

# **AGENDA**

## **ASSEMBLY BUDGET SUBCOMMITTEE NO. 6 ON BUDGET PROCESS, OVERSIGHT AND PROGRAM EVALUATION**

**ASSEMBLYMEMBER NANCY SKINNER, CHAIR**

**TUESDAY, FEBRUARY 25, 2014**

**9:00 A.M. - STATE CAPITOL ROOM 437**

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### ***Informational Hearing on the Dissolution of Redevelopment***

- I. Welcome and Opening Remarks
  - Assembly Member Nancy Skinner, Chair, Assembly Budget Committee
- II. Overview of the Implementation of the Redevelopment Dissolution Process
  - Justyn Howard, Assistant Program Manager, Department of Finance
  - Walter Barnes, State Controller's Office
- III. Review of the Dissolution Process from the Local Perspective
  - Aaron Laurel, Economic Development Manager, City of West Sacramento
  - Patrick Whitnell, General Counsel, League of California Cities
- IV. Public Comment
- V. Closing Remarks and Adjournment

## BACKGROUND

### Legislation

As part of the 2011-12 budget agreement, the Legislature took action to eliminate redevelopment agencies (RDAs) through two bills, AB 26 X1 (Blumenfield, Chapter 5, Statutes of 2011), which eliminated traditional redevelopment, and AB 27 X1 (Blumenfield, Chapter 6, Statutes of 2011), which created a new voluntary alternative. The California Redevelopment Agency, the League of California Cities, and others sued over the constitutionality of the two measures. As a result, the California Supreme Court invalidated AB 27 x1 but upheld the dissolution law. In February 2012, redevelopment agencies were dissolved.

Following the dissolution, as part of the 2012-13 Budget Act, AB 1484 (Committee on Budget, Chapter 26, Statutes of 2012), was enacted to provide tools for successor agencies, oversight boards, and the Department of Finance (DOF) to facilitate the wind down of RDA activities. AB 1484 created a process to transfer housing assets, audit RDA funds and accounts to identify funds that should be remitted to local taxing entities, and required a long-range property management plan (LRPMP) for the disposition of RDA properties.

AB 1484 includes a meet and confer process to handle disputes between the successor agencies (created to wind down RDAs) and DOF. If a resolution cannot be reached through the process then the successor agency is authorized to file a lawsuit. AB 1484 provides that if DOF has not approved a LRPMP by January 1, 2015, then the successor agency would be required to dispose of assets and properties of the former redevelopment agency at that time.

### Long Range Property Management Plan

Once the successor agency is granted a finding of completion, the successor agency is allowed to do the following:

- Retain real property formerly owned by the RDA, in addition to governmental use property, after a long-range property management plan has been approved by DOF.
- Repay loans made by the sponsoring entity to the former RDA as prescribed.
- Spend the remaining excess proceeds from bonds issued prior to January 1, 2011.

Of the 300 agencies who have received a finding of completion, 229 have submitted their LRPMP to Finance. As of February 6, 2014, 42 of the 229 LRPMPs or 18 percent have been approved by Finance.

Concerns from local agencies over the LRPMP process include the following:

- **January Deadline Approaching.** The timing and approval process of the LRPMP is delaying the dissolution wind down process and many fear that the January 1, 2015 deadline will not be met by Finance.
- **Meet and Confer Process Absent in LRPMP.** There is no formal process to appeal a DOF determination on the LRPMP, except for litigation.
- **Guidelines from Finance.** There are no guidelines from Finance in how they are considering the LRPMP.
- **Will Finance have an ongoing role?** There is concern that Finance intends to continue to have an ongoing role after the approval of a LRPMP contrary to the intent of AB 1484. According to the law, AB 1484 sets out the parameters for the disposition of assets in a redevelopment plan and once the LRPMP is approved, Finance's role should end.
- **Compensation Agreements.** There is a disagreement about Finance requiring compensation agreements between all local agencies as a condition of LRPMP approval.

### **Recognized Obligation Payment Schedules**

AB 26 X1 and AB 1484 require DOF to review and approve, every six months, all enforceable obligations for the former RDAs that are proposed to be paid with property taxes, bond revenues, and any other funding available to the former RDAs. There have been many disputes between the successor agencies and DOF because enforceable obligations that may have been approved in the past are being denied in subsequent rounds of Recognized Obligation Payment Schedules (ROPS).

