

ACCOUNTING AND FINANCIAL REPORTING FOR CALIFORNIA  
REDEVELOPMENT AGENCIES  
AND RELATED SUCCESSOR AGENCIES:

**QUESTIONS AND SUGGESTED SOLUTIONS  
OF A CONTINUING NATURE**

Issued September 2013

PUBLISHED BY THE  
CALIFORNIA COMMITTEE ON MUNICIPAL ACCOUNTING

(a joint committee of representatives of the League of California Cities and the  
California Society of Certified Public Accountants)

ACCOUNTING AND FINANCIAL REPORTING FOR CALIFORNIA REDEVELOPMENT  
AGENCIES AND RELATED SUCCESSOR AGENCIES:

**QUESTIONS AND SUGGESTED SOLUTIONS OF A CONTINUING NATURE**

**CALIFORNIA COMMITTEE OF MUNICIPAL ACCOUNTING  
LISTING OF MEMBERS**

Gary Caporicci– Chair  
Pun & McGeady LLP

Ken Al-Imam – CalCPA  
Mayer Hoffman McCann P.C.

Harriet Commons – League of California Cities  
City of Fremont

Robert L. Eichel – CalCPA  
Eichel & Associates

Dennis Kauffman – League of California Cities  
City of Sacramento

Mary Lewis – League of California Cities  
San Diego City Employees' Retirement System

Susan Mayer – League of California Cities

Brett Miller – League of California Cities  
City of Hollister

Perry Stottlemeyer – League of California Cities  
League of California Cities

Richard A. Teaman – CalCPA  
Teaman, Ramirez & Smith Inc.

ACCOUNTING AND FINANCIAL REPORTING FOR CALIFORNIA REDEVELOPMENT  
AGENCIES AND RELATED SUCCESSOR AGENCIES:

**QUESTIONS AND SUGGESTED SOLUTIONS OF A CONTINUING NATURE**

**TABLE OF CONTENTS**

I. Purpose of this Technical Paper ..... 1

II. Background of Dissolution of California Redevelopment Agencies and  
Creation of Successor Agencies ..... 2

III. Acronyms Used in this Technical Paper ..... 4

**QUESTIONS AND SUGGESTED SOLUTIONS OF A CONTINUING NATURE:**

IV. Accounting and Reporting ..... 7

ACCOUNTING AND FINANCIAL REPORTING FOR CALIFORNIA REDEVELOPMENT  
AGENCIES AND RELATED SUCCESSOR AGENCIES:

**QUESTIONS AND SUGGESTED SOLUTIONS OF A CONTINUING NATURE**

**I. PURPOSE OF THIS TECHNICAL PAPER**

This technical paper is written to continue to review and provide guidance on ongoing questions and concerns regarding the accounting and financial reporting for the Dissolution of California Redevelopment Agencies (RDA Dissolution) and the resulting Successor Agencies and Housing Successors.

State law dissolving redevelopment agencies established Successor Agencies to pay the outstanding enforceable obligations and wind down the affairs of the former redevelopment agencies. Local governments, in certain cases, also accepted the role of Housing Successor to continue the low and moderate income housing programs that were previously accounted for in the Low and Moderate Income Housing Funds of the redevelopment agencies.

As Successor Agencies and Housing Successors have commenced activities, a number of questions have arisen that might impact the accounting and financial reporting associated with Successor Agency or Housing Successor transactions.

When new issues and questions arise over time, this document may be revised and re-issued to address those matters and to provide suggested solutions.

**Application of Professional Judgment**

This white paper presents “suggested solutions” for the questions presented. Please realize that the issues covered by this document deal with matters for which GAAP may not provide clear and explicit guidance. When authoritative pronouncements do not address an issue, management of the local government has the responsibility for exercising appropriate professional judgment with respect to financial reporting. The judgment of management might lead to a different conclusion than has been suggested in this document. However, we believe that this document will be useful to management in forming those judgments.

