Local Government

This part of the Budget includes information related to local governments.

Redevelopment Agencies

Since the dissolution of Redevelopment Agencies (RDAs) in 2011-12, $4.2 billion in general purpose property tax revenue has been returned to cities, counties, and special districts. These funds are available to these local governments for core public services. Since 2011-12, K-14 schools have received over $4.3 billion in additional property tax revenue. This has generated a roughly commensurate amount of Proposition 98 General Fund savings for the state. Through 2018-19, annual General Fund savings of over $1 billion are anticipated, and these amounts will grow steadily over the next three decades as the former RDAs' debts are steadily repaid and property taxes in RDA project areas grow.

As part of the Governor's Budget, the Administration introduced trailer bill language to simplify the current RDA dissolution process by (1) providing a pathway for permanent dissolution with limited state oversight, (2) clarifying and refining various provisions of the dissolution statutes where there has been perceived ambiguity (thereby making them operate more successfully for all parties without rewarding prior questionable behavior), and (3) minimizing the erosion of property tax residuals being returned to affected local taxing entities.

Over the past several months, the Department of Finance has met with many local government entities to discuss the proposed legislation. Discussions focused on how the legislation could be amended to meet the needs of the cities and counties that formerly operated RDAs (the sponsoring entities), while maintaining the continued orderly and expeditious wind-down of the former RDAs and minimizing the fiscal impact on the state and other affected taxing entities.

Taking into consideration input from stakeholders, the May Revision includes the following substantive amendments to the proposed RDA dissolution legislation:

- Findings of Completion—Findings of completion provide successor agencies with increased fiscal tools and reduced state oversight. The May Revision allows successor agencies that enter into a written payment agreement with Finance to remit their unencumbered RDA cash assets to the county auditor-controller to receive a finding of completion.
- Stranded 2011 Bond Proceeds—For successor agencies with a finding of completion, the May Revision establishes a tiered process whereby they may expend a portion of these stranded proceeds. The unused portions are to be used to defease the outstanding bonds in accordance with current law.
- Property Tax "Override" Revenues—The May Revision clarifies that any pension or State Water Project override revenues pledged to RDA debt service must be used for that purpose. However, if the override revenues were not pledged to debt service, they will be returned in their entirety to the entity that levies the override. Furthermore, if the override revenues were pledged to RDA debt service, but some of the revenues are not needed for debt service payments, the entirety of the portion not needed for debt service payments will be returned to the levying entity.
- Highway Infrastructure Improvements—The May Revision allows agreements between the former RDA and its sponsoring entity that relate to state highway infrastructure improvements to be an enforceable obligation of the successor agency.
- Litigation Expenses—Clarifies that a sponsoring entity can loan money to a successor agency for litigation expenses associated with challenging dissolution decisions and those loaned amounts may be repaid as an enforceable obligation if the litigation is successful.
- Reentered Agreements—Clarifies, as a result of a final court decision, that only reentered agreements entered into after the passage of Chapter 26, Statutes of 2012

(AB 1484) are unauthorized and unenforceable, unless they were for the purpose of providing administrative support activities.

Other Local Government Changes

During the Administration's stakeholder meetings on the RDA dissolution trailer bill, other local government issues were raised with Finance. The May Revision proposes addressing several of these long-standing issues as part of a comprehensive local government package that includes the RDA dissolution changes discussed above. The substantive local government amendments to be included are:

- "Negative Bailout" Counties—After Proposition 13 was passed in 1978, the state enacted legislation to provide relief to local governments for their lost property tax revenue by shifting property tax revenue from schools to cities, counties, and special districts, and then backfilling the lost school revenues from the state General Fund. The state also assumed a portion of the counties' health and welfare costs, thus freeing up county funds for other purposes. If the health and welfare costs that the state assumed for a county exceed the additional property tax the county receives from the schools, statute reduces the county's property tax revenue by the difference—this situation is termed a "negative bailout." The May Revision ends negative bailout, which will provide approximately $6.9 million in annual relief to four counties.
- Newly Incorporated Cities—Four cities in Riverside County incorporated after 2004, making them ineligible to participate in the Vehicle License Fee (VLF) Swap mechanism. The VLF Swap provides local agencies with property tax revenue to replace VLF revenue they lost when the previous Administration reduced the VLF rate from 2 percent to 0.65 percent. While the four cities did receive an enhanced share of the 0.65 percent VLF rate, that share was subsequently redirected in 2011 to fund public safety realignment. The loss of this revenue has made it arduous for these contract cities to pay Riverside County for public safety services—approximately $24 million is owed to Riverside County. The May Revision proposes to absolve these cities of this one-time debt by reducing the reimbursements Riverside County must provide to the Department of Forestry and Fire Protection (CalFIRE) for fire services. Riverside County will then forgive the debt to the four cities and the General Fund will backfill CalFIRE for its reduced reimbursements.

- San Benito County—Beginning in 1998, the County of San Benito made a series of errors in calculating the amounts owed by local agencies to the County's Educational Revenue Augmentation Fund (ERAF). While the state backfilled the $4 million the schools lost due to these errors, the local agencies that pay into ERAF must now reimburse the $4 million to the state. The May Revision allows local agencies in San Benito County to participate in an ERAF repayment program for which they are currently ineligible. This results in the state forgiving approximately $3.4 million of the $4 million owed.
- Tax Equity Allocations—Tax Equity Allocations (TEA) provide property tax to cities that levied little or no property tax prior to Proposition 13. Under TEAs, a share of the property tax otherwise payable to the county is instead provided to the city. Currently, four cities in Santa Clara County reimburse the County ERAF for the revenue the ERAF loses because of the TEA allocations. This annual ERAF loss, which is about $2 million, results from Santa Clara County's ERAF payment calculation, which excludes the amount it provides to the cities under the TEA. The May Revision ends the requirement for the cities to reimburse the County ERAF for the TEA allocations over a five-year period.
- Prior Years Insufficient ERAF—Since 2011-12, the state has provided backfills to cities and counties when there is insufficient revenue in the County ERAF to reimburse the cities and counties for their VLF Swap and "Triple-Flip" costs. Backfills are generally provided two years in arrears. The May Revision provides $5.8 million in backfills, which includes $700,000 for shortfalls incurred in 2009-10 and 2011-12.

State Mandate Reimbursements

The Commission on State Mandates is a quasi-judicial body that determines whether local agencies and school districts are entitled to reimbursement by the state for costs related to new or higher levels of service mandated by the state. The Constitution was amended in 2004 to require the Legislature to either fund or suspend specified mandates in the annual Budget Act. Currently, the state owes counties, cities, and special districts $765 million in mandate reimbursements for costs incurred prior to 2004 that must be repaid by 2020-21 under current law. This is down from the $800 million estimated in the Governor's Budget due to updated interest calculations.

Significant Adjustment:

- Trigger Mechanism Update—The 2014 Budget Act includes a trigger mechanism that makes additional payments for the remaining pre-2004 mandate debt if the estimated General Fund revenues for 2013-14 and 2014-15 fiscal years at the 2015 May Revision exceed the 2014 Budget Act's estimate for those same revenues. Current estimates indicate the trigger mechanism calculation will result in a total of $765 million, which will fully satisfy the remaining pre-2004 mandate debt. This amount is $232 million more than what was estimated in the Governor's Budget. Of the $765 million, approximately 77 percent will go to counties, 22 percent to cities, and 1 percent to special districts. These funds will provide counties, cities, and special districts with general purpose revenue. It remains the Administration's expectation that local governments use these funds for core services such as public safety, particularly to improve the implementation of 2011 Realignment and address mental health issues of local offenders.

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