

**Redevelopment Agency of the
City of Huntington Beach, California**

**COMPONENT UNIT FINANCIAL REPORT
WITH REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**



FOR FISCAL YEAR ENDED SEPTEMBER 30, 2011

**REDEVELOPMENT AGENCY OF THE
CITY OF HUNTINGTON BEACH, CALIFORNIA**



**A COMPONENT UNIT FINANCIAL REPORT
WITH INDEPENDENT AUDITOR'S REPORT**

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Prepared by the Finance Department

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The Board of Directors of the
Redevelopment Agency of the City of Huntington Beach

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Huntington Beach (Agency), a component unit of the City of Huntington Beach, California (City), as of and for the year ended September 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of September 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, on June 29, 2011, the California State Legislature enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California (Assembly Bill 1X 26) unless certain payments can be made to the State of California (Assembly Bill 1X 27). On December 29, 2011, the California Supreme Court (Court) largely upheld the legislation for the dissolution of redevelopment agencies. Furthermore, the Court invalidated Assembly Bill 1X 27. Accordingly, the Agency was required to dissolve on February 1, 2012 and the guidelines for dissolution are set forth in the legislation. The financial statements do not include any adjustments as a result of the dissolution of the Agency.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2012, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis identified in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements as a whole. The accompanying calculation of low income housing fund – excess surplus (Calculation) is presented for purposes of additional analysis and is not required to be part of the basic financial statements. The Calculation is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Calculation has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Calculation is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macias Jini & O'Connell LLP

Newport Beach, California
March 29, 2012



Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2011

This discussion and analysis of the Redevelopment Agency of the City of Huntington Beach's (the Agency) financial performance provides an overview of the Agency's financial activities for the fiscal year ended September 30, 2011. Please read it in conjunction with the accompanying basic financial statements and the notes to those financial statements.

THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The financial statements presented include activities of the Agency using the integrated approach as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*.

The financial statements include the Statement of Net Assets and the Statement of Activities. Notes to the financial statements and certain required supplementary information covered in this section are designed to support both statements. All sections must be considered together to obtain a complete understanding of the financial position of the Agency.

Statement of Net Assets – The Statement of Net Assets includes all assets and liabilities of the Agency with the difference between the two reported as net assets. Assets and Liabilities are reported at their book value on an accrual basis as of the statement date. It also identifies major categories of restrictions on the net assets of the Agency.

Statement of Activities – The Statement of Activities presents the revenues earned and expenses incurred during the year on an accrual basis.

These two statements report the Agency's *net assets* and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the financial health, or *financial position*.

FUND FINANCIAL STATEMENTS

The Agency uses fund accounting. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources together with all related liabilities and residual equities or balances and changes therein. Funds are established in order to comply with State law, bond covenants, other special regulations, restrictions, limitations or legal responsibilities, or simply as a tool for managing the Agency's resources.

The fund financial statements provide detailed information about the most significant funds – not the Agency as a whole. These funds are reported using the modified accrual basis of accounting rather than on the full accrual basis. In the modified accrual basis, revenues are recognized in the period in which they are both measurable and available to finance expenditures of the current period. Revenues are recorded when received in cash, except



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that revenues subject to accrual (generally received within 60 days after year-end) are recognized when due. The primary source of revenue, which has been treated as susceptible to accrual by the Agency, is property tax. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The differences between the Governmental Fund financial statements and the Government-Wide financial statements are explained in the reconciliation following each Governmental Fund financial statement.



Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Agency's net deficit as of September 30, 2011 was (\$110,088,000). Under state law, the Redevelopment Agency's primary source of revenue is tax increment derived from increases in public and private investments resulting from improvements of properties that fall within the boundaries of a redevelopment project. These tax increment revenues are not sufficient to finance the activities of the Agency; therefore, the Agency usually issues bonds. These bonds are to be repaid over time solely from tax increment revenues. Redevelopment Agencies can only collect property tax increments to the extent it has debt on its books. The table below is a summary of key items in the Government-Wide Financial Analysis (in thousands):

	<u>2011 Amount</u>	<u>2010 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Assets				
Current and Other Assets	\$ 23,545	\$ 26,949	\$ (3,404)	-12.6%
Land Held for Resale	-	6,158	(6,158)	-100.0%
Capital Assets	-	17,153	(17,153)	-100.0%
Total Assets	<u>23,545</u>	<u>50,260</u>	<u>(26,715)</u>	<u>-53.2%</u>
Liabilities				
Current Liabilities	234	2,068	(1,834)	-88.7%
Debt Payable to City of Huntington Beach	75,475	85,144	(9,669)	-11.4%
Long-Term Liabilities Payable within one year	9,242	2,454	6,788	276.6%
Long-Term Liabilities	48,682	51,639	(2,957)	-5.7%
Total Liabilities	<u>133,633</u>	<u>141,305</u>	<u>(7,672)</u>	<u>-5.4%</u>
Net Assets				
Invested in Capital Assets -				
Net of Related Debt	-	17,153	(17,153)	-100.0%
Restricted	300	345	(45)	-13.0%
Unrestricted (Deficit)	(110,388)	(108,543)	(1,845)	1.7%
Total Net Deficit	<u>\$ (110,088)</u>	<u>\$ (91,045)</u>	<u>\$ (19,043)</u>	<u>20.9%</u>
Expenses				
Economic Development	\$ 31,538	\$ 17,635	\$ 13,903	78.8%
City Attorney	212	115	97	84.3%
Community Services	-	90	(90)	-100.0%
Public Works	2	93	(91)	-97.8%
Interest	6,225	6,378	(153)	-2.4%
Total Expenses	<u>37,977</u>	<u>24,311</u>	<u>13,666</u>	<u>56.2%</u>
General Revenues				
Property Taxes	17,724	26,988	(9,264)	-34.3%
Use of Money and Property	1,001	1,861	(860)	-46.2%
From Other Agencies	180	2,156	(1,976)	-91.7%
Other	29	619	(590)	-95.3%
Total General Revenues	<u>18,934</u>	<u>31,624</u>	<u>(12,690)</u>	<u>-40.1%</u>
Excess/(Deficiency) of Revenue over/(under)				
Expense	(19,043)	7,313	(26,356)	-360.4%
Net Assets - Beginning of Year As Restated	(91,045)	(98,358)	7,313	-7.4%
Net Assets - End of Year (Deficit)	<u>\$ (110,088)</u>	<u>\$ (91,045)</u>	<u>\$ (19,043)</u>	<u>20.9%</u>



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Land Held for Resale, Capital Assets, and Invested in Capital Assets – Net of Related Debt decreased by \$6,158,000 and \$17,153,000, respectively due to the transfer of real property from the Agency to the City of Huntington Beach in connection with Cooperation Agreements between the City and the Agency. This transfer is also the reason for the increase in Economic Development expenses of \$13,903,000, which was slightly offset by the decrease in the Supplemental Education Revenue Augmentation Fund (SERAF) payment for fiscal year 2010-11.

Long-Term Liabilities Payable within one year increased by \$6,788,000 due to the early repayment of the HELP loan and the adoption of an amortizing loan repayment schedule for RDA Advances. The repayment schedule for the advances was approved by the City Council/Redevelopment Board in January 2011. Accordingly, the current portion of the Debt Payable to the City (amount payable within one year) decreased by \$9,669,000 due to the net effect of the following: \$6,045,000 reclassification to Long-Term Liabilities Payable within one year, \$6,714,000 in scheduled debt service principal payments, and \$3,090,000 addition to advances from the City related to accrued interest. Please refer to Note 7 for further information.

Property taxes, the Agency's major source of revenue, decreased by \$9,264,000 due to reductions in assessed property values.



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FUND FINANCIAL ANALYSIS

Below is an analysis of the Agency's various fund financial activities (in thousands):

	<u>2011 Amount</u>	<u>2010 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Huntington Beach Project Area #1				
Total Assets	\$ 2,544	\$ 9,757	\$ (7,213)	-73.9%
Total Liabilities	1,385	1,487	(102)	-6.9%
Fund Balance	1,159	8,270	(7,111)	-86.0%
Revenues	966	1,789	(823)	-46.0%
Expenditures	9,177	5,046	4,131	81.9%
Southeast Coastal Project Area				
Total Assets	-	-	-	N/A
Total Liabilities	474	461	13	2.8%
Fund Balance	(474)	(461)	(13)	2.8%
Revenues	-	-	-	N/A
Expenditures	13	7	6	85.7%
Low - Income Housing				
Total Assets	21,166	21,855	(689)	-3.2%
Total Liabilities	10,255	10,446	(191)	-1.8%
Fund Balance	10,911	11,409	(498)	-4.4%
Revenues	129	2,679	(2,550)	-95.2%
Expenditures	4,232	6,924	(2,692)	-38.9%
Debt Service Fund - Huntington Beach Project Area #1				
Total Assets	6,394	7,045	(651)	-9.2%
Total Liabilities	8,683	7,979	704	8.8%
Fund Balance	(2,289)	(934)	(1,355)	145.1%
Revenues	18,131	18,294	(163)	-0.9%
Expenditures	14,781	19,346	(4,565)	-23.6%
Debt Service Fund - Southeast Coastal Project Area				
Total Assets	792	1,084	(292)	-26.9%
Total Liabilities	-	302	(302)	-100.0%
Fund Balance	792	782	10	1.3%
Revenues	10	60	(50)	-83.3%
Expenditures	-	12	(12)	-100.0%

The expenditures for the Low - Income Housing Fund and the Huntington Beach Project Area #1 Debt Service Fund decreased by \$2,692,000 and \$4,565,000, respectively. This decrease was primarily due to the decrease in the amount of Supplemental Education Revenue Augmentation Fund (SERAF) contributions required to be paid by the City in fiscal year 2010-11 (\$1,107,000). In the prior year, the required payment was \$5,380,000. The decrease was slightly offset by an increase in the amount transferred to the City for



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repayment of advances in accordance with the debt repayment schedule included in the Cooperation Agreement between the City and the Agency.

