THIRD READING

Bill No: SB 1404
Author: Leno (D)
Amended: 5/6/14
Vote: 21

SENATE GOVERNANCE & FINANCE COMMITTEE: 4-2, 4/30/14
AYES: Wolk, DeSaulnier, Hernandez, Liu
NOES: Knight, Walters
NO VOTE RECORDED: Beall

SUBJECT: San Francisco redevelopment: successor agencies: housing

SOURCE: City and County of San Francisco

DIGEST: This bill allows San Francisco’s successor agency to receive former tax increment revenues and issue debt to pay for specified affordable housing activities.

ANALYSIS: Until 2011, the Community Redevelopment Law allowed local officials to set up redevelopment agencies (RDAs), prepare and adopt redevelopment plans, and finance redevelopment activities. As a redevelopment project area’s assessed valuation grew above its base-year value, the resulting property tax revenues – the property tax increment – went to the RDA instead of going to the underlying local governments. The RDA kept the property tax increment revenues generated from increases in property values within a redevelopment project area. Existing law requires RDAs to set aside 20% of their property tax increment revenues to increase, improve, and preserve the supply of affordable housing.

In 2000, six of San Francisco’s oldest redevelopment project areas were about to reach some of the statutory deadlines on RDA activities. The Legislature extended
the deadlines and allowed San Francisco officials to use the resulting funds to replace more than 6,700 affordable housing units that the RDA had demolished and not replaced during the years before state law imposed replacement housing requirements on RDAs (SB 2113, Burton, Chapter 661, Statutes of 2000). Specifically, the Legislature allowed San Francisco officials to:

- Extend the deadline for establishing debt in the older project areas until 2014, or until the RDA replaced all of the demolished housing units, whichever date was earlier.

- Extend the deadline for receiving property tax increment revenues to pay for their housing debts until 2044.

The Burton bill required San Francisco to focus on low-income housing, limit its administrative spending, and get state approval before incurring more debt. The time extension excluded schools’ share of property tax revenues, avoiding a continuing cost to the General Fund.

Citing a significant 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, Chapter 5, Statutes of 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, Chapter 6, Statutes of 2011), which would have allowed most RDAs to avoid dissolution. AB X1 26 established successor agencies to manage the process of unwinding former RDAs’ affairs.

This bill confirms that replacing 5,842 housing units that the former Redevelopment Agency of the City and County of San Francisco destroyed and did not replace is a statutory obligation that remains under statutes governing redevelopment agencies’ dissolution. This bill allows the successor agency to San Francisco’s RDA, with approval from its oversight board, to replace all of the demolished housing units. This bill grants the successor agency, in addition to the powers that state law grants to each successor agency, the authority, rights, and powers of the RDA of the City and County of San Francisco, exclusively for the purpose of fulfilling the replacement housing obligations. This bill requires the successor agency to use no more than six redevelopment project areas under redevelopment plans that meet specified criteria to fulfill the replacement housing obligations. This bill allows the successor agency, with the oversight board’s approval, to merge the redevelopment project areas.
This bill allows the successor agency to issue bonds or other indebtedness, backed by property tax revenues from six project areas, exclusively for the purpose of fulfilling replacement housing obligations. This bill requires that the bonds must be sold subject to standards enumerated in specified state laws that currently govern bonds issued by successor agencies. This bill allows the successor agency to issue bonds through either a negotiated or competitive sale. The successor agency, in seeking approval for issuance of bonds by the oversight board and the Department of Finance, shall report on the number of replacement units that it has funded and completed since enactment of SB 2113 (Burton of 2000). This bill directs that any time limit on incurring debt or receiving property tax revenues to repay that debt does not apply until the successor agency replaces all of the demolished housing units. The successor agency may issue new bonds or other obligations on a parity basis with outstanding bonds or other obligations of the successor agency relating to the six project areas. The successor agency may pledge the revenues pledged to those outstanding bonds or other obligations to a new issuance of bonds or other obligation. That pledge, when made in connection with the issuance of those bonds or other obligations must have the same lien priority as the pledge of outstanding bonds or other obligations, and must be valid, binding, and enforceable in accordance with its terms.