The positions suggested in this white paper are consistent with the CCMA white paper issued in May 2012 that provided guidance with respect to accounting for the dissolution of redevelopment agencies in consultation with staff of GASB and GFOA.

ACCOUNTING AND FINANCIAL REPORTING FOR CALIFORNIA REDEVELOPMENT  
AGENCIES AND RELATED SUCCESSOR AGENCIES:

**QUESTIONS AND SUGGESTED SOLUTIONS OF A CONTINUING NATURE**

**II. BACKGROUND OF DISSOLUTION OF CALIFORNIA REDEVELOPMENT AGENCIES  
AND CREATION OF SUCCESSOR AGENCIES**

This section is a summary of complex legislation. Reference should be made to the actual statutory language before making decisions or taking actions pursuant to the legislation.

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. Many cities (and some counties) in California had established a redevelopment agency. In many cases, such redevelopment agencies were included within the reporting entity of the city or county as a blended component unit (since the governing board of the city or county, in many cases, also served as the governing board of the redevelopment agency).

The Bill provides that upon dissolution of a redevelopment agency, the entity that established the redevelopment agency may elect to serve as the "Successor Agency" to hold the assets of the former redevelopment agency until they are distributed to other units of state and local government after the payment of enforceable obligations that were in effect as of the signing of the Bill. If the entity that established the redevelopment agency declines to accept the role of Successor Agency, other local agencies may elect to perform this role. If no local agency accepts the role of Successor Agency, the Governor is empowered by the Bill to establish a "designated local authority" to perform this role. Accordingly, the Successor Agency role may be served by a city, a county or by another unit of local government. For simplicity of discussion, this technical paper will refer to the entity that elects to serve the role of Successor Agency as "the City" although that entity may in fact be another unit of local government.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the approval of a newly established Oversight Board, remaining assets can only be used to pay enforceable obligations in existence as of February 1, 2012, the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). The Bill sets forth a process for each agency to identify and report these enforceable obligations on an Enforceable Obligation Payment Schedule (EOPS) and a Recognized Obligation Payment Schedule (ROPS).

Upon the date of the dissolution (February 1, 2012), significant matters previously controlled by the city councils of the cities that created each redevelopment agency are now subject to the approval of a seven-member Oversight Board, including the following:

- Approval of the sale and distribution of all assets
- Approval of any change in obligation terms
- Approval of any prepayment or defeasance of debt

ACCOUNTING AND FINANCIAL REPORTING FOR CALIFORNIA REDEVELOPMENT  
AGENCIES AND RELATED SUCCESSOR AGENCIES:

**QUESTIONS AND SUGGESTED SOLUTIONS OF A CONTINUING NATURE**

**II. BACKGROUND OF DISSOLUTION OF CALIFORNIA REDEVELOPMENT AGENCIES  
AND CREATION OF SUCCESSOR AGENCIES, Continued**

- Approval of acceptance of grants
- Approval of funding of debt service reserves
- Approval of the budget for any remaining activities

Many of these actions and determinations of the Successor Agency also require the approval of the California Department of Finance (DOF).

In future fiscal years, Successor Agencies will only be allocated property tax revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

Under AB 1X 26, agencies that accept the role of Successor Agency will serve as custodian for the assets of the dissolved redevelopment agency pending distribution to the appropriate taxing entities after the payment of enforceable obligations. Accordingly, GASB staff advised that the net assets of the dissolved redevelopment agency that are held pending distribution should be accounted for in a fiduciary fund (a private-purpose trust fund).

In June 2012, the California legislature passed AB 1484. AB 1484 provided clarification regarding the dissolution process and imposed new requirements. AB 1484 declared that Successor Agencies are separate legal entities distinct from the sponsoring government, clarified matters pertaining to the affordable housing programs previously performed by the former redevelopment agency, clarified matters pertaining to EOPS and ROPS, established the requirement for all Successor Agencies to have a due diligence review, established a process to receive a Finding of Completion that will provide significant benefits to local agencies (allowing them to begin spending debt proceeds and providing a formula for the repayment of money previously borrowed from the sponsoring government), and made a number of other significant changes in the dissolution process and the post-dissolution activities of Successor Agencies and Housing Successors.

