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September 7, 2011
12:30 p.m.
State Capitol, Room 4203

| <u>BILL</u> | <u>AUTHOR</u> | <u>SUBJECT</u> |
|---------------|--------------------|--|
| AB 20X | Blumenfield | Budget Act of 2011: Director of Finance: reductions |
| AB 25X | Blumenfield | Redevelopment |

SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW
Mark Leno, Chair

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|----------------------|--------------------------------------|
| Bill No: | ABX1 20 |
| Author: | Blumenfield |
| As Amended: | September 6, 2011 |
| Consultant: | Keely Bosler and Kris Kuzmich |
| Fiscal: | Yes |
| Hearing Date: | September 7, 2011 |

Subject: Implementation of expenditure reductions based on a revenue trigger.

Summary: This bill makes necessary changes to implement expenditure reductions in 2011-12 if revenues fall below forecast levels, as specified in Section 3.94 of the 2011 Budget Bill.

Background: The 2011 Budget Bill anticipates General Fund revenues of \$88.5 billion. Per Section 3.94 of the 2011 Budget Bill, the Department of Finance is required to provide notification to the Joint Legislative Budget Committee by December 15, 2011, with an updated revenue forecast for 2011-12. Section 3.94 further states that if revenues are forecast to be lower by \$1 billion to \$2 billion, expenditure cuts of \$600 million are triggered on. If revenues are forecast to be lower by more than \$2 billion, then additional expenditure cuts of \$1.9 billion are triggered on. Related legislation in the enacted 2011 budget package included the statutory provisions to implement these reductions.

Proposed Law: If Section 3.94 of the 2011 Budget Bill is operative because revenues are below forecast, this bill makes further changes to implement the trigger reductions, including the following:

1. **Community College Fee Increase Trigger.** Current law states that the community college fee level is \$36 per unit, effective with the “fall” 2011 term. Under current law, if revenues fall below forecast levels and the budget trigger is operative, the community college fee increase “trigger” of \$10 per unit (to a total of \$46 per unit) is effective January 1, 2012, and will commence in the “winter” term of the 2011-12 academic year.

This bill makes changes to these provisions of law to clarify that if the community college fee increase “trigger” of \$10 per unit (to a total of \$46 per unit) is operative pursuant to Section 3.94 of the 2011 Budget Bill, it is effective May 1, 2012, and would commence in the “summer” term of the 2012 calendar year.

Adopts a statement of legislative intent that trigger reductions made by community college districts in 2011-12 pursuant to Section 3.94 reflect the one-time nature of the statewide \$30 million reduction imposed as a result of delaying the \$10 per unit student fee increase from the winter term to the summer term. Further, and until the increased fees are collected, it is the intent of the Legislature that districts should, to the extent possible, make every effort to implement reductions in a manner that will minimize the impact on course offerings and programs needed by students to achieve their basic skills, workforce training, or transfer goals.

2. **2011 Budget Act Trigger Reductions.** Requires the Director of Finance to make every effort to notify the Legislature by December 9, 2011, of the specific trigger reductions that are proposed and, at least ten days prior to implementing the trigger reductions,

consult with the Legislature about the reductions as well as alternative budget solutions to those set forth in current law, as specified.

Support: Unknown.

Opposed: Unknown.

Comments: This act is a bill providing for appropriations related to the Budget Bill and would take effect immediately.

**** END ****

SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW
Mark Leno, Chair

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|----------------------|--------------------------|
| Bill No: | ABX1 25 |
| Author: | Blumenfield |
| As Amended: | September 7, 2011 |
| Consultant: | Brian Annis |
| Fiscal: | Yes |
| Hearing Date: | September 7, 2011 |

Subject: Redevelopment

Summary: This bill makes various changes to implement the redevelopment package adopted in AB 26X and AB 27X as part of the 2011-12 budget. Generally, these changes grant additional flexibility to redevelopment agencies (RDAs) and cities and counties to make annual payments, but also maintain the anticipated General Fund budget solution in 2011-12. This bill also adds protection for low- and moderate- income housing (low-mod) funds by specifying in the case of an eliminated RDA, that existing balances are retained for low-mod purposes and affordability covenants are retained. This bill makes other follow-up changes to address unforeseen circumstances that are consistent with the original intent. September 7, 2011, amendments would tighten the requirements for delaying repayment of 2009-10 and 2010-11 loans from low- and moderate income funds, to be limited to only-as-needed to pay obligations in force before January 1, 2011, and for payments related to community remittances to education.

Background: As part of the 2011-12 budget package, AB 26X eliminates the current redevelopment program, and AB 27X provides for a voluntary alternative redevelopment program if communities meet specified conditions to opt-in. Among the requirements for the voluntary program, are that the community (a city or county) agrees to remit a proportional share of approximately \$1.7 billion in 2011-12, and about \$400 million ongoing, to supplement funding for education, fire protection, and transit. The \$1.7 billion in 2011-12 is a budget solution for the State General Fund, and the out-year funding is a net new benefit to education, transit districts and fire districts. An RDA may enter an agreement with the city or county to transfer a portion of its tax increment to the city or county up to the amount of the remittance for that year.

