

REDEVELOPMENT AGENCY
OF THE
CITY OF HUNTINGTON BEACH, CALIFORNIA



COMPONENT UNIT FINANCIAL REPORT
WITH REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

For the Year Ended September 30, 2006

CITY OF HUNTINGTON BEACH, CALIFORNIA



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

FOR THE YEAR ENDED SEPTEMBER 30, 2006

Prepared by the Finance Department



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

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INDEPENDENT AUDITORS' REPORT

To the Members of the Redevelopment Agency
of the City of Huntington Beach
Huntington Beach, California

We have audited the accompanying basic financial statements of the Redevelopment Agency of the City of Huntington Beach (Agency), a component unit of the City of Huntington Beach, as of and for the year ended September 30, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Governmental Accounting 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of September 30, 2006, and the results of its operations and changes in fund balance for the year then ended in conformity with generally accepted accounting principles in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report date January 19, 2007 on our consideration of Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts, and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Caporicci & Larson

Irvine, California
January 19, 2007

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Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2006

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, 2006. Please read it in conjunction with the accompanying basic financial statements and the notes to those financial statements.

THE 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 a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. Notes to the financial statements, required supplementary information, including this section support these 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 and Changes in Net Assets – The Statement of Activities and Changes in Net Assets 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 management to control and manage 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 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 60 days after year-end) are recognized when due.



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

The primary revenue sources, which have been treated as susceptible to accrual by the Agency are, property tax, other taxes, investment income, and other income. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The differences of results in the Governmental Fund financial statements to those in the Government-Wide financial statements are explained in a 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, 2006

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Agency's combined net assets for the year ended September 30, 2006 were a negative \$(89,985,000). Under state law, Redevelopment Agencies' primary source of revenue is from tax increments that are derived from the increase in public and private investments due to the improvements in the 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 issues bonds. These bonds are to be repaid over time solely from tax increments revenues. Redevelopment Agencies can only collect property tax increments to the extent it has debt on its books. Below is a summary of key items in the Government-Wide financial analysis (in thousands):

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Assets				
Current and Other Assets	\$ 44,701	\$ 36,617	\$ 8,084	22.1%
Capital Assets	17,153	15,918	1,235	7.8%
Total Assets	<u>61,854</u>	<u>52,535</u>	<u>9,319</u>	<u>17.7%</u>
Liabilities				
Current Liabilities	12,238	4,842	7,396	152.7%
Debt Payable to City of Huntington Beach	85,103	87,355	(2,252)	-2.6%
Long-Term Liabilities Payable within one year	1,415	1,360	55	4.0%
Long-Term Liabilities	<u>53,079</u>	<u>41,380</u>	<u>11,699</u>	<u>28.3%</u>
Total Liabilities	<u>151,835</u>	<u>134,937</u>	<u>16,898</u>	<u>12.5%</u>
Net Assets				
Invested in Capital Assets -				
Net of Related Debt	17,153	15,918	1,235	7.8%
Restricted	18,513	2,464	16,049	651.3%
Unrestricted	<u>(125,647)</u>	<u>(100,784)</u>	<u>(24,863)</u>	<u>24.7%</u>
Total Net Assets	<u>(89,981)</u>	<u>(82,402)</u>	<u>(7,579)</u>	<u>9.2%</u>
Expenses				
Economic Development	6,340	3,450	2,890	83.8%
City Attorney	41	78	(37)	-47.4%
Non-departmental and Transfers	1,134	784	350	44.6%
Interest	<u>4,982</u>	<u>3,679</u>	<u>1,303</u>	<u>35.4%</u>
Total Expenses	<u>12,497</u>	<u>7,991</u>	<u>4,506</u>	<u>56.4%</u>
Revenues				
Property Taxes	12,236	12,345	(109)	-0.9%
Other Taxes	-	-	-	N/A
Use of Money and Property	1,940	860	1,080	125.6%
Participation Payments	6,260	12,697	(6,437)	-50.7%
Other	<u>2</u>	<u>2,025</u>	<u>(2,023)</u>	<u>-99.9%</u>
Total Revenue	<u>20,438</u>	<u>27,927</u>	<u>(7,489)</u>	<u>-26.8%</u>
Excess of Revenue over Expense	<u>7,941</u>	<u>19,936</u>	<u>(11,995)</u>	<u>-60.2%</u>
Transfers	<u>(15,520)</u>	-	<u>(15,520)</u>	N/A
Net Assets - Beginning of Year	<u>(82,402)</u>	<u>(102,338)</u>	<u>19,936</u>	<u>-19.5%</u>
Net Assets - End of Year	<u>\$ (89,981)</u>	<u>\$ (82,402)</u>	<u>\$ (7,579)</u>	<u>9.2%</u>



