Local Government

This part of the Budget includes information related to the dissolution of redevelopment agencies and property tax assessment.

Redevelopment Agencies

The winding down of the state's former redevelopment agencies (RDAs) continues to be a priority for the Administration. Chapter 5, Statutes of 2011 (ABx1 26), eliminated the state's approximately 400 RDAs and replaced them with locally organized successor agencies that are tasked with retiring the former RDAs' outstanding debts and other legal obligations. The elimination of RDAs allows local governments to protect core public services by returning property tax money to cities, counties, special districts, and K-14 schools.

The former RDAs funded their operations by redirecting property tax revenue from cities, counties, special districts, and K-14 schools. While RDAs were meant to remediate blight and provide low-and-moderate income housing, many RDAs instead focused on constructing sales tax revenue-generating venues such as auto dealerships, shopping malls, and "big box" retailers. Furthermore, the RDAs redirected and then spent these property tax revenues without the advice or consent of the local government entities from which the property tax revenues were redirected, thereby taking dollars away from core public services such as police and fire protection. The redirected school revenue resulted in a virtual dollar-for-dollar General Fund cost under Proposition 98. When they were dissolved, RDAs were shifting over $5 billion per year from the affected taxing entities, of which approximately $2 billion was shifted from schools and backfilled by the state.

Ongoing workload related to the winding down of RDAs involves the generation, submittal, and review of Recognized Obligation Payment Schedules (ROPS). Every six months, successor agencies submit to Finance their ROPS, which delineates their proposed payments for the upcoming payment cycle. Finance reviews each ROPS to determine whether the identified payments are enforceable obligations, as defined by law. Once Finance has completed its review, the successor agencies are provided property tax allocations to pay the approved enforceable obligations. Any property tax revenue remaining after payment of enforceable obligations is distributed to cities, counties, special districts, and K-14 schools located within the boundaries of the former RDAs pursuant to existing formulas. The additional property tax revenue received by K-14 schools generally offsets the state's Proposition 98 General Fund costs on a dollar-for-dollar basis.

In 2011-12 and 2012-13 combined, approximately $620 million was returned to cities, $875 million to counties, and $310 million to special districts. The Budget anticipates that cities will receive an additional $525 million in general purpose revenues in 2013-14 and 2014-15 combined, with counties receiving $605 million and special districts $205 million. It is estimated that additional ongoing property tax revenues of more than $700 million annually will be distributed to cities, counties, and special districts. This is a significant amount of unrestricted funding that can be used by local governments to fund police, fire, and other critical public services.

In 2011-12 and 2012-13 combined, approximately $2.2 billion was returned to K-14 schools. The Budget anticipates Proposition 98 General Fund savings resulting from the dissolution of RDAs will be $1.1 billion in 2013-14. For 2014-15, Proposition 98 General Funding savings are expected to be $785 million. On an ongoing basis, Proposition 98 General Fund savings are estimated to be $1 billion annually. When Test 1 of the Proposition 98 calculation is operative, funds above this amount will increase available resources for K-14 schools.

Despite the complex nature of dissolving entities that had been in existence for decades, the RDA dissolution process has proceeded to the point where 300 successor agencies have received a Finding of Completion from Finance, and the fiscal benefits for local government agencies and for the state have been apace with what was anticipated when dissolution was proposed as part of the 2011-12 Governor's Budget. However, there continue to be over 100 active lawsuits challenging various aspects of the RDA dissolution statutes, and depending on the final disposition of these cases there could be a significant impact to the fiscal benefits achieved to date. Notwithstanding these challenges, as the dissolution of RDAs continues, the Administration is prepared to discuss ways to provide cities and counties additional local economic development tools.

Tools for Local Economic Development

While the elimination of RDAs has removed a tool used by local governments, current law still provides opportunities for local governments to engage in economic development. Some of the current tools available to local governments include:

- Issuance of General Obligation bonds—Cities and counties may issue General Obligation bonds to fund economic development activities similar to those funded by the former RDAs. Issuance of the bonds requires a two-thirds vote of the electorate. The only local government entities to which the two-thirds vote requirement does not apply are K-14 schools, which require 55-percent voter approval to issue certain General Obligation bonds.
- Issuance of Lease Revenue Bonds—Cities and counties may issue lease revenue bonds without voter approval. These bonds are repaid not by increasing property taxes but from the revenues generated by the newly constructed facility (e.g., a parking garage that is paid for with parking fees) or the revenues generated from leasing the facility to the local government (e.g., an administrative building that is constructed and then leased to the city). While lease revenue bonds can be effective tools for adding and upgrading public infrastructure, their value to other aspects of urban renewal is limited. For example, lease revenue bonds can finance water and sewer improvements in a blighted area, but they cannot finance the purchase of blighted properties for resale to private developers for the construction of new housing.
- Increase in Local Tax Rates—A two-thirds vote of the impacted electorate is required to raise local taxes for a specific purpose, and a majority vote is required to raise those taxes for general purposes. Since most economic development is specific in nature, a two-thirds vote would generally be required to fund these activities.
- Infrastructure Financing Districts—Cities and counties may establish Infrastructure Financing Districts (IFDs) pursuant to legislation enacted in 1990. Like the RDAs, the IFDs are empowered to use tax increment financing to finance tax allocation

