

State Controller's Audit Finds K-14 LEAs Underreporting RDA Revenues

Background

The California State Controller recently issued a detailed report titled *Distribution and Reporting of Local Property Tax Revenue, Phase II*, which raised serious concerns that Redevelopment Agencies (RDAs) are not correctly computing and passing through revenues owed to K-14 local education agencies (LEAs), and that LEAs are not reporting redevelopment funding correctly to the state. The report indicates that the LEA and RDA reporting errors are due to a lack of accurate information, technical expertise and uniformity in how RDAs compute and report these calculations to LEAs and to the state. The California State Controller's report is attached to this alert for reference purposes.

Scheduled for a June 18 hearing in the Assembly Local Government Committee, SB 360 (Negrete McLeod) proposes to amend current redevelopment law such that the county auditor will calculate and make the required pass-through payments to taxing entities on behalf of redevelopment agencies, rather than RDAs performing this task. The bill requires the county auditor to complete this task within 60 days of the end of the RDA's fiscal year. It requires the agency to reimburse the county auditor for any expenses incurred in this process.

Shifting to county auditors the responsibility for making these complex calculations and associated reporting requirements may help ensure that RDA pass-through calculations are computed correctly and with uniformity, and provide adequate information to LEAs regarding proper accounting requirements. Current language contained in SB 360 requires redevelopment agencies to make up for pass-through payments to LEAs that were missed during the last five years and requires K-14 local educational agencies to make up for payments that were incorrectly reported to the state during the last five years. The controller's audit report identified miscalculation, nonpayment and underreporting

A recent report from the California State Controller identified miscalculation, nonpayment and underreporting of redevelopment pass-through payments by K-14 local educational agencies, resulting in excess payments to schools from the state's general fund.

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of redevelopment pass-through payments (revenue limit offset) by K-14 LEAs, resulting in excess payments to schools from the state's general fund.

In preparation for these sweeping changes related to redevelopment revenues and reporting, FCMAT believes that school districts, community colleges and county offices of education should review the legal requirements and oversight responsibilities regarding RDA payments.

What is the legal requirement?

Redevelopment agencies are governed by provisions in the California constitution and the Health and Safety Code (HSC). RDAs may be created by city or county governments, and the legislative body for most RDAs is the city council or the county board of supervisors. Most of an RDA's powers are limited to the boundaries of a redevelopment project area (project).

A single RDA may have multiple project areas. City projects must be entirely within city boundaries, and county projects must include incorporated areas only. All projects may include non-contiguous sub-areas and may be expanded by subsequent amendment of the project's redevelopment plan.

Too often, LEAs have not been aware of the potential revenue represented by redevelopment agency pass-through revenues; therefore, funds have remained with the city or county sponsor. Other LEAs have successfully negotiated pass-through agreements but have found it difficult to keep up with changes in state reporting requirements associated with this revenue.

RDA Pass-Through Entitlements

Prior to passage of AB 1290, which became effective in 1994, pass-through entitlements were typically negotiated between LEAs and RDAs, with the resulting agreements almost always limiting the use of pass-through payments to funding educational facilities. In most counties, payments from pass-through agreements and negotiated entitlements are received from RDAs directly via warrant.¹

As an alternative to negotiated agreements, former HSC 33676(a) required school and college districts (including county offices of education) to "elect to be allocated" 2% payments, unless a pass-through agreement was entered into in accordance with former HSC 33401. The two percent payments are the inflationary revenues resulting from growth in the base year value of real property within a project area, as set forth in Revenue and Taxation Code Section 110.1(f). This statutory requirement is consistent with Proposition 13 and subsequent initiatives, which, in the absence of new construction or certain changes in ownership, state that increases in assessed value in the current fiscal year may

¹ However, in a few counties, county auditors may make agreement payments on behalf of some RDAs. This is especially likely when the agreement involves a *county* RDA, rather than a city RDA.

not exceed 2% or the percentage increase in the consumer price index (CPI) in the previous calendar year, whichever is less.

However, this statutory requirement applies only to projects adopted between January 1, 1985 and December 31, 1993. Moreover, in the absence of a *formal* 2% resolution adopted by an LEA board prior to approval of the redevelopment plan, many LEAs have not received the 2% payments to which they were entitled. This problem was presumably remedied in *Santa Ana Unified School District v. Orange County Development Agency*, 90 Cal. App. 4th 404 (2001) (Santa Ana decision), in which the Court held that 2% payments from projects adopted between 1985 and 1994 were *mandatory* for all LEAs without pass-through agreements, even in the absence of a board resolution. However, some LEAs may have to ask county auditors to implement the Santa Ana decision in their county.

AB 1290

AB 1290 (Chapter 942 of the Statutes of 1993) eliminated the statutory authority to negotiate new pass-through agreements or receive 2% payments in new project areas adopted or added after January 1, 1994. In their place, AB 1290 created new statutory pass-through entitlements in the following:

- i. Post-1994 projects (per HSC 33607.5)
- ii. Pre-1994 projects (per HSC 33607.7) which are subsequently amended to extend certain time or financial limits (but only if no agreement exists that requires payments to the affected taxing entity)
- iii. Pre- or post-1994 projects for LEAs that are basic aid or 100% locally funded (per HSC 33676(b)).^{2 3}

In many counties, AB 1290 payments are made directly to the LEA by the RDA via warrant. In these counties, AB 1290 payments are often made in arrears, that is, *in the year following the year for which the payments are due*. And in some

² AB 1290 expressly grandfathers pass-through agreements executed prior to January 1, 1994, and the Santa Ana decision confirms that LEAs are still entitled to receive 2% payments from eligible projects in the absence of a pass-through agreement.

³ Statute prohibits receipt of AB 1290 payments and pass-through agreement payments from the same project and for the same year. *However, there is no prohibition on simultaneous receipt of AB 1290 payments and 2% payments.* Hence, some LEAs (for example, in Contra Costa County) receive AB 1290 payments per HSC 33607.7 and 2% payments per former HSC 33676(a) from the same projects adopted between 1985 and 1994.

cases, per the state controller’s report, RDAs may owe AB 1290 payments but not make them.

In other counties, AB 1290 payments are made by the county auditor on behalf of RDAs, in a manner similar to 2% payments and regular property taxes. In yet other counties, AB 1290 payments are made by the county auditor for some projects and by the RDA for other projects. As is the case with 2% payments, AB 1290 payments made by the county auditor may not be identified by project area.⁴

For non-basic aid districts, AB 1290 also amended E.C. 42238(h)(6) to provide for revenue limit offset for AB 1290 payments received pursuant to HSC 33607.5 and 33607.7:⁵

Except for any amount received pursuant to . . . paragraph (4) of subdivision (a) of [HSC] 33607.5, or . . . 33607.7 . . . that is allocated exclusively for educational facilities.

For purposes of the revenue limit computation, HSC 33607.5(a)(4)(A)-(D) specifically states the percentage of AB 1290 payments to school districts, community college districts and county offices of education that shall be considered property taxes, and the percentage that shall not be considered property taxes and shall be available for educational facilities.

The following table provides the percentages for AB 1290 payments to each type of non-basic aid LEA as well as applicable sections of the Health and Safety Code and Education Code.⁶

LEA	Health and Safety Code	Education Code	% Property Tax	% Non-Property Tax
School District	33607.5(a)(4)(A)	42238 (h)(6)	43.3%	56.7%
Community College District	33607.5(a)(4)(B)	84751(d)	47.5%	52.5%
County Office of Education/Special Education	33607.5(a)(4)(C)-(D)	2558(c)	19.0%	81.0%

⁴ For LEAs that receive both AB 1290 payments and 2% payments from the county auditor, not identifying the project generating the payments may present a special challenge. As noted below, AB 1290 payments are subject to partial revenue limit offset (while 2% payments are not).

⁵ AB 1290 or subsequent clean-up legislation similarly amended E.C. 2558(c) and 56712 for county offices of education and special education, and E.C. 84751(d)—formerly paragraph (e)—to provide for partial revenue limit (level) offset for these LEAs.

⁶ For basic aid LEAs, 100% of AB 1290 payments may be used for operations or facilities (or both) without any offset in the revenue limit (level). Basic aid LEAs are also entitled to additional AB 1290 payments per current HSC 33676(b).

The above percentages apply to AB 1290 payments *received* by a non-basic aid LEA per HSC 33607.5 or 33607.7. Therefore, if an RDA underreports its AB 1290 obligation (which is often the case), the property tax percentages shown above apply only to the amount the LEA actually receives.

In summary, each RDA entitlement has its own revenue limit offset requirements, including zero percent offset for pass-through agreements and 2% payments, depending on the type of LEA. Moreover, an LEA's ability to properly identify the specific revenue limit offset requirement may depend on whether payments are made by the RDA or the county auditor.

Payment Documentation

When LEAs receive payments directly from the RDA, the RDA should provide a remittance advice identifying each payment or payment component by type of entitlement and by project area. The RDA should also identify the fiscal year for which the payment is made and provide supporting documentation showing how the payments were calculated.

When LEAs receive payments directly from the county auditor, the county auditor and county office of education should use the correct object code when posting the payment to the LEA's general ledger (see below) and identify each posting by type of entitlement and project area. The county auditor should also identify the fiscal year for which the payment is made and provide supporting documentation showing how the payments were calculated.

FCMAT is providing guidance in this area to ensure that LEAs are consistent in applying the statutes to the revenue limit calculations involving RDA payments. In addition, it is critical that LEAs review their agreements and processes with each RDA or county auditor as this legislation moves forward.

Accounting Recommendations

When an LEA receives a warrant from the RDA or a notice from the county office of education that RDA payments have been deposited in the county treasury, the LEA should post RDA payments received to the appropriate accounts. For the portion of RDA payments received which are subject to revenue limit offset, the correct object code for a school district or county office of education is 8047, Community Redevelopment Funds. For the portion of RDA payments received which is not subject to revenue limit offset, the appropriate object code is 8625, Community Redevelopment Funds Not Subject to Revenue Limit Deduction. However, object code 8625 is restricted in the general fund to educational facilities, or may be used with Resource 0000 in Fund 21 (Building

Fund), Fund 25 (Capital Facilities Fund) or Fund 40(Special Reserve Fund for Capital Outlay Projects).⁷

In some counties, county auditors post revenue limit offset amounts from RDA payments on behalf of LEAs. This can be convenient; however, care must be taken to ensure that such revenue limit offset postings are made correctly.

