



## SUPREME COURT DECISION ELIMINATES REDEVELOPMENT AGENCIES: WHAT IS THE IMPACT ON SCHOOL FUNDING?

In connection with approval of the state budget for fiscal year 2011-2012, the California Legislature enacted two bills addressing redevelopment agencies. ABX1 26 suspended all redevelopment activities and scheduled dissolution of redevelopment agencies. ABX1 27 would have allowed redevelopment agencies to remain in existence by agreeing to pay an amount set by formula to their county auditor-controllers for distribution to other taxing entities, including schools. ABX1 26 and ABX1 27 went into effect on June 29, 2011. A lawsuit was filed in the California Supreme Court on July 18, 2011 (*California Redevelopment Association, et al. v. Ana Matosantos, et al.*, Case No. 5194861), challenging the constitutionality of ABX1 26 and ABX1 27 on behalf of cities, counties and redevelopment agencies, and requesting a stay of enforcement.

On December 29, 2011, the Supreme Court issued a decision in *Matosantos* that ABX1 26, which dissolves redevelopment agencies, is valid, but that ABX1 27, which gave redevelopment agencies the option of making a payment in order to remain in existence, is invalid. As a result of this decision, and unless other pending litigation or legislative action changes the course of this matter, all redevelopment agencies will be dissolved effective February 1, 2012.

As of that date, all assets of each former redevelopment agency will be transferred to the control of a "successor agency" which will carry out the enforceable obligations and wind down the activities of the former redevelopment agency. In most cases, the successor agency will be the city or the county that created the redevelopment agency. The actions of each successor agency will be subject to review by a seven-member local Oversight Board which will be formed by May 1, 2012. Each Oversight Board will include, as a representative of local school districts, a member appointed by the county superintendent of schools, if the superintendent is elected, or by the county office of education, if the county superintendent is appointed.

The Governor targeted the elimination of redevelopment agencies in part to redirect some property tax revenues to school districts. School districts are now waiting to see what impact the *Matosantos* decision will have on the state budget for 2012-2013.

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It appears that revenues previously allocated by redevelopment agencies to school districts will continue to be received by those districts. Property tax revenues formerly collected by each now-defunct redevelopment agency will be collected in a trust fund within each county treasury and administered by that county's auditor-controller, who will distribute the moneys in that fund according to the following priorities. First, the county auditor-controller will continue to make statutory passthrough payments to school districts, as required by the reforms enacted by AB 1290 in 1993. After these payments are made, the county auditor-controller will allocate moneys in the trust fund to successor agencies to pay for certain enforceable obligations, including those embodied in existing passthrough agreements between school districts and former redevelopment agencies. The third priority is administrative costs of successor agencies in carrying out their statutory obligations.

Finally, any funds remaining after these priorities are met will be distributed to local agencies and school entities according to a complex formula set forth in the bill. However, if at any time the funds available to the successor agency are not sufficient to meet the enforceable obligations of the former redevelopment agency, the deficiency shall be made up by the county auditor-controller from the trust fund, which could cancel out amounts due to local taxing entities.

Therefore, while school districts may expect to continue to receive revenue they would have received prior to the elimination of redevelopment agencies (such as statutory passthrough amounts and payments required by passthrough agreements executed between districts and redevelopment agencies prior to ABX1 26), the dissolution of redevelopment agencies is unlikely to provide school districts with additional revenue.

In his proposed 2011-2012 budget, the Governor projected that with ABX1 26 and ABX1 27, local educational agencies could expect to receive \$1.7 billion in additional revenue in 2012-2013 and \$400 million each year in future years in the form of payments from redevelopment agencies that remained in existence under ABX1 27. Since ABX1 27 was struck down, annual revenues to local educational agencies under ABX1 26 are now projected to be closer to \$1 billion, and this amount will, under the Governor's recently proposed state budget for 2012-2013, be used to offset the state's revenue limit funding obligations.

Had it survived legal challenge, ABX1 27 could have provided significant ongoing revenue to school districts. As it stands, revenue districts should not expect to receive any financial gain due to the dissolution of redevelopment agencies. Basic aid districts may see an increase in the local property tax revenues they receive, but that will depend on whether sufficient funds exist for distribution to local educational agencies after other obligations of the former redevelopment agencies are satisfied.

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There remains a separate lawsuit challenging ABX1 26 on different grounds than were raised in *Matosantos*, which could yet save redevelopment agencies from elimination. Legislation has also been proposed that would prolong the life of redevelopment agencies for a short time to allow for a more orderly wind-down, but that bill's future is uncertain. Additionally, because the Court overturned ABX1 27, which would have allowed redevelopment to continue in certain instances, there are new legislative efforts to resurrect at least some redevelopment activities. However, as of this time, redevelopment agencies must still wind down effective February 1, 2012. We will continue to monitor these developments.

If you have any questions about the elimination of redevelopment agencies and its impact on school funding, please do not hesitate to contact one of our [eight offices](#) located statewide or consult our [website](#).

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