Various Departments and Issues

This section provides budget information for various departments, statewide expenditures, and regarding local governments.

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 former RDAs' outstanding debts and other legal obligations.

The California Redevelopment Association, cities, and other entities challenged ABx1 26 and ABx1 27 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 overturned ABx1 27 and upheld ABx1 26. In accordance with the Court's order, RDAs were dissolved on February 1, 2012. Revenues that would have been directed to the former RDAs are now provided to the successor agencies to retire obligations, including "pass through" payments to taxing entities (i.e. the cities, counties, special districts, and K-14 schools in which the project areas of the RDAs were located). The remaining revenues are distributed as property taxes.

Elimination of RDAs will provide additional property tax funding for education, yielding a General Fund savings by reducing the state's General Fund contribution to Proposition 98.

ABx1 26 requires that former RDA cash and real property assets that are not otherwise encumbered or reserved for legally authorized purposes must be liquidated, and the resultant funds are distributed to the affected taxing entities in the same manner as property tax revenues. ABx1 26 does not, however, provide deadlines for liquidation and distribution.

The Budget creates a process for determining the liquid assets that RDAs should have shifted to their successor agencies when they were dissolved, and the amount that should be available for distribution to the affected taxing entities as of July 1, 2012.

For successor agencies that promptly pay the determined amount, the following benefits are provided:

- Loans from cities and counties to their RDAs currently ineligible for repayment would be deemed eligible for repayment beginning in 2013-14. Over time, the repayment mechanism established in legislation could provide as much as $4 billion in principal repayments to cities and counties.
- Bond proceeds that were not contractually encumbered prior to June 28, 2011 can only be used to defease the bonds. The Budget would allow successor agencies to use these proceeds from bonds sold before January 1, 2011 to execute new contracts consistent with the requirements of the bond covenants.
- Land and other physical assets not needed for enforceable obligations of the former RDAs may be transferred by the successor agency to the city or county that created the RDA and used for economic development, without compensation to the affected taxing entities. Before effectuating transfers, successor agencies must submit an asset management plan to Finance that identifies the properties chosen for transfer.

The Budget provides a variety of possible collection tools if successor agencies fail to provide the assets identified for distribution to the affected taxing entities, or if cities or counties that improperly received assets from their former RDAs fail to return those assets.

Strengthening The Mechanisms for Ongoing Revenue Distribution to Taxing Agencies:

The Budget creates a longer and more comprehensive review process for Recognized Obligation Payment Schedules (ROPS). The revised timeline provides Finance 45 days to review the ROPS and ensures county auditor-controllers will be notified of the amount payable to each successor agency 15 days before the associated property tax distributions must be made. The updated review process also creates a mechanism for successor agencies to meet and confer with Finance to discuss concerns. To discourage late ROPS submissions, the Budget also provides financial penalties and a reduced meet-and-confer timeline for late submissions, and provides affected taxing entities and Finance with the right to request a writ of mandate to require the ROPS be submitted.

Recapturing the 2011-12 Revenue Benefits Not Achieved:

Finance estimated in the May Revision that K-14 schools would receive $818 million of Proposition 98 General Fund-offsetting property tax revenues in June of the 2011-12 fiscal year, and another $991 million of such revenues in 2012-13. The 2011-12 estimate was based on very early estimates of 2011-12 enforceable obligations, together with estimates from county auditor-controllers on the property tax available to the successor agencies.

The full amounts of 2011-12 payments were not made, however, due to the timing of the Supreme Court ruling and inconsistent interpretations of the law at the local level.

The Budget creates a one-time process to recapture the property tax revenue that taxing entities should have received in 2011-12. By July 9, 2012, the legislation requires county auditor-controllers to bill successor agencies for the amounts that should have been distributed to the affected taxing entities. The successor agencies must remit these amounts to the county auditor-controller by July 12, 2012. The county auditor-controller has until July 16, 2012 to distribute the remitted amounts to the affected taxing entities. The Budget reflects revised assumptions regarding the General Fund benefit of the elimination of redevelopment agencies. Specifically, it reflects a shift of $685 million in General Fund benefit from 2011-12 to 2012-13.