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

FUND FINANCIAL ANALYSIS

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

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Huntington Beach Project Area #1				
Total Assets	\$ 24,274	\$ 25,795	\$ (1,521)	-5.9%
Total Liabilities	3,830	3,774	56	1.5%
Net Assets	20,444	22,021	(1,577)	-7.2%
Revenues	7,795	13,444	(5,649)	-42.0%
Expenditures	4,333	1,695	2,638	155.6%
Southeast Coastal Project Area				
Total Assets	-	-	-	N/A
Total Liabilities	179	133	46	34.6%
Net Assets	(179)	(133)	(46)	34.6%
Revenues	-	-	-	n/a
Expenditures	46	333	(287)	-86.2%
Low - Income Housing Fund				
Total Assets	20,703	13,155	7,548	57.4%
Total Liabilities	10,201	4,947	5,254	106.2%
Net Assets	10,502	8,208	2,294	27.9%
Revenues	385	197	188	95.4%
Expenditures	871	536	335	62.5%
Debt Service Fund - Huntington Beach Project Area #1				
Total Assets	5,100	4,748	352	7.4%
Total Liabilities	89,088	93,101	(4,013)	-4.3%
Net Assets	(83,988)	(88,353)	4,365	-4.9%
Revenues	13,732	13,615	117	0.9%
Expenditures	17,270	10,772	6,498	60.3%
Debt Service Fund - Southeast Coastal Project Area				
Total Assets	919	797	122	15.3%
Total Liabilities	808	790	18	2.3%
Net Assets	111	7	104	1485.7%
Revenues	187	181	6	3.3%
Expenditures	50	1,009	(959)	-95.0%

DEBT ADMINISTRATION

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

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Debt Payable to City of Huntington Beach	\$ 85,103	\$ 87,355	\$ (2,252)	-2.6%
Bonds Payable	41,065	27,205	13,860	50.9%
Notes Payable	5,215	5,435	(220)	-4.0%
Disposition and Development Agreement	8,197	10,083	(1,886)	-18.7%
Other Debt	17	17	-	0.0%
Total Debt	\$ 139,597	\$ 130,095	\$ 9,502	7.3%



Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2006

CAPITAL ASSETS

The Agency's capital assets consist of land of \$17,153,000. This amount is recorded as part of the net capital assets of the Agency in the Government-Wide financial statements.

OTHER INFORMATION

Below is a description of some of the Agency's activities during the year.

Huntington Beach Project (Merged Project Area)

- **The Hyatt Regency Huntington Beach Resort and Spa:** The 517-room Hyatt Regency Huntington Beach Resort & Spa and its Conference Center opened for business on January 19, 2003. Due to the success of the project, the Redevelopment Agency has paid a total of \$6,239,171 towards its Developer's Advance Loan leaving an estimated balance of \$8,197,000 million as of September 2006. The hotel paid its first Participation Payment to the Agency during this past year.
- **Pacific City (First and Pacific Coast Highway; 31-Acre Site):** Makar Properties owns this key downtown property now known as "Pacific City." Remediation work is complete and construction has begun on the site. A Community Facilities District is being proposed to fund the majority of the public improvements for the residential portion of the project. Pacific City will include a residential village, a major hotel complex and a retail promenade. An array of boutiques shops, restaurants, resort pools and spa, plaza and entertainment venues will be available year round.
- **The Strand (Blocks 104-105):** A Disposition and Development Agreement was approved in 1998 for the redevelopment of the two-block area bounded by Fifth, Pacific Coast Highway, Sixth and Walnut. On October 1, 2002, the Planning Commission approved the project's entitlements with certain conditions. CIM is constructing a visitor-serving project with retail, restaurants, entertainment and hospitality uses on a portion of Blocks 104 and 105 in downtown Huntington Beach. The project is proposed with retail (53,000 sq. ft.), restaurants (40,000 sq. ft.) offices (28,000 sq. ft.) and a 149-room boutique hotel (110,880 sq. ft.). The total project is estimated to be 231,880 sq. ft. In September 2004, Community Facilities District was formed to provide up to \$15,000,000 in tax exempt financing for the construction of the public improvements, namely the parking facility that will eventually be owned by the City.
- **Bella Terra (formerly Huntington Center):** This outdated 56.5-acre retail property is being transformed into an entertainment/life style center. In 2005, while the mall was still under construction, Bella Terra Associates LLC, a partnership between DJM Capital and Jh Snyder, purchased the property. The Redevelopment Agency approved Bella Terra Associates LLC to assume the rights and responsibilities of the Owner Participation Agreement in order to complete the project. The First Implementation Agreement to the OPA, terminated the "Wards" parcel from the OPA and provided for a \$1.5 million implementation fee to the Agency. On December 18, 2006 the Agency approved "Release of Covenants." The Agency is now required to commence payment of its



