

AGENDA

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

ASSEMBLYMEMBER BOB BLUMENFIELD, CHAIR

MONDAY, FEBRUARY 11, 2013

2:30 P.M. - STATE CAPITOL ROOM 126

***Redevelopment: Implementation Follow Up to
AB 26 X1 (Blumenfield), Chapter 5, Statutes 2011, and AB 1484
(Committee on Budget), Chapter 26, Statutes of 2012***

1) Overview of Implementation Follow Up to AB 26 X1 and AB 1484

- Justyn Howard, Department of Finance
- Walter Barnes, State Controller's Office

2) Committee Member Questions

3) Public Comment

BACKGROUND

Redevelopment: Implementation follow-up to AB 26 X1 and AB 1484

Legislation

As part of the 2011-12 Budget Act, the Legislature enacted two measures 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 an alternative voluntary redevelopment program. Following the passage of the legislation, the California Redevelopment Association, the League of California Cities, and others sued the State over the constitutionality of the two measures. As a result, the courts found AB 27 X1 invalid but held AB 26 X1 valid. In February 2012, redevelopment agencies (RDA) were dissolved and the process for unwinding their financial obligations began. Today there are 401 successor agencies.

In 2012-13, 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 the RDAs including independent audits to identify the assets of former RDAs, a due diligence review process, and a meet and confer option. Additionally, AB 1484 creates a process to transfer housing assets, identify funds that should be remitted to local taxing entities, and requires a long-range property management plan for the disposition of RDA properties.

Implementation

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. Additionally, DOF is responsible for reviewing and approving housing asset transfers from the former RDAs to successor housing entities and due diligence reviews of the low and moderate income housing fund, and all other accounts and funds. AB 1484 also includes a meet and confer process to handle disputes between the successor agencies and DOF.

Successor Agency

A successor agency is an entity that created the RDA, except in cases where the agency was created through a joint powers agreement, which is responsible for administering the dissolution process under the supervision of the oversight board. The successor agency is responsible for making payments on enforceable obligations, preparing Recognized Obligation Payments Schedule (ROPS), and overseeing the disposition of assets under the oversight board.

Designated Local Authority

If a local agency does not elect to serve as a successor agency, a public body known as the designated local authority shall be formed in the county and shall have all the powers and duties as the successor agency.

Recognized Obligation Payments Schedule

Each RDA was replaced with a successor agency that is required to retire the RDA's debts and other legal obligations. The successor agency is responsible for drafting a ROPS outlining the enforceable obligations of the former RDAs assets payable through June 30, 2012 along with their source of payment. These lists are filed with the DOF every six months until the debt is retired.

Currently, the fourth round of ROPS (ROPS Fiscal Year 2013-14A) is due to DOF by March 1, 2013. DOF completed its review of the last round of ROPS (ROPS III) on December 15, 2012 and the distribution of the Redevelopment Property Tax Trust Fund (RPTTF) to the successor agencies and affected taxing entities were made on January 2, 2013. For each ROPS, there is a meet and confer process that is available to the successor agency. A meet and confer process allows a successor to request a meeting if there is a dispute to a ROPS submittal, housing asset submittal, or due diligence review. This process provides an opportunity for the successor agency to provide DOF with additional information. In 2012-13, DOF estimates the workload will include the review of 802 ROPS.

True-up Process

Under the legislation, all county auditor-controllers were required to determine the amount owed by the successor agency to taxing entities from 2011-12 tax increment allocation to the former RDA for the period of January 1, 2012, through June 30, 2012. Payments of these funds were required to be made by July 12, 2012. DOF reports that 27 true-up payment reviews will have to be conducted in 2012-13. This number represents the number of agencies who paid less than the amount they owed or the amount estimated by the county auditor was different than DOF's estimate and therefore further review was necessary.

Housing Successor

The housing successor is the entity that assumes the housing functions of the former RDA, which can be the city or county that created the RDA, a housing authority in the jurisdiction of the former RDA, and if there is no housing authority in the jurisdiction of the former RDA, the Department of Housing and Community Development. The housing successor was responsible for submitting a list of housing assets to DOF by August 1, 2012.

Due Diligence Review

AB 1484 required successor agencies to have a licensed accountant, approved by the county auditor, determine the unobligated balances available for transfer to taxing entities for both the housing assets and other assets.

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. A finding of completion is issued by DOF once the successor agency has completed the following three steps:

- Completed the "true-up" process;
- Completed a due diligence review (DDR) of the former RDA housing assets; and,
- Completed a due diligence review of other assets.

At this time, the City of Arcadia in the County of Los Angeles is close to being the first to be eligible to receive a finding of completion.

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 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.

Lawsuits

There have been 53 lawsuits filed against DOF for decisions by DOF from enforceable obligations to the constitutionality of the legislation. Fifteen of those lawsuits have been resolved and 38 lawsuits are pending. DOF has lost one lawsuit against the City of Oxnard and has decided not to appeal the case.

Governor's 2013-14 Budget

As a result of the dissolution of RDAs, property tax revenues are being used to pay required payments on existing bonds, other obligations and pass-through payments to local governments. The remaining property tax revenues that exceed the enforceable obligations are allocated to cities, counties, special districts, and school and community college districts.

The Governor's January budget includes revised estimates of Proposition 98 General Fund revenues of \$2.1 billion in 2012-13 and \$1.1 billion in 2013-14. The projections are lower than the estimates in the 2012 Budget Act and the difference has to do with the availability of information. At the time of the enactment of AB 26 X1, information was limited. Now that the unwinding of redevelopment process has begun, DOF can provide estimates that are more accurate. The projections included in the January budget also are more closely aligned with the projections included in the Legislative Analyst's Office November forecast.