SENATE COMMITTEE ON HOUSING
Senator Scott Wiener, Chair
2023 - 2024 Regular

Bill No:	SB 593	**Hearing Date:**	5/2/2023
Author:	Wiener		
Version:	3/21/2023 Amended		
Urgency:	No	**Fiscal:**	No
Consultant:	Alison Hughes		

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

DIGEST: This bill allows San Francisco's redevelopment successor agency to finance certain affordable housing projects using the successor agency's property tax revenue.

ANALYSIS:

Existing law:

1) Dissolves redevelopment agencies as of February 1, 2012.

2) Establishes the Community Redevelopment Law (CRL), which governs the authority to establish a redevelopment agency and the authority for a redevelopment agency (RDA) to function as an agency and to adopt and implement a redevelopment plan.

3) Authorizes the successor agency for the RDA (herein after "successor agency") of the City and County of San Francisco to have the authority, rights, and powers of the RDA to which it succeeded solely for the purpose of issuing bonds or incurring other indebtedness to finance specified projects.

This bill:

1) Authorizes the successor agency for the City and County of San Francisco to issue bonds and incur indebtedness in order to replace of up to 5,842 units of affordable housing to satisfy specific replacement obligations (*ie* add to the list of projects for which the successor agency of the City and County San Francisco may issue bonds).

2) Authorizes the successor agency to also assist housing projects previously assisted by the RDA of the City and County of San Francisco where the affordability restrictions expired in order to satisfy specified replacement obligations. This provision only applies if the units are conditioned on the requirement that the 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) Authorizes the successor agency of the City and County of San Francisco to pledge 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, to the bonds or other indebtedness issued, incurred, or entered into by the successor agency to finance the replacement housing obligations noted in (1) and (2).

COMMENTS:

1) *Author's Statement. "*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) *Background of Community Redevelopment Law*. Historically, the CRL allowed a local government to establish a redevelopment area and capture all of the increase in property taxes generated within the area (referred to as "tax increment financing" or TIF) over a period of decades. The law required redevelopment agencies to deposit 20% of tax increment into a Low and Moderate Income Housing Fund (L&M fund) to be used to increase, improve, and preserve the community's supply of low- and moderate-income housing available at an affordable-housing cost.

   In 2011, the Legislature enacted two bills, AB 26X (Blumenfield) and AB 27X (Blumenfield), Chapters 5 and 6, respectively, of the First Extraordinary

Session. AB 26X eliminated redevelopment agencies and established procedures for winding down the agencies, paying off enforceable obligations, and disposing of agency assets. AB 26X established successor agencies, typically the city that established the agency, to take control of all redevelopment agency assets, properties, and other items of value. Successor agencies are to dispose of an agency's assets as directed by an oversight board, made up of representatives of local taxing entities, with the proceeds transferred to the county auditor-controller for distribution to taxing agencies within each county.

AB 26X also included provisions allowing the host city or county of a dissolving redevelopment agency to retain the housing assets and functions previously performed by the agency, except for funds on deposit in the agency's L&M fund, and thus become a housing successor. If the host city or county chooses not to become the housing successor, a local housing authority or the state's HCD takes on that responsibility.

AB 27X allowed redevelopment agencies to avoid elimination if they made payments to schools in the current budget year and in future years. In December 2011, the California Supreme Court in *California Redevelopment Association v. Matosantos* upheld AB 26X and overturned AB 27X. As a result, all of the state's roughly 400 redevelopment agencies dissolved on February 1, 2012, and local jurisdictions began implementing AB 26X's provisions to distribute former redevelopment assets and pay the remaining obligations.

3) *RDA* d*issolution process.* AB 26X prohibited RDAs from incurring new or expanding existing monetary or legal obligations unless otherwise specified, removed the authority for RDAs to engage in most activities except continuing to pay off enforceable obligations, and established successor agencies to manage the process of unwinding former RDA affairs. 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 a Redevelopment Property Tax Trust Fund (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. The amount that these taxing entities receive increases as the successor agency pays off these enforceable obligations. As a successor agency adds additional enforceable obligations, the slower this stream of property tax revenue returns to these taxing entities.

