

TAX RELIEF AND LOCAL GOVERNMENT

This part of the Budget contains state and federal funds used for tax relief and provided to local governments. The largest programs are the homeowners' property tax exemption (\$439 million General Fund) and the apportionment of fuel taxes to local governments (\$1.9 billion special fund).

REDEVELOPMENT AGENCIES

Chapter 5, Statutes of 2011 (ABx1 26), eliminated redevelopment agencies (RDAs) and replaced them with locally organized successor agencies tasked with retiring the RDAs' outstanding debts and other legal obligations. Chapter 6, Statutes of 2011 (ABx1 27), created a Voluntary Alternative Redevelopment Program through which an RDA could avoid termination pursuant to ABx1 26, if the city or county that established the RDA remitted payments to K-12 schools. These payments were expected to generate \$1.7 billion in Proposition 98 General Fund savings in 2011-12.

The California Redevelopment Association and other entities challenged both bills before the California Supreme Court in the case *California Redevelopment Association et al. v. Matosantos et al.* In a ruling released on December 29, 2011, the Court upheld ABx1 26, but ruled that ABx1 27 was invalid. In accordance with the Court's order, RDAs will be dissolved on February 1, 2012. Revenues that would have been directed to the RDAs will be distributed to make "pass through" payments to local agencies that they would have received under prior law, and to successor agencies for retirement of the RDAs' debts and for limited administrative costs. The remaining revenues will be distributed as

TAX RELIEF AND LOCAL GOVERNMENT

property taxes to cities, counties, school and community college districts, and special districts under existing law. The Budget reflects an estimate that approximately \$1.05 billion in additional property tax revenue will be received by K-14 schools in 2011-12, which will offset the state's Proposition 98 General Fund obligation. Additional property tax revenues are estimated at \$340 million for counties, \$220 million for cities, and \$170 million for special districts. These amounts are expected to grow as property values increase and debts are retired. Additional revenues will also be distributed in the next several years as RDA assets are monetized.