ACCOUNTING AND FINANCIAL REPORTING FOR CALIFORNIA REDEVELOPMENT  
AGENCIES AND RELATED SUCCESSOR AGENCIES:

**QUESTIONS AND SUGGESTED SOLUTIONS OF A CONTINUING NATURE**

**III. ACRONYMS USED IN THIS TECHNICAL PAPER**

Bill or Bills - Assembly Bill 1X 26 and/or Assembly Bill 1484

CCMA – California Committee on Municipal Accounting

DDR – Due Diligence Review

DOF – State of California Department of Finance

EOPS – Enforceable Obligation Payment Schedule

GAA Committee – Governmental Accounting and Auditing Committee of CalCPA

GAAP – Generally Accepted Accounting Principles

HSC – Health and Safety Code

RDA Dissolution – Dissolution of California Redevelopment Agencies

ROPS – Recognized Obligation Payment Schedule

RORF – Redevelopment Obligation Retirement Fund

RPTTF Funds – Revenues associated with the Redevelopment Property Tax Trust Fund

SA – Successor Agency

Trust Funds – Private-Purpose Trust Funds

**QUESTIONS AND SUGGESTED SOLUTIONS  
OF A CONTINUING NATURE**

## **IV. ACCOUNTING AND REPORTING**

ACCOUNTING AND FINANCIAL REPORTING FOR CALIFORNIA REDEVELOPMENT  
AGENCIES AND RELATED SUCCESSOR AGENCIES:

**QUESTIONS AND SUGGESTED SOLUTIONS OF A CONTINUING NATURE**

**IV. ACCOUNTING AND REPORTING**

1. **Q** – AB 1484 at HSC Section 34173(g) established that “A Successor Agency is a separate public entity.” The question remains which governing board, i.e. the City/County Boards or the Oversight Board, serves as the governing board for that separate public entity?

**A** – Because of the complicated relationship between the Oversight Board and the governing board (e.g., City Council) of the sponsoring government, it is not absolutely clear which of these two governing bodies should be considered to be the governing board of the Successor Agency. For example, executive management of the sponsoring government is often very involved in administering the activities of the Successor Agency. In addition, the governing board of the sponsoring government (e.g., City Council) may take an active role in advising the Oversight Board and approving certain routine administrative activities of the Successor Agency. However, HSC 34179 indicates the following with respect to the relationship between the Oversight Board and the staff and governing board of the sponsoring government:

HSC 34179(c) The oversight board may direct the staff of the successor agency to perform work in furtherance of the oversight board's duties and responsibilities under this part.

HSC 34179(p) On matters within the purview of the oversight board, decisions made by the oversight board supersede those made by the successor agency or the staff of the successor agency.

Different agencies might reach different conclusions as to whether the Oversight Board or City Council serves as the governing board for the Successor Agency. This view may be influenced by the advice of legal counsel, the significance of the approvals required by each of the two governing boards that might impact the disposition of Successor Agency resources, whether actions at the City Council level are substantive and final as opposed to simply passing on recommendations for action by the Oversight Board, the degree to which the Oversight Board uncritically acquiesces to the policy preferences of the elected officials associated with the sponsoring government, and other factors that may be unique to that local agency. Since the law is not clear on this matter, this will be a professional judgment that is made by the Successor Agency in consultation with its legal counsel and auditor. The two alternatives with regard to this matter are discussed further below:

**If the Oversight Board is the Governing Board for the Successor Agency**

If a Successor Agency determines that its Oversight Board should be considered the governing board for the Successor Agency, then the Successor Agency (in most cases) will not be considered to be a component unit of the sponsoring government. GAAP requires that assets held by one government on behalf of an agency that is not a part of that government's reporting entity must be reported as a fiduciary fund (private-purpose trust fund is recommended) in the financial statements of the reporting government.