Concerns from local agencies over the ROPS process include the following:

- **Certainty.** Many agencies have stated that enforceable obligations that have been approved during one ROPS cycle may be disapproved on subsequent ROPS submitted to Finance. For a local agency, the approval and disapproval of the enforceable obligations create a lack of certainty for the agencies.

### **Findings of Completion**

The legislation creates separate roles and processes for DOF, State Controller's Office, and successor agencies to undertake in the wind down of redevelopment. AB 26 X1 and AB 1484 require successor agencies to account for the assets of the former RDA and submit the list of assets for review by DOF. There are 385 successor agencies. As of February 6, 2014, 300 have received their findings of completion.

### **Lawsuits**

Last February, when the subcommittee held its oversight hearing, there were 53 lawsuits filed against DOF. This year there are over 100 lawsuits pending between Finance and dissolution agencies. According to Finance, tentative rulings in lawsuits between Finance and the cities of Brentwood and Foster City potentially could affect up to \$3.4 billion of the redevelopment monies. The main issue in these cases is whether it is legal for Finance to invalidate legal transactions that took place before dissolution. The tentative rulings have been issued, additional information has been requested by the presiding judges, and more information is expected in the upcoming weeks.

### **2014-15 Budget**

There are two elements to the Governor's budget proposal. In the first part, the Governor's budget discusses the savings from the elimination of redevelopment agencies including General Fund savings of \$1.1 billion in 2013-14, \$785 million in 2014-15, and estimates ongoing savings of \$1 billion annually. Also in 2013-14 and 2014-15 combined, cities will receive \$525 million, \$605 million for counties, and \$205 million for special districts in general purpose revenues from the dissolution of redevelopment. Additionally, the budget anticipates ongoing property tax revenues of more than \$700 million annually to cities, counties and special districts combined. These savings were calculated prior to the Departments assertion that up to \$3.4 billion could be affected by pending lawsuits.

The second part of the Governor's budget includes a proposal to expand the tax increment financing tools utilized by Infrastructure Financing Districts (IFDs). Under current law, cities, counties and special districts may establish IFDs to use tax increment financing to finance tax allocation bonds. The proceeds are then used for local development. IFDs require a two-thirds vote and are currently limited to the following types of projects:

- Highway and transit projects
- Water, flood control, sewer, and solid waste
- Child care facilities
- Libraries and parks

## Governor's Infrastructure Financing Districts Proposal

Under the Governor's proposal, if the local agencies meet "benchmarks" then they are able to use the new tools in the Governor's proposal. The proposal includes:

- Expanding 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.
- Allowing cities and counties that meet the benchmarks to create these new IFDs and to issue related debt, subject to a 55-percent voter approval.
- Allowing new IFD project areas to overlap with the project areas of the former RDAs, while limiting the available funding in those areas to dollars available after payment on all of the former RDA's approved obligations.
- Maintaining the current IFD prohibition on the diversion of property tax revenues from K-14 schools, to ensure no General Fund impact.

### ***Benchmarks Cause Concern***

This is the first time the Governor has proposed providing tools for local governments since the dissolution of RDAs. However, the Governor's budget states that the new tools should not come at the expense of the continuation of the dissolution of redevelopment agencies. For that reason, the proposal contains "benchmarks" that affect cities or counties that formerly operated an RDA who want to use the program. The benchmark that is the most troubling is the one related to lawsuits. As discussed above, Finance currently has over 100 lawsuits pending. If a local entity wants to utilize the new tools and has a lawsuit pending, they will not be eligible to use the new tools. The ability for Finance or a successor agency to go to court to resolve disputes was the agreed upon remedy when AB 1484 was enacted in 2012. Why should the right to go to court be taken away when Finance agreed to it as part of the AB 1484 negotiation?

The benchmarks to take advantage of the new economic tools include:

- Receipt of a Finding of Completion from Finance
- Compliance with all State Controller's Office RDA audit findings
- Conclusion of any outstanding legal issues between the successor agency and Finance