DEBT ADMINISTRATION

A summary of the Agency's debt at year-end is (in thousands):

	<u>2011 Amount</u>	<u>2010 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Debt Payable to City of Huntington Beach	\$ 81,926	\$ 85,550	\$ (3,624)	-4.2%
Bonds Payable	19,705	21,080	(1,375)	-6.5%
Notes Payable	4,197	4,365	(168)	-3.8%
Disposition and Development Agreement	27,447	28,113	(666)	-2.4%
Other Debt	124	129	(5)	-3.9%
Total Debt	<u>\$ 133,399</u>	<u>\$ 139,237</u>	<u>\$ (5,838)</u>	<u>-4.2%</u>

The \$5,838,000 decrease primarily represents scheduled debt service payments in the amount of \$9,070,000 made on the Agency's long-term debt, offset by new debt of \$3,232,000 issued during the year ended September 30, 2011. Changes to the Agency's long-term debt are discussed in further detail in Note 7 of the Financial Statements.

CAPITAL ASSETS

In connection with the cooperation agreements between the City and the Agency, the Agency transferred land, valued at \$17,153,000, to the City during the year ended September 30, 2011. The Agency's capital asset activity is further illustrated in Note 5 of the financial statements.

OTHER INFORMATION

Below are descriptions of the some of the Agency's activities during the year:

Huntington Beach (Merged Project Area) –

The Strand is a mixed-use project developed by CIM Group on a 3-acre site in the downtown area. The Strand offers approximately 110,000 square feet of retail and office space. The Shorebreak Hotel is a 157-room luxury boutique hotel operated by Joie de Vivre Hospitality. Ample parking is available in a subterranean structure. Retail tenants include Forever 21, G by Guess, Sketchers, CVS, Marilee's Swimwear, Rip Curl, and Active Ride. Dining options include Johnny Rockets and RA Sushi. Portions of the retail development and parking structure opened in November 2008 and the hotel opened in April 2010. The office space was occupied in June 2011.



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Pacific City was entitled for development by Makar Properties on a 31-acre site at Pacific Coast Highway and First Street. The site has now been purchased by Crescent Heights for future development. A Community Facilities District is proposed to fund the majority of the public works improvements. The plan is for 516 upscale residential rental housing units built in four phases, ranging from 969 to 2,500 square feet. The residential village, totaling 17.2 acres and consisting of four distinct styles, will act as the cornerstone of Pacific City, allowing residents close access to shops, restaurants with 48,900 square feet of restaurant space and 30,000 square feet of office space. This community will encompass 191,000 square feet of the retail center featuring luxurious retail brands, prime office space, dining, and entertainment. Pacific City is expected to open in late 2017. Currently, the plan calls for a boutique hotel that will feature up to 200 rooms and is expected to open by 2017.

Surf City Nights is a street fair/farmer's market that takes place between 5 p.m. - 9 p.m. on Tuesday nights on the first three blocks of downtown Main Street between Pacific Coast Highway and Orange Avenue. The Downtown Business Improvement District maintains the Surf City Nights where residents and visitors regularly take an evening stroll and dine at local restaurants. The street fair includes a farmer's market, live entertainment, children's activities, retail sales, food, arts, and crafts.

Bella Terra I – Formerly known as Huntington Center has been transformed into an entertainment/life style center; this was an outdated 56.5-acre retail property. With the approval of the Second Implementation Agreement on September 17, 2007, the Agency commenced payment of its obligation of \$15 million to the developer. The balance of these obligations is \$13,922,000 as of September 30, 2011. The approximate 1,532 space public parking garage, funded by the Community Facilities District 2003-1 (Huntington Center), opened on October 1, 2005.

Bella Terra II – Bella Terra Associates, LLC purchased the former Montgomery Wards 13.5 acre portion of the site that has been left vacant for a number of years. DJM Capital has amended the specific plan and environmental impact report and has been entitled to develop The Crossings at Bella Terra, a mixed-use project that will consist of 156,000 square feet of retail and 467 residential units. Negotiations were finalized in October 2011, providing for assistance for the development of Affordable Housing including very low income units. Construction has commenced and is scheduled to be completed by October 2013.

Specific and Economic Revitalization Plan for Beach Boulevard and Edinger Corridor

The Agency/City commenced the preparation of an Economic Revitalization Strategic Plan to enhance and maximize the potential of these major thoroughfares in 2010. The analysis in supporting the proposed land-use changes were based upon economic trends and community goals. Community meetings, meetings with property owners, and interested parties were conducted over the last two years. The Beach Edinger Specific Plan and Environmental Impact Report was approved by the City Council on March 1, 2011. The



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Plan allows for 4,500 residential units, 1.4 million additional square feet of commercial space and up to 350 hotel rooms.

Downtown Specific Plan (DTSP) and Downtown Parking Master Plan – The Agency and land use/economic/traffic consultants updated the Downtown Specific Plan (DTSP) and Downtown Parking Master Plan (DPMP). The update will assist in the redevelopment of blighted and/or underutilized parcels. The DTSP developed land use provisions and urban design guidelines that support and encourage a mixed-use development community. Five town hall meetings consisting of community members, property owners, and interested parties were held to discuss the future of downtown. A program environmental review process was developed. The City Council approved the Environmental Impact Report in November 2010 and the Downtown Specific Plan in January 2011. The California Coastal Commission has approved the Plan.

Waterfront Project/Grand Coast Development –The Agency entered into an Amended and Restated Disposition and Development Agreement in 1998, which has since been amended several times. A Community Facilities District was formed for the development of the Hyatt Regency Huntington Beach Resort and Spa and its Conference Center. The Hyatt Regency Huntington Beach Resort & Spa and its Conference Center was opened in January 2003 and the Hilton opened in July 1990.

The Developer's Advance Loan Balance is \$5,803,000 as of September 30, 2011. An Implementation Agreement to the Disposition and Development Agreement (DDA) was approved between the Redevelopment Agency ("Agency") and Mayer Financial, L.P. ("Developer") in October 2008. The Third Implementation Agreement that relates to the timeframe for development of Parcel C, which is the land located between the Waterfront Hilton and the Hyatt Resort and Spa and will result in a third hotel at this location. Each extension also requires a payment of \$250,000 from the Developer to the City to compensate for an estimated loss in Transient Occupancy Tax (TOT) that the City would have received as a result of the additional hotel. A Fourth Implementation Agreement was approved by the City Council in October 2010, which extends the time period by six (6) months for construction of Parcel C. In May 2011, a Fifth Implementation Agreement was approved, which provided the developer a period of six (6) one year extension through 2016 for development of the third hotel. In addition, it created a new lease for the third hotel to be combined with the current Hilton Lease and provided a credit for the \$250,000 in-lieu payments for construction related expenses. . The project also pays lease payments to the Agency on an annual basis. The third hotel should be open by 2019.

Capital Improvements/Facilities – The one time revenue of \$19 million from the Redevelopment Agency's participation payments from the Waterfront Residential project is funding various public improvements within the City's Merged Redevelopment Project Area. The revenue received during 2004-2006 has been expended over several years through the City's Capital Improvement Program (CIP). Approximately \$18.5 million has been allocated for capital projects that include the Civic Center seismic retrofit (matched with



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FEMA funds), drainage improvements, concrete and asphalt replacement, streetlight replacements, restrooms north of the pier, permanent buildings on the pier, a visitor's kiosk at the Pier Plaza, internal building modifications for the Main Street Library, and fire station renovations. The Surf City Nights pilot project was originally funded through this revenue source. All funding has been expended.

Southeast Coastal Project Area

Utility Undergrounding – Southern California Edison is taking the lead in the design work for under-grounding the Edison utilities along PCH and is working with City staff, Caltrans, and the California State Beaches Department.

Seawater Desalination Facility – The Redevelopment Agency approved an Owner Participation Agreement (OPA) dated February 27, 2006, with Poseidon Resources Corporation to provide for the development of a seawater desalination plant on property leased from the AES Corporation. The Agreement containing the covenants affecting the real property was recorded on June 8, 2006. In September 2011, the Redevelopment Agency considered an Amended and Restated Owner Participation Agreement. The Agreement sets forth guaranteed tax increment. The Agency approved the OPA in October 2011. AES is in the process of removing storage tanks on this property. California Coastal Commission approval is required for the project to be approved.

Magnolia Street Sidewalk & Lighting – This project was completed, consisting of sidewalk and installation of pedestrian lighting on both sides of Magnolia Street. The Agency funding was included in the Capital Improvement Program (CIP) budget for \$593,000.