ACCOUNTING AND FINANCIAL REPORTING FOR CALIFORNIA REDEVELOPMENT  
AGENCIES AND RELATED SUCCESSOR AGENCIES:

**QUESTIONS AND SUGGESTED SOLUTIONS OF A CONTINUING NATURE**

**If the City Council is the Governing Board for the Successor Agency**

If a Successor Agency determines that the City Council (or Board of Supervisors for a County-sponsored Successor Agency) should be considered the governing board for the Successor Agency, then the Successor Agency may be determined to be a component unit of the sponsoring government. GASB Cod. 2100.110 requires that "component units that are fiduciary in nature should be reported only in the statements of fiduciary net position and changes in fiduciary net position with the primary government's fiduciary funds". This is effectively the same reporting that would occur if the Successor Agency was determined to not qualify as a component unit.

**Conclusion**

Accordingly, regardless of the position that is taken by the primary government as to the governing body and whether or not the Successor Agency is a component unit of that primary government, we recommend that the activities of the Successor Agency be reported in the fiduciary fund financial statements of the government that is holding the assets of the Successor Agency. There may be certain situations that warrant a different conclusion. This is a professional judgment that should be made by the reporting government taking into account all relevant facts and circumstances.

**Other Matters**

Effective July 1, 2016, all of the Successor Agencies within a given County will report to a single Oversight Board established for that County. However, the County will typically control the appointment of only one member of that seven-person board. The other members will be appointed by representatives from the cities, special districts, and other parties. The consolidation of the Oversight Boards in 2016 does not change the above conclusions with respect to recommended financial reporting for Successor Agencies.

2. **Q** – What fund type should be used for the Housing Successor?

**A** – With respect to the Housing Successor, the Bills make it clear that the Housing Successor is a fund of the accepting local government. The Housing Successor fund is typically reported as a special revenue fund in the financial statements of the entity that agreed to serve as the Housing Successor. Some local governments have reported the Housing Successor fund as a capital projects fund if the Housing Successor has determined that its funds will be expended primarily for capital projects. Where rental income is a significant inflow for the Housing Successor, some local governments have reported the fund as an enterprise fund.

3. **Q** – The Low and Moderate Income Housing Fund of the former redevelopment agency acquired an apartment building with an existing mortgage to be used solely for low and moderate income housing purposes. In what fund should the apartment building and the mortgage be reported?

**A** – If the mortgage was approved by DOF to be on the ROPS, then RPTTF funds have been approved for use in repaying the mortgage. As such, the mortgage should be reported as a liability of the Successor Agency. The apartment building, however, should be reported on the statement of net position of the Housing Successor fund if it's reported as an enterprise fund and business-type capital assets in the statement of net

ACCOUNTING AND FINANCIAL REPORTING FOR CALIFORNIA REDEVELOPMENT  
AGENCIES AND RELATED SUCCESSOR AGENCIES:

**QUESTIONS AND SUGGESTED SOLUTIONS OF A CONTINUING NATURE**

position or as governmental activities capital assets in the statement of net position of the sponsoring local government, if the Housing Successor fund is reported as a governmental fund.

4. **Q** – Should RPTTF money received before year-end for the payment of ROPS obligations in the following year be deferred?

**A** – No. RPTTF money is essentially a distribution of property taxes pursuant to state law. Both AB 1X 26 and AB 1484 were clear on this matter. Health and Safety Code Section 34185 of AB 1X 26 (as amended by AB 1484) stated: “Commencing on June 1, 2012, and on each January 2 and June 1 thereafter, the county auditor-controller shall transfer, from the Redevelopment Property Tax Trust Fund of each successor agency into the Redevelopment Obligation Retirement Fund of that agency, an amount of property tax revenues equal to that specified in the Recognized Obligation Payment Schedule for that successor agency as payable from the Redevelopment Property Tax Trust Fund subject to the limitations of subdivision (1) of Section 34177 and Section 34183.” For example, this would mean that RPTTF funds distributed to Successor Agencies on June 1, 2013 were derived from the tax levy imposed upon taxpayers for the 2012-13 tax year and retain their character as property tax revenue upon their distribution as RPTTF funds. GASB Cod. N50.115 requires that property taxes be recognized as revenues in the fiscal year for which those funds were levied. Accordingly, deferred revenue (i.e., *deferred inflows of resources*, once GASB No. 65 is implemented) should not be reported. This is supported by the implementation guidance indicated in Q&A Z33.12 of the GASB Comprehensive Implementation Guide (GASB CIG), which states that “Governments often include amounts in their property tax levies that will be accumulated and not paid out until future periods. Unless a legal requirement specifies otherwise, the period for which these amounts are levied is the same as the period for which the rest of the taxes are levied.”