bonds, the proceeds from which are used for local development. Similar to the RDAs, the IFDs also have a cap on their existence and may exercise eminent domain powers during their existence. However, IFDs are limited in the types of projects that they may fund. Generally IFDs can only fund 1) highways and transit projects, 2) water, flood control, sewer, and solid waste projects, 3) child care facilities, and 4) libraries and parks. Furthermore, unlike the RDAs, affected cities, counties, and special districts have the option to participate in the IFDs while schools cannot, which means IFDs have no Proposition 98 General Fund impact. IFDs require a two-thirds vote by the affected electorate to be created.

The elimination of RDAs was necessary to avoid further reductions in core services. Given that current compliance levels with the RDA dissolution statutes is improving, the Budget proposes expanding the tax increment financing tool utilized by IFDs for a broader array of uses than that which is currently authorized under law.

Specifically, the Administration proposes legislation to do the following:

- Expand the types of projects that IFDs can fund to include military base reuse, urban infill, transit priority projects, affordable housing, and associated necessary consumer services. The goal is to maintain the IFD focus on projects which have tangible quality-of-life benefits for the residents of the IFD project area.
- Allow cities or counties that meet specified benchmarks to create these new IFDs, and to issue related debt, subject to receiving 55-percent voter approval.
- Allow new IFD project areas to overlap with the project areas of the former RDAs, while strictly limiting the available funding in those areas to dollars available after payment on all of the former RDA's approved obligations.
- Maintain the current IFD prohibition on the diversion of property tax revenues from K-14 schools, which will ensure any usage will have no state General Fund impact, and require entities that seek to establish an IFD to gain the approval of the county, cities, and special districts that would contribute their revenue, including residual revenue, to the IFD.

The expansion of the use of IFDs should not come at the expense of the continuing RDA dissolution process. If the establishing city or county formerly operated an RDA, the expanded IFD tool would be available to them only when they meet the following benchmarks:

- Receipt of a Finding of Completion from Finance, which demonstrates that the city or county has remitted all of the unencumbered cash assets of its former RDA to the affected taxing entities.
- Compliance with all State Controller's Office RDA audit findings.
- Conclusion of any outstanding legal issues between the successor agency, the city or county that created the RDA, and the state.

Providing these enhancements to existing IFD statutes will provide cities and counties with enhanced options, while also ensuring the impacted local agencies have a voice in whether they will contribute their revenue to those projects and, if so, how their revenues will be used. This proposal will also help ensure the new tools are available for key local priorities such as urban infill, transit-oriented development, and the provision of affordable housing.

State-County Assessors' Partnership Agreement Program

County assessors are responsible for assessing real and qualifying personal property for property tax purposes, and for maintaining and updating property tax rolls. An effective assessment system benefits the public, local governments, and the state.

Beginning in 1995, the state provided annual General Fund loans to county assessors' offices to enable them to more quickly enroll newly constructed property and property ownership changes. The additional property tax revenue received by schools through these efforts reduced the state's Proposition 98 General Fund costs, and the loans to the assessors were thereafter forgiven. The loan program was reconstituted in 2002 as a grant program, known as the Property Tax Administration Grant Program. This program operated until 2005-06, when it was eliminated as a savings measure.

The Budget establishes a State-County Assessors' Partnership Agreement Program to enhance local property assessment efforts. The Program would begin on a three-year pilot basis, to be funded at $7.5 million per year, and to be administered by the Department of Finance. The Program will be limited to nine county assessors' offices that will be competitively selected from a mix of urban, suburban, and rural counties.

To participate in the Program, the county must submit an application to Finance demonstrating work to be performed. The county must also agree to provide its assessor's office with a specified amount of matching county funds each fiscal year to generate additional property tax revenues for local agencies by doing the following:

- Enroll newly constructed property and property ownership changes.
- Reassess property to reflect current market values.
- Enroll property modifications that change the property's taxable value.
- Respond to assessed valuation appeals.

Finance will review the applications and select participants on the strength of each county's proposal. As the three-year Program term nears its expiration date, Finance will evaluate the results and issue findings to the Legislature. The Administration and the Legislature will then determine whether to continue the Program in its current form, expand the Program to more counties, or allow it to expire.