

Date of Hearing: April 17, 2024

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Juan Carrillo, Chair

AB 2488 (Ting) – As Amended March 18, 2024

SUBJECT: Downtown revitalization and economic recovery financing districts.

SUMMARY: Allows cities and counties to establish downtown revitalization and economic recovery financing districts (district). Specifically, **this bill:**

- 1) Defines the following terms:
 - a) “Designated official” as the appropriate official designated pursuant to this bill.
 - b) “District board” as the governing board of the district.
 - c) “District” as a legally constituted governmental entity separate and distinct from the local government that established it pursuant to this bill for the sole purpose of financing office-to-residential conversion projects or other projects of community wide significance that support downtown revitalization and economic recovery as authorized by this bill. A district is a local agency for the purposes of the Ralph M. Brown Act and subject to existing open meetings laws. A district shall be deemed a district within the meaning of Section 1 of Article XIII A of the California Constitution.
 - d) “Downtown revitalization financing plan” (financing plan) as an adopted financing plan prepared pursuant to this bill.
 - e) “Legislative body” as the city council or board of supervisors.
 - f) “Local government” as a city, county, or city and county, whether general law or chartered.
 - g) “Office-to-residential conversion project” as a housing development project that converts an existing qualifying commercial office building to market rate or affordable housing by either reuse of the existing commercial office building or by replacing the commercial office with a new residential building.
 - h) “Opted-in taxable property” as the property of an office-to-residential conversion project that has opted in to receive incremental tax revenue.
 - i) “Qualifying commercial office building” as a commercial office building identified in the financing plan.
- 2) Provides that a legislative body of a local government may establish one or more proposed districts. Proceedings for the establishment of a district shall be instituted by the adoption of a resolution of intention to establish the proposed district and shall do all of the following:
 - a) State that a district is proposed to be established under the terms of this bill and describe the boundaries of the proposed district, which may be accomplished by reference to a map on file in the office of the clerk of the city or in the office of the recorder of the

county, as applicable. The map may identify, within a district, certain areas which shall be referred to as “project areas.”

- b) The boundary of the district shall satisfy both of the following criteria at the time the resolution of intention is adopted:
 - i) At least 50% of the built area in the geographic boundaries of the district shall be used as commercial office space.
 - ii) The commercial office building vacancy rate shall be 20% or greater.
 - c) State the need for the district and the goals the district proposes to achieve.
 - d) State that incremental property tax revenue from the local government within the district will be used to finance these activities.
 - e) Fix a time and place for a public hearing on the proposal.
- 3) Specifies that the district board’s membership shall consist of three members of the legislative body of the local government, and two members of the public chosen by the legislative body. The legislative body may appoint one of its members to be an alternate member of the legislative body who may serve and vote in place of a member who is absent or disqualifies themselves from participating in a meeting of the authority. The appointment of the public members shall be subject to the provisions of existing law.
 - 4) Provides that a legislative body may include a directly elected mayor of a charter city or charter city and county who is not a member of the city or city and county’s legislative body under the city and county’s adopted charter.
 - 5) Requires the legislative body to ensure the district board is established at the same time that it adopts a resolution of intention.
 - 6) Provides that members of a district board established pursuant to this bill shall not receive compensation but may receive reimbursement for actual and necessary expenses incurred in the performance of official duties.
 - 7) Specifies that members of the district board are subject to existing ethics training requirements.
 - 8) Provides that the district board shall be a local public agency subject to the Ralph M. Brown Act, the California Public Records Act, and the Political Reform Act.
 - 9) States that the purpose of a district is to finance office-to-residential conversion projects with incremental tax revenues generated by the office-to-residential conversion projects within the district.
 - 10) Provides that incremental tax revenues generated by office-to-residential conversion projects within the district shall be allocated to, and when collected shall be paid into a special fund of, the district for all lawful purposes described in this bill.

