

Date of Hearing: April 23, 2025

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Juan Carrillo, Chair

AB 1445 (Haney) – As Amended March 28, 2025

SUBJECT: Downtown revitalization and economic recovery financing districts.

SUMMARY: Authorizes any city or county to establish a downtown revitalization and economic recovery financing district (district). Specifically, **this bill**:

- 1) Defines “local government” to mean a city, county, or city and county, whether general law or chartered.
- 2) Defines “legislative body” to mean the city council or board of supervisors of a local government.
- 3) Authorizes a local body of a local government to establish a district. 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 enumerated in existing law governing the authorization for the City and County of San Francisco to create a district, and describe the boundaries of the proposed district, which may be accomplished by reference to a map on file in the office of the recorder of the county.
 - b) State the need for the district and the goals the district proposes to achieve.
 - c) State that incremental property tax revenue generated by investment in the commercial-to-residential conversion project from the local government will be used to finance these activities.
 - d) Fix a time and place for a public hearing by the legislative body on the proposed downtown revitalization financing plan (plan). The legislative body shall hold the public hearing before the district board’s third public hearing, as specified. After the Board of Supervisors public hearing, the legislative body may approve or reject the proposed plan.
- 4) Makes numerous conforming changes.

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 issues 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.

Lastly, AB 2488 (Ting), Chapter 274, Statutes of 2024, authorized the City and County of San Francisco to create a district for the purpose of commercial-residential conversion projects

- 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 Terner 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.

The Legislature has also enacted other policies to facilitate the conversion of commercial properties into housing. This includes:

- a) SB 6 (Caballero, 2022) which enacted the Middle Class Housing Act of 2022, which established housing as an allowable use on any parcel zoned for office or retail uses.
 - b) AB 2011 (Wicks, 2022) established a streamlined, ministerial approval process, not subject to the California Environmental Quality Act (CEQA), for certain infill multifamily affordable housing projects that are located on land that is zoned for retail, office, or parking.
- 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 Revenue & Taxation Code Section 214.

AB 2144 (Filante), Chapter 1469, Statutes of 1987, amended R&TC Section 214 to also provide a welfare exemption for low-income housing developments operated by non-profit organizations. As noted in the Senate Revenue and Taxation Committee analysis of AB 2144's, the bill'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) **AB 2488 (Ting) of 2024.** AB 2488 (Ting), Chapter 274, Statutes of 2024 allowed San Francisco to establish a district, but placed many provisions restricting its use. AB 2488 did not grant a district access to a share of property tax increment like other tax increment financing tools as EIFDs or CRIAs, which capture property tax prior to projects being built. Instead, it takes increment generated by a specific project and returns it to the project's owner, rather than allowing those funds to flow to San Francisco's general fund. Among its many provisions, AB 2488 specified the following:
- a) Allowed San Francisco to create a district to finance commercial-to-residential conversion projects with incremental tax revenues generated by commercial-to-residential conversion projects and outline the districts: formation process, governance structure, powers, financing plan, payment mechanics, affordability requirements, labor standards, and accountability measures.
 - b) Allowed the San Francisco Board of Supervisors to form a district by adopting a resolution that:
 - i) States the intent to form a district.
 - ii) Describes the district's boundaries, which must be limited to specified areas of downtown San Francisco.
 - iii) States the need for, and the goals of, the district.
 - iv) States the district will use incremental property tax revenue to finance these activities.
 - v) Fixes a time and place for a public hearing on the proposed financing plan. At the hearing, the Board of Supervisors can approve or deny the financing plan.
 - c) Allowed the district to use incremental property tax revenues generated by commercial-to-residential conversion projects that opt into the district.
 - d) Required the district to create a financing plan it must approve at three public hearings regarding the plan. The first meeting is for the district to present the financing plan, answer public questions, and consider public comments. The second meeting is to consider public comments and take action to approve, modify, or reject the financing plan. The third meeting is to adopt a resolution or enact a resolution to approve the plan and create the district, provided the Board of Supervisors approved the plan at its meeting. The district must meet specified noticing requirements for these meetings.
 - e) Required the financing plan to comply with specified conditions and outlines certain actions the district will take. The conditions and actions outlined AB 2488 included obligations that the financing plan:
 - i) Include a map and legal description of the proposed district.
 - ii) Describe the potential commercial-to-residential conversion projects in the district. Eligible projects can be mixed-use, but must dedicate at least 60% of the square