Housing Activities

Emerald Cove – In May 2010, the City entered into an agreement with the Redevelopment Agency to convey ownership of the Emerald Cove Senior Apartments (recorded as an enterprise fund) from the City to the Redevelopment Agency Low-Income Housing Fund. Emerald Cove is located at 18191 Parktree Circle and consists of 164 senior apartment units (studios and one bedrooms). Bids from affordable housing non-profits were received and reviewed to acquire and completely rehabilitate the units in conformity with local, state and federal laws, rules and regulations. Subsequently, rental of the units (with the exception of two managers' units) will be to very low income and low income senior citizen households at affordable rents for a period of not less than 60 years. Jamboree Housing was awarded the project and Affordable Housing Agreement and the Regulatory Agreement were approved by City Council in September 21, 2009. Rehabilitation of the units began July 2010 with a completion in December 2010, and the Community Room was completed in spring of 2011.



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Jamboree Housing I, II, III, and IV – The Agency and City of Huntington Beach assisted Jamboree Housing Corporation, an Orange County based non-profit housing developer and designated CHDO (Community Housing Development Organization,) to acquire and rehabilitate four apartment buildings in the Oakview sub-area. Through the use of HOME funds and Housing Set Aside funds for the 25% match of non-federal funds, four buildings consisting of 19 two-bedroom housing units will remain affordable to very low and low-income households for at least 60 years. Jamboree provides on-site management and tenant services for the tenants they serve.

Pacific Court – In 2008, the Agency expended \$7 million dollars in Set-Aside funds and \$500,000 in HOME funds to help C & C Development and Orange Housing Development Corporation, a non-profit housing developer and CHDO to acquire a 48-unit apartment complex located at 2200 Delaware Avenue. The units and grounds, now known as Pacific Court, have been fully rehabilitated, providing affordable housing for 47 very low and low-income families while retaining a portion of existing tenants.

Garfield/Delaware, Heil Affordable Housing Project – The City of Huntington Beach acquired property at the northeast corner of Delaware Street and Garfield Avenue as well as several homes adjoining Heil Avenue as part of the street widening projects. The City will be making these surplus land parcels available for sale during the 2011/2012 fiscal year following the exercising of its due diligence in connection with the noticing of various public agencies, as required.

Colette's Children's Home, Keelson Lane Project – In fiscal year 2008/09, the Agency assisted Colette's Children's Home, a non-profit housing developer, and CHDO with \$2.1 million dollars in Housing Set-Aside funds to assist with the acquisition and rehabilitation of a property in the Oakview sub-area comprised of two apartment buildings. The completed project will preserve as affordable 10 housing units of varying sizes, including two five-bedroom units to accommodate larger low-income families. The project was completed in September 2011. During the coming fiscal year, the Agency will be working with Colette's to acquire, rehabilitate, and possibly construct additional apartment buildings adjoining these buildings with the objective of providing quality affordable housing within the Oakview sub-area.

City of Huntington Beach First-Time Homebuyers Down Payment Assistance Program (DPAP) – In May of 2009, the Agency approved the appropriation of \$1,050,000 Housing Set-Aside funds to set up, utilize, and maintain a DPAP revolving loan fund to provide down payment assistance loans. In March 2010, an additional \$500,000 was appropriated to assist applicants to be eligible for up to \$100,000 down payment assistance to moderate-income households purchasing their first affordable home in the City. Under the DPAP guidelines, families working and living in the City will be shown priority as to loan consideration. In October 2010, another \$1,000,000 was added to the 2010-2011 fiscal



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year budget. The Agency worked with Affordable Clearinghouse to administer the DPAP Program. In fiscal year 2009-2010, a total of \$618,210 in down payment assistance funds have been approved allowing nine (9) moderate-income families to purchase an affordable home. In fiscal year 2010-2011, sixteen (16) more moderate-income buyers closed escrow, totaling \$1,349,242 in assistance. In all, twenty-five (25) moderate-income households were assisted with first-time down payment, totaling \$1,967,452.

ECONOMIC FACTORS AND NEXT YEAR'S OPERATIONS

On June 29, 2011, the Government of the State of California signed Assembly Bills 1X 26 and 27 as part of the State's budget package. Assembly Bill 1X 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill 1X 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program.

On December 29, 2011, the California Supreme Court ruled that Assembly Bill 1X 26, the dissolution measure, is largely upheld and is a proper exercise of the legislative power vested in the Legislature by the State Constitution. A different conclusion was rendered with respect to Assembly Bill 1X 27, which was invalidated in its entirety by the California Supreme Court. Accordingly, the Agency is required to dissolve in fiscal year 2011-12 and the guidelines for dissolution are set forth in Assembly Bill 1X 26.

During the City Council's January 9, 2012 meeting, the City approved two resolutions designating the City as a Successor Agency to the Redevelopment Agency, and the Huntington Beach Housing Authority as the Successor Agency for housing-related items. The Redevelopment Agency was dissolved on February 1, 2012 pursuant to Health and Safety Code Section 34172(a). The primary role of the Successor Agency is to dispose of former redevelopment agency assets and/or properties expeditiously and in a manner aimed at maximizing values, pay all debts and fulfill all obligations of the former agency, and to wind down redevelopment affairs.

Several new bills have been introduced to address issues relating to the dissolution of redevelopment agencies. Assembly Bill 1585, a key bill introduced on February 2, 2012, is a "clean-up" bill clarifying certain provisions of AB 1X 26 including making changes to the administrative cost allowance to successor agencies, expanding the definition of "enforceable obligation" to include loans between a city and an agency entered into prior to December 31, 2010, and allowing cities to retain responsibility for housing functions previously performed by the redevelopment agency. Assembly Bill 1585 is currently in the



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2011**

Assembly Housing and Community Development and Local Government Committee and has not been assigned a hearing date.

The financial statements do not include any adjustments as a result of the dissolution of the Agency. Please refer to Note 15 for a more detailed discussion of the provisions for dissolution set forth in Assembly Bill 1X 26 and other related legislation.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT TEAM

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need any additional financial information, please contact the Finance Department at 2000 Main Street, Huntington Beach, California, 92648-2702, by phone (714) 536-5674, or via e-mail at DBulosan@surfcity-hb.org. You can also visit the City's website at www.huntingtonbeachca.gov for additional copies of this report.

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**REDEVELOPMENT AGENCY OF THE
CITY OF HUNTINGTON BEACH
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011
(In Thousands)**

	Governmental Activities
ASSETS	
Cash and Investments	\$ 6,794
Restricted Cash with Fiscal Agent	2,451
Taxes Receivable	3,866
Other Receivables	10,434
TOTAL ASSETS	23,545
LIABILITIES	
Accounts Payable and Accrued Liabilities	58
Accrued Interest Payable	176
Long-Term Debt - Due Within One Year	9,242
Long-Term Debt to the City of Huntington Beach and Component Units	75,475
Other Long-Term Debt	48,682
TOTAL LIABILITIES	133,633
NET ASSETS (DEFICITS)	
Restricted for:	
Capital Projects	237
Low-Income Housing	63
Unrestricted	(110,388)
TOTAL NET DEFICIT	\$ (110,088)

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(In Thousands)**

	Expenses	Net Expense and Changes in Net Assets
Functions/Programs		Total Governmental Activities
Governmental Activities:		
Economic Development	\$ 31,538	\$ (31,538)
City Attorney	212	(212)
Public Works	2	(2)
Interest on Long-Term Debt	6,225	(6,225)
Total Governmental Activities	\$ 37,977	\$ (37,977)
 General Revenues:		
Property Taxes		17,724
Use of Money and Property		1,001
From Other Agencies		180
Other		29
Total General Revenues		18,934
Change in Net Assets		(19,043)
Net Deficit - October 1, 2010, as restated (Note 12)		(91,045)
Net Deficit - September 30, 2011		\$ (110,088)

REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011
(In Thousands)

	Capital Projects Funds			
	Huntington Beach Project Area #1	Southeast Coastal Project Area	Low-Income Housing Fund	Total Capital Projects Funds
ASSETS:				
Cash and Investments	\$ 852	\$ -	\$ 5,153	\$ 6,005
Restricted Cash with Fiscal Agent	-	-	-	-
Due from Other Funds	1,571	-	490	2,061
Taxes Receivable	-	-	-	-
Other Receivables	121	-	10,233	10,354
Advances to Other Funds	-	-	5,290	5,290
TOTAL ASSETS	\$ 2,544	\$ -	\$ 21,166	\$ 23,710
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts Payable and Accrued Liabilities	\$ 22	\$ -	\$ 36	\$ 58
Due to Other Funds	-	474	-	474
Deferred Revenue	-	-	10,219	10,219
Advances from Other Funds	1,363	-	-	1,363
TOTAL LIABILITIES	1,385	474	10,255	12,114
FUND BALANCES:				
Nonspendable				
Long-Term Receivables	-	-	-	-
Restricted				
Debt Service	-	-	-	-
Low - Income Housing	-	-	5,558	5,558
Advances to Other Funds	-	-	5,290	5,290
Other Purposes	288	229	63	580
Assigned				
Capital Projects	-	-	-	-
Debt Service	-	-	-	-
Other Purposes	871	-	-	871
Unassigned	-	(703)	-	(703)
TOTAL FUND BALANCES (DEFICIT)	1,159	(474)	10,911	11,596
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,544	\$ -	\$ 21,166	\$ 23,710

