

Date of Hearing: April 17, 2013

ASSEMBLY COMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
Norma Torres, Chair

AB 1320 (Bloom) – As Amended: April 10, 2013

SUBJECT: Redevelopment: successor agencies

SUMMARY: Allows schools to continue to receive property taxes, equal to the amount they would have received in passthrough payments if redevelopment agencies still existed, and does not count those property taxes toward the Proposition 98 funding formula. Specifically, this bill:

- 1) Defines a "local education agency" as a school district, a community college district, or a county office of education.
- 2) Permits a local education agency to continue to receive property taxes, equal to the amount of passthrough payments they would have received, if a redevelopment agency had not been dissolved.
- 3) Allows the amount of the passthrough payment to continue to be established either by statute or by a contract between a former redevelopment agency and an education agency.
- 4) Allows an education agency to continue to receive property taxes, in the amount of the former passthrough payment, until the last year that the dissolved redevelopment agency would have existed as set by statute, including any extensions allowed.
- 5) Provides that the property taxes, equal to the amount of the former passthrough payments, will not be counted toward the amount that a local education agency receives based on the funding formula in Proposition 98.
- 6) Requires the auditor-controller to calculate the amount of the passthrough payments and provide the county office of education and the relevant local education agency with the data underlying the calculations.

EXISTING LAW

- 1) Dissolves redevelopment agencies and institutes a process for winding down their activities (Health and Safety Code Section 34170).
- 2) Requires that within one year of making the final debt payment of a former redevelopment agency, a successor agency dispose of all remaining assets and terminate its existence (Health and Safety Code Section 34187).
- 3) Requires that when all of the debts of a redevelopment agency are paid and a successor agency terminates its existence, then all passthrough payment obligations of a former redevelopment agency cease and no property tax will be allocated to the Redevelopment Property Tax Trust Fund, for the former redevelopment agency (Health and Safety Code Section 34187).

FISCAL EFFECT: Unknown

COMMENTS:

In 2011, facing a severe budget shortfall, the Governor proposed eliminating redevelopment agencies in order to deliver more property taxes to other local agencies. Redevelopment redirected 12% of property taxes statewide away from schools and other local taxing entities and into community development and affordable housing. Ultimately, the Legislature approved and the Governor signed two measures, ABX1 26 and ABX1 27 that together dissolved redevelopment agencies as they existed at the time and created a voluntary redevelopment program on a smaller scale. In response, the California Redevelopment Association (CRA), and the League of California Cities, along with other parties, filed suit challenging the two measures. The Supreme Court denied the petition for peremptory writ of mandate with respect to ABX1 26. However, the Court did grant CRA's petition with respect to ABX1 27. As a result, all redevelopment agencies were required to dissolve as of February 1, 2012.

As part of the dissolution process, local communities with redevelopment agencies were required to establish a successor agency that is responsible for identifying the enforceable obligations or the debts of the former redevelopment agency that need to be retired. Successor agencies must submit a list of enforceable obligations to the Department of Finance (DOF) for approval. Over time, these obligations will be repaid by property taxes collected and deposited by the county auditor-controller into the Redevelopment Property Tax Trust Fund. Existing law dictates to the auditor-controller which debts of the former redevelopment agency should be paid and in what order. Passthrough payments established by statute or contract by the former redevelopment agency and taxing entities, including schools, counties, and special districts are paid first, followed by enforceable obligations, administrative costs of the successor agency. Any remaining amounts are distributed to the taxing entities. Once the debts of the former redevelopment agency are paid, the successor agency dissolves and the passthrough payments along with all other enforceable obligations will no longer be paid. At that point, property tax will be allocated based on statutory formulas to all taxing entities as if redevelopment agencies never existed.

History of passthrough payments: To alleviate the fiscal burden of redevelopment, redevelopment agencies made passthrough payments to other local taxing entities out of tax increment it collected. Prior to 1993, redevelopment agencies and other local taxing entities, including counties, special districts, and school districts, negotiated passthrough payments. In some cases, counties, or special districts may have negotiated for a greater share than school districts. AB 1290 (Isenberg) Chapter 942, Statutes of 1993, replaced this process with a statutory formula that requires post-1994, passthrough payments to be distributed to all local agencies and bases the amount each agency receives on its proportionate share of the one percent property tax rate in the project area.