State Workforce

A reduction of $839.1 million ($401.7 million General Fund) in employee compensation, equivalent to a 5-percent reduction in pay. To achieve these reductions, the Administration negotiated agreements with most of the state's 21 bargaining units for a one day per month, unpaid Personal Leave Program (PLP). Bargaining units without negotiated agreements will be subject to a corresponding level of savings through either a negotiated agreement including PLP provisions or furlough.

Governor's Office of Business and Economic Development

The Governor's Office of Business and Economic Development (GO-Biz) serves as the lead state entity for economic strategy and marketing of California on issues relating to business development, private sector investment, and economic growth.

Other Change:

- The Budget expands the authority of local governments to attract businesses by targeted property tax rebates. Previously, state law allowed local governments to provide property tax rebates for large manufacturing facilities, those with capital investments greater than $150 million. This change in law will allow local governments to provide those rebates for research and development facilities with capital investments greater than $250 million. This expansion does not impact school district taxes and is at the discretion of local officials who can best gauge the community economic impact.

Employment Development Department

The Employment Development Department administers the Unemployment Insurance (UI), Disability Insurance, and Paid Family Leave programs and collects payroll taxes from employers, including the Personal Income Tax.

Adopted Solution:

- *Unemployment Interest Payment*—The Budget includes a loan of $312.6 million from the Unemployment Compensation Disability Fund to pay for the UI interest to the federal government.

Department of Justice

The Attorney General has the responsibility to see that the laws of California are uniformly and adequately enforced. This responsibility is fulfilled through the diverse programs of the Department of Justice (DOJ).

Adopted Solutions:

- *National Mortgage Settlement Proceeds*—The National Mortgage Settlement stipulates that California will receive $410.6 million in discretionary funds for administrative costs and to support programs that benefit California homeowners affected by the mortgage and foreclosure crisis and other consumers. The Budget includes legislation to support the following programs funded by these proceeds:
    - $41.1 million paid as a civil penalty into the Unfair Competition Law Fund to offset the costs of various DOJ programs.
    - $44.9 million for the DOJ's Public Rights and Law Enforcement programs relating to public protection and consumer fraud enforcement and litigation.
    - $8.2 million for the Department of Fair Employment and Housing's ongoing efforts to prevent and eliminate unlawful discrimination in housing and the prosecution of violations under the Fair Employment and Housing Act.
    - $298 million to offset General Fund costs for housing bond debt service for those programs funded with Proposition 46 and Proposition 1C housing bonds that provide homeowners' assistance.
    - An increase of $18.4 million for the DOJ to support homeowner counseling services and the Office of the California Monitor for enforcement activities to oversee compliance with the settlement.
- *DNA Identification Fund*—A decrease of $10 million General Fund through the elimination of the General Fund transfer to the DNA Identification Fund. The Budget replaces this funding by increasing the penalty assessment by $1 for every $10 of base fine to ensure the DNA and regional forensic laboratories are able to continue performing critical public safety work.

Commission on State Mandates

The Commission on State Mandates is a quasi-judicial agency that hears test claims to determine whether local agencies and school districts are entitled to reimbursement for increased costs mandated by the state. The Constitution requires the Legislature to either fund or suspend specified mandates in the annual Budget Act.

Adopted Solutions:

- *Suspension of Mandates*—The Budget suspends various mandates, except for most mandates related to law enforcement or property taxes, resulting in General Fund savings of $728.8 million. These mandates will also be suspended in 2013-14 and 2014-15.

- *Deferral of Pre-2004 Mandate Obligations*—A decrease of $99.5 million in 2012-13 as a result of deferring the 2012-13 payment for mandate costs incurred prior to 2004-05. These payments will also be deferred in 2013-14 and 2014-15.