



Life After Redevelopment...From a School's Perspective

Background Information

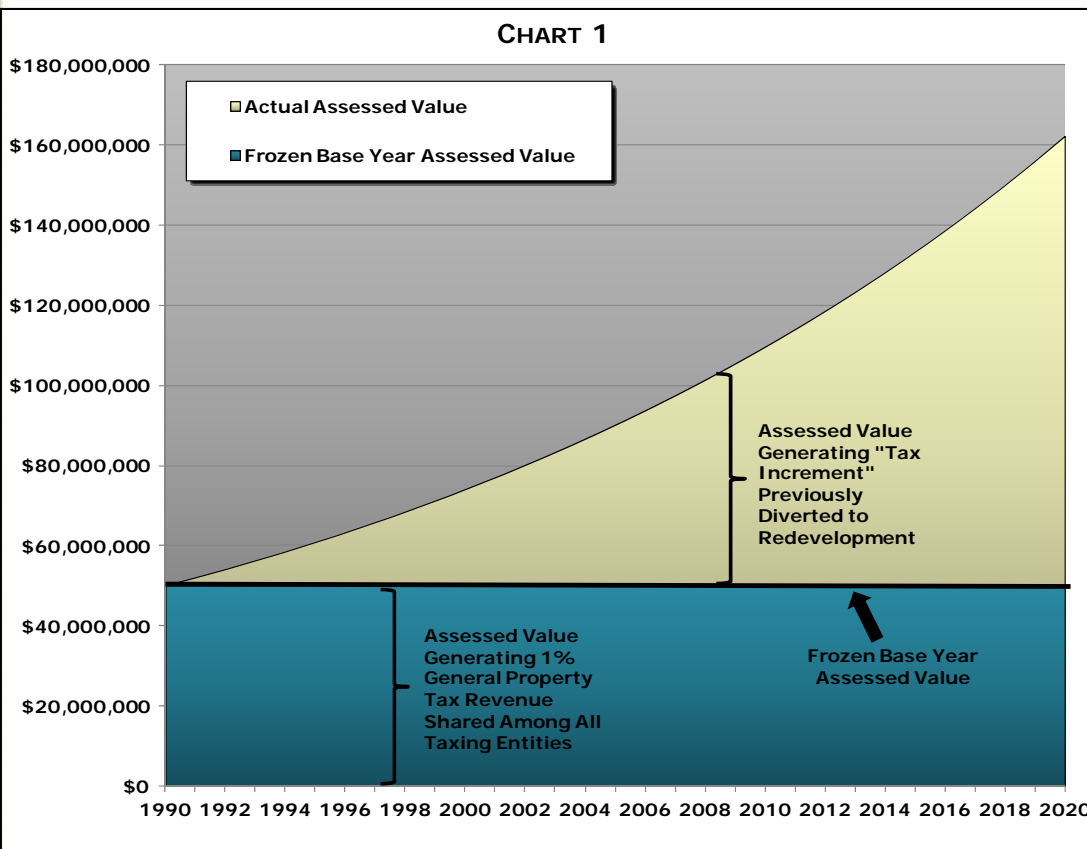
In June 2011, Governor Jerry Brown signed into law Assembly Bills X1 26 and X1 27. ABX1 26 provided for the elimination of all redevelopment agencies throughout California. ABX1 27 provided that cities and counties could voluntarily make certain payments for the benefit of schools and prevent their dissolution. These Bills were challenged by the California Redevelopment Association and League of California Cities.

On December 29, 2011, the California Supreme Court opined on the legality of these two bills. The Court upheld ABX1 26 and overruled ABX1 27. As a result, over 400 Redevelopment Agencies will be dissolved effective on February 1st. The California Redevelopment Association and the League of California Cities intend to press for legislation to delay the effective date.

Redevelopment Money as it Relates to Schools

Redevelopment agencies are funded from a portion of property taxes referred to as "tax increment". When a redevelopment agency formed a project area, the property taxes generated from any increase in assessed value was diverted to the redevelopment agency. The remaining property tax revenue was split among all other local taxing agencies, as shown in *Chart 1*.

Since this diversion of property tax revenues to redevelopment agencies caused a fiscal "burden" on the other taxing agencies, a portion of the tax increment was paid to those taxing agencies for use on capital facilities projects benefitting the redevelopment project area. These payments are referred to as "pass-through payments".



School and college districts as well as county offices of education with redevelopment agencies within their boundaries are entitled to receive pass-through payments, depending on the year in which the redevelopment project area was formed or amended. These pass-through payments will continue even after the elimination of redevelopment agencies and will remain available for capital facilities projects.



Distribution of Redevelopment Tax Increment After Supreme Court Ruling

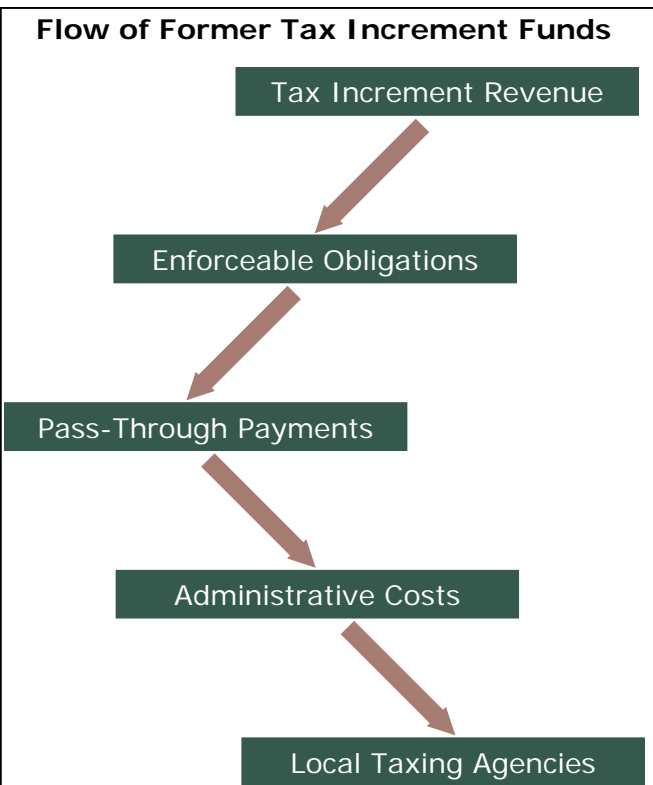
According to the California Legislature, redevelopment has diverted \$5.7 billion annually from local agencies. Most of this revenue will continue to be allocated to existing debt service on bonds that were issued to finance redevelopment projects. Any redevelopment funds remaining after pass-through payments, debt service and administrative costs will be distributed to local agencies based on existing property tax allocations. While the overall framework appears to be set, questions remain on some details.

