Tax Relief and Local Government

This part of the Budget contains state and federal funds used for tax relief provided to local governments. The main component is the Homeowers' Property Tax Relief Program, which is budgeted at $425 million in 2013-14. This part of the Budget also includes information related to state mandates and the dissolution of redevelopment agencies.

Redevelopment Agencies

Chapter 5, Statutes of 2011 (ABx1 26) eliminated the state's approximately 400 redevelopment agencies (RDAs). Given the current economic environment, it no longer made sense to continue diverting $5 billion in local property tax revenue to RDAs. The elimination of RDAs allows local governments to protect core public services by returning property tax money to the cities, counties, special districts, and K-14 schools. This funding can now be used by local governments to fund police, fire, or other critical public services that may have been significantly cut back due to difficult economic conditions. In those areas that contained RDAs, it is estimated that over the current year and budget year, approximately $1.6 billion will be distributed back to counties, $1.2 billion will be distributed back to cities, and $400 million will be distributed back to special districts. This will be a steady source of funding in the future for these entities and will provide significant relief to stretched budgets at the local level.

Each RDA was replaced with a locally organized successor agency that is tasked with retiring the RDA's debts and other legal obligations. Each successor agency was

then provided an oversight board to supervise its work. Chapter 26, Statutes of 2012 (AB 1484) provided additional tools for successor agencies, oversight boards, and the Department of Finance to facilitate the orderly wind down of RDA activities. AB 1484 creates a process to transfer former RDA housing assets to housing successor entities, requires audits of various RDA funds and accounts to identify unencumbered funds that should be remitted to local taxing entities, and requires the completion of a long-range property management plan to facilitate the disposition of RDA properties. Much of this workload is one-time in nature and should be completed no later than the summer of 2013.

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 the enforceable obligations are paid is distributed to the affected taxing entities based on their property tax share. 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.

Accurately estimating the property tax revenue available for the affected taxing entities after the payment of enforceable obligations has been a challenge. This is mainly because comprehensive information concerning the amount of property tax expended by RDAs for purposes that qualify as enforceable obligations was not available prior to the enactment of ABx1 26. Now that three payment cycles worth of information is available, Finance can more accurately estimate the future Proposition 98 General Fund savings stemming from the RDA dissolution process. As such, the Budget includes Proposition 98 General Fund savings totaling $2.1 billion in 2012-13 and $1.1 billion in 2013-14. This is revised downward from the 2012 Budget Act estimate of $3.2 billion in 2012-13 and $1.6 billion in 2013-14. A portion of the savings generated is one-time and is generated from the distribution of unencumbered funds being held in various RDA funds and accounts.

As each ROPS cycle passes, the obligations of the former RDAs will continue to decline as debts are paid off. As a result, ongoing savings to the state will grow over time. It is estimated that by 2016-17 approximately $1 billion in ongoing savings could be achieved. Additionally, over the next several years, the workload related to the dissolution of

the former RDAs will become more routine for successor agencies, oversight boards, and Finance. No final payment date related to the RDA dissolution process can be determined at this time, but a point will be reached in the next several years where the only obligations remaining for biannual payment will be debt service.

Commission on State Mandates

Frequently, statutes are enacted to codify requirements on local government that are best practices. Given constitutional requirements, the effect is often that the state incurs costs to reimburse local governments for activities that were already occurring without state funds. The Commission on State Mandates is the quasi-judicial agency that hears test claims to decide whether local agencies and school districts are entitled to reimbursement for increased costs mandated by such statutes.

Another problem with the mandates process is that determinations about activities eligible for reimbursement and funding levels are not made until years after the activities have been performed and local governments have incurred costs. During this intervening time, the state incurs millions of dollars of costs and local entities face uncertainty about the extent to which they will be reimbursed for undertaking activities mandated at the state level.

State mandates should be minimized and local flexibility should be maximized. Local decision makers should determine whether activities are implemented within their communities. Consistent with the success in utilizing the block grant incentive program to improve the K-12 mandate process, the Administration will be exploring ways to improve the mandate process. In the near term, however, the Administration will pursue a course similar to previous Budget Acts—suspend all mandates except certain ones related to law enforcement and property tax collection.

The Constitution requires the Legislature to either fund or suspend specified mandates in the annual Budget Act. The 2012 Budget Act continued the suspension of numerous mandates. Many of the activities required by these mandates have become common practice and should not be mandated by the state. The 2012 Budget Act also deferred the 2012-13 payment for mandate costs incurred prior to 2004-05 and provided that the payment deferral would be continued through 2014-15. Accordingly, the Budget reflects the previous actions to suspend certain mandates and defer the pre-2004 mandate costs.

Additionally, the Budget proposes to suspend four mandates for a General Fund savings of $103.8 million in 2013-14. The Commission recently adopted Statewide Cost Estimates for these mandated activities which reflect functions that local entities have inherent reasons to preserve without reimbursement from the General Fund. The Budget also proposes to suspend five mandates recently determined by the Commission on State Mandates to be reimbursable activities. These activities are best practices that local agencies should be providing their citizens as a matter of course. Savings will result from suspending the five mandates, but since the State Controller has yet to collect local agency claims necessary to develop statewide cost estimates, the amount is unknown.

The Budget provides $48.4 million for mandates that remain in effect.