- 11) Requires the district to finance only the office to residential development projects that the district determines are of communitywide significant and that provide significant benefits to the district or the surrounding community.
- 12) Provides that the district shall ensure that incremental tax revenues allocated to the district are limited to specified revenues that are generated through the office-to-residential conversion projects within the district that have opted in.
- 13) Requires the district to ensure that the requirements of this bill are met every 10 years.
- 14) Specifies that the creation of a district and the adoption of a financing plan shall not be deemed a “project” for the purposes of the California Environmental Quality Act.
- 15) Provides that after adopting the resolution of intention, the legislative body shall send a copy of the resolution to the district board. The district board shall designate and direct the appropriate local government official to prepare a financing plan.
- 16) Specifies that after the receipt of a copy of the resolution of intention to establish a district, the designated official shall prepare a proposed financing plan. The financing plan shall be consistent with the general plan, and specific plan, if applicable, of the local government within which the district is located and shall include all of the following:
 - a) A map and legal description of the proposed district, which may include all or a portion of the district designated by the legislative body in its resolution of intention.
 - b) A description of the potential office-to-residential conversion projects and other forms of development that is proposed in the area of the district, including those to be provided by the private sector, those to be provided by governmental entities without assistance under this bill, those public improvements and facilities to be financed with assistance from the proposed district, and those to be provided jointly.
 - c) A finding that the potential office-to-residential conversion projects and financial assistance are of communitywide significance and provide significant benefits to an area larger than the area of the district.
 - d) Identification of each existing commercial office building within the district that is eligible for conversion to residential use and that may opt in to receive incremental tax revenue pursuant to this bill.
 - e) A requirement that the incremental tax revenues generated by each individual office-to-residential conversion project within the district pursuant to this bill be allocated back to that project for the purpose of financing the debt service of the project. Each individual office-to-residential conversion project shall receive an annual allocation on a pay-go basis in the amount equal to the amount of incremental tax revenues generated by the project for 30 years or until the district ceases to exist.
 - f) A requirement that any incremental tax revenues remaining after the allocation of revenues pursuant to e) above, be allocated to uses supporting downtown revitalization.

- g) A requirement that local administrative costs to implement this section do not exceed 5 percent of the tax revenues allocated pursuant to this bill.
- h) A financing section, which shall contain all of the following information:
 - i) A specification of the maximum portion of the incremental tax revenue of the local government proposed to be committed to the district for each year during which the district will receive incremental tax revenue. The portion need not be the same for all affected taxing entities. The portion may change over time.
 - ii) A projection of the amount of tax revenues expected to be received by the district in each year during which the district will receive tax revenues.
 - iii) A limit on the total number of dollars of taxes that may be allocated to the district pursuant to the financing plan.
 - iv) Either of the following:
 - (1) A date on which the district will cease to exist, by which time all tax allocations to the district will end. The date shall not be more than 45 years from the date on which the district allocates funding to the first office-to-residential conversion project within the district.
 - (2) If the district is divided into project areas, a date on which the financing plan will cease to be in effect and all tax allocations to the district will end and a date on which the district's authority to pay incremental tax revenues received under this division will end, not to exceed 45 years from the date the district or the applicable project area has actually received one hundred thousand dollars (\$100,000) in annual incremental tax revenues under this bill. After the time limits established, a district or project area shall not receive incremental tax revenues under this bill. If the district is divided into project areas, a separate and unique time limit shall be applicable to each project area that does not exceed 45 years from the date the district has actually received one hundred thousand dollars (\$100,000) in incremental tax revenues under this bill from that project area.
 - v) An analysis of the costs to the local government of providing facilities and services to the area of the district while the area is being developed and after the area is developed. The financing plan shall also include an analysis of the tax, fee, charge, and other revenues expected to be received by the local government as a result of expected development in the area of the district.
 - vi) An analysis of the projected fiscal impact of the district and the associated development upon the local government.
- i) If any residential dwelling units within the territory of the district are proposed to be removed or demolished in the course of an office-to-residential conversion project within the area of the district, a plan providing for replacement of those units and relocation of those persons or families consistent with the Housing Crisis Act of 2019, as specified.
- j) The goals the district proposes to achieve for each project financed pursuant to this bill.