In theory, this change will result in increased funding to local agencies other than school districts. The Legislature has estimated that local entities will receive an additional \$1.9 billion, with the caveat that much of this funding will be diverted to balance the state budget deficit in the current fiscal year. Experience suggests caution is prudent when relying on projections of future revenue increases.

Under the legislation, existing redevelopment assets and obligations will be assumed by “successor agencies”, likely the County Auditor-Controllers. These agencies will continue to make existing debt and pass-through payments and will also administer the winding down of redevelopment activities. These agencies are tasked with disposing of redevelopment assets, maximizing asset value, and distributing the proceeds to local agencies as property tax revenue. Therefore, in addition to annual property tax revenues, local agencies should also see additional revenue. While ABX1 26 requires that this be an expeditious process, no time frame is provided.

Former redevelopment tax increment funds will be allocated as follows:

1. To meet “enforceable obligations”, including outstanding debt obligations and other enforceable contracts.
2. To pay pass-through payments to each local agency, including schools, in the amount that would have been received based on previous statute or pass-through agreement. These allocations will be made semi-annually, by January 16 and June 1. These pass-through funds will remain capital facilities funds as determined in the previous statutes. Pass-through payments from project areas formed after 1993 are split between capital funds and property taxes.
3. Third, to fund approved administrative costs of the successor agency.
4. Fourth, any remaining funds will be distributed to the other local agencies based on the local agency’s share of property tax revenue in that jurisdiction.

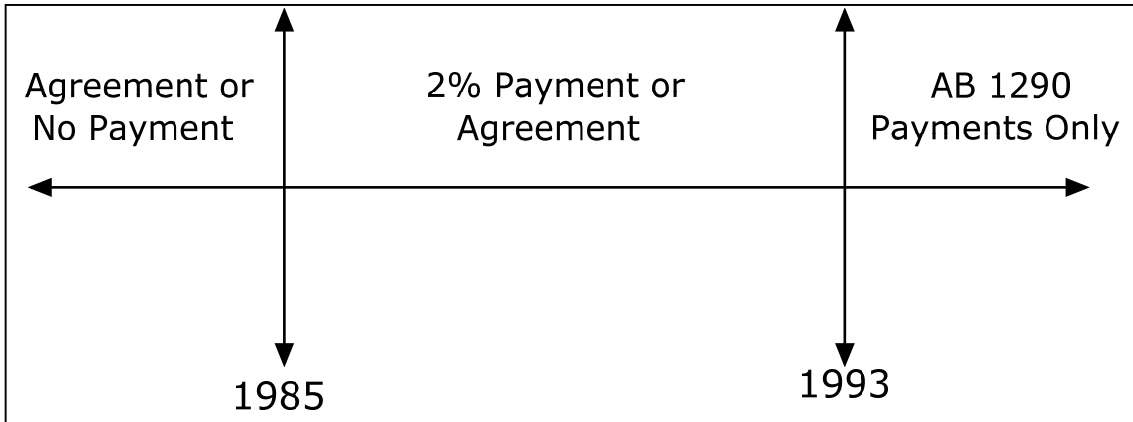


Based on current information, it appears that most local agencies will receive an increase in property tax revenue, while total revenue to schools will remain at current levels, with the additional revenue they receive from former tax increment reducing the amount backfilled by the State.



Moving Forward

School districts should continue to receive the pass-through payments they previously received. These payments are available for capital facilities projects to the extent they were previously:



- Redevelopment project areas formed before 1985—a pass-through agreement is required in order for schools to receive pass-through payments.
 - ◊ 100% of such payments are available for capital facilities projects.
- Redevelopment project areas formed from 1985-1993—if a pass-through agreement does not exist, schools are entitled to receive what are referred to as “two percent payments”.
 - ◊ 100% of such payments are available for capital facilities projects.
- Redevelopment project areas formed after 1993— “AB 1290 Payments” based on statutory provisions.
 - ◊ Depending on the type of school agency, a portion of the payments is available for capital facilities projects with the remainder considered property taxes that can be used to offset the amount of State aid received.

LEA	% Property Tax	% Non-Property Tax
School District	43.3%	56.7%
County Office of Education	19.0%	81.0%
Community College District	47.5%	52.5%

Schools can expect to receive these funds from the County Auditor-Controller. It will be important to monitor such payments, especially in the first year, to ensure the full entitlement is received.

Although the pass-through payments should remain as capital funds, to the extent possible, schools should view these funds as one-time in nature and use them for pay-as-you-go capital expenditures. As the State will continue to look for ways to meet budget deficits, the availability of pass-through funds as capital revenues may become a future target.

The situation regarding dissolution of redevelopment is evolving. We will monitor the situation and continue to provide updates as additional information becomes available.