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obligation of \$15 million to the developer. 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 Associates LLC also purchased the former Montgomery Wards 13.5 acre portion of the site that has been left vacant for a number of years. Negotiations are commencing to develop the Wards parcel within the next two years.

- **Economic Revitalization Strategic Plan for Beach Boulevard and Edinger Corridor:** On December 18, 2006 the Agency approved a professional services agreement with Tierra West Advisors, LLC for the preparation of an Economic Revitalization Strategic Plan to enhance and maximize the potential of these major thoroughfares. A real estate market analysis of existing conditions along the corridors has begun. This analysis will support the rationale for possible land-use changes that are based upon economic trends and community goals. In support of long range planning efforts, the work is being conducted in conjunction with planning firm Freedman, Tung and Bottomley. The Revitalization Strategic Plan and Specific Plans for the corridors are expected to be completed in 2008.

- **Capital Improvements/Facilities:** The one time revenue from the Redevelopment Agency's participation payments from the Waterfront Residential project will fund eligible city improvements within the City's Merged Redevelopment Project Areas. In Fiscal Year 2006/07 approximately \$8.7 million was allocated for capital projects that include drainage improvements, concrete and asphalt replacement, and streetlight replacements. Also funded from the participation payments are the new projects including the installation of restrooms north of the pier, permanent buildings on the pier and a visitor's kiosk in the Pier Plaza. Facilities improvements include the Civic Center seismic retrofit as well as, internal building modifications for the library, fire stations and City Hall.

Southeast Coastal Project Area

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

- **Huntington Beach Wetlands Conservancy Grant:** The construction of the block wall and associated landscaping was completed during this fiscal year.

- **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.

- **Magnolia Street Sidewalk & Lighting:** The construction of a sidewalk and pedestrian lighting on both sides of Magnolia Street was included in the Capital Improvement Program (CIP) budget for \$250,000.



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

Affordable Housing Projects

- **Habitat for Humanity (Delaware site):** The Redevelopment Agency acquired a vacant parcel at 2502 Delaware for \$153,000 using HOME funds for a Habitat for Humanity project in September of 2004. The Agency also appropriated \$41,400 to Habitat to help pay for development costs. This home built in July of 2006, completed the Agency's 4-unit Yorktown corridor affordable housing development project with Habitat. This Huntington Beach home was a Habitat's Women Build Project—a home built mostly by female volunteers.
- **Colette's Children's Home #2:** The agency assisted Colette's Children's Home with the acquisition a second four-plex at 7781 Glencoe Avenue in Huntington Beach. The project provides a traditional home environment and needed program services for homeless women with children. The affordability covenant secured by the Agency's agreement with Colette's is for a period of 60 years.
- **Jamboree Housing #1 and #2:** The Agency and City of Huntington Beach will be jointly assisting Jamboree Housing Corporation, an Orange County based non-profit housing developer and designated CHDO (*Community Housing Development Organization*), to acquire and rehabilitate two four-plex apartment buildings in the Oakview sub-area. This represents the first acquisition/rehab project developed in the City of Huntington Beach by Jamboree, the first of many housing projects planned for the Oakview sub-area using HOME and redevelopment housing set-aside funds. It is expected that Jamboree will provide on-site management and tenant services for the tenants they serve as more properties are acquired and rehabilitated.
- **Garfield and Delaware Affordable Housing Project:** The City of Huntington Beach acquired property at the northeast corner of Delaware St. and Garfield Ave. as part of a street widening project. It is expected that the Agency will purchase the property from the City and thereafter develop affordable housing on the parcel. It is anticipated that the project will be presented to the Agency and City Council sometime in the year 2008.
- **Ellis and Patterson:** An Orange County Water District sponsored project near the northwest corner of Ellis Avenue and Patterson Lane, resulted in surplus land being made available for purchase to the Redevelopment Agency for a future affordable housing project. This project is expected to be considered by the City and Agency in 2008.



