

# **SELECTED REDEVELOPMENT AGENCIES**

Review Report

## **ANALYSIS OF ADMINISTRATIVE, FINANCIAL, AND REPORTING PRACTICES**

*July 1, 2009, through June 30, 2010*



**JOHN CHIANG**  
California State Controller

March 2011



**JOHN CHIANG**  
*California State Controller*

March 7, 2011

The Honorable Jerry Brown  
Governor of California  
State Capitol Building, Suite 1173  
Sacramento, CA 95814

The Honorable Darrell Steinberg  
President Pro Tempore of the Senate  
State Capitol, Room 205  
Sacramento, CA 95814

The Honorable John A. Pérez  
Speaker of the Assembly  
State Capitol, Room 219  
Sacramento, CA 95814

The Honorable Robert D. Dutton  
Senate Republican Leader  
State Capitol, Room 305  
Sacramento, CA 95814

The Honorable Connie Conway  
Assembly Republican Leader  
State Capitol, Room 3104  
Sacramento, CA 95814

Dear Governor Brown and Legislative Leaders:

I am pleased to submit to you the final report of the State Controller's Office review of 18 redevelopment agencies in California. The review was conducted to provide the Administration and the Legislature with information that may be useful during the upcoming deliberative process. Our review was conducted to ascertain the degree of the redevelopment agencies' compliance with administrative, financial, and reporting requirements. We also gathered additional data for analyses.

Our review identified eight findings and four observations. A finding is an assessment of the conditions found against certain standards or criteria such as statutory provisions, adopted policies, and established industry practices. An observation is a condition which we believe may be of interest or useful to potential users of the report.

Specific findings include:

- All 18 redevelopment agencies made deposits into the Low and Moderate Income Housing Fund in accordance with statutory requirements.
- Of the 18 redevelopment agencies, 5 failed to deposit a portion of their tax increments into the Supplemental Educational Revenue Augmentation Fund (SERAF). Collectively, the amount was \$33.6 million. On a statewide basis, we identified another three redevelopment agencies that collectively failed to deposit a total of \$7.1 million into the SERAF. As a result, the state General Fund had to make more than \$40 million in backfill payments to meet minimum funding levels for the schools for FY 2009-10.

- Ineligible charges were made against the Low and Moderate Income Housing Fund. These charges were identified through review of a limited number of transactions.
- Questionable charges were made to the RDAs. Again, these charges were identified through a review of a limited number of transactions.
- All of the 18 redevelopment agencies reviewed had reporting deficiencies.
- All of the 18 redevelopment agencies' independent auditors failed to identify major audit violations and did not include all required information in the audit reports.
- The City of Calexico has failed to repay the RDA for principal and interest for a loan.
- Under current legal standards, virtually any condition could be construed to be blight.

Specific observations include:

- The redevelopment agencies do not have a consistent methodology to capture accurate and reliable data regarding the number of jobs created or retained as a result of redevelopment activities.
- Significant variation exists among the redevelopment agencies for how indebtedness is determined.
- Significant differences exist among redevelopment agencies for accounting for planning and general administrative costs.
- Compensation of redevelopment agency officials appears to be in line with other local government officials.

I hope you will find the information contained in this report useful.

Sincerely,

*Original signed by*

JOHN CHIANG  
California State Controller

Governor Brown and Legislative Leaders

March 7, 2011

Page 3

cc: Members of the Legislature

Ana J. Matosantos, Director

California Department of Finance

Mac Taylor, Legislative Analyst

Anderson Redevelopment Agency

City of Desert Hot Springs Redevelopment Agency

City of Palm Desert Redevelopment Agency

Community Development Agency of the City of Coronado

Community Redevelopment Agency of the City of Calexico

Community Redevelopment Agency of the City of Citrus Heights

Community Redevelopment Agency of the City of Los Angeles

Hercules Redevelopment Agency

Parlier Redevelopment Agency

Pasadena Community Development Commission

Placentia Redevelopment Agency

Redevelopment Agency for the County of Riverside

Redevelopment Agency of the City of Fremont

Redevelopment Agency of the City of Fresno

Redevelopment Agency of the City of Pittsburg

Redevelopment Agency of the City of San Jose

Redevelopment Agency of the County of Sacramento

Richmond Redevelopment Agency

John Shirey, Executive Director

California Redevelopment Association

# Contents

## Review Report

<b>Introduction</b> .....	1
<b>Background</b> .....	1
<b>Objective, Scope, and Methodology</b> .....	3
<b>Restricted Use</b> .....	5
<b>Findings and Recommendations</b> .....	6
<b>Observations</b> .....	15
<b>Schedule 1—Redevelopment Agency General Information</b> .....	19
<b>Schedule 2—Redevelopment Agency SERAF Calculation and Payments</b> .....	20
<b>Schedule 3—Redevelopment Agency Reporting Issues</b> .....	21
<b>Schedule 4—Redevelopment Agency Salary Compensation</b> .....	22
<b>Schedule 5—Redevelopment Agency Job Creation</b> .....	24
<b>Schedule 6—Redevelopment Agency Statement of Indebtedness (SOI)</b> .....	25
<b>Schedule 7—Redevelopment Agency Low and Moderate Income Housing Fund Administration Expenditures</b> .....	26
<b>Appendix A—Excerpts from Health and Safety Code</b> .....	27
<b>Appendix B—Specific Agency Responses to Report Findings</b> .....	29
<b>Appendix C—General Comments Made by Redevelopment Agencies</b> .....	34

# Review Report

## Introduction

For the fiscal year (FY) 2011-12 Budget, the Governor has proposed to dissolve redevelopment agencies (RDAs) and distribute their funds (above the amount necessary to pay outstanding debts) to other local agencies. The proposal has met significant opposition as the RDAs and local governments have asserted that the RDAs are an essential tool to promote local economic development in blighted urban areas.

Recognizing the significant policy and fiscal implications associated with this proposal, the State Controller has directed Division of Audits' staff to conduct a review to gather relevant data and provide analyses that may be useful to the California Legislature and the Executive Branch during the upcoming deliberative process.

The review is limited in scope and does not constitute an audit in accordance with generally accepted auditing standards. This review was conducted pursuant to the State Controller's authority under Government Code section 12410.

## Background

The California Community Redevelopment Act of 1945 enables any city or county to establish a redevelopment agency to combat urban blight that hinders private development and growth within a community. The redevelopment agencies cannot levy taxes to eliminate blight; therefore, they incur debt to finance operations.

In 1951, when the Legislature re-codified the various redevelopment laws as the Community Redevelopment Law, it provided for tax increment financing. The following year, voters ratified this action by passing a state constitutional amendment authorizing the distribution of property tax revenues to redevelopment agencies from increased assessed values in project areas. The rationale behind supporting the amendment was to relieve taxpayers of the costs of redevelopment by making projects self-supporting. Property tax increment financing is based on the assumption that a revitalized project area will generate more property taxes than were being generated before redevelopment.

The general purpose of redevelopment is to eliminate "blight." California Health and Safety Code section 33020 states:

"Redevelopment" means the planning, development, replanning, redesign, clearance, reconstruction, or rehabilitation, or any combination of these . . . and the provision of those residential, commercial, industrial, public, or other structures or spaces as may be appropriate or necessary in the interest of the general welfare, including recreational and other facilities incidental or appurtenant to them.

A blighted area must be predominantly urbanized, meaning that at least 80% of the land in the project area (1) has been or is developed for urban uses, or (2) is an integral part of an urban area, surrounded by developed parcels. Additionally, a blighted area must have at least one of four conditions of physical blight and at least one of seven conditions of economic blight.

Health and Safety Code section 33030(b) states:

A blighted area is one that contains both of the following:

(1) An area that is predominantly urbanized, as that term is defined in Section 33320.1, and is an area in which the combination of conditions set forth in Section 33031 is so prevalent and so substantial that it causes a reduction of, or lack of, proper utilization of the area to such an extent that it constitutes a serious physical and economic burden on the community that cannot reasonably be expected to be reversed or alleviated by private enterprise or governmental action, or both, without redevelopment.

(2) An area that is characterized by one or more conditions set forth in any paragraph of subdivision (a) of Section 33031 and one or more conditions set forth in any paragraph of subdivision (b) of Section 33031.

(c) A blighted area that contains the conditions described in subdivision (b) may also be characterized by the existence of any of the following:

- (1) Inadequate public improvements.
- (2) Inadequate water or sewer utilities.
- (3) Housing constructed as a government-owned project that was constructed before January 1, 1960.

Health and Safety Code section 33031 states:

(a) This subdivision describes physical conditions that cause blight:

(1) Buildings in which it is unsafe or unhealthy for persons to live or work . . . .

(2) Conditions that prevent or substantially hinder the viable use or capacity of buildings or lots . . . .

(3) Adjacent or nearby incompatible land uses that prevent the development of those parcels or other portions of the project area.

(4) The existence of subdivided lots that are in multiple ownership and whose physical development has been impaired by their irregular shapes and inadequate sizes, given present general plan and zoning standards and present market conditions.

(b) This subdivision describes economic conditions that cause blight:

(1) Depreciated or stagnant property values.

(2) Impaired property values, due in significant part, to hazardous wastes on property . . . .

(3) Abnormally high business vacancies, abnormally low lease rates, or an abnormally high number of abandoned buildings.

(4) A serious lack of necessary commercial facilities that are normally found in neighborhoods, including grocery stores, drug stores, and banks and other lending institutions.

(5) Serious residential overcrowding that has resulted in significant public health or safety problems . . . .

(6) An excess of bars, liquor stores, or adult-oriented businesses that has resulted in significant public health, safety, or welfare problems.

(7) A high crime rate that constitutes a serious threat to the public safety and welfare.

A redevelopment agency cannot levy a tax. Instead, a redevelopment agency receives its funding from tax increment revenues. Tax increment revenues are revenues generated by the increase in the value of property within the redevelopment project over the value of the property when the project was established (base value). The California Supreme Court described the process as follows:

Under tax increment financing, “[a]ll taxable property within the area to be redeveloped is subject to ad valorem taxes. The properties lying within a redevelopment area have a certain assessed value as of the date a redevelopment plan is adopted. A local taxing agency, such as a city or county, continues in future years to receive property taxes on the redevelopment area properties, but may only claim the taxes allocable to the base year value. If the taxable properties within the redevelopment area increase in value after the base year, the taxes on the increment of value over and above the base year value are assigned to a special fund for the redevelopment agency. . . .