County auditors also use form J-29 or form CCFS-329 to report on behalf of LEAs the revenue limit offset amounts from RDA payments. Effective as of fiscal year 2007-08, Form J-29 is changed for K-12 districts and county offices of education to include a column (data field) for the revenue limit offset portion of AB 1290 payments (for example, 43.3% for K-12 districts and 19.0% for county offices of education).

The corresponding tax software for fiscal year 2007-08 was posted to the California Department of Education Web site on Nov. 2, 2007 (see <http://www.cde.ca.gov/fg/sf/tc/tax0708.asp>).

Therefore, care must also be taken to ensure that RDA-related revenue limit offsets made by county auditors are reported correctly and not duplicated by LEAs or by county offices of education on behalf of LEAs.

⁷ For community college districts, the portion of RDA payments received which are not subject to revenue level offset should be posted using object code 8890, as restricted in Fund S12, or Capital Projects Fund 40 (or Capital Outlay Projects Fund 41). The portion of RDA payments which is subject to revenue level offset does not have its own object code, but should presumably be posted using (say) object code 8811 to the district's general fund using Fund S11.

AB 1200 Oversight for County Offices Frequently Asked Questions (FAQs): RDA Payments

The following questions and answers are intended to assist with AB 1200 COE oversight responsibilities:

Q. Is the funding received for facilities to be accounted for as restricted?

A. There is currently no specific guidance requiring LEAs to designate these funds as restricted. However, because these funds may require a report to the board or the redevelopment agency, this may be a good time to correct any errors to provide for a well documented audit trail. Using a locally restricted resource (9010) will keep the accounting for facility expenditures isolated and clean. In addition, isolating the revenues and expenditures in a separate resource would provide a better presentation and preparation of the closing entries for GASB 34. LEAs can account for these funds as unrestricted or restricted. Also, the educational facility funds can be transferred into Fund 21, 25 or 40 for facilities.

Q. The district is in the process of thoroughly analyzing our RDA pass-through agreements. If it is determined that some parts of an agreement are subject to revenue limit pass-through requirements, how far back must it be adjusted? Is the one year revenue limit adjustment in effect, or is there another time line that must be followed? If it is determined that an amount is subject to the revenue offset, must the district perform the calculation again? If funds were deposited directly into a district's special reserve fund, what is the calculation to move them back into the general fund and into the property tax account?

A. There is not a resolution or determination from the Department of Finance requiring LEAs to adjust previous years. FCMAT recommends that LEAs correct the current year as year-end close approaches, and subsequent fiscal years.

The first step in determining if there is a requirement to change any accounting treatment is to review the RDA language and meet with the RDA, county auditor, and/or county office of education to determine if a change is needed. If a change is needed, make the change going forward. Because of the funding model used by the state of California for LEAs, it would be difficult to make any corrections to prior years. If corrections are needed, a restatement of the beginning balance would be one method of correcting the prior year's errors to remain in compliance with accounting standards. LEAs may also want to have their auditor review changes of this sort to verify that they are in agreement with the determination.

- Q. How can districts or county offices of education identify payments as 2%, pass-through or ABI290? Is there a simple way?**
- A. The only way for an LEA to determine the funding coming from an RDA is to review the language in the RDA agreement and to make inquiries of the RDA, county auditor and/or county office of education.
- Q. Is the revenue limit offset applicable only if the funds are placed in the general fund, or does it also apply if they are placed in a capital facilities fund?**
- A. As defined by AB 1290, Education Code section 42238 and Health and Safety Code section 33607.5, use of a K-12 LEA's annual RDA payments is restricted to educational facilities (56.7%) or to offset a portion of the LEA's revenue limit (43.3%). In accordance with AB 1290, payments received should be deposited and recorded as follows: 43.3% of the total payment to object 8047, revenue limit offset in the general fund; and 56.7% of the total payment to object 8625, and other local revenue in Fund 01, 21, 25 or 40.
- Q. Must the portion of ABI290 revenues that are not for revenue limit offset be used exclusively for educational facilities?**
- A. The RDA funds are designated as an offset to revenue limit funding or for educational facilities. It would be prudent to review the language in the RDA agreement to determine if there are any other limitations regarding the use of the educational facility funds.
- Q. May the educational facilities portion of the RDA revenue be left in the general fund? If so, how is it commonly tracked?**
- A. Yes, an LEA may leave the facilities portion of RDA funds in the general fund and expend the funds for facilities, in accord with the RDA. It is important that the LEA be able to track the funding. One option is to designate a local resource code (for example, 9010) for the educational facilities funds, for both revenues and expenditures. This would allow reports to be run at any time, which can assist an LEA in making sound and efficient management decisions.
- Q. Pass-through and 2% payments are not subject to the revenue limit offset if used for educational funding. But what if they are not used for educational funding? Is the same percentage as ABI290 applied as the revenue limit offset, or is it a 50% miscellaneous revenue offset? In addition, are there any limitations on the use of the portion that is not revenue limit offset?**
- A. The RDA funds designation resides in the language of the agreement and will be based on the date the agreement was established and the language in the agreement regarding how those funds must be spent. Thus, the first step is to obtain a copy of the agreement and, after reviewing it, meet with

the RDA, county auditor and/or county office of education to ensure that everyone understands the requirements in the original agreement and any amendments. There should be specific language that addresses the use of the funds either as an offset to the revenue limit or for educational facilities.

- Q. The section titled “AB 1290” raises some interesting issues but does not provide guidance or information regarding how to resolve or address those issues. The second paragraph of that section notes in italics that AB 1290 payments are often made *in the year following the year in which the payments are due*. Is this statement emphasized with a specific intent? Should the LEA make a prior year revenue adjustment? Given that this information is coming from a respected source, will it result in districts becoming suspicious of whether their RDAs are accurately providing timely statutory entitlements? How would districts know how to validate the RDA entitlement calculations if they wanted to do so?**
- A.** California is unique as it relates to funding LEAs using the revenue limit funding formula, with a portion of the funding coming from property tax as an offset to the total entitlement. Property taxes are not recognized until actually received; therefore, LEAs should not set up any accruals for property taxes receivable as of June 30. The revenue limit funding formula necessitates this treatment.

Local educational agencies should always determine whether the funding received is accurate and appropriate. Because of the complexity of the RDA funding, LEAs should take additional steps to understand the agreement that has been established. The agreements typically have been established over a span of several years, so amendments are also likely. Due diligence on the part of an LEA is required because there is a good chance that an LEA's agreement will differ from that of any other LEA in the state.

The first step is to obtain a copy of the original agreement and any subsequent amendments, then review those documents and, if necessary, meet with the RDA, county auditor and/or county office of education to obtain a clear understanding of the agreement with regard to revenues and expenditures for the funding.

Where can LEAs go for additional assistance?

LEAs should contact their respective oversight agencies or visit FCMAT's Web site at www.fcmat.org and review the *Fiscal Oversight Guide*, located under the “Fiscal Documents and Resources” menu item.

The following pages contain the California State Controller's report referenced in the above FCMAT Alert.

**DISTRIBUTION AND REPORTING OF
LOCAL PROPERTY TAX REVENUE,
PHASE TWO**

Review Report

PROPERTY TAX ALLOCATION PROGRAM



JOHN CHIANG
California State Controller

May 2008



JOHN CHIANG
California State Controller

May 6, 2008

The Honorable Arnold Schwarzenegger
Governor of California
State Capitol Building
Sacramento, CA 95814

The Honorable Don Perata
Senate President Pro Tempore
State Capitol Building, Room 205
Sacramento, CA 95814

The Honorable Fabian Núñez
Speaker of the Assembly
State Capitol Building, Room 219
Sacramento, CA 95814

Re: Property Tax Audit Report, Phase Two

Dear: Governor Schwarzenegger, President Pro Tempore Perata, and Speaker Núñez:

I am pleased to submit to you the Phase Two report of the State Controller's Office review of the practices employed by K-12 school districts, community colleges, and redevelopment agencies related to the distribution and reporting of local incremental property tax pass-through revenues. In the 2007-08 Budget Act, the Legislature included a provision directing the State Controller to conduct a review of this matter. We completed a review and issued a report in November 2007. However, having noted certain matters that required further efforts to quantify the fiscal impact, we stated that we would conduct a follow-up review and issue a supplemental report.

Our follow-up review found that errors in reporting and computing AB 1290 pass-through payments by K-12 school districts, community colleges, and redevelopment agencies resulted in excess state General Fund obligation to the schools. We estimate the excess amount to be \$33.8 million and \$29.4 million for fiscal years 2005-06 and 2006-07, respectively. We believe this estimate is conservative, as other reporting and computing errors exist.

We also found that, in addition to the fiscal impact to the State, other local tax entities (such as schools, police, fire, and library services) were also adversely affected by the failure of some redevelopment agencies to make the statutorily required pass-through payments. In Los Angeles County alone, this amounted to tens of millions of dollars annually.

The Honorable Arnold Schwarzenegger
The Honorable Don Perata
The Honorable Fabian Núñez
May 6, 2008
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Should you have any questions, please contact Jeffrey V. Brownfield, Chief,
Division of Audits, at (916) 324-1696.

Sincerely,

Original Signed by

JOHN CHIANG
California State Controller

cc: Members of the State Board of Equalization
The Honorable Jack O'Connell
State Superintendent of Public Instruction
Mark Drummond, Chancellor
California Community Colleges System Office
Elizabeth Hill, Legislative Analyst
Michael C. Genest, Director
Department of Finance
Ramon Hirsig, Executive Director
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Review Report

Executive Summary

This report presents the results of the State Controller's Office's (SCO) review of the practices employed by K-12 school districts, community colleges, and redevelopment agencies (RDAs) related to the distribution and reporting of property tax increment pass-through revenues. The review is a follow-up of an earlier SCO review, which was directed by the Legislature in the 2007-08 Budget Act to determine how county property tax revenues are allocated and reported and determine their effect on State funding to the schools. In our report issued on November 6, 2007, we found that the schools, in general, properly reported their property tax allocations, with the exception of RDA pass-through payments. We also found that some RDAs did not accurately compute pass-through payments or report financial transaction and fiscal data to the SCO. Understatement of RDA pass-through payments for redevelopment projects adopted or amended on or after January 1, 1994 (AB 1290 projects), resulted in excess state General Fund obligation to the schools.