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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, phone (714) 536-5360, or e-mail cgonzales@surfcity-hb.org. You can also visit the City's website at www.surfcity-hb.org for additional copies of this report.

**REDEVELOPMENT AGENCY OF THE
CITY OF HUNTINGTON BEACH
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006
(In Thousands)**

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Investments	\$ 25,180
Restricted Cash with Fiscal Agent	2,413
Receivables	14,426
Land Held for Resale	<u>2,682</u>
Total Current Assets	<u>44,701</u>
Non-Current Assets:	
Capital Assets (Net of Accumulated Depreciation)	<u>17,153</u>
TOTAL ASSETS	<u>61,854</u>
 LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities	85
Accrued Interest Payable	282
Accrued Payroll	7
Deposits	1,694
Unearned Revenue	10,170
Long-Term Debt - Due Within One Year	<u>1,415</u>
Total Current Liabilities	<u>13,653</u>
Non-Current Liabilities:	
Long-Term Debt to the City of Huntington Beach and Component Units	85,103
Other Long-Term Debt	<u>53,079</u>
TOTAL LONG-TERM LIABILITIES	<u>138,182</u>
TOTAL LIABILITIES	<u>151,835</u>
 NET ASSETS	
Investment in Capital Assets, Net of Related Debt	17,153
Restricted for:	
Capital Projects	10,210
Low-Income Housing	8,303
Unrestricted	<u>(125,647)</u>
TOTAL NET ASSETS (DEFICIT)	<u>(89,981)</u>

See Accompanying Notes to Basic Financial Statements

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
(In Thousands)**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Current Service	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities:					
Economic Development	\$ 6,340	\$ -	\$ -	\$ -	\$ (6,340)
City Attorney	41	-	-	-	(41)
Non-departmental	1,134	-	-	-	(1,134)
Interest	4,982	-	-	-	(4,982)
Total Governmental Activities	12,497	-	-	-	(12,497)
General Revenues:					
Taxes:					
Property Taxes					<u>12,236</u>
Other Revenue:					
Use of Money and Property					1,940
Participation Payments					6,260
Other					<u>2</u>
Total Other Revenue					8,202
Total General Revenue					20,438
Transfers					
Transfer of Bella Terra Parking Structure to City of Huntington Beach					(11,453)
Transfers					<u>(4,067)</u>
Total Transfers					(15,520)
Change in Net Assets					(7,579)
Net Deficit - October 1, 2005					(82,402)
Net Deficit - September 30, 2006					\$ (89,981)

REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
BALANCE SHEET - ALL GOVERNMENTAL FUNDS
September 30, 2006
(In Thousands)

ASSETS:

Cash and investments (Note 3)
 Restricted cash with fiscal agent (Note 3)
 Due from other funds
 Taxes receivable
 Other receivables
 Advances to other funds
 Land held for resale, net

TOTAL ASSETS

Capital Projects Funds			
Huntington Beach Project Area #1	Southeast Coastal Project Area	Low-Income Housing Fund	Total Capital Projects Funds
\$ 15,998	\$ -	\$ 8,267	\$ 24,265
-	-	-	-
3,794	-	-	3,794
-	-	-	-
1,498	-	10,237	11,735
302	-	2,199	2,501
2,682	-	-	2,682
\$ 24,274	\$ -	\$ 20,703	\$ 44,977

LIABILITIES, FUND EQUITY AND OTHER CREDITS

LIABILITIES:

Accounts payable and accrued liabilities
 Accrued payroll
 Due to Other Funds
 Deposits
 Deferred property taxes
 Deferred revenue (Note 9b)
 Advances from other Agency funds
 Advances from the City of Huntington Beach and Component Units

TOTAL LIABILITIES

\$ 38	\$ -	\$ 28	\$ 66
4	-	3	7
-	179	-	179
1,694	-	-	1,694
-	-	-	-
-	-	10,170	10,170
2,094	-	-	2,094
-	-	-	-
3,830	179	10,201	14,210

FUND EQUITY AND OTHER CREDITS:

Fund balances:

Reserved for long - term receivables
 Reserved for encumbrances
 Reserved for advances from other funds
 Reserved for land held for resale
 Reserved for low - income housing
 Reserved for capital projects
 Total Reserved
 Unreserved

TOTAL FUND EQUITY AND OTHER CREDITS

TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS

2,672	-	-	2,672
93	-	-	93
-	-	2,199	2,199
2,682	-	-	2,682
-	-	8,303	8,303
10,210	-	-	10,210
15,657	-	10,502	26,159
4,787	(179)	-	4,608
20,444	(179)	10,502	30,767
\$ 24,274	\$ -	\$ 20,703	\$ 44,977

