California State Senate

COMMITTEE
ON
BUDGET AND FISCAL REVIEW

ROOM 5019, STATE CAPITOL
SACRAMENTO, CA 95814

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Agenda

August 30, 2012
1:00 P.M. - Room 4203

SB 1030 – Redevelopment - Budget Act of 2012: Dissolution of redevelopment agencies (RDAs)

PLEASE NOTE: *Only* those items contained in the agenda for today's hearing will be discussed. *Please* see the Senate File for dates and times of subsequent hearings. Issues will be discussed in the order as noted in the Agenda unless otherwise directed by the Chair.

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SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW
Mark Leno, Chair

Bill No:	**SB 1030**
Author:	**Committee on Budget and Fiscal Review**
As Amended:	**August 23, 2012**
Consultant:	**Mark Ibele**
Fiscal:	**Yes**
Hearing Date:	**August 30, 2012**

Subject: Budget Act of 2012: Dissolution of redevelopment agencies (RDAs) and excess educational revenue augmentation fund (ERAF) revenues.

Summary: The bill removes language that was contained in AB 1484 (Committee on Budget), Chapter 26, Statutes of 2012, the redevelopment trailer bill, relating to the disposition of certain additional property tax revenues that would result from the elimination of RDAs. The removal of the language would result in specified additional property taxes going to cities, counties and special districts receiving excess ERAF.

Background: Each county has a fund into which are deposited property tax revenues that have been shifted from cities, counties, and special districts for the support of K-14 education. The fund is known as ERAF and was established in 1992 to support local school districts and offset General Fund payments to education required by Prop 98. ERAF is distributed in inverse proportion to the receipt of property taxes by school districts in order for each district to be brought up to the revenue limit. No basic aid school districts receive ERAF funding. Basic aid school districts are those that reach or exceed the revenue limit based only on the receipt of local property taxes without any state funding.

Following the 2004 enactment of the vehicle license fee (VLF) "swap" (which shifted property taxes from school districts to local governments, thus replacing the General Fund VLF backfill resulting from the VLF reduction) and the "triple flip" (which shifted property taxes from school districts to local governments to compensate for local sales tax reductions related to the issuance of the Economic Recovery Bonds), ERAF funds have been used to reimburse local governments for their revenue losses associated with these revenue shifts. As a result of the establishment of ERAF and subsequent revenue shifts discussed above, county auditor-controllers are required to determine (but not distribute) the amount of ERAF required for K-14 revenue limit funding. Any amounts in excess of this required amount are generally distributed to cities, counties and special districts in proportion to their ERAF contributions. Amounts remaining after this initial distribution are used to compensate for local governments' revenue losses from the VLF swap and the triple flip. In situations where ERAF is insufficient to compensate for the revenue shifts, non-basic aid school district property taxes are shifted to local governments. In this case, General Fund backfills the revenue losses to schools.

Section 30 of AB 1484, adopted as a budget trailer bill to the 2012 Budget Act, contains a provision, Section 34188 (d) of the Health and Safety Code, that stipulates that any *additional* excess ERAF attributable to the dissolution of RDAs should not be construed in a manner that results in increased allocations of these moneys to cities, counties, or special districts. Additional ERAF from RDA dissolution can result both from additional "freed-up" property tax going to schools as well as additional property tax amounts going to ERAF. There is no indication in the language of where this additional excess is to go; however, in order for any state benefit to result from this provision, any additional excess ERAF would be required to go to schools to supplant General Fund Prop 98 support. This would occur if, for example, ERAF resources were insufficient to replace local revenue losses due to the VLF swap and the triple flip and school district property taxes were used for this purpose. In this case, the state Prop 98 obligation would be reduced as a result of additional excess ERAF going to schools and offsetting state General Fund support.

Proposed Law: The proposal encompassed in this bill would remove the language that stipulates that additional excess ERAF that may result from the dissolution of RDAs should not be construed to increase allocations of these moneys to cities, counties, or special districts. As a result of this bill, any additional excess ERAF created under the dissolution would go to cities, counties and special districts.

Fiscal Effect: The current data indicates that three counties—Marin, Napa and San Mateo—are receiving funds from excess ERAF and would be affected by the provision in current law enacted in AB 1484. Based on information provided by these counties, the fiscal impact of redirecting additional excess ERAF from the former property tax increment would likely be in the range of $4 million. A preliminary analysis by the Legislative Analyst's Office indicates potential impacts of up to $16 million. As RDA debts are extinguished and depending upon revenue limits and other factors, additional counties—or potentially fewer counties—could be affected by the diversion of a portion of excess ERAF, as directed under current law. These changes would affect fiscal impacts in future years. In addition, if the provision applies to assets of former RDAs as well, there could be unknown, additional fiscal impacts.

Support: County of Marin
County of Napa
County of San Mateo

Opposed: Unknown

Comments: The Legislative Counsel Bureau has issued a letter regarding the provision of AB 1484 that relates to the disposition of additional excess ERAF. The letter states that Section 25.5 of Article XIII of the California Constitution limits the authority of the Legislature to modify the apportionment of ad valorem property taxes to reduce amounts received by cities, counties and special districts. It further notes that by modifying revenue allocation shifts from ERAF, thereby increasing the share of ad valorem property tax revenues allocated to school districts, the measure *may* result in reducing the percentage going to cities, counties and special districts, and be in contravention of the California Constitution.