- 17) Specifies that a financing plan shall contain a provision that taxes, if any, levied upon opted-in taxable property in the area included within the district each year by or for the benefit of the State of California, or the local government, shall be divided, subject to the provisions of Section 53993, as follows:
- a) That portion of the taxes that would be produced by the rate upon which the tax is levied each year by or for the local government upon the total sum of the assessed value of all of the opted-in taxable property in the district, established pursuant to 18) below, shall be allocated to, and when collected shall be paid to, the local government as taxes on all other property are paid.
 - b) That portion of the levied taxes each year specified in the adopted financing plan for the local government in excess of the amount specified in a) above, shall be allocated to, and when collected shall be paid into a special fund of, the district for all lawful purposes of the district. Unless and until the total assessed valuation of the opted-in taxable property in a district exceeds the total assessed value of the opted-in taxable property in the district as shown by the last equalized assessment rolls referred to in a) above, all of the taxes levied and collected upon the opted-in taxable property in the district shall be paid to the local government. When the district ceases to exist pursuant to the adopted financing plan, all moneys thereafter received from taxes upon the opted-in taxable property in the district shall be allocated to, and, when collected, shall be apportioned to, the local government.
- 18) After an office-to-residential conversion project opts in to receive incremental tax revenue, the district shall establish the base assessed value for the applicable property, as shown upon the assessment roll used in connection with the property by the local government, last equalized prior to the first building permit being issued as a part of the conversion of the office-to-residential conversion project.
- 19) Specifies that the portion of any ad valorem property tax revenue annually allocated to a local government pursuant to existing law related to the Educational Revenue Augmentation Fund (ERAF) that is specified in the adopted financing plan for the local government, and that corresponds to the increase in the assessed valuation of taxable property shall be allocated to, and, when collected, shall be apportioned to, a special fund of the district for all lawful purposes of the district.
- 20) Specifies that when a district ceases to exist pursuant to the adopted financing plan, the revenues described above, shall be allocated to, and, when collected, shall be apportioned to, the respective local government.
- 21) Provides that a district board shall consider adoption of the financing plan at a single public hearing.
- 22) Requires that, after the adoption of the financing plan, the district shall establish a process for eligible office-to-residential conversion projects to opt into receiving incremental tax revenue pursuant to this bill.
- 23) Specifies that an eligible office-to-residential conversion project may opt in to receive incremental tax revenue at any time before the project is issued the first building permit for the project.

- 24) Requires an eligible office-to-residential conversion project that opts in to receive incremental tax revenue to comply with specified labor standards.
- 25) Provides that it is the intent of the Legislature to subsequently amend this bill to establish labor protections applicable to office-to-residential conversion projects that opt in to receive incremental tax revenue.
- 26) Requires all costs incurred by a county in connection with the division of taxes pursuant to this bill to be paid by that district.

FISCAL EFFECT: None.

COMMENTS:

- 1) **Redevelopment.** Article XVI, Section 16 of the California Constitution authorizes the Legislature to provide for the formation of redevelopment agencies (RDAs) to eliminate blight in an area by means of a self-financing schedule that pays for the redevelopment project with tax increment derived from any increase in the assessed value of property within the redevelopment project area (or tax increment). Generally, property tax increment financing involves a local government forming a tax increment financing district to issue bonds and use the bond proceeds to pay project costs within the boundaries of a specified project area. To repay the bonds, the district captures increased property tax revenues that are generated when projects financed by the bonds increase assessed property values within the project area.

To calculate the increased property tax revenues captured by the district, the amount of property tax revenues received by any local government participating in the district is “frozen” at the amount it received from property within a project area prior to the project area’s formation. In future years, as the project area’s assessed valuation grows above the frozen base, the resulting additional property tax revenues — the so-called property tax “increment” revenues — flow to the tax increment financing district instead of other local governments. After the bonds have been fully repaid using the incremental property tax revenues, the district is dissolved, ending the diversion of tax increment revenues from participating local governments.

Prior to Proposition 13, very few RDAs existed; however, after its passage, RDAs became a source of funding for a variety of local infrastructure activities. Eventually, RDAs were required to set-aside 20% of funding generated in a project area to increase the supply of low and moderate income housing in the project areas. At the time RDAs were dissolved, the Controller estimated that statewide, RDAs were obligated to spend \$1 billion on affordable housing. At the time of dissolution, over 400 RDAs statewide were diverting 12% of property taxes, over \$5.6 billion yearly.