In our November 2007 report, we noted that we were unable to quantify the fiscal impact to the State of the schools' and the RDAs' computing and reporting problems. Recognizing that the matter may be of significant interest to the Administration and the Legislature, we decided to conduct a Phase Two review, to the extent possible, to quantify the fiscal impact.

The Phase Two review focused on RDA pass-through payments for fiscal year (FY) 2005-06 and identified the following findings:

- The K-12 school districts collectively understated the RDA pass-through payments by an estimated \$105 million for FY 2005-06, apparently because they reported such payments in their Capital Project Fund accounts or as other local revenues. Of the \$105 million in variance, we estimate approximately \$43 million is related to AB 1290 projects, which resulted in \$17.8 million in excess state General Fund obligation to the schools for FY 2005-06. For FY 2006-07, the estimated excess General Fund obligation is approximately \$16 million.
- The community colleges currently have no means to separately identify their pass-through payments in their reports to the California Community Colleges Chancellor's Office. As a result, the community colleges' AB 1290 project pass-through payments were understated by \$8.2 million, which in turn resulted in \$3.9 million in excess state General Fund obligation to the community colleges for FY 2005-06. For FY 2006-07, the estimated excess General Fund obligation is approximately \$4.2 million.

- Some RDAs in Los Angeles County did not make AB 1290 pass-through payments to affected taxing entities, including the schools. Contrary to Health and Safety Code section 33607.5(b), which specifies that the RDAs shall make AB 1290 pass-through payments to the taxing entities, Los Angeles County calculates and withholds its share of pass-through payments and remits the remaining amount to the RDAs for distribution to the affected taxing entities. Some RDAs were apparently operating under the erroneous belief that the county had already calculated and distributed AB 1290 pass-through payments to all taxing entities in the county and, therefore, did not make the required calculations and payments. Based on data documents from the Los Angeles County Auditor-Controller's Office, we estimate that the RDAs in Los Angeles County collectively underpaid the K-12 school and community colleges \$19.1 million and \$21.1 million in AB 1290 pass-through payments, which in turn resulted in approximately \$8.38 million and \$9.2 million in excess state General Fund obligation to the schools for FY 2005-06 and FY 2006-07, respectively. It should be noted that this is a gross estimate, as we were unable to quantify the amount of understatement by each RDA due to the complexity of the AB 1290 pass-through payment calculation.
- A few RDAs in counties other than Los Angeles County also failed to make AB 1290 pass-through payments to affected taxing entities. We contacted 217 RDAs at the other counties in our sample; four RDAs did not respond to our inquiries and another six told us that they either did not compute or did not fully compute pass-through payments. We do not have sufficient data to reasonably estimate the fiscal impact of the six RDAs' failure to fully calculate AB 1290 pass-through payments. The remaining RDAs provided us with schedules and worksheets in support of their pass-through payment calculations. Based on a cursory review, we found that, in general, the methodology appears to be reasonable. However, we did identify some apparent computation errors. Without a more thorough examination and verification of data and facts included in the schedules and worksheets, we have no basis for validating the accuracy and reliability of the RDAs' calculations.
- The RDAs made numerous reporting errors when submitting financial transaction and fiscal data to the SCO. This resulted in an understatement of the amount of AB 1290 pass-through payments made to the schools. Based on available data, we estimate that the errors resulted in another \$3.8 million in excess state General Fund obligation to the schools in FY 2005-06. We do not have sufficient data to make a similar estimate of fiscal impact for FY 2006-07.

The following table provides, by fiscal year, our estimate of excess state General Fund obligation to the schools that were the result of reporting and calculation errors by the schools and the RDAs:

	Fiscal Year		Total
	2005-06	2006-07	
K-12 school districts (Finding 1)	\$ 17.8 million	\$ 16.0 million	\$ 33.8 million
Community Colleges (Finding 2)	3.9 million	4.2 million	8.1 million
Los Angeles County (Finding 3)	8.3 million	9.2 million	17.5 million
Other sample counties (Finding 4)	*	*	*
RDAs reporting errors (Finding 5)	3.8 million	*	3.8 million
	<u>\$ 33.8 million</u>	<u>\$ 29.4 million</u>	<u>\$ 63.2 million</u>

* Unquantifiable at this time.

In addition, during the course of our review, we noted several issues which may have a significant fiscal impact on local government finances. Although these issues are not directly related to the scope and objectives of this review, we are presenting these issues as observations for consideration.

Introduction

This report presents the results of the State Controller's Office (SCO) review of the practices employed by K-12 school districts, community colleges, and redevelopment agencies (RDAs) related to the distribution and reporting of property tax increment pass-through revenues. In the 2007-08 Budget Act, the Legislature included a provision directing the SCO to conduct a review "to determine how much property tax is received at the district level, how those revenues are allocated, and how those revenues are reported for purposes of offsetting the State's Proposition 98 General Fund obligation." In November 2007, we issued a report concluding that, with the exception of RDA pass-through payments, the K-12 school districts and community colleges generally reported properly their property tax allocations. We also found that some RDAs did not accurately compute pass-through payments or report financial transaction and fiscal data to the SCO.

In the November 2007 report, we noted that we were unable to quantify the fiscal impact of the RDA pass-through payment understatement by the K-12 school districts and the community colleges or that of the inaccurate reporting by the RDAs within the legislatively prescribed timeframe in which to issue a report (November 1, 2007). Recognizing that the matter may be of significant interest to the Legislature and the Administration, we commenced to conduct a Phase Two review, to the extent possible, to quantify the fiscal impact of the RDA reporting problems identified in the November 2007 report. The Budget Act provision directing the SCO to conduct the review specifies that the SCO can, if necessary, issue a supplemental report.

Background

California's Redevelopment Agencies are generally governed by the Community Redevelopment Law starting at Health and Safety Code section 33000. The Community Redevelopment Law, Chapter 710, Statutes of 1951, was enacted by the California State Legislature with the objective of redeveloping those areas in many communities that, for a variety of reasons, suffer from unsafe, unfit, deteriorated, and economically dislocated buildings and properties. The California Constitution, Article XVI, Section 16, and the Health and Safety Code, beginning with Section 33000, provide funding from local property taxes to promote the redevelopment of blighted areas. Voters approved Article XVI in 1952; therefore, the revenues it generates are not subject to the limitations imposed by Article XIII B, the Gann Limit.

Section 33670 of the Health and Safety Code authorizes the allocation of property taxes between the various local agencies and community redevelopment agencies. The "frozen base assessed valuation" is the value of property at the time of the adoption of a redevelopment project plan. The "incremental assessed valuation" is the cumulative increase in the value of property within a project area above the frozen base assessed valuation. Tax increment revenues are produced by applying general tax rates—and to a lesser degree, debt service tax rates—to the incremental assessed valuation.

Not all of the tax increment is available to the RDAs. Pursuant to Assembly Bill 1290, Chapter 942, Statutes of 1993, the RDAs are to return a portion of their tax revenues to affected taxing jurisdictions in the form of a mandatory “pass-through” payment for redevelopment projects adopted or amended after January 1, 1994. The pass-through payments are calculated, on a graduated basis, against the net tax increment after the agency has set aside the 20% obligation to the Low and Moderate Income Housing Fund.

For the first 10 years from each project area’s established date, this pass-through payment is based on 25% of the net tax increment. This payment continues for the life of the project area. Beginning in the 11th year and continuing for the remaining life of the project area, an additional 21% of the net tax increment is passed through, based on the incremental growth over assessed value in the 10th fiscal year. Beginning in the 31st year and continuing for the remaining life of the project area, an additional 14% of the net tax increment is passed through, based on the incremental growth over assessed value in the 30th fiscal year.

For project areas formed prior to January 1, 1994, Health and Safety Code section 33670 allows cities, counties, and special districts—and requires school districts and community college districts—to elect to receive that portion of the tax increment generated by the annual increase in assessed valuation due to inflation. In lieu of this provision, local taxing agencies can opt to receive tax increment pass-through payments based on a negotiated agreement with the redevelopment agency. The local taxing agency is required to demonstrate to the redevelopment agency that these payments were necessary to alleviate a financial burden created by redevelopment activities. The pass-through payments in place pursuant to these agreements are grandfathered in and remain in effect throughout the life of the project area.

For pass-through payments received by the K-12 school districts or community colleges for projects adopted or amended on or after January 1, 1994, AB 1290 legislatively determines that a portion (43.3% for K-12 school districts and 47.5% for community colleges) of such funds are to be used for calculation of the K-12 school districts’ revenue limits and the community colleges’ apportionments, which in turn reduces the State’s obligation to schools. This is commonly referred to as the AB 1290 pass-through payment. For redevelopment projects adopted or amended before January 1, 1994, the RDA pass-through payments have no effect on the State obligation to schools, as an Attorney General opinion, dated October 25, 1990, states that pass-through payments do not constitute an allocation of property tax revenue because the RDA revenues are collected under the Health and Safety Code rather than the Revenue and Taxation Code.

Review Scope and Objectives

In the Phase Two review, we attempted to quantify the fiscal impact of the redevelopment agencies', K-12 school districts', and community college districts' reporting problems noted in our Phase One report issued on November 6, 2007. The review encompassed redevelopment agencies, K-12 schools, and community college districts in 21 counties. The review principally focused on AB 1290 pass-through payments reported by the RDAs, K-12 school districts, and community colleges for July 1, 2005, through June 30, 2006, and included, but was not limited to, an examination of:

- Whether pass-through payments are accurately computed and paid by the RDAs or counties to K-12 schools and community college districts.
- Whether the school districts accurately reported the amount of pass-through payments received to the California Department of Education and the California Community College Chancellor's Office.
- Whether the RDAs accurately reported the pass-through payments to the SCO.

Review Methodology

To accomplish the objectives and scope of the review, we performed the following procedures.

