**OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT**

**Date Issued:** October 14, 2016 **IBA Report Number:** 16-36

**ED&IR Committee Meeting Date:** October 20, 2016

**Item Number:** 5

# Overview of Residual Redevelopment Property Tax Trust Fund Revenue

## OVERVIEW

In a January 13, 2016 memo, Council Districts 4, 8, and 9 expressed interest in dedicating residual Redevelopment Property Tax Trust Fund revenue, which is currently considered unrestricted General Fund revenue, to economic development activities in former redevelopment project areas. The Economic Development and Intergovernmental Relations Committee plans to discuss this idea further at its October 20, 2016 meeting, and several Councilmembers have requested additional background information on revenue from the Redevelopment Property Tax Trust Fund (RPTTF). This report provides a brief history of the dissolution of redevelopment in California, a description of the RPTTF and how revenues therein are currently distributed, and projected residual RPTTF revenues for the next several years. This report also briefly notes additional funding commitments that are facing the City's General Fund that should be considered when contemplating future dedications of unrestricted General Fund revenue.

## FISCAL/POLICY DISCUSSION

### Background - Redevelopment Dissolution

Prior to 2011, California law allowed local governments to create redevelopment agencies that assisted in the economic redevelopment of various geographic areas. Upon the formation of a redevelopment project area, the share of property taxes generated from that area that went to schools and other local agencies was frozen, and all growth in property tax receipts then went to the redevelopment agency for that area.[1] Redevelopment agencies would then use the

[1] Some taxing entities developed and entered into pass-through agreements with redevelopment agencies that effectively allowed those taxing entities to continue receiving their share of revenue from growth in property tax receipts that would otherwise have been retained by redevelopment agencies.

incremental growth in property tax revenue above that frozen base, to invest in various developments and activities designed to spur economic growth and increase affordable housing. This approach is generally known as tax increment financing, and the revenue going to redevelopment agencies was referred to as the tax increment.

The City's redevelopment agency consisted of three divisions that managed 14 project areas:

- The City's Redevelopment Department, which managed project areas in Barrio Logan, City Heights, College Community, College Grove, Crossroads, Grantville, Linda Vista, North Bay, North Park, Naval Training Center, and San Ysidro
- The Centre City Development Corporation, which focused on the Downtown area
- The Southeastern Economic Development Corporation, which managed a project area covering several neighborhoods in the southeastern portion of the City

In 2011, the California legislature passed AB 26, which had the effect of dissolving redevelopment agencies throughout the state. The powers of those agencies were vested in successor agencies, who were required to fulfill all obligations that the former redevelopment agencies had entered into prior to being dissolved. In San Diego, the City elected to serve as the former redevelopment agency's successor agency.

**Redevelopment Property Tax Trust Fund**

Tax increment funding that had previously gone to redevelopment agencies is instead now placed in a county-wide Redevelopment Property Tax Trust Fund. The state recognized that redevelopment successor agencies are still required to fulfill financial and project obligations that were entered into prior to the dissolution of redevelopment, and allows successor agencies to receive funding for those enforceable obligations from the RPTTF.[2] Each year, the City as the successor agency prepares a Recognized Obligation Payment Schedule (ROPS) that details all the obligations the former redevelopment agency entered into that the successor agency must now fulfill, and the funding requirements for those obligations for the next year.[3] This is submitted to the state, which then authorizes remission of RPTTF revenue that is necessary to fulfill those obligations. A significant portion of San Diego's obligations consist of bond repayments that extend through 2030.

