



# County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration  
500 West Temple Street, Room 713, Los Angeles, California 90012  
(213) 974-1101  
<http://ceo.lacounty.gov>

WILLIAM T FUJIOKA  
Chief Executive Officer

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March 13, 2012

To: Supervisor Zev Yaroslavsky, Chairman  
Supervisor Gloria Molina  
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Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer

## **SACRAMENTO UPDATE**

This memorandum contains a pursuit of County position on redevelopment legislation to exempt the Monrovia Redevelopment Agency from ABX1 26 of 2011 and an overview of a report released by the Legislative Analyst's Office regarding the dissolution of redevelopment agencies.

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

**SB 1439 (Huff)**, which as introduced on February 24, 2012, would exempt the Monrovia Redevelopment Agency from provisions relating to the suspension and dissolution of Redevelopment Agencies (RDAs) pursuant to ABX1 26 (Chapter 5, Statutes of 2011). The bill would authorize the Monrovia RDA to continue to exist and carry out redevelopment activities. The bill would also make specified findings and declarations that the special legislation is applicable only to the City of Monrovia. The bill has an urgency clause making it effective immediately, if passed by a two-thirds vote of the Legislature and signed by the Governor.

ABX1 26 of 2011 eliminates RDAs and provides for the transfer of property tax revenues to successor agencies, the retirement of RDA debts and for limited administrative costs. The remaining revenues are to be distributed as property taxes to cities, counties, school and community college districts, and special districts. RDAs were dissolved effective February 1, 2012.

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SB 1439 states that the Legislature finds and declares the City of Monrovia and its RDA have negotiated terms for the sale of its property to the Metro Gold Line Foothill Extension Construction Authority (Authority) for the construction of a maintenance and operations facility, which is necessary for the eastward expansion of the Metro Gold Line Phase 2A. Without such facility, the Authority will not receive funding from the Metropolitan Transportation Authority to complete the 11.5 mile light rail extension project. SB 1439 would exempt the Monrovia RDA from ABX1 26 and allow for its continued existence because of the unique transportation obligations of the Monrovia RDA.

ABX1 26 clearly outlines a process to expeditiously wind down the affairs of RDAs and contains key provisions that prohibit the creation of new obligations or debts and ensure that enforceable obligations are safeguarded as RDAs are dissolved and debt is retired. These provisions are intended to preserve the revenues and assets of RDAs to ensure that enforceable obligations, as defined in ABX1 26, are paid and to allow local governments to use remaining revenues to fund core government services. An exemption specific to the Monrovia RDA, as proposed in SB 1439, would create inequities in the application of existing law which phases-out RDAs and could deter the successful implementation of ABX1 26. The bill also would prevent local governments from receiving revenues, previously allocated to the RDA, which could be used to address critical local government needs.

The Auditor-Controller indicates that should the Monrovia RDA be exempted from ABX1 26 it would be allowed to continue receiving property tax revenues for an indefinite period, reducing the amount of property tax revenues available for distribution to local taxing entities and prevent local governments from receiving revenues, including the County. According to the Auditor-Controller, the Monrovia RDA received approximately \$9.6 million in adjusted gross tax increment in FY 2010-11 and it has four redevelopment project areas.

The tax increment revenue coming to the County and special districts will be whatever funds remain after the RDA's 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 the RDA's legal obligations. It is very difficult to determine the amount of property tax revenues which could be distributed to the County, because only limited data is available at this time and the type of financial obligations the Monrovia RDA may have entered into, prior to their dissolution on February 1, 2012, is unknown at this time.

In addition, while SB 1439 declares the special circumstances of the Metro Gold Line transportation project, the bill proposes a full exemption of the Monrovia RDA which encompasses at least four RDA projects.

Because SB 1439 would reduce the amount of property tax revenues that would otherwise be returned to local taxing entities and would deter the implementation of ABX1 26 by exempting the Monrovia RDA and allow it to continue receiving tax increment revenues, County Counsel, Auditor-Controller and this office recommend an oppose position on SB 1439. Therefore, consistent with existing Board policy to minimize the adverse impact of State actions and oppose any redevelopment legislation which would cause the County to lose revenues, **the Sacramento advocates will oppose SB 1439.**

The recommended position is also consistent with the Board's action of January 24, 2012 to oppose **SB 659 (Padilla)**, which as amended on January 13, 2012, would have temporarily postponed the dissolution deadline for the elimination of RDAs, among other provisions, and would have resulted in the loss of property tax revenue to affected taxing entities.

SB 1439 is currently at the Senate Desk. This measure may be heard in committee on or after March 26, 2012. There is no registered support or opposition on file.

### **Legislative Analyst's Office Report on Redevelopment Agency Wind-Down**

On February 17, 2012, the Legislative Analyst's Office (LAO) released its report titled: *The 2012-13 Budget: Unwinding Redevelopment*, which reviews the history of RDAs, the events that led to their dissolution and the process for the phase-out of RDAs as dictated by ABX1 26 (Chapter 5, Statutes of 2011). The LAO recommends that the Legislature amends ABX1 26 to aid the implementation process and to provide clarification on: 1) timing issues; 2) the treatment of pass-through payments; and 3) authority to create reserves for future bond payments. The following is an overview of some of the key findings in the LAO report.

#### **Redevelopment in 2011**

The Legislative Analyst's Office finds that redevelopment in 2011 had little similarity to the small, locally-financed program the Legislature initially authorized in 1945, reporting that:

- By FY 2009-10, RDAs were receiving over \$5.0 billion in property taxes annually.