- Selected a sample of 21 of the 58 California counties (see Appendix A). The 21 counties include 291 of the 422 RDAs in California (see Appendix B). The redevelopment projects for the 291 RDAs represent approximately 89% (\$3.62 billion of \$4.05 billion) in tax increments received by all of the RDAs during FY 2005-06.
- Reviewed pertinent laws, regulations, and other documents or publications relevant to the redevelopment agency pass-through payments and school funding requirements.
- Interviewed officials at the California Department of Education (CDE) and the California Community College Chancellor's Office (CCCCO), as well as staff members from the SCO's Division of Accounting and Reporting, to gain an understanding of the State's reporting requirements, forms, and procedures.
- Reviewed available reporting guidelines, written instructions, and pertinent correspondence from the DOF, SCO, CDE, and CCCCCO.
- Obtained, from the CDE, reports filed using the Standardized Account Code Structure (SACS) and Principle Apportionment System. Reviewed and analyzed the data obtained.
- Reviewed and analyzed data from reports filed by RDAs with the SCO.

- Conducted field visits of the 21 sample counties and appropriate local reporting entities (school districts, RDAs, county offices of education) to obtain, review, and examine accounts, worksheets, and related documents which included, but were not limited to, the following:
 - RDA pass-through computations and payments made by the county or the RDA.
 - SCO redevelopment agency report filing procedures and requirements.
 - CDE SACS and Principle Apportionment System databases for school districts and county offices of education.
 - Interviews with redevelopment agencies, counties, school districts, county offices of education, and community college personnel.

Precise Determination of Fiscal Impact by Each RDA Not Possible

As discussed in Finding 3 in the Findings and Recommendations section of this report, some RDAs in Los Angeles County have failed to calculate and make AB 1290 pass-through payments. The calculation of AB 1290 pass-through payments is a highly complex and time-consuming process. The calculation of these payments is project-specific and numerous variables must be considered, such as when the project was adopted, amended, or merged with other projects. Each factor could result in a secondary basis of calculation, and some of the older projects often have numerous layers of different bases that must be used in the calculation. The calculation is further complicated by various state laws that impose additional pass-through payments when certain conditions are met. For example, for pre-AB 1290 projects, if a redevelopment agency elects to extend the life of a project area under SB 211, the agency is then required to make AB 1290 pass-through payments to taxing agencies not already receiving negotiated pass-through payments. For these projects, the RDAs must prepare separate pre- and post-AB 1290 pass-through payment calculations, as the taxing entities that received pre-AB 1290 pass-through payments continue to be entitled to such payments under SB 211 (Chapter 741, Statutes of 2001). Many of the RDAs retain outside consultants to prepare AB 1290 pass-through payment calculations. We found that, even with the assistance of outside consultants, the accuracy of payment calculation is not assured.

Due to the time constraints and funding limitations of this review, it was not possible for us to calculate the amount of AB 1290 pass-through payments for all RDAs. However, to the extent possible, we provided gross estimates of the fiscal impact of the aforementioned issues.

Findings and Recommendations

FINDING 1—

The K-12 school districts collectively understated the pre-AB 1290 and AB 1290 pass-through payment by an estimated \$105 million for fiscal year 2005-06.

The California Department of Education (CDE) requires the schools to report financial data so that it may calculate the school districts' revenue limits and for purposes of financial reporting. For the revenue-limit calculation, school districts submit data to the CDE's principal apportionment system. In addition, through the county offices of education, school districts report financial information to a CDE database in a standard format called the Standardized Account Code Structure (SACS). The data in SACS is used to improve the ability of the county offices of education and the State to analyze education expenditures and extract more useful information for policymakers, educators, and the public.

Under SACS, only data from account codes 8010 to 8099 affect the school districts' revenue limits. The RDA's AB 1290 pass-through payments (43.3%) are to be reported under account code 8047, which affects the districts' revenue limits. Schools are required to report pre-AB 1290 pass-through payments and the portion of the post-AB 1290 payment not reported under account code 8047 under account code 8625, which has no effect on revenue limit calculation. As the data were provided by the same source (school districts), the data between the principal apportionment system and the SACS database should be the same or very similar.

Under Health and Safety Code section 33080, RDAs are required to submit financial transaction and fiscal data to the SCO for compilation of the Community Redevelopment Agencies Annual Report. Among the data submitted by the RDAs are pass-through payments segregated by pre-AB 1290 and AB 1290 projects. For FY 2005-06, we compared the pass-through payment data submitted by the schools to the CDE SACS database and those submitted by the RDAs to the SCO and found differences totaling \$105 million in the amounts reported. The reported variances between pre-AB 1290 and AB 1290 pass-through payments are as follows:

	Reported by RDAs to the SCO	Reported by the Schools to the CDE	Difference
Pre-AB 1290	\$ 116,962,944	\$ 54,857,849	\$ 62,105,095
AB 1290	45,310,385	2,422,379	42,888,006
Total	162,273,329	57,280,228	104,993,101

As previously noted, the CDE uses the AB 1290 pass-through payments to calculate the school districts' revenue limits, which in turn impacts the State's obligation to the schools. For revenue limit calculation, the CDE staff provided us with a spreadsheet showing that five counties reported pass-through payments totaling \$1,804,062 for fiscal year 2005-06; CDE staff members said they used the spreadsheet as the basis for revenue limit calculation. To determine excess General Fund obligation to schools, we used the \$1,804,062 figure in the CDE's principal apportionment system instead of the \$2,422,379 in the SACS database. We estimated that the understatement of AB 1290 pass-through payment

by the schools resulted in \$17,815,335 ($\$45,310,385 \times 43.3\% - 1,804,062$) in excess General Fund contributions to K-12 school districts for FY 2005-06.

For FY 2006-07, the data in the CDE's principal apportionment spreadsheet shows that the school districts' AB 1290 pass-through payments increased significantly, from \$1,804,062 in FY 2005-06 to \$9,836,176 in FY 2006-07. Based on preliminary data at the SCO, we determined that the RDAs reported AB 1290 pass-through payments totaling \$59,783,392 for FY 2006-07. Using these figures, we estimate that the reporting variances resulted in \$16,050,033 ($\$59,783,392 \times 43.3\% - \$9,836,176$) in excess General Fund obligation to K-12 school districts for fiscal year 2006-07.

Schedule 1 provides the amounts, by county, of the variance between the AB 1290 pass-through payments reported by the RDAs to the SCO and those reported by the K-12 school districts to the CDE. Schedule 2 provides the amounts of the variances for pre-AB 1290 pass-through payments.

Numerous factors may have contributed to the variance. However, without question, the \$1,804,062 in AB 1290 pass-through payments reported by the school districts for FY 2005-06 was grossly understated. In analyzing the pattern of pass-through payments reported by the schools, we found some that appeared to be illogical. For example, in nine of the California counties, the K-12 districts reported pass-through payments but the respective county offices of education did not report any. A district cannot receive pass-through payments without its county office of education also receiving the payments. As both are within the same tax rate area, the county offices of education are to receive pass-through payments whenever the K-12 school districts receive them.

After analyzing the data in the CDE's SACS database, we believe the primary cause of the above-mentioned variances to be misclassification of revenues. Of the \$105 million in variance, we were able to identify approximately \$67.5 million in pass-through payments that have been reported under the schools' Capital Project Funds instead of as pass-through payments under General Fund revenues. This misclassification precluded AB 1290 payments from being included in the CDE's revenue limit calculation. Moreover, by placing the payments in the Capital Project Funds, the schools, in effect, restricted such payments from budget consideration as a General Fund revenue source for purposes such as collective bargaining negotiation. Schedule 3 provides the amounts, by county, of pass-through payments reported by K-12 school districts and county offices of education under their Capital Project Funds instead of their General Funds for FY 2005-06.

In addition, based on our discussion with school officials, we believe a significant amount of pass-through payments were reported under miscellaneous local revenues, which also do not impact revenue limit calculations by the CDE. Therefore, we believe it is appropriate to use the AB 1290 pass-through payment figures reported by the RDAs to the SCO as the starting basis for determining excess General Fund obligation to the schools.

We reviewed the CDE's reporting instructions for reporting pass-through payments and found them to be clear. However, it may be helpful to school officials to state in the instructions that only 43.3% of the AB 1290 pass-through payments are to be included under object 8047. School officials we interviewed told us that they often received payments from the RDAs or the counties without any explanation as to what the payments were for. However, we noted numerous instances where the schools did not report any AB 1290 pass-through payments even when the RDAs clearly identified the source and purpose of the payments on the remittance advices. Moreover, it would be reasonable to expect school district officials having received a large sum of payment without explanation, to inquire as to the purpose and nature of such payment rather than arbitrarily reporting it under various accounts.

FINDING 2—
The community colleges currently have no means to separately identify pass-through payments in their reports to the CCCCCO.

In the California Community Colleges Chancellor's Office's (CCCCO) Budget and Accounting Manual, the community colleges are directed to report redevelopment property tax revenues in the following manner:

In accordance with Education Code Section 84751(d), redevelopment property tax revenues received pursuant to Health and Safety Code Sections 33492.15, 33607.5, 33607.7 and 33676 (except those amounts allocated exclusively for educational facilities) are recorded *in the applicable property tax account* [emphasis added]. Redevelopment property tax revenues allocated exclusively for education facilities pursuant to these Health and Safety Code sections are recorded in Account 8890, Other Local Revenues.

The AB 1290 pass-through payments impact the community colleges' apportionment calculation and are made pursuant to Health and Safety Code section 33607. The pre-AB 1290 pass-through payments have no effect on apportionments and are made pursuant to Health and Safety Code sections 33401 and 33676. Despite the significant fiscal implication to the State, the CCCCCO has not established separate account codes to distinguish pre-AB 1290 from AB 1290 pass-through payments and to distinguish pass-through payments from other property tax revenues. Officials from the CCCCCO stated that it would be helpful if the RDAs identified the payment sources and the amount from each source. They believe that, until pass-through payments are identified by the RDA, establishing separate accounts would not be productive. They also suggested that perhaps the RDA could be required to report these amounts and sources directly to the Chancellor's Office or other central location.

Officials from the community colleges we interviewed told us that, in the absence of specific accounts, they reported the pass-through funds in Account 8890, Other Local Revenues, which is inappropriate because the RDA pass-through payments were made without the restriction that they be used exclusively for education facilities. Reporting pass-through payments as other local revenues also excluded such payments from being included in the CCCCCO's apportionment calculation.

Schedule 4 shows the amounts, by county, of the pre-AB 1290 and AB 1290 pass-through payment made to the community colleges as reported by the RDAs to the SCO for FY 2005-06. According to the

schedule, the RDAs made \$8,245,099 in AB 1290 payments to the community colleges. We calculated that the exclusion of AB 1290 pass-through payments in apportionment calculations results in \$3,916,422 ($\$8,245,099 \times 47.5\%$) in excess General Fund obligation to the community colleges for FY 2005-06.

