

## ***Appendix B***

### ***Additional Background***

The following is the sequence of events regarding the dissolution of the RDAs.

AB 1X26 (the Dissolution Act) was the first of a two-bill package, and it carried forward much of the same language and key concepts of AB101/SB77 (except that the “Public Health and Safety grant” to the State was eliminated). In essence, this bill phases out the current tax increment funding mechanism for RDAs and returns property tax revenues to schools, special districts, cities and counties to help sustain their core functions.

The second bill, AB1X27 (the Continuation Act), allowed RDAs to avoid dissolution by opting into the Voluntary Alternative Redevelopment Program (VARP). To qualify for the VARP, the sponsor community of an RDA was to pay its proportionate shares of \$1.7 billion in FY 2011-12 and \$400 million annually for subsequent years to the County Auditor for redistribution locally. K-12 schools receive the vast majority of the payment in the first year, which was to help the State budget by reducing backfill requirements to schools. In subsequent years, a portion of the payment was to be redistributed to special districts providing fire protection services and transit districts and the remainder goes to K-12 schools. Failure by the sponsor community to make the required payment would have made their RDA subject to Dissolution under AB 1X26.

On July 18, 2011, the California Redevelopment Association (CRA) and the League of California Cities (League) filed a petition for writ of mandate with the California Supreme Court, requesting the Court to declare unconstitutional both the Dissolution and Continuation Acts that were passed as part of the 2011-2012 State Budget. CRA and the League contended that both acts were unconstitutional because they violated Proposition 22, passed by the voters in November 2010.

On August 11, 2011, the California Supreme Court issued an order in California Redevelopment Assn. v. Matosantos (S194861), directing the parties to show causes why the relief sought in the petition for a writ of mandate should not be granted. In addition, the Court partially stayed the two measures and established an expedited briefing schedule designed to facilitate oral argument as early as possible in 2011.

During the extended session, the California Legislature drafted a cleanup bill SB 1X8 to address some technical issues with both the Dissolution and the Continuation Acts. SB 1X8 was passed by the legislature on the last day of the session and sent to engrossing and enrolling. The Governor vetoed this bill to allow the unadulterated acts to be adjudicated by the Supreme Court.

On November 10, 2011, the Supreme Court heard oral arguments from three parties: Petitioners CRA argued both Acts were invalid; Respondents Matosantos as Director of Finance for the State of California argued that both Acts were valid; and Interveners and Respondents Santa Clara County argued that while the Dissolution Act was valid; the Continuation Act was invalid.

On December 29, 2011, the California Supreme Court issued their decision declaring that the Continuation Act was invalid and that the Dissolution Act was valid with the exception of H&S §34172(a)(2).

The Supreme Court also utilized their power of reformation to revise the effective dates or deadlines in part 1.85 of the law arising before May 1, 2012 by four months with the notable exception of actions to be taken by September 1, 2011.

The part of the law embedded in H&S§34173(d)(1)) was extended by 15 days.

In the court's "Overview & Key Concepts of the Redevelopment Dissolution Act Under ABx1 26, on February 1, 2012 (October 1, 2011)", RDAs and community redevelopment commissions in their authority to act as an RDA ceased to exist [H&S §34170(a)].

Until the above date, RDAs were prohibited from specific redevelopment actions (new redevelopment activity and incurrence of debt) other than payment of existing indebtedness and performance of existing contractual obligations.

AB 1X 26 created and established the duties of Successor Agencies and Oversight Boards, and imposed requirements on county auditor-controllers. The county auditor-controller duties would include auditing the obligations of RDAs entering dissolution and the administering of the Redevelopment Property Tax Trust Fund established for each RDA to redistribute its tax increment under specified formulas.

The restrictions on RDA operations were intended to preserve the revenues and assets of RDAs so that those resources not needed to pay enforceable obligations may be available for use by local governments to fund core governmental services.

AB 1X 26 also allowed a community development commission to retain its authority in its capacity as a housing authority or for any other community development non-redevelopment purpose. However, unused balances in the Low and Moderate Income Housing Fund would be transferred to the Successor Agency and disbursed to the local taxing entities.