The County Auditor Controller administers the RPTTF. It distributes RPTTF revenue to local taxing entities that had pre-existing pass-through agreements, and remits RPTTF revenue to successor agencies to fulfill enforceable obligations If funds remain in the RPTTF after payments are made for each successor agency's ROPS, they are considered to be residual RPTTF funds, and are distributed proportionally to the taxing entities that would otherwise have

[2] Enforceable Obligations are generally defined to include several categories, such as bond obligations and written contracts for specific performance with parties that are not the sponsoring entity, such as the City
[3] Initially ROPS were prepared on a six-month basis, but are now prepared on an annual basis.

received property tax revenues from the former project areas. The City of San Diego's share of residual RPTTF is approximately 17.5%, and is currently included in the City's total property tax distribution from the County. The City began receiving residual RPTTF in FY 2013, and it is currently considered to be an unrestricted General Fund revenue. As obligations are gradually fulfilled and paid off, the amount of residual RPTTF that will be proportionally distributed to taxing entities will increase.

**Future Residual RPTTF Projections**

In our office's review of the Mayor's 2017-2021 Five Year Financial Outlook, we projected that residual RPTTF receipts from FY 2017 would grow from $14.3 million in FY 2017 to $23.7 million in FY 2021, as shown below.

| Residual RPTTF Projections, FY 2017-2021 (*$ in millions*) | | | | |
|---|---|---|---|---|
| **FY 2017** | **FY 2018** | **FY 2019** | **FY 2020** | **FY 2021** |
| $ 14.3 | $ 17.5 | $ 20.0 | $ 22.7 | $ 23.7 |

Since that review, the state has denied payment of project management costs as enforceable obligations, and the City has refinanced several outstanding redevelopment bonds at lower interest rates. These result in lower ROPS draws on the RPTTF, and consequently small increases in the amount of residual RPTTF that flows to the City. In the FY 2017 Adopted Budget, residual RPTTF revenue was projected at $14.8 million; the figures shown above may slightly understate residual RPTTF the City will receive in the next several years. A more accurate and updated projection of residual RPTTF will be available with the release of the FY 2018-2022 Five Year Outlook in November of this year.

Residual RPTTF receipts will continue to increase beyond this time frame as well, and will track increases in the assessed value and corresponding property tax receipts from former redevelopment project areas, and as obligations of the former redevelopment agency are gradually fulfilled. As noted above, residual RPTTF revenue is currently an unrestricted source of general funds, and are available to provide funding for any City purpose.

**Considerations Related to Dedicating Residual RPTTF to a Specific Purpose**

Unrestricted General Fund money can be spent on any City purpose, and represents the City's largest and most flexible source of funding for providing and supporting general City services. Restricting a portion of General Fund revenue to a specific purpose reduces City funding that would otherwise be available for existing or unanticipated public service needs.

It is important to consider the overall state of the City's finances and its General Fund when determining whether is appropriate to restrict General Fund dollars to a specific use. Our office notes that specific impacts to the General Fund anticipated in the near-future include:

- An estimated $25.8 million in additional costs to the City's pension payment ($35.3 million citywide) – relating to changes in mortality assumptions that are anticipated to affect the FY 2018 Actuarially Determined Contribution (ADC);
- Declines in Sales Tax Revenue. As we noted in our review of the FY 2016 Year End Financial Performance Report, actual FY 2016 sales tax receipts came in $10.1 million below what was included in the FY 2016 Adopted Budget, and it is likely that sales tax revenue in FY 2017 will come in below amounts included in the FY 2017 Adopted Budget);
- Implementation of Proposition H, which will require $25 to $30 million a year in otherwise unrestricted General Fund revenue growth to be spent on City infrastructure beginning in FY 2018.

Nevertheless sometimes otherwise unrestricted revenue is dedicated to particular programs and services. As an example, earlier this year City voters approved Proposition H, which dedicates General Fund resources to a specific use as mentioned above, after Council elected to place the measure on the City's June ballot.

If the Committee wishes to pursue restricting residual RPTTF revenue to being used only in former project areas, we would recommend that it also consider other factors that pose potential fiscal impacts to the General Fund. Should the Committee move forward with the proposal, it may wish to consider phasing in its implementation, or taking a similar approach which would limit the immediate impact on the General Fund.

Our office is available to provide assistance or further information on this matter.

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