Debt Service Funds			
Huntington Beach Project Area #1	Southeast Coastal Project Area	Total Debt Service Funds	Total All Funds
\$ -	\$ 789	\$ 789	\$ 6,794
2,451	-	2,451	2,451
-	-	-	2,061
3,866	-	3,866	3,866
77	3	80	10,434
-	-	-	5,290
\$ 6,394	\$ 792	\$ 7,186	\$ 30,896

\$ -	\$ -	\$ -	\$ 58
1,587	-	1,587	2,061
3,169	-	3,169	13,388
3,927	-	3,927	5,290
8,683	-	8,683	20,797

56	-	56	56
2,451	-	2,451	2,451
-	-	-	5,558
-	-	-	5,290
-	-	-	580
-	-	-	-
-	792	792	792
-	-	-	871
(4,796)	-	(4,796)	(5,499)
(2,289)	792	(1,497)	10,099
\$ 6,394	\$ 792	\$ 7,186	\$ 30,896

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**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011
(In Thousands)**

Total Fund Balances Governmental Funds	\$	10,099
Amounts reported for governmental activities in the statement of net assets are different because:		
Property tax revenues collected more than 60 days after fiscal year are not current financial resources and, therefore are deferred in the funds		13,388
Long-term receivable are not available to pay for current-period expenditures and accordingly are deferred in the governmental funds		
Accrued interest payable on long-term debt		(176)
Long-term Liabilities, including bonds and certificates of participation payable are not due and payable in the current period and therefore are not reported in the funds		<u>(133,399)</u>
Net Deficit of Governmental Activities	\$	<u>(110,088)</u>

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(In Thousands)**

	Capital Projects Funds			
	Huntington Beach Project Area #1	Southeast Coastal Project Area	Low - Income Housing Fund	Total Capital Projects Funds
REVENUES:				
Tax Increment	\$ -	\$ -	\$ -	\$ -
Use of Money and Property	760	-	126	886
Intergovernmental	180	-	-	180
Other Revenue	26	-	3	29
TOTAL REVENUES	966	-	129	1,095
EXPENDITURES:				
Current:				
Economic Development	8,702	13	3,825	12,540
City Attorney	212	-	-	212
Public Works	2	-	-	2
Debt service:				
Bond & Other Debt:				
Principal	261	-	407	668
Interest	-	-	-	-
TOTAL EXPENDITURES	9,177	13	4,232	13,422
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(8,211)	(13)	(4,103)	(12,327)
Transfers in	1,100	-	3,605	4,705
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	1,100	-	3,605	4,705
NET CHANGES IN TOTAL FUND BALANCES	(7,111)	(13)	(498)	(7,622)
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	8,270	(461)	11,409	19,218
FUND BALANCES (DEFICIT) - END OF YEAR	\$ 1,159	\$ (474)	\$ 10,911	\$ 11,596

Debt Service Funds			
Huntington Beach Project Area #1	Southeast Coastal Project Area	Total Debt Service Funds	Total All Funds
\$ 18,026	\$ -	\$ 18,026	\$ 18,026
105	10	115	1,001
-	-	-	180
-	-	-	29
18,131	10	18,141	19,236
3,376	-	3,376	15,916
-	-	-	212
-	-	-	2
8,397	-	8,397	9,065
3,008	-	3,008	3,008
14,781	-	14,781	28,203
3,350	10	3,360	(8,967)
-	-	-	4,705
(4,705)	-	(4,705)	(4,705)
(4,705)	-	(4,705)	-
(1,355)	10	(1,345)	(8,967)
(934)	782	(152)	19,066
\$ (2,289)	\$ 792	\$ (1,497)	\$ 10,099

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(In Thousands)**

Net Changes in Fund Balances - Total Governmental Funds **\$ (8,967)**

Amounts reported for governmental activities in the Statement of Activities are different because:

Accrual of Revenues - Certain revenues in the Statement of Activities do not meet the "availability" criteria for revenue recognition in the governmental funds and are not reported in the governmental funds as revenue

Current Year Property Tax Accrual	3,169
Prior Year Property Tax Accrual	(3,471)

Repayments on long-term receivables provide current financial resources to governmental funds, while loans provided consume the current financial resources of governmental funds. These transactions, however, have no effect on net assets.

1,531

Capital Expenditures - Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Transfer of Capital Assets to the City	(17,153)
--	----------

Liabilities not Liquidated with Current Resources – Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Current Year Interest Accrual	(176)
Prior Year Interest Accrual	186

Accrued interest on Advances from the City and HELP Loan	(3,227)
--	---------

Payments of Long-Term Debt - Principal payments on long-term debt are recorded as an expenditure in the governmental funds and a reduction of liability in the government-wide statements.

9,065

Change in Net Assets of Governmental Activities **\$ (19,043)**



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

1. ORGANIZATION

The Redevelopment Agency of the City of Huntington Beach (the Agency) is a blended component unit of the City of Huntington Beach (the City) governed by the Agency’s Board of Directors (City Council acts as Agency Board). The Agency was formed by ordinance in 1967 to encourage private development of areas that are considered blighted. The Agency adopts project areas by public vote, which qualifies under the California Health and Safety Code.

The following project areas have been adopted:

<u>Project Area</u>	<u>Year Adopted</u>	<u>Status</u>
Main/Pier	1982 (amended in 1983)	Merged into Huntington Beach Project Area #1
Talbert/Beach	1982	Merged into Huntington Beach Project Area #1
Oakview	1982 (amended in 1989)	Merged into Huntington Beach Project Area #1
Yorktown/Lake	1982	Merged into Huntington Beach Project Area #1
Huntington Center	1984	Merged into Huntington Beach Project Area #1
Huntington Beach Project Area #1	1997	Created from five existing project areas
Southeast Coastal Project Area	2002	Began operations in 2002

The Agency’s project areas require that 20% of tax increment revenue be used to promote affordable housing citywide.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Government – Wide Financial Statements

The Agency’s Government-Wide Financial Statements include the Statement of Net Assets and the Statement of Activities. These statements present summaries of governmental activities for the Agency. These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the Agency’s assets and liabilities including capital assets and long-term liabilities are included in the accompanying Statement of Net Assets. The



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The Statement of Activities demonstrates the degree with which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are allocated to the various functions based on a proportionate use of services. The types of transactions reported as program revenues for the Agency are reported in three categories: 1) charges for services, 2) operating grants and other contributions, and 3) capital grants and other contributions. Taxes and other items not properly included among program revenues are reported as general revenues.

Government-Wide financial statements do not provide information by fund. They simply distinguish between governmental and business activities. All of the Agency's activities are governmental activities. The Agency's Statement of Net Assets includes both current and non-current assets and liabilities.

Net Assets Classification

In the Government-Wide financial statements, net assets are classified in the following categories:

Invested In Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and outstanding debt balances attributable to the acquisition, construction, or improvement of these assets reduce this category. The Agency had no remaining capital assets at September 30, 2011.

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. This category presents restrictions placed on the categories of Capital Projects, Debt Service, and Low-Income Housing Programs.

Unrestricted Net Assets – Represent the net assets of the Agency not restricted for any project or other purpose.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as needed.

b. Fund Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Revenues are recorded when received in cash, except that revenues subject to accrual (generally received within 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

All Agency funds are reported as major funds:

Capital Project Funds:

- Huntington Beach Project Area #1
- Southeast Coastal Project Area
- Low-Income Housing Fund

Debt Service Funds:

- Huntington Beach Project Area #1
- Southeast Coastal Project Area

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. Accompanying schedules are presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets as presented in the Government-Wide Financial Statements.



Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011

The Agency's Governmental Fund Balance is made up of the following components:

- Nonspendable fund balance typically includes inventories, land held for resale, prepaid items, and other items that, by definition, are not in spendable form.
- The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- The committed fund balance classification includes amounts that can be used only for specific purposes as determined by a formal action of the Agency's Board of Directors, the highest decision-making authority. Through formal actions, the Board of Directors has authority to establish, modify, or rescind a fund balance commitment.
- Amounts in the assigned fund balance classification are intended to be used by the Agency for specific purposes but do not meet the criteria to be classified as restricted or committed. The Agency Administrator or designee has the authority to establish, modify, or rescind a fund balance assignment.
- Unassigned fund balance is the residual classification for the Agency's funds and includes all spendable amounts not contained in the other classifications.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

The Agency establishes encumbrances to record the amount of purchase orders, contracts, and other obligations, which have not yet been fulfilled, cancelled, or discharged. Encumbrances outstanding at year-end are recorded as part of restricted or assigned fund balance.

Encumbrances outstanding as of September 30, 2011, by major fund (in thousands):

Huntington Beach Project Area #1	\$ 405
Low - Income Housing	223
Total All Funds	<u>\$ 628</u>

c. Investments

Investments are stated at fair value, except for nonparticipating investments (Guaranteed Investment Contracts) which are stated at cost. The City of Huntington



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

Beach allocates investment income earned through its investment pool to funds based on month-end cash balances. Since the Agency pools its cash with the City (see Note 3), the Agency receives monthly allocations of investment income.

d. Special Agency Accounting

The Agency follows the special accounting procedures required by the California Health and Safety Code. These procedures comply with generally accepted accounting principles for governmental agencies.

e. Self-Insurance

The Agency is self-insured through the City of Huntington Beach. All required information is included in the City of Huntington Beach Comprehensive Annual Financial Report for the year ended September 30, 2011.

f. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure, are reported in the governmental activities column in the Government-Wide financial statements. Capital assets have an acquisition cost of \$50,000 or greater and a useful life of one year or more.

