

Date of Hearing: June 21, 2023

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Cecilia Aguiar-Curry, Chair

SB 593 (Wiener) – As Amended March 21, 2023

**SENATE VOTE:** 35-2

**SUBJECT:** Redevelopment: successor agency debt: City and County of San Francisco.

**SUMMARY:** Allows the successor agency of the Redevelopment Agency of the City and County of San Francisco (SFRDA) to finance certain affordable housing projects. Specifically, **this bill:**

- 1) Authorizes the successor agency to the SFRDA to issue bonds or incur indebtedness to finance the replacement of up to 5,842 units of affordable housing to satisfy the replacement housing obligation of the SFRDA as described in existing law and subsequently certified by the Department of Housing and Community Development (HCD).
- 2) Specifies that to satisfy the replacement housing obligation and reduce the outstanding balance of units to be replaced, the successor agency to the SFRDA may assist housing projects previously assisted by the SFRDA where the project's affordability restrictions have expired, or are at risk of expiration, provided that any successor agency assistance shall be conditioned on the requirement that the assisted units remain affordable to, and occupied by, persons and families of low-, moderate-, extremely low, and very low income households for the longest feasible time, but not less than 55 years for rental units and 45 years for owner-occupied units.
- 3) Provides that, for purposes of financing the replacement housing obligation, the successor agency to the SFRDA may pledge to the bonds or other indebtedness issued, incurred, or entered into by the successor agency to the SFRDA the property tax revenues available in the Redevelopment Property Tax Trust Fund (RPTTF) to the extent the property tax revenues represent the amount of revenues on deposit in the RPTTF that otherwise would have been distributed to the City and County of San Francisco, as specified.
- 4) Requires the property tax revenues allocated to the successor agency for the replacement housing obligation to not include any moneys that, notwithstanding the replacement housing obligation, are payable to local agencies other than the City and County of San Francisco, school districts that maintain kindergarten and grades 1 to 12, inclusive, community college districts, or the Educational Revenue Augmentation Fund.
- 5) Provides that a bond or other indebtedness issued, incurred, or entered into pursuant to 1) above shall be secured by a pledge of, and lien on, and shall be repaid from, moneys deposited in the RPTTF only to the extent the moneys represent the amount of moneys on deposit in the RPTTF that otherwise would have been distributed to the City and County of San Francisco pursuant to existing law. Property tax revenues pledged to any bonds or other indebtedness obligations authorized by this provision are taxes allocated to the successor agency pursuant to existing law.
- 6) Makes additional technical and conforming changes.

- 7) Finds and declares that a special statute is necessary and that a general statute cannot be made applicable because of the unique circumstances relating to the replacement of affordable housing demolished by the former SFRDA. Contains numerous other findings and declarations to support its purposes.

**FISCAL EFFECT:** None.

**COMMENTS:**

- 1) **Bill Summary and Author's Statement.** This bill expands the list of projects for which the successor agency of the SFRDA can issue bonds or incur other indebtedness by adding the replacement of up to 5,842 affordable housing units to satisfy the SFRDA's replacement housing obligation. The City and County of San Francisco and Freedom West Homes are the sponsors of this bill.

According to the author, "Decades after the injustice of redevelopment, San Francisco is still in desperate need of housing. The urban renewal process from the 1950s contributed to the crisis of affordable housing costs that continues to make the City unlivable for so many. SB 593 will allow the Successor Agency to the Redevelopment Agency of the City and County of San Francisco to replace all of the housing units demolished prior to 1976 as well as preserve affordability of the replacement housing built in the 1970s. This legislation will provide a narrow and tailored funding source through the Redevelopment Property Tax Trust Fund, a limited continuance of specific tax increment financing powers that will not impact the General Fund. SB 593 sets San Francisco on a path to right this wrong and meet its affordable housing goals."

- 2) **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 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 that would have received those funds absent the formation of the RDA. After the bonds have been fully repaid using the incremental property tax revenues, the RDA 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. RDAs were required to set-

aside approximately 20% of funding generated in a project area to increase the supply of low and moderate income housing in the project areas [AB 3674 (Montoya), Chapter 1337, Statutes of 1976]. At the time of dissolution, over 400 RDAs statewide were diverting roughly 12% of property taxes, over \$5.6 billion yearly.

In 1975, the Legislature amended RDA law to require RDAs to replace low- or moderate-income housing units destroyed or removed as part of their previous projects [AB 1018 Sieroty), Chapter 970, Statutes of 1975]. In response to criticism that some redevelopment projects seemed to continue without end, the Legislature required local officials to limit the length of time during which redevelopment plans remained in effect, RDAs could issue debt, and property tax increment could be diverted to RDAs [AB 1290 (Isenberg), Chapter 942, Statutes of 1993].

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.