Based on the SCO's own preliminary data, the RDAs collectively reported \$8,882,397 in AB 1290 pass-through payments to the community colleges in FY 2006-07. Using this figure, we estimate the exclusion of AB 1290 pass-through payments in apportionment calculations resulted in \$4,219,139 ($\$8,882,397 \times 47.5\%$) in excess General Fund obligation to the community colleges for FY 2006-07.

**FINDING 3—
Some RDAs in
Los Angeles County
have failed to make
AB 1290 pass-through
payments to affected
taxing entities,
including the schools.**

The Los Angeles County Auditor-Controller's Office calculates and retains the county's share of AB 1290 pass-through payments. Los Angeles County's practice is not consistent with Health and Safety Code section 33607.5(b), which specifies that:

Commencing with the first fiscal year in which the agency receives tax increments and continuing through the last fiscal year in which the agency receives tax increments, *a redevelopment agency shall pay to the affected taxing entities* [emphasis added], including the community if the community elects to receive a payment.

The Los Angeles County Auditor-Controller calculates and withholds the county's share of the AB 1290 pass-through payments and distributes the remaining portion to the RDAs for distribution to the remaining taxing jurisdictions in the county. There is no statutory provision that allows the county auditor-controller to make AB 1290 payments to taxing jurisdictions or to withhold funds on the county's behalf. In our sample of 21 counties, there are six counties (Placer, Monterey, Kern, Sonoma, Napa, and Marin) besides Los Angeles County where the County Auditor-Controller's Office also calculates the AB 1290 pass-through payments. The RDAs in these six counties distributed the remaining portion of AB 1290 pass-through payments to the taxing jurisdictions.

However, some of the RDAs in Los Angeles County stated they were under the erroneous belief that Los Angeles County had calculated and distributed AB 1290 pass-through payments to all of the taxing jurisdictions in the county before remitting the remaining amounts to the RDAs. The RDAs believed this was so because the County Auditor-Controller's Office calculates and distributes all pre-AB 1290 pass-through payments on behalf of the RDAs in the county. Under the aforementioned Health and Safety Code section 33607.5(b), it is clearly the RDAs' responsibility to make AB 1290 pass-through payments to the affected taxing entities. The assertion that they were under the belief that the county had made the payments does not relieve the RDAs' responsibility from taking action to ensure that the county had accurately calculated and distributed the AB 1290 pass-through payments, which has been in effect since January 1994. Inexplicably, throughout the years, apparently none of the affected taxing entities inquired about their share of the AB 1290 pass-through payments.

We attempted to contact all 74 of the RDAs in Los Angeles County, and 11 of those RDAs responded stating that they did not calculate and make the required AB 1290 pass-through payments. Another 14 RDAs in the county were not responsive to our inquiries. Schedule 5 provides a listing of the RDAs in Los Angeles County that did not calculate and distribute AB 1290 pass-through payments and those that were not responsive to our inquiries.

It should be noted that our inquiries and analyses found inconsistencies that raised questions regarding the accuracy of the RDAs' responses to our inquiries or the data submitted to the SCO. For example, the officials at an RDA told us that they did not compute any AB 1290 pass-through payments in the past and have retained a consultant to make the required calculation and payments. Yet, in the data submitted to the SCO, the RDA reported that it made \$2,513,675 in AB 1290 pass-through payments from the RDA in FY 2005-06 and all such payments were made to Los Angeles County. According to the county's records, it did not receive any AB 1290 pass-through payments from the RDAs in FY 2005-06. Based on the tax increments received by the RDA, we estimate that the RDA should have made \$21.37 million in AB 1290 pass-through payments during FY 2005-06, and approximately \$4.92 million belongs to the schools.

In another example, the officials at an RDA told us during our initial contact that they did not have any AB 1290 projects in the city. We made inquiries with Los Angeles County and were told that the RDA did have AB 1290 projects. The RDA would not respond to our follow-up inquiries.

Using data and documents from the Los Angeles County Auditor-Controller's Office, we determined that the total amount of the AB 1290 pass-through payments for all of the projects in the county should be \$115,255,423 for FY 2005-06. For the same period, the RDAs reported \$53,009,255 in AB 1290 pass-through payments to the SCO, an understatement of \$62,246,168. Of the amount reported by the RDAs, \$6,360,559 was reported as being paid to schools and \$1,035,067 was reported as being paid to community colleges.

Of the \$115,255,423 in AB 1290 pass-through payments identified from county auditor-controller records, we estimate that approximately \$26,505,747 (23%) should be attributed to K-12 schools and community colleges. Our estimate is based on apportionment factors used to allocate property taxes prescribed under AB 8 (Chapter 282, Statutes of 1979). Using this estimate, we calculated that the understatement of AB 1290 pass-through funds by the RDAs in Los Angeles County resulted in another \$8.28 million ($\$26,505,747 - \$6,360,559 - \$1,035,067 = \$19,110,121 \times 43.3\%$) in excess General Fund obligation to the schools for fiscal year 2005-06. This figure may be slightly low, as the factor used for community colleges in determining apportionment calculation is 47.5%. However, we have no means to quantify how much of the estimated \$19,110,121 in understated AB 1290 pass-through payments is related to the community colleges.

For FY 2006-07, the Los Angeles County Auditor-Controller's General Tax Levy (1%) Property Tax Revenue Allocation Summary showed \$1,134,152,606 in property taxes allocated to the RDAs, an increase of approximately \$162,342,600 (16.7%) over FY 2005-06. For FY 2005-06, based on data and documents from the Los Angeles County Auditor-Controller's Office, we determined that the total amount of the AB 1290 pass-through payments should be approximately \$115,255,423. Based on the assumption that AB 1290 pass-through payments grew at approximately the same rate as the RDAs' share of property tax allocations, the RDAs' AB 1290 pass-through payments for FY 2006-07 should be approximately \$134,503,079 ($\$115,255,423 \times 116.7\%$). Of this amount, based on apportionment factors used to allocate property taxes under AB 8 for FY 2005-06, we estimate that approximately \$30,935,708 (23%) should be attributed to the K-12 school districts and the community colleges.

For FY 2006-07, the RDAs collectively reported \$68,976,781 in AB 1290 pass-through payments to the SCO. Of that amount, \$9,788,627 was reported as being paid to the K-12 school districts and the community colleges as compared to the \$30,935,708 we calculated—an apparent understatement of \$21,147,081. Thus, we estimate that the understatement resulted in \$9,156,686 in excess General Fund obligation to the schools for FY 2006-07 ($\$21,147,081 \times 43.3\%$).

It should be noted that the \$8.28 million and \$9.16 million in estimated excess General Fund obligation to schools is a gross estimate. As previously mentioned, we could not determine each RDA's share of understatement due to the complexity of the AB 1290 pass-through payment calculations.

**FINDING 4—
Other RDAs in
counties beside
Los Angeles County
also failed to make
AB 1290 pass-through
payments.**

As discussed under the Review Methodology section of this report, our review sample encompassed the RDAs in 21 of the 58 California counties. In addition to the 74 RDAs in Los Angeles County, there are 217 RDAs in the other 20 sample counties. In total, the redevelopment projects in the 21 counties in our sample represent approximately 89% (\$3.62 billion of \$4.05 billion) in tax increments received by all of the California RDAs during FY 2005-06.

We found RDAs in the other 20 sample counties to be more responsive to our inquiries. Of the 217 RDAs we contacted, only four failed to respond or adequately respond to our inquiries. For the RDAs that responded, six informed us that they did not calculate or make any AB 1290 pass-through payments for FY 2005-06. One of the six RDAs stated that it did not make the required calculation for FY 2006-07 because the responsible staff person had left and no one else was capable of performing this function; the RDA staff member we spoke to stated that the RDA is in the process of rectifying this situation. Another RDA calculated and distributed pass-through payments for one of its AB 1290 redevelopment projects but failed to do so for another project. The other four RDAs could not provide any explanation for the failure to pay. Schedule 6 provides a listing of RDAs in the sample counties other than Los Angeles County that did not calculate and distribute AB 1290 pass-through payments and those that did not respond to our inquiries.

We could not reasonably estimate the fiscal impact of the six RDAs' failure to fully calculate and distribute AB 1290 pass-through payments. The tax increments reported to the SCO by the six RDAs did not segregate or distinguish the amounts attributed to pre-AB 1290 and AB 1290 redevelopment projects. Without such a breakdown, we have no feasible means to estimate the fiscal impact.

Most of the RDAs that responded to our inquiries provided us with worksheets and schedules showing their AB 1290 pass-through payment calculations. On a sample basis, we made a cursory review of some of the calculations and found that, in general, the methodology appears to be reasonable. However, without more thorough examination and verification of data and facts included in these documents, we have no basis for validating the accuracy and reliability of the RDAs' calculations. Moreover, we found computation errors in the calculations, even in our cursory review. Some examples include:

- Some RDAs included only secured property tax increments in their calculations of AB 1290 pass-through payments. By excluding other tax increments (unsecured, supplemental, and unitary) in the calculations, the RDAs understated and underpaid the AB 1290 pass-through payments to the affected tax entities, including the schools. This, in turn, unnecessarily increased the state General Fund obligation to the schools.
- Some RDAs excluded the county's administrative charges in their AB 1290 pass-through payment calculations. The counties, under Revenue and Taxation Code section 95.3, are authorized to charge a fee to recoup their costs of administering the property tax program; such costs typically include activities such as assessment, collection, distribution, and accounting. The administrative costs typically range from 1% to 3% of the property tax collected. When computing AB 1290 pass-through payments, the RDAs are to include all tax increments received. By excluding the counties' administrative charges in the calculation, the RDAs understated and underpaid the AB 1290 pass-through payments to the affected taxing entities, including the schools. Again, this unnecessarily increased the state General Fund obligation to the schools.
- Some RDAs distributed AB 1290 pass-through payments to the county Education Revenue Augmentation Fund (ERAF) instead of to the affected taxing agencies. By statute, pass-through payments must be made to affected taxing agencies in the county. The ERAF is a fund (an accounting entity), not a taxing agency. By distributing funds to the ERAF instead of to the affected taxing agencies, the ERAF accounts were overpaid (which reduces the state General Fund obligation to the schools) at the expense of other affected taxing entities.
- At least one RDA did not include a separate distribution factor for the County Office of Education (COE) in its AB 1290 pass-through payment calculation. Instead, the distribution factor for the COE was included with the county General Fund distribution factor. Consequently, the COE did not receive any AB 1290 pass-through

payments, which in turn resulted in an excess state General Fund obligation to the COE. In another case in which the county computed and paid all AB 1290 pass-through payments, the county failed to include the COE in the pass-through payment computations after a 1995 amendment to the redevelopment plan. It appears that other affected taxing entities were receiving pass-through payments under existing agreements. It is very likely that similar computation errors by other RDAs could exist.