In 2011, facing a severe budget shortfall, the Governor proposed eliminating RDAs in order to deliver more property taxes to other local agencies. Ultimately, the Legislature approved and the Governor signed two measures, ABX1 26 (Blumenfield), Chapter 5 and ABX1 27 (Blumenfield), Chapter 6 that together dissolved RDAs as they existed at the time and created a voluntary redevelopment program on a smaller scale. In response, the California Redevelopment Association (CRA) and the League of California Cities, along with other

parties, filed suit challenging the two measures. The Supreme Court denied the petition for peremptory writ of mandate with respect to ABX1 26. However, the Court did grant CRA's petition with respect to ABX1 27. As a result, all RDAs were required to dissolve as of February 1, 2012.

- 2) **Attempts to Replace RDAs.** After the Supreme Court's 2011 Matosantos decision dissolved all RDAs, legislators enacted several measures creating new tax increment financing tools to pay for local economic development. The Legislature authorized the creation of Enhanced Infrastructure Financing Districts (EIFDs) [SB 628 (Beall), Chapter 785, Statutes of 2014] quickly followed by Community Revitalization and Investment Authorities (CRIAs) [AB 2 (Alejo), Chapter 319, Statutes of 2015]. Similar to EIFDs, CRIAs use tax increment financing to fund infrastructure projects. CRIAs may currently only be formed in economically depressed areas.

The Legislature has also authorized the formation of affordable housing authorities (AHAs), which may use tax increment financing exclusively for rehabilitating and constructing affordable housing and also do not require voter approval to issue bonds [AB 1598 (Mullin), Chapter 764, Statutes of 2017]. SB 961 (Allen), Chapter 559, Statutes of 2018, removed the vote requirement for a subset of EIFDs to issue bonds and required these EIFDs to instead solicit public input, and AB 116 (Ting), Chapter 656, Statutes of 2019, removed the voter requirement for any EIFD to issue bonds in favor of a formal protest process. SB 852 (Dodd), Chapter 266, Statutes of 2022, created climate resilience districts (CRDs), which can also utilize tax-increment financing. CRDs were also given the authority to issue general obligation bonds and impose special taxes. While these entities share fundamental similarities with RDAs in terms of using various forms of tax-increment financing, they differ in two significant aspects, 1) not having access to the school's share of property tax increment, and 2) not automatically including the tax increment of other taxing entities.

- 3) **California's Housing Crisis.** California faces a severe housing shortage. A variety of factors have contributed to the lack of housing production. A major cause of the housing crisis is the mismatch between the supply and demand for housing. The Statewide Housing Plan adopted by the Department of Housing and Community Development (HCD) in 2022 found California needs approximately 2.5 million units of housing, including one million units affordable to lower income households, to address this mismatch over the next eight years. That would require production of over 300,000 units a year, including over 120,000 units a year of housing affordable to lower income households.

The Legislative Analyst's Office wrote in a January 24, 2024 article, *California Housing Affordability Tracker*, "California home prices have long been—and continue to be—much more expensive than the rest of the US. Prices for mid-tier homes are more than twice as expensive as the typical mid-tier US home. (Mid-tier homes reflect home values in the 35th to 65th percentile range.) Perhaps even more importantly for a first-time home buyer, a bottom-tier home in California is now about 33 percent more expensive than a mid-tier home in the rest of the U.S.—a gap that has widened over the last decade (Bottom-tier homes are those with values in the 5th to 35th percentile range.)"

"Monthly payments for a newly purchased mid-tier home—including mortgage, taxes, and homeowners' insurance—have increased dramatically over the last couple of years. Payments for a mid-tier home were over \$5,500 a month in December 2023—an 80 percent

increase since January 2020. Payments for a bottom-tier home were over \$3,400 per month—an 85 percent increase since January 2020. Also, the gap between the monthly costs of purchasing a bottom-tier home versus renting are near levels that have not been seen since the housing bubble in the mid-2000s. This rapid increase in monthly costs for homebuyers was driven by higher home prices and increasing mortgage rates, both of which we discuss in more detail below.”