The Act also required the California Law Revision Commission to draft a Community Redevelopment Law Cleanup Bill for consideration by the Legislature by January 13, 2013.

The timelines to accomplish the above were set by the Supreme Court.

The Court further noted that while these guidelines focused on the Auditor-Controller's Property Tax administration functions, the enacted bill contained other noteworthy elements as well. The bill was organized into sections as summarized below.

The Section Descriptions include:

- Legislative Declarations.
- Two Amendments to existing H&S §§ 33500 & 33501 to expand the time limits from 90 days to two years for legal actions to be brought against plan amendments/determinations and triggering events occurring after Jan 1, 2011 Prohibition of Creating New Debt.
- Two Amendments exiting H&S §§ 33607.5 & 33607.7 that narrowed for a five-year period the usage restrictions on schools ability to use portions of statutory pass-through payments without impacting revenue limit calculations.
- Added Parts 1.8 to H&S Code Restrictions on RDA Operations Chapter 1 (commencing §34161) Suspension of Agency Activities and Chapter 2 (§34169) Redevelopment Agency Responsibilities.
- Added Part 1.85 to H&S Code Dissolution of Redevelopment Agencies.
- Added 16 Chapters:
  - ◇ Chapter 1 (§34170) Effective Date, Creation of Funds and Definitions
  - ◇ Chapter 2 (§34172) Effect of Redevelopment Agency Dissolution
  - ◇ Chapter 3 (§34177) Successor Agencies
  - ◇ Chapter 4 (§34179) Oversight Boards
  - ◇ Chapter 5 (§34182) Duties of Auditor-Controller
  - ◇ Chapter 6 (§34189) Effect of the Act Adding this Part on the Community Redevelopment Law
  - ◇ Chapter 7 (§34190) Stabilization of Labor and Employment Relations
  - ◇ Chapter 8 (§34191) Application of Part to Former Participants of the Alternative Voluntary Redevelopment Program
  - ◇ Chapter 9 (Added §97.401 to R&T) noting that required deposits to ERAF by non-school entities to be the same as if the Bill was not enacted
  - ◇ Chapter 10 (Added §98.2 to R&T) Noting that this bill has no effect on TEA Calculations.
  - ◇ Successful legal challenges to invalidate any provisions of the Act prohibits RDA from issuing new debt
  - ◇ Chapter 11 Allocated \$500,000 to DOF for Administration of the Act
  - ◇ Chapter 12 Severability Clause: invalidity of any provision of act shall not affect other provisions - expressly Part 1.85 is severable from Part 1.8
  - ◇ Chapter 13 Declares that no State reimbursement is required to local governments for service mandated by the Act
  - ◇ Chapter 14 Act is contingent with the enactment of ABX1 27
  - ◇ Chapter 15 Declares Act to address declared fiscal emergency
  - ◇ Chapter 16 Act Provides appropriations related to Budget Bill and shall take effect immediately

- Although not specifically invalidated in the Supreme Court Decision, Chapter 16 is considered not operable due to the declared invalidity of the VARP in the Decision

The Court also set forth the following guideline Objectives and Principles. As with previous guidelines developed to implement other provisions of law, the objective of these guidelines is to:

- Develop a reasonable document counties may rely upon as an accepted standard to follow in complying with the statutes
- Promote uniformity in the implementation of the statutes
- Eliminate unnecessary and costly time consuming and burdensome documentation and record keeping
- Promote the efficiency and economies of leveraging existing property tax administration practices to the extent possible

The primary responsibility for determining enforceable obligations and pass-through payments rested with the Successor Agency, Oversight Board, and DOF and Audit functions.

The Property Tax Administration functions may provide technical assistance but are not responsible for the ultimate resolution on these items.

Accordingly, the Property Tax function may rely on the judgment and determinations made by these parties and where appropriate can bring questionable matters to the attention of the County Auditor-Controller, DOF and SCO.

In its overview of restrictions of RDA Activities, the effect of dissolution of RDAs and Successor Agencies, the State then took the Supreme Court's decision and developed the policies for implementation.