

LOCAL GOVERNMENT

This part of the Budget includes information related to the dissolution of redevelopment agencies, state mandate reimbursements, and other issues affecting local government.

REDEVELOPMENT AGENCIES

The Administration is continuing the ongoing workload involved with winding down the state's former redevelopment agencies (RDAs). Chapter 5, Statutes of 2011 (ABx1 26), eliminated the state's approximately 400 RDAs, replacing them with locally organized successor agencies tasked with retiring the outstanding debts and other legal obligations of the RDAs. The elimination of RDAs has allowed local governments to protect core public services by returning property tax money to cities, counties, special districts, and K-14 schools.

From 2011-12 to 2013-14, approximately \$990 million in property tax revenue has been returned to cities, \$1.3 billion to counties, and \$430 million to special districts. The Budget anticipates that in 2014-15 and 2015-16 combined, cities will receive an additional \$580 million, counties \$660 million, and special districts \$200 million. The Budget anticipates ongoing property tax revenues of more than \$900 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.

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From 2011-12 through 2013-14, approximately \$3.5 billion was returned to K-14 schools. The Budget anticipates Proposition 98 General Fund savings resulting from the dissolution of RDAs will be \$875 million in 2014-15. For 2015-16, Proposition 98 General Fund savings are expected to be \$1 billion. On an ongoing basis, Proposition 98 General Fund savings are estimated to be over \$1 billion annually. When Test 1 of the Proposition 98 calculation is operative, funds above the estimated \$1 billion will increase available resources for K-14 schools.

SIMPLIFYING THE DISSOLUTION PROCESS

While administering the orderly dissolution of almost 400 RDAs has been complex and time-consuming, it has achieved the fiscal and programmatic goals originally envisioned and, as noted above, has provided substantial funding for local governments to use on core public services.

Ongoing workload related to the winding down of redevelopment agencies involves the generation, submittal, and review of Recognized Obligation Payment Schedules (ROPS). Every six months, while operating under the supervision of a locally appointed oversight board, 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 required by enforceable obligations, as defined by law. Once Finance has completed its review, the county auditors-controllers provide successor agencies with property tax allocations to pay the approved enforceable obligations. This process continues into the future until all the approved enforceable obligations have been paid.

Through this biannual process, Finance has successfully reviewed the majority of all enforceable obligations listed for payment by successor agencies for compliance with the law. About 85 percent of all active successor agencies have complied with statutory audit findings and received a Finding of Completion, which is a milestone indicating compliance progress. As a result, oversight of the dissolution process has progressed to the point where legislative changes can be considered in order to add finality to the entire dissolution process and reduce the burden on all parties involved.

The Administration will introduce legislation through the budget process to gradually transition the state away from the current detailed role in the RDA dissolution process.

The legislation will meet the following objectives:

- Minimize the potential erosion of property tax residuals being returned to the local affected taxing entities (both in the short and long term) while transitioning the state from detailed review of enforceable obligations to a streamlined process;
- Clarify and refine various provisions in statute to eliminate ambiguity, where appropriate, and make the statutes operate more successfully for all parties without rewarding previous questionable behavior; and
- Maintain the expeditious wind-down of former RDA activities while adding new incentives for substantial compliance with the law.

Specifically, the Administration's proposed legislation will include the following process changes:

- Transition all successor agencies from a biannual ROPS process to an annual ROPS process beginning July 1, 2016, when the successor agencies transition to a countywide oversight board. This restructured process will be more efficient and will reduce the workload on all parties.
- Establish a "Last and Final" ROPS process beginning September 2015. The Last and Final ROPS will be available only to successor agencies that have a Finding of Completion, are in agreement with Finance on what items qualify for payment, and meet other specified conditions. If approved by Finance, the Last and Final ROPS will be binding on all parties and the successor agency will no longer submit a ROPS to Finance or the oversight board. The county auditor-controller will remit the authorized funds to the successor agency in accordance with the approved Last and Final ROPS until each remaining enforceable obligation has been fully paid.

The proposed legislation will also clarify that:

- Former tax increment caps and RDA plan expirations do not apply for the purposes of paying approved enforceable obligations. One of the core principles of the dissolution process is that approved enforceable obligations will be paid. This clarification will confirm that funding will continue to flow until all approved enforceable obligations have been paid.

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- Reentered agreements that are not for the purpose of providing administrative support activities are not authorized or enforceable.
- Litigation expenses associated with challenging dissolution determinations are not separate enforceable obligations, but rather are part of the administrative costs of the successor agency.
- Contractual and statutory passthrough payments end upon termination of all of a successor agency's enforceable obligations.
- Finance is exempt, as provided in existing law, from the regulatory process.
- County auditor-controllers' offices shall serve as staff for countywide oversight boards.

In recent years, the Legislature has put forth various proposals to change the dissolution process. Any such proposals would need to fit within the principles stated above. The Administration is committed to working with stakeholders to achieve common ground where possible.

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. With few exceptions, state reimbursable mandate claims are a General Fund expense. The Constitution requires the Legislature to either fund or suspend specified mandates in the annual Budget Act. The Budget continues the suspension of most mandates not related to law enforcement or property taxes.

Significant Adjustments:

- Status of Trigger Mechanism—The 2014 Budget Act made a \$100 million repayment on pre-2004 mandate debt owed to counties, cities, and special districts. For the remaining \$800 million pre-2004 mandate debt, the 2014 Budget Act includes a trigger mechanism that will be used if, at the 2015 May Revision, estimated General Fund revenues for the 2013-14 and 2014-15 fiscal years exceed the 2014 May Revision estimate for those same revenues. After satisfying the Proposition 98 guarantee, additional revenues, up to \$800 million, will pay down the remainder of the state's pre-2004 mandate debt. Current estimates indicate

that the trigger mechanism will result in a \$533 million payment toward this mandate debt. These funds will provide counties, cities, and special districts with general purpose revenue. It is the Administration's expectation that local governments use these funds for core services such as public safety and improving the implementation of 2011 Realignment.

- **Funded Mandates**—In June 2014, California voters approved Proposition 42 which placed the Public Records Act in the Constitution and removed the state's ongoing responsibility to fund the Public Records Act mandate. The Budget makes a one-time payment of \$9.6 million to fund the back costs local agencies accrued from 2001 to 2013 performing activities under the Public Records Act mandate. The Budget also provides \$218,000 to fund the Accounting for Local Revenue Realignments mandate which involves county administration of funding changes in 2003-2004 that addressed budget shortfalls at that time.
- **Interagency Child Abuse and Neglect Investigation Reports Mandate**—This mandate requires certain local agencies to conduct various activities related to child abuse investigations and to provide reported child abusers due process protections. The Commission on State Mandates adopted a \$90.3 million statewide cost estimate which reflects the affected agencies' costs to comply with this mandate from 1999 to 2011. The Budget suspends this mandate because these activities are long-established and involve the agencies' core missions. The Budget creates a \$4 million optional grant program, administered by the Department of Social Services, as a substitute funding mechanism for these activities.

PAYMENT IN LIEU OF TAXES

Historically, the Department of Fish and Wildlife made payments to counties to compensate local governments for the property tax revenue that would have otherwise been collected had state-owned properties remained in private ownership. The payments were authorized for the Department's wildlife management areas and were paid until the 2002 Budget Act eliminated the funding to achieve General Fund savings. The Budget provides \$644,000 General Fund for in-lieu fee payments to counties. This amount does not include funding for K-14 schools that are already kept whole through the Proposition 98 guarantee.

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