- 4) **Adaptive Reuse.** Adaptive reuse is the process of converting an existing non-residential building to housing. The ability to adaptively reuse a building is highly dependent on the initially designed use. For example, uses such as warehouses and big box retail are not generally suitable to adaptive reuse, because their tall ceilings, single stories, and rudimentary plumbing would need to be completely redone to be appropriate for human habitation. Office buildings maintain some potential for conversion, because their multi-floor layout is conducive to housing; however, the large configuration of most office buildings makes it difficult to provide the necessary light and air that is required for residential units. For these conversions to occur, it would also need to be financially attractive to the property owner – something that has increased due to the sharp downturn in the downtown office market since the beginning of the COVID-19 pandemic. However, other commercial properties, like hotels and motels, are more conducive to adaptive reuse, since they already have separate residential units, often with bathrooms.
- 5) **Recent State Adaptive Reuse Efforts.** One of the state’s primary efforts to address homelessness during the COVID-19 pandemic involved turning existing hotels and motels into housing for individuals experiencing homelessness, known as Project Homekey. These uses are already divided into quarters designed for short-term human habitation and can readily be converted to housing with the addition of kitchens. As of February 29, 2024, the Legislative Analyst’s Office reported that Project Homekey has funded 250 projects and assisted 15,319 units of housing with a total expenditure of \$3.35 billion. The cost of converting a unit under Project Homekey, at \$218,683 per unit, is less than the current cost of constructing a new multifamily unit which averages at a little under \$600,000 a unit as calculated by a recent report from the UC Berkeley’s Turner Center for Housing Innovation, *Making it Pencil: the Math of Housing Development-2023*. This report found that for a multifamily mixed-use project with five stories of residential and a nonresidential ground floor, the average cost per unit in the Bay Area is \$637,000 in the East Bay and \$623,000 in the South Bay, \$594,000 in Los Angeles, and \$508,000 in Sacramento.
- 6) **Property Tax Welfare Exemption.** Article XIII, Section 4(b) of the California Constitution authorizes the Legislature to exempt property used exclusively for religious, hospital, or charitable purposes, as specified, from taxation. The Legislature has implemented this "welfare exemption" in R&TC Section 214.

AB 2144 (Filante), Chapter 1469, Statutes of 1987, amended R&TC Section 214 to specifically exempt low-income housing developments operated by non-profit organizations. As noted in the Senate Revenue and Taxation Committee analysis, AB 2144's proponents argued that the property tax funds then being paid "could better be used in furtherance of the goals of providing low income housing." Generally, to qualify for the welfare exemption, the law requires that the rental housing be financed with specified tax-exempt bonds, government loans, or grants, or that the property's owner receives a Low-Income Housing Tax Credit under the Internal Revenue Code Section 42. The welfare exemption extends to

"units serving lower income households." To qualify, the unit must be occupied by a lower income household (typically a household with a maximum income of 80 percent of Area Median Income). To receive the welfare exemption, a property owner must certify that the property tax savings is necessary to maintain the affordability of the units occupied by lower income households.

- 7) **Bill Summary.** This bill authorizes a city or county to designate one or more districts for the purpose of financing office-to-residential conversion projects with incremental tax revenues generated by the conversion projects. This bill requires that the city or county adopt a resolution of intention to form a district and meet specified criteria regarding commercial office uses and commercial office vacancy rates.

This bill establishes the board membership of a district and requires a district to adopt a financing plan that includes certain information and requirements. Additionally, this bill specifies that the financing plan must include a requirement that the incremental tax revenue be allocated back to the respective project for the purpose of debt service of the project for 30 years or until the district ceases to exist.

Lastly, the district must establish a process for eligible conversion projects to opt into receiving incremental tax revenue allocations, and requires a district to provide a date on which the district will cease to exist, not to exceed 45 years, as specified. The Bay Area Council is the sponsor of this bill.

