

Date of Hearing: May 7, 2025

ASSEMBLY COMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

Matt Haney, Chair

AB 1445 (Haney) – As Amended April 28, 2025

**SUBJECT:** Downtown revitalization and economic recovery financing districts

**SUMMARY** Authorizes any city or county to establish a downtown revitalization and economic recovery financing district (district). Specifically, **this bill**:

- 1) Defines “local government” to mean a city, county, or city and county, whether general law or chartered.
- 2) Defines “legislative body” to mean the city council or board of supervisors of a local government.
- 3) Authorizes a local body of a local government to establish a district. Proceedings for the establishment of a district shall be instituted by the adoption of a resolution of intention to establish the proposed district and shall do all of the following:
  - a) State that a district is proposed to be established under the terms enumerated in existing law governing the authorization for the City and County of San Francisco to create a district, and describe the boundaries of the proposed district, which may be accomplished by reference to a map on file in the office of the recorder of the county;
  - b) State the need for the district and the goals the district proposes to achieve;
  - c) State that incremental property tax revenue generated by investment in the commercial-to-residential conversion project from the local government will be used to finance these activities; and
  - d) Fix a time and place for a public hearing by the legislative body on the proposed downtown revitalization financing plan (plan). The legislative body shall hold the public hearing before the district board’s third public hearing, as specified. After the Board of Supervisors public hearing, the legislative body may approve or reject the proposed plan.
- 4) Makes numerous conforming changes.

**EXISTING LAW:**

- 1) Allows San Francisco to create a district to finance commercial-to-residential conversion projects with incremental tax revenues generated by commercial-to-residential conversion projects and outlines the districts: formation process, governance structure, powers, financing plan, payment mechanics, affordability requirements, labor standards, and accountability measures.
- 2) Allows the San Francisco Board of Supervisors to form a district by adopting a resolution that:

- a) States the intent to form a district;
  - b) Describe the district's boundaries, which must be limited to downtown San Francisco as specified;
  - c) States the need for, and the goals of, the district;
  - d) States the district will use incremental property tax revenue to finance these activities and
  - e) Fixes a time and place for a public hearing on the proposed financing plan. The Board of Supervisors must hold the hearing before the district board's third public hearing. At the hearing, the Board of Supervisors can approve or deny the financing plan.
- 3) Requires that when the Board of Supervisors establishes the district, it must also form a district board at the same time with three members of the Board of Supervisors and two members of the public chosen by the Board of Supervisors. Additionally, the Board of Supervisors may appoint one supervisor to serve as an alternate who can vote in place of another member who is absent or disqualifies themselves from participating in the meeting. Members cannot receive compensation, but they can be reimbursed for actual and necessary expenses.
  - 4) Allows the district to use incremental property tax revenues generated by commercial-to-residential conversion projects that opt into the district.
  - 5) Allows the district to only finance commercial-to-residential conversion projects the district determines are of communitywide significance and provide significant benefits to the district or San Francisco.
  - 6) Requires the district to create a financing plan it must approve at three public hearings. The first meeting is for the district to present the financing plan, answer public questions, and consider public comments. The second meeting is to consider public comments and take action to approve, modify, or reject the financing plan. The third meeting is to adopt a resolution or enact a resolution to approve the plan and create the district, provided the Board Supervisors approved the plan at their meeting. The district must meet specified noticing requirements for these meetings.
  - 7) Requires the financing plan must comply with specified conditions and outline certain actions the district will take. The conditions and actions outlined in this bill include obligations that the financing plan:
    - a) Include a map and legal description of the proposed district;
    - b) Describe the potential commercial-to-residential conversion projects in the district; Eligible projects can be mixed-use, but must dedicate at least 60 percent of the square footage for residential use;