See Accompanying Notes to Basic Financial Statements

Debt Service Funds			
Huntington Beach Project Area #1	Southeast Coastal Project Area	Total Debt Service Funds	Total All Funds
\$ -	\$ 915	\$ 915	\$ 25,180
2,413	-	2,413	2,413
-	-	-	3,794
2,687	-	2,687	2,687
-	4	4	11,739
-	-	-	2,501
-	-	-	2,682
\$ 5,100	\$ 919	\$ 6,019	\$ 50,996

\$ 19	\$ -	\$ 19	\$ 85
-	-	-	7
3,615	-	3,615	3,794
-	-	-	1,694
751	1	752	752
-	-	-	10,170
105	302	407	2,501
84,598	505	85,103	85,103
89,088	808	89,896	104,106

-	-	-	2,672
-	-	-	93
-	-	-	2,199
-	-	-	2,682
-	-	-	8,303
-	-	-	10,210
-	-	-	26,159
(83,988)	111	(83,877)	(79,269)
(83,988)	111	(83,877)	(53,110)
\$ 5,100	\$ 919	\$ 6,019	\$ 50,996

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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, 2006
(In Thousands)**

Total Fund Equity Governmental Funds	\$ (53,110)
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds	17,153
Property tax revenues collected more than 60 days after fiscal year are not current financial resources and, therefore are deferred in the funds	752
Accrued interest payable on Long-term Debt	(282)
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>(54,494)</u>
Net Assets (Deficit) of Governmental Activities	<u>\$ (89,981)</u>

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006
 (In Thousands)**

REVENUES:

Tax increment (Note 4)
 Use of money and property
 Participation payments
 Other revenue
TOTAL REVENUES

Capital Projects Funds			
Huntington Beach Project Area #1	Southeast Coastal Project Area	Low-Income Housing Fund	Total Capital Projects Funds
\$ -	\$ -	\$ -	\$ -
1,535	-	383	1,918
6,260	-	-	6,260
-	-	2	2
7,795	-	385	8,180

EXPENDITURES:

Current:

Economic Development
 City Attorney
 Non-departmental
 Capital outlay

Debt service:

City Debt:

Principal
 Interest

Bond & Other Debt:

Principal
 Interest

TOTAL EXPENDITURES

EXCESS OF REVENUES OVER (UNDER) EXPENDITURES

OTHER FINANCING SOURCES (USES):

City Debt Reduction
 Proceeds from long-term debt
 Transfer of Bella Terra Parking Structure to City of Huntington Beach
 Transfer out to City of Huntington Beach and Component Units

Total Transfers - City of Huntington Beach and Component Units

Other:

Transfers in
 Transfers out

Total Other

TOTAL OTHER FINANCING SOURCES (USES)

NET CHANGES IN TOTAL FUND BALANCE

FUND BALANCES - BEGINNING OF YEAR

FUND BALANCES - END OF YEAR

639	46	173	858
41	-	-	41
-	-	-	-
3,653	-	698	4,351
-	-	-	-
-	-	-	-
-	-	-	-
4,333	46	871	5,250
3,462	(46)	(486)	2,930
-	-	-	-
15,000	-	-	15,000
(11,453)	-	-	(11,453)
(4,067)	-	-	(4,067)
(520)	-	-	(520)
-	-	2,780	2,780
(4,519)	-	-	(4,519)
(4,519)	-	2,780	(1,739)
(5,039)	-	2,780	(2,259)
(1,577)	(46)	2,294	671
22,021	(133)	8,208	30,096
\$ 20,444	\$ (179)	\$ 10,502	\$ 30,767

See Accompanying Notes to Basic Financial Statements

Debt Service Funds			
Huntington Beach Project Area #1	Southeast Coastal Project Area	Total Debt Service Funds	Total All Funds
\$ 13,732	\$ 165	\$ 13,897	\$ 13,897
-	22	22	1,940
-	-	-	6,260
-	-	-	2
13,732	187	13,919	22,099
1,099	32	1,131	1,989
-	-	-	41
1,134	-	1,134	1,134
-	-	-	4,351
5,552	-	5,552	5,552
3,282	18	3,300	3,300
3,825	-	3,825	3,825
2,378	-	2,378	2,378
17,270	50	17,320	22,570
(3,538)	137	(3,401)	(471)
5,552	-	5,552	5,552
579	-	579	15,579
-	-	-	(11,453)
-	-	-	(4,067)
6,131	-	6,131	5,611
4,500	-	4,500	7,280
(2,728)	(33)	(2,761)	(7,280)
1,772	(33)	1,739	-
7,903	(33)	7,870	5,611
4,365	104	4,469	5,140
(88,353)	7	(88,346)	(58,250)
\$ (83,988)	\$ 111	\$ (83,877)	\$ (53,110)