- footage for residential use.
- iii) Require each project that includes nonresidential development to develop residential and nonresidential portions of the development concurrently, as specified.
 - iv) Require the incremental tax revenues generated by each individual commercial-to-residential conversion project be distributed back to that same project to finance necessary development costs of the project. The amount a project receives cannot be greater than the incremental tax revenues generated by that same project for a period no greater than 30 years or until the district ceases to exist. This amount is limited to the incremental tax revenues generated by residential use in the project as specified.
 - v) Require that distributions transfer to the new property owner if the project is sold.
 - vi) Include a date when the district ceases to exist no more than 45 years from the date the district distributes funding to the first project.
 - vii) Analyze the cost to San Francisco to provide facilities and services to the area of the district before and after its development, which must include an analysis of the tax, fee, charge, and other revenues San Francisco expects to receive in the area of the district.
 - viii) Require, if a project proposes to remove or demolish any residential units, a plan to protect or replace those units, and relocate residents consistent with existing law.
 - ix) Prohibit the district from receiving property tax increment that would go to other taxing entities.
 - f) Required the district to create a process for projects to opt in to district. After a project opts in, the district must determine whether the project meets the district's requirements. If the project does not meet the district's requirements or there is not enough room under the required cap on total incremental revenues the district receives, then the district must not start distributing funds to the project.
 - g) Provided that no affordability requirements apply to the first 1.5 million square feet of opted-in commercial-to-residential conversion projects. After the first 1.5 million square feet are developed, projects must comply with one of the following affordability requirements:
 - i) At least 5% of total units for rent are affordable to very low-income households or the local inclusionary requirement, whichever is higher.
 - ii) At least 10% of total units for rent are affordable to lower- income households or the local inclusionary requirement whichever is higher.
 - iii) At least 10% of total units for sale are affordable to moderate-income households, or the local inclusionary requirement, whichever is higher.

- h) Commercial-to-residential projects that opt in to receive funding are considered public works and must pay prevailing wage. These projects must also comply with labor standards adopted by the Board of Supervisors. If the Board of Supervisors does not adopt labor standards, then the project cannot receive incremental tax revenue or net available revenue.
- i) Required the district to take the following actions related to annual reports:
 - i) Hold an annual public hearing.
 - ii) Adopt an annual report on or before June 30th each year that includes specified information on the annual actions of the district.
 - iii) Make written copies of the draft annual report available to the public 30 days before the public hearing.
 - iv) Post the draft annual report on the district's website.
 - v) If the district fails to adopt the annual report by June 30th, the district shall not allow for any additional projects to opt into receiving funds from the district.
- j) Every ten years, the district must consider whether the statutory requirements of the district continue to be met, or whether amendments to the district's financing plan are needed.

A district has not been established by San Francisco as of this date.

- 8) **Bill Summary and Author's Statement.** This bill allows cities and counties to establish a district and requires these districts to follow almost all of the same requirements that San Francisco must follow when establishing a district. The author is the sponsor of this bill.

According to the author, "As a result from the sharp decline in return-to-office rates during the Covid-19 pandemic, and subsequent suburban sprawl patterns, many of California's downtowns are failing to return to pre-pandemic rates of visitation, revenue-generating dollars, and foot traffic. Office vacancy rates in cities across the state continue to hover around 30 percent, while commercial property values are in a sharp decline.

"While there has been interest in converting office spaces into mixed-use housing, many developers are unable to actually carry out conversions due to costly, but necessary, upgrades and structural changes to allow for housing to be built. AB 1445 would provide necessary tools to support the creation of affordable, mixed-use housing on former commercial spaces in downtowns across California, giving way to increased foot traffic and sustainable downtown neighborhoods. By allowing cities to opt into a tax increment financing model, AB 1445 will provide much-needed financing for office-to-housing conversions.

"At a time when cities across the state face budget shortfalls, we cannot afford to allow our downtowns, the main cultural, economic, and revenue-generating districts of California's cities, to crumble."

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. As in AB 2488, this bill allows all cities and counties to convert 1.5 million square feet of commercial building space prior to being subject to the existing affordable housing requirements. This means the public could be subsidizing the construction of projects that are at least 90% market rate units for as many as 30 years.

