7 member board required to be established by ABXI 26, H&S 34179(a).

The members are appointed by:

- (1) The County Board of Supervisors.
- (2) The mayor of the city that formed the RDA.
- (3) The largest special district within the RDA area.
- (4) The Superintendent of Education.
- (5) The Chancellor of CA Community Colleges.
- (6) Member of the public by Board of Supervisors.
- (7) Member representing former RDA employees by the mayor.

Oversight Board (continued)

- Oversight Board has considerable authority over the former RDA's financial affairs, supervises the Successor Agency or DLA, approves the Recognized Obligations and directs the winding down process.
- Oversight Board members must serve without compensation or reimbursement for expenses.
- All costs of the Oversight Board meetings must be paid by the Successor Agency, H&S 34179(c).
- Oversight Board is deemed to be a local entity for purposes of the Brown Act, Public Records Act and Political Reform Act of 1974, H&S 34179(e).
- On 7/1/2016 all five SLO Oversight Boards will be combined into a single, countywide OB, H&S 34179(i).

Transfer of Assets

- All assets (other than housing assets) owned by the former RDA as of 2/1/12 were required to be transferred to the Successor Agency, along with all debt and all unencumbered balances.
- Cities had the option to elect to be the Housing Successor and all our cities but Pismo Beach did this.
- Housing assets were required to be transferred to the Housing Successor. With no successor available, housing rights, powers, assets, liabilities, duties and obligations of Pismo Beach must be transferred to State Department of Housing and Community Development (DHCD).

Redevelopment Dissolution

BEFORE
DISSOLUTION

AFTER DISSOLUTION

RDA
Board

Auditor-
Controller

Oversight
Board

City
Council

RDA of City

Redevelopment
Property Tax
Trust Fund

Successor
Agency

Housing
Successor

Tax
Increment

Tax increment to
Auditor-Controller

Property Tax
Revenues

Property Tax
Revenues

• Just enough to pay the
ROPS & SA Fees

RDA Assets
(80%)

RDA assets to Successor Agency

RDA Assets

LM Housing
Assets (20%)

Low Moderate Housing Set Aside to Housing
Successor (usually Sponsoring Community)

LM Housing
Assets
(20%)

Recognized Obligation Payment Schedule (ROPS)

- **Recognized Obligations Payment Schedule (ROPS)** – Document prepared by Successor Agency listing the amounts, payment sources and due dates of all enforceable obligations for the next 6 months.
- ROPS must be prepared every 6 months, until the end of the life of the Successor Agency.
- Forward looking schedule.
- Each ROPS must be approved by its Oversight Board.
- The Agreed Upon Procedures (AUP) Auditors certify only initial ROPS.

Recognized Obligation Payment Schedule (ROPS) Continued

Enforceable Obligations are:

- Bonds
- Loans pursuant to a repayment schedule or mandatory loan terms
- Payments required by federal or state government
- Court judgments or settlements
- Other legally binding and enforceable agreement or contract.

H&S 34171(d)(1)