5. **Q** – Should bond interest be accrued on the statement of fiduciary net position of the Successor Agency private-purpose trust fund?

**A** – Yes. Private-purpose trust funds are required to follow the accrual basis of accounting and the economic resources measurement focus.

6. **Q** – Should the liability for housing bonds be reported as a liability of the Housing Successor or as a liability of the Successor Agency private-purpose trust fund?

**A** – If these bonds are reported on the DOF-approved ROPS, the liability for housing bonds should be reported on the statement of fiduciary net position of the Successor Agency.

7. **Q** – In what fund should debt service reserves associated with housing bonds be reported?

**A** – Debt service reserves for debt approved by the DOF as an enforceable obligation should be reported on the statement of fiduciary net position of the Successor Agency for both housing and non-housing bonds.

8. **Q** – In what fund should unspent bond proceeds restricted for housing projects be reported?

ACCOUNTING AND FINANCIAL REPORTING FOR CALIFORNIA REDEVELOPMENT  
AGENCIES AND RELATED SUCCESSOR AGENCIES:

**QUESTIONS AND SUGGESTED SOLUTIONS OF A CONTINUING NATURE**

**A** – Unspent bond proceeds that are encumbered by enforceable obligations to build or acquire low and moderate income housing are included in the definition of a housing asset (HSC Section 34176(e)(2)), therefore those unspent proceeds should be transferred to the Housing Successor and included in the Low and Moderate Income Housing Asset Fund. However, if the Successor Agency retains the enforceable obligations, it should also retain the encumbered unspent bond proceeds (HSC Section 34176(a)(1)).

Unencumbered unspent bond proceeds from indebtedness obligations issued prior to January 1, 2011 remain with the Successor Agency, and the Housing Successor can designate and commit the use of the unspent proceeds for projects consistent with the bond covenants (HSC Sections 34176(g)(1)(A) and 34176(g)(2)).

It should also be noted that AB 1484 (HSC 34191.4(c)) states that “bond proceeds derived from bonds issued on or before December 31, 2010” cannot be expended until a Finding of Completion has been issued.

9. **Q** – Should loans between the city and the former redevelopment agency continue to be recognized in the financial statements of the city and the Successor Agency?

**A** – Yes, if management has formed the opinion that it is probable that the loan will be repaid. Generally, a loan is considered probable to be repaid if all four of the following conditions have been met: (1) The Oversight Board finds that the loans were made "to further legitimate redevelopment purposes"; (2) the DOF approves the loans as enforceable obligations; (3) the DOF has issued a Finding of Completion to the Successor Agency; and (4) the Successor Agency can demonstrate that the cash flows associated with RPTTF funds are sufficient to provide a reasonable expectation of repayment.

In some cases, DOF may have initially denied the loan, but after the Finding of Completion was issued, with the Oversight Board's approval, the loan met the requirements to become an enforceable obligation pursuant to HSC 34191.4(b). If the local government had previously written off the loan, the sponsoring local government could recognize (in the year that the Finding of Completion was issued) revenue for the re-establishment of the loan (assuming that tax increment projections are sufficient to support an expectation of repayment). Other local governments may have determined not to write off these loans in the year of dissolution, based upon their reasonable expectation that these loans would ultimately retain their enforceability.

Pursuant to HSC 34191.4(b)(2), the interest associated with these loans must be recomputed to conform to the rate of return that was earned by funds deposited into the sponsoring government's LAIF account since the origination of the loan.