Proposed Law: This bill includes the following key changes:

New flexibility for communities/RDAs to make remittances:

1. Allows an RDA two additional years to shift funds to a city or county for the 2011-12 remittance - the city or county would still remit the full amount to education in 2011-12 that provides for State General Fund relief. Under current law, an RDA may enter an agreement to transfer a portion of its tax increment to the city or county up to the amount of the community remittance for that year. This bill would allow the RDA to enter an agreement with the city or county to transfer a portion of its tax increment over a period of three years associated with the 2011-12 remittance.
2. If specified restrictions are met, allows RDAs five additional years to repay the Low and Moderate Income Housing Fund (Low-Mod) for the 2009-10 and 2010-11 loans. Loans from Low-Mod funds were authorized to assist RDAs in making the payments to the Supplemental Education Revenue Augmentation Fund (SERAF) in 2009-10 and 2010-11 and repayment is due by June 30, 2015, and by June 30, 2016, respectively. Under current law, if repayment is not fully made by the due dates, the annual Low-Mod set-aside of RDA funds is increased from 20

percent to 25 percent. This bill would extend the repayment of these loans to June 30, 2020, and June 30, 2021, if the RDA is otherwise unable to meet financial obligations in force on January 1, 2011, and commitments related to community remittances to education. If conditions are met to delay the loan repayment, RDAs must adopt a repayment plan including repayment of 20-percent of any outstanding balance each year starting in 2015-16. Also, if conditions are met to delay the loan repayment, the penalty of a 25-percent Low-Mod set-aside would not apply unless the new due dates are unmet.

Low and Moderate Income Housing Protection:

3. Provides additional protection to existing Low-Mod balances when the community/RDA rejects the alternative program – clarifies that funds would go to the local housing agency (or the State Department of Housing and Community Development if rejected at the local level) and the funds would be restricted in expenditure to existing Low-Mod activities.
4. Requires, instead of allows, the local housing agency to enforce affordability covenants.

Follow-up for unforeseen circumstances consistent with original intent:

5. During the RDA freeze period, which is between before establishment of either the Successor Agency or a community's opt-in to the voluntary alternative redevelopment program, allows refunding bonds to also be used for expiring lines of credit. Current law allows the use of refunding bonds if needed to make a required payment on existing debt service. This bill also clarifies that letters of credit can be extended.
6. If the RDA freeze period is extended beyond October 1, 2011, (for example, due to court action), clarifies that the provisions of an employee MOU remain in place until the freeze period ends. Also specifies that the provision of an MOU apply in the case of an employee reassigned or promoted to fill an existing vacancy.
7. In the case of an eliminated RDA, clarifies that a member of the Oversight Board, including the member representing employees of the former RDA, can vote to approve a new contract as needed for an enforceable obligation, and that no conflict exists between such a vote and current law.
8. In considering a hardship appeal under the existing provisions of AB 27X, allows the Director of Finance to adjust for the reduction in tax increment attributable to an RDA reaching its debt cap after the 2008-09 Controller report.
9. For a Successor Agency, allows for flexibility to retain the property tax used for specified debt, if that debt is repaid, but other debt increases.

Technical Fixes and Clarifications:

10. Clarifies or corrects code section references.
11. Addresses a technical glitch in the out-year remittance formula that would have allowed an RDA to zero-out its ongoing base payment with debt-service manipulation.
12. Clarifies that supplemental and state-assessed unitary property tax increment that RDAs receive is treated in the same manner as baseline RDA increment.

13. Clarifies that the loan provisions of the 2009 RDA legislation (AB 26, Statutes of 2009) related to a city's payment to assist an RDA in making the Supplemental Education Revenue Augmentation Fund (SERAF) payment, are still valid with the 2011 RDA legislation.

Other:

14. Clarified that amendments in this bill to sections that are not currently operative – for example due to a court stay – would also not be operative until the existing sections are operative.

15. States that this bill is a budget trailer bill within the meaning of Article IV of the constitution, and this it addresses the fiscal emergency declared by the Governor on January 20, 2011.

Fiscal Effect: This bill should not result in any reduction to the \$1.7 billion scored in the budget from community remittances to education in 2011-12. To the extent communities and RDAs opt-out of the voluntary alternative redevelopment program and retain a low- and moderate- income housing fund balance, these residual funds would be retained for low-mod programs instead of being allocated to local taxing entities. This bill appropriates \$1,000 General Fund to the Department of Finance to implement the provisions of this bill.

Support: Unknown.

Opposed: Unknown.

Comments: This bill maintains the main elements of the redevelopment package adopted in June, including the \$1.7 billion budget solution, but includes follow-up amendments that grant flexibility and clarification to aid RDAs, cities and counties, and low- and moderate- income housing programs.