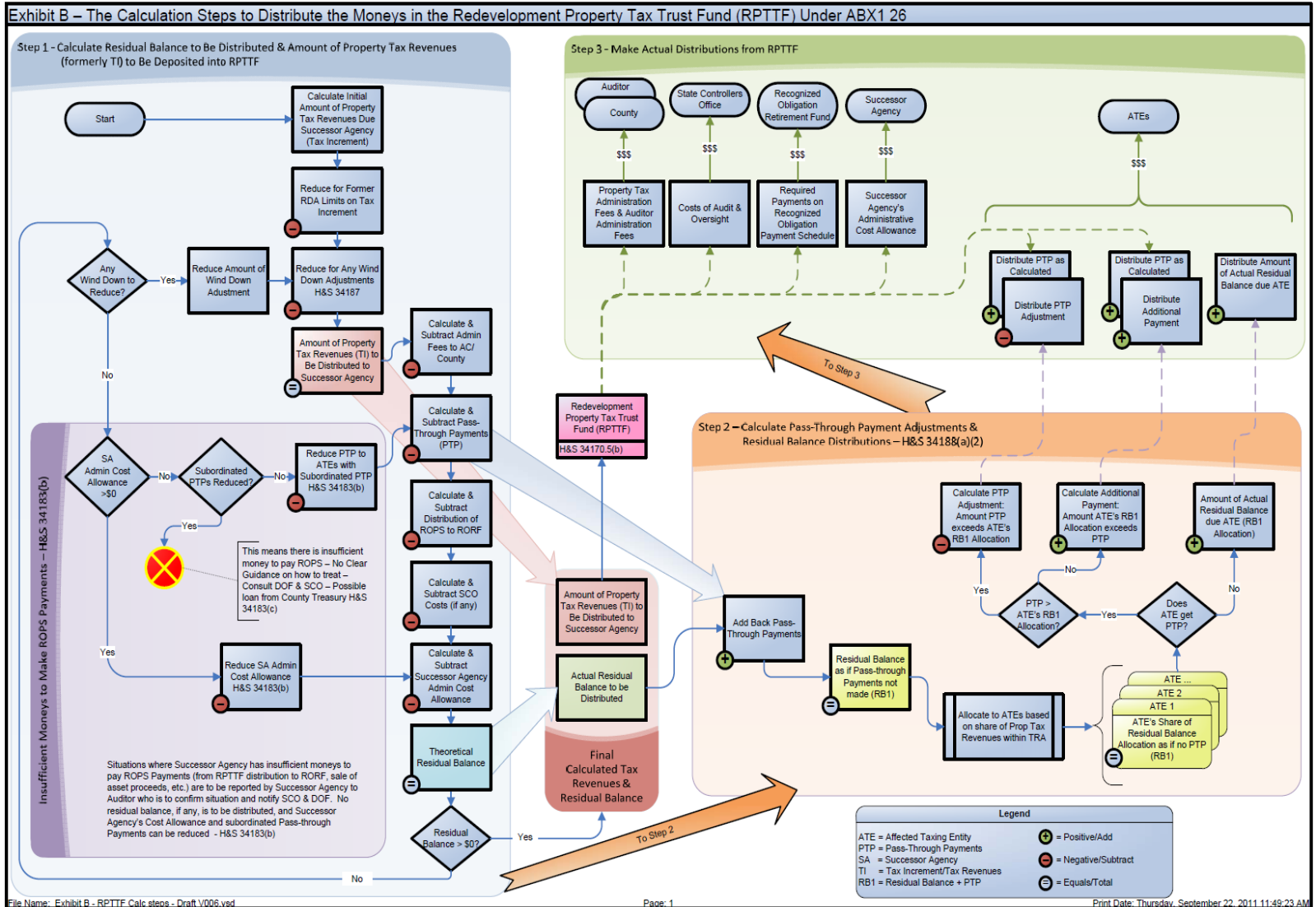


PROPERTY TAX DISTRIBUTION

Property Tax Distribution

- RDA tax increment (now called property taxes) is distributed by the Auditor-Controller.
- Distributions to Successor Agency are made only twice per year, H&S 34183:
 - January 16 to pay ROPS for January through June.
 - June 1 to pay ROPS for July through December.
- Only in amounts sufficient to meet the obligations on the ROPS for next 6 months.
- Payments will also include the Administration Cost Allowance.

Distribution Calculation is Complex



Reporting & Distribution

- By November 1 and May 1 each year, the Auditor-Controller must estimate the amount of property taxes generated within the former RDA area are, H&S 34182(c)(3):
- By December 1 and May 1, Successor Agency must notify the Auditor-Controller if property taxes are insufficient to fund the upcoming ROPS.
- On January 16 and June 1, taxes distributed to Successor Agency to pay obligations on ROPS.

Distribution Related Dates

	Spring ROPS	Fall ROPS
Auditor-Controller to estimate taxes by:	May 1	November 1
Successor Agency to notify if taxes are insufficient to pay ROPS:	May 1	December 1
ROPS document requested to be received by the State DOF on:	May 11	Mid-December
RPTTF residual taxes distributed to taxing entities on:	June 1	January 16
Time period covered by the ROPS:	July-December	January-June
From taxes paid by property owners on:	April 10	December 10

Property Tax Distribution

Order of priority for distributing property taxes:

After Auditor-Controller costs of audit and RPTTF administration, SB2557 administration fees and SCO administration fees:

1. Pass-throughs, as if the RDA still existed.
2. Enforceable obligations (debt, invoices, contracts) pursuant to the approved ROPS.
3. Successor Agency administrative cost allowance (5% in 2011-12 then 3%).
4. Remainder to be proportionately distributed among taxing entities in addition to any proceeds from the sale of assets.