4) *City and County of San Francisco RDA history*. San Francisco's RDA 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 (Sieroty, Statutes of 1975), the City had to replace the remaining units. However, RDA law limited the application to 40 years after the redevelopment plan's adoption or 2009, whichever is later. As such, 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.

   After dissolution, the successor agency placed these replacement-housing units on its Recognized Obligation Payment Schedule (ROPS) – the successor agencies plan to resolve the RDAs obligations -- so that they could be considered enforceable obligations to be repaid with RPTTF. While its oversight board approved this action, DOF rejected the successor agencies' decision to consider these replacement-housing units to be enforceable obligations. DOF did not find that these replacement-housing projects met the definition of enforceable obligations. In other words, they were not 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, or other legally binding and enforceable agreements or contracts.

   In 2014, the Legislature passed SB 1404 (Leno) to allow San Francisco's successor agency to finance specified affordable housing projects, including these replacement-housing projects, with RPTTF. However, Governor Brown vetoed this legislation. In 2015, the Legislature passed, and the Governor signed, SB 107 (Committee on Budget and Fiscal Review. Chapter 325), which authorized the successor agency to issue bonds and incur debt for other projects using RPTTF, including the 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.

5) *San Francisco housing crisis and local housing programs.* As one of the most expensive housing markets in the nation, San Francisco remains an epicenter of California's housing crisis. As of September 2022, RealtyHop, a real estate investment company, reported that the median home price in San Francisco was nearly $1.4 million. This means a median-income household, which in 2022 earned $126,117, would need to spend almost two-thirds of its yearly income to afford a median-priced home. On February 1, 2023, the state certified San Francisco's housing element, which calls for the creation of over 82,000 new housing units, more than triple the city's annual housing production average, including 46,000 affordable housing units.

   In recent years, San Francisco has utilized several mechanisms to generate funding locally to finance affordable housing. In 2015 and 2019, the City passed general obligation bonds for the construction of affordable housing for $310 million and $600 million, respectively. The City plans to propose another general obligation bond in 2024. The City also uses impact fees, philanthropic funds, and a local housing trust fund to finance affordable housing.

   The City also created the HOPE SF initiative, which will replace all 1,900 public housing units one-for-one and add affordable and market-rate units, nearly tripling the total number of homes to more than 5,300. The City also operates downpayment assistance and eviction protection and tenant stabilization programs. Lastly, the City is in the process of forming an Enhance Infrastructure Financing District to support entitled, large-scale, master-planned projects that contain affordable housing units.

6) *This bill summary.* In order to complement existing funding sources in place locally, this bill would allow the successor agency to finance the replacement housing projects with RPTTF.

7) *Opposition.* The California Association of Realtors is opposed to provisions that would allow for the units to be affordable to low and moderate income families for longer than 55 years.

8) *Double-referral.* This bill passed out of the Senate Governance and Finance Committee on March 29th with a vote of 7-0.

RELATED LEGISLATION:

SB 1404 (Leno, 2014) — would have allowed San Francisco's successor agency to finance specified affordable housing projects with RPTTF. *This bill was vetoed by Governor Jerry Brown, who issued this veto message*:

> "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."

FISCAL EFFECT: Appropriation: No Fiscal Com.: No Local: No

POSITIONS: (Communicated to the committee before noon on Wednesday, April 26, 2023.)

SUPPORT:

City and County of San Francisco (Co-Sponsor)
Freedom West Homes Corporation (Co-Sponsor)
Bethel African Methodist Episcopal Church
California Housing Partnership Corporation
Grow the Richmond
Housing Action Coalition
Local Initiatives Support Corporation (LISC) Bay Area
Low Income Investment Fund
Mercy Housing California
Mission Housing Development Corporation
NAACP San Francisco Branch
Non-profit Housing Association of Northern California (NPH)
Northern Neighbors Sf
Progress Noe Valley
San Francisco Board of Supervisors
San Francisco Foundation
Sf Yimby
Sigma Pi Phi Fraternity
Southside Forward
The San Francisco Housing Accelerator Fund
Third Baptist Church of San Francisco
Young Community Developers, INC.

OPPOSITION:

California Association of Realtors

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