

CALIFORNIA BUDGET WARS: REDEVELOPMENT AGENCIES - ROUND 2

On May 16, 2011, Governor Brown released his revised budget proposal for California. To no one's surprise, the revised budget continues to call for the total elimination of redevelopment agencies (see attached [summary](#)). Governor Brown's earlier attempt at reaching a budget compromise ended in stalemate in early April 2011 falling just a few votes short of passage. The game changer may be that the state's tax revenues have unexpectedly surged this year, thus reducing the dire budget deficit. The reduction in the funding gap ultimately may require less tax imposition on California residents, which is at the heart of the Republican opposition to the Governor's budget proposal.

Last week the state Republicans released their own version of a proposed California budget. Interestingly, the Republican's budget summary (see [attached](#)) also accepts the proposition that redevelopment agency tax increment funds would be swept to the state in order to balance the budget. The Republican version does not, however, indicate whether it adopts the Governor's proposal or one of the other proposals calling for a voluntary transfer of such funds. The Republican version simply accepts the need for redevelopment agency revenues in order to close the budget deficit gap.

Governor Brown's original proposal received mixed reviews and was called into question by California's Legislative Counsel Bureau. In its letter dated April 28, 2011, (see [attached](#)) the Legislative Counsel concluded that Governor Brown's attempt to use redevelopment funds for state purposes, as opposed to county purposes, likely was unconstitutional. On the other hand, the Legislative Counsel did not challenge the Governor's position that redevelopment agencies could be eliminated as a matter of law.

The California Redevelopment Association continues to oppose any attempt to eliminate redevelopment agencies or control redevelopment funds. That opposition has become somewhat splintered among various interest groups, at least with respect to affordable housing development, and has led to a number of specific proposals aimed at protecting some portion of redevelopment agency activity (such as Senator DeSaulnier's proposal to protect the affordable housing element of redevelopment funding). Additional proposals are expected to be offered as the process continues.

If you would to discuss the implications of Governor Brown's elimination of RDAs and RDA funding on your projects, please contact:

Stephen C. Ryan at 415.262.5150 or sryan@coxcastle.com

Ofer Elitzur at 415.262.5165 or oelitzur@coxcastle.com

Lisa D. Weil at 415.262.5175 or lweil@coxcastle.com

© 2011 Cox, Castle & Nicholson LLP is a full service law firm offering comprehensive legal services to the business community and specialized services for the real estate industry. Reproduction is prohibited without written permission of the publisher. This CCN Affordable Housing Practice Alert is for educational and informational purposes only. It is not a full analysis of the matters summarized and is not intended and should not be construed as legal advice. This communication may be considered advertising under applicable laws.