According to the Legislative Analyst's Office (LAO), "nearly two-thirds of all pass-through payments stem from pre-1994 negotiations between RDAs and local agencies. For various reasons, counties and special districts were particularly active in this negotiation process. As a result, counties and special districts receive about two-thirds of all pass-through payments. This share of pass-through payments is almost double the share that counties and special districts would receive if passthrough payments were distributed based on tax shares. Because counties and special districts get a disproportionately large share of passthrough payments, they would get

less money from trust fund distributions if these passthrough payments were included in the trust fund calculations. The K-14 districts and cities, in contrast, would get a higher share of redevelopment trust fund distributions."

Last year, AB 1484 (Blumenfield), Chapter 26, made the statutory changes needed to achieve a total of \$3.3 billion of budget savings related to the dissolution of redevelopment agencies as estimated in the Governor's May Revision of the Budget. One of the clarifications AB 1484 made was to require that once all of the debts and assets of a former redevelopment agency are disposed of, then the passthrough payments to counties, special districts and school districts end. According to the LAO, "over time, the dissolution of RDAs will increase the amount of general purpose property tax revenues that schools, community colleges, cities, counties, and special districts receive by more than \$5 billion annually."

The amount of time it will take to retire the debts of the redevelopment agency will vary across communities. As a result, it is impossible to know when the passthrough payments to schools and other taxing entities will cease. The intent of redevelopment dissolution was that over time as the debts are paid, the other taxing agencies, including schools, would receive more property taxes.

Purpose of this bill: According to the author of this measure, "a significant portion, or in some cases all passthrough funds are restricted for facilities use, passthrough payments (or portions thereof) are not treated as local property taxes for purposes of determining per-student funding levels that support school operations. This historic treatment of passthrough payments as a revenue stream on top of the state's Proposition 98 revenue limit (pre-student funding level) is the mechanism that provides that fiscal stability on which school districts and county offices of education rely. Moreover school districts and county offices of education have reasonably anticipated that this funding stream would continue through the contemplated life of the redevelopment project plan."

This bill proposes to allow schools to continue to receive property taxes, in the amount that they would have received in passthroughs payments, had redevelopment agencies not been dissolved. Those payments come out of the AB 8 share of property taxes, so they will receive the share they would have under redevelopment without reducing the amount that goes to other taxing entities. The bill specifies that the property taxes will not be counted as part of the per-student formula in determining how much the state must backfill schools to achieve required funding levels under Proposition 98. As a result, the state will not be able to count the portion of property taxes that continue as passthroughs to schools toward the local's share of school funding.

AB 1320 would require passthrough payments to continue through the life of the redevelopment agency project area including any extensions that have been made through that period. In some cases project areas had up to 50 years to complete the goal of eliminating blight.

Staff comments: It is unclear at what point passthrough payments will cease for schools. Successor agencies are in the process of submitting their recognized enforceable obligations to DOF for approval. Many of those obligations will need to be paid for years in the future. This bill would allow passthroughs to continue for the life of the redevelopment project area, which could be decades in the future. It's difficult to know what the state's financial health will look like many years from now and how these passthroughs will affect the state's requirement to backfill schools from the General Fund.

Double referred: If AB 1320 passes out of this committee, the bill will be referred to the Committee on Local Government.

REGISTERED SUPPORT / OPPOSITION:

Support

California Association of School Business Officials
California School Boards Association
Contra Costa County Superintendents' Coalition
Dr. Arturo Delgado, Los Angeles County Superintendent of Schools
Fresno Unified School District
Los Angeles Unified School District
Lucia Mar Unified School District
Riverside County Superintendent of Schools
San Bernardino Community College District
San Diego Unified School District
Small School Districts' Association
Dr. Gary Thomas, San Bernardino County Superintendent of Schools

Opposition

None on file.

Analysis Prepared by: Lisa Engel / H. & C.D. / (916) 319-2085