Once the redevelopment plan is adopted, the redevelopment agency may issue bonds to raise funds for the project. As the renewal and redevelopment is completed, the property values in the redevelopment area are expected to rise. The taxes attributable to the increase in assessed value above the base year value are assigned to the redevelopment agency, which then uses the funds to retire the bonds. The local taxing agencies still receive taxes attributable to the base year assessed value of the properties within the redevelopment area.

Redevelopment agencies are subject to a number of administrative, financial, and reporting requirements. These specific requirements are discussed in the Findings and Recommendations section of this report.

## **Objective, Scope, and Methodology**

The objective of our review was to ascertain the agencies’ degree of compliance with administrative, financial, and reporting requirements and to gather relevant data for analyses. As the review was conducted within a short timeframe (approximately five weeks) in order to provide timely information, the scope of our review was limited to a sample of 18 RDAs (as listed on Schedule 1) that were selected based on the following objectives:

- Meaningful sample size, giving us insight into the financial practices and activities of RDAs throughout the State (the 18 selected represent 16% of all redevelopment dollars in FY 2008-09).
- Geographic balance (one Northern California, five Bay Area, four Central Valley, two Los Angeles, three Inland Empire, and three other Southern California).
- Diversity of RDAs serving urban, suburban, and rural areas.
- Seek cost and time efficiencies so that the review could be completed in a timely manner.

Although this is not a statistically valid random sample, the tax increments generated by the 18 RDAs represented approximately 16% of all RDA tax increments for FY 2008-09 (latest available published data).



We believe the evidence obtained provides a reasonable basis for the findings and observations noted in this report.

Our review was limited to information and records for FY 2009-10.

To accomplish our objectives, we performed the following procedures:

- Reviewed the agencies' financial statements.
- Reviewed agency redevelopment reports, plans, and budgets.
- Made inquiries of employees regarding agency operations and reports.
- Reviewed agency general ledger detail trial balance reports.
- Selectively analyzed accounts, such as low- and moderate-income housing funds, from the above ledgers.
- Obtained and reviewed other reports and data such as those developed by the Legislative Analyst's Office and the California Redevelopment Association.
- Obtained and analyzed other relevant data, such as:
  - Job creation data maintained by the RDAs
  - Compensation of key RDA officials
  - Percentage of expenditures incurred for administrative functions and activities
- Identified how "blight" was defined or determined by the RDAs.
- Determined compliance with reporting requirements.
- Identified the nature and amount of ineligible or questionable uses of RDA funds.

#### Allegation of Improprieties at Hercules Redevelopment Agency

At the outset of our review, it was brought to our attention that there were numerous concerns that stemmed from financial dealings of several former key employees of the City of Hercules and the RDA. These individuals, as well as numerous key staff of the RDA, are no longer employed by the RDA. It is understood that these issues are being investigated at several levels. These matters are beyond the scope of our review. While the current RDA staff made available all requested records at their disposal, the absence of staff knowledgeable with practices and transactions occurred during our review period posed a possible concern about scope limitation with respect to Hercules RDA.

In the audited financial statements for Hercules Redevelopment Agency, the independent auditor raised questions about the viability of the RDA's ability to continue as a going concern. The auditor noted the RDA's Operating Special Revenue Fund and Affordable Housing Special Revenue Fund also had fund deficits of \$8,054,833 and \$2,173,320, respectively, as of June 30, 2010. According to the RDA's projection, its total revenues (including tax increments) will not be sufficient to service

its bond debt for FY 2010-11 and in the foreseeable future. The financial viability of Hercules Redevelopment Agency is beyond the scope of our review.

Besides Hercules Redevelopment Agency, there are four other RDAs in our sample that may be experiencing financial difficulties or cash flow problems as they were unable to deposit a portion of their tax increments into the Supplemental Education Augmentation Fund as required by statute (see Finding 2 of this report).

## **Restricted Use**

This report is solely for the information and use of the redevelopment agencies, Governor's Office, California Legislature, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

March 7, 2011

# Findings and Recommendations

**FINDING 1—**  
*RDAs made deposits into the Low and Moderate Income Housing Fund in accordance with statutory requirements. (Schedule 7)*

Section 33334.2 of the Health and Safety Code requires each redevelopment agency (RDA) to deposit 20% of its tax increment into a Low and Moderate Income Housing Fund (LMIHF) to increase, improve, and preserve the supply of low- and moderate-income housing within the territorial jurisdiction of the agency. For 2 of the 18 RDAs in our sample, Pasadena Community Redevelopment Commission and Redevelopment Agency of the City of Pittsburg, special legislation was enacted that allowed them to deposit less than 20% into LMIHF.

Our review found that all 18 RDAs made the required deposits into LMIHF.

## Recommendation

None. The RDAs have complied with the LMIHF requirement by depositing the appropriate amounts into the fund.

**FINDING 2—**  
*Some RDAs failed to deposit a portion of their tax increments into the Supplemental Educational Revenue Augmentation Fund. (Schedule 2)*

For fiscal year (FY) 2009-10, five of the eighteen RDAs in our sample failed to deposit funds into the Supplemental Educational Augmentation Fund (SERAF); an aggregate total of approximately \$33.6 million. Four of the RDAs indicated that they did not have sufficient funds to make the required deposit into SERAF. Officials from the Redevelopment Agency for the City of Pittsburg indicated that they had made a conscious decision to not make the required deposit due to the RDA having insufficient funds to make the payment.

In 2009, the Legislature enacted AB X4 26 (Chapter 21, Statutes of 2009) which requires the RDAs to remit to the county auditor a portion of their tax increment for FY 2009-10 and FY 2010-11 for deposit into the SERAF for allocation to schools wholly or partially within the area of a redevelopment project. The intent of the statute was to reduce the State's obligation to backfill shortfall in education funding by \$1.7 billion in FY 2009-10 and \$350 million in FY 2010-11. When available property tax revenues are insufficient to meet minimum annual funding levels for K-12 schools and community college districts, the State must make up the difference. The amounts to be transferred to the SERAF were to be calculated by the Department of Finance based on the 2006-07 Controller's Community Redevelopment Agencies Annual Report.

When an RDA does not have sufficient funds to make the required deposits into the SERAF, the Legislature enacted another law (SB 68, Chapter 652, Statutes of 2009) that enables an RDA to borrow funds from the agency's LMIHF to make the payments. The RDA also may enter into an agreement with the legislative body (e.g., a city council) of the local jurisdiction to fund any deficient amount. AB X4 26 also prescribed various sanctions when an RDA fails to make the required SERAF deposit by May 10<sup>th</sup> of the fiscal years when the payment is due. Examples of sanctions, which are to be continued until the SERAF payment is made, include:

- The agency shall be prohibited from adding new project areas or expanding existing project areas.
- The agency shall be prohibited from issuing new bonds, notes, interim certificates, debentures, or other obligations, whether funded, refunded, assumed, or otherwise.
- With certain exceptions, the agency shall be prohibited from encumbering any funds or expending any funds.
- Limiting the monthly operation and administrative costs of the agency to not exceed 75% of the average monthly expenditure for those purposes in the fiscal year preceding the fiscal year in which the agency failed to make the payment.

An agency that failed to make the required payment is required to deposit an additional 5% into its Low and Moderate Income Housing Fund for as long as the agency receives tax increment moneys.

The above sanctions resulting from the failure to deposit the required set-aside became effective July 1, 2010.

In addition to the five RDAs identified as having failed to deposit funds into the SERAF (included in the sample of 18 RDAs), a review of records maintained by the Department of Finance identified another three RDAs that failed to submit an aggregate total of an additional \$7.1 million in SERAF payments.

The net effect of the RDAs' failure to make the required SERAF payments was that the State General Fund had to make more than \$40 million in backfill payments to meet the required K-12 schools and community college districts minimum funding levels for FY 2009-10.

#### Recommendation

The RDAs should comply with statute by making the required SERAF payments. If the RDA is unable to pay, it could borrow funds from the LMIHF or make arrangements with the governing body of the local jurisdiction to fund the deficit.

**FINDING 3—**  
***Ineligible charges were made to the Low and Moderate Income Housing Fund.***

The following Health and Safety Code sections prescribe general guidelines governing fund usage for the Low and Moderate Income Housing Fund:

Section 33334.3(c) states:

The moneys in the Low and Moderate Income Housing Fund shall be used to increase, improve, and preserve the supply of low- and moderate-income housing within the territorial jurisdiction of the agency.

Section 33334.3(d) states:

It is the intent of the Legislature that the Low and Moderate Income Housing Fund be used to the maximum extent possible to defray the costs of production, improvement, and preservation of low- and

moderate-income housing and that the amount of money spent for planning and general administrative activities associated with the development, improvement, and preservation of that housing not be disproportionate to the amount actually spent for the costs of production, improvement, or preservation of that housing. The agency shall determine annually that the planning and administrative expenses are necessary for the production, improvement, or preservation of low- and moderate-income housing.

Section 33334.3(e)(1) states:

Planning and general administrative costs which may be paid with moneys from the Low and Moderate Income Housing Fund are those expenses incurred by the agency which are directly related to the programs and activities authorized under subdivision (e) of Section 33334.2 and are limited to the following:

- (A) Costs incurred for salaries, wages, and related costs of the agency's staff or for services provided through interagency agreements, and agreements with contractors, including usual indirect costs related thereto.
- (B) Costs incurred by a nonprofit corporation which are not directly attributable to a specific project.

We found the following to be ineligible charges to LMIHF. These items were identified through a very limited review of transactions and a more thorough audit could uncover additional ineligible charges.