See Accompanying Notes to Basic Financial Statements

**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
September 30, 2006**

Net Changes in Fund Balances - Total Governmental funds **\$ 5,140**

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 (1,661)

Long-term debt - Issuances and changes in long-term debt (bonds, leases, certificates of participation, compensated absences, etc) provide current financial resources to governmental funds, while a repayment of this debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, etc. when debt is first issued. These amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of the differences in the treatment of long-term debt and related items (11,058)

Change in Net Assets of Governmental Activities **\$ (7,579)**



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

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). The City Council is the governing board of the Agency. 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 votes, which qualify 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 area requires 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 a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental activities for the Agency accompanied by a total column. Fiduciary activities of the Agency are not included in these statements. 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 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.



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Government – Wide Financial Statements (Continued)

The statement of activities demonstrates the degree with which the direct expenses of a given function or segment 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, 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 or account group. 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. In prior years, the non-current assets and liabilities were recorded in the General Fixed Assets Account Group and the General Long-Term Debt Account Group, which are no longer reported.

Financial Statement 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 the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

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 Specific Projects and Programs as established by the City Council.

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
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Fund Financial Statements

In the Funds financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various designations are established by actions of the City Council and Management and can be increased, reduced or eliminated by similar actions.

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 Sheets. 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 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 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 tax, other taxes, investment income, and other income. 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



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Fund Financial Statements (Continued)

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. An accompanying schedule is presented to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the Government-Wide Financial Statements. The Agency presents all major funds that met those qualifications.

c. Investment Income Allocation

The City of Huntington Beach allocates investment income 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, 2006.

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 \$10,000 or greater and a useful life of two years 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. The Agency's only capital asset is land.

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
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Long Term Obligations

In the government-wide financial statements, long-term obligations are recorded as liabilities in the governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt for all issues after October 1, 2001. Premiums and discounts for debt issued before October 1, 2001 are not recorded or amortized. In the governmental fund financial statements, bond discounts and premiums are recognized as an other financing source or use. Issuance costs are recorded as current year expenditure.

i. Employee Compensated Absences

The City 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 is recorded when earned, regardless of when levied, 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.

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.



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Property Tax Revenue (Continued)

- Lien Date-January 1 - Prior Fiscal Year
- Levy Date-July 1 - Prior Fiscal Year
- Due Date, First Installment - November 10
- Due Date, Second Installment - February 10
- 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. 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's cash and investments are pooled with the City. The Agency holds a proportionate interest in the amount of \$25,180,000. The Restricted Cash with Fiscal Agent, totaling \$2,413,000 (which represents both fair and book value) are uninsured and unregistered. For further information such as credit risk and categorization of the cash and investments, see the City's Comprehensive Annual Financial Report for the fiscal year ended September 30, 2006.



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

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 6).

5. CAPITAL ASSETS

The changes in capital assets (land) during the year were (in thousands):

Balance, October 1, 2005	\$	15,918
Additions/Retirements		<u>1,235</u>
Balance, September 30, 2006	\$	<u>17,153</u>



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

6. LONG-TERM DEBT

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

**Redevelopment Agency of the City of Huntington Beach
Schedule of LTD
As of September 30, 2006**

	Balance October 1, 2005	Additions	Retirements	Balance September 30, 2006	Amount Due within One Year
DEBT TO CITY OF HUNTINGTON BEACH:					
Advances from General Fund	\$ 10,343	\$ 390	\$ (382)	\$ 10,351	\$ -
Advances from Sewer Fund	221	8	-	229	-
Advances from Drainage Fund	532	20	-	552	-
Advances from Water Fund	3,295	125	-	3,420	-
Advances from Capital Improvement Fund	785	29	-	814	-
Deferred Development Fees:					
Park Acquisition and Development Fund	324	13	-	337	-
Sewer Fund	138	5	-	143	-
Drainage Fund	147	5	-	152	-
Deferred Payment on Land Purchases from City:					
General Fund	67,190	2,540	(5,170)	64,560	-
Park Acquisition and Development Fund	4,380	165	-	4,545	-
Total Debt - City of Huntington Beach	87,355	3,300	(5,552)	85,103	-
OTHER DEBT					
Notes Payable	500	-	-	500	-
Mayer Disposition and Development Agreement	10,083	579	(2,465)	8,197	-
1999 Refunding Tax Allocation Bonds	8,505	-	(350)	8,155	365
2002 Tax Allocation Refunding Bonds	18,700	-	(790)	17,910	815
Bella Terra Parking	-	15,000	-	15,000	-
Section 108 Loan	4,935	-	(220)	4,715	235
Employee Compensated Absences	17	-	-	17	-
Total Other Debt	42,740	15,579	(3,825)	54,494	1,415
Total Agency Debt	\$ 130,095	\$ 18,879	\$ (9,377)	\$ 139,597	\$ 1,415



