

Answers to Concerns & Speculation Regarding Proposal to End Redevelopment

The Governor's proposal to abolish redevelopment agencies as of July 1, 2011 also calls for urgency legislation to prohibit existing agencies from creating new contracts or obligations. On Wednesday, the Legislative Analyst released his analysis of the Governor's Budget proposals and suggested that the Legislature take action as soon as possible to pass urgency legislation to prohibit redevelopment agencies "from taking further actions that increase their debt." As a result, rumors have been swirling among agencies and their lawyers that legislation will be introduced January 18 to accomplish what the Governor and Legislative Analyst have proposed, perhaps with a retroactive date of January 10. CRA has been asked by several members for guidance on this issue, and this will respond to those requests.

When the Department of Finance was asked by CRA if it would be introducing legislation with a retroactive date on prohibiting incurrence of agency debt, a senior staff person denied this morning that was true. Nevertheless, nothing is ever certain in the Capitol.

While there is cause for great alarm and the need for immediate and ongoing political activism (see below) to prevent passage of the Governor's proposal, it faces many legal and political obstacles before it can become law.

Typically, a governor's January budget proposal is seen as a starting point for negotiations with the Legislature. On its face, the proposal raises constitutional questions, including compatibility with:

- Article XVI, section 16 of the California Constitution, which established tax increment financing and requires tax increment to be paid to redevelopment agencies;
- Article XIII, section 25.5 (Propositions 1A and 22) which prohibits legislation requiring the transfer of tax increment to

the State, any agency of the State, or any local jurisdiction;
and

- State and Federal constitutional provisions prohibiting legislation impairing the obligation of contracts.

Bill language implementing the proposal is in the process of being written and has not yet been released. The lack of specifics in the Governor's proposal leaves many questions unanswered and frustrates any attempt to give advice to redevelopment agencies about what, if anything, can be done to protect their redevelopment programs. CRA encourages all redevelopment agencies to continue fighting and working together to illustrate the fact that this legislative proposal must not go forward.

CRA offers the following list of dos and don'ts to guide more specific decisions by agencies:

1. Do become advocates. The most important action you can take immediately is to notify your State Legislators, your community, your coalition partners, the media, and others of the drastic and profoundly negative consequences of eliminating redevelopment. The economic and job losses that will result will be staggering. We must educate and advocate to save this important local government program! Enlist the help of your elected officials, local chambers of commerce, affordable housing developers and advocates, environmental leaders, and organized labor to join you in the fight.

2. Don't panic. This is just the beginning of a long and involved process. A few weeks from now we could be looking at a different proposal. The proposal must be drafted into legislative language, discussed and debated in committee hearings starting February 7, and voted on by the Legislature before it gets to the Governor to be signed and enacted into law. While the Legislature can truncate the process, they are unlikely to skip the required steps.

3. Don't make bad deals. There may be a tendency to rush into transactions in order to shelter funds from the proposal. While finishing up transactions that are near completion may be appropriate, little is likely to be gained by precipitous actions. Your energies are better focused in advocacy.

4. Don't make our job in the Legislature any harder.

Currently, our most important priority is to convince the Legislature that the Administration's proposal is bad policy, unworkable and unconstitutional. The spectacle of redevelopment agencies all over the state taking precipitous actions to divert or commit assets will undermine our credibility with the Legislature.

5. Do inventory agency obligations and make sure that they are supported by written agreements. Make sure your financial house is in order.

6. Do continue to make decisions in line with current goals and policies. It would be tragic to see redevelopment in California come to a halt, even for a short time, because of this ill-considered proposal.

Summary of Proposal's Provisions to Abolish and Divert Tax Increment

At a briefing earlier this week, the Chief Deputy Director of the Department of Finance, Michael Cohen, responded to our questions about the plan to abolish redevelopment.

Cohen was clear that the elimination of redevelopment after the first year's \$1.7 billion transfer to the General Fund for support of Medi-Cal and trial courts will not result in any additional savings to the State's budget in the out years. In the proposal, the statutory elimination of redevelopment would occur July 1, 2011. The tax increment for FY 2011-12 would be used to pay for debts and obligations for existing redevelopment projects and then \$1.7 billion will be diverted to the State's General Fund. They project \$210 million would remain to distribute to cities, counties, and special districts according to their proportionate share of current property tax.

In the second and subsequent budget years, after deducting for existing redevelopment agency debts and obligations, the remaining tax increment would go to schools, cities, counties,

and non-enterprise special districts. The additional funding for schools would not be counted towards the State's guarantee of funding to schools under Proposition 98.

Other parts of the proposal to abolish local redevelopment include the following components:

- In subsequent budget years, the current balances in redevelopment agencies housing set-aside funds will be shifted to local housing authorities.
- A constitutional amendment to provide for 55-percent voter approval for local, limited tax increases (not property taxes) and bonding against local revenues for economic development projects similar to those currently funded through redevelopment.
- When existing agencies are abolished, the local governmental entity will be required to designate a successor agency to be responsible for retiring current redevelopment debt obligations in accordance with existing payment schedules.

Please contact Lillian Henegar, lhenegar@calredevelop.org or (916) 448-8760, for help with your questions. For guidance on communications outreach, contact CRA's Director of Communications, Krista Noonan, knoonan@calredevelop.org or (916) 448-8760.

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