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**CALIFORNIA SOCIETY OF
MUNICIPAL FINANCE OFFICERS
2011 ANNUAL CONFERENCE**

**THE FUTURE OF REDEVELOPMENT
UNDER THE GOVERNOR'S BUDGET PROPOSAL**

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Presented By:

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BASICS OF GOVERNOR'S PROPOSAL

Dissolve California's 425 RDAs on July 1, 2011

Prohibit RDAs from entering into new debt after specified cut-off date

End the system of redevelopment tax increment financing

Create "successor local agencies" to pay-off RDAs' existing debts using future property taxes (no longer tax increment)

Use balance of former tax increment (after paying off existing RDA debt):

- In 2011-12, to make a final year of pass-through payments and to close an estimated \$1.7 billion portion of State budget gap
- Thereafter, to distribute to local governments primarily in manner of normal property taxes (except that distributions to schools would not offset State budget subventions)

Redirected former tax increment would "help counties to absorb costs and provide enhanced services associated with realigned programs"

Unencumbered amounts in RDA affordable housing funds to be shifted to local housing authorities for low and moderate income housing

Support a later constitutional amendment to provide a 55% voter approval for limited tax increases for development projects similar to those currently done by RDAs

**FATAL CONSTITUTIONAL FLAWS
IN GOVERNOR'S PROPOSAL**

Proposal violates voters' 1952 mandate for redevelopment and tax increment financing in State Constitution Article XVI, Section 16

Proposal violates voters' 2010 mandate in Proposition 22 that State not redirect redevelopment tax increment to other purposes

Proposal violates Federal and State constitutional prohibitions against impairment of contract

**SUBSTANTIAL TECHNICAL FLAWS
IN GOVERNOR'S PROPOSAL**

Proposal lacks understanding/sophistication about the nature of RDA obligations and the difficulties faced by successor local agencies:

- Bonded debt
- Disposition and development agreements, owner participation agreements, public improvement agreements, and loan agreements
- Enforcing developer/property owner obligations under existing contracts

Proposal fails to address use of RDA non-cash assets:

- Land
- Lease payments, loan payments and other program income

Proposal understates existing RDA debts/obligations, thereby overstating financial benefits to the State and other local governments

Proposal provides no long-term financial relief to the State

In short, proposal understates costs of administration and overstates financial benefits of dissolving RDAs

Proposal destroys the State's best program and funding source for:

- Creation of jobs
- Support of sustainable development in infill locations, including brownfields remediation and "green" development
- Creation of affordable housing

**KEY TECHNICAL QUESTIONS FOR
IMPLEMENTATION OF GOVERNOR'S PROPOSAL**

RDA Debts and Obligations

- What will be the cut-off date on incurring new debt?
- What existing RDA debts/obligations will be honored for payment by successor local agencies?
- Will RDAs (or successors) be able to spend proceeds of existing debts for intended redevelopment purposes?

RDA Assets

- What will happen to RDA (non-housing) unencumbered cash balances?
- What will happen to RDA land and other non-cash assets and receivables?

Successor Local Agencies

- Who will be designated to serve as the successor local agencies?
- What oversight will successor local agencies receive?
- What direction will successor local agencies be given to deal with RDA cash and non-cash assets?
- How will successor local agency administrative costs be paid?

**LEGISLATION TO IMPLEMENT
GOVERNOR'S BUDGET PROPOSAL:**

Overview

Department of Finance posted draft redevelopment dissolution legislation late Wednesday, February 23, 2011

Redevelopment legislation has not yet been formally introduced

Redevelopment legislation is drafted as an urgency statute requiring a 2/3 vote of the Assembly and Senate

Redevelopment legislation would be effective if and when it is passed by the requisite 2/3 majorities, signed by Governor Brown, and chaptered

Budget legislation, including Redevelopment legislation, will be considered by Joint Conference Committee over the coming week

Governor Brown's goal is to introduce Budget legislation package in Assembly and Senate by the middle of next week for passage by March 10

**LEGISLATION TO IMPLEMENT
GOVERNOR'S BUDGET PROPOSAL:**

Suspension of RDA Activities and Preservation of RDA Assets and Revenues

Commencing on effective date of Redevelopment legislation, RDAs no longer authorized to:

- Incur indebtedness
- Make loans or grants
- Enter into contracts
- Amend existing agreements, obligations, or commitments
- Renew or extend leases or other agreements
- Transfer funds out of Housing Fund
- Dispose of assets
- Prepare, adopt, amend, or merge redevelopment plans
- Approve any program, project, or expenditure
- Prepare or amend implementation plans, relocation plans, or other planning documents
- Cause development or rehabilitation of housing units
- Join a Joint Powers Authority
- Form or join a separate legal entity
- Bring a validation action
- Commence an eminent domain proceeding
- Prepare a Draft EIR

**LEGISLATION TO IMPLEMENT
GOVERNOR'S BUDGET PROPOSAL:**

Dissolution of RDAs/Creation of Successor Agencies

As of July 1, 2011:

- RDAs would be dissolved
- A Successor Agency would be created for each RDA consisting of the City or County that formed the Agency (unless the City or County opts out)
- Successor Agency would be overseen by an Oversight Board consisting of 7 members appointed by:
 - County Board of Supervisors (2 members)
 - City Council (1 member)
 - County Superintendent of Schools (3 members)
 - Largest Non-Enterprise Special District (1 member)
- All assets, properties, contracts, leases, records, buildings and equipment of former RDAs would be transferred to the control of the Successor Agency (except as described below)
- City or County may elect to retain housing functions of former RDA, including all rights, powers, assets, liabilities, duties, and obligations associated with housing functions, including amounts in the former RDA's Housing Fund
 - If City or County does not elect to retain the former RDA's housing functions, such housing functions and all related assets would be transferred to the local Housing Authority (or HCD, if there is no local Housing Authority)

**LEGISLATION TO IMPLEMENT
GOVERNOR'S BUDGET PROPOSAL:**

Role of Successor Agencies

Make payments and perform other obligations due for "Enforceable Obligations" of RDAs, which include:

- Bonds
- Loans borrowed by RDAs
- Payments required by federal or state government or for employee pension obligations
- Judgments or settlements
- "Any legally binding and enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy" (at oversight board determination, Successor Agency may terminate existing agreements and pay required compensation or remediation for such termination)

Dispose of former RDA assets or properties expeditiously and in a manner aimed at maximizing value (proceeds to be distributed similar to normal property tax proceeds)

Effectuate transfer of housing functions

Wind up affairs of former RDA

**LEGISLATION TO IMPLEMENT
GOVERNOR'S BUDGET PROPOSAL:**

Role of Successor Agencies (Continued)

Oversee completion of Approved Development Projects, which are projects:

- Involving construction, site remediation, design, or property acquisition
- Required by the RDA under an enforceable obligation with a party other than the City or County that created the RDA
- In which substantial performance has already taken place (prior to the effective date of the Redevelopment legislation) or the Successor Agency's Oversight Board deems it would be beneficial to complete

Prepare administrative budgets for Oversight Board approval and pay administrative costs

Prepare twice-yearly Recognized Obligation Payment Schedule, including identifying funding source

**LEGISLATION TO IMPLEMENT
GOVERNOR'S BUDGET PROPOSAL:**

Role of County Auditor-Controller

Conduct one-time audit of former RDA assets and liabilities, including pass-through payment obligations and amount and terms of any RDA indebtedness (by October 1, 2011)

Annually determine the amount of property tax increment that would have been allocated to each RDA and deposit that amount in a Redevelopment Property Tax Trust Fund (the "Trust Fund")

Administer Trust Fund for the benefit of holders of former RDA debt, taxing entities that receive pass-through payments and distributions of property taxes, and State (as described below)

**LEGISLATION TO IMPLEMENT
GOVERNOR'S BUDGET PROPOSAL:**

Payments from Trust Fund

County Auditor-Controller to allocate moneys in Trust Fund as follows:

- To pay selected pass-through payments
- To Public Health and Safety Fund (2011-12 only)
- To Successor Agencies to pay enforceable obligations, including bonds
- To Successor Agencies for administrative costs
- To cities, counties, special districts, schools and community colleges, as property taxes

If Successor Agency determines, and County Auditor-Controller and State controller verify, that Successor Agency will not have sufficient funds to pay all amounts above, then the deficiencies shall be deducted in the following order from the Trust Fund payments to:

- Cities, counties, special districts, schools and community colleges, as normal property taxes
- Administrative costs to Successor Agencies
- Public Health and Safety Fund (2011-12 only)
- Subordinated pass-through payments
- Enforceable obligations payable by successor agency
- Non-subordinated pass-through payments