Further analysis of the data submitted to the SCO by the RDAs raised additional questions and concerns about the accuracy and reliability of the RDAs' calculations. AB 1290 requires that pass-through payments be made in the same proportion as property taxes are ordinarily distributed within the project area. Therefore, if reported correctly, AB 1290 pass-through payments to the local taxing entities should reflect a ratio somewhat similar to that of the property tax distribution.

Our analysis shows that the K-12 school districts and community colleges received an average of 36% of all property tax revenues statewide in FY 2005-06. A portion of the property tax revenues is redirected to the counties' ERAFs and another portion is paid to the RDAs as tax increments. The payments to the ERAF and the RDAs are not included for calculation of pass-through payments. When excluding these payments, the schools statewide received approximately 49% of the counties' property tax revenues.

As reported by the RDAs to the SCO, AB 1290 pass-through payments to the schools represented approximately 31% of its pass-through payments to all local taxing entities, a discrepancy of 18%. If the average distribution of property taxes were applied to the AB 1290 total payments actually made, the schools' portion could increase by more than \$23 million, approximately 43.3% of which should be used to reduce the State's obligation to the schools. However, precise estimates are difficult to make, as the data reported to the SCO mixes "pure" AB 1290 pass-through payments with those made per SB 211, which potentially apply in different amounts.

FINDING 5—
The RDAs made numerous reporting errors when submitting financial transaction and fiscal data to the SCO.

Under Health and Safety Code section 33080, the RDAs are required to submit financial transaction and fiscal data to the SCO for compilation of the Community Redevelopment Agencies Annual Report. For the RDAs that provided worksheets and schedules in support of their AB 1290 pass-through payment calculations, we compared the data in the worksheets and schedules against the data previously submitted to the SCO and found that the amounts previously reported by the RDAs may have been significantly understated. Under Finding 1 and Finding 2 of this report, we relied on the previously reported amount as the starting basis for determining the excess General Fund obligation to the schools. When the starting basis is understated, the excess General Fund obligation is similarly understated.

Specifically, our review has identified the following discrepancies:

- Some RDAs did not report any pass-through payments to the SCO, apparently in the erroneous belief that such reporting is optional. In the SCO's reporting instructions, the RDAs were instructed that "All required forms must be completed. Those forms referred to as 'optional' must be completed if applicable to the agency's activities." These reporting instructions have been provided to the RDAs as well as posted on the SCO's Web site. However, because the form for pass-through payments to schools is listed as "optional" on the compact disc that the SCO mails to the RDAs each year for electronic reporting, some RDAs did not report any AB 1290 pass-through payments, even though such payments have been calculated and distributed. For the next reporting cycle the SCO will revise reporting instructions to clarify and emphasize reporting requirements.

In the sample counties, we found 43 RDAs that apparently should have made AB 1290 pass-through payments but did not report such payments to the SCO. In addition, we found numerous inconsistencies between the shown amounts of the AB 1290 pass-through payment calculations schedules and worksheets and the amounts reported to the SCO. In total, we found that the RDAs in the sample counties underreported AB 1290 pass-through payments to K-12 school districts by at least \$4.24 million during FY 2005-06, which in turn resulted in approximately \$1.84 million ($\$4.24 \text{ million} \times 43.3\%$) in excess state General Fund obligation. In addition, the RDAs in the sample counties underreported the amounts to community colleges by \$700,000 in FY 2005-06, resulting in another \$332,500 ($\$700,000 \times 47.5\%$) in excess state General Fund obligation. The total amount of excess state General Fund obligation to schools is \$2.17 million for FY 2005-06. We do not have sufficient data to make a similar estimate of the fiscal impact for FY 2006-07.

- Some RDAs apparently made the correct calculations but reported incorrect amounts to the SCO. In the sample counties, we found that 51 RDAs reported AB 1290 pass-through payments as paid to a single type of tax entity (i.e., county, city, school district). This is highly improbable, as AB 1290 directs pass-through payments to be made to the tax entities in the same proportion as property taxes are distributed in the project area. Our review identified numerous discrepancies between the computed amount of AB 1290 pass-through payments and the amounts reported to the SCO. For example, one RDA's computation apparently properly included more than \$80,000 in AB 1290 pass-through payments for K-12 schools and community colleges. However, when reporting to the SCO, the RDA reported more than \$312,000 as allocated to the county and nothing for the schools.

To determine the fiscal impact of this apparent reporting error, we excluded the 32 RDAs in Los Angeles County that reported AB 1290 pass-through payments to a single type of tax entity. The fiscal estimate under Finding 3 of this report was based on total AB 1290 pass-through payments that should have been made by all of the RDAs in Los Angeles County; the estimate should encompass all

computing and reporting errors. For the other 19 RDAs in the sample counties other than Los Angeles County, we found that the RDAs collectively reported approximately \$10.8 million in pass-through payments as paid to a single tax entity. The amount includes \$253,101 as solely paid to K-12 school districts and \$58,590 as solely paid to community colleges. Therefore, based on statewide average of 36% of AB 1290 pass-through payments going to the schools, we estimate that this reporting error resulted in approximately \$1.6 million $[(\$10.8 \text{ million} - \$253,101 - \$58,590) \times 36\% \times 43.3\%]$ in excess state General Fund obligation to the schools for FY 2005-06. We do not have sufficient data to make a similar estimate of the fiscal impact for FY 2006-07.

- Some RDAs may have reported AB 1290 pass-through payments as pre-AB 1290 pass-through payments. For FY 2005-06, the RDAs reported to the SCO \$6,642,590 as negotiated payments and an additional \$1,085,955 as inflationary growth pass-through payments. For reporting purposes, negotiated payments and inflationary growth pass-through payments are considered pre-AB 1290 pass-through payments. These payments cannot be pre-AB 1290, as they supposedly were for post-AB 1290 redevelopment projects formed or amended on or after January 1, 1994. The discrepancy may have been caused by some RDAs' failure to accurately report the status of redevelopment projects. We noted instances in which the RDAs reported pre-AB 1290 projects as AB 1290 projects and vice versa. We do not have sufficient data to reasonably estimate the fiscal impact of this apparent reporting discrepancy.

RECOMMENDATIONS

1. The Department of Finance, the California Department of Education, and the California Community Colleges Chancellor's Office should determine the most feasible means to recoup State overpayments to schools that resulted from the schools' underreporting of their AB 1290 pass-through payments. The RDAs should be able to provide the State with a schedule showing the amount of AB 1290 pass-through payments made to each K-12 and community college district.
2. The Legislature may wish to consider legislative action to:
 - Prescribe a deadline for the RDAs to calculate and make all overdue AB 1290 pass-through payments to all taxing entities. RDAs should be directed to submit copies of worksheets and schedules of their AB 1290 pass-through calculations to the SCO for review and audit.
 - Require the RDAs to provide remittance advice or cover letters accompanying pass-through payments to identify (1) project area(s) for which the payment applies; (2) the Health and Safety code section the payment is being made under; and (3) the fiscal year to which the payment applies. Periodically, the RDAs should provide the CDE and the CCCCCO with a complete listing of the above information for each K-12 school and community college district that received pass-through payments.
3. The CDE should modify the reporting forms for the SACS system so that any RDA pass-through payments deposited in the various capital project funds or other account codes are readily identifiable.
4. The CCCCCO should modify its reporting form so that any RDA pass-through funds received are readily identifiable.

In addition, we reiterate the recommendations that were made in our November 2007 report under Finding 3 (pages 17 and 18).

- The Legislature should consider enacting legislation to clarify or prescribe State requirements for RDA pass-through payments to promote uniformity and consistency in the calculation of such payments.
- The State Controller's Office should take the following measures:
 - Review and, if appropriate, revise procedures, forms, and instructions governing submission of data by the RDAs for compilation of the Community Redevelopment Agencies Annual Report.
 - Clearly communicate the reporting requirements to the RDAs.
 - Incorporate procedures for audits of pass-through funds in the Guidelines for Audit of Redevelopment Agencies published by the State Controller's Office. This publication prescribes guidelines for audit of RDAs by independent public accountants retained by the RDAs.

- Conduct quality control reviews, on a sample basis, to ensure the audits performed by the independent public accountants meet state audit requirements.
- Perform more comprehensive review of the data submitted by the RDAs and compare such data with information in the RDAs' audited financial statements. Follow up on and resolve any significant discrepancies.

Given the complexity of computing pass-through payments and the fiscal impact of the calculations on the taxing entities (including the schools), the Legislature may wish to consider allocating resources to specifically audit the RDAs' pass-through payment calculations and their reporting of such data to the SCO. This more focused approach will provide for a higher level of assurance than the audit conducted by the independent public accountants, as such audits primarily focus on the fair presentation of financial statements.

Observations That Merit Consideration

INTRODUCTION

During the course of our review, we noted several issues that may have significant fiscal impact on local government finances. Although these issues are not directly related to the scope and objective of this review, as they do not impact State obligation to K-12 school districts and community colleges, they still may be of interest to state policymakers. Therefore, we are presenting these issues as observations for consideration.

OBSERVATION 1— *Many RDAs failed to comply with the court verdict that stemmed from the lawsuit filed by the Santa Ana Unified School District against Orange County Development Agency.*

In 1999, the Santa Ana Unified School District (SAUSD) filed a lawsuit against the Orange County Development Agency (OCDA) over the interpretation of Health and Safety Code section 33676. The OCDA adopted the Santa Ana Heights Redevelopment Project in 1986 under the provisions of the Community Redevelopment Act. At that time the section stated that prior to the adoption of a redevelopment plan, any affected agency could elect and every school district shall elect to be allocated all or any portion of the revenues in order to receive funding from the RDA. In 1996, the SAUSD elected to receive its share of the annual 2% inflationary increase in property tax assessment revenues.