- Redevelopment imposed significant costs on the State General Fund, exceeding \$2.0 billion annually because the State backfilled K-14 school districts for property tax revenues distributed to RDAs.
- Overall, redevelopment as a statewide economic development tool focused on a tax increment financing system that expanded significantly overtime, representing a 12.0 percent redirection of property tax revenues from general purpose local government use for redevelopment purposes.
- Redevelopment came to cost the State as much as the University of California or State College systems, but did not appear to yield commensurate statewide benefits.

#### Rush to Issue Debt and Transfer Assets

The Legislative Analyst's Office reports that during the legislative debate on redevelopment in 2011, many RDAs took actions to transfer or encumber assets and future tax increment revenues in case the Governor's proposal to eliminate RDAs or something similar was enacted, and determines that:

- RDAs issued about \$1.5 billion in tax allocation bonds during the first six months of 2011, a level of debt issuance greater than the \$1.3 billion issued in 2010.
- Many RDAs took actions also to transfer redevelopment assets such as land, buildings, and parking facilities to other local agencies, typically the city or county that created the RDA.

In addition to transferring existing assets, the LAO indicates that many RDAs entered into cooperation agreements with their city, county, or another local agency. Under these agreements, the city, county, or other local agency would carry out existing and future redevelopment projects. The LAO points out that local agency staff and officials appeared to assume that if the Governor's proposal to eliminate RDAs were enacted, the cooperation agreements would be an enforceable contract, requiring the allocation of future tax increment revenues as payment for performing the agreement.

#### **Statewide Redevelopment Funds Available for Redistribution**

Over time, the LAO indicates that the dissolution of RDAs will increase the amount of general purpose property tax revenues received by schools, community colleges, cities, counties, and special districts by more than \$5.0 billion annually. In the near term, the LAO notes that there is uncertainty regarding the amount of property tax revenues that

will be available, which local governments will receive the revenues; and the extent to which these increased funds will offset State General Fund education costs. The LAO additionally finds that:

- The shift in property tax distributions will be modest in FY 2011-12, but will increase over time.
- Within 20 years, most redevelopment enforceable obligations will be paid and property tax revenues for K-14 districts, counties, cities and special districts will be about 10.0 percent to 15.0 percent higher than they otherwise would have been.

The amount of remaining property tax revenues available to distribute to local governments will depend on:

- The outcome of calculations including pass-through payments, enforceable obligations payable that year and administration costs undertaken for each former RDA in the State.
- Calculations which will reflect the unique financial obligations, revenues and assets of each RDA.

#### *Governor's Estimate of Revenue Distributions to Local Governments*

According to the LAO, the Administration estimates that \$1.8 billion of property tax revenues will be distributed to local governments in FY 2011-12 and FY 2012-13. However, this estimate is subject to considerable uncertainty. The LAO finds that the Administration's estimate may be high because it:

- Understates costs to pay enforceable obligations.
- Assumes a full year of implementation in FY 2011-12.
- Overlooks administrative costs of the successor agency, county-controller, and State Controller's Office.
- Assumes cooperation agreements are not paid.

Cooperation Agreements Not Included in Governor's Debt Cost Estimate

According to the LAO, the Administration's debt cost estimate implicitly assumes that the adopted list of RDA obligations, known as the Recognized Obligations Payment Schedule (ROPS), will not include cooperation agreements and other transactions between an RDA and its host city or county. The LAO however notes that:

- Many successor agencies are listing these cooperation agreements on their draft ROPS.
- The statewide redevelopment association is encouraging successor agencies to list these agreements to safeguard their right to challenge the invalidation of these agreements.

Under ABX1 26, the oversight boards can remove these costs from a ROPS before adopting it and the Department of Finance (DOF) has authority over oversight board actions.

Limited Schedule for Debt Review May Reduce Revenues

The Legislative Analyst's Office cautions that the California Supreme Court's revised dissolution schedule provides little time for the oversight board or DOF to complete the analyses needed to determine whether debts are appropriate for the ROPS. The DOF has limited staff working on dissolution matters and oversight boards have no independent staff.

Given these factors, it is possible that some adopted ROPS will show higher costs than the Administration estimates, which will reduce the amount of property tax revenues that will be distributed to local governments in FY 2011-12 by potentially hundreds of millions of dollars. According to the LAO, this problem could be corrected going forward by removing inappropriate debts from the next adopted ROPS.

**Conclusion**

Over the coming months, the LAO indicates that the magnitude of administrative, policy, and legal issues associated with unwinding RDAs inevitably will prompt proposals to slow down or stop the dissolution process. The LAO also anticipates alternatives to redevelopment that might emerge. **Notwithstanding the considerable difficulties associated with ending redevelopment, the LAO recommends that the Legislature not take actions that slow or stop the dissolution process.**

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The Legislative Analyst's Office also finds that the major elements of ABX1 26: 1) explicitly ends redevelopment and safeguards the repayment of debt; 2) clearly delineates the roles of the parties involved in the dissolution process; and 3) distinctly focuses on preserving the revenues and assets of RDAs so that those assets and revenues that are not needed to pay for enforceable obligations may be used by local governments to fund core governmental services.

### **Legislative Analyst's Office Recommendations**

The Legislative Analyst's Office notes that three areas of the ABX1 26 would benefit from clarification and recommends that the Legislature amend ABX1 26 to:

- Address timing issues associated with the court's postponement of certain dates.
- Clarify the treatment of pass-through payment in distribution of trust fund revenues.
- Allow successor agencies to create reserves for future bond payments and clarify the county auditor-controllers may reserve property tax revenue for future bond payments.

The Legislative Analyst's Office finds that prompt legislative action would aid the implementation process and recommends the Legislature adopt these changes so that they take effect immediately, either in legislation with an urgency clause or as an amendment to last year's trailer bill.

The entire LAO report may be accessed at [www.lao.ca.gov](http://www.lao.ca.gov).

We will continue to keep you advised.

WTF:RA  
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