10. **Q** – Should loans between project areas of the former redevelopment agency continue to be recognized in the Successor Agency financial statements?

**A** – No. Post-dissolution, the Bills consider tax increment to be available for all of the obligations of any of the project areas of the former redevelopment agency. Any funds generated by the repayment by one project area of an obligation owing to another

ACCOUNTING AND FINANCIAL REPORTING FOR CALIFORNIA REDEVELOPMENT  
AGENCIES AND RELATED SUCCESSOR AGENCIES:

**QUESTIONS AND SUGGESTED SOLUTIONS OF A CONTINUING NATURE**

project area must be remitted to the taxing entities and does not substantively change the financial position of the Successor Agency; therefore, they should be eliminated upon dissolution of the RDA.

11. **Q** – Should loans originally made between the Low and Moderate Income Housing Fund of the former redevelopment agency and other funds of the former redevelopment agency continue to be recognized?

**A** – Yes, if approved by the Oversight Board and the DOF and a Finding of Completion has been issued by the DOF. These loans were explicitly authorized by AB 1484 when properly approved and when the agency can demonstrate that the cash flows associated with RPTTF funds are sufficient to provide a reasonable expectation of repayment. It should be noted that loans that were issued to fund the payment to the Supplemental Educational Revenue Augmentation Fund (SERAF) are to be repaid prior to other loans (HSC Section 34191.4(b)(2)(B)).

12. **Q** – For City loans to the former redevelopment agency that were approved by the Oversight Board and DOF, how is the amount of annual repayment calculated after the Successor Agency has received a Finding of Completion?

**A** – For each fiscal year (commencing no earlier than the 2013-14 fiscal year), the maximum amount permitted to be used for the repayment of City loans is an amount equal to 50% of the difference between the amount that was distributed to other taxing entities that fiscal year and the amount that was distributed to other taxing entities in 2012-13 ("the base year"). (HSC Section 34191.4(b))

Any City loan repayments must first be applied to Successor Agency obligations that are due to the Housing Successor as a result of borrowings of the former redevelopment agency for (1) deferrals of the low and moderate income housing set-aside (HSC Section 34176(e)(6)(B)) and then (2) SERAF payments that were required in prior years (HSC Section 34194.4(b)(2)(B)).

Once those loans have been repaid in full, then from that point forward only 80% of the maximum annual amount permitted for the repayment of City loans can actually be used for such repayment. The remaining 20% of the funds available for City loan repayment each year must be remitted by the Successor Agency to the Housing Successor to add to the funding of the Housing Successor's housing activities. This diversion of RPTTF funds to the Housing Successor effectively serves to extend the time frame for the full repayment of City loans.

As previously noted, the interest rate allowed to be computed on the loans from the City is limited to the rate of return paid by LAIF from origination of the loan. The LAIF rate of return is also the maximum interest that can be computed on these loans until the loans are repaid in full.

It should be noted that under the provisions of HSC Sections 34171(d)(2) and 34178(b)(2), loans between the former redevelopment agency and the City that were entered into within two years of the formation of the redevelopment agency may be considered enforceable obligations prior to the issuance of a Finding of Completion. If they were included on an approved ROPS, interest and repayment terms may be subject

ACCOUNTING AND FINANCIAL REPORTING FOR CALIFORNIA REDEVELOPMENT  
AGENCIES AND RELATED SUCCESSOR AGENCIES:

**QUESTIONS AND SUGGESTED SOLUTIONS OF A CONTINUING NATURE**

to the terms of that original loan agreement and not to the repayment calculations in HSC Section 34191.4(b).

13. **Q** – How should the sponsoring government report former redevelopment agency debt that was not approved by DOF for the ROPS?

**A** – If the sponsoring government is not legally obligated for repayment of this debt, then this debt should not be reported as debt of the sponsoring government. This applies when the debt was secured solely by the pledge of tax increment and the sponsoring government has not made a secondary pledge. Unless the sponsoring government takes action to assume legal responsibility for the debt, the debt should continue to be reported as debt of the Successor Agency.

