

**ITEM 2**

**OVERSIGHT BOARD FOR CITY OF SAN DIEGO  
REDEVELOPMENT SUCCESSOR AGENCY**

**DATE ISSUED:** 08/01/2012

**SUBJECT:** Report from the Successor Agency regarding authorization to execute contracts using contingency reserve in approved second Recognized Obligation Payment Schedule, including, but not limited to, services contracts with accounting firm to complete two-part due diligence accounting review under AB 1484

**CONTACT/PHONE NUMBER:** David Graham/236-6980

**DESCRIPTIVE SUMMARY OF ITEM:**

Adoption of a resolution:

Authorizing the Successor Agency to execute contracts using contingency reserve in approved second Recognized Obligation Payment Schedule, including, but not limited to, services contracts with accounting firm to complete two-part due diligence accounting review under AB 1484

**STAFF RECOMMENDATION:**

Approve proposed actions.

**DISCUSSION:**

Background

The Successor Agency is in the process of winding down the operations of the former Redevelopment Agency of the City of San Diego ("Former RDA") in accordance with Assembly Bill x1 26 ("AB 26"), enacted on June 28, 2011, and Assembly Bill 1484 ("AB 1484"), enacted on June 27, 2012 (collectively, the "Dissolution Laws"). On January 10, 2012, the City Council designated the City of San Diego ("City") to serve as the Successor Agency to the Former RDA for purposes of winding down the Former RDA's operations and to retain the Former RDA's housing assets and assume the Former RDA's housing responsibilities.

AB 1484 provides a new requirement to conduct a review by an independent licensed accountant of available cash assets of the Successor Agencies. Upon completion of the review, the DOF will issue a finding of completion for the Successor Agency once the Successor Agency remits the unencumbered cash assets to the County Auditor-Controller. The legislation does not indicate how the costs of the review are to be paid. Additionally, the DOF has notified successor agencies that they are no longer accepting revisions to previously approved ROPS. The approved Recognized Obligation Payment Schedule for July 1, 2012 through December 31, 2012 ("ROPS 2") includes a contingency line item that may be partially sufficient to pay for some of the work of the independent accountant. Additionally, the proposed Recognized Obligation Payment Schedule for January 1, 2013 through June 30, 2013 ("ROPS 3") includes line items for payments to conduct the housing assets audit and non-housing assets audit. The review of the

Low and Moderate Income Housing Funds (“LMIHF”) by the Oversight Board must be complete by October 1, 2012. The review of all other funds by the Oversight Board must be complete by December 15, 2012.

The purpose of the non-housing review is to identify the value of all assets transferred from the former RDA to the Successor Agency, those assets, if any, transferred to the City of San Diego, those assets transferred to any other public agency or private party associated with enforceable obligations and a reconciliation of revenues, expenditures, assets and liabilities through June 30, 2012.

A similar review of the LMIHF is required to identify the value of all assets as of June 30, 2012, including those funds that are legally restricted such as bond proceeds or grant funds, physical assets, properties, amounts owed for enforceable obligations, and a determination on the availability of funds to pay all enforceable obligations.

Upon completion of each review, the Oversight Board is to schedule a public comment session to take place at least five business days prior to the Oversight Board’s vote on the approval of the reviews. The review of the LMIHF must be transmitted to the DOF by October 15, 2012, and the review of other assets by January 15, 2015. The DOF must complete its review of the LMIHF by November 9, 2012 and the review of the other assets by April 1, 2013 for the remaining funds.

On July 24, 2012 the County of San Diego Auditor and Controller issued a letter (Attachment A) advising successor agencies that it lacked the resources necessary to conduct audits by the required completion deadlines. Instead, the County will approve of any licensed CPA that has expertise in Redevelopment. If this action is approved, the Successor Agency will solicit the services of a licensed accountant or accounting firm with expertise in Redevelopment and will submit the name of the selection to the County for review and approval. If that firm is rejected, the Successor Agency will solicit the services of alternate licensed accountants or accounting firms and will submit those names to the County for review and approval until the County approves a selection.

Significant penalties to the sponsoring (i.e., the City) are contained in the legislation if the audits are not completed in a timely manner or assets transferred to the sponsoring community are not recovered to the satisfaction of the DOF.

### Conclusion

The Oversight Board is respectfully requested to authorize the Successor Agency to execute contracts using contingency reserve in approved second Recognized Obligation Payment Schedule, including, but not limited to, services contracts with accounting firm to complete the two-part due diligence accounting review required by AB 1484 .

Oversight Board  
Meeting of August 7, 2012  
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David Graham  
Office of the Mayor



Jay Goldstone  
Chief Operating Officer

Attachments: A – July 24, 2012 Letter from County of San Diego Auditor and Controller



# County of San Diego

**DONALD F. STEUER**  
CHIEF FINANCIAL OFFICER  
(619) 531-5413  
FAX (619) 531-5219

**AUDITOR AND CONTROLLER**  
1600 PACIFIC HIGHWAY STE 166, SAN DIEGO, CALIFORNIA 92101-2478

**TRACY M. SANDOVAL**  
ASST. CHIEF FINANCIAL OFFICER/  
AUDITOR & CONTROLLER  
(619) 531-5413  
FAX (619) 531-5219

July 24, 2012

**TO:** Redevelopment Successor Agencies

**FROM:** Tracy M. Sandoval  
Assistant Chief Financial Officer/Auditor and Controller

## APPROVAL OF ACCOUNTANTS FOR DUE DILIGENCE REVIEWS

Health and Safety Code Section 34179.5 (a) requires the performance of a due diligence review or audit of each successor agency for the purpose of determining unobligated balances available for transfer to taxing entities. The requirement is for each successor agency to employ a licensed accountant, approved by the County Auditor Controller and with experience and expertise in local government accounting to conduct the work necessary to comply with this provision, or alternatively, to have an audit provided by the County Auditor Controller.