The author of AB 2488 noted that San Francisco had an estimated 32-34% office vacancy rate and tens of millions of square feet of vacant office space. However, the challenges that San Francisco faces may not be present in every city and county. In light of the differing commercial vacancy conditions from community to community and the existing affordability requirements that apply to San Francisco, the Committee may wish to consider if this authority should be expanded to include the entire state.

- b) **Scope.** The stated intent of AB 2488 was to help provide the foot traffic and transit ridership needed to spur economic recovery in downtowns. However, this bill does not currently limit cities and counties to providing property tax incentives in downtown areas, potentially applying to areas that may not have high commercial building vacancy rates or transit services readily available. The Committee may wish to consider if the areas where commercial-to-residential conversion project that could benefit from this bill should be limited.
- c) **Too Soon?** AB 2488 was a departure from other existing tools that provide a property tax incentive or that use property tax revenue as a means for building projects that may otherwise not be built. However, AB 2488 just recently became law. Considering San Francisco has yet to establish a district, adopt a plan, and successfully spur the conversion of a commercial building into residences, the Committee may wish to consider if expanding the ability to establish a district statewide is premature.
- d) **Labor Provisions.** AB 2488 contained provisions that require San Francisco to adopt labor standards that commercial-to-residential projects must meet. AB 2488 also made clear that if San Francisco does not adopt these labor standards, a commercial-to-residential conversion project must not receive the property tax incentive. These labor standards are to be the same as projects specifically funded by the Bay Area Housing Finance Authority (BAHFA). As currently drafted, the same labor standards that apply to

BAHFA would likely apply statewide to commercial-to-residential projects receiving the property tax incentive this bill allows. BAHFA's labor standards may not be appropriate for every city and county. The author may wish to consider future amendments that provide for the adoption of different labor standards that align with local policies.

- 10) **Committee Amendments.** In order to respond to some of the policy considerations above, the Committee may wish to consider the following amendments:

62450 (o) "Transit priority area" means the same as defined in paragraph (7) of subdivision (a) of Section 21099 of the Public Resources Code.

62451.5. The legislative body of a local government, **except the city and county of San Francisco,** may establish **a one** downtown revitalization and economic recovery financing district pursuant to this division. 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 division and describe the boundaries of the proposed district, which may be accomplished by reference to a map on file in the office of the recorder of the county.
- (b) **The district may only finance commercial-to residential conversion projects that meet the three following requirements:**
 - (1) At least 75 percent of the perimeter of the site of the development adjoins parcels that are developed with urban uses. For the purposes of this section, parcels that are only separated by a street or highway shall be considered to be adjoined.**
 - (2) Is located within an area where the commercial office building vacancy rate is 20 percent or greater.**
 - (3) Is located within a transit priority area.**

~~(b)~~ **(c)** State the need for the district and the goals the district proposes to achieve.

~~(e)~~ **(d)** State that incremental property tax revenue generated by investment in the commercial-to-residential conversion project from the local government will be used to finance these activities.

~~(d)~~ **(e)** Fix a time and place for a public hearing by the legislative body on the proposed downtown revitalization financing plan. The legislative body shall hold the public hearing before the district board's third public hearing, described in subdivision (d) of Section 62458. After the Board of Supervisors public hearing, the legislative body may approve or reject the proposed downtown revitalization financing plan.

- 11) **Arguments in Support.** According to the California Travel Association, "Due to the sharp decline in return-to-office rates during COVID, and suburban sprawl, many of California's downtowns are failing to return to pre-pandemic rates of visitation and revenue-generating activity. Office vacancy rates in cities across the state continue to hover around 30 percent, and commercial property values are in a sharp decline—all while California faces economic uncertainty. AB 1445 would provide necessary tools to support the creation of affordable, mixed-use housing on former commercial spaces in downtowns across California.

“At a time when cities across the state face budget shortfalls, we cannot afford to allow our downtowns—the main cultural, economic, and revenue-generating districts of California’s cities—to crumble. AB 1445 will help fund key projects that will revitalize California’s downtowns by capturing property tax increases in downtown areas that are most in need of economic support.”

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

Abundant Housing LA
California Apartment Association
California Travel Association
Circulate San Diego
Housing Action Coalition
Housing Trust Silicon Valley
Kosmont Companies
SPUR

Opposition

None on file

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