- The City of Los Angeles charged 20% or approximately \$883,000 of the county's Administrative Fee to the LMIHF during FY 2009-10. The fee is not directly related to low and moderate income housing activities. According to the RDA's Chief Financial Officer, this practice has been in existence for several years.
- The City of Parlier charged costs associated with purchasing a building for a city-run daycare center to the LMIHF
- The City of Hercules made \$38,400 in payments to a lobbyist out of RDA funds; \$9,600 of which was charged to the LMIHF. The \$9,600 in charges is not directly related to low- and moderate-income housing activities.
- The City of Hercules charged the LMIHF approximately \$19,200 for code enforcement. The costs of code enforcement officers are not directly related to LMIHF.
- The City of Calexico allocated a percentage of the RDA's annual audit costs to the LMIHF. The allocation/charges were approximately \$2,050. The RDA is required to have an annual independent audit performed and such costs are not directly related to LMIHF.
- The City of Desert Hot Springs charged the LMIHF approximately \$162,600 for code enforcement. The costs of code enforcement officers are not directly related to LMIHF.

#### Recommendation

The RDAs should reimburse the LMIHF for all ineligible charges.

**FINDING 4—**  
***Most RDAs charged expenditures that were questionable.***

We found most of the 18 redevelopment agencies in our review sample included one or more of the following:

- A portion of the compensation of the mayor, city manager, city council members, and other staff members
- Total compensation of certain designated staff members such as code enforcement officers and police officers
- The cost of the local government's administrative overhead

With the exception of the LMIHF, there is no statutory provision governing what constitutes appropriate charges. The local governments may charge the RDAs for costs of services provided to the RDA as long as such costs are necessary, reasonable, and documented. Through a very limited review of transactions, we identified the following charges that appeared to be questionable. These charges may be legitimate if the RDAs are able to provide the basis and documentation to demonstrate that they are necessary and reasonable.

**Redevelopment Agency of the City of Pittsburg**

- Lack of documentation as to what service was provided. The RDA transferred \$3,000,000 to the city General Fund based solely upon an agreement signed in October 2009. The agreement contains a maximum amount of \$12,500,000 to be paid to the city. The agreement describes in general terms the services to be provided by the city. The agreement does not require the city to document the costs incurred in providing those services. Thus, there is no way of determining if the city provided any of the services.
- Undocumented loan of \$16,606,000 from the RDA to the city. The amount was transferred during FY 2009-10 from the RDA to the city for specified projects. At the end of FY 2009-10, the unexpended balance for those projects was \$15,446,574. With such a large balance in the city General Fund, the RDA is losing interest which should accrue to the agency. Some of the projects are not expected to start for another one or two years. This is tantamount to an undocumented, interest-free loan from the RDA to the city.

**Redevelopment Agency of the City of San Jose**

- The City of San Jose charged 25% of the salary and fringe benefits of the mayor, the 12 members of the city council, and 40 city council staff members to the RDA. We have inquired about the basis for the charge but no explanation has been provided to date.
- The City of San Jose charged an indirect cost rate of 147.26% to the RDA for FY 2009-10, according to the City of San Jose's city-wide cost allocation plan. All other city departments' indirect cost rates varied from 20.04% (housing) to 96.49% (traffic maintenance). When questioned by the SCO auditor, the city did not provide an explanation for the variance in the indirect cost rates charged to the RDA and those charged to other departments.

### Recommendation

The RDAs should review these charges to ensure that the services were necessary and reasonable to carry out the operations, functions, and activities of the RDAs. Otherwise, the amounts should be immediately returned to the RDA funds with interest.

**FINDING 5—**  
***All of the 18 RDAs reviewed had reporting deficiencies. (Schedule 3)***

Health and Safety Code section 33080.1 requires each redevelopment agency to file an annual report with its legislative body within six months of the end of the agency's fiscal year. The code specifies the contents of the annual report include:

- The financial statement audit
- A fiscal statement for the previous fiscal year (Health and Safety Code section 33080.5)
- A description of the agency's activities in the previous fiscal year affecting housing and displacement (Health and Safety Code sections 33080.4 and 33080.7)
- A description of the agency's progress, including specific actions and expenditures, in alleviating blight in the previous fiscal year
- A list of, and status report on, all loans that are \$50,000 or more, that in the previous fiscal year were in default, or not in compliance with the terms of the loan
- A description of the total number and nature of the properties that the agency owns and those properties the agency has acquired in the previous fiscal year
- A list of the fiscal years that the agency expects specified time limits of the plans to expire
- Any other information that the agency believes useful to explain its programs, including, but not limited to, the number of jobs created and lost in the previous fiscal year as a result of its activities

Health and Safety Code section 33606 requires a redevelopment agency to adopt an annual budget containing the following information including all the activities to be financed by the Low and Moderate Income Housing Fund:

- The proposed expenditures of the agency
- The proposed indebtedness to be incurred by the agency
- The anticipated revenues of the agency
- The work program for the coming year, including goals
- An examination of the previous year's achievements and a comparison of the achievements with the goals of the previous year's work program

While we could find examples where portions of the annual report were well prepared more often than not, the annual report was either poorly prepared or non-existent. In other instances, we found that portions of the annual report were given piecemeal to the legislative body and not as a cohesive whole. None of the 18 agencies reviewed met the full requirements of the annual report.

Examples include:

- The fiscal statement was not prepared (see Appendix A). While the information was available and may be included with other information given to the legislative body, such as in the State Controller's Annual Report, it was not presented as a cohesive whole report. Furthermore, Health and Safety Code section 33080.8(j)(2) defines not preparing the fiscal statement to be a major audit violation that needs to be corrected.
- The housing information required by the Health and Safety Code (Appendix A) as part of the annual report was not presented to the legislative body. Some of the reports presented to the legislative body included the required housing report to Housing and Community Development. It contained much of the required housing information but it is extremely difficult to extract or analyze the data by anyone not familiar with the report. One agency prepared a separate housing report which appeared to meet the housing report requirements, but then rather than present it to the legislative body as part of an annual report, it was merely put into their mail boxes.
- The agencies did not disclose or report the date and amount of all deposits and withdrawals of moneys deposited to and withdrawn from the Low and Moderate Income Housing Fund (Health and Safety Code section 33080.4(a)(11)). The information was available in the accounting ledgers but was not disclosed or reported in the annual report.
- Most redevelopment agency budgets did not include all the information required by the Health and Safety Code. While all budgets included revenue and expenditure data, the work program and examination of the previous year's achievements and a comparison of the achievements with the goals of the previous year's work program was most often missing.

#### Recommendation

RDAs should provide their employees with sufficient training regarding state reporting and budgeting requirements.



**FINDING 6—**  
***Independent audits failed to identify major audit violations and did not include all required information.***

Health and Safety Code section 33080.1 requires RDAs to submit an independent audit report of its activities to its legislative body.

... The audit report shall meet, at a minimum, the audit guidelines prescribed by the Controller's office pursuant to Section 33080.3 and also include a report on the agency's compliance with laws, regulations, and administrative requirements governing activities of the agency, and a calculation of the excess surplus in the Low and Moderate Income Housing Fund as defined in subdivision (g) of Section 33334.12.

Our review of the independent audit reports disclosed that only two audit reports included the required excess surplus calculation.

As noted above, the audit is also required to include a report on the agency's compliance with laws, regulations, and administrative requirements. Our review of all 18 agencies' independent audit reports noted that the auditors did not disclose non-compliance with laws, regulations, and administrative requirements when it existed. In some reports where the auditor disclosed instances of non-compliance, not all instances were disclosed.

For example, based upon our review of agency reports, as discussed in Finding 5, we found that the RDAs did not prepare a fiscal statement. Health and Safety Code section 33080.8(j)(2) defines this as a major audit violation which must be corrected. The independent audit report on compliance did not disclose this major audit violation. We also noted that some RDAs did not have a current five-year implementation plan as required by the Health and Safety Code. This, again, is a major audit violation as defined in Health and Safety Code section 33080.8 (j)(9) that the independent audit report did not disclose.

**Recommendation**

The RDAs are required to comply with existing laws and reporting requirements. Accordingly, the RDAs must ensure compliance with the Guidelines for Compliance Audits for California Redevelopment Agencies. Additionally, the RDAs should monitor their independent CPAs to ensure that compliance issues are disclosed in their audit reports.

The State Controller's Office is currently working with representatives from the California Redevelopment Association and the California Society of CPAs to revise and update the current guidelines. Additionally, quality control reviews should be performed to ensure compliance.

**FINDING 7—**  
***The City of Calexico has failed to repay the RDA for principal and interest for a loan.***

On December 22, 1993, the Community Redevelopment Agency of the City of Calexico (RDA) loaned \$1,750,000 to the City of Calexico. The loan was to be repaid in seven installments commencing on June 30, 1995. Simple interest was to accrue at the rate of 6% per annum from the date the funds were disbursed. Repayment of the loan was to be made from Public Facilities Impact Fees. If the fees were insufficient to make the required payments for successive years, the term of the loan was automatically extended for additional year(s) until the entire amount owed was paid.

The city did not make the June 30, 1995 payment and then paid the June 30, 1995 payment in June 1996. Based upon information made available to us, no further payment was made until 2001 when a \$75,000 principal payment was made. In addition, no other documented payments were made until 2009 which totaled \$956,524.

On May 11, 2004, the RDA board voted to reduce the interest rate on the loan from 6% to 1.42% per annum—presumably the Local Agency Investment Fund return rate.

The amortization schedule presented to us purports to show that the loan was paid in total in 2009. However, the payment documentation presented to us indicates there is a unpaid principal and accumulated simple interest balance of \$1,102,726 due the RDA.

Recommendation

The city should pay the principal and interest on the outstanding loan to the RDA.

**FINDING 8—**  
***Under current legal standards, virtually any condition could be construed to be blight.***

This finding was presented as Observation 2 in the draft report. Based on Palm Desert RDA’s response, we have recategorized it as a finding. The basis for the recategorization is in the response section of this report.

Under Health and Safety Code sections 33030(b) and 33031, the RDAs have considerable discretion in determining what constitutes a blight condition. Among the 18 RDAs reviewed, there was no consensus regarding the definition of “blight” as what appears as blight to one may not be so to another. For example, the City of Coronado’s project area includes all privately owned property within the city’s limits which includes oceanfront properties among multi-million dollar homes. On the other hand, the Community Redevelopment Agency of the City of Los Angeles has project areas located in south Los Angeles which is rife with vacant and abandoned buildings, high crime rates, and significant unemployment. It appears that the RDAs have interpreted these Health and Safety Code sections to give them considerable discretion in determining what constitutes “blight.”

