Date of Hearing: June 4, 2014

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT
K.H. "Katcho" Achadjian, Chair
SB 1404 (Leno) – As Amended: May 6, 2014

SENATE VOTE: 22-9

SUBJECT: San Francisco redevelopment: successor agencies: housing.

SUMMARY: Allows San Francisco's successor agency to receive former tax increment revenues and issue debt to pay for specified replacement housing obligations. Specifically, this bill:

1) Updates provisions of existing law to specify that the successor agency to the Redevelopment Agency of the City and County of San Francisco (successor agency), subject to the approval of the oversight board of the City and County of San Francisco, may replace all of the housing units demolished prior to the enactment of provisions of existing law related to replacement housing obligations (Chapter 970 of the Statutes of 1975 and Chapter 661 of the Statutes of 2000), as specified.

2) Prohibits, pursuant to 1), above, the successor agency from using more than six redevelopment project areas under redevelopment plans that were amended for this purpose prior to enactment of the law dissolving redevelopment agencies, and that may be merged, subject to approval by the oversight board, pursuant to existing law, to fulfill these replacement housing obligations.

3) Allows the successor agency to have the authority, rights, and powers of the Redevelopment Agency of the City and County of San Francisco to incur indebtedness, backed by property tax revenues from the six project areas specified in 2), above, exclusively for the purpose of fulfilling the replacement housing obligations.

4) Provides that certain standards of bonds contained in existing law that currently govern bonds issued by successor agencies shall apply to the sale of those bonds pursuant to 3), above, and requires review and approval by the oversight board and the Department of Finance (DOF), as specified.

5) Requires the successor agency, in seeking approval for issuance of bonds by the oversight board and by DOF, to report on the number of replacement units that it has funded and completed since enactment of SB 2113 (Burton), Chapter 661, Statutes of 2000.

6) Allows bonds to be sold pursuant to either a negotiated or competitive sale.

7) Prohibits any time limit on incurring debt or receiving property tax revenues to repay that debt from applying until the successor agency replaces all of the units demolished prior to the enactment of the replacement housing obligations contained in existing law (Chapter 970 of the Statutes of 1975).
8) Allows the successor agency to 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, and allows the successor agency to pledge the revenues pledged to those outstanding bonds or other obligations to a new issuance of bonds or other obligations, and requires that pledge, when made in connection with the issuance of those bonds or other obligations to have the same lien priority as the pledge of outstanding bonds or other obligations and shall be valid, binding, and enforceable in accordance with its terms.

9) Modifies provisions in existing law to specify that annual revenues shall not exceed the amount necessary to fund the activities of the successor agency in fulfilling these replacement housing obligations.

10) Specifies that property tax revenues allocated to the successor agency shall be distributed from the funds that are available for distribution to non-school entities from the Redevelopment Property Tax Trust Fund, as specified, after all preexisting legal commitments and statutory obligations funded from that revenue, excluding replacement housing obligations, are made pursuant to existing law.

11) Provides that property tax revenues allocated to the successor agency shall not include any moneys that, notwithstanding the replacement housing obligations, are payable to a school district that maintains kindergarten and grades 1 to 12, inclusive, community college districts, or to the Educational Revenue Augmentation Fund (ERAF), as specified.

12) Makes a number of other changes to existing law related to the City and County of San Francisco's obligation to fulfill replacement housing requirements.

13) Makes a number of findings and declarations related to the City and County of San Francisco's former redevelopment agency and replacement housing obligations.

**EXISTING LAW:**

1) Dissolves redevelopment agencies and institutes a process for winding down their activities.

2) Allows a city or county that authorized the creation of a redevelopment agency to elect to retain the housing assets and functions previously performed by the redevelopment agency.

3) Requires the entity assuming the housing functions of the former redevelopment agency to submit to DOF by August 1, 2012, a list of all housing assets, as specified.

4) Allows the entity that assumed the housing functions to designate the use of and commit indebtedness obligation proceeds that remain after the satisfaction of enforceable obligations that have been approved in a Recognized Obligation Payment Schedule and that are consistent with the indebtedness obligation covenants.

5) Requires the proceeds to be derived from indebtedness obligations that were issued for the purposes of affordable housing prior to January 1, 2011, and were backed by the Low- and Moderate-Income Housing Fund.
6) Allows the redevelopment agency of the City and County of San Francisco to, subject to the approval of the Board of Supervisors of the City and County of San Francisco, retain its ability to incur indebtedness exclusively for Low- and Moderate-Income Housing Fund activities, as specified, until January 1, 2014, or until the agency replaces all of the housing units demolished prior to the enactment of the replacement housing obligations in Chapter 970 of the Statutes of 1975, whichever occurs earlier.

