



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

Department Name: County Executive  
Office  
Department No.: 993  
For Agenda Of: January 24, 2012  
Placement: Departmental  
Estimated Tme: 45 minutes  
Continued Item: No  
If Yes, date from:  
Vote Required: Majority

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TO: Board of Supervisors

FROM: Department Chandra Wallar, County Executive Officer (x3400)  
Directors: Robert W. Geis, C.P.A. County Auditor-Controller (x2101)  
Contact Info: Renee Bahl, Assistant CEO (x3407)  
Greg Levin, C.P.A., Advanced Accounting Division Chief A-C  
(X2141)

SUBJECT: **Report of Dissolution of Redevelopment Agencies in Santa Barbara County**

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**County Counsel Concurrence**

As to form: Yes

Other Concurrence: Select\_Other

As to form: N/A

**Auditor-Controller Concurrence**

As to form: Yes

**Recommended Actions:**

Receive a report concerning operational and policy issues brought about by the dissolution of the seven redevelopment agencies (RDA's) within the County of Santa Barbara.

**Summary Text:**

On December 29, 2011, the California Supreme Court upheld ABX1 26 (the Act) that dissolves redevelopment agencies in the State of California. Santa Barbara County has seven Redevelopment Agencies within its boundaries. The Act dissolves RDA's as of February 1, 2012 and authorizes successor agencies to satisfy enforceable obligations of each former RDA, administer the dissolution, wind down operations and liquidate the assets of each of the dissolved RDA's. The Act defines "Successor Agency" as the county or city that authorized the creation of each redevelopment agency, unless -- as extended by the California Supreme Court's Opinion -- that entity "opted out" of serving as the Successor Agency by January 13, 2012. Oversight Boards for each of the successor agencies are created by the Act to supervise and monitor the activities of the successor agency. The Act also establishes roles for the County Auditor-Controller, the State Department of Finance and the State Controller's Office in the processes of dissolution and satisfaction of enforceable obligations.

RDA's are funded by tax increment diverted from local agencies that reside inside an RDA's boundaries. Tax increment can be generally defined as the growth in property taxes that occurs within in a Redevelopment Project Area after the formation of the Redevelopment Agency. A common

financing vehicle for RDA's is to incur indebtedness against future tax increment revenues in order to make improvements within with a given project area. This is generally known as tax increment financing, and it is executed in various forms. It is important to note that as part of the Act most long-term debt of a redevelopment agency becomes an "enforceable obligation. To the extent that an RDA has enforceable obligations, a successor agency will continue to receive property taxes to pay-off those obligations. As part of the Act, the remainder of funds left after the enforceable obligations are funded, will be returned to the local agencies that would have received the property taxes if the RDA did not exist.

In the current year the gross tax increment for the seven agencies is \$36 million. This is approximately 6% of the total \$619 million of local property taxes in the County. Over time, as enforceable obligations are paid off (some obligations may take as long as 30 years to fully eliminate) the property taxes will be returned to the taxing agencies. Since the RDA's activities have been suspended for approximately the entire fiscal year and the 20% housing set asides are eliminated after January, there may be property tax revenues that can be returned to the taxing agencies beginning this year.

However, certain additional data needs to be examined and documented as required by the legislation before reasonable estimates of the near term fiscal impacts of the Act can be developed. Two key components of this analysis are the calculation of pass through payments and the accurate completion of the Recognized Obligation Payment Schedules (ROPS). In many instances the original Enforcement Obligation Schedules (EOPS) submitted to the County Auditor in October 2011 included obligations that may not be permitted under ABX1 26

**Background: Agencies in Santa Barbara County**

A map of the seven redevelopment agencies in the County of Santa Barbara is shown as Attachment A. In addition, the following chart displays the seven agencies and the gross tax increment for Fiscal Year 11-12.