Property Tax Distribution

I. Pass-through Payments

§34183(a)(I)

- To each local agency and school entity, as if the RDA still existed.
- This will continue until the end of the life of the Successor Agency.
- Pass-throughs are first order of priority, even before the ROPS.

Property Tax Distribution

2. Enforceable Obligations

§34183(a)(2)

- To each Successor Agency for obligations listed on the ROPS for the upcoming six month period.
- Discussed in detail on earlier slides.

Property Tax Distribution

3. Administrative Cost Allowance §34183(a)(3)

- To each Successor Agency for administration.
- Up to 5% of the taxes allocated to the Successor Agency for fiscal year 2011-12 and 3% each year thereafter.
- Not less than \$250,000 per fiscal year, 34171(b).
- Subject to approval of the Oversight Board.
- If there are insufficient funds to pay the debt service on the ROPS, this is the first item to be reduced pursuant to §34183(b).

Property Tax Distribution

4. Remaining Funds Distribution §34183(a)(4)

- If any funds are left over, the remainder is distributed to each local agency and school entity in their proportionate share, pursuant to §34188.
- It is the same proportion as the entities' contribution into the RDA for that year.
- This amount may be minimal for the first few years because most of the tax revenues will be used up to pay debt and contract obligations on the ROPS.

Property Tax Distribution

4. Remaining Funds Distribution

(continued)

- It should increase as time goes on and the obligations decrease.
- Each Successor Agency is different, depending on the amount of their debt and their maturity dates.
- A taxing entity cannot receive more in property tax revenues in any year than they lost in property tax increment within the RDA boundaries in that year.

Property Tax Distribution

4. Remaining Funds Distribution (continued)

- An entity which receives 100% return of property tax revenues pursuant to an existing negotiated agreement does not participate in any annual remainder distribution because they have already been made whole.
- This method of proportionate distribution also applies to proceeds from sale of assets, H&S 34182(c)(4).
- An entity receiving 100% return of property tax revenue CAN receive their proportionate share of proceeds from sale of assets, if any.



**REDEVELOPMENT
DISSOLUTION
TIMELINES**

RDA Dissolution Timeline

- **2/1/12** - RDAs dissolved. RDA assets, liabilities and responsibilities transferred to Successor Agency and LMIH to housing successor .
- **3/1/12** –Initial Draft ROPS prepared by Successor Agency for January 1, 2012 through June 30, 2012.
- **3/1/12 to 4/15/12** – AUPs Auditor to certify and Oversight Board to approve Initial ROPS.
- **4/15/12** – Certified and approved ROPS must be sent to the State and be posted on the Successor Agency website. (If not yet approved or certified, forward to SCO & DOF with an annotation regarding its status.)

RDA Dissolution Timeline

- **5/1/12**
 - Auditor-Controller to estimate property taxes available for July 1, 2012, through December 31, 2012.
 - Estimate is based on draft ROPS from Successor Agency by 4/15/12.
 - Oversight Board members' names to State.
 - Only items listed on approved ROPS can be paid from now on, unless approved by Oversight Board.
- **5/11/12** - Successor Agency to send 2nd ROPS for July 1, 2012 through December 31, 2012. The State asked for this ASAP, but no later than May 11, 2012.

RDA Dissolution Timeline

- **6/1/12** – Auditor-Controller to distribute property taxes to Successor Agency and taxing entities for the ROPS payments of July 1, 2012, through Dec 31, 2012.
- **7/1/12** – Designated auditors to complete Agreed Upon Procedures engagement.
- ▶ **7/15/12** – Auditor-Controller to submit Agreed Upon Procedures report to the State Controller & Dept. of Finance.
- ▶ **10/1/12** – Auditor-Controller must report to the State details of the payments made on January 16, 2012, (actually paid in December) and June 1, 2012.