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

6. LONG-TERM DEBT (CONTINUED)

a. Advances from General Fund

Year(s) debt incurred	1985 to 1996
Interest rate	2.47%
Principal amount	\$10,332,331
Accrued interest	\$18,669
Purpose of debt	Operating, administrative and capital expenditures
Security for debt	Operative Agreement with City
Repayment terms	None

b. Advances from City's Sewer Fund

Year(s) debt incurred	1989
Interest rate	2.47%
Principal amount	\$130,560
Accrued interest	\$98,440
Purpose of debt	Sewer Construction
Security for debt	Operative Agreement with City
Repayment terms	None

c. Advances from City's Drainage Fund

Year(s) debt incurred	1987
Interest rate	2.47%
Principal amount	\$250,000
Accrued interest	\$302,000
Purpose of debt	Drainage Construction
Security for debt	Operative Agreement with City
Repayment terms	None



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

6. LONG-TERM DEBT (CONTINUED)

d. Advances from City's Water Fund

Year(s) debt incurred	1986 and 1987
Interest rate	2.47%
Principal amount	\$1,138,000
Accrued interest	\$2,282,000
Purpose of debt	Water Construction
Security for debt	Operative Agreement with City
Repayment terms	None

e. Advances from City's Capital Improvement Fund

Year(s) debt incurred	1989
Interest rate	2.47%
Principal amount	\$470,000
Accrued interest	\$344,000
Purpose of debt	Capital Expenditures
Security for debt	Operative Agreement with City
Repayment terms	None

f. Deferred Development Fees

Year(s) debt incurred	1984
Interest rate	2.47%
Principal amount	\$339,202
Accrued interest	\$292,798
Purpose of debt	Developer Incentive
Security for debt	Operative Agreement with City
Repayment terms	None



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

6. LONG-TERM DEBT (CONTINUED)

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

Year(s) debt incurred	1983 to 1992
Interest rate	2.47% (current fiscal year)
Principal amount	\$32,833,417
Accrued interest	\$31,726,583
Purpose of debt	Parcel consolidation and development
Security for debt	Operative Agreement with City
Repayment terms	None

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

Year(s) debt incurred	1984
Interest rate	2.47%
Principal amount	\$1,740,834
Accrued interest	\$2,804,166
Purpose of debt	Emerald Cove Land
Security for debt	Operative Agreement with City
Repayment terms	None

i. Notes Payable

Year(s) debt incurred	2003
Interest rate	3.00%
Principal amount	\$500,000
Purpose of debt	Affordable housing
Security for debt	Note with developer
Repayment terms	Deferred for 10 yrs

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, 2006, the Agency obligation under the agreement amounted to \$8,197,000. Project-generated revenues as available will repay these amounts over the time needed to fully amortize the advance.



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

6. LONG-TERM DEBT (CONTINUED)

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
2007	\$ 365	\$ 380	\$ 745
2008	380	365	745
2009	390	350	740
2010	410	334	744
2011	430	317	747
2012-2016	2,460	1,279	3,739
2017-2021	2,530	645	3,175
2022-2024	1,190	117	1,307
Total	\$ 8,155	\$ 3,786	\$ 11,941



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

6. LONG-TERM DEBT (CONTINUED)

I. 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 deacease 1992 Public Financing Authority bonds

Debt service requirements to maturity are (in thousands):

Year Ending September 30,	Principal	Interest	Total
2007	815	798	1,613
2008	845	771	1,616
2009	870	742	1,612
2010	910	712	1,622
2011	945	678	1,623
2012-2016	5,410	2,777	8,187
2017-2021	5,540	1,411	6,951
2022-2024	2,575	253	2,828
Total	<u>\$ 17,910</u>	<u>\$ 8,142</u>	<u>\$ 26,052</u>

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. Project-generated revenues as available will repay these amounts over the time needed to fully amortize the advance.



