

March 25, 2008

Hon. Edmund G. Brown Jr.  
Attorney General  
1300 I Street, 17<sup>th</sup> Floor  
Sacramento, California 95814

Attention: Ms. Krystal Paris  
Initiative Coordinator

Dear Attorney General Brown:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative pertaining to redevelopment (A.G. File No. 08-0010).

## **BACKGROUND**

California property owners pay over \$45 billion in property taxes annually. County auditors distribute these revenues to local governments within the county where the tax is paid. Schools, community colleges, cities, special districts, and counties use property tax revenues to provide services.

State law authorizes cities and counties to create redevelopment agencies to mitigate blight in urban sections of their communities that they call "redevelopment project areas." After an agency creates a redevelopment project area, the county auditor allocates to the agency all growth in property taxes (called "property tax increment") generated from increases in property values in the redevelopment project area. State law limits the amount of tax increment revenues that a redevelopment agency receives, however, to the amount needed to pay its outstanding obligations (such as bonded indebtedness, contracts, and intergovernmental loans), an amount shown in each agency's annual "Statement of Indebtedness."

***Growth in Redevelopment Agency Indebtedness.*** In 2005-06, redevelopment agencies reported that they had over \$80 billion in outstanding indebtedness. Redevelopment indebtedness has grown considerably over the years, doubling between 1995-96 and 2005-06. Under current law, redevelopment agencies do not need voter approval to pledge property tax increment to repay debt.

*Property Tax Allocation Absent Redevelopment Debt.* In 2006-07, county auditors allocated redevelopment agencies \$4.5 billion of property tax increment revenues. Absent redevelopment indebtedness, the county auditor would have allocated these revenues to other local governments in the county. Under current law, schools and community colleges would have received somewhat more than one-half of the \$4.5 billion and cities, counties, and special districts would have received the rest.

## **PROPOSAL**

This measure requires redevelopment agencies to obtain approval by two-thirds of their county's voters before pledging property tax increment revenues to pay a new bond, loan, advance, or other indebtedness.

In addition, the measure requires the legislative body of the redevelopment agency (the city or county) to (1) adopt an ordinance proposing the pledge of funds; (2) identify the "exact purpose" for which the indebtedness is to be incurred, the amount of funds, and term of the debt; and (3) reimburse the county for the cost of the election.

## **FISCAL IMPACT**

If voters do not approve new proposals to incur new redevelopment debt (or redevelopment agencies abandon some plans to incur new debt), the total amount of redevelopment indebtedness would decline over time, or be lower than otherwise would be the case. To the extent that redevelopment indebtedness decreased, county auditors would allocate fewer property taxes to redevelopment agencies and more revenues to other local governments. The amount of this potential tax revenue shift is not known, but could be hundreds of millions of dollars within a decade and greater sums annually thereafter.

*State Fiscal Effect.* Under state school financing laws, increased property taxes to schools and community colleges typically offset required state education spending on a dollar-for-dollar basis.

*Summary.* The measure would have the following major fiscal impacts:

- Over time, potential major shift in property tax revenues from redevelopment agencies to cities, counties, special districts, and schools. Increased property tax revenues to schools would result in a comparable decrease in required state spending for education.

Sincerely,

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Elizabeth G. Hill  
Legislative Analyst

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Michael C. Genest  
Director of Finance