Establishment of a Policy for Review of Redevelopment Successor Agency Compensation Agreements

Report to the Finance Committee

April 24, 2017

Spirit of RDA Dissolution

Section 1 of ABx1 26 (Chapter 5, Statutes of 2011):

- (a) The economy and the residents of this state are slowly recovering from the worst recession since the Great Depression.
- (b) State and local governments are still facing incredibly significant declines in revenues and increased need for core governmental services.
- (c) Local governments across this state continue to confront difficult choices and have had to reduce fire and police protection among other services.

Spirit of RDA Dissolution

- (d) Schools have faced reductions in funding that have caused school districts to increase class size and layoff teachers, as well as make other hurtful cuts.
- (e) Redevelopment agencies have expanded over the years in this state. The expansion of redevelopment agencies has increasingly shifted property taxes away from services provided to schools, counties, special districts, and cities.
- (f) Redevelopment agencies take in approximately 12 percent of all of the property taxes collected across this state.
- (g) It is estimated that under current law, redevelopment agencies will divert $5 billion in property tax revenue from other taxing agencies in the 2011−12 fiscal year.

History

- 2011 Budget Act: Approved dissolution of Redevelopment agencies throughout California.
- February 1, 2012: RDAs officially dissolved following litigation on the matter.
- December 31, 2015: CA Dept. of Finance (DOF) to issue a Finding of Completion after former RDA meets certain conditions by this date. (HSC 34179.7)
- January 1, 2016: Within 6 months following issuance of a Finding of Completion, Successor Agencies required to submit a Long Range Property Management Plan (LRPMP) to DOF for approval. (HSC 34191.5)

Long Range Property Management Plans

- Addresses the disposition and use of real property of the former RDA.
- Must be have been approved by DOF by January 1, 2016.
  - If not approved by DOF, then the Successor Agency must have disposed of their property. (HSC 34177(e))
- LRPMPs have contemplated "compensation agreements" between the former RDA and Affected Taxing Entities (ATEs).
- DOF has approved LRPMPs, which contemplate "compensation agreements"; however, such agreements do not require approval by the State.

Compensation Agreements

- Designed to allow cities and counties to retain properties for future development.
- Negotiations directly with the Affected Taxing Entities, no State approval required.
- Health and Safety Code Section 34180(f):
  - (1) If a city, county, or city and county wishes to retain any properties or other assets for future redevelopment activities, funded from its own funds and under its own auspices, <u>it must reach a compensation agreement with the other taxing entities to provide payments to them in proportion to their shares of the base property tax</u>, as determined pursuant to Section 34188, for the value of the property retained.
  - (2) If no other agreement is reached on valuation of the retained assets, the value will be the fair market value as of the 2011 property tax lien date as determined by an independent appraiser approved by the oversight board.

What's it Mean?

- County is entitled to compensation for real property that cities intend to retain for future development.
- Terms of a compensation agreement are negotiated by the County, as an ATE, and the City.
- HSC 34180(f)(2) provides that is no agreement is reached as to the value of certain real property, then fair market value as of the 2011 property tax lien date is operable.
- No State approval of compensation agreements reached between the parties

Policy Scenarios

- City compensates County (and County agencies) at transfer from Successor RDA to City for gross market value based on independent appraiser report. If cannot agree on market value, then value as of 2011 pursuant to H&S § 34180(f)
- City compensates County (and County agencies) a certain % share of gross market value at transfer from Successor RDA to City based on independent appraiser report. Remaining % share due when City enters into sale agreement with developer or other private party. Require Deed restriction and record Compensation Agreement against all properties
- County defers payment of current gross market value until City enters into sale agreement with a developer or other private party. Require Deed restriction and record Compensation Agreement against all properties

Questions/Discussion