

Frequently Asked Questions (FAQs): RDA Payments

FCMAT recently posted an alert on the FCMAT Web site (www.fcmat.org), which has received numerous inquiries regarding proper accounting for payments from redevelopment agencies (RDAs) when calculating revenue limit funding for local educational agencies (LEAs)—school districts, county offices of education or community college districts. RDA payments received pursuant to AB 1290 may have a significant impact on the calculation of state aid funding received through the principal apportionment process.

FCMAT will continue to evaluate the requirements of the Health and Safety Code (HSC) and the Education Code as they relate to RDA fees and the timelines that apply to agreements negotiated during specific periods. Unfortunately, the subject is complex and the FCMAT alert will not address every agency's questions related to this topic. Many districts may therefore need to consult legal counsel prior to making a final determination regarding RDA revenues.

The following questions and answers are intended to assist local agencies and will be updated periodically as new issues are reviewed:

Q. Is the funding received for facilities to be accounted for as restricted?

A. There is currently no specific guidance requiring LEAs to designate these funds as restricted. However, because these funds may require a report to the board or the redevelopment agency, this may be a good time to correct any errors to provide for a well documented audit trail. Using a locally restricted resource (9010) will keep the accounting for facility expenditures isolated and clean. In addition, isolating the revenues and expenditures in a separate resource would provide a better presentation and preparation of the closing entries for GASB 34. Districts can account for these funds as unrestricted or restricted. Also, the educational facility funds can be transferred into Fund 21, 25 or 40 for facilities.

Q. The district is in the process of thoroughly analyzing our RDA pass-through agreements. If it is determined that some parts of an agreement are subject to revenue limit pass-through requirements, how far back must it be adjusted? Is the one year revenue limit adjustment in effect or is there another timeline that must be followed? If it is determined that an amount is subject to the revenue offset, must the district perform the calculation again? If funds were deposited directly into a district's special reserve fund, what is the calculation to move them back into the general fund and into the property tax account?

A. There is not a resolution or determination from the Department of Finance requiring LEAs to adjust previous years. FCMAT recommends that LEAs correct the current year as year-end close approaches, and subsequent fiscal years.

The first step in determining if there is a requirement to change any accounting treatment is to review the RDA language and talk with the RDA, county auditor, and/or county office of education to determine if a change is needed. If a change is needed, make the change going forward. Because of the funding model used by the state of California for LEAs, it would be difficult to make any corrections to prior years. If corrections are needed, a restatement of the beginning balance would be one method of correcting the prior year's errors to remain in compliance with accounting standards. LEAs may also want to have their auditor review changes of this sort to verify that they are in agreement with the determination.

Q. How can districts or county offices of education identify payments as 2%, pass-through or ABI290? Is there a simple way?

A. The only way for an LEA to determine the funding coming from an RDA is to review the language in the RDA agreement and to make inquiries of the RDA, county auditor and/or county office of education.

Q. Is the revenue limit offset applicable only if the funds are placed in the general fund, or does it also apply if they are placed in a capital facilities fund?

A. As defined by AB 1290, Education Code section 42238 and Health and Safety Code section 33607.5, use of the district's annual RDA payments is restricted to educational facilities (56.7%) or to offset a portion of the district's revenue limit (43.3%). In accordance with AB 1290, payments received should be deposited and recorded as follows: 43.3% of the total payment to object 8047, revenue limit offset in the general fund; and 56.7% of the total payment to object 8625, other local revenue in Fund 01, 21, 25 or 40.

Q. Must the portion of ABI290 revenues that are not for revenue limit offset be used exclusively for educational facilities?

A. The RDA funds are designated as an offset to revenue limit funding or for educational facilities. It would be prudent to review the language in the RDA agreement to determine if there are any other limitations that exists regarding the use of the educational facility funds.

Q. May the educational facilities portion of the RDA revenue be left in the general fund? If so, how is it commonly tracked?

A. Yes, an LEA may leave the facilities portion of RDA funds in the general fund and expend the funds for facilities, in accord with the RDA. It is important that the LEA be able to track the funding. One option is to designate a local resource code (for example, 9010) for the educational facilities funds, for both revenues and expenditures. This would allow reports to be run at any time, which can assist an LEA in making sound and efficient management decisions.

Q. Pass-through and 2% payments are not subject to the revenue limit offset if used for educational funding, per page three. But what if they are not used for educational funding? Is the same percentage as ABI290 applied as the revenue limit offset, or is it a 50% miscellaneous revenue offset? In addition, are there any limitations on the use of the portion that is not revenue limit offset?

A. The RDA funds designation resides in the language of the agreement and will be based on when the agreement was established and the language in the agreement regarding how those funds must be spent. Thus, the first step is be to obtain a copy of the agreement and, after reviewing it, meet with

the RDA, county auditor and/or county office of education to ensure that everyone understands the requirements in the original agreement and any amendments. There should be specific language that addresses the use of the funds either as an offset to the revenue limit or for educational facilities.

Q. The section titled “AB 1290” on page three raises some interesting issues but does not provide guidance or information regarding how to resolve or address those issues. The second paragraph of that section notes in italics that AB 1290 payments are often made *in the year following the year in which the payments are due*. Is this statement emphasized with a specific intent? Should the district make a prior year revenue adjustment? Given that this information is coming from a respected source, will it result in districts becoming suspicious of whether their RDAs are accurately providing timely statutory entitlements? How would districts know how to validate the RDA entitlement calculations if they wanted to do so?

A. California is unique as it relates to funding LEAs using the revenue limit funding formula, with a portion of the funding coming from property tax as an offset to the total entitlement. Property taxes are not recognized until actually received; therefore, districts should not set up any accruals for property taxes receivable as of June 30. The revenue limit funding formula necessitates this treatment.

Local educational agencies should always determine whether the funding received is accurate and appropriate. Because of the complexity of the RDA funding, LEAs should take additional steps to understand the agreement that has been established. The agreements typically have been established over a span of several years, so amendments are also likely. Due diligence on the part of an LEA is required because there is a good chance that an LEA’s agreement will differ from that of any other LEA in the state.

The first step is to obtain a copy of the original agreement and any subsequent amendments, then review those documents and meet with the RDA, county auditor and/or county office of education if necessary to obtain a clear understanding of the agreement with regard to revenues and expenditures for the funding.

Q. FCMAT should provide more clarification about the 56.7% portion under AB 1290. While the codes say that the funds shall be available for educational facilities, the codes do not say “only.” Does the 56.7% remain not subject to revenue limit offset as long as it is spent only on facilities, particularly those outlined in HSC 33607.5(a)(5)? Should districts be advised that any other non-facility-related expense would trigger a revenue limit offset?

A. It is important to get a clear understanding of the language in the RDA agreement. The first step is to review the RDA language and talk with the RDA, county auditor and/or county office of education to obtain a clear understanding. Every agreement is different and may have had amendments to the original agreement that could affect the treatment of the revenues and expenditures under the RDA.