This bill prohibits annual property tax revenues authorized by the bill from exceeding the amount needed to pay for the successor agency’s activities in fulfilling replacement housing obligations. This bill prohibits the successor agency from collecting or spending more than 10% of the revenues on planning and administrative costs. This bill requires that property tax revenues allocated to the successor agency pursuant to this bill’s provisions must be distributed from funds that are available for distribution to non-school entities from the Redevelopment Property Tax Trust Fund after specified preexisting legal commitments and statutory obligations are funded from that revenue pursuant to state law. Property tax allocations made pursuant to this bill’s provisions cannot include specified moneys that are payable to school entities from the Redevelopment Property Tax Trust Fund.

This bill requires that the successor agency’s activities must:

- Be consistent with statutory affordable housing requirements and the policies and objectives of the community’s housing element.

- Address the unmet housing needs of very low, low- and moderate-income households.
• Be consistent with the community’s most recently approved consolidated and annual action plans submitted to the United States Department of Housing and Urban Development.

This bill requires the successor agency to devote no less than 50% of the revenues to assist in developing housing that is affordable to very low income households.

This bill contains legislative findings and declarations relating to San Francisco’s affordable housing replacement obligations, and the necessity of a special statute.

Background

Before state law dissolved RDAs, San Francisco’s RDA had been able to finance the construction of 867 of the 6,709 replacement affordable housing units that the Burton bill allowed it to finance. The Department of Finance does not recognize the financing of the remaining 5,842 replacement affordable housing units as an enforceable obligation of the former redevelopment agency. As a result, San Francisco officials are unable to issue debt backed by former tax increment revenues to finance the remaining replacement housing units.

Comment

The unique history of the former San Francisco RDA’s demolition of low- and moderate-income housing as part of its so-called “urban renewal” more than four decades ago directly contributed to the housing affordability crisis that confronts the city today. Allowing San Francisco’s successor agency to issue debt backed by former tax increment revenues to finance the construction of 5,842 affordable housing units provides San Francisco officials with a vital tool they can use to address the city’s critical shortage of affordable housing. This bill only grants San Francisco narrow authority to finance the construction of a limited number of specific affordable housing units in a manner that is consistent with the terms established by SB 2113 (Burton, 2000). Specifically, this bill does not allow the successor agency to divert any money that would otherwise be payable to school entities, thereby avoiding General Fund costs. This bill preserves the requirement for State approval of indebtedness issued by the successor agency and specifically requires oversight board approval of the successor agency’s activities. Because of San Francisco’s unique structure as a city and county, with only two non-school taxing entities within its boundaries, the dedication of property tax revenues pursuant to this bill will have limited fiscal implications for other local governments. By enabling San Francisco to finance thousands of urgently-needed affordable housing units and mitigate the effects of its former RDAs housing
demolition, this bill will benefit residents of San Francisco and the wider Bay Area.

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

**SUPPORT:** (Verified 5/6/14)

City and County of San Francisco (source)
California Rural Legal Assistance Foundation
Chinatown Community Development Center
Council of Community Housing Organizations
Mercy Housing
Non-Profit Housing Association of Northern California
Public Interest Law Project
San Francisco Supervisor Malia Cohen
Tenderloin Neighborhood Development Corporation
Western Center on Law and Poverty

**ARGUMENTS IN SUPPORT:** According to the author, “The high cost of housing acknowledged in 2000 has dramatically increased; San Francisco's early redevelopment activities, including the removal of previously existing affordable units, have compounded the effects of the city's current housing crisis. Construction funding for the remaining 5,842 replacement units certified by the HCD is a key component of San Francisco’s solution to our current housing shortage. State authorized funding for these units will leverage approximately $1 billion in public and private sources for affordable housing.

“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.

“The replacement housing obligation is an important remedy to redress the destruction of affordable housing. This bill will allow San Francisco to fulfill its obligation to replace 5,842 affordable units by authorizing the city to continue to use tax increment as it is generated in six specific former redevelopment areas.”

AB:d 5/7/14 Senate Floor Analyses

**SUPPORT/Opposition:** SEE ABOVE

**** END ****