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**AUDITOR'S REVIEW
OF RDAs
&
SUCCESSOR AGENCIES**

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Agreed-Upon Procedures “Audits”

- ABXI 26 Requires that by July 1, 2012 the County Auditor-Controller conduct or cause to be conducted an “Agreed-Upon Procedures” audit of each former RDA in order to:
 - Establish each RDA’s assets and liabilities
 - Document and determine each RDA’s pass-through payment obligations to other taxing agencies
 - Document and determine both the amount and terms of any indebtedness incurred by the RDA
 - Certify the initial Recognized Obligation Payment Schedule



How are the Agreed-Upon Procedures Different from an Audit?

- Agreed-upon procedures are a report of findings based on specific procedures performed on the subject matter.
 - There is no opinion or assurance provided.
 - State has requested that specific information be identified and reported.

Agreed-Upon Procedures

- The Agreed-Upon Procedures were issued by the State Controller's Office as the minimum procedures to be used by the auditor to meet the provisions of ABX1 26 Section 34182.
- We will perform the Agreed-Upon procedures plus supporting procedures for assets and fund balance.



Six Sections of the Agreed-Upon Procedures

1. Accountant's Report
2. RDA Dissolution and Restrictions
3. Successor Agency
4. Draft Recognized Obligation Payment Schedule
5. Final Recognized Obligation Payment Schedule
6. Other Procedures

Accountant's Report

I. Accountant's Report

- States the scope of the engagement
- Identifies any findings
 - A Finding is a deviation from the law or an area where supporting documentation does not materially support the information presented by the successor agency.

RDA Dissolution and Restrictions

2. RDA Dissolution and Restrictions

- Review Enforceable Obligation Payment Schedule (EOPS) and amended EOPS for submission, completeness, obligation agreement to legal documentation and qualification as enforceable.
 - Obligations entered into after June 29, 2011 are required to be identified by auditors.
- Review RDA transfer of Low and Moderate Income Housing fund and housing activities to successor agency/successor housing agency.

Successor Agency

3. Successor Agency

- Determine establishment of the successor agency and oversight board.
- Determine whether and when a transfer of operations occurred from the former RDA to the successor agency.
 - The auditor is required to report the manner in which the transfer was executed.
- Determine whether the successor agency established the Redevelopment Obligation Retirement Fund

Successor Agency (continued)

3. Successor Agency (continued)

- Compare payments listed on the EOPS and Recognized Obligation Payment Schedule (ROPS) to payments actually made and their supporting documentation.
- Obtain and verify listings that support the asset figures in the audited financial statements as of June 30, 2010, June 30, 2011, and January 31, 2012.
 - The auditor is required to include the listings as an attachment to the agreed-upon procedures report.
- Determine whether significant, unexplained changes occurred in the RDA fund balance and between the RDA and successor agency fund balance.

Draft Recognized Obligation Payment Schedule

4. Draft ROPS

- Review draft ROPS for submission, completeness, obligation agreement to legal documentation and qualification as enforceable.
 - If Draft ROPS has not been approved by the Oversight Board as of the date of the auditor's report, auditor must include the non-approval in the report.
- Note any material differences between the EOPS and the draft ROPS.

Final Recognized Obligation Payment Schedule

5. Final ROPS

- Same procedures as for draft ROPS
- Plus, compare payments listed to payments actually made and their supporting documentation.

Other Procedures

6. Other Procedures

- Compare list of pass-through payments made to list of pass-through obligations.
 - Auditor must note any differences.
- Issue Agree-Upon Procedures report to the Oversight Board and distribute to the California State Controller by July 15, 2012.

What about Certification?

- ABXI 26 requires that the auditor “certify” the draft ROPS.
 - “Certification” is not defined.
 - We will issue a separate memo describing the procedures we performed on the draft ROPS, and any findings or lack thereof, which may be submitted to the State.

Coordination

- County auditors are already working with Successor Agency staff to coordinate and prepare for the Agreed-Upon Procedures.
- We expect fieldwork to take approximately one week.



QUESTIONS?

Websites & Agencies

- California Redevelopment Association (CRA):
<http://www.calredevelop.org/>
- State Department of Finance (DOF):
http://www.dof.ca.gov/assembly_bills_26-27/view.php
- State Controller's office (SCO) :
http://www.sco.ca.gov/aud_aup_report.html
- Goldfarb Lipman - Attorneys:
<http://www.goldfarblipman.com>
- ABxI 26 Handbook : HDL Coren & Cone:
<http://www.hdlcompanies.com/download/index.cfm?fuseaction=download&cid=750>