- 8) **Author's Statement.** According to the author, "In the aftermath of the COVID-19 pandemic, cities are struggling to adjust to decreased foot traffic in their once-thriving downtowns. Fewer people in city centers results in struggling small businesses, declines in transit ridership, and, for many cities, record-breaking rates of empty office buildings. San Francisco has an estimated 32-34% office vacancy rate, San Jose is at 30.7%, and Los Angeles is at 26.2%. Cities urgently need to find creative ways to save their downtowns from a 'doom loop' of economic decline and urban blight.

"AB 2488 gives cities a new tool to adapt to the post-pandemic normal by allowing them to create downtown revitalization districts to help finance the conversion of empty office buildings into new homes. This will solve two problems for California cities; it will provide the foot traffic and transit ridership needed to spur economic recovery in downtowns while also reducing the impacts of California's housing crisis. AB 2488 will empower cities to turn their empty office buildings and struggling downtowns into vibrant, walkable, mixed-use communities with exciting new cultural, social, and economic opportunities."

- 9) **Policy Considerations.** The Committee may wish to consider the following:
- a) **Incentivizing Home Building.** In 2022, HCD found that California needs approximately 2.5 million units of housing, including one million units affordable to lower income households over the next eight years. This would require production of over 300,000 units a year, including over 120,000 units a year of housing affordable to lower income households. The Legislature has adopted many measures to help stimulate the development of housing by providing state funding for direct financial assistance, streamlining permitting and other local processes, or overriding local planning and zoning standards for certain types of projects. It has been a consistent policy of the

Legislature in recent years to include affordability requirements on developments receiving the benefit of financing, streamlining, or other incentives to ensure the state can meet its affordability goals. This bill does not currently require affordable housing to be built in order to receive the benefit of property tax allocations for office-to-residential conversions. In order for the state to continue promoting affordability, the Committee may wish to consider if this bill should require a limited amount of affordability.

- b) **Is Additional Clarity Needed?** The stated intent of this bill is to create a new tool for converting unused office space in struggling downtowns into walkable, mixed-use communities. Property tax is used by local agencies for many purposes, whether it be for infrastructure development or providing the daily services their residents need. The use of property tax increment for incentivizing the adaptive reuse of office buildings is complex and requires a city or county to balance the current needs of their residents with those projects that may provide a public benefit less quickly. In order to ensure that this bill meets the author's intent and limits potential unintended consequences, additional clarity may be needed regarding the following issues:
- i) This bill requires the district financing plan to include a description of the potential office-to-residential conversion projects "and other forms of development." It is not clear what "other forms of development" means. It was noted by the author and sponsors that this is to facilitate mixed-use development. Should a clearer definition of mixed-use development be used to avoid confusion and ensure residential units are built concurrently with the commercial units?
 - ii) This bill says that each individual office-to-residential conversion project shall receive an annual allocation on a pay-go basis in the amount equal to the amount of incremental tax revenues generated by the project for 30 years or until the district ceases to exist. Because a district has a maximum lifespan of 45 years, does this provision potentially allow for a developer to receive a property tax allocation for more than 30 years?
 - iii) This bill does not specify what happens if the property that is receiving a property tax allocation is sold to another owner. Should the property tax allocation be transferred to the new owner?
 - iv) EIFD Law contains a provision ensuring that property taxes that are dedicated to paying off enforceable obligations of a former RDA. This provision is not included in property tax to be used by an EIFD. To ensure the former RDAs are able to continue paying off existing obligations, should this bill contain similar language to that of EIFD law?
 - v) EIFDs and other tax increment financing tools have typically ensured that the property tax that is being utilized is only that of the agencies that agree to participate in the infrastructure financing tool. The sponsors have indicated that it is the intent that a district only use the property tax apportioned to the city or county that creates a district. Additional clarification may be needed to achieve this intent.
 - vi) This bill requires a district to establish a process for eligible office-to-residential conversion projects to opt-in to receiving incremental tax revenue. However, what

happens if a project changes the use or the amount of housing is reduced? Does this bill allow for a district to reconsider the amount of property tax revenue that is to be allocated to a particular project?

- c) **Scope.** The stated intent of this bill is to help provide the foot traffic and transit ridership needed to spur economic recovery in downtowns. However, this bill is not clearly limited to downtown areas and could apply to areas that may not have the transit available to meet the author's intent. The Committee may wish to consider if the scope of this bill should be limited.