- 3) **RDA Dissolution.** ABX1 26 established successor agencies to manage the process of unwinding former RDA affairs, generally prohibited RDAs from incurring new or expanding existing monetary or legal obligations, and removed the authority for RDAs to engage in most activities except continuing to pay off enforceable obligations. With the exception of seven cities, the city or county that created each former RDA now serves as that RDA's successor agency. One of a successor agency's primary responsibilities is to make payments for the enforceable obligations RDAs entered into. These payments are supported by property tax revenues that would have gone to RDAs, but are instead deposited in the RPTTF. Enforceable obligations include bonds, bond-related payments, some loans, payments required by the federal government, obligations to the state or imposed by state law, payments to RDA employees, judgements or settlements, and other legally binding and enforceable agreements or contracts. Any remaining property tax revenues that exceed these enforceable obligations return to cities, counties, special districts, and school and community college districts to support core services.

Each successor agency has an oversight board responsible for supervising and approving its actions. The Department of Finance (DOF) can review and request reconsideration of an oversight board's decision. Once a successor agency takes over for an RDA, it reviews the RDA's outstanding assets and obligations, and develops a plan to resolve those obligations, also known as a Recognized Obligation Payment Schedule (ROPS). To obtain required DOF approval, a successor agency submits a series of ROPS to DOF. If DOF agrees with the plan, it issues a Finding of Completion acknowledging their progress towards paying off their obligations. Successor agencies issued a Finding of Completion can submit a Last and Final ROPS, meaning that (1) the remaining debt is limited to administrative costs and payments pursuant to enforceable obligations with defined payment schedules, (2) all remaining

obligations have been previously listed on the ROPS and approved by DOF, and (3) the agency is not a party to outstanding or unresolved litigation. Successor agencies had until December 31, 2015 to receive their Finding of Completion from DOF. RDA dissolution law states that successor agencies that did not receive their Finding of Completion by this date, or did not enter into a written installment payment plan with DOF, were to never receive a Finding of Completion. Approximately nine successor agencies did not receive a Finding of Completion by the deadline.

- 4) **San Francisco's RDA.** SFRDA completed various redevelopment projects dating back to the 1960s. In 2003, the Department of Housing and Community Development (HCD) determined that San Francisco's RDA demolished 14,207 affordable housing units and replaced only 7,498 units, certifying a net loss of 6,709 units. Under AB 1018 of 1975, the City had to replace the remaining units. However, RDA law limited the effectiveness to 40 years after the redevelopment plan's adoption or 2009, whichever is later. Therefore, the City could not incur new debt to finance this replacement housing obligation.

SB 2113 (Burton) Chapter 661, Statutes of 2000, granted San Francisco until January 1, 2014, or until the agency replaces all the housing units demolished, to incur debt to replace the demolished affordable housing units. It also gave the RDA until 2044 to repay this indebtedness. Prior to RDA dissolution in 2011, San Francisco had only developed 867 of the 6,709 units, and this outstanding balance of 5,842 units remains. Following RDA dissolution, DOF did not find that these replacement-housing projects met the definition of enforceable obligations.

In 2015, the Legislature passed, and the Governor signed, SB 107 (Committee on Budget and Fiscal Review), Chapter 325, Statutes of 2015, which authorized San Francisco's successor agency to issue bonds and incur debt for other projects using RPTTF, including housing projects in Mission Bay, Hunters Point, and pursuant to the Transbay Implementation Agreement, but did not include projects to satisfy the replacement housing obligation. Using RPTTF to fund these projects extended the expected lifespan of the successor agency until 2058. Like its obligations under dissolution law, the successor agency must receive approval for these projects from its oversight board and DOF.

- 5) **San Francisco Housing.** According to the findings and declarations provided in the bill, "The San Francisco residential real estate market is one of the most expensive in the United States. In September 2022, RealtyHop reported that the median-priced home in San Francisco was \$1,388,500. A household earning the city's median household income of \$126,117 would have to spend almost 67 percent of its yearly income to afford the median priced home. While the national home ownership rate is approximately 64 percent, only approximately 36 percent of San Franciscans own their own home. The majority of market-rate homes for sale in San Francisco are priced out of the reach of low- and moderate-income households. In 2022, the average rent was \$3,340, which is affordable to households earning over \$133,600. The Black population of San Francisco, with a median household income of less than \$35,000 has little chance of being able to purchase or rent a home in the city. These factors contribute to a heavy demand for affordable housing in the city that the private market cannot meet."

San Francisco's 2022 housing element was adopted by the Board of Supervisors on January 31, 2023, and the Governor announced its certification on February 1, 2023. According to San Francisco, it has an unmet housing need at every income level and the housing element calls for the creation of more than 82,000 units within the city with approximately 46,000 of these units targeted to extremely low- and moderate-income households. The housing element estimates that meeting these housing goals will require a range of additional investments for affordable housing from between \$1.3 billion in 2023 and \$2.5 billion in 2031.

