



# County of Los Angeles CHIEF EXECUTIVE OFFICE

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January 13, 2012

To: Supervisor Zev Yaroslavsky, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer 

## **SACRAMENTO UPDATE**

This memorandum contains a pursuit of future County positions on redevelopment, a change in County position on redevelopment legislation to modify the calculation of the payment required under ABX1 27 of 2011, and a report on redevelopment legislation of County-interest to revise the definition of the term enforceable obligation and modify the distribution of housing funds under ABX1 26 of 2011.

### **Pursuit of County Position on Redevelopment Legislation**

Historically, the Community Redevelopment Law (CRL) has allowed a Redevelopment Agency (RDA) to capture all of the increase in property taxes that is generated within a redevelopment area over a period of decades. CRL also requires RDAs to deposit 20.0 percent of tax increment into a Low and Moderate Income Housing Fund (LMIH) to be used to increase, improve, and reserve the community's supply of low and moderate income housing available at an affordable housing cost.

### **FY 2011-12 State Budget Act – ABX1 26 and ABX1 27**

In 2011, Governor Brown enacted ABX1 26 and ABX1 27, the FY 2011-12 two-bill redevelopment trailer bill package, which eliminates RDAs unless cities and counties elect to participate in the Alternative Voluntary Redevelopment Program to achieve \$1.7 billion in State General Fund savings in FY 2011-12. After passage of the

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redevelopment trailer bill package, the California Redevelopment Association (CRA), League of California Cities (League) and others filed a lawsuit in the California Supreme Court to challenge the constitutionality of ABX1 26 and ABX1 27, primarily on the grounds that the enacted legislation violates Proposition 22 of 2010 and other provisions of the California Constitution. Proposition 22 prohibits the State from taking, borrowing, or restricting the use of tax revenues dedicated by law to fund transportation, redevelopment, or local government services.

### **Recent California Supreme Court Decision**

As previously reported, on December 29, 2011, the California Supreme Court (Court) issued a ruling in the *California Redevelopment Association v. Matosantos* case, finding ABX1 26 constitutional and ABX1 27 unconstitutional. The Court found that the continuation payments required under ABX1 27 as a precondition to continue redevelopment did violate Proposition 22. It also determined that the dissolution of RDAs in ABX1 26 was legal and independently enforceable. In accordance with the Court's order, RDAs will be dissolved on February 1, 2012. Revenues that would have been directed to the RDAs will be distributed to make pass-through payments to local agencies that they would have received under prior law and to successor agencies for retirement of the RDAs' debts and for limited administrative costs. The remaining revenues will be distributed as property taxes to cities, counties, school and community college districts and special districts under existing law.

### **ABX1 26 of 2011 – Phase-out of Redevelopment Agencies**

As reported in the July 14, 2011 Sacramento Update, ABX1 26 establishes the framework to phase-out RDAs, dissolves community redevelopment commissions, prohibits the creation of new RDA obligations or debts, retires existing RDA indebtedness, creates and establishes the duties of Successor Agencies and Oversight Boards, and imposes requirements on county auditor-controllers. The restrictions on RDA operations are intended to preserve the revenues and assets of RDAs in order that those resources not needed to pay enforceable obligations may be available for use by local governments to fund core governmental services. ABX1 26 allows a community development commission to retain its authority in its capacity as a housing authority or for any other community development non-redevelopment purpose. However, unused balances in the Low and Moderate Income Housing Fund would be transferred to the Successor Agency and dispersed to the local taxing entities.

## **Fiscal Impact to the County**

Any tax increment remaining after the payment of former RDA enforceable legal obligations, pass-through payments, and limited administrative costs, will be distributed to the taxing entities as property tax. At present, the annual net loss to all RDAs for the County General Fund is approximately \$453.0 million. In other words, if not for redevelopment, the County General Fund would receive an additional \$453.0 million annually. Additionally, the annual loss to RDAs for the Fire District is \$51.0 million, \$18.0 million for the Flood Districts, and \$8.5 million for the Public Library District. The actual tax increment revenue coming to the County and special districts will be whatever funds remain after the former RDA enforceable legal obligations, pass-through payments, and administrative costs are deducted.

The actual amount of property tax that the County General Fund would receive will be based on the audit of each RDA's legal obligations. The Auditor-Controller is tasked with conducting an audit of each of the 71 active RDAs in the County. The audits are scheduled to be completed by July 1, 2012.

In addition, the recently released Governor's FY 2012-13 Proposed Budget includes the dissolution of RDAs. The Governor's proposal predicts that approximately \$1.05 billion in additional statewide property tax revenue will be received by K-14 schools in FY 2011-12, which will offset the State's Proposition 98 General Fund obligation. The Budget plan estimates additional property tax revenues at \$340.0 million for counties statewide. The breakdown of the estimated \$340.0 million by county is unknown at this time. This office will work with County Counsel and the Auditor-Controller to determine the impact of this proposal when further details are released by the Administration.