The following provides an example how blight is being identified and addressed at the Palm Desert Redevelopment Agency:

The City of Palm Desert established the Palm Desert Redevelopment Agency in 1974. The agency’s first project area was adopted in July 1975. Since then the agency has adopted three additional project areas.

The four adopted redevelopment project areas encompass an estimated 11,964 acres or more than 50% of the city's incorporated territory. Redevelopment began as a way for the community to pay for costly flood control channels to protect Palm Desert residents from floods that destroyed neighborhoods and hindered future development. Since then the agency has accomplished numerous redevelopment, development, and infrastructure projects that have undoubtedly made the city a hub for commerce and development in the Coachella Valley.

With a city population of approximately 52,000 residents, the Palm Desert RDA receives the tenth highest amount of tax increment in the state according to the Legislative Analyst's Office, or approximately \$89 million in FY 2009-10. As of June 30, 2010, the agency had a fund balance of \$242 million, or \$4,666 for every city resident.

According to its five-year implementation plan for FY 2009-10 through FY 2013-14, the Palm Desert RDA allocated a total of \$16.7 million on projects related to the Desert Willow Golf Resort, a premier public golf resort that was voted 4½ stars, "Best Places to Play," by Golf Digest Magazine; the Los Angeles Times' "Southern California Top Ten Places to Play"; and a Palm Springs Life magazine's "Best Public Course." Projects range from the renovating of the golf greens to building a hotel at the golf resort. The following is the description in the five-year implementation plan for the \$909,462 allocated to the renovation project:

The Project will provide for renovation of all 18 greens, reshape greenside bunkers and fairway bunkers, install new bunker drainage improvements, bunker liners, new sand, and restoration of all lake edges.

In the five-year implementation plan, "public improvement" was cited as the blighting condition that was being addressed. This appears to be inconsistent with the intent of the Health and Safety Code in addressing the elimination of blight.

In response to our draft report, the RDA asserted that the definition of "redevelopment" in the Community Redevelopment Law specifically includes the provision of recreational facilities (Health and Safety Code section 33020). However, in order to incur expenditures under Health and Safety Code section 33020, the area must be blighted. The fact that the RDA continues to insist that a 4½ star golf course to be blighted further illustrates our point that virtually any condition could be construed to be blighted. Moreover, the renovation of all 18 greens, reshaping of greenside bunkers and fairway bunkers, new bunker drainage improvements, bunker liners, new sand, and restoration of all lake edges to maintain the publicly owned golf course is in violation of Health and Safety Code section 33445(a)(3) which prohibits RDAs from paying normal maintenance or other improvement of publicly owned facilities.

#### Recommendation

Palm Desert RDA should seek reimbursement for funds spent on ineligible maintenance activities for the Desert Willow Golf Resort.

# Observations

During the course of our review, we noted issues relating to the redevelopment agencies' administrative, financial, and reporting practices that merit consideration, and may be useful to State policy makers. Therefore, we are presenting these issues as observations for consideration.

**OBSERVATION 1—**  
*The RDAs are not required to have a consistent methodology to capture accurate and reliable data regarding the number of jobs created or retained as a result of redevelopment activities. (Schedule 5)*

A study commissioned by the California Redevelopment Association concluded that redevelopment projects and activities attributed to Redevelopment Agencies (RDAs) were responsible for supporting the employment of 303,946 individuals. The Legislative Analyst's Office questioned the validity of the study sample, the study methodology, and the objectivity of the CRA study, as it was not validated by an independent source.

As a part of our review, we attempted to gather and analyze employment data from the sample of 18 RDAs to determine the reasonableness of the conclusions generated by the California Redevelopment Association study. Based on analysis of data gathered, we have concluded that it is not possible to make a meaningful comparison between the California Redevelopment Association study numbers and the RDA numbers due to differences in methodology used and other variables that affect comparability. For example, using the formula of the California Redevelopment Association study group, the Andersen RDA calculated a total of 176 jobs created as a result of redevelopment projects over a five-year period from FY 2005-06 through FY 2009-10. The figure reportedly included jobs created directly and indirectly through suppliers during construction, a multiplier effect throughout the economy, and generally-improved economic conditions. Using city information about payroll during construction and by the resulting new businesses, the RDA calculated a total of 51.5 in "direct full-time equivalent jobs" created during construction and 11 new jobs that resulted from the projects over the same five-year period. It should be noted that the 51.5 construction jobs were temporary in nature and there was no indication as to how long the projects lasted. We have no means to reconcile the significant difference between the two calculations.

In addition, we identified the following factors that precluded meaningful comparison between the RDAs' numbers and the California Redevelopment Association study numbers in jobs created:

- Of the 18 RDAs in our sample, 8 did not maintain data to show the number of jobs created from redevelopment activities. In response to our inquiry, two RDAs provided estimated job numbers that are not easily or reasonably verifiable.

For example, a City of Parlier official stated that the city did not know how many jobs had been generated by the RDA "because almost the entire City is under the RDA, so almost any job from businesses in the City are generated by RDA." After the issuance of the draft review report, the city provided a listing of 1,193 jobs that had been created over the last ten years including one at the taxi company, five each at ten different apartment complexes as well as approximately

418 full-time and seasonal jobs at the industrial park. The city did not provide a methodology explaining how it determined the number of jobs created.

- For four of the ten RDAs that provided data, it is unclear as to what methodology was used to calculate job creation. For example, the Community Redevelopment Agency of the City of Calexico provide a memo dated February 15, 2011, from the Executive Director to the Board indicating that 2,697 jobs had been created from 2004 through 2009 without providing any explanation as to how the number was determined.
- Each of the six remaining RDAs employed a different methodology in calculating job creation numbers. For example, the City of Citrus Heights' Redevelopment Agency surveyed new businesses while the Redevelopment Agency of the City of Fresno uses a calculator based on the Bureau of Labor's statistics methodology. The Redevelopment Agency of the County of Riverside used projections provided by the project developer as the basis for its numbers.
- There appears to be a significant variation as to what constitutes a job creation as some RDAs made no distinction between full-time, part-time, or temporary jobs. For example, The Redevelopment Agency of the City of Fresno recognized the temporary nature of construction jobs and converted them into full-time equivalent jobs. Meanwhile, the City of Desert Hot Springs' RDA identified 1,183 jobs created for fiscal years 2008-09 and 2009-10 through employment records and construction permits issued. The RDA counted every job in the project as a job created without taking into consideration the temporary nature of construction jobs. Conceivably, a construction worker who worked on multiple jobs could be counted as multiple jobs created during the year.

Under current state laws, the RDAs are not required to track the number of jobs created. However, such information is requested by the SCO for inclusion in the Community Redevelopment Agencies Annual Report. Moreover, given the magnitude of public funds spent on redevelopment activities, such data should be one of critical performance measures.

Schedule 5 provides data provided by the 18 RDAs in the sample on jobs created by the RDA. Also, the schedule provides information on the RDAs' method of calculating the number of jobs created as well as the time period in which they were created.

**OBSERVATION 2—**  
***Significant variations exist among RDAs for how indebtedness is determined. (Schedule 6)***

An RDA must show that it has debt in excess of its available revenues in order to be eligible to receive tax increment revenues. Annually, each RDA is to submit to the State Controller's Office and the County Auditor/Controller's Office a Statement of Indebtedness (SOI) to show the amount of current and future redevelopment project debts. In the SOI, the RDA is to include actual debts such as bond debts, related interests, and notes payable. In addition, by statute (Health and Safety Code section 33675), and the instructions provided by the State Controller's Office for the preparation of the SOI, the RDAs should include in the SOI its current and future obligation to make pass-through payments to affected taxing agencies under the assumption that it will continue to operate as a going concern entity.

We also found that agency practices vary when preparing the SOI. Some agencies only include bonded debt and interest payments and only current year pass-through and low- and moderate-income housing obligations. Other agencies also included the SERAF obligation, total estimated pass-through obligations for the life of the project, total estimated 20% low- and moderate-income housing obligations, disposition and development agreement obligations, reimbursement obligations, notes payable, advances payable, and any other debt for which the agency is responsible.

Schedule 6 provides the amount of indebtedness reported in the SOI of the 18 RDAs in our sample. The 18 RDAs collectively reported more than \$12 billion in future debts against a total of \$2.37 billion in reserved and unreserved fund balances. However, if all of the RDAs were terminated immediately, the total debt amount would be reduced by the estimated future obligations for which the RDAs would no longer be liable. For FY 2008-09, the latest year for which information is available from the State Controller's *Community Redevelopment Agencies Annual Report*, Low/Moderate Income Housing Fund debt from the SOI is \$16,960,797,534, virtually all of which is future LMIHF obligations. Other Indebtedness is \$20,690,503,278, virtually all of which is future pass-through obligations.

**OBSERVATION 3—**  
***Significant differences exist among RDAs for accounting for planning and general administrative costs. (Schedule 7)***

The percentage of Low and Moderate Income Housing Funds used for planning and general administrative costs in any given year may not be a valid indication of the RDA's spending practice because of the flow and timing of project expenditures.

Schedule 7 provides the percentage of each RDA's planning and general administrative costs in its Low and Moderate Income Housing Fund (LMIHF) for FY 2009-10. The schedule contains two calculations; one is the percentage of administrative costs in relationship to the total amount allocated to LMIHF for the year and the other one is the percentage of administrative costs in relationship to LMIHF expenditures for the year. The schedule shows significant variation among the 18 RDAs in both categories:

- Percentage based on amount allocated to LMIHF—the percentage ranged from 0% at Parlier Redevelopment Agency to 87.51% at the Community Redevelopment Agency of the City of Calexico.

- Percentage based on LMIHF expenditures—the percentage ranged from 0% at Parlier Redevelopment Agency to 82.20% at Richmond Redevelopment Agency.

The primary cause of the variation is the timing difference between when the funds were deposited into LMIHF and how and when the funds were actually spent. Some projects may take years of planning before the housing projects are underway. Thus, the administrative cost percentages in earlier years would be artificially high until the project began. In the case of the Community Redevelopment Agency of the City of Calexico, the administrative percentage was exceedingly high in FY 2009-10 because the RDA's expenditures of \$4,328,953 were 408% of its LMIHF allocation of \$1,060,750 for the year.