REDEVELOPMENT AGENCIES IN SANTA BARBARA COUNTY	
Agency	Current Year Tax Increment Revenue
Buellton City	\$ 783,326
Goleta City	3,884,457
Guadalupe City	1,528,499
Lompoc City	2,635,841
Santa Barbara City	19,860,903
Santa Barbara County – Isla Vista	6,561,244
Santa Maria City	1,111,261
Total All Agencies	\$ 36,365,531

Also, Included as Attachment B is the amount of tax increment contributed to the RDA's from the various affected taxing agencies within each RDA and a highlight of the largest special district in each RDA to assist in appointing the Oversight Committees.

**Creation of Successor Agencies**

As of February 1, 2012 every RDA in the county will be dissolved and a Successor Agency will be designated for each RDA. In most cases, (unless an action is taken to opt out), the local government that created the Redevelopment Agency will become the Successor Agency. Upon the drafting of this

board letter, the Auditor-Controller is unaware of any agency in Santa Barbara County that has elected not to serve in that capacity. In addition to Successor Agency appointment, an oversight board will be appointed to monitor, and in some cases approve Successor Agency transactions.

Also effective February 1, 2012, all assets, properties, contracts, leases, records, buildings and equipment of former RDA's are transferred to the control of the Successor Agency by operation of law. The exception to this is affordable housing assets which in some cases may transfer to a different agency than the rest of the RDA assets. At the time this Board letter was drafted we are only aware that the City of Santa Maria has chosen to transfer affordable housing assets outside of the control of the sponsoring local government.

### **Role of Successor Agencies**

The successor agency is required to wind down all affairs of the former RDA and in order to accomplish an orderly and efficient wind down, the successor agency will need to perform the following:

- Assure the accuracy and validity of the Assets and Liabilities of the former RDA.
- Determine and validate pass through payment obligations of the former RDA.
- Determine and validate the amount and terms of any indebtedness of the former RDA.
- Prepare a Recognized Obligation Payment Schedule for each six month fiscal period of a fiscal year in order to facilitate the payment of enforceable obligations of the former RDA.
- Dispose of the former RDA's assets or properties expeditiously and in a manner aimed at maximizing value and distribution of the proceeds to the taxing agencies.
- Prepare administrative budgets of the Oversight Board and pay administrative costs.
- Perform other obligations related to Enforceable Obligations such as monitoring contracts, agreements and other legal obligations of the former RDA.

### **Oversight Boards**

An Oversight Board directs the successor agency and provides assurance that the duties of the successor agency are properly carried out. The Oversight Board has a fiduciary responsibility to holders of Enforceable Obligations and the taxing entities that benefit from the distribution of property taxes. A matrix of appointments to the respective oversight board for each redevelopment agency in the County of Santa Barbara is presented in Attachment C. This schedule was prepared based on the Auditor-Controller's interpretation of the applicable code sections and is subject to further review and validation by County Counsel and Successor Agency Counsel.

In making appointments to the oversight boards, the Board may want to select some individuals with strong financial acumen. They may want to consider individuals with the expertise to understand the complexities and nature of the various contractual obligations of a redevelopment agency, the complexities of tax increment finance, developer disposition agreements and other contractual obligations in order to uphold their fiduciary responsibilities. It is worth noting that the Act also provides that an appointed individual may simultaneously be appointed up to five oversight boards and may hold an office in a city, county, special district, or community college district. For efficiency and continuity the County may wish to consider the same individuals to serve on the North County and South County Oversight Boards, respectively. Eventually in 2016 the seven Oversight Boards are consolidated into one County Oversight Board.

### **Organization and Roles in the Successor Agency**

County management proposes a project team approach to monitoring and guiding the dissolution of the seven agencies in Santa Barbara County. The County Executive Office would assign an Assistant CEO for executive oversight and management of a project team. Certain financial and technical experts in the County including Auditor-Controller Advance Accounting Division Chief, Assistant Public Works Finance Director, Auditor-Controller Property Tax Division Chief and the County Budget Director would provide staff support for these complex financial dissolutions. Attachment D discusses the role of the County Executive team in more detail both to the overall issue of dissolution of the seven RDA's and the management of the dissolution of the County Isla Vista Redevelopment Agency.