## **Efforts to Restore Redevelopment**

Redevelopment legislation has been introduced to amend the distribution of LMIH funds and expand the definition of an enforceable obligation to include additional existing debt under ABX1 26. In addition, CRA and the League have indicated their interest to engage in a dialogue with the Governor and the Legislature to revive redevelopment. According to CRA, options are available to restore redevelopment while also providing the State budgetary relief that would not violate Proposition 22.

Specifically, CRA and various housing and economic development advocates have expressed their intent to seek legislative modifications to ABX1 26 to: 1) delay the February 1<sup>st</sup> dissolution date; and 2) introduce new, reconfigured redevelopment and low and moderate housing programs. It should be noted that any legislation that grants

delay would require a two-thirds vote and the Governor's signature. A delay would also seriously reduce the \$1.7 billion from RDAs that the State included in the FY 2011-12 State Budget Act. Most importantly, any new or reconfigured redevelopment program approved by the Legislature will likely protect funding to schools, so funds for new redevelopment would come from the other taxing entities (primarily counties).

The Chief Executive Office, County Counsel, and Auditor Controller indicate that these proposals would divert local revenues from critical County services.

### **Future Legislative Advocacy**

**Future legislative advocacy by this office in Sacramento concerning redevelopment will be determined by the direction received from the Board, as well as by the consideration of adopted Board policies to: 1) minimize the adverse impact of State actions; 2) oppose any abridgement or elimination of the Board of Supervisors' powers and duties unless the change promotes a higher priority of the Board; 3) oppose any redevelopment legislation which would cause the County to lose revenues; 4) support proposals that provide incentives to local governments and/or developers to increase and protect affordable housing and flexibility for counties to promote a diversity of affordable house types through local policies; and 5) support proposals that increase home ownership opportunities for low- and moderate-income families, and employees in vital occupations.**

### **Change in County Position on Redevelopment Legislation**

**County-opposed unless amended AB 1250 (Alejo)**, which would have made a number of changes to certain aspects of Community Redevelopment Law, including provisions to revise property tax increment revenue allocations, expand redevelopment uses and impose new requirements on implementation plans, was amended on January 4, 2012, to delete these provisions.

As currently amended, AB 1250 would amend ABX1 27 (Chapter 6, Statutes of 2011), the Alternative Voluntary Redevelopment Program, to modify the calculation of the payment a participating city and county is required to make for the FY 2012-13 and each fiscal year thereafter. As noted above, ABX1 27 was deemed unconstitutional by the California Supreme Court. Therefore, **the Sacramento advocates will remove opposition to AB 1250 and take no position on this measure.**

### **Redevelopment Legislation of County Interest**

**SB 654 (Steinberg)**, which as amended on January 11, 2012, would amend ABX1 26 of 2011 to expand the definition of qualified debt and modify the provisions relating to the distribution of LMIH funds. The bill contains an urgency clause making it effective immediately if passed by the Legislature and signed by the Governor.

The following is a summary of the key changes included in the bill:

- Expands the definition of an enforceable obligation to include two additional types of loan agreements between an RDA and its host city or county: 1) a loan that was executed within two years of the date of creation of a project area, if the loan is specific to that project area; and 2) a loan to fund the RDA's FY 2009-10 State's Supplemental Education Augmentation Fund (SERAF) payment to schools;
- Expands the type of agreements, contract, or arrangements between an RDA and the host city or county considered valid, to include: 1) written agreements that provided loans or startup funds for the RDA that were entered into within two years of the date of the creation of a project area, if the loan is specific to that project area; and 2) any obligation to fund the RDA's FY 2009-10 SERAF payment to schools;
- Allows a host city or county of a dissolving RDA to retain funds on deposit in its LMIH fund and requires the city or county to expend those funds in compliance with the housing provisions of the Community Redevelopment Law;
- Allows the local housing authority or the California Department of Housing and Community Development to retain LMIH funds if the city or county chooses not to assume the housing functions previously performed by an RDA; and
- Requires, rather than permits, an entity assuming the housing functions of an RDA to enforce affordability covenants on affordable housing properties.

**The Chief Executive Office, Auditor-Controller, County Counsel, and Community Development Commission are currently reviewing SB 654 to determine possible impact to the County.**

Each Supervisor  
January 13, 2012  
Page 6

SB 654 passed the Senate Transportation and Housing Committee by a vote of 9 to 0 on January 10, 2012. The measure is co-sponsored by Housing California along with the Non-Profit Housing Association of Northern California. There is no registered support or opposition to SB 654 on file at this time. This measure is scheduled for a hearing in the Senate Appropriations Committee on January 17, 2012.

We will continue to monitor and review legislative efforts to modify Community Redevelopment Law and keep you advised.

We will continue to keep you advised.

WTF:RA  
MR:LY:sb

c: All Department Heads  
Legislative Strategist  
Local 721  
Coalition of County Unions  
California Contract Cities Association  
Independent Cities Association  
League of California Cities  
City Managers Associations  
Buddy Program Participants