If the sponsoring government voluntarily provides funds to the Successor Agency on an annual basis to meet the debt service requirements pertaining to the unapproved debt, the annual remittance of these funds would be reported as an expense/expenditure of the sponsoring government and as additions to the Successor Agency's fiduciary fund. If the sponsoring government chooses not to provide funds for the annual debt service requirements of the unapproved obligation, the debt will continue to be reported as debt (defaulted debt) of the Successor Agency until the dissolution process is complete.

14. **Q** – Should all of the obligations on the ROPS be reported on the statement of fiduciary net position of the Successor Agency?

**A** – No. Some of the "obligations" on the ROPS are not "accounting liabilities" in accordance with GAAP. In some cases, they represent commitments to developer projects or to construction contractors for spending to take place in the future. Such amounts are not "accounting liabilities" because the project related services have not yet been rendered.

15. **Q** – Prior to the dissolution of California redevelopment agencies, a city's financing authority (a blended component unit of that city) issued debt that was secured by a pledge agreement with the former redevelopment agency (also a blended component unit of the city). In the separately issued financial statements of the financing authority, the financing authority reported a liability (bonds payable) and an asset (pledge receivable) when the proceeds of the debt were transferred to the former redevelopment agency. The separately-issued financial statements of the former redevelopment agency reported in its government-wide financial statements a liability for the agency's obligation under the pledge agreement. In the government-wide financial statements of the sponsoring city (which included all component units), the financing authority's receivable and the redevelopment agency's payable were eliminated, and only the bonds payable were reported.

Upon dissolution of the former redevelopment agency, the pledge agreement was accepted by DOF as an enforceable obligation for purposes of reporting on the ROPS. The Successor Agency has reported on its statement of fiduciary net position a liability for the pledge agreement payable.

ACCOUNTING AND FINANCIAL REPORTING FOR CALIFORNIA REDEVELOPMENT  
AGENCIES AND RELATED SUCCESSOR AGENCIES:

**QUESTIONS AND SUGGESTED SOLUTIONS OF A CONTINUING NATURE**

Should the city in its government-wide financial statements report the outstanding bonds issued in the name of the financing authority as bonds payable and report an asset (pledges receivable) for debt service that is to be funded by the Successor Agency?

**A** – If the DOF has accepted the pledge agreement entered into by the former redevelopment agency as an enforceable obligation, then the sponsoring city should not report a liability nor pledge receivable in its government-wide financial statements. The liability will only be reported on the statement of fiduciary net position of the Successor Agency trust fund.

If other revenues of the sponsoring city have also been pledged as a secondary source for repayment in the event of an insufficiency of tax increment, the sponsoring city should disclose in its notes this secondary lien upon its revenues that secures the obligation to the bondholders.

In the separately issued financial statements of the financing authority, the financing authority would continue to report a liability (bonds payable) and an asset (pledge receivable), but disclosure would be revised to indicate the assumption of the pledge by the Successor Agency.

16. **Q** – In many cases, the indenture of trust (which was a contract between the former redevelopment agency and its bondholders) for tax allocation bonds issued by the former redevelopment agency may have required the establishment of Special Funds in the accounting records of the former redevelopment agency. Special Funds are funds that are established for each project area of the former redevelopment agency to demonstrate the use of each project area's tax increment in accordance with bond covenants.

The parties to these contracts (the former redevelopment agencies) have been dissolved by state action and no longer receive the tax increment funds that were pledged to the bondholders at the time that the bonds were issued. AB 1X 26 restructured the revenue stream previously provided to redevelopment agencies in the form of tax increment into a new revenue stream (RPTTF funds) that is available for all of the enforceable obligations that have been approved for the Successor Agency and the DOF. This new revenue stream (RPTTF funds) is not equivalent to the tax increment revenue stream that existed prior to dissolution. RPTTF funds represent only a portion of the full tax increment revenue stream (the portion needed to pay enforceable obligations approved for payment by the DOF). Accordingly, counties generally are not providing information as to the full amount of tax increment generated annually by each project area (which formed the basis for the pledge of the former redevelopment agency to its bondholders).

