

EXECUTIVE SUMMARY

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: July 15, 2011

IBA Report Number: 11-46

City Council Docket Date: July 18, 2011

Item Number: S400

Fiscal Impact of State Budget Action Regarding Redevelopment Agencies

On June 15, 2011, the State Legislature adopted two budget “trailer” bills concerning redevelopment, ABX1 26 and ABX1 27 (AB 26 and AB 27). AB 26 eliminates redevelopment agencies as of October 1, 2011, and essentially restricts redevelopment agencies from taking actions or incurring new debt or obligations prior to dissolution. AB 27 allows redevelopment agencies to remain in existence and be exempt from AB 26 if certain “voluntary” payments are made to the State in FY 2012 and in each fiscal year thereafter.

On July 18, 2011, the City Council will be requested to introduce an ordinance that would commit the City to the provisions of AB 27, including the “voluntary” payments to the State, and exempt the Redevelopment Agency from dissolution under AB 26. It is estimated that the Agency’s “voluntary” payment to the State would be approximately \$69.8 million in FY 2012 and \$16.4 million in FY 2013. This report provides information regarding the estimated fiscal impacts associated with the potential dissolution of the Redevelopment Agency under AB 26. It is intended to compliment the information provided in Agency staff report RA-11-26 regarding the fiscal impacts associated with the voluntary redevelopment program under AB 27.

Overall, it is estimated that the City would receive between \$14 million and \$18 million per year in additional property tax revenues if the Redevelopment Agency were to be dissolved under AB 26. However, a number of existing agreements between the Agency and the City would likely be invalidated, including the Loan Repayment Agreement for Long-Term Agency Debt, the Third Amendment to the Ballpark Cooperation Agreement, and the Cooperation Agreement for Reimbursement of Costs Associated with the Expansion of the Convention Center (Phase II). As a result, the City would lose the benefit of annual payments currently made by the Agency for debt service costs on the PETCO Park or Convention Center Phase II bonds, or repayment of Agency long-term debt.

By adjusting for the loss of these annual payments, the net fiscal impact to the City’s General Fund is between -\$0.2 and \$3.5 million per year. It is important to note that these estimates have not factored in Agency carryover funds or proceeds from the sale of Agency assets, which could result in potentially significant one-time allocations of property tax revenue. However, on an annual basis, the net fiscal impact resulting from the dissolution of the redevelopment Agency is relatively minor.