For the City of Richmond, the 82.20% appears to be an aberration. For the two previous years, the total LMIHF expenditures were \$4,668,430 and \$7,825,372. Using the current administrative costs as a base, the respective percentages would be 31.07% and 18.53%.

Therefore, a review of administrative cost percentage on a project-by-project basis would provide a more meaningful analysis than the annual percentages.

**OBSERVATION 4—**  
***Compensation of RDA***  
***officials appears to be in***  
***line with other local***  
***government officials.***  
***(Schedule 4)***

Of the 18 agencies reviewed, there was significant disparity in compensation levels and the manner in which salaries and benefits were allocated. Several agencies reviewed allocated a percentage of general government personnel costs to the RDA. A list of the RDAs reviewed and the compensation for the most highly-paid personnel is included on Schedule 4.

**Schedule 1—  
Redevelopment Agency General Information  
July 1, 2009, through June 30, 2010**

Redevelopment Agency Name	City or County	Population	Inception Date of RDA	Number of Project Areas Reviewed	2009-10 Annual Tax Increment Received	Total Expenditures <sup>1</sup>	Fund Balance at June 30, 2010 <sup>2</sup>
Anderson Redevelopment Agency	City of Anderson	10,826	1995	1	\$ 1,100,189	\$ 1,727,850	\$ 3,315,042
City of Desert Hot Springs Redevelopment Agency	City of Desert Hot Springs	26,811	1982	2	5,231,174	15,019,544	26,648,075
City of Palm Desert Redevelopment Agency	City of Palm Desert	52,067	1975	4	89,106,443	80,021,798	242,324,155
Community Development Agency of the City of Coronado	City of Coronado	23,916	1985	1	15,789,190	12,607,284	20,481,122
Community Redevelopment Agency of the City of Calexico	City of Calexico	45,365	1952	1	5,303,749	4,805,349	16,693,824
Community Redevelopment Agency of the City of Citrus Heights	City of Citrus Heights	88,115	1997	1	4,259,087	3,034,301	14,404,470
Community Redevelopment Agency of the City of Los Angeles	City of Los Angeles	4,094,764	1948	34	272,015,911	160,671,000	593,175,000
Hercules Redevelopment Agency	City of Hercules	24,693	1982	3	10,405,553	44,370,352	28,407,363
Parlier Redevelopment Agency	City of Parlier	13,658	1978	1	1,542,703	1,600,094	7,280,344
Pasadena Community Development Commission	City of Pasadena	151,576	1959	8	28,582,529	8,841,863	55,167,669
Placentia Redevelopment Agency	City of Placentia	52,305	1982	1	2,373,459	1,755,330	2,175,478
Redevelopment Agency for the County of Riverside	County of Riverside	2,139,535	1984	5	99,329,906	168,494,874	477,814,815
Redevelopment Agency of the City of Fremont	City of Fremont	218,128	1976	4	37,310,760	45,420,913	73,280,846
Redevelopment Agency of the City of Fresno	City of Fresno	502,303	1956	19	22,064,725	24,096,856	60,561,728
Redevelopment Agency of the City of Pittsburg	City of Pittsburg	64,967	1958	5	34,813,259	40,903,162	112,363,559
Redevelopment Agency of the City of San Jose	City of San Jose	1,023,083	1956	21	202,409,336	190,106,164	189,498,931
Redevelopment Agency of the County of Sacramento	County of Sacramento	1,445,327	1974	5	13,119,119	11,238,650	72,001,814
Richmond Redevelopment Agency	City of Richmond	105,630	1949	10	18,559,284	13,406,063	55,400,688
<b>Total</b>					<b>\$ 863,316,376</b>	<b>\$ 828,121,447</b>	<b>\$ 2,050,994,923</b>

Source: Department of Finance E-4 Schedules (dated 1/1/10)  
City Comprehensive Annual Financial Report and Expenditure Ledgers

<sup>1</sup> Excludes debt expenditures (principal, interest, issuance costs) and ERAF/SERAF payments.

<sup>2</sup> The Fund Balance total includes available and unavailable amounts



**Schedule 2—  
Redevelopment Agency Supplemental Educational Revenue  
Augmentation Fund (SERAF) Calculation and Payments  
July 1, 2009 through June 30, 2010**

Redevelopment Agency Name	2006-07 Tax Increment Net of Pass-Throughs	2006-07 Gross Tax Increment	\$850,000,000 on Net Tax Increment Based on Net Factor (0.2261168310)	\$850,000,000 on Net Tax Increment Based on Gross Factor (0.1793855082)	Total Amount of SERAF Due	Amount of SERAF Paid	Total SERAF Outstanding
Anderson Redevelopment Agency	\$ 534,724	\$ 668,405	\$ 120,910	\$ 119,902	\$ 240,812	\$ 240,812	\$ -
City of Desert Hot Springs Redevelopment Agency	7,965,088	9,152,805	1,801,040	1,641,881	3,442,921	3,442,921	-
City of Palm Desert Redevelopment Agency	47,148,261	82,867,337	10,661,015	14,865,199	25,526,215	25,526,215	-
Community Development Agency of the City of Coronado	12,550,252	12,550,252	2,837,823	2,251,333	5,089,157	5,089,157	-
Community Redevelopment Agency of the City of Calexico	3,738,778	4,673,476	845,401	838,354	1,683,755	1,683,755	-
Community Redevelopment Agency of the City of Citrus Heights	1,675,039	2,099,283	378,755	376,581	755,335	755,335	-
Community Redevelopment Agency of the City of Los Angeles	161,298,000	191,926,000	36,472,193	34,428,743	70,900,936	70,900,936	-
Redevelopment Agency of the City of Fresno	15,870,115	17,547,137	3,588,500	3,147,702	6,736,202	6,736,202	-
Hercules Redevelopment Agency	11,443,293	13,409,461	2,587,521	2,405,463	4,992,984	-	<b>4,992,984</b>
Parlier Redevelopment Agency	1,354,132	1,385,895	306,192	248,609	554,802	300,000	<b>254,802</b>
Pasadena Community Development Commission	26,767,093	26,767,093	6,052,490	4,801,629	10,854,119	10,854,119	-
Placentia Redevelopment Agency	1,960,929	2,227,251	443,399	399,537	842,936	25,000	<b>817,936</b>
Redevelopment Agency for the County of Riverside	60,240,321	79,003,973	13,621,350	14,172,168	27,793,518	27,793,518	-
Redevelopment Agency of the City of Fremont	23,144,511	31,694,882	5,233,363	5,685,603	10,918,966	10,918,966	-
Redevelopment Agency of the City of Pittsburg	39,451,382	47,087,969	8,920,621	8,446,899	17,367,521	-	<b>17,367,521</b>
Redevelopment Agency of the City of San Jose	146,913,531	161,818,577	33,219,622	29,027,908	62,247,530	62,247,530	-
Redevelopment Agency of the County of Sacramento	6,186,616	7,573,129	1,398,898	1,358,510	2,757,408	2,757,408	-
Richmond Redevelopment Agency	24,953,804	24,953,804	5,642,475	4,476,351	10,118,826	-	<b>10,118,826</b>
<b>Total</b>	<b>\$ 593,195,869</b>	<b>\$ 717,406,729</b>	<b>\$ 134,131,570</b>	<b>\$ 128,692,371</b>	<b>\$ 262,823,941</b>	<b>\$ 229,271,873</b>	<b>\$ 33,552,069</b>

Source: Department of Finance

**Schedule 3—  
Redevelopment Agency Reporting Issues  
July 1, 2009, through June 30, 2010**

Redevelopment Agency Name	Filed Independent Audit Report	Filed Annual Fiscal Statement	Establish Time Limits	Establish Low/Mod Housing Fund	Required Tax Increment Deposited into Low/Mod Fund	Accrued Interest Earned by Low/Mod Fund	Determination of Necessity of Planning & Administration Cost Charged to Low/Mod Fund	Initiate Development of Housing or Sale of Real Property Acquired by Low/Mod Fund	Adopt an Implementation Plan
Anderson Redevelopment Agency	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Community Redevelopment Agency of the City of Calexico	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Community Redevelopment Agency of the City of Citrus Heights	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Community Development Agency of the City of Coronado	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
City of Desert Hot Springs Redevelopment Agency	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Redevelopment Agency of the City of Fremont	Filed Late	No	Yes	Yes	Yes	Yes	Yes	N/A	Yes
Redevelopment Agency of the City of Fresno	Yes	No	Yes	Yes	Yes	Yes	N/A <sup>1</sup>	Yes	Late
Hercules Redevelopment Agency	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Community Redevelopment Agency of the City of Los Angeles	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
City of Palm Desert Redevelopment Agency	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Parlier Redevelopment Agency	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	No
Pasadena Community Development Commission	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Redevelopment Agency of the City of Pittsburg	Filed Late	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Placentia Redevelopment Agency	Filed Late	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Richmond Redevelopment Agency	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Redevelopment Agency for the County of Riverside	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Redevelopment Agency of the County of Sacramento	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Redevelopment Agency of the City of San Jose	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes

