



Successor Agency to the Redevelopment Agency of the City of Riverside

Independent Auditor's Reports and Financial Statements
June 30, 2016

Prepared by the City of Riverside
Scott G. Miller, Chief Finance Officer/Treasurer

3900 Main Street, Riverside, California 92522

Successor Agency to the Redevelopment Agency of the City of Riverside

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Independent Auditor's Report

Honorable Members of the Oversight Board
Successor Agency to the Redevelopment Agency of the City of Riverside

Report on the Financial Statements

We have audited the accompanying financial statements of the Successor Agency to the Redevelopment Agency of the City of Riverside (Successor Agency), a fiduciary component unit of the City of Riverside, California (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Successor Agency's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Successor Agency to the Redevelopment Agency of the City of Riverside, as of June 30, 2016, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2016, on our consideration of the Successor Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, with 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* in considering the Successor Agency's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Newport Beach, California
November 9, 2016

Successor Agency of the Redevelopment Agency of the City of Riverside
Statement of Fiduciary Net Position
June 30, 2016
(amounts expressed in thousands)

Assets

Cash and investments	\$ 36,564
Cash and investments with fiscal agent	13,207
Receivables:	
Interest	69
Accounts	82
Notes	21,081
Direct financing lease receivable	18,065
Deposits	2
Land and improvements held for resale	12,128
Capital assets:	
Land	185
Equipment	6
Accumulated depreciation - equipment	(6)
Total assets	<u>101,383</u>

Liabilities

Accounts payable	118
Accrued interest	4,112
Advances from City of Riverside	42,405
Redevelopment Agency bonds payable	226,290
Notes payable	5,093
Total liabilities	<u>278,018</u>

Deferred Inflows of Resources

Deferred amount on refunding	1,374
Total deferred inflows of resources	<u>1,374</u>

Net Position

Held by Successor Agency	(178,009)
Total net position	<u>\$ (178,009)</u>

The notes to basic financial statements are an integral part of this statement.

Successor Agency to the Redevelopment Agency of the City of Riverside
Statement of Changes in Fiduciary Net Position
For the year ended June 30, 2016
(amounts expressed in thousands)

Additions

Property tax revenue	\$ 37,283
Rental and investment income	299
Miscellaneous	73
Total additions	<u>37,655</u>

Deductions

Professional services and other deductions	2,573
Redevelopment projects	548
Interest expense	11,285
Total deductions	<u>14,406</u>

Change in Net Position	23,249
Net position - beginning	<u>(201,258)</u>
Net position - ending	<u>\$ (178,009)</u>

The notes to basic financial statements are an integral part of this statement.

Successor Agency to the Redevelopment Agency of the City of Riverside
Notes to Basic Financial Statements
For the year ended June 30, 2016

(amounts expressed in thousands)

Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies

A. Reporting entity: The Redevelopment Agency of the City of Riverside (Redevelopment Agency) was established in 1967 to provide affordable housing, revitalize communities, eliminate blight, and fuel economic growth through focused reinvestment of local funds back into local projects and programs that supported job growth and private investment.

There are six project areas throughout the City of Riverside (City) including Arlington, Casa Blanca, merged Downtown/Airport Industrial/Hunter Park/Northside, La Sierra/Arlanza, Magnolia Center, and University Corridor/Sycamore Canyon (Project Areas). Over the years, the Redevelopment Agency was active in implementing housing programs, business incentive programs, commercial improvement programs, planning and development of projects, capital improvement projects, and property acquisition in the Project Areas.

On June 29, 2011, Governor Brown signed Assembly Bill 1X 26 (AB 1X 26) eliminating redevelopment agencies throughout the state. On July 18, 2011, the California Redevelopment Association and the League of California Cities filed a lawsuit against the State of California (State) in response to the passage of AB 1X 26. On December 29, 2011, the California Supreme Court upheld AB 1X 26. The bill provided that upon dissolution of the Redevelopment Agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government.

Pursuant to City Council actions taken on March 15, 2011, and January 10, 2012 the City elected to serve as the Successor Agency to the Redevelopment Agency of the City of Riverside (Successor Agency). The Successor Agency is a separate legal entity, which serves as a custodian for the assets and liabilities of the dissolved Redevelopment Agency pending distribution to the appropriate taxing entities after the payment of enforceable obligations. The activity of the Successor Agency is overseen by an Oversight Board comprised of individuals appointed by various government agencies and the City of Riverside as Successor Agency of the former Redevelopment Agency.