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

6. LONG-TERM DEBT (CONTINUED)

n. 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	7.7%
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
2007	235	363	598
2008	255	346	601
2009	270	327	597
2010	290	308	598
2011	310	286	596
2012-2016	1,885	1,043	2,928
2017-2019	1,470	238	1,708
Total	4,715	2,911	7,626

o. Employee Compensated Balances

There is no fixed repayment to pay the compensated absences liability totaling \$17,000 at year-end.

7. 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.



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

8. 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. CIM Group, LLC – Disposition and Development Agreement

In June 1999, the Redevelopment Agency entered into a disposition and development agreement with the CIM Group, LLC to allow development of a hotel, retail and restaurant improvements and a public parking facility. The project costs are to be paid initially by the developer with the Agency reimbursing the developer a maximum of \$7.9 million pursuant to a Third Implementation Agreement approved on October 21, 2002.

c. Huntington Center

During 2005 the Redevelopment Agency entered into a Disposition and Development Agreement with a private developer regarding the development of the Huntington Center Mall. On December 18, 2006 the Agency approved "Release of Covenants." The Agency is now required to commence payment of its obligation of \$15 million to the developer.

d. Southeast Coastal Redevelopment Project

On September 2, 2003, the Redevelopment Agency Approved a Cooperation Agreement Regarding Capital Improvements in the Southeast Coastal Redevelopment Project with the City. This agreement commits the Redevelopment Agency to reimburse the City for a number of capital improvement projects to be undertaken as part of the Five Year Capital Improvement Program in the Southeast Redevelopment project area.



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2006**

9. NOTES RECEIVABLE

a. Owner Participation Agreement – Abdelmuti

In 1991, the Agency agreed to assist a private business in the demolition and the construction of a new building. The Agency agreed to make public improvements totaling \$500,000 and to loan the business \$3,126,000 for 15 years at 7% interest to make building improvements. At year-end, the balance of the loan was \$1,009,712.

b. Deferred Loans – Developers

The Agency has made loans available to developers to construct or rehabilitate certain facilities under deferred loan agreements. These loans are deferred until a future event occurs. At year-end, the amounts of these loans were \$10,170,000.

c. Notes Receivable

A summary of Notes Receivable as of September 30, 2006 is as follows:

<u>Description</u>	<u>Amount</u>
OPA - Abdelmuti Receivable	\$ 1,010,000
Deferred Loans Receivable	\$ 10,170,000
Other Receivables	\$ 559,000
Total	<u>\$ 11,739,000</u>

10. 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.

11. OTHER

The Agency's combined net assets for the year ended September 30, 2006 were a negative \$(89,985,000). 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 result in increased public and private investment in a 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 it has debt on the books.

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
CALCULATION OF LOW/MODERATE INCOME HOUSING FUNDS - EXCESS SURPLUS
SEPTEMBER 30, 2006
(IN THOUSANDS)**

ENDING FUND BALANCE - SEPTEMBER 30, 2006	\$	10,502
Less Unavailable Amounts:		
Land Held for Resale		-
Advances to Other Funds		(2,199)
Encumbrances Reserved for Projects		<u>(450)</u>
AVAILABLE FUND BALANCE - OCTOBER 1, 2006		<u>\$ 7,853</u>
AVAILABLE LOW/MODERATE INCOME HOUSING FUNDS LIMITATION (GREATER OF \$1,000,000 OR FOUR YEARS SET-ASIDE):		
Set-aside for fiscal years 2002-03 to 2005-06		
2002-2003		1,245
2003-2004		1,820
2004-2005		1,909
2005-2006		<u>2,301</u>
TOTAL SET-ASIDE FOR LAST FOUR YEARS		<u>7,275</u>
COMPUTED EXCESS/SURPLUS - OCTOBER 1, 2006		<u>\$ 578</u>



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Members of the Redevelopment Agency
of the City of Huntington Beach
Huntington Beach, California

We have audited the basic financial statements of the Redevelopment Agency of the City of Huntington Beach (Agency) as of and for the year ended September 30, 2006, and have issued our report thereon dated January 19, 2007. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the basic financial statements of the Agency are free of material misstatements, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. Such provisions included those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended for the information of the Agency's Board, management, and the State Controller. However, this report is a matter of public record and its distribution is not limited.

Caporicci & Larson

Irvine, California
January 19, 2007

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