The Agency records all purchased capital assets at historical cost (where historical records are available) and at estimated historical cost where no historical records exist. Capital assets acquired from gifts or contributions are recorded at fair value at the time received, or in the case of infrastructure assets, at Agency Board of Directors' acceptance date. The Agency's capital assets were transferred to the City during fiscal year 2010-11.

In the Government-Wide financial statements, depreciation for building is recorded on the straight-line method over the estimated useful life of 40-50 years and charged to the respective activity or fund. No depreciation is recorded in the governmental funds of the fund financial statements.

g. Interfund Transactions

As a general rule, interfund transactions have been eliminated from the Government-Wide financial statements. These interfund transactions would distort the direct costs and program revenues for the various functions.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

h. Long-Term Obligations

In the Government-Wide financial statements, long-term obligations are recorded as liabilities in the governmental activities. Significant bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt, if material. In the governmental fund financial statements, bond discounts and premiums are recognized as another financing source or use. Issuance costs are recorded as current year expenditure.

i. Employee Compensated Absences

The Agency records the cost of all accumulated and unused leave time (vacation, sick, comp) as a liability when earned in the Government-Wide financial statements. Liabilities for these amounts in the governmental funds are only recorded if they have matured (employee resignations or retirements).

j. Property Tax Revenue

Property tax in California is levied according to Article 13-A of the California Constitution. The basic levy is a countywide-levy of one percent of total assessed valuation and is allocated to county governments, school districts, cities and special districts. Additional levies require two-thirds approval by voters and are allocated directly to the specific government.

In the Government-Wide financial statements, property tax revenue is recorded in the year for which it is levied, regardless of when due or received. In the fund financial statements, property tax revenue is recognized in the fiscal year levied provided that revenue is collected in time to pay current year liabilities. Deferred property tax revenue represents property taxes related to the current fiscal year that are collected more than 60 days after the fiscal year end. Since the Agency's fiscal year differs from the County's property tax year, there is a difference between the property tax revenue recorded on the fund financial statements and the Government-Wide financial statements which is noted as a reconciling item in both the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities and the Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

The County acts as a collection agent for property tax for all of the local governmental units. Property taxes are normally collected twice per year. The property tax calendar is as follows.

- Lien Date – January 1 – Prior Fiscal Year
- Levy Date – 4th Monday in September – Levy Fiscal Year
- Due Date – First Installment – November 1
- Due Date – Second Installment – February 1
- Delinquent Date – First Installment – December 10
- Delinquent Date – Second Installment – April 10

The taxes are paid to the local governments periodically during the year. Below are the dates of the payments from the County:

- Payments of First Installment – November to December
- Balance of First Installment – February 1
- Payments of Second Installment – March to April
- Balance of Second Installment – July 26

k. Pass-through Payments

Pursuant to California Redevelopment Law (Health and Safety Code Section 33607.5), the Agency is obligated to pass-through a portion of the gross tax increment received to jurisdictions within the project area. Contractual pass-through payments are made twice a year, on February 18th and August 30th. Statutory (AB1290) pass-through payments paid on an annual basis by August 30th. In fiscal year 2010-11, the Agency calculated and remitted \$2,388,000 in pass-through payments to the affected jurisdictions, which was reported as part of Economic Development expenditures on the financial statements.

l. Estimates

The accompanying financial statements require management to make estimates and assumptions that effect certain report amounts and disclosures. Actual results could differ from those estimates.

3. CASH AND INVESTMENTS

The Agency holds a proportionate interest of the City's pooled cash and investments in the amount of \$6,794,000. The Restricted Cash with Fiscal Agent, totaling \$2,451,000, consists of the Guaranteed Investment Contract (GIC), Local Agency Investment Fund



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

(LAIF), and money market accounts as illustrated below.

<u>Investment Type</u>	<u>Amount</u>
Held by Fiscal Agent:	
Guaranteed Investment Contract (GIC)	\$ 1,649,000
Local Agency Investment Fund (LAIF)	753,000
Money Market Funds	49,000
Total General Investments	<u>\$ 2,451,000</u>

The weighted average maturity of the investment in the City Pool is 766 days. The City investment pool is not rated. In fiscal year 2010/11, the effective rate of return in investments was 1.30%. The GIC provider is rated by Standard and Poor's and Moody's at A+ and A2. The GIC itself is unrated. Standard and Poor's and Moody's have rated the money market funds in the Agency's portfolio as AAA.

The Restricted Cash with Fiscal Agent that is in the Local Agency Investment Fund (LAIF) or money market accounts is due upon demand while the amount with GIC has a maturity of over five years. For further information, such as credit risk and categorization of the City's pooled cash and investments, see the City's Comprehensive Annual Financial Report for the fiscal year ended September 30, 2011.

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not rated. The Agency's LAIF balance at September 30, 2011, was \$753,000.

The total amount invested by all public agencies in LAIF as of September 30, 2011, was \$22.4 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which at September 30, 2011, had a balance of \$66.2 billion, of that amount, 4.43% was invested in medium-term and short-term structured notes and asset-backed securities. The average maturity of PMIA investments was 236 days as of September 30, 2011.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

4. TAX INCREMENT REVENUE AND FINANCING

The Agency's primary source of revenue is tax increment. Tax increment revenue is computed as follows:

- When a project area is adopted, the County of Orange Auditor/Controller freezes all of the existing property's assessed value. The County distributes taxes received from this frozen valuation to the various governmental agencies as if the project area did not exist.
- The Agency receives 100% of taxes (not including certain pass-through agreements) received from increases in assessed valuation due to new construction, resale of existing property and annual increases allowed under Article 13-A of the California Constitution.

The increment is used to repay the debt of the Agency (see Note 7).

5. CAPITAL ASSETS

The capital asset activity for the year was (in thousands):

Governmental Activities	October 1, 2010 (as restated)	Additions	Dispositions	September 30, 2011
Capital Assets, Not Depreciated:				
Land	\$ 17,153	-	(17,153)	\$ -
Total Capital Assets -Not Depreciated	17,153	-	(17,153)	-
Capital Assets of Governmental Activities - Net	\$ 17,153	\$ -	\$ (17,153)	\$ -

On March 7, 2011, the Agency adopted a resolution authorizing the transfer of real property owned by the Redevelopment Agency to the City of Huntington Beach. Capital Assets having a net book value of \$17,153,000 were transferred to ensure the City will be able to continue meeting its obligations to complete redevelopment and affordable housing projects and activities.

The Agency's capital assets were restated in order to reflect the transfer of depreciable assets recorded as a prior period adjustment. Please refer to Note 12 for further information.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

6. INTERFUND TRANSACTIONS

a. Due To/From Other Funds

The amounts at Year-end were (in thousands):

	Due from Other Funds	Due to Other Funds
Huntington Beach Project Area #1 Capital Projects	\$ 1,571	\$ -
Low-Income Housing Fund	490	-
Southeast Coastal Project Area Capital Projects	-	474
Huntington Beach Project Area #1 Debt Service	-	1,587
Total	\$ 2,061	\$ 2,061

These outstanding balances result mainly from short-term borrowings to cover payments for goods and services.

b. Advances to/from Other Funds

The amounts at Year-end were (in thousands):

	Advances to Other Funds	Advances from Other Funds
Low-Income Housing Fund	\$ 5,290	\$ -
Huntington Beach Project Area #1 Capital Projects	-	1,363
Huntington Beach Project Area #1 Debt Service	-	3,927
Total	\$ 5,290	\$ 5,290

There is a \$1,363,000 advance from the Low-Income Housing Fund to the Huntington Beach Project Area #1 Capital Projects Fund for the Main Pier property acquisitions. There are no scheduled repayments for this advance.