In 1987, the Riverside Public Financing Authority (Authority), a non-profit corporation, was created as a joint-powers authority between the former Redevelopment Agency and the City to serve as a conduit for the issuance of bonds to fund improvements in various redevelopment project areas. The Authority has issued tax allocation bonds secured by loan agreements between the former Redevelopment Agency and the Authority. These loan agreements are secured by a first pledge of and lien on a portion of property tax revenues within the respective project areas. Financial data of the Authority is included in the activity of the Successor Agency. Separate Authority financial statements may be obtained from the City's Finance Department, 3900 Main Street, Riverside, California 92522.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation: The Successor Agency is presented herein as a private-purpose trust fund and is reported using the economic resources measurement focus and the accrual basis of accounting.

Successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former Redevelopment Agency until all enforceable obligations of the former Redevelopment Agency have been paid in full and all assets have been liquidated. Such funds are paid from the Redevelopment Property Tax Trust Fund (RPTTF), which is administered by the County Auditor-Controller. In January and June of each year, the County Auditor-Controller allocates revenue from the RPTTF to each successor agency for payments listed on the Recognized Obligation Payment Schedule (ROPS) for each six month period. Property taxes are recognized as revenues in the year for which they are levied.

Successor Agency to the Redevelopment Agency of the City of Riverside
Notes to Basic Financial Statements
For the year ended June 30, 2016

(amounts expressed in thousands)

C. Cash and Investments

The Successor Agency's cash and investments, except for cash and investments with fiscal agents, are invested in a pool managed by the Treasurer of the City. The Successor Agency does not own specific, identifiable investments of the pool. The pooled interest earned is allocated monthly based on the month end cash balances.

The City values its cash and investments in accordance with the provisions of Governmental Accounting Standards Board Statement No. 72 (GASB 72), *Fair Value Measurement and Application*, which requires governmental entities to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach or the income approach.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of assets. Level 1 are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The City does not value any of its investments using Level 1 and Level 3 inputs.

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings.

Citywide information concerning cash and investments for the year ended June 30, 2016, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities, and concentration of investments, carrying amount, and market value of deposits and investments may be found in the notes of the City's "Comprehensive Annual Financial Report."

D. Cash and Investments with Fiscal Agent

Cash and investments maintained by fiscal agents are considered restricted because their use is limited by applicable bond covenants. Provisions of debt agreements govern investments of debt proceeds held by bond fiscal agents. Permitted investments are specified in the related trust agreements and include the following types of investments:

- Investments in money market funds rated in the single highest classification
- Investments in the Local Agency Investment Fund (State Investment Pool)
- Securities of the U. S. Government and its sponsored agencies
- Commercial Paper rated AA or higher at the time of purchase

No maximum percentage of the related debt issue or maximum investment in one issuer is specified.

Cash and investments with fiscal agent are as follows:

	Total	Remaining Maturity (in Months)		
		Months or Less	13 to 24 Months	25 to 60 Months
Money Market Funds	\$ 336	\$ 336	\$ -	\$ -
State Investment Pool	10,145	10,145	-	-
U.S. Treasury Notes/Bonds	2,699	2,699	-	-
Federal Agency Securities	27	27	-	-
Total	\$ 13,207	\$ 13,207	\$ -	\$ -

Successor Agency to the Redevelopment Agency of the City of Riverside
Notes to Basic Financial Statements
For the year ended June 30, 2016

(amounts expressed in thousands)

	Total	Ratings as of Year End		
		AAA	A	Unrated
Money Market Funds	\$ 336	\$ 335	\$ 1	\$ -
State Investment Pool	10,145	-	-	10,145
U.S. Treasury Notes/Bonds	2,699	2,699	-	-
Federal Agency Securities	27	27	-	-
Total	\$ 13,207	\$ 3,061	\$ 1	\$10,145

E. Land and Improvements Held for Resale

Land and improvements held for resale were generally acquired for future development projects. The properties are carried at the lower of cost or net realizable value.

F. Bond Premiums

Bond premiums are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums.

G. Deferred Amount on Refunding

The deferred amount on refunding is deferred and amortized over the life of the bonds using the effective interest method. The deferred amount on refunding is recorded as a deferred inflow of resources.

H. Deferred Inflows of Resources

The statement of fiduciary net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are *not* recognized as an inflow of resources (revenue) until that time.

I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that can affect certain reported amounts and disclosures. Actual results could differ from those estimates.

J. New Accounting Pronouncements

Effective July 1, 2015, the accompanying financial statements reflect the implementation of Governmental Accounting Standard Board Statement No. 72 (GASB 72), *Fair Value Measurement and Application*. The primary objective of GASB 72 is to address accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. Also, GASB 72 provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB 72 did not have a material impact to the financial statements.

Successor Agency to the Redevelopment Agency of the City of Riverside
Notes to Basic Financial Statements
For the year ended June 30, 2016

(amounts expressed in thousands)

Note 2. Notes and Direct Financing Lease Receivable

Rehabilitation Notes Receivable

Notes receivable consist of \$2,758 of rehabilitation loans. The loans were granted for a period of up to 55 years and bear interest at rates from 0 to 12 percent, which are secured by deeds of trust to individuals and businesses.