In light of the above, should Special Funds continue to be maintained in the accounting records of the Successor Agency for each project area?

**A** – In the absence of information from the county as to the full amount of tax increment that has been generated by each project area of the former redevelopment agency, it may be advisable to disclose in the notes to the financial statements that as a result of the state's action to dissolve all redevelopment agencies, the Successor Agency no longer receives the full amount of tax increment previously pledged by the dissolved redevelopment agency to its bondholders. In its place is a new revenue stream provided

ACCOUNTING AND FINANCIAL REPORTING FOR CALIFORNIA REDEVELOPMENT  
AGENCIES AND RELATED SUCCESSOR AGENCIES:

**QUESTIONS AND SUGGESTED SOLUTIONS OF A CONTINUING NATURE**

to the Successor Agency that represents only that portion of tax increment that is necessary to pay the enforceable obligations approved by the DOF.

Despite the lack of equivalency between tax increment and RPTTF funds, some local governments are maintaining separate funds in the accounting system of the Successor Agency for each project area. This is advisable. In addition, some local governments are providing in their Comprehensive Annual Financial Report a supplementary schedule that reports Successor Agency activity by project area. Other agencies are issuing separate financial statements for the Successor Agency that provide a reporting of the use of RPTTF funds by project area.

This is an area of law for which there is significant uncertainty. Each Successor Agency should consult with its legal counsel with respect to this matter.

17. **Q** – AB 1X 26 requires the establishment of a Redevelopment Obligation Retirement Fund (RORF) for the deposit of the taxes to be allocated each January and June beginning with June 2012. If a Successor Agency elected to establish separate funds to receive the RPTTF funds that are associated with each project area, does this represent a violation of the requirement to establish a RORF?

**A** – In conjunction with the advice of legal counsel, the Successor Agency could establish separate RORF funds (titled as such) for each project area. Under that practice, each separate RORF fund would also serve as the aforementioned Special Fund that is referenced in the bond documents.

Alternatively, the Successor Agency may elect to have one RORF in its accounting system that collects all RPTTF funds and then transfers the appropriate amounts to the Special Funds established for each project area.

18. **Q** – As to unspent bond proceeds, if a Successor Agency has more than one issue of bonds for which there are unspent proceeds available for projects, should these be accounted for as separate funds in the Successor Agency's accounting system?

**A** – There may be advantages in establishing separate funds in the Successor Agency's accounting system for each debt issue for which there are unspent project funds. Different attorneys might have different views on this and each agency should follow the advice of its legal counsel on this matter.

19. **Q** – Is the Successor Agency required to file a state controller's report?

**A** – No. The state controller has determined that this is not a requirement.

20. **Q** – Are separate audited financial statements required by law to be issued for the Successor Agency?

**A** – HSC Section 34177(n) requires that the Successor Agency “cause a postaudit of the financial transactions and records of the successor agency to be made at least annually by a certified public accountant.”

ACCOUNTING AND FINANCIAL REPORTING FOR CALIFORNIA REDEVELOPMENT  
AGENCIES AND RELATED SUCCESSOR AGENCIES:

**QUESTIONS AND SUGGESTED SOLUTIONS OF A CONTINUING NATURE**

DOF has indicated on its website that “Successor Agency activities will be reported as a trust fund that is included in the financial statements of the sponsoring government. Finance will accept such reporting as meeting the minimum requirements of this section.”

Although separate Successor Agency financial statements are not required by HSC Section 34177(n), DOF indicated on its website a preference that in addition to the trust fund reporting referenced above, local agencies also consider issuing separate financial statements for the Successor Agency. DOF indicated that separate financial statements are not a requirement of HSC Section 34177(n) and that if an agency chooses to issue separate financial statements, then that decision is best made at the local level.

It should be noted that if such separate financial statements are produced, the Bills do not require their submission to any particular state or local agency.