There is a \$3,927,000 advance from the Low - Income Housing Fund to the Huntington Beach Project Area #1 Debt Service Fund for Supplemental Education Revenue Augmentation Fund (SERAF) contributions. See Note 14 for further details.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

c. Transfers In/Out

The amounts for the year ended September 30, 2011 were (in thousands):

	<u>Transfers In</u>	<u>Transfers Out</u>
Huntington Beach Project Area #1 Capital Projects	\$ 1,100	\$ -
Huntington Beach Project Area #1 Debt Service	-	4,705
Low Income Housing Fund	3,605	-
Total	\$ 4,705	\$ 4,705

The following is a summary of the significant transfers:

- \$3,605,000 was transferred from the Huntington Beach Project Area #1 Debt Service Fund to the Low - Income Housing Fund to comply with the 20% tax increment set-aside requirement.
- \$1,100,000 was transferred from the Huntington Beach Project Area #1 Debt to the Huntington Beach Project Area #1 Capital Projects Fund for the early Acquisition of Leasehold Interest Agreement between the Agency and C.S.B Partnership.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

7. LONG-TERM DEBT

The changes in Agency long-term debt during the year were (in thousands):

	Balance October 1, 2010	Additions	Retirements	Balance September 30, 2011	Amount Due within One Year
DEBT TO CITY OF HUNTINGTON BEACH:					
Advances from General Fund	\$ 8,995	\$ 343	\$ (320)	\$ 9,018	\$ 6,046
Advances from Sewer Fund	265	10	-	275	-
Advances from Drainage Fund	639	24	-	663	-
Advances from Water Fund	3,963	151	-	4,114	-
Deferred Development Fees:					
Park Acquisition and Development Fund	391	15	-	406	-
Sewer Fund	166	6	-	172	-
Drainage Fund	175	7	-	182	-
Deferred Payment on Land Purchases from City:					
General Fund	61,228	2,333	(5,987)	57,574	-
Park Acquisition and Development Fund	5,267	201	-	5,468	-
Emerald Cove	4,461	-	(407)	4,054	405
Total Debt - City of Huntington Beach	85,550	3,090	(6,714)	81,926	6,451
OTHER DEBT					
Help Loan	500	142	-	642	642
Mayer Disposition and Development Agreement	6,153	-	(350)	5,803	-
1999 Refunding Tax Allocation Bonds	6,610	-	(430)	6,180	450
2002 Tax Allocation Refunding Bonds	14,470	-	(945)	13,525	995
Bella Terra Parking	14,076	-	(154)	13,922	-
CIM DDA (Parking & Infrastructure)	7,444	-	(157)	7,287	168
CIM DDA (Additional Parking)	440	-	(5)	435	6
Section 108 Loan	3,665	-	(310)	3,355	330
Pollution Remediation	200	-	-	200	200
Employee Compensated Absences	129	-	(5)	124	-
Total Other Debt	53,687	142	(2,356)	51,473	2,791
Total Agency Debt	\$ 139,237	\$ 3,232	\$ (9,070)	\$ 133,399	\$ 9,242



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

a. Advances from General Fund to Merged Project Area and Southeast Coastal Project Area

Year(s) debt incurred	1985 to 2003
Interest rate *	3.81%
Principal amount	\$8,879,612
Accrued interest	\$137,673
Balance at Fiscal Year End	\$9,017,285
Purpose of debt	Operating, administrative and capital expenditures
Security for debt	Operative Agreement with City
Principal and Interest Payment Date	October 1st

b. Advances from City's Sewer Fund

Year(s) debt incurred	1989
Interest rate *	3.81%
Principal amount	\$130,560
Accrued interest	\$144,878
Balance at Fiscal Year End	\$275,438
Purpose of debt	Sewer Construction
Security for debt	Operative Agreement with City
Principal and Interest Payment Date	October 1st

c. Advances from City's Drainage Fund

Year(s) debt incurred	1987
Interest rate *	3.81%
Principal amount	\$250,000
Accrued interest	\$413,806
Balance at Fiscal Year End	\$663,806
Purpose of debt	Drainage Construction
Security for debt	Operative Agreement with City
Principal and Interest Payment Date	October 1st



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

d. Advances from City's Water Fund

Year(s) debt incurred	1986 and 1987
Interest rate *	3.81%
Principal amount	\$1,138,000
Accrued interest	\$2,976,277
Balance at Fiscal Year End	\$4,114,277
Purpose of debt	Water Construction
Security for debt	Operative Agreement with City
Principal and Interest Payment Date	October 1st

e. Deferred Development Fees

Year(s) debt incurred	1984
Interest rate *	3.81%
Principal amount	\$339,202
Accrued interest	\$420,531
Balance at Fiscal Year End	\$759,733
Purpose of debt	Developer Incentive
Security for debt	Operative Agreement with City
Principal and Interest Payment Date	October 1st

f. Deferred Payment on Land Purchases from City's General Fund

Year(s) debt incurred	1983 to 1992
Interest rate *	3.81%
Principal amount	\$32,833,417
Accrued interest	\$24,740,845
Balance at Fiscal Year End	\$57,574,262
Purpose of debt	Parcel consolidation and development
Security for debt	Operative Agreement with City
Principal and Interest Payment Date	October 1st



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

g. Deferred Payment on Land Purchases from City's Park Acquisition and Development Fund

Year(s) debt incurred	1984
Interest rate *	3.81%
Principal amount	\$1,740,834
Accrued interest	\$3,727,264
Balance at Fiscal Year End	\$5,468,098
Purpose of debt	Emerald Cove Land
Security for debt	Operative Agreement with City
Principal and Interest Payment Date	October 1st

* In January 2011, the City Council/Redevelopment Board approved a revised Cooperation Agreement, which included a Promissory Note that memorialized indebtedness previously incurred by the Agency and owed to the City from a series of loans made from the City to the Agency from 1982 to the present. Based on this Cooperation Agreement, an amortizing payment schedule was implemented with accrued interests for the fiscal year based on 3.81%, with \$6,046,402 repaid annually to the City. Debt repayments are applied to advances in order of priority; with debt owed to the General Fund having a priority claim. At September 30, 2011, \$77,872,000 is payable to the City.

h. Deferred Payment on Land Purchases from City

In May 2009, the City entered into an agreement with the Redevelopment Agency to convey ownership of the Emerald Cove Senior Apartments (recorded as an enterprise fund) from the City to the Redevelopment Agency Low-Income Housing Fund. The balance of the note from the Low-Income Housing Fund to the City as of September 30, 2011 is \$4,054,000.

Debt service requirements to maturity are (in thousands):

Year Debt Incurred	2009
Original Principal Amount	\$5,171,000
Interest Rates	4.75% - 5.5%
Purpose of debt	Conveyance of Emerald Cove Senior Apartments
Security for debt	Agreement with City



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

Year Ending September 30,	Principal	Interest	Amount
2012	\$ 242	\$ 163	\$ 405
2013	254	151	405
2014	265	139	404
2015	280	126	406
2016	294	111	405
2017-2021	1,732	297	2,029
Total	\$ 3,067	\$ 987	\$ 4,054

i. Notes Payable – HELP Loan Funds

Year(s) debt incurred	2002
Interest rate	3.00%
Principal amount	\$500,000
Purpose of debt	Affordable housing
Security for debt	Note with developer
Repayment terms	Deferred for 10 years

In October 2011, CalHFA offered an Early Payoff Discount to all HELP loan holders, discounting the accrued interest based on the number of months the loan was paid off prior to maturity. The Agency elected the early payoff option and in November 2011, the HELP loan was paid in full.

j. Mayer Disposition and Development Agreement

In fiscal year 1996/97, the Agency entered into a Disposition and Development Agreement with Robert Mayer Corporation (Corporation) concerning additional development adjacent to the Waterfront Hotel. Under the agreement, the Corporation would advance payments for the project costs with the Agency reimbursing up to \$16,750,000 of the costs. As of September 30, 2011, the Agency obligation under the agreement amounted to \$5,803,000. Project-generated revenues as available will repay these amounts through September 30, 2023. The interest rate of this obligation is 6.32%.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

k. 1999 Tax Allocation Refunding Bonds

Year(s) debt incurred	1999
Interest rate	3.00% to 5.05%
Original principal amount	\$10,835,000
Purpose of debt	Prepay Agency's 1992 Loans to Public Financing Authority
Security for debt	Redevelopment Agency Tax Increment, excluding Low-Income Housing Amounts
Repayment terms	Principal, August 1 st , Interest, February 1 st and August 1 st

Debt service requirements to maturity are as follows (in thousands):

Year Ending September 30,	Principal	Interest	Total
2012	\$ 450	\$ 298	\$ 748
2013	465	278	743
2014	490	257	747
2015	515	234	749
2016	540	211	751
2017-2021	2,530	645	3,175
2022-2024	1,190	117	1,307
Total	\$ 6,180	\$ 2,040	\$ 8,220

l. 2002 Tax Allocation Refunding Bonds

Year of Issuance	2002
Type of Debt	Tax Allocation Refunding Bonds
Original Principal Amount	\$20,900,000
Security	Tax Increment
Interest Rates	2.00% to 5.00%
Interest Payment Dates	February 1 st and August 1 st
Principal Payment Dates	August 1 st
Purpose of Debt	Prepay Agency's 1992 Loans to Public Financing Authority and fully defease 1992 Public Financing Authority bonds



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

Debt service requirements to maturity are (in thousands):

Year Ending September 30,	Principal	Interest	Total
2012	\$ 995	\$ 641	\$ 1,636
2013	1,040	601	1,641
2014	1,080	558	1,638
2015	1,115	512	1,627
2016	1,180	464	1,644
2017-2021	5,540	1,410	6,950
2022-2024	2,575	253	2,828
Total	\$ 13,525	\$ 4,439	\$ 17,964

Pledged Revenues

The 1999 and 2002 Tax Allocation Refunding Bonds are secured by tax increment revenues excluding the 20% total tax increment dedicated to the Low - Income Housing fund. As of September 30, 2011, the total principal and interest remaining for both bonds is \$26,184,000. Pledged tax increment revenue recognized during the fiscal year was \$14,421,000 against the total debt service payment of \$2,369,000. Although the incremental property taxes were projected to produce sufficient revenues to meet the debt service requirements over the life of the bonds, certain conditions could have a material adverse impact on revenues allocated to the Agency. These include future decreases in the assessed valuation of the project areas, decreases in the applicable tax rates or collection rates, general decline in the economic condition of the project areas, or a change in law reducing the tax increment received by the Agency.

m. Bella Terra Parking Structure

In fiscal year 2005-06, the Agency entered into an Owner Participation Agreement with Bella Terra Associates, LLC (formerly Huntington Center Associates, LLC). Under the Agreement, the Corporation would construct various public improvements including a parking structure, which would then be deeded to the City. The Agency would reimburse \$15,000,000 of the costs of the public improvements.

