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Governor's Redevelopment Proposal

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Budget Subcommittee No. 4
On State Administration
Hon. Joan Buchanan, Chair

Assembly Revenue and Taxation Committee
Hon. Henry T. Perea, Chair

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Redevelopment Background

	Property Taxes to Redevelopment
Selected Counties	
San Bernardino	31%
Riverside	26
Butte	20
Solano	20
Selected Other Counties	
Los Angeles	12
Sacramento	5
San Francisco	7
Statewide Totals	**12%**

☑ ***Enacted by Statute, Modified by Constitutional Amendment.*** The California Community Redevelopment Law, which was first enacted in 1945 and substantially expanded in 1951, allows cities and counties to establish redevelopment agencies. In 1952, voters approved a constitutional amendment to allow redevelopment agencies to use the property tax as a funding source.

☑ ***Property Tax Increment Is Main Revenue Source.*** If a city or county creates a redevelopment project area to address urban blight, its redevelopment agency receives the future growth in property taxes from the area, known as the property tax increment. (Absent redevelopment, schools and other local agencies receive these tax revenues.)

☑ ***Redevelopment Receives Increased Share of Statewide Property Tax Revenues.*** The expansion of redevelopment agencies has gradually shifted property tax revenues away from schools and other local agencies. Redevelopment currently receives about 12 percent of statewide property tax revenues compared to 4 percent in 1983-84.

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Redevelopment Background *(Continued)*

- ☑ ***Use of Redevelopment Varies Across State.*** The percentage of property tax revenues allocated to redevelopment varies significantly at the local level. Some agencies have placed so much property under redevelopment that as much as one-fifth of their countywide assessed property values is under redevelopment. The City of Fontana's redevelopment agency receives about two-thirds of property taxes paid in the city.

LAO Assessment of Current Redevelopment Program

- ☑ ***No Reliable Evidence That Redevelopment Agencies Improve Overall Economic Development in California.*** There is no reliable evidence that redevelopment projects attract businesses to the state or increase overall economic development in California. The presence of a redevelopment area might shift development from one location to another, but does not significantly increase economic activity statewide.

- ☑ ***Redevelopment Diverts Property Taxes From K-14 Education and Other Local Programs.*** Redevelopment agencies receive approximately $5 billion of property tax revenue that would otherwise fund school districts, cities, counties, and special districts. The redevelopment agencies "pass through" about $1.1 billion to local agencies based upon negotiated agreements and state statute. Of this amount, approximately $300 million is passed through to schools with only $40 million offsetting state education costs. The state General Fund must backfill the remaining property tax revenues diverted from K-14 schools, at a cost of over $2 billion annually.

- ☑ ***Proposition 22 Greatly Constrains the State's Authority to Redirect Redevelopment Property Tax Revenues.*** The state has periodically enacted laws requiring redevelopment agencies to give shares of the property tax increment to school districts. For example, the state required redevelopment agencies to shift $2 billion to school districts over the last two fiscal years. Voter approval of Proposition 22 in 2010 greatly constrains the Legislature's authority to enact future revenue shifts.

Governor's Proposal

- ☑ ***End Redevelopment Agencies.*** The Governor's proposal would dissolve existing redevelopment agencies by July 1. Local successor agencies would receive the property tax increment that currently goes to redevelopment agencies.

- ☑ ***Create Alternative Mechanism for Local Governments to Raise Revenue for Economic Development.*** To give communities greater capacity to promote economic development in the absence of redevelopment agencies, the Governor proposes a constitutional amendment to allow local voters to approve tax increases and general obligation bonds for these purposes by a 55 percent majority.

- ☑ ***Use Property Tax Increment to Offset General Fund Costs for One Year.*** In 2011-12, the successor agencies would use the redevelopment revenues to:

  - Pay redevelopment debts and obligations, estimated by the administration to cost $2.2 billion.
  - Offset $1.7 billion of state Medi-Cal ($840 million) and trial court ($860 million) costs.
  - Allocate $1.1 billion to schools and other local agencies pursuant to existing pass through agreements.
  - Distribute $210 million to cities, counties, and special districts in proportion to these agencies current shares of the property tax.

Governor's Proposal *(Continued)*

- ☑ ***Shift Property Tax Increment to Local Agencies After 2011-12.*** Beginning in 2012-13, any property tax revenues remaining after the successor agencies pay redevelopment debt would be distributed to other local governments in the county following provisions in existing law with minor exceptions.

- ☑ ***Shift Existing Housing Balances to Local Housing Authorities.*** Many redevelopment agencies maintain large housing fund balances meant to support low- and moderate-income housing. The Governor proposes to shift the existing balances to local housing authorities.

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Assessment of Governor's Proposal

☑ Strengths

- ***Shifts Responsibility for Local Economic Development to Local Governments.*** Shifting responsibility for local economic development to local governments makes sense. Local communities are in the best position to determine the types of programs and assistance needed to promote development in their communities. Ending state-assisted redevelopment also makes sense as the benefits of the program accrue primarily to local governments.

- ***Provides One-Time General Fund Relief.*** The proposal would offset $1.7 billion of state General Fund costs in 2011-12.

- ***Shifts Property Tax Revenue to Core Government Responsibilities.*** Given the size of the state's budget problem, it is necessary to reconsider the size and scope of state services. By ending state-supported redevelopment, the Governor's proposal reprioritizes state spending.

- ***Promotes Transparency in Future Local Redevelopment Activities.*** Redevelopment agencies have limited accountability compared to other local government agencies. Unlike most other local government entities, redevelopment agencies can incur debt without voter approval. Redevelopment agencies can also redirect property tax revenues from schools and other uses without voter approval or the consent of affected public agencies. The Governor's proposal to shift the responsibility for redevelopment to locals and require voter approval for economic development funding would improve transparency and accountability to the public.

Assessment of Governor's Proposal
(Continued)

☑ Limitations

- ***Many Details Need to Be Resolved.*** The Governor's proposal raises several legal, financial, and policy issues. Some of the major issues include:
  - Does the state have the authority to redirect tax increment revenues to pay for state program costs?
  - What entities will serve as the successor agencies? Will they have the capacity and proper fiscal incentive for managing redevelopment's remaining obligations?
  - What happens to redevelopment agencies' physical assets?
- ***Redevelopment Debt Costs Unclear.*** The Governor's proposal assumes redevelopment's obligations will be limited to $2.2 billion in 2011-12. Although the administration's approach for estimating redevelopment debt is reasonable, the actual level of ongoing redevelopment obligations is difficult to ascertain. If the amount is higher than the administration's estimate, then there would not be sufficient revenue to fully fund the remainder of the Governor's spending plan (offsets to state spending or the pass through to locals).
- ***Future Responsibility for Low- and Moderate-Income Housing Not Defined.*** Redevelopment is required to set aside 20 percent of its property tax revenue for low- and moderate-income housing. Although there are questions about the effectiveness of redevelopment agencies in providing housing, the Governor's proposal does not provide an ongoing funding source.