<sup>1</sup> Did not charge planning and administration

## Schedule 4— Redevelopment Agency Salary Compensation July 1, 2009, through June 30, 2010

Redevelopment Agency Name	City / County Population	Job Title	Multiple Positions?	Annual Salary	Comments
Anderson Redevelopment Agency	10,826 / 184,247	Executive Director/City Manager	Yes	\$ 75,598	RDA portion only
		City Clerk/Programs Manager	Yes	19,567	RDA portion only
		Code Enforcement Officer	No	3,918	RDA portion only
		Asst to City Manager and City Clerk	Yes	3,477	RDA portion only
		Accountant	No	1,531	RDA portion only
City of Desert Hot Springs Redevelopment Agency	26,811 / 2,139,535	City Manager/Exec Director	Yes	227,200	
		RDA Finance Manager	No	107,881	
		RDA Project Manager	No	86,402	
		Community Development Director	Yes	72,644	
City of Palm Desert Redevelopment Agency	52,067 / 2,139,535	City Manager/Exec Director	Yes	209,114	50% charged to RDA
		ACM for Redevelopment	No	210,807	
		Director of Finance (City/RDA)	Yes	179,383	30% charged to RDA
		Economic Development Manager	No	152,689	
		Director of Housing	No	134,950	
Community Development Agency of the City of Coronado	23,916 / 3,224,432	City Manager	Yes	262,563	
		RDA Exe Director	Yes	198,273	
		Dir of Admin Serv	Yes	141,903	
		Finance Director	Yes	110,339	
Community Redevelopment Agency of the City of Calexico	45,365 / 183,029	City Manager / Exec Dir	Yes	175,303	
		Police Chief	No	205,935	
		Fire Chief	No	195,199	
		Utility Serv Director	No	144,273	
		Asst. Exec Director RDA	No	151,581	
Community Redevelopment Agency of the City of Citrus Heights	88,115 / 1,445,327	City Manager	Yes	269,222	
		Community and Economic Dev Dir	Yes	156,758	
		Community Enhancement Manager	Yes	121,168	
		Economic Development Specialist	Yes	76,187	
		Grants and Housing Tech	Yes	55,460	
Community Redevelopment Agency of the City of Los Angeles	4,094,764 / 10,441,080	Chief Executive Officer	No	223,256	
		Chief Operating Officer	No	198,504	
		Regional Administrator II	No	186,355	
		Regional Administrator II	No	186,355	
		Regional Administrator II	No	176,640	
Hercules Redevelopment Agency	24,693 / 1,073,055	Economic Development Director	No	206,000	
		City Manager	Yes	177,704	50% charged to RDA
		Special Project Director	No	174,806	
		Assistant City Manager	Yes	172,955	85% charged to RDA
Parlier Redevelopment Agency	13,658 / 953,761	RDA Analyst	No	99,738	
		City Manager/Excutive Director	Yes	114,512	
		Finance Director	Yes	95,511	
		Community Development Director	Yes	76,659	
Placentia Redevelopment Agency	52,305 / 3,166,461	Executive Assistant	Yes	49,560	
		City Administrator	Yes	194,421	25% charged to RDA
		Asst City Administrator	Yes	162,617	50% charged to RDA
		Development Services Manager	Yes	132,004	25% charged to RDA
		Director of Finance	Yes	153,093	25% charged to RDA
		Neighborhood Services Manager	Yes	80,416	25% charged to RDA

## Schedule 4 (continued)

Redevelopment Agency Name	City / County Population	Job Title	Multiple Positions?	Annual Salary	Comments
Redevelopment Agency for the County of Riverside	N/A / 2,139,535	Asst County Executive Officer Econ	Yes	219,306	
		Managing Director of EDA	Yes	159,036	
		Assistant Director of EDA	Yes	149,908	
		Assistant Director of EDA	Yes	146,652	
		Assistant Director of EDA	Yes	142,808	
Redevelopment Agency of the City of Fremont	218,128 / 1,574,857	City Attorney	Yes	287,685	
		City Manager / Exc Director	Yes	274,502	
		Finance Director (City/ RDA)	Yes	220,172	
		Community Development Director	Yes	190,129	
		RDA Director	No	182,876	
Redevelopment Agency of the City of Fresno	502,303 / 953,761	Executive Director	No	137,920	
		Financial Officer	No	93,725	
		Professional Engineer	No	91,596	
		Project Manager/MAII	No	79,866	
Redevelopment Agency of the City of Pittsburg	64,967 / 1,073,055	Redevelopment Manager	No	167,147	
		Senior Civil Engineer	No	163,064	
		Police Officer	No	158,986	
		Senior Combo Bldg Inspector	No	147,712	
		City Manager	Yes	138,287	RDA portion only
Redevelopment Agency of the City of San Jose	1,023,083 / 1,880,876	Redevelopment Manager	No	273,220	
		Dir of Economic Development	Yes	222,788	
		Deputy Redevelopment Manager	No	210,149	
		Asst Dir of Economic Development	Yes	186,742	
Redevelopment Agency of the County of Sacramento	486,189 / 1,445,327	Deputy Executive Director	Yes	161,308	
		Executive Director	Yes	159,528	
		Director of Administration	Yes	149,045	
		General Counsel	Yes	138,712	
		Director of Finance	Yes	120,389	
Richmond Redevelopment Agency	105,630 / 1,073,055	Community & Econ Executive Dir.	Yes	193,116	
		Redevelopment Director	No	162,432	
		Housing Director	No	155,019	
		OED Administrator	Yes	124,800	
		Senior Development Project Manager	No	119,160	

## Schedule 5— Redevelopment Agency Job Creation

Redevelopment Agency Name	Tax Increment	Expenditures	Number of Project Areas	Estimated Number of Jobs Created	Time Period	Methodology
Anderson Redevelopment Agency	\$ 1,100,189	\$ 1,727,850	1	Did not track prior to review. During our review, the agency created a chart showing 62.5 direct jobs	5 years	Agency created a chart showing a total of 62.5 direct jobs during the past five years after our request for information.
City of Desert Hot Springs Redevelopment Agency	5,231,174	15,019,544	2	1,183	2 years	Based on employment and construction permit records.
City of Palm Desert Redevelopment Agency	89,106,443	80,021,798	4	1,800 Jobs / 453 Construction Jobs	Note 1	Underterminable based on available records.
Community Development Agency of the City of Coronado	15,789,190	12,607,284	1	Did not track		
Community Redevelopment Agency of the City of Calexico	5,303,749	4,805,349	1	2,697	Note 1	Underterminable based on available records.
Community Redevelopment Agency of the City of Citrus Heights	4,259,087	3,034,301	1	82	Note 1	Based on direct contact with businesses
Community Redevelopment Agency of the City of Los Angeles	272,015,911	160,671,000	34	15,339 Construction / 2,858 Permanent	1 year	ERNIE System - an economic model for estimating construction/permanent jobs, similar to the CRA calculator.
Hercules Redevelopment Agency	10,405,553	44,370,352	3	Did not track		
Parlier Redevelopment Agency	1,542,703	1,600,094	1	1,193	10 years	Underterminable based on available records.
Pasadena Community Development Commission	28,582,529	8,841,863	8	11,500	Note 1	Underterminable based on available records.
Placentia Redevelopment Agency	2,373,459	1,755,330	1	Did not track		
Redevelopment Agency for the County of Riverside	99,329,906	168,494,874	5	10,088 Permanent / 7,304 Construction	Note 2	Fast-Track program applications system. Job data provided by developers.
Redevelopment Agency of the City of Fremont	37,310,760	45,420,913	4	Did not track		
Redevelopment Agency of the City of Fresno	22,064,725	24,096,856	19	957 Direct and 431 Indirect / 746 Construction FTE	2 years	Direct base on survey, Indirect based on Bureau of Labor Statistic Methodology, Construction based on prevailing wage rates for Central Valley
Redevelopment Agency of the City of Pittsburg	34,813,259	40,903,162	5	Did not track		
Redevelopment Agency of the City of San Jose	202,409,336	190,106,164	21	4,148	1 year	Underterminable based on available records.
Redevelopment Agency of the County of Sacramento	13,119,119	11,238,650	5	Did not track		
Richmond Redevelopment Agency	18,559,284	13,406,063	10	Did not track		

**Note 1: Represents jobs created to date**

**Note 2: Represents jobs created upon project completion**

## Schedule 6— Redevelopment Agency Statement of Indebtedness (SOI) at June 30, 2010

Redevelopment Agency Name	Total Agency Debt Per SOI	Total Tax Increment 2009-10	Estimated Repayment Time In Years
Anderson Redevelopment Agency	\$ 25,487,348	\$ 1,100,189	23.2
Community Redevelopment Agency of the City of Calexico	197,586,810	5,303,749	37.3
Community Redevelopment Agency of the City of Citrus Heights	25,836,803	4,259,087	6.1
Community Development Agency of the City of Coronado	363,445,926	15,789,190	23.0
City of Desert Hot Springs Redevelopment Agency	111,075,396	5,231,174	21.2
Redevelopment Agency of the City of Fremont	184,354,900	37,310,760	4.9
Redevelopment Agency of the City of Fresno	145,372,789	22,064,725	6.6
Hercules Redevelopment Agency	241,105,332	10,405,553	23.2
Community Redevelopment Agency of the City of Los Angeles	1,743,869,746	272,015,911	6.4
City of Palm Desert Redevelopment Agency	1,812,247,129	89,106,443	20.3
Parlier Redevelopment Agency	18,007,114	1,542,703	11.7
Pasadena Community Development Commission	218,272,637	28,582,529	7.6
Redevelopment Agency of the City of Pittsburg	855,031,754	34,813,259	24.6
Placentia Redevelopment Agency	38,686,521	2,373,459	16.3
Richmond Redevelopment Agency	221,702,177	18,559,284	11.9
Redevelopment Agency for the County of Riverside	1,868,574,537	99,329,906	18.8
Redevelopment Agency of the County of Sacramento	173,037,375	13,119,119	13.2
Redevelopment Agency of the City of San Jose	3,584,744,850	202,409,336	17.7

Items on the Statement of Indebtedness (Health and Safety Code section 33675) may include:

- Bonded debt
- Interest on bonded debt
- Total 20% housing set-aside obligation
- Affected taxing agency pass-through obligations
- Advances from the community
- Notes payable
- Obligations from agreements
- Certificates of Participation
- County administrative fees
- Any other debt

**Schedule 7—  
Redevelopment Agency Low and Moderate Income  
Housing Fund Administration Expenditures  
July 1, 2009, through June 30, 2010**