The OCDA denied the request because it believed the SAUSD did not make the election in a timely manner, contending that the election had to be made prior to the adoption of the plan in 1986. The SAUSD countered that it was not required to adopt a formal election to receive the funds because it was a school district and should automatically receive the 2% payment. The trial court decided in favor of the SAUSD, whereupon the OCDA appealed the verdict.

On June 29, 2001, the Court of Appeal of California, Fourth Appellate District, Division Three, upheld a judgment from the Superior Court of Orange County (Superior Court No. 804955) which held that the payment of tax increment funds to K-14 schools pursuant to Health and Safety Code section 33676 was mandatory, making the election automatic. [Santa Ana Unified School District v. Orange County Redevelopment Agency (2001) 90 Cal. App. 4th 404; 108 Cal. Rptr. 2d 770.]

The case was subsequently appealed to the California Supreme Court. On September 19, 2001, the court denied review. It is our understanding that, as a result, the decision on this case is applicable throughout the state.

During our review, we noted that the decision in this case is not being applied in all counties. In some counties, the County Auditor-Controller's Office is being specifically directed by the RDA not to apply the Santa Ana case. For example, on April 25, 2006, the director of the Redevelopment Department for the City of Stockton directed the San Joaquin County Auditor-Controller as follows: "Please be advised that the County is NOT authorized to make any 33676 or 2.0% payment to any school district. As discussed on the following pages, no school district is eligible irrespective of the Santa Ana case."

We were not able to determine how much in additional pass-through payments would be available for schools as a result of the Santa Ana decision because, among other reasons, the complexity of the computation and lack of information regarding base year values. Funds received from the provisions of Health and Safety Code section 33676 do not count toward the revenue limit computation.

OBSERVATION 2—
According to data submitted by the RDAs to the SCO, some RDA projects incurred obligations that cannot be repaid with the projected revenue sources, thus potentially creating significant fiscal liability for the localities.

As noted previously, the RDAs are required under Health and Safety Code section 33080 to submit financial transaction and fiscal data to the SCO for compilation of the Community Redevelopment Agencies Annual Report. Some of the data submitted are audited as a part of the annual financial statement audits by independent certified public accountants. However, most of the data are unaudited data, as they represent additional information beyond those required in the RDAs' annual financial statements.

In order to receive its gross increment from the county, each RDA is required to submit to the county a Statement of Indebtedness (SOI) demonstrating that the project has indebtedness and is entitled to receive tax increment revenues. The SOI is to include any actual or estimated present and future legal obligation that will require tax increment to repay over its life.

Based on data submitted by the RDAs, we identified 59 project areas that were established prior to 1971. We compared each project area's estimated debt as stated in the SOI against the gross increment that it is entitled to receive. Of the 59 projects, we found 18 project areas whose gross increments would not be sufficient to repay the estimated debt within the prescribed time limit for repayment. Schedule 7 provides a listing of the 18 project areas. The Flosden Acres Project Area in the City of Vallejo was established on June 22, 1970, and has until the year 2041 to repay its indebtedness. According to its SOI for 2006, the project area's estimated indebtedness is \$254.9 million. With a gross increment of \$1,433,842, it would take the project 178 years, or until the year 2184, to fully repay the debt. As the project is expected to be completed well before 2184, it is unclear as to whether any oversight entity has considered how to fund any unpaid indebtedness at the conclusion of the project.

Although the above figures submitted by the RDAs are unaudited data and may not be accurate, they could have serious fiscal consequences to the localities and thus merit close scrutiny. Numerous other projects that were established after 1971 may be in similar situations. Thus, we believe this is a matter that merits review and consideration by the Legislature.

OBSERVATION 3—
Lack of statutory
requirement to make
prompt payment of pass-
through funds.

In some instances, we noted or were informed by RDA personnel that tax increment pass-through payments were not being made in a timely manner. For example, the City of Brea informed us that it has sent payments as late as November of a subsequent fiscal year while reporting the payment as having occurred in the prior fiscal year. The cities of Santee and San Diego informed us that their payments of pass-through moneys have been made as late as a year after receiving the tax increment. We are unaware of any statute that requires prompt payment of pass-through funds. However, we consider 5 to 12 months to be an excessive amount of time to hold the funds.

**Schedule 1—
Comparison of Post-AB 1290 Pass-Through Payments
Reported by RDAs and K-12 Schools
Fiscal Year 2005-06**

County	Reported by RDAs to the SCO for K-12 Schools (H&S Code §33607)	Reported by K-12 Schools to the CDE (H&S Code §33607)	Difference (H&S Code §33607)	CDE Principal Apportionment System Spreadsheet
Alameda	\$ 4,657,832	\$ —	\$ 4,657,832	\$ —
Alpine	—	—	—	—
Amador	—	—	—	—
Butte	197,885	—	197,885	—
Calaveras	—	—	—	—
Colusa	—	—	—	—
Contra Costa	1,748,584	—	1,748,584	—
Del Norte	—	—	—	—
El Dorado	—	—	—	—
Fresno	437,764	262,292	175,472	—
Glenn	—	—	—	—
Humboldt	154,299	—	154,299	—
Imperial	5,615	—	5,615	—
Inyo	—	—	—	—
Kern	306,440	426,758	(120,318)	—
Kings	20,993	—	20,993	—
Lake	161,155	—	161,155	—
Lassen	—	—	—	—
Los Angeles	6,360,559	605,994	5,754,565	—
Madera	90,303	—	90,303	—
Marin	—	—	—	—
Mariposa	—	—	—	—
Mendocino	23,129	—	23,129	—
Merced	287,750	119,013	168,737	110,934
Modoc	—	—	—	—
Mono	—	—	—	—
Monterey	294,130	9,854	284,276	—
Napa	38,000	—	38,000	—
Nevada	63,569	—	63,569	—
Orange	5,443,429	1,173,804	4,269,625	1,155,938
Placer	515,704	—	515,704	—
Plumas	—	—	—	—
Riverside	6,318,643	—	6,318,643	—
Sacramento	1,018,023	40,765	977,258	40,765
San Benito	127,440	19,837	107,603	—
San Bernardino	3,439,561	447,089	2,992,472	439,842
San Diego	5,674,742	—	5,674,742	—

Schedule 1 (continued)

County	Reported by RDAs to the SCO for K-12 Schools (H&S Code §33607)	Reported by K-12 Schools to the CDE (H&S Code §33607)	Difference (H&S Code §33607)	CDE Principal Apportionment System Spreadsheet
San Francisco	403,180	—	403,180	—
San Joaquin	1,391,465	—	1,391,465	—
San Luis Obispo	511,134	(914,305)	1,425,439	—
San Mateo	685,780	—	685,780	—
Santa Barbara	277,888	—	277,888	—
Santa Clara	325,525	174,732	150,793	—
Santa Cruz	292,220	—	292,220	—
Shasta	234,662	—	234,662	—
Sierra	—	—	—	—
Siskiyou	—	—	—	—
Solano	204,761	—	204,761	—
Sonoma	619,731	—	619,731	—
Stanislaus	566,709	—	566,709	—
Sutter	—	—	—	—
Tehama	—	—	—	—
Trinity	—	—	—	—
Tulare	265,396	56,546	208,850	56,583
Tuolumne	—	—	—	—
Ventura	2,146,385	—	2,146,385	—
Yolo	—	—	—	—
Yuba	—	—	—	—
Total	<u>\$ 45,310,385</u>	<u>\$ 2,422,379</u>	<u>\$ 42,888,006</u>	<u>\$ 1,804,062</u>

SOURCES: FY 2005-06 SCO RDA report
SACS database on the CDE Web site for FY 2005-06
CDE-supplied spreadsheet

**Schedule 2—
Comparison of Pre-AB 1290 Pass-Through Payments
Reported by RDAs and K-12 Schools
Fiscal Year 2005-06**

County	Reported by RDAs to the SCO for K-12 Schools (H&S Code §33401 and §33676)	Reported by K-12 Schools to the CDE (H&S Code §33401 and §33676)	Difference (H&S Code §33401 and §33676)
Alameda	\$ 935,603	\$ 317,615	\$ 617,988
Alpine	—	—	—
Amador	—	—	—
Butte	362,391	1,518,608	(1,156,217)
Calaveras	—	—	—
Colusa	—	—	—
Contra Costa	4,280,138	1,251,583	3,028,555
Del Norte	85,948	81,642	4,306
El Dorado	59,775	—	59,775
Fresno	539,282	154,348	384,934
Glenn	—	—	—
Humboldt	—	104,975	(104,975)
Imperial	483,506	101,569	381,937
Inyo	—	—	—
Kern	256,041	147,211	108,830
Kings	185,023	204,077	(19,054)
Lake	272,062	477,206	(205,144)
Lassen	—	—	—
Los Angeles	8,332,777	1,875,888	6,456,889
Madera	459,722	0	459,722
Marin	250,555	179,000	71,555
Mariposa	—	—	—
Mendocino	252,819	—	252,819
Merced	—	226,379	(226,379)
Modoc	—	—	—
Mono	—	—	—
Monterey	193,678	20,561	173,117
Napa	—	—	—
Nevada	195,093	—	195,093
Orange	18,526,298	2,079,405	16,446,893
Placer	571,551	1,044,913	(473,362)
Plumas	—	—	—
Riverside	37,671,222	32,448,421	5,222,801
Sacramento	555,744	13,211	542,533
San Benito	—	28,629	(28,629)
San Bernardino	10,786,957	1,933,739	8,853,218
San Diego	11,030,610	4,175,840	6,854,770

Schedule 2 (continued)

County	Reported by RDAs to the SCO for K-12 Schools (H&S Code §33401 and §33676)	Reported by K-12 Schools to the CDE (H&S Code §33401 and §33676)	Difference (H&S Code §33401 and §33676)
San Francisco	—	403,200	(403,200)
San Joaquin	1,815,922	777,736	1,038,186
San Luis Obispo	330,387	423,382	(92,995)
San Mateo	4,097,015	95,412	4,001,603
Santa Barbara	1,171,172	—	1,171,172
Santa Clara	2,866,466	1,229,124	1,637,342
Santa Cruz	1,631,517	129,797	1,501,720
Shasta	908,565	233,562	675,003
Sierra	—	—	—
Siskiyou	—	—	—
Solano	677,793	402,797	274,996
Sonoma	765,230	—	765,230
Stanislaus	2,717,147	1,358,198	1,358,949
Sutter	—	194,142	(194,142)
Tehama	—	—	—
Trinity	—	—	—
Tulare	1,125,009	697,385	427,624
Tuolumne	35,384	—	35,384
Ventura	1,677,706	528,294	1,149,412
Yolo	856,836	—	856,836
Yuba	—	—	—
Total	\$ 116,962,944	\$ 54,857,849	\$ 62,105,095