7) Allows the ability of the redevelopment agency of the City and County of San Francisco to receive tax increment revenues to repay indebtedness incurred for these Low- and Moderate-Income Housing Fund activities to be extended until no later than January 1, 2044.

FISCAL EFFECT: None

COMMENTS:

1) Background on redevelopment and replacement of affordable housing units in San Francisco. Prior to the dissolution of redevelopment, state law required redevelopment agencies to set aside 20% of their property tax increment revenues to increase, improve, and preserve the supply of affordable housing. State law also required local officials to limit the length of time during which redevelopment plans remained in effect, and required that redevelopment agencies must meet their housing obligations before they terminate a project area. SB 211 (Torlakson), Chapter 741, Statutes of 2001, suspended the time limits on a redevelopment plan's effectiveness and on the diversion of property tax increment revenues to repay its debts until the redevelopment agency "fully complied with its obligations."

In 2000, six of San Francisco’s oldest redevelopment project areas were about to reach some of the statutory deadlines on redevelopment agency activities. The Legislature, in SB 2113 (Burton), Chapter 661, Statutes of 2000, extended the deadlines and allowed San Francisco officials to use the resulting funds to replace more than 6,700 affordable housing units that the redevelopment agency had demolished and not replaced during the years before state law imposed replacement housing requirements on redevelopment agencies. 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, and to extend the deadline for receiving property tax increment revenues to pay for their housing debts until 2044.

SB 2113 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, therefore not impacting the state's General Fund.

Before state law dissolved redevelopment agencies, San Francisco’s redevelopment agency 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. Because DOF does not recognize the financing of the remaining 5,842 replacement affordable housing units as an enforceable obligation of the former redevelopment agency, San Francisco officials are unable to issue debt backed by former tax increment revenues to finance the remaining replacement housing units.
2) **Purpose of this bill.** This bill allows San Francisco's successor agency to receive former tax increment revenues from six redevelopment project areas to fulfill its replacement housing obligations. The bill allows the successor agency to bond against the property tax revenues from the six project areas, and allows the successor agency to keep collecting tax increment and incur debt until the successor agency has replaced all of the previously demolished units. In 2003, the Department of Housing and Community Development (HCD) certified a net loss of 6,709 affordable units, of which 867 have since been replaced since 2003. Additionally, the bill specifies that tax increment received by the successor agency will not come from property tax revenues dedicated to school entities.

This bill is co-sponsored by the City and County of San Francisco and the Mayor of San Francisco, Edwin M. Lee.

3) **Author's statement.** According to the author, "Beginning in the 1950s, the former San Francisco Redevelopment Agency received a significant amount of federal urban renewal funds to implement locally adopted redevelopment plans. Though the goal was to create vibrant, mixed-income communities and to eliminate blight, the result, in some instances, was that these redevelopment projects authorized the widespread clearance and relocation of communities, particularly lower income and minority populations. In San Francisco, the urban renewal process resulted in a net loss of 6,709 affordable housing units – housing for which there is still tremendous need.

"As a remedy, the state amended the Community Redevelopment Law (CRL) in 1976 to require the replacement of affordable housing lost through early urban renewal 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.

"Despite the 1976 mandate, in 2000, the California Legislature enacted special legislation acknowledging that the former Redevelopment Agency had an unfulfilled replacement housing obligation resulting from its pre-1976 destruction of affordable housing. In adopting SB 2113 (Burton, Chapter 661, Statutes of 2000), the Legislature made several significant findings, including that San Francisco's housing situation is unique, as median rents and sales prices are among the highest in the state.

"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 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...by authorizing the city to continue to use tax increment as it is generated in six specific former redevelopment areas."
4) **Arguments in support.** Supporters argue that the bill will help San Francisco fulfill a historic commitment to building 5,947 replacement units which was previously undertaken by San Francisco's redevelopment agency prior to dissolution, and will provide the City and County of San Francisco with the tools necessary to meet the replacement housing commitment while protecting state revenue for schools.

5) **Arguments in opposition.** None on file.

6) **Double-referral.** This bill is double-referred to the Assembly Housing and Community Development Committee.

7) **Conflict.** This bill conflicts with SB 1129 (Steinberg), which is currently pending in the Assembly. Chaptering out amendments will be needed, should both bills continue to move through the legislative process.

**REGISTERED SUPPORT / OPPOSITION:**

**Support**

City and County of San Francisco [CO-SPONSOR]
Edwin M. Lee, Mayor, City and County of San Francisco [CO-SPONSOR]
California Rural Legal Assistance Foundation
Chinatown Community Development Center
Council of Community Housing Organizations
Malia Cohen, Member, Board of Supervisors, City and County of San Francisco
Mercy Housing California
Non-Profit Housing Association of Northern California
Public Interest Law Project
San Francisco Labor Council
Tenderloin Neighborhood Development Corporation
Western Center on Law & Poverty

**Opposition**

None on file

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