As of September 30, 2011, the Agency obligation under the agreement amounted to \$13,922,000. Project-generated revenues as available will repay these amounts through September 30, 2025. The interest rate of this obligation is 6.94%.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

n. CIM/Huntington Disposition and Development Agreement – Strand Parking Structure and Infrastructure

Year of Issuance	2009
Type of Debt	Loan from CIM Group, LLC
Original Principal Amount	\$7,900,000
Security	Tax Increment
Interest Rates	7.0%
Interest Payment Dates	September 30 th
Principal Payment Dates	September 30 th
Purpose of Debt	Strand Parking Structure and Infrastructure

The Implementation of Disposition and Development Agreement (DDA) and the Sixth Implementation Agreement (Agreements) between the CIM Group, LLC (CIM) and the Redevelopment Agency (Agency) were entered into from June 1999 to November 2008. The Agreements allow for the development of a hotel, retail and restaurant, and a public parking structure.

The project costs for infrastructure are to be paid initially by the developer. The Agency will reimburse the developer a maximum of \$7.9 million within 25 years through net tax increment revenues generated by the Merged Redevelopment Project Area.

The Sixth Implementation Agreement includes an additional one-time payment of \$2.4 million from the Agency to CIM for the development of the hotel. The Agency has paid the \$2.4 million and the \$500,000 in parking in lieu fees along with the first payment towards the \$7.9 million. As of September 30, 2011, the Agency obligation under the agreement amounted to \$7,287,000.

o. CIM/Huntington Disposition and Development Agreement – Additional Strand Parking

Year of Issuance	2009
Type of Debt	Loan from CIM Group, LLC
Original Principal Amount	\$950,000
Security	Tax Increment
Interest Rates	10.0%
Interest Payment Dates	September 30 th
Principal Payment Dates	September 30 th
Purpose of Debt	Additional Strand Parking Structure and Infrastructure



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

The City Parking In-Lieu Fund repaid \$500,000 of the total debt in fiscal year 2008/09. The remaining loan repayment shall be made solely from net tax increment generated by the Merged Redevelopment Project Area by 2033. As of year-end, the Agency obligation under the agreement amounted to \$435,000.

p. Section 108 Loan

Year of Issuance	2000
Type of Debt	Loan from Federal Government
Original Principal Amount	\$6,000,000
Security	Loan Agreement with Federal Government
Interest Rates	2.3% - 3.3%
Interest Payment Dates	February 1 st and August 1 st
Principal Payment Dates	August 1 st
Purpose of Debt	Capital Improvements

Debt service requirements to maturity are (in thousands):

Year Ending September 30,	Principal	Interest	Total
2012	\$ 330	\$ 80	\$ 410
2013	350	78	428
2014	375	73	448
2015	400	66	466
2016	430	57	487
2017-2019	1,470	96	1,566
Total	\$ 3,355	\$ 450	\$ 3,805

In fiscal year 2009/10, the Agency refinanced its Section 108 loan through the Department of Housing and Urban Development. The refinancing of the Section 108 loan enabled the Agency to lower its current interest rate from 7.7% to an interest rate of no greater than 3.3%. The refinancing will result in \$1,000,000 savings throughout the loan. As of fiscal year-end, the Agency obligation under the agreement amounted to \$3,355,000.

q. Pollution Remediation

The Agency purchased property on Edinger Avenue to consolidate land for



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

redevelopment on January 28, 2009. The Agency plans on remediating hazardous materials on this site. The estimated cost of cleanup is \$200,000 and it is reported as a long-term liability. The cleanup costs will not exceed the estimated amount as an environmental insurance policy taken by the Agency will indemnify itself against further liability.

r. Employee Compensated Absences Balances

There is no fixed repayment to pay the compensated absences liability totaling \$124,000 at year-end.

8. RETIREMENT PLAN INFORMATION

The Agency is a component unit of the City. For retirement purposes, all Agency employees are considered to be employees of the City. No separate valuations are made for the Agency. All retirement information for the City as a whole is included in the City's Comprehensive Annual Financial Report.

9. AGENCY AGREEMENTS

a. Pass-Through Agreements

The Agency entered into various "pass-through" Agreements with local governmental agencies where a portion of tax increment is paid to the individual agencies. There was no amount payable at year-end.

b. Pacific City

On October 16, 2006, the Redevelopment Agency approved an Owner Participation Agreement (OPA) with Makallon Atlanta Huntington Beach, LLC (also known as Makar) to develop a 31-acre site in the Main-Pier sub-area of the Huntington Beach Redevelopment Project (Pacific City). Makar will advance \$5,500,000 to the Redevelopment Agency to fund the Agency's obligation for the Regional Urban Runoff Treatment System and the Pacific View Drive Extension. The advance will be repaid over 20 years from tax increment generated from the site. Pacific City has been purchased by Crescent Heights for the development of retail, hotel, entertainment, office, and other public and residential areas at both market and affordable levels. As of September 30, 2011, the project has not commenced.



Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011

c. Bella Terra Phase II

On October 4, 2010, the Agency approved the Affordable Housing Agreement with BTDJM Phase II Associates (DJM). The Agreement will facilitate the construction of a 467 mixed-use unit project including 43 moderate units and 28 very low units. This Agreement will reimburse DJM for construction of the affordable units only up to \$17,000,000 plus 4% interest. The Agreement also includes payment to DJM of up to \$250,000 for the pedestrian access crossing between the Levitz site and the Village at Bella Terra if construction is within 10 years of the Affordable Housing Agreement. The reimbursement of the affordable units will be based upon the site-generated tax increment for the mixed use project as well as the 20% housing fund from Bella Terra I. The project is in the construction phase as of September 30, 2011.

10. OTHER RECEIVABLES

The Agency has made loans of \$18,900,645 available to developers to construct or rehabilitate certain facilities under deferred loan agreements. These loans are deferred until a future event occurs, such as a sale of the property by the developer. Some notes may be forgiven after a period of time. On March 21, 2011, the Agency sold real property to NF Huntington Retail, LP. A promissory note in the amount of \$136,500 was established for the sale of this property.

A summary of Notes Receivable as of September 30, 2011 is as follows:

<u>Description</u>	<u>Amounts</u>
Developer Loans Receivable	\$ 25,401,000
Emerald Cove Loan Receivable	8,252,000
NF Huntington Retail	115,000
First Time Homebuyers Receivable	1,967,000
Other Receivables	100,000
Total Other Receivables	<u>35,835,000</u>
Allowance for Uncollectible Developer Loans	<u>(25,401,000)</u>
Net Notes Receivables	<u><u>\$ 10,434,000</u></u>

11. PENDING LITIGATION

There are legal actions pending against the Agency resulting from normal operations. The Agency's Counsel feels these actions will not have a significant impact on these financial statements.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

12. PRIOR PERIOD ADJUSTMENT

In fiscal year 2009-10, the Agency transferred depreciable capital assets with a net book value of \$31,624,000 to the City. This transaction was not reported on the Government-wide statements as of September 30, 2010; therefore, net assets were overstated by \$31,624,000.

Government-Wide Financial Statements (in thousands)

Beginning Net Assets	\$(59,421)
Prior Period Adjustment	<u>(31,624)</u>
Beginning Net Assets	<u><u>\$(91.045)</u></u>

13. OTHER

The Agency's combined net assets for the year ended September 30, 2011 were a negative (\$110,088,000). This is mainly because of how Redevelopment Agencies are required to operate under state law. Redevelopment Agencies incur debt in order to make expenditures, which results in increased public and private investments in the redevelopment area, which in turn generate property tax increment to repay the debt over time. Redevelopment Agencies can only collect property tax increment to the extent they have debt on the books.

14. SERAF CONTINGENCY

Pursuant to Assembly Bill 26 4x, a budget trailer bill, California redevelopment agencies were required to make Supplemental Education Revenue Augmentation Fund (SERAF) contributions totaling \$1.7 billion for the fiscal year 2009-2010 and \$350 million for the fiscal year 2010-2011. Under this bill, agencies may borrow a portion of the required contributions from their low and moderate income housing fund. Alternatively, sponsoring governmental agencies (the cities or counties) may elect to pay the SERAF contributions on behalf of their redevelopment agencies. On October 20, 2009, the California Redevelopment Association filed a class action lawsuit on behalf of all California Redevelopment Agencies, challenging the SERAF obligations as unconstitutional. The case is currently under appeal. On May 13, 2010, the Superior Court found in favor of the State relative to the class action suit.

