AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER ADRIN NAZARIAN, CHAIR

WEDNESDAY, MAY 20, 2015
1:30 P.M. - STATE CAPITOL ROOM 126

ITEMS TO BE HEARD

ITEM	DESCRIPTION	
ISSUE 1	GOVERNOR'S MAY REVISION PROPOSAL RELATING TO REDEVELOPMENT AGENCIES	1

ITEMS TO BE HEARD

GOVERNOR'S MAY REVISION PROPOSAL RELATING TO REDEVELOPMENT AGENCIES

ISSUE 1: MAY REVISION PROPOSAL RELATING TO REDEVELOPMENT AGENCIES

The Governor's May Revision includes a revised redevelopment proposal that continues to provide a permanent dissolution process while addressing concerns that were discussed from the original January proposal.

The Department of Finance will present the Governor's May Revision proposal.

BACKGROUND

Key Changes from January Proposal to May Revision:

- Changes from June 28, 2011, to June 27, 2012, for when reentered agreements are no longer valid. This change will not overturn the Emeryville v. Cohen decision.

- States that prospectively, any legal costs challenging the RDA law shall only be paid out of the administrative cost allowance. Additionally, it states that if the successor agency obtains a final judicial determination granting the relief, then the funds provided by the sponsoring entity will be considered an enforceable obligation. If relief is not granted, then the funds will not be an enforceable obligation.

Provisions that stayed in May Revision from January Proposal:

- Continues to exempt the Department of Finance from the Administrative Procedures Act.

- Continues to only allow a city, county, or city and county that authorized the RDA to loan or grant funds to a Successor Agency (SA), when there is insufficient distribution from the Redevelopment Property Tax Trust Fund (RPTTF).

- Continues to state that these loans are subject to the Local Agency Investment Fund (LAIF) Rate.

- Continues to include a list of type of work allowed during the unwinding of RDA.

- Continues to clarify that the administrative cost allowance shall not exceed 50 percent of the RPTTF payment.

- Continues to expand the definition of governmental purpose property to include public parking lots. Allows a SA to amend only once, it's Long-Range Property Management Plan (LRPMP) prior to January 1, 2016, to include public parking lots.

- Includes process and timelines for the final dissolution process.

- Continues to have the LAIF rate set at 1 percent and 2 percent.

- Clarifies the requirements to submit a LRPMP.

- Creates the process for the Last and Final Recognized Obligation Payment Schedule (ROPS) process.

- Continues to define loan agreements and specifically states that loan agreements do not include agreements that the former RDA was required to pay or reimburse the city, county, city and county that created the former RDA for cost of services or obligations incurred under contracts with third parties.

New May Revision details

- Includes a provision that an agreement entered into by the redevelopment agency prior to June 28, 2011, is an enforceable obligation if the agreement relates to state highway infrastructure improvements to which the redevelopment agency committed funds.

- Sets up a process for alternate members to serve on oversight boards.

- Creates five oversight boards for the County of Los Angeles.

- Creates a flexible process that 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.
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    - States that if a SA fails by December 31, 2015 to pay or enter into a payment plan, the SA shall never receive a FOC.

    - Describes a process if a SA fails to fully make one or more payments, including oversight board actions shall no longer be valid, loan agreements between RDAs and city, county, city and county are no longer enforceable obligations (EO), and LRPMP will no longer be effective.

- 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.

- Creates a process to use the proceeds from the 2011 bonds: 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.
- Addresses past property tax apportionment factors for San Benito County.
- Repeals the statutory requirement that the Santa Clara County Auditor must reduce the amount of property tax revenues allocated to specified cities and increase the amount of property tax revenues allocated to the county ERAF by a defined "ERAF reimbursement amount."
- Allows the SA of the City and County of San Francisco to issue bonds and incur other indebtedness to meet affordable housing obligations.
- Repays monies owed by the newly formed Cities of Jurupa Valley, Menifee, and Wildomar for services rendered by the County of Riverside.
- Provides an appropriation of $5,825,000 for insufficient Educational Revenue Augmentation Fund (ERAF) for the Counties of Amador, San Mateo, and Alpine.
- Ends the requirement for four cities in Santa Clara County to reimburse the County ERAF for the Tax Equity Allocations (TEA) over a five-year period.

LAO COMMENTS

The LAO states that the May Revision makes several changes to the Governor's January redevelopment proposal that appear to reflect the feedback of local agencies and, therefore, seem to find a reasonable middle ground. Specifically, eliminating retroactive invalidation of certain reentered agreements and creating a mechanism for successor agencies to recover litigation costs from successful challenges to DOF's implementation of the dissolution statutes, addresses concerns raised by local agencies throughout the budget process. In addition, the May Revision change related to property tax override revenues addresses an issue that local agencies have raised several times in recent years. DOF's proposed solution to this issue appears consistent with the goals of redevelopment dissolution, namely (1) ensuring former redevelopment obligations are honored and (2) returning property tax revenues to the entities that would have received them in the absence of redevelopment.

Additionally, the LAO comments that the proposed changes would increase General Fund costs. LAO states that the overall effect of the provisions depends on several variables and could increase the costs by as much as several tens of millions of dollars annually.

STAFF COMMENTS

The bill before the subcommittee is a more comprehensive approach to redevelopment clean up legislation. The bill brings together the ideas from the Administration to provide a process to dissolve redevelopment agencies in a more efficient manner and incorporates that with the redevelopment bills that are currently moving through the Legislature into one vehicle.

The changes included in the May Revision address some of the main concerns that opposition had to the bill earlier this year, including eliminating retroactive invalidation of certain reentered agreements and allowing successor agencies to recover litigation costs from successful challenges.

With that said, there still are a number of outstanding concerns including how to set the LAIF rates to an appropriate level. The current draft sets these rates at 1 and 2 percent, which opponents strongly oppose. Another outstanding issue is that of defining what is a loan agreement under the section of dissolution law that allows for loan repayments to a City from a former RDA. Currently, the language prohibits repayments for reimbursements where a city paid costs related to redevelopment work and is seeking reimbursement for those costs. The Administration has stated that there is a willingness to come to the table to continue to discuss these issues as well as others.

Staff acknowledges the LAO's comments that the May Revision moves the redevelopment bill towards a middle ground and thereby creates an opportunity for continued discussion and negotiation on the bill.

Staff Recommendation: Hold Open