Hyatt Note Receivable

The former Redevelopment Agency entered into a developer loan agreement for the construction of the Hyatt Place Hotel. As of June 30, 2016, the outstanding balance owed by the developer was \$18,323 at an interest rate of 4.0%

Direct Financing Lease Receivable

The former Redevelopment Agency had a direct financing lease arrangement with the State for the California Tower Office Complex, located in the merged Downtown/Airport Industrial/Hunter Park/Northside. The Agreement is for a thirty year period and at maturity the ownership of California Tower will be transferred to the State. The lease calls for semi-annual payments not less than the debt service owed on the related lease revenue bonds issued by the former Redevelopment Agency for the purchase and renovation of the building. The future minimum lease payments to be received are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2017	\$ 2,561
2018	2,598
2019	2,625
2020	2,659
2021	2,692
Thereafter	11,092
Total Due	24,227
Less: Amount applicable to interest	(6,162)
Total direct financing lease receivable	<u>\$ 18,065</u>

Note 3. Long-Term Obligations

Changes in Long-Term Obligations:

Below is a summary of changes in long-term obligations during the fiscal year:

	<u>Beginning</u>			<u>Ending</u>	<u>Due Within</u>
	<u>Balance</u>	<u>Additions *</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
Redevelopment Agency Bonds Payable	\$ 235,559	\$ -	\$ (9,269)	\$ 226,290	\$ 8,275
Notes Payable	4,902	931	(740)	5,093	393
	<u>\$ 240,461</u>	<u>\$ 931</u>	<u>\$ (10,009)</u>	<u>\$ 231,383</u>	<u>\$ 8,668</u>

* Smith's Foods Owner Participation Agreement was reclassified from Accounts Payable to Notes Payable in fiscal year 2015/16 (\$931).

Successor Agency to the Redevelopment Agency of the City of Riverside
Notes to Basic Financial Statements
For the year ended June 30, 2016

(amounts expressed in thousands)

<u>Redevelopment Agency Bonds:</u>	<u>Principal Outstanding</u>
\$13,285 1991 Public Financing Authority Revenue Bonds, Series A, Multiple Project Areas; \$1,470 serial revenue bonds 7.15% to 7.6%, due in annual installments from \$100 to \$145 through February 1, 2003; and \$4,175 term bonds, 8.0%, due in annual installments from \$155 to \$450 through February 1, 2018 (portion not refunded).	\$ 45
\$26,255 State of California Department of General Services Project, 2003 Lease Revenue Refunding Bonds, Series A; 2% to 5% due in annual installments from \$545 to \$2,230 through October 1, 2024.	15,475
\$4,810 State of California Department of General Services Project, 2003 Lease Revenue Refunding Bonds, Series B; \$310 serial bonds 1.20% to 1.42% through October 1, 2004; \$620 term bonds at 3.090% due October 1, 2008; \$1,110 term bonds at 4.340% due October 1, 2014 and \$2,770 term bonds at 5.480% due October 1, 2024.	2,555
\$8,340 Downtown/Airport Merged Project Area and Casa Blanca Project Area 2007 Tax Allocation Bonds, Tax Exempt, Series A, serial bonds 4.0% to 4.25% due in annual installments from \$20 to \$590 through August 1, 2025; \$4,980 term bonds at 4.5% due August 1, 2029; \$410 term bonds at 4.375% due August 1, 2037.	8,170
\$14,850 Downtown/Airport Merged Project Area and Casa Blanca Project Area 2007 Tax Allocation Bonds, Taxable, Series B, \$4,050 term bonds at 5.2% due August 1, 2017; \$10,800 term bonds at 5.8% due August 1, 2028.	11,620
\$89,205 University Corridor/Sycamore Canyon Merged Project Area, Arlington Project Area, Hunter Park/Northside Project Area, Magnolia Center Project Area, and La Sierra/Arlanza Project Area 2007 Tax Allocation Bonds, Tax-Exempt, Series C, serial bonds 4.0% to 5.0% due in annual installments from \$50 to \$3,210 through August 1, 2025; \$17,955 term bonds at 4.5% due August 1, 2030; \$47,775 term bonds at 5.0% due August 1, 2037.	85,960
\$43,875 University Corridor/Sycamore Canyon Merged Project Area, Arlington Project Area, Hunter Park/Northside Project Area, Magnolia Center Project Area, and La Sierra/Arlanza Project Area 2007 Tax Allocation Bonds, Taxable, Series D, \$15,740 term bonds at 5.24% due August 1, 2017; \$28,135 term bonds at 5.89% due August 1, 2032.	31,430
\$62,980 Subordinate Tax Allocation Refunding Bonds (Series A and B). The bonds were issued to refund certain obligations of the former Redevelopment Agency. Interest is due semi-annually on March 1 and September 1, commencing March 1, 2015. Principal is due in annual installments from \$160 to \$4,745 through September 1, 2034. The rate of interest varies from 0.6% to 5% per annum.	<u>58,845</u>
Subtotal	214,100
Add: Unamortized bond premium	<u>12,190</u>
Total Redevelopment Agency Bonds	<u><u>\$226,290</u></u>