10) **Committee Amendments.** In order to address the policy considerations above, and make additional clarifying and technical amendments, the committee may wish to amend the bill as follows:

- a) Limit the bill to the City and County of San Francisco.
- b) Require a district's boundaries to be contiguous with the city and county of San Francisco.
- c) Specify that for the first three million square feet of office-to-residential conversions, in aggregate, there is no affordable housing requirement in this bill.
- d) Provide that after the first three million square feet of office-to-residential conversion, in aggregate, the following affordability requirement shall be met:

62406(b). A requirement that an opted-in taxable property shall not receive a property tax allocation unless it meets one of the following:

1) At least 5% of total units for rent are affordable to very low-income households, as defined in Health and Safety Code Section 50105, or the local inclusionary requirement, whichever is higher, for a minimum of 55 years.

2) At least 10% of total units for rent are affordable to lower income households, as defined in Health and Safety Code Section 50079.5, or the local inclusionary requirement, whichever is higher, for a minimum of 55 years.

3) At least 10% of total units for sale are affordable to households of moderate income, as defined in Health and Safety Code Section 50093, or the local inclusionary requirement, whichever is higher for a minimum of 45 years.

- e) Add a 7-year sunset to the bill's provisions.
- f) Require the City and County of San Francisco issue a report to the legislature detailing the office-to-residential conversion projects conducted under this bill
- g) Include the following amendments to provide additional clarity:

62406. After receipt of a copy of the resolution of intention to establish a district, the official designated pursuant to Section 62405 shall prepare a proposed financing plan. The financing plan shall be consistent with the general plan, and specific plan, if applicable, of the local government within which the district is located and shall include all of the following:

(a) A map and legal description of the proposed district, which may include all or a portion of the district designated by the legislative body in its resolution of intention.

(c) A description of the potential office-to-residential conversion projects and other forms of development that is are proposed in the area of the district, including those to be provided by the private sector, those to be provided by governmental entities without assistance under this division, those public improvements and facilities to be financed with assistance from the proposed district, and those to be provided jointly. A project may be mixed-use, but at least two-thirds of the square footage of the office-residential conversion shall be designated for residential use. Mixed use developments shall be limited to residential and commercial uses.

(d) A requirement that if nonresidential development is included in the development pursuant to this subdivision (c), at least 25 percent of the total planned units affordable to lower income households shall be made available for lease or sale and permitted for use and occupancy before or at the same time with every 25 percent of nonresidential development made available for lease or sale and permitted for use and occupancy.

(e) A finding that the potential office-to-residential conversion projects and financial assistance are of communitywide significance and provide significant benefits to an area larger than the area of the district.

(f) Identification of each existing commercial office building within the district that is eligible for conversion to residential use and that may opt in to receive incremental tax revenue pursuant to this division.

(g) A requirement that the incremental tax revenues generated by each individual office-to-residential conversion project within the district pursuant to this division be allocated back to that project for the purpose of financing the debt service of the project. Each individual office-to-residential conversion project shall receive an annual allocation on a pay-go basis in the amount equal to the amount of incremental tax revenues generated by the project for **a maximum of 30 years** or until the district ceases to exist, **whichever is shorter.**

(h) A requirement that the allocation of incremental tax revenue pursuant to subdivision (g) be allocated back to an office-to-residential conversion project shall begin with the first fiscal year that commences after the qualified adaptive reuse property is issued a certificate of occupancy.

(i) A requirement that if an opted-in taxable property is sold or otherwise transferred to a new property owner, the allocation described in subdivision (e) is also transferred to the new property owner.

(j) A requirement that any incremental tax revenues remaining after the allocation of revenues pursuant to subdivision (g) be allocated to uses supporting downtown revitalization. Once the allocation of revenues has ceased, the tax increment shall be allocated to, and, when collected, shall be apportioned to, the respective local government.

(i) A requirement that local administrative costs to implement this section do not exceed 5 percent of the tax revenues allocated pursuant to the section.

