DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: June 30, 2008 **BILL NUMBER:** SB 360
POSITION: Neutral **AUTHOR:** G. Negrete McLeod

BILL SUMMARY: Redevelopment Agencies: Payments to Taxing Agencies

Existing law requires specified redevelopment agencies (RDA) to pass-through to other local agencies, including K-14 schools, certain percentages of their tax increment revenues. The responsibility for calculating and remitting these payments currently rests with the RDAs.

Effective January 1, 2009 this bill would require county auditor-controllers to calculate RDA passthrough payments. The bill would require that RDAs reimburse the auditor-controllers for any associated costs.

FISCAL SUMMARY

The Department of Finance estimates this bill would result in additional property tax revenues for K-14 schools that would offset the state's Proposition 98 General Fund obligation in years when Test One is not in effect. While the amount of these revenues is not known with certainty, we understand the Legislative Analyst's Office tentatively estimates they could approach $28 million, based on data extrapolated from a May 2008 audit of RDA passthrough payments by the State Controller's Office (SCO).

Although we have not analyzed LAO's calculations, we believe their estimate is reasonable based on data contained in the SCO's audit.

The bill would not impose a reimbursable mandate upon auditor-controllers since it requires RDAs to reimburse them for any costs incurred. The bill would not impose a reimbursable mandate on RDAs because courts have previously ruled that revenues received by RDAs do not meet the statutory definition of tax proceeds. Only entities that receive tax proceeds are eligible for reimbursement of mandated costs.

COMMENTS

Finance notes the following regarding this bill:

- The SCO found in a May 2008 audit that, in the 2005-06 fiscal year, RDAs in Los Angeles County failed to pass through approximately $62 million in mandated payments to other local governments in the county. Of this amount, SCO estimates approximately $20 million was owed to K-14 schools, of which they estimate $8.3 million would have offset the state's Proposition 98 General Fund obligation.

Analyst/Principal	Date	Program Budget Manager	Date
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Department Deputy Director	Date

Governor's Office:	By:	Date:	Position Approved______
			Position Disapproved

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ANALYSIS

A. Programmatic Analysis

Redevelopment agencies (RDA) primarily finance redevelopment by issuing tax allocation bonds, which are repaid using tax increment revenues. Tax increment revenue is the additional property tax revenue collected from properties located in the RDA after the RDA is formed. The other taxing entities (cities, counties, special districts, and K-14 schools) are meanwhile guaranteed the same base amount of property tax revenue they received from properties located in the RDA before it was established. In addition, RDAs must annually place 20 percent of all tax increment revenue in funds to finance the construction of low and moderate income housing.

In cases where RDAs were created or expanded after January 1, 1994, statute provides the taxing entities with a share of the RDAs' tax increment revenues, pursuant to a sliding scale established in 1993 by AB 1290 (Chapter 942, Statutes of 1993). For RDAs formed before January 1, 1994 the impacted taxing entities receive passthrough payments of tax increment revenues pursuant to locally negotiated agreements. In all cases, these passthrough payments are in addition to the base amount of property tax revenues that the other taxing entities are guaranteed to receive from the RDAs.

Of the passthrough payments received by K-14 schools from RDAs formed before January 1, 1994, statute specifies that none are counted to offset the state's Proposition 98 General Fund obligation. Of the passthrough payments received by K-14 schools from RDAs established after January 1, 1994, specified percentages do offset Proposition 98. For K-12 schools this amount is 43.3 percent. For community colleges the amount is 47.5 percent.

The responsibility for calculating and remitting passthrough payments currently rests with the RDAs.

The SCO found in a May 2008 audit that, in the 2005-06 fiscal year, RDAs in Los Angeles County failed to pass through approximately $62 million in mandated payments to other local governments in the county. Of this amount, SCO estimates approximately $20 million was owed to K-14 schools, of which they estimate $8.3 million would have offset the state's Proposition 98 General Fund obligation. Based on the data in the audit, it is reasonable to assume that RDAs throughout the state are similarly erring in their passthrough payment obligations.

The reason for the under-payment of passthrough payments is unclear, but it may stem from the complicated nature of the passthrough process. This bill would rectify the situation by vesting county auditor-controllers with responsibility for calculating the passthrough payments. The bill also would require the auditor-controllers to report to the Superintendent of Public Instruction and the Community Colleges Chancellor's Office all Proposition 98-offsetting payments made to K-14 schools. The bill requires RDAs to reimburse auditor-controllers for costs incurred in performing these duties.

The bill also would authorize the SCO to convene an advisory committee to develop a simple, uniform, and consistent methodology for calculating, paying and reporting passthrough payments.

The bill would take effect January 1, 2009.

B. Fiscal Analysis

Finance estimates this bill would result in additional property tax revenues for K-14 schools that would offset the state's Proposition 98 General Fund obligation in years when Test One is not in effect. While the amount of these revenues is not known with certainty, we understand the Legislative Analyst's Office tentatively estimates they could approach $28 million, based on data extrapolated from a May 2008 audit of RDA passthrough payments by the SCO.

Although we have not analyzed LAO's calculations, we believe their estimate is reasonable based on data contained in the SCO's audit.

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definition of tax proceeds. Only entities that receive tax proceeds are eligible for reimbursement of mandated costs.

Code/Department Agency or Revenue Type	SO LA CO RV	PROP 98	FC	2008-2009	FC	2009-2010	FC	2010-2011	Fund Code
			(Fiscal Impact by Fiscal Year) (Dollars in Thousands)						
6100/Education	LA	Yes		-------------------- See Fiscal Analysis ---------------------					0001
6870/Comm College	LA	Yes		-------------------- See Fiscal Analysis ---------------------					0001
8885/Comm St Mndt	LA	No		------------------ No/Minor Fiscal Impact ------------------					0001