Remaining debt service will be paid by the Successor Agency from future property tax revenues. Annual debt service requirements to maturity are as follows:

Successor Agency to the Redevelopment Agency of the City of Riverside
Notes to Basic Financial Statements
For the year ended June 30, 2016

(amounts expressed in thousands)

Fiscal Year	Principal	Interest	Total
2017	\$ 8,275	\$ 10,892	\$ 19,167
2018	8,920	10,589	19,509
2019	9,320	10,222	19,542
2020	9,830	9,778	19,608
2021	10,805	9,288	20,093
2022-2026	59,140	37,860	97,000
2027-2031	49,980	23,308	73,288
2032-2036	42,735	11,453	54,188
2037-2038	15,095	1,691	16,786
Premium	12,190	-	12,190
Total	\$ 226,290	\$ 125,081	\$ 351,371

Notes Payable:

Principal Outstanding

These notes payable have been issued to promote development and expansion within the City's redevelopment areas.

Pepsi Cola Bottling Company of Los Angeles, 10.5%, payable in net annual installments of \$341, subject to recording of completion. \$ 2,987

HUD Section 108 loan for Mission Village Project, 6.15% to 6.72%, payable in semi-annual installments beginning August 1, 1999 of \$110 to \$420 through August 1, 2018. 1,175

Smith's Food and Drug Centers Inc., 6% payable in variable installments, subject to payment of annual Community Facilities District assessment. 931

Total Notes Payable \$ 5,093

Remaining debt service will be paid by the Successor Agency from future property tax revenues. Annual debt service requirements to maturity are as follows.

Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 393	\$ 360	\$ 753
2018	421	340	761
2019	454	326	780
2020	38	310	348
2021	42	300	342
2022-2026	1,217	1,423	2,640
2027-2031	471	1,238	1,709
2032-2036	777	933	1,710
2037-2038	1,280	430	1,710
Total	\$ 5,093	\$ 5,660	\$ 10,753

As a result of action by the State of California to dissolve all redevelopment agencies in the state, the Successor Agency no longer receives the full amount of tax increment previously pledged by the dissolved redevelopment agency to its bondholders. In its place is a new revenue stream provided to the Successor

Successor Agency to the Redevelopment Agency of the City of Riverside
Notes to Basic Financial Statements
For the year ended June 30, 2016

(amounts expressed in thousands)

Agency that represents only that portion of tax increment that is necessary to pay the enforceable obligations approved by the California Department of Finance.

For the current year, debt service payments as a percentage of the pledged gross revenue (or net of certain expenses where so required by the debt agreement) are indicated in the table below. The debt service coverage ratios also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment.

	Annual Amount of Pledged Revenue (net of expenses, where required)*	Annual Debt Service Payments (of all debt secured by this revenue)	Debt Service Coverage Ratio For FYE June 30, 2016
<u>Non-Housing</u>			
Arlington	\$ 3,246	\$ 1,816	1.79
Casa Blanca	2,855	1,597	1.79
Eastside	94	27	3.48
Magnolia Center	2,855	1,198	2.38
University Corridor/ Sycamore Canyon	10,256	2,511	4.08
Downtown/Airport Industrial/Hunter Park/Northside	11,988	4,163	2.88
La Sierra/Arlanza	14,751	3,015	4.89
<u>Housing</u>			
Arlington	\$ 903	\$ 291	3.11
Casa Blanca	714	310	2.30
Magnolia Center	714	166	4.31
University Corridor/ Sycamore Canyon	2,564	780	3.29
Downtown/Airport Industrial/Hunter Park/Northside	4,301	1,039	4.14

* The computations above are based on the total tax increment generated for the year ended June 30, 2016 for each project area that had been pledged as collateral for the 2007 Tax Allocation Bonds Series A-D. As discussed above, only a portion of tax increment has been actually remitted to the Successor Agency and reported as revenue in the accompanying financial statements.

Note 4. Advances from the City of Riverside

The former Redevelopment Agency had entered into various arrangements with the City. The State of California, Department of Finance had concluded that certain loans were not enforceable obligations, which would have resulted in the repayment of only 80 percent of the loans. The City sued the State of California, Department of Finance and in July 2013 a Sacramento County Superior Court ruled that the loans are enforceable obligations and therefore must be repaid in full.

Note 5. Net Position

The deficit in the Successor Agency Trust Fund will be reduced over the years as the related debt is paid-off with funds received from the RPTTF, which is administered by the County Auditor-Controller of the County of Riverside.