- 6) **Previous Legislation.** SB 1404 (Leno) of 2014 would have allowed San Francisco's successor agency to receive tax increment revenues and issue debt to pay for specified replacement housing obligations. SB 1404 was vetoed by Governor Brown saying, "This bill allows the Successor Agency of the former City and County of San Francisco Redevelopment Agency to create a new enforceable obligation to replace approximately 5,800 units of affordable housing.

"Without a doubt, San Francisco faces extraordinary housing affordability challenges, compounded by the number of affordable units previously destroyed by the former redevelopment agency. I applaud the author and the mayor's continued efforts to increase affordability in this area. This bill as drafted, however, would grant this particular Successor Agency the ability to use tax increment and redevelopment law in a way that no other successor agency in the state has been granted."

- 7) **Arguments in Support.** According to the Freedom West Homes Corporation, a nonprofit housing cooperative, "Beginning in the 1950s, the former San Francisco Redevelopment Agency (SFRA) used a significant amount of federal urban renewal funds to implement locally adopted redevelopment plans. Though the goal of these plans was to create vibrant, mixed-income communities, the result was the authorization of widespread clearance, mass demolition, and relocation of communities, particularly lower income communities and communities of color. The urban renewal process resulted in a net loss of 6,709 affordable housing units. In 1976, the state amended the Community Redevelopment Law (CRL) to require the replacement of affordable housing lost through redevelopment activities. The CRL mandates a one-for-one replacement of the total number of units, as well as an equal or greater number of bedrooms.

"San Francisco's Successor Agency to the Former Redevelopment Agency has taken seriously its charge to replace the remaining 5,842 affordable units, and has documented both the scope of the obligation and the need to allocate property tax revenues over time in order to fund the necessary construction. Tax increment financing will cover approximately one-half of construction costs and will leverage other public and private sources to complete affordable housing funding needs. SB 593 will allow the Successor Agency to the Redevelopment Agency of the City and County of San Francisco to replace all of the housing units demolished prior to 1976 as well as preserve affordability of the replacement housing built in the 1970s. This legislation will right the wrongs of the past by funding the preservation and rebuilding of affordable housing while also sparking the economic revitalization needed to create an equitable and sustainable future for our current and future residents of color.

“Urban renewal displaced more than 20,000 residents and over 800 businesses in the Fillmore/Western Addition neighborhood and contributed significantly to the decline of the Black Population in San Francisco from 13% in the 1970s to only 5.3% today. The continued lack of affordable housing in the City further exacerbates this decline.”

- 8) **Arguments in Opposition.** According to the Howard Jarvis Taxpayers Association, “This is to inform you that the Howard Jarvis Taxpayers Association must oppose your SB 593. The reasons for this were already made clear in the Senate Governance and Finance Committee staff report. The report notes that: ‘SB 593 allows San Francisco to finance certain affordable housing projects using Redevelopment Property Tax Trust Fund revenue despite Department of Finance previously determining that these projects do not meet the definition of enforceable obligations that applies to all successor agencies.’

“It also states that: ‘SB 593 allows San Francisco to finance these projects in a way that no other city or county has enjoyed. While San Francisco undoubtedly has unmet affordable housing needs, other cities and counties do too. Instead of using RPTTF, these other cities would have to use other tools, such as asking 2/3 of their voters to approve of the issuance of general obligation bonds, issue other types of bonds, or create a tax-increment financing district to replace the revenue lost from RDA dissolution.’

Simply put, bond issuance without voter approval and special exemptions for San Francisco are inappropriate and unwarranted. The Legislature must do everything in its power to ensure that the abuses that were so inherit with the original RDA program cannot be repeated. SB 593 is a step backwards.”

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

## REGISTERED SUPPORT / OPPOSITION:

### Support

City and County of San Francisco [SPONSOR]  
 Freedom West Homes Corporation [SPONSOR]  
 Bethel African Methodist Episcopal Church  
 California African American Chamber of Commerce  
 California Housing Partnership  
 Council of Community Housing Organizations  
 Grow the Richmond  
 Housing Action Coalition  
 Livable California  
 Local Initiatives Support Corporation (LISC) Bay Area  
 London N. Breed, Mayor, City and County of San Francisco  
 Low Income Investment Fund  
 Mercy Housing California  
 Mission Housing Development Corporation  
 NAACP San Francisco Branch  
 Non-Profit Housing Association of Norther California  
 Northern Neighbors

Progress Noe Valley  
San Francisco Foundation  
San Francisco Housing Accelerator Fund  
San Francisco YIMBY  
Sigma Pi Phi Fraternity  
South Side Forward  
Third Baptist Church of San Francisco  
Young Community Developers

**Opposition**

California Association of Realtors (unless amended)  
Howard Jarvis Taxpayers Association

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