Redevelopment Agency Name	Annual Tax Increment Received	20% Low/Moderate Set-Aside	Administration Expenditures	Other Expenditures	Total Low/Moderate Income Housing Expenditures <sup>1</sup>	Administration Percentage of Set-Aside Dollars	Administration Percentage of Low/Moderate Expenditures	Fund Balance at June 30, 2010
Anderson Redevelopment Agency	\$ 1,100,189	\$ 220,038	\$ 7,354	\$ 53,660	\$ 61,014	3.34%	12.05%	\$ 302,687
City of Desert Hot Springs Redevelopment Agency	5,231,174	1,046,235	345,828	3,776,721	4,122,549	33.05%	8.39%	9,352,042
City of Palm Desert Redevelopment Agency	89,106,443	17,821,289	1,537,492	10,575,731	12,113,223	8.63%	12.69%	82,122,385
Community Development Agency of the City of Coronado	15,789,190	3,157,838	197,963	345,549	543,512	6.27%	36.42%	7,331,586
Community Redevelopment Agency of the City of Calexico	5,303,749	1,060,750	928,221	3,400,732	4,328,953	87.51%	21.44%	4,328,953
Community Redevelopment Agency of the City of Citrus Heights	4,259,087	851,817	91,801	150,280	242,081	10.78%	37.92%	3,046,484
Community Redevelopment Agency of the City of Los Angeles	272,015,911	54,403,182	7,242,000	46,637,000	53,879,000	13.31%	13.44%	117,132,000
Hercules Redevelopment Agency	10,405,553	2,081,111	Did not provide	Did not provide	2,430,539	Did not provide	Did not provide	2,173,320
Parlier Redevelopment Agency	1,542,703	308,541	-	126,492	126,492	0.00%	0.00%	(359,172)
Pasadena Community Development Commission	28,582,529	2,830,800	491,757	2,942,736	3,434,494	17.37%	14.32%	39,331,188
Placentia Redevelopment Agency	2,373,459	474,692	82,336	651,123	733,459	17.35%	11.23%	225,148
Redevelopment Agency for the County of Riverside	99,329,906	19,865,981	3,228,076	6,172,706	9,400,782	16.25%	34.34%	163,554,890
Redevelopment Agency of the City of Fremont	37,310,760	7,462,152	881,422	3,839,363	4,720,785	11.81%	18.67%	19,838,599
Redevelopment Agency of the City of Fresno	22,064,725	4,412,945	-	2,316,435	2,316,435	0.00%	0.00%	20,153,411
Redevelopment Agency of the City of Pittsburg	34,813,259	2,679,842	59,106	1,586,942	1,646,048	2.21%	3.59%	(5,406,421)
Redevelopment Agency of the City of San Jose	202,409,336	40,481,867	3,469,069	37,012,804	40,481,873	8.57%	8.57%	-
Redevelopment Agency of the County of Sacramento	13,119,119	2,623,824	242,593	1,086,177	1,328,770	9.25%	18.26%	19,359,505
Richmond Redevelopment Agency	18,559,284	3,711,857	1,450,530	314,065	1,764,595	39.08%	82.20%	13,624,352

<sup>1</sup> Excludes debt service costs

## Appendix A— Excerpts from Health and Safety Code

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### Section 33080.4.

(a) For the purposes of compliance with subdivision (c) of Section 33080.1, the description of the agency's activities shall contain the following information regardless of whether each activity is funded exclusively by the state or federal government, for each project area and for the agency overall:

(1) Pursuant to Section 33413, the total number of nonelderly and elderly households, including separate subtotals of the numbers of very low income households, other lower income households, and persons and families of moderate income, that were displaced or moved from their dwelling units as part of a redevelopment project of the agency during the previous fiscal year.

(2) Pursuant to Section 33413.5, the total number of nonelderly and elderly households, including separate subtotals of the numbers of very low income households, other lower income households, and persons and families of moderate income, that the agency estimates will be displaced or will move from their dwellings as part of a redevelopment project of the agency during the present fiscal year and the date of adoption of a replacement housing plan for each project area subject to Section 33413.5.

(3) The total number of dwelling units housing very low income households, other lower income households, and persons and families of moderate income, respectively, which have been destroyed or removed from the low- or moderate-income housing market during the previous fiscal year as part of a redevelopment project of the agency, specifying the number of those units which are not subject to Section 33413.

(4) The total numbers of agency-assisted dwelling units which were constructed, rehabilitated, acquired, or subsidized during the previous fiscal year for occupancy at an affordable housing cost by elderly persons and families, but only if the units are restricted by agreement or ordinance for occupancy by the elderly, and by very low income households, other lower income households, and persons and families of moderate income, respectively, specifying those units which are not currently so occupied, those units which have replaced units destroyed or removed pursuant to subdivision (a) of Section 33413, and the length of time any agency-assisted units are required to remain available at affordable costs.

(5) The total numbers of new or rehabilitated units subject to paragraph (2) of subdivision (b) of Section 33413, including separate subtotals of the number originally affordable to and currently occupied by, elderly persons and families, but only if the units are restricted by agreement or ordinance for occupancy by the elderly, and by very low income households, other lower income households, and persons and families of moderate income, respectively, and the length of time these units are required to remain available at affordable costs.

(6) The status and use of the Low and Moderate Income Housing Fund created pursuant to Section 33334.3, including information on the use of this fund for very low income households, other lower income households, and persons and families of moderate income, respectively. If the Low and Moderate Income Housing Fund is used to subsidize the cost of onsite or offsite improvements, then the description of the agency's activities shall include the number of housing units affordable to persons and families of low or moderate income which have been directly benefited by the onsite or offsite improvements.

(7) A compilation of the annual reports obtained by the agency under Section 33418 including identification of the number of units occupied by persons and families of moderate income, other lower income households, and very low income households, respectively, and identification of projects in violation of this part or any agreements in relation to affordable units.



(8) The total amount of funds expended for planning and general administrative costs as defined in subdivisions (d) and (e) of Section 33334.3.

(9) Any other information which the agency believes useful to explain its housing programs, including, but not limited to, housing for persons and families of other than low and moderate income.

(10) The total number of dwelling units for very low income households, other lower income households, and persons and families of moderate income to be constructed under the terms of an executed agreement or contract and the name and execution date of the agreement or contract. These units may only be reported for a period of two years from the execution date of the agreement or contract.

(11) The date and amount of all deposits and withdrawals of moneys deposited to and withdrawn from the Low and Moderate Income Housing Fund.

(b) As used in this section: (1) "Elderly," has the same meaning as specified in Section 50067. (2) "Persons and families of moderate income," has the same meaning as specified in subdivision (b) of Section 50093. (3) "Other lower income households," has the same meaning as "lower income households" as specified in Section 50079.5, exclusive of very low income households. (4) "Persons and families of low or moderate income," has the same meaning as specified in Section 50093. (5) "Very low income households," has the same meaning as specified in Section 50105.

(c) Costs associated with preparing the report required by this section may be paid with moneys from the Low and Moderate Income Housing Fund.

33080.5.

For the purposes of compliance with subdivision (b) of Section 33080.1, the fiscal statement shall contain the following information:

(a) The amount of outstanding indebtedness of the agency and each project area.

(b) The amount of tax increment property tax revenues generated in the agency and in each project area.

(c) The amount of tax increment revenues paid to, or spent on behalf of, a taxing agency, other than a school or community college district, pursuant to subdivision (b) of Section 33401 or Section 33676. Moneys expended on behalf of a taxing agency shall be itemized per each individual capital improvement.

(d) The financial transactions report required pursuant to Section 53891 of the Government Code.

(e) The amount allocated to school or community college districts pursuant to each of the following provisions: (1) Section 33401; (2) Section 33445; (3) Section 33445.5; (4) paragraph (2) of subdivision (a) of Section 33676; and (5) Section 33681.

(f) The amount of existing indebtedness, as defined in Section 33682, and the total amount of payments required to be paid on existing indebtedness for that fiscal year.

(g) Any other fiscal information which the agency believes useful to describe its programs.

## Appendix B— Specific Agency Responses to the Report Findings

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A total of 16 redevelopment agencies (RDAs) responded to the State Controller's Office's (SCO) draft report. Some of the responses were directly related to specific issue/issues pertaining to the particular agency in the report. Others were more general in nature. The following provides the agency-specific responses and SCO's comments:

### AUDIT SCOPE SECTION

#### **Hercules Redevelopment Agency**

##### Agency's Response:

The Hercules Redevelopment Agency believes the State Controller's Office (SCO) unfairly single it out by highlighting in the Scope Section of the report allegation of improprieties at the RDA as well as the disclosure in its independent auditor's report about going concern. The RDA contends that "We are quite certain that each Agency has its own issues, and are concerned that this section of the report singled out Hercules for issues not substantiated in the Review."

##### SCO's Comment:

The SCO has no intention of singling out Hercules RDA in the report. The disclosure is a common professional practice to clearly delineate any scope limitation in the review.

### FINDING 3—Ineligible charges against the Low and Moderate Income Housing Fund

#### **Desert Hot Springs Redevelopment Agency**

##### Code Enforcement Officers

##### Agency's Response:

The code enforcement charges of \$162,600 relate directly to qualified programs and services furthering housing-related goals under the Agency's Implementation Plan and for use of LMIHF. The activities are eligible costs in that they served to preserve and protect the Agency's supply of qualified affordable housing through the implementation of the Neighborhood Renewal Program. As discussed with the State Auditor during the site visit, this amount represents only a small portion of the total code enforcement costs citywide during that year. The city spent \$777,202 during the year reviewed. The code enforcement services provided were the initial phase of implementation of the Neighborhood Renewal Program ("NRP") to remove blight in the existing low income neighborhoods funded out of the LMIHF set-aside as well as bond proceeds issued by the LMIHF specifically. The term "code enforcement" perhaps is not well-defined but the activities performed are the initial inspection of the blighted homes in low income housing neighborhoods. This program was well documented and key evidence provided and made available during the site visit directly to the State Auditor.

The Agency believes this alleged finding is an unintentional oversight and is confident the State will modify/amend/remove the comment. The Agency has programmed \$5,000,000 under the NRP program to assist low income homeowners rehabilitate their homes and the activities and services provided by Code Enforcement were integral to the mission of the programs integrity and LMIHF goals and objectives for the community. The Agency is willing to provide additional evidence to substantiate the \$162,600 being questioned in this draft document before being released as final.

## SCO's Comment:

The expenditure remains ineligible as the agency was not able to clearly demonstrate that the code enforcement services provided were exclusively for the production, improvement, and preservation of low- and moderate-income housing. The SCO is willing to review any additional documentation the agency may wish to submit regarding this finding.

