

Date of Hearing: July 3, 2019

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT  
Cecilia Aguiar-Curry, Chair  
SB 532 (Portantino) – As Amended June 24, 2019

**SENATE VOTE:** 32-4

**SUBJECT:** Redevelopment: City of Glendale: bond proceeds: affordable housing.

**SUMMARY:** Authorizes the City of Glendale to use remaining redevelopment agency (RDA) bond proceeds for affordable housing. Specifically, **this bill:**

- 1) Allows the successor agency in the City of Glendale to use remaining bond proceeds for the purposes of predevelopment, development, acquisition, rehabilitation, and preservation of affordable housing.
- 2) Provides that if the City of Glendale uses remaining bond proceeds for affordable housing, the Last and Final Recognized Obligation Payment Schedule (ROPs) shall 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 Glendale to pay down principal and interest on the bonds.
- 3) Requires any affordable housing units that are demolished as a result of the remaining bond proceeds to be replaced.
- 4) Defines “affordable housing” to mean housing available to very low, low, and moderate income households at an affordable cost.
- 5) Defines “affordable cost” to mean households pay no more than 30% of their income toward housing costs.
- 6) Defines “equivalent size” to mean that the replacement units contain at least the same total number of bedrooms as the units being replaced.
- 7) Specifies that “replace those units” means to provide at least the same number of units of equivalent size to be made available at affordable housing cost to, and occupied by, persons and families in the same or lower income category as those households in occupancy. If the income category of the household in occupancy is not known, it shall be rebuttably presumed that lower income households occupied these units in the same proportion of lower income households to all households within the jurisdiction, as determined by the most recently available data from the United States Department of Housing and Urban Development’s Comprehensive Housing Affordability Strategy database.
- 8) Requires the remaining bond proceeds to be spent to finance 100% affordable housing developments.
- 9) Contains legislative findings and declarations to support its purposes.

**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:** According to the Senate Appropriations Committee, this bill contains:

- 1) Estimated increased General Fund expenditures of approximately \$11.4 million over a period of years until the existing RDA bonds mature, assuming the City of Glendale's successor agency spends approximately \$28 million in available bond proceeds for affordable housing purposes, rather than defeasing or cancelling the bonds.
- 2) Staff notes that 40.59% of property tax revenues in Los Angeles County are allocated to school entities. This bill allows for continued debt service payments on Glendale's RDA bonds that were issued in 2011 from tax increment that would otherwise be redistributed to taxing entities, including schools, if the bonds were defeased or cancelled. The General Fund must generally backfill any amounts that would otherwise go to schools under Proposition 98's minimum funding guarantees.

**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 RDAs 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 allows the successor agency in the City of Glendale to use remaining bond proceeds for the purposes of predevelopment, development, acquisition, rehabilitation, and preservation of affordable housing. This bill also specifies the type of projects on which the bond proceeds can be spent. The City of Glendale is the sponsor of this bill.

According to the author, "Legislative action is needed for repurposing millions of dollars of stranded redevelopment bond funds for development of much needed affordable housing in Glendale. Prior to redevelopment dissolution, Glendale's former RDA floated \$50 million in bonds for affordable housing and redevelopment purposes. Current law only allows

Glendale to use approximately \$8.7 million affordable housing and approximately \$12.3 of non-housing bond proceeds for redevelopment purposes, and current law will force Glendale to defease the remaining approximate \$28 million that could otherwise be used immediately for affordable housing. Since the redevelopment dissolution in 2012, Glendale has lost approximately \$72 million in low and moderate income housing set aside monies. This bill will help offset this loss and provide immediate access to much needed funding for affordable housing.”

- 5) **Related Legislation and Chaptering Issues.** AB 411 (Stone) authorizes the City of Santa Cruz to use RDA bond proceeds for affordable housing and homelessness purposes. Because this bill and AB 411 amend the same code section (Health and Safety Code Section 34191.4), the authors of these measures will need to address chaptering issues should the bills continue to progress through the legislative process.
- 6) **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 Glendale 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.
- 7) **Arguments in Support:** Supporters argue, “Successor agencies should be allowed to expend surplus bond funds for new affordable housing development. As California struggles to provide an adequate supply of affordable housing, SB 532 will be extremely helpful by authorizing funds that can be used for more affordable housing construction in Glendale.”
- 8) **Arguments in Opposition:** Opponents argue that, “Affordable housing needs to be addressed but we do not believe that the methods created under SB 532 (Portantino) would do so in a way that would protect its local schools from unintentional harm should the state be in a position where it would not be able to backfill the local property taxes that they rely upon. Should California face another recession, this measure would harm local schools by leaving them fiscally vulnerable to jeopardizing the most stable source of revenue they would receive should Proposition 98 be suspended.”
- 9) **Double Referral.** This bill was heard by the Housing and Community Development Committee on June 19, 2019, and passed with an 8-0 vote.

**REGISTERED SUPPORT / OPPOSITION:**

**Support**

City of Glendale [SPONSOR]

California Apartment Association

National Association of Housing and Redevelopment Officials, Southern California Chapter

Southern California Association of NonProfit Housing

**Opposition**

California Association of Retired Teachers

California Teachers Association

Coalition for Adequate School Housing

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