Please be advised that the County lacks the resources to conduct audits by the required completion deadlines (October 1, 2012 for the Low and Moderate Income Housing Fund, and December 15, 2012 for all other fund and account balances), and as such, each successor agency should take the necessary actions to hire a licensed accountant as soon as possible.

The County will approve of any licensed CPA that has expertise in Redevelopment. Requests for County Auditor and Controller approval should be submitted to:

Tracy M. Sandoval  
Assistant Chief Financial Officer/Auditor and Controller  
1600 Pacific Highway, Ste 166  
San Diego, CA 92101

Please indicate in your request the following:

1. Name of Licensed CPA/firm.
2. A statement that your agency has verified the recommended CPA/ firm has current and adequate licensing.
3. If the recommended CPA/firm has expertise in Redevelopment. The Auditor and Controller would prefer the recommended CPA/firm to be selected from those with expertise in Redevelopment.

If you have any questions, please contact Juan Perez or Nnette Dejesus at (619) 531-5399.

A handwritten signature in black ink, appearing to read "Tracy M. Sandoval".

**TRACY M. SANDOVAL**  
Assistant Chief Financial Officer/Auditor and Controller

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OVERSIGHT BOARD RESOLUTION NUMBER OB-2012-19

A RESOLUTION OF THE OVERSIGHT BOARD FOR CITY OF SAN DIEGO REDEVELOPMENT SUCCESSOR AGENCY AUTHORIZING THE SUCCESSOR AGENCY TO ENTER INTO CONTRACTS USING THE CONTINGENCY RESERVE IN THE APPROVED SECOND RECOGNIZED OBLIGATION PAYMENT SCHEDULE, INCLUDING, BUT NOT LIMITED TO, SERVICES CONTRACTS WITH THE ACCOUNTING FIRM TO COMPLETE THE TWO-PART DUE DILIGENCE ACCOUNTING REVIEW UNDER ASSEMBLY BILL 1484.

WHEREAS, the former Redevelopment Agency of the City of San Diego (Former RDA) administered the implementation of various redevelopment projects, programs, and activities within designated redevelopment project areas throughout the City of San Diego (City); and

WHEREAS, in accordance with Assembly Bill x1 26 (AB 26), the Former RDA dissolved as of February 1, 2012, at which time the City of San Diego, solely in its capacity as the designated successor agency to the Former RDA (Successor Agency), assumed the Former RDA's assets and obligations; and

WHEREAS, the Successor Agency is winding down the Former RDA's affairs in accordance with AB 26, enacted on June 28, 2011, and Assembly Bill 1484 (AB 1484), enacted on June 27, 2012 (collectively, the Dissolution Laws); and

WHEREAS, the Oversight Board has been formed to oversee certain actions and decisions of the Successor Agency in accordance with the Dissolution Laws; and

WHEREAS, AB 1484 has added California Health and Safety Code sections 34179.5 and 34179.6, which collectively establish a new requirement for the Successor Agency to employ an independent licensed accountant to perform a two-part due diligence accounting review of housing assets and non-housing assets (Two-Part Review); and

WHEREAS, the main purpose of the Two-Part Review is to determine to what extent the Successor Agency possesses any unencumbered cash balances that will need to be transferred to the San Diego County Auditor-Controller (County Auditor) for pro rata distribution to the local taxing entities; and

WHEREAS, AB 1484 states that the review of housing assets must be completed by October 1, 2012, and that the review of non-housing assets must be completed by December 15, 2012, but does not specify how the costs of the Two-Part Review are to be paid; and

WHEREAS, the approved second Recognized Obligation Payment Schedule, covering the period from July 1 through December 31, 2012 (ROPS 2), includes a contingency line item in the aggregate amount of \$500,000, to address unforeseen expenditures that may be incurred by the Successor Agency; and

WHEREAS, the Successor Agency intends to enter into services contracts retaining an independent accounting firm to complete the Two-Part Review, provided that the selected accounting firm must be approved by the County Auditor; and

WHEREAS, due to the absence of any other funding source identified in AB 1484, the Successor Agency intends to pay for the accounting firm's costs charged during the six-month fiscal period covered in ROPS 2 by utilizing the funds available under the contingency line item in ROPS 2; and

WHEREAS, it is anticipated the third Recognized Obligation Payment Schedule, covering the period from January 1 through June 30, 2013, will include more specific line items for the payment of costs associated with the completion of the Two-Part Review that become payable during the first half of 2013; and

WHEREAS, it is anticipated that the Successor Agency may be required to enter into services contracts, management contracts or similar contracts during the second half of 2012 to address previously unforeseen expenditures in addition to the costs of the Two-Part Review, utilizing the funds available under the contingency line item in ROPS 2.

NOW, THEREFORE, BE IT RESOLVED by the Oversight Board that the Successor Agency is authorized to execute services contracts, management contracts or similar contracts during the second half of 2012, utilizing the funds available under the contingency line item in ROPS 2, to address previously unforeseen expenditures, including, but not limited to, the contracts with the independent accounting firm related to completion of the Two-Part Review.

**PASSED AND ADOPTED** by the Oversight Board at a duly noticed meeting of the Oversight Board held on August \_\_\_\_, 2012.

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Chair, Oversight Board

