

Date of Hearing: April 3, 2019

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT
Cecilia Aguiar-Curry, Chair
AB 411 (Mark Stone) – As Amended March 27, 2019

SUBJECT: Redevelopment: City of Santa Cruz: bond proceeds: affordable housing.

SUMMARY: Authorizes the City of Santa Cruz to use Redevelopment Agency (RDA) bond proceeds for affordable housing and homelessness purposes. Specifically, **this bill:**

- 1) Authorizes the City of Santa Cruz to use bond proceeds that are required to be used to defease bonds issued by the former RDA, to increase, improve, and preserve affordable housing and facilities for homeless persons, so long as those proceeds are used in a manner consistent with any original bond covenant.
- 2) Specifies that the bond proceeds shall be expended as follows:
 - a) Up to 10% of the bond proceeds may be used for affordable housing for persons or families of moderate income; and,
 - b) The remainder of the bond proceeds shall be expended consistent with the requirements of the Low and Moderate Income Asset Fund.
- 3) Provides that if the City of Santa Cruz uses remaining bond proceeds for affordable housing and facilities for homeless persons, then the Last and Final Recognized Obligation Payment Schedule (ROPs) must be adjusted to allow for the allocation of revenues from the Redevelopment Property Tax Trust Fund (RPTTF) to the successor agency of the City of Santa Cruz for purposes of paying down principal and interest on the bonds.
- 4) Defines “affordable housing” to mean housing available to very-low, low-, and moderate-income households at an affordable cost.
- 5) Defines “affordable housing cost” to mean households that pay no more than a specified amount of their income toward housing costs.

EXISTING LAW:

- 1) Requires bond proceeds derived from bonds issued on or before December 31, 2010, in excess of the amounts needed to satisfy approved enforceable obligations to be expended in a manner consistent with the original bond covenants. Any bond funds that cannot be spent consistent with the original bond covenants must be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation.
- 2) Allows successor agencies to RDAs that have received a finding of completion from the Department of Finance (DOF) to use some of the bond proceeds from bonds sold after January 1, 2011, as follows:
 - a) No more than 5% of the proceeds may be expended, unless the successor agency meets the following criteria:

- i) If the successor agency has an approved Last and Final ROPS, the agency may expend no more than 20% of the proceeds; and,
- ii) Creates a process that the earlier the bonds were issued in 2011, the more the successor agency is able to expend, ranging from 25% to 45%.

FISCAL EFFECT: This bill is keyed fiscal.

COMMENTS:

- 1) **Redevelopment.** From the early 1950s until they were dissolved in 2011, California RDAs used property tax increment financing to pay for economic development projects in “blighted” areas pursuant to the provisions of the Community Redevelopment Law. 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.

Citing a significant State General Fund deficit, Governor Brown’s 2011-12 budget proposed eliminating RDAs and returning billions of dollars of property tax revenues to schools, cities, and counties to fund core services. Among the statutory changes that the Legislature adopted to implement the 2011-12 budget, AB X1 26 (Blumenfield, 2011) dissolved all RDAs. The California Supreme Court’s 2011 ruling in *California Redevelopment Association v. Matosantos* upheld AB X1 26, but invalidated AB X1 27 (Blumenfield, 2011), which would have allowed most RDAs to avoid dissolution. Dissolution removed the primary tool local governments used to eliminate physical and economic blight, finance new construction, improve public infrastructure, rehabilitate existing buildings, and increase the supply of affordable housing.

- 2) **Dissolution.** To oversee the dissolution of RDAs, the Legislature established successor agencies. The successor agencies were tasked with managing the RDA’s assets and enforceable obligations, which include outstanding bonds, contracts, and loans, among others. The property tax revenue that would have gone to the RDA is deposited into the RPTTF and are prioritized to first pay off any of these enforceable obligations. Any remaining property tax revenue that is not spent on meeting the enforceable obligations is returned to cities, counties, special districts, and school districts.

Each successor agency was required to review the RDA’s outstanding assets and obligations and develop a plan to meet those obligations. This plan, which is submitted to the DOF, is

known as a ROPs. The DOF must review and agree to the successor agency's plan, and, if approved, issues a finding of completion.

- 3) **Bonds.** Many redevelopment agencies issued bonds before the dissolution took effect and ended their ability to issue new debt. The Legislature established a process for using these bond proceeds. For bonds issued on or before December 31, 2010, proceeds in excess of the amounts needed to satisfy enforceable obligations first have to be spent in accordance with the original bond covenants. If there are bond proceeds in excess of this amount, successor agencies have to use these proceeds at the earliest possible date to defease the bond, or purchase outstanding bonds for cancellation. For bonds issued after January 1, 2011, successor agencies have to use bond proceeds in excess of the amounts needed to satisfy enforceable obligations consistent with original bond covenants, but have some leeway in how they use those excess proceeds.
- 4) **Bill Summary and Author's Statement.** This bill would allow the City of Santa Cruz to use RDA bond proceeds for the purposes of increasing, improving, and preserving affordable housing and facilities for homeless persons. This bill also provides definitions to limit the type of projects in which the bond proceeds can be spent. The author is the sponsor of this bill.

According to the author, "Like many cities across the state, Santa Cruz is facing a severe housing shortage. A 2017 report found that Santa Cruz is one of the least affordable areas in the nation and an individual working full-time would need to make \$35.15 an hour, or more than three times the minimum wage, in order to be able to afford rent at a 2-bedroom apartment at market rate. AB 411 will lift the 35% cap that currently prevents the City of Santa Cruz from expending the remainder of its 2011 redevelopment bond proceeds. Without the state-imposed limit on using redevelopment bond proceeds, the City of Santa Cruz would have access to an additional \$16 million for affordable housing and facilities for individuals experiencing homelessness. AB 411 represents a commonsense measure that will help the City move forward in its efforts to expand affordable housing and provide facilities for individuals experiencing homelessness."

- 5) **Policy Consideration.** As successor agencies work to meet the enforceable obligations, property tax revenues are returning to the local agencies that used to go to the RDA. The property tax revenue used to issue these bonds came not just from the successor agency, which is the city in many cases, but also the county, and special districts. This bill would allow the successor agency to use the property tax revenue for affordable housing, rather than defeasing or cancelling the bonds so that property tax revenue currently flowing to the successor agency can instead go back to all local agencies to support other local services. Giving the Santa Cruz successor agency the authority to use the bond proceeds may ultimately increase the amount of time it takes to dissolve the RDA. The committee may wish to consider whether allowing the successor agency to fund affordable housing is more urgent than supporting other infrastructure development and service provision of the affected agencies.
- 6) **Arguments in Support:** Supporters argue that this bill, "Will allow the City's Redevelopment Successor Agency to complete affordable housing projects previously planned before the dissolution of Redevelopment Agencies. In addition, AB 411 will allow the City to fund much-needed facilities to address the City's homelessness crisis. Across the

state, the shortage of affordable housing has reached crisis proportions. Since the dissolution of Redevelopment Agencies, jurisdictions have struggled to find immediate funding for the creation and preservation of affordable housing units. Santa Cruz has been cited as one of the least affordable housing markets in the nation. The proposed legislation is one additional step that the State can take to assist addressing this problem in a highly impacted community.”

- 7) **Arguments in Opposition:** None on file.
- 8) **Double Referral.** This bill was heard by the Housing and Community Development Committee on March 27, 2019, and passed with a 6-0 vote.

REGISTERED SUPPORT / OPPOSITION:

Support

Affordable Housing NOW
City of Santa Cruz
Democratic Club of North Santa Cruz County
Downtown Management Corporation

Opposition

None on file

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