### **Roles of the County Auditor-Controller**

The Auditor-Controller Office is required by the Act to perform, or cause to be performed, an agreed upon procedures audit of the seven RDA's, set-up trust funds for the benefit of holders of RDA debt and provide for the distribution of property tax to the taxing agencies.

In addition the Auditor-Controller is tasked with its normal statutory roles concerning financial reporting, accounting structure, budget, cost reporting, revenue recording and disbursements related to the County RDA, the successor agency and the taxing agencies. Attachment E discusses the Roles of the Auditor-Controller in more detail.

With regards to the agreed upon procedures audits, the Auditor-Controller plans to contract with an outside independent CPA firm for the audit of the Isla Vista Successor Agency audit since the Auditor-Controller is the Treasurer and Controller of the former Isla Vista Redevelopment Agency. With respect to the other six agencies, the Internal Audit department is evaluating the complexity and staffing necessary to complete the other six audits by the July 1, 2012. Internal Audit may consider the need to contract for some or all the audits so they can be completed in a timely manner. However, the competition for the services of outside governmental audit firms may be impacted by other counties working toward the same due date for audits of over 400 Successor Agencies in the State to be completed by July 1, 2012.

### **Payments from Trust Funds**

The Act requires the County Auditor-Controller to set up trust funds to allocate the former tax increment of each of the seven RDA's in the following order of priority:

- To pay pass-through payments to affected taxing entities in the amounts that would have been owed had the former RDA not been dissolved;
- To the Successor Agency to enable the Successor Agency to pay Enforceable Obligations of the former RDA, including bonds;
- To the Successor Agency to pay for administrative costs
- Any remaining balance to the local tax agencies within the former RDA.

### **Timelines**

There are numerous timelines for implementation of the Act and Attachment F outlines the complexity of the timeline. This particular timeline is prepared by the State Association of County Auditor's Property Tax Committee and is a work in progress that has not been reviewed by Santa Barbara County Counsel for compliance with the Act.

### **Performance and Compliance Requirements**

- Since the total payment of liabilities may extend over a long period of time, accuracy in the dissolution and administration is a very high priority. The tax distribution is complex and any errors can compound over the years.

- A proper and accurate Certified Recognized Obligation Schedule is very important and subject to audit and review by the State Department of Finance and the State Controller. The Act should be strictly adhered to in this area by each successor agency and should be a high priority for each Oversight Board.
- Accurate pass-through calculations are also required. These pass-through payments are also complex and are calculated under multiple formulas under the RDA statutes.
- A proper inventory of assets and property is necessary in order to accurately liquidate as required by the Act.
- This dissolution is controversial and changes the tax funding of local government services. However, officials at all levels need to carefully administer and comply with the provisions of the Act as approved by the State Legislature and ruled on by the State Supreme Court.

**Fiscal and Facilities Impacts:**

The fiscal impacts among the agencies are complex. The intent of the legislation is to shift money back to schools and basic general government services like Public Safety Services. It is too early in the process to complete an estimate of the fiscal impact to the local taxing agencies.

Costs of implementing the Act are recoverable up to 5% of property tax allocated to the successor agency for FY 2011-12 and up to 3% for each year thereafter. The annual amount shall not be less than \$250,000. The Auditor-Controller is also able to recover its cost related to implementation, audits and on-going administration of the Act from property taxes of the successor agencies before distribution.

**Staffing Impacts:**

**Special Instructions:**

**Attachments:**

Attachment A:	County of Santa Barbara RDA Map
Attachment B:	RDA Tax Increment for FY 2011-12
Attachment C:	Oversight Committee Memberships Appointment Matrix
Attachment D:	Roles of County Executive Office in RDA Dissolution Process
Attachment E:	Roles of County Auditor-Controller in RDA Dissolution Process
Attachment F:	Dissolution Act Timelines

**Authored by:**

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