(j) A financing section, which shall contain all of the following information:

(1) A specification of the maximum portion of the incremental tax revenue of the local government proposed to be committed to the district for each year during which the district will receive incremental tax revenue. **The portion need not be the same for all affected taxing entities.** The portion may change over time.

62407. (b) Notwithstanding subdivision (a), where any district boundaries overlap with the boundaries of any former redevelopment project area, any debt or obligation of a district shall be subordinate to any and all enforceable obligations of the former redevelopment agency, as approved by the Oversight Board and the Department of Finance. For the purposes of this division, the division of taxes allocated to the district pursuant to subdivision (a) of this section shall not include any taxes required to be deposited by the county auditor-controller into the Redevelopment Property Tax Trust Fund created pursuant to subdivision (b) of Section 34170.5 of the Health and Safety Code.

64207. (d) The downtown revitalization financing plan shall not divide revenues that are allocated to other taxing agencies that are not part of the local government that established the downtown revitalization and economic recovery financing district.

62409. (a) (1) After the adoption of the downtown revitalization financing plan, the district shall establish a process for eligible office-to-residential conversion projects identified pursuant to subdivision (d) of Section 62406 to opt into receiving incremental tax revenue pursuant to this division. A district shall establish a process to reconsider the amount of incremental tax revenue to be allocated to a project if there is a change in use or the change in the square footage of office space converted to housing planned to be built.

Due to timing constraints, these amendments should be adopted in the Housing and Community Development Committee.

- 11) **Arguments in Support.** According to the Bay Area Council, sponsors of the bill, “The COVID-19 pandemic resulted in tragic losses of human life and disrupted everyday activities in ways that we are still struggling to adapt to years later. One of these changes is the increase of remote and hybrid work. As of November 2023, 14% of Californians still worked entirely remotely, and 21% had hybrid schedules. In some parts of the state, like the Bay Area, the percentage of remote and hybrid workers is even higher.

“Remote work offers many positive benefits to workers and the environment, but it has also resulted in undesirable consequences for urban centers. Millions of square feet of office buildings are now sitting empty in California. Silicon Valley ended 2023 with over 25% of its office spaces vacant, and Southern California had an office vacancy rate of over 20%. In downtown Los Angeles, there is a 26% office vacancy rate, and San Francisco has a record-breaking 36.7% vacancy rate. Transit systems have also suffered with many Bay Area transit operators seeing less than 50% of their prep-pandemic ridership. This crisis has left cities with an urgent need to find creative ways to save their downtowns from a ‘doom loop’ of economic decline and urban blight.

“AB 2488 offers an exciting solution to this challenge and addresses two problems at once: 1) it will replace the foot traffic lost due to remote work and generate new kinds of economic activity in city centers, and 2) it will lessen the longstanding housing supply shortage in big cities. Office-to-residential (OTR) conversions promise to build highly desirable, mixed-use neighborhoods with both economic and cultural vitality. New housing increases transit ridership and increases demand for new entrepreneurial endeavors, including restaurants, shopping, and nightlife.”

12) **Arguments in Opposition.** None on file.

13) **Double-Referral.** This bill is double-referred to the Assembly Committee on Housing and Community Development.

REGISTERED SUPPORT / OPPOSITION:

Support

Bay Area Council [SPONSOR]
Advance SF
Build Group
Building Owners and Managers Association, San Francisco
California Apartment Association
California Travel Association
East Bay YIMBY
Emerald Fund
Grow the Richmond
Housing Action Coalition
Metrovation, LLC
Mountain View YIMBY
Napa-Solano for Everyone
Northern Neighbors
Peninsula for Everyone
Plant Construction
Presidio Bay Ventures
Progress Noe Valley
San Francisco Bay Area Planning and Urban Research Association (SPUR)
San Francisco Chamber of Commerce
San Francisco YIMBY
San Luis Obispo YIMBY
Santa Cruz YIMBY
Santa Rosa YIMBY
SKS Partners
South Bay YIMBY
Southside Forward
Streets for People
Tishman Speyer Properties
TMG Partners
Union Square Alliance
Urban Environmentalists
Ventura County YIMBY
Webcore Builders
YIMBY Action

Opposition

None on file

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