**Community Redevelopment Agency of the City of Los Angeles**County Administration Fees

## Agency's Response:

The CRA/LA has deposited 20% of the tax increment actually received by the agency as required by law. The administrative charge levied and retained by the County of Los Angeles is applied to all gross tax increment before the funds are allocated to the CRA/LA. This practice has been in effect since the inception of the levy of the County administration fees, since there were no statutory provisions or legal opinions to the contrary. That being the case, we disagree with this finding as applied to the CRA/LA and request that the final sentence of that paragraph be stricken.

## SCO's Comment:

The amount remains an ineligible expenditure.

On July 14, 1993, Attorney General Daniel E. Lungren opined in opinion 93-209:

When a redevelopment agency calculates the 20 percent "set-aside" for low-and moderate-income housing, the set-aside is based upon the total tax increment revenues allocated to the agency irrespective of any subsequent transfers made by the agency to other public entities.

The opinion further notes that Health and Safety Code section 33334.2(a) states in part:

... not less than 20 percent of all taxes that are allocated to the agency pursuant to Section 33670 shall be used by the agency for the purposes of increasing, improving, and preserving the community's supply of low- and moderate-income housing

The practice of charging 20% of the administrative cost to the Low and Moderate Income Housing Fund would appear to be contrary to the Health and Safety Code. Additionally, the practice of charging 20% of the administrative charge to the Low and Moderate Income Housing Fund is analogous to (mathematically the same as) calculating the required 20% "set aside" after deducting the administrative charge from the gross tax increment.

For example, assume the gross tax increment is \$1,000,000 and the administrative charge is \$100,000. Then, 20% of \$1,000,000 = \$200,000 and 20% of \$100,000 = \$20,000 and net tax increment = \$900,000. Whether the Agency calculates the set aside to the Low and Moderate Income Housing Fund net of the administrative cost or gross of the administrative cost and subsequently charges the Low and Moderate Income Housing Fund 20% of the cost, the result is the same: the Low and Moderate Income Housing Fund only receives 18% of the tax increment allocated to the Agency which appears to be contrary to the Health and Safety Code.

## FINDING 4—Questionable charges to RDAs

**Redevelopment Agency of the City of Pittsburg**Lack of Documentation and Undocumented Loan

## Agency's Response:

In response to the SCO's finding about lack of documentation, the Director of the Redevelopment Agency of the City of Pittsburg asserted that auditors made a factual error. The RDA also suggested that the documents were available but the auditors failed to ask for them.

## SCO's Comment:

Contrary to the agency's assertion, the auditor made repeated request to agency staff for documentation. When the State Controller's auditor requested from the Finance Director documentation to support the \$3 million transfer, the sole documentation provided was a copy of the agreement to reimburse the city for services. According to the Finance Director, the agency had no detailed documentation and the transfer was based upon the agreement. This item was discussed at the exit conference with the RDA Director and the RDA Manager, and the agency did not offer to provide any additional documentation. Inexplicably, the RDA Director now claims the auditor did not ask for the documentation.

The agency disputed our statement that there is a large advance balance in the General Fund. It is unclear as to how the agency could assert \$15,446,574—or 93% of the advance still in the General Fund—is not a large balance. The agency further disagrees that the "RDA is losing interest which should accrue to the Agency." The agency states:

The \$16 million was immediately placed in an interest-bearing account. The interest earned accrues to the fund, and is appropriated to other redevelopment-supported projects. There is no difference in the rate of interest on these funds and the rate earned on any other redevelopment funds. There is no loss of funds to the Pittsburg RDA whatsoever. Documentation of this fact is readily available from the Director of Finance. Had the Controller's representative requested this information, it would have been provided to him.

Again, this item was fully discussed with agency representatives at the exit conference. Agency representatives were completely aware of the finding and did not offer any documentation to refute the finding until receiving the draft review report. The SCO is willing to review any documentation the agency wishes to supply to document that the interest earned on the advance is re-deposited into the agency funds and not into the city General Fund.

**Redevelopment Agency of the City of San Jose**1. Excess Salaries and Benefits Charged to the RDA

## Agency's Response:

In response to the SCO's finding that the City of San Jose charged 25% of the salary and fringe benefits of the mayor, the 12 members of the city council, and 40 city council staff members to the San Jose Redevelopment Agency, the agency responded that compensations were based on the level of services provided in their capacity as the agency's board and that the allocation of costs is based on several factors.

## SCO's Comment:

Agency representatives provided a detailed explanation of the project areas as well as core services provided by the RDA but failed to address the basis of how the 25% allocation was derived. Without a measurable basis to allocate costs, the 25% remains arbitrary.

2. Excessive Indirect Cost Rate Charged to the RDA

## Agency's Response:

The RDA disagreed with our finding and recommended that this finding be stricken. For FY 2009-10, the city and RDA have—for at least a decade—annually agreed to a discounted lump sum indirect cost reimbursement at the implied rate of 63.8%, not the 147.26% calculated as part of the city's Cost Allocation Plan.

## SCO's Comment:

The RDA's expenditure worksheets and records as well as budget data provided to the SCO auditor during the review support the 147% indirect overhead rate charged. The RDA did not provide any additional documentation with its response to show that it had actually charged a lower rate. The SCO will review any documentation that the RDA provides to support the 63.8% rate as claimed.

## FINDING 6—Independent Auditors Failed to Comply with Audit Guidelines

**Community Redevelopment Agency of the City of Los Angeles**

In response to our finding about inadequate disclosure, the agency's independent auditor submitted the following response.

## Agency's (Independent Auditor) Response:

The agency's independent auditor stated the excess surplus calculation was tested during the agency's audit. Since there was no excess surplus, a computation of the excess surplus was not included in the fiscal year 2010 Comprehensive Annual Financial Report (CAFR). The auditor further stated that in the future the calculation will be included in CAFR even if there is no excess surplus.

## SCO's Comment:

The SCO appreciates the timely response to this finding and acknowledges the proposed change in the reporting of the Excess Surplus Calculation.

## FINDING 7—Ineligible Loan

**Community Redevelopment Agency of the City of Calexico**

## Agency's Response:

The City of Calexico feels that the appropriate documentation can be provided to show this debt has been paid in full. If additional information is needed, the City of Calexico will provide it.

## SCO's Comment:

The SCO has thoroughly analyzed all available documentation provided by the RDA. If additional documentation is available, SCO is willing to review it; however, the RDA did not include such documentation in its response.

**FINDING 8 [Observation 2 in the draft report]—Virtually Any Condition Could be Construed to be Blight**

Based on the RDA’s response, Observation 2 in the draft report has been recategorized as Finding 8 in the final report.

**Agency’s Response:**

The auditor has asserted that the Desert Willow Golf Resort project appears to be inconsistent with the intent of the Community Redevelopment Law in addressing the elimination of blight. In fact, the definition of “redevelopment” in the Community Redevelopment Law specifically includes the provision of recreational facilities (§33020). Desert Willow currently employs 206 individuals. The adjacent hotel, restaurant and timeshare projects, which were developed as a direct result of the Desert Willow project, employ 203 individuals.

**SCO’s Comment:**

In order to spend RDA funds on “recreational facilities” under Health and Safety Code section 33020, the area must be “blighted.” The fact that the RDA continues to insist that a 4½ star golf course constitutes “blight” further illustrates our point that virtually any condition could be construed to be blight. Moreover, the renovation of all 18 greens, reshaping of greenside bunkers and fairway bunkers, new bunker drainage improvements, bunker liners, new sand, and restoration of all lake edges appears to be maintenance and/or maintaining the publicly owned golf course which is a violation of Health and Safety Code section 33445(a)(3), which states:

**33445.** (a) Notwithstanding Section 33440, an agency may, with the consent of the legislative body, pay all or a part of the value of the land for and the cost of the installation and construction of any building, facility, structure, or other improvement that is publicly owned and is located inside or contiguous to the project area, if the legislative body determines all of the following: . . . (b) . . . (3) **A redevelopment agency shall not pay for the normal maintenance or operations of buildings, facilities, structures, or other improvements that are publicly owned. Normal maintenance or operations do not include the construction, expansion, addition to, or reconstruction of, buildings, facilities, structures, or other improvements that are publicly owned otherwise undertaken pursuant to this section.** [emphasis added]

## Appendix C— General Comments Made by the Redevelopment Agencies

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A total of 16 redevelopment agencies (RDAs) responded to the State Controller's Office's (SCO) draft report. Some of the responses were directly related to specific issue/issues pertaining to the particular agency in the report. Others were more general in nature. The following provides the RDAs' general responses and the SCO's comments:

1. Questions about the validity of sampling methodology in the selection of the 18 RDAs. Some RDAs questioned our sampling methodology by pointing out the disproportional number of RDAs in our sample that failed to deposit funds in the Supplemental Educational Revenue Augmentation Fund (SERAF).

### SCO's Comment

The 18 RDAs selected for the review was based on the following objectives:

- Meaningful sample size, giving us insight into the financial practices and activities of RDAs throughout the State (the 18 selected represent 16% of all redevelopment dollars in FY 2008-09).
  - Geographic balance (one Northern California, five Bay Area, four Central Valley, two Los Angeles, three Inland Empire, and three other Southern California).
  - Diversity of RDAs serving urban, suburban, and rural areas.
  - Seek cost and time efficiencies so that the review could be completed in a timely manner.
2. Legal requirement for tracking of job creation number from redevelopment activities, Some of the RDAs pointed out that currently there is no statutory provision requiring the RDAs to track job creations (Observation 1).

### SCO's Comment

We agree and modified the observation to reflect that there is no legal requirement for the RDA's to track job creation. We also noted that such data is requested by the SCO for inclusion in the Annual Report of Financial Transaction of the Redevelopment Agencies and that such data should be one of the critical performance measures given the magnitude of public funds spent on redevelopment activities.

3. A number of the agencies asserted that they had met all or a majority of reporting requirements.

### SCO's Comment

As detailed in Finding 5, Health and Safety Code section 33080.1 provides for the content of the required annual report. While we found that many agencies completed portions of this report, we found that the 18 agencies reviewed did not meet the full requirements of the annual report. The most common finding was that agencies reviewed did not file a "Fiscal Statement" and/or listed all of the deposits and withdrawals from the LMIHF.

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