The Agency's SERAF contribution for fiscal year 2009-10 was \$5,380,000 and \$1,107,000 for fiscal year 2010-11. The Agency borrowed funds from the low and moderate income housing fund to make this payment.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

15. RECENT CHANGES IN LEGISLATION AFFECTING REDEVELOPMENT AGENCIES

On June 29, 2011, the Governor of the State of California signed Assembly Bills 1X 26 and 27 as part of the State's budget package. Assembly Bill 1X 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill 1X 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program.

Assembly Bill 1X 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill 1X 26. As previously described in Note 5, the Agency transferred assets to the City after January 1, 2011.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court (Court) to overturn Assembly Bills 1X 26 and 27 on the grounds that these bills violate the California Constitution.

On December 29, 2011, the Court ruled that Assembly Bill 1X 26, the dissolution measure, is largely upheld and is a proper exercise of the legislative power vested in the Legislature by the State Constitution. A different conclusion was rendered with respect to Assembly Bill 1X 27, which was invalidated in its entirety by the Court. Accordingly, the Agency is required to dissolve in fiscal year 2011/12 and the guidelines for dissolution are set forth in Assembly Bill 1X 26. The financial statements do not include any adjustments as a result of the dissolution of the Agency.

During the City Council's January 9, 2012 meeting, the City approved two resolutions designating the City as a Successor Agency to the Redevelopment Agency, and the Huntington Beach Housing Authority as the Successor Agency for housing-related items. As of February 1, 2012, the Redevelopment Agency was dissolved pursuant to Health and Safety Code Section 34172(a) and AB 1X 26. As of this date, the City began implementing its duties as Successor Agency under the direction of an Oversight Board, the California State Controller's Office, and the California Department of Finance.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

The following is a summary of the significant provisions of Assembly Bill 1X 26:

Assembly Bill 1X 26

Suspends Redevelopment Activity - As of June 29, 2011, the Agency cannot incur new obligations and debt. More specifically, the Agency cannot enter into or amend contracts, renew or extend leases or other agreements, and dispose of or transfer real property or other assets. Agencies are required to continue to make scheduled payments on bonds and other legally binding agreements, and to manage existing contracts, projects, and other agreements.

Dissolves Redevelopment Agencies - Assembly Bill 1X 26 dissolves all redevelopment agencies and community development agencies. All assets and responsibilities for closing out the activities of the former agency are transferred to a "Successor Agency."

Creates Successor Agencies - The Successor Agency is presumed to be the sponsoring community of the redevelopment agency. The City has been designated the Successor Agency. The responsibility of a Successor Agency includes making payments and performing obligations of the former redevelopment agency in accordance with a schedule of enforceable obligations. Enforceable obligations include; bonds, loans, legally required payments, including payments for pension obligations, judgments or settlements, and other legally binding and enforceable agreements. A Successor Agency is required to dispose of the former agency's assets in an expeditious fashion, to transfer the housing functions to its sponsoring community, to wind down the affairs of the former agency (including the payment of debt and completion of obligated projects), to prepare administrative budgets, and to provide support to the "Oversight Board."

Transfer of Housing Functions--The sponsoring community may choose to assume the housing functions and the housing assets of the dissolved agency. Should the sponsoring community choose not to assume these responsibilities, all assets and functions would be transferred to the local housing authority. The City has elected to continue to administer the housing functions and assets of the former agency.

Creation of Oversight Boards --The Oversight Board, which is comprised of seven member representatives from local government bodies, is tasked with reviewing and approving the actions of the Successor Agency. Two of the seven members would be City representatives appointed by the Mayor--one of which must be an employee from the recognized employee organization representing the largest number of employees working for the redevelopment agency as of the date of dissolution. The remaining members are appointed by the County (2), the County Superintendent of Education (1), the Chancellor of California Community Colleges (1), and the largest special district taxing entity in the



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

territorial jurisdiction of the former redevelopment agency which is eligible to receive property tax revenues pursuant to Section 34188. The Successor Agency's Oversight Board has been established.

Additional Legislation Related to Assembly Bill 1X 26

Three bills, Senate Bill 654, Senate Bill 986 and Assembly Bill 1585, have been introduced to the legislature to make technical fixes to AB 1X 26.

SB 654 -- Senate Bill 654 would allow the successor agency to retain the funds on deposit in the former redevelopment agency's Low-Income Housing Fund to continue to "increase, improve, and preserve supplies" of low and moderate income housing. The bill also expands the definition of an enforceable obligation to include the following additional types of loan agreements between cities/counties and redevelopment agencies: (1) a loan that was executed within two years of the date of creation of a project area, if the loan is specific to that project area; and (2) a loan to fund the agency's 2009-10 SERAF payment to schools. SB 654 was approved by the Senate on January 31, 2012 and is currently awaiting consideration in the State Assembly. The bill has not yet been assigned to a committee. If adopted, the statute will not take effect until January 1, 2013.

SB 986 – Senate Bill 986 clarifies that all bond proceeds initiated by the former redevelopment agency are considered encumbered and prohibits a successor agency from sending the proceeds to the county auditor-controller. This bill has been assigned to the Senate Committee on Government and Finance. Currently, a hearing date has not yet been set for the bill.

AB 1585 – Assembly Bill 1585 was introduced as a companion bill to Senate Bill 654 on February 2, 2012. The bill makes various technical fixes to AB 1 X 26 clarifying the functions of successor agencies and oversight boards. AB 1585 expands the definition of an enforceable obligation to include the loan types described under SB 654 and also includes the following: (1) other loan agreements between the RDA and the City/County if the oversight board finds that the loan was for a legitimate redevelopment purpose, had economic substance, and was based on reasonable repayment terms; and (2) payments for costs incurred to fulfill collective bargaining agreements for layoffs or terminations of city employees who performed work directly on behalf of the former RDA.

AB 1585 also further expands the definition of the administrative cost allowance to specify that: (1) employee costs associated with work on specific project implementation activities shall be considered projects-specific costs (not administrative), and (2) the oversight board may approve temporary increases to the administrative cost allowance to carry out the



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2011**

requirements of an enforceable obligation, cover litigation costs, and/or to maintain and preserve the value of assets while in the possession of the successor agency.

AB 1585 would authorize successor agencies, with oversight board approval, to enter into agreements to fund required payments under enforceable obligations that exceed the amount of property tax revenue available to the RDA during the payment period. AB 1585 would also require the auditor-controller to reserve additional funds in the Redevelopment Property Tax Trust Fund at the time of the annual January 16th allocation, if necessary, to cover payments made in the second half of the calendar year that are in excess of amounts anticipated to be deposited from the allocation in May or June.

AB 1585 includes an urgency clause and will require a two-thirds vote. The bill is currently awaiting a hearing date in the Housing and Community Development and Local Government Committee.

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**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
CALCULATION OF LOW/MODERATE INCOME HOUSING FUNDS - EXCESS SURPLUS
October 1, 2010
(IN THOUSANDS)**

ENDING FUND BALANCE - OCTOBER 1, 2010	\$	11,409
Less Unavailable Amounts:		
Encumbrances		(1,879)
Advances to Other Funds		(4,591)
		(4,591)
AVAILABLE FUND BALANCE - OCTOBER 1, 2010		\$ <u>4,939</u>
AVAILABLE LOW/MODERATE INCOME HOUSING FUNDS LIMITATION (GREATER OF \$1,000,000 OR FOUR YEARS SET-ASIDE):		
Set-aside for fiscal years 2006-07 to 2009-10		
2006-2007		2,779
2007-2008		3,062
2008-2009		3,405
2009-2010		3,677
		12,923
TOTAL SET-ASIDE FOR LAST FOUR YEARS		<u>12,923</u>
COMPUTED EXCESS/SURPLUS - OCTOBER 1, 2010		\$ <u><u>-</u></u>

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The Board of Directors of the
Redevelopment Agency of the City of Huntington Beach

**Independent Auditor’s Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Huntington Beach (Agency), a component unit of the City of Huntington Beach, California (City), as of and for the year ended September 30, 2011, which collectively comprise the Agency’s basic financial statements and have issued our report thereon dated March 29, 2012. Our report includes a paragraph indicating an emphasis of a matter regarding the dissolution of redevelopment agencies in the State of California (Assembly Bill 1X 26). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting for the Agency. In planning and performing our audit, we considered the City’s internal control over financial reporting related to the Agency as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting related to the Agency. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting related to the Agency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The

results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management and others within the Agency and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

Macias Jini & O'Connell LLP

Newport Beach, California
March 29, 2012

The Board of Directors of the
Redevelopment Agency of the City of Huntington Beach

**Independent Auditor’s Report on Compliance of
California Redevelopment Agencies and on
Internal Control over Compliance**

Compliance

We have audited the Redevelopment Agency of the City of Huntington Beach’s (Agency) compliance with the requirements specified in the State of California’s *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the State Controller’s Office, applicable to the Agency’s statutory requirements identified below for the year ended September 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency’s management. Our responsibility is to express an opinion on the Agency’s compliance based on our audit.

We conducted our compliance audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the State of California’s *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011 (Guidelines)*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of the Certified Public Accountants. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency occurred. An audit includes examining on a test basis, evidence about the Agency’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency’s compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended September 30, 2011.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance and with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency’s internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be

prevented, or detected and corrected, on a timely basis. Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Board of Directors, management and others within the Agency, and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

Macias Fini & O'Connell LLP

Newport Beach, California
March 29, 2012