SOURCES: FY 2005-06 SCO RDA report
SACS database on the CDE Web site for FY 2005-06

**Schedule 3—
Pass-Through Payments Reported by K-12 Schools
Under Capital Project Funds (21-50)
Fiscal Year 2005-06**

<u>County</u>	<u>K-12 School Districts</u>	<u>County Offices of Education</u>	<u>Total Amounts Deposited into Capital Project Funds</u>
Alameda	\$ 4,267,185	\$ —	\$ 4,267,185
Butte	244,571	148,975	393,546
Contra Costa	4,932,422	—	4,932,422
Fresno	75,766	—	75,766
Humboldt	8,156	—	8,156
Imperial	96,551	13,713	110,264
Kern	69,039	—	69,039
Kings	13,489	—	13,489
Los Angeles	14,033,873	—	14,033,873
Mendocino	176,528	21,693	198,221
Nevada	91,092	—	91,092
Orange	13,578,517	—	13,578,517
Placer	174,411	—	174,411
Riverside	1,007,161	—	1,007,161
Sacramento	677,684	49,833	727,517
San Bernardino	6,869,909	—	6,869,909
San Diego	7,191,925	2,222,113	9,414,038
San Joaquin	591,654	—	591,654
San Luis Obispo	252,050	—	252,050
San Mateo	2,055,761	430,523	2,486,284
Santa Clara	296,001	—	296,001
Santa Cruz	1,514,470	—	1,514,470
Shasta	0	25,687	25,687
Sonoma	1,130,018	—	1,130,018
Stanislaus	1,836,571	—	1,836,571
Tulare	72,317	—	72,317
Tuolumne	33,237	—	33,237
Ventura	1,273,615	—	1,273,615
Yolo	1,889,640	175,706	2,065,346
Total	\$ 64,453,613	\$ 3,088,243	\$ 67,541,856

SOURCE: SACS database on the CDE Web site for FY 2005-06

**Schedule 4—
Community College Pass-Through Amounts
Reported by Redevelopment Agencies
to the SCO**

County	Pre-AB 1290 (H&S Code §33401 and §33676)	AB 1290 (H&S Code §33607)	Total
Alameda	\$ 27,316	\$ 940,530	\$ 967,846
Alpine	—	—	—
Amador	—	—	—
Butte	512,932	31,207	544,139
Calaveras	—	—	—
Colusa	—	—	—
Contra Costa	777,773	163,985	941,758
Del Norte	—	—	—
El Dorado	—	—	—
Fresno	67,057	112,725	179,782
Glenn	—	—	—
Humboldt	—	22,054	22,054
Imperial	48,891	1,104	49,995
Inyo	—	—	—
Kern	—	43,574	43,574
Kings	29,180	2,949	32,129
Lake	—	29,145	29,145
Lassen	—	—	—
Los Angeles	1,926,747	1,035,067	2,961,814
Madera	71,885	13,201	85,086
Marin	16,503	—	16,503
Mariposa	—	—	—
Mendocino	9,261	4,339	13,600
Merced	—	43,044	43,044
Modoc	—	—	—
Mono	—	—	—
Monterey	12,780	11,666	24,446
Napa	—	6,000	6,000
Nevada	—	25,947	25,947
Orange	1,639,824	1,045,158	2,684,982
Placer	60,304	152,118	212,422
Plumas	—	—	—
Riverside	5,808,345	749,147	6,557,492
Sacramento	53,531	157,475	211,006
San Benito	—	24,957	24,957
San Bernardino	3,570,088	609,391	4,179,479
San Diego	1,353,168	1,783,347	3,136,515

Schedule 4 (continued)

County	Pre-AB 1290 (H&S Code §33401 and §33676)	AB 1290 (H&S Code §33607)	Total
San Francisco	—	75,473	75,473
San Joaquin	168,960	87,890	256,850
San Luis Obispo	76,079	64,278	140,357
San Mateo	1,274,689	307,750	1,582,439
Santa Barbara	61,719	34,178	95,897
Santa Clara	191,723	76,164	267,887
Santa Cruz	1,898	39,976	41,874
Shasta	235,728	30,374	266,102
Sierra	—	—	—
Siskiyou	—	—	—
Solano	391,080	15,001	406,081
Sonoma	6,887	89,658	96,545
Stanislaus	204,625	137,505	342,130
Sutter	—	—	—
Tehama	—	—	—
Trinity	—	—	—
Tulare	184,975	37,826	222,801
Tuolumne	13,989	—	13,989
Ventura	280,462	240,896	521,358
Yolo	148,607	—	148,607
Yuba	—	—	—
Total	\$ 19,227,006	\$ 8,245,099	\$ 27,472,105

SOURCE: FY 2005-06 SCO RDA report

**Schedule 5—
Redevelopment Agencies in Los Angeles County
That Stated That They Did Not Compute and/or Pay
AB 1290 and/or SB 211 Pass-Throughs and
Those That Were Not Responsive to Inquiries**

Did Not Compute or Pay

City of Rosemead
City of Maywood
City of Artesia
City of Alhambra
City of Torrance
City of Covina
City of Bell Gardens
City of Carson
City of Industry
City of San Fernando
Los Angeles County (RDA projects)

Not Responsive

City of Baldwin Park
City of Compton
City of Inglewood
City of Lawndale
City of Norwalk
City of Lynwood
City of Redondo Beach
City of Santa Monica
City of South Gate
City of Claremont
City of Commerce
City of Huntington Park
City of Lakewood
City of Culver City

**Schedule 6—
Redevelopment Agencies in Other Sample Counties
That Stated They Did Not Compute and/or Pay
AB 1290 and/or SB 211 Pass-Throughs and
Those That Were Not Responsive to Inquiries**

Did Not Compute or Pay

City of Vallejo¹
City of Emeryville
City of Rio Vista
City of Santee
City of Hanford²
City of Dixon

Not Responsive

Ventura County RDA
City of San Diego
City of Desert Hot Springs
City of Montclair

¹ Computed and made pass-through payments for FY 2005-06 but did not do so for FY 2006-07.

² Computed and made pass-through payments for one redevelopment project but not another.

Note: This listing was compiled from a sample of 217 of 348 RDAs in the State excluding Los Angeles County RDAs.

**Schedule 7—
Comparison of Time Limit to Repay
Redevelopment Agency Indebtedness
and Actual Estimated Years to Pay**

City	Project Area Name	Date PA Established	Time Limit to Repay Indebtedness	SOI Indebtedness	Gross Increment	Years to Pay	Final Year
Pasadena	Downtown Project Area	12/29/70	2010	\$ 147,636,322	\$ 16,640,253	9	2015
Oakland	Oak Center Project Area	11/30/65	2016	18,229,175	1,230,233	15	2021
San Fernando	Project Area No. 1	05/26/66	2018	15,262,660	974,054	16	2022
Fresno	Merger Project No. 1	10/22/59	2009	74,295,086	4,735,595	16	2022
Los Angeles	Bunker Hill Project Area	03/31/59	2020	498,287,068	31,394,000	16	2022
Monterey	Custom House Project Area	07/05/61	2022	24,959,813	1,516,974	16	2022
Colton	Downtown Project Area No. 1	10/02/62	2019	2,005,176	112,708	18	2024
San Francisco	South of Market/Golden Gateway/Federal Office Building	05/28/56	2020	290,613,126	15,718,089	18	2024
San Francisco	Hunters Point Project Area	01/20/69	2019	11,226,100	562,208	20	2026
San Francisco	India Basin Industrial Project Area	01/20/69	2019	12,105,053	552,128	22	2028
Pasadena	Fair Oaks Project Area	08/08/64	2021	17,857,549	770,411	23	2029
San Bernardino	Central City Project Area	02/24/65	2026	82,718,614	3,211,792	26	2032
Tulare	Downtown and Alpine Merged Project	06/09/70	2010	50,995,981	1,765,000	29	2035
Pomona	Merged Redevelopment Project Areas	05/19/69	2032	1,067,606,729	24,114,794	44	2050
Redding	Market Street Project Area	07/03/68	2031	1,770,224	34,434	51	2057
Hawthorne	Project Area No. 1	07/09/69	2019	66,200,519	579,596	114	2120
Stockton	West End Urban Renewal Project Area	10/09/61	2041	157,123,972	1,371,100	115	2121
Vallejo	Flosden Acres Project Area	06/22/70	2041	254,866,998	1,433,842	178	2184

Appendix A— Listing of Sampled Counties

Alameda County
Kern County
Kings County
Los Angeles County
Napa County
Orange County
Placer County
Riverside County
Sacramento County
San Bernardino County
San Diego County
San Francisco County
San Joaquin County
San Luis Obispo County
San Mateo County
Santa Clara County
Santa Cruz County
Solano County
Sonoma County
Tulare County
Ventura County

Appendix B— Redevelopment Agencies and Projects For Sampled Counties

County	Redevelopment Agencies	Redevelopment Projects
Alameda County	12	27
Kern County	10	12
Kings County	4	5
Los Angeles County	74	188
Napa County	1	1
Orange County	25	39
Placer County	6	8
Riverside County	27	60
Sacramento County	7	19
San Bernardino County	27	65
San Diego County	17	40
San Francisco County	1	10
San Joaquin County	5	10
San Luis Obispo County	5	6
San Mateo County	16	24
Santa Clara County	11	11
Santa Cruz County	5	6
Solano County	7	15
Sonoma County	10	16
Tulare County	9	24
Ventura County	12	20
Total Included in Counties Sampled	<u>291</u>	<u>606</u>
Total Redevelopment Agencies and Projects	<u>422</u>	<u>759</u>
Percentage of Total in Counties Sampled	68.96%	79.84%

Information from the State Controller's Redevelopment Agency Report for FY 2005-06.

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