- c) Require each project that includes nonresidential development to develop residential and nonresidential portions of the development concurrently, as specified;
  - d) Identify each existing commercial building within the district that is eligible for conversion to residential use and that may opt in to receive incremental tax revenue;
  - e) Require the incremental tax revenues generated by each individual commercial-to-residential conversion project be distributed back to that same project to finance necessary development costs of the project. The amount a project receives cannot be greater than the incremental tax revenues generated by that same project for a period no greater than 30 years or until the district ceases to exist. This amount is limited to the incremental tax revenues generated by residential use in the project as specified;
  - f) Require that distributions transfer to the new property owner if the project is sold;
  - g) Require that any incremental tax revenues remaining after allocating funds to the project must go to support downtown revitalization programs. After allocations have ceased, the tax increment returns to San Francisco;
  - h) Require the district to limit its administrative costs to 5 percent of its revenues, not including amounts to reimburse San Francisco for the costs of establishing the district;
  - i) Specify the maximum portion of the incremental tax revenue proposed for the district for each year;
  - j) Include a date when the district ceases to exist no more than 45 years from the date the district distributes funding to the first project;
  - k) Analyze the cost to San Francisco to provide facilities and services to the area of the district before and after its development, which must include analysis of the tax, fee, charge, and other revenues San Francisco expects to receive in the area of the district;
  - l) Analyze the projected fiscal impact of the district on San Francisco;
  - m) Require, if a project proposes to remove or demolish any residential units, a plan to protect or replace those units, and relocate residents consistent with existing law;
  - n) Include the goals the district proposes to achieve for each project; and
  - o) Prohibit the district from receiving property tax increment that would go to other taxing entities.
- 8) Requires the district to create a process for projects to opt in to district. After a project opts in, the district must determine whether the project meets the district's requirements. If the project does not meet the district's requirements or there is not enough room under the required cap on total incremental revenues the district receives, then the district must not start distributing funds to the project.

- 9) Requires, if the district approves the project, the district to establish the base assessed value for the property using the last assessment roll equalized prior to the issuance of the first building permit for the project. The district must pay San Francisco for the costs of calculating property tax revenue amounts. Projects cannot opt in after December 31, 2032.
- 10) Provides direction on how to calculate the portion of property tax revenue that goes to the district, requires the district to place revenue in a special fund, and prohibits it from receiving revenue from other taxing entities.
- 11) Allows the Board of Supervisors to choose to dedicate net available revenues to the district as specified.
- 12) Provides that no affordability requirements apply to the first 1.5 million square feet of opted-in commercial-to-residential conversion projects.
- 13) After the first 1.5 million square feet are developed projects must comply with one of the following affordability requirements:
  - a) At least 5% of total units for rent are affordable to very low-income households or the local inclusionary requirement, whichever is higher;
  - b) At least 10% of total units for rent are affordable to lower- income households or the local inclusionary requirement whichever is higher; and
  - c) At least 10% of total units for sale are affordable to moderate-income households, or the local inclusionary requirement, whichever is higher.
- 14) Commercial-to-residential projects that opt in to receive funding are considered public works and must pay prevailing wage. These projects must also comply with labor standards adopted by the Bay Area Housing Finance Authority (BAHFA).
- 15) Requires the district to take the following actions related to annual reports:
  - a) Hold an annual public hearing;
  - b) Adopt an annual report on or before June 30th each year that includes specified information on the annual actions of the district;
  - c) Make written copies of the draft annual report available to the public 30 days before the public hearing;
  - d) Post the draft annual report on the district's website;
  - e) If, the district fails to adopt the annual report by June 30th, the district allow for any additional projects to opt into receiving funds from the district; and

- f) Every ten years, the district must consider whether the statutory requirements of the district continue to be met, or whether amendments to the district's financing plan are needed.
- 16) Requires the district to submit an annual report to the relevant committees of the Legislature on the projects the district finances if the Board of Supervisors creates a district.
- 17) Provides that any action to challenge the creation of the district or the financing plan must commence within 30 days after the resolution creating the district, as specified.
- 18) Provides that allocation and payment to the district must not be deemed the receipt by a district of proceeds of taxes for purposes of calculating constitutional debt limits. (Government Code Section 62450, 62451, 62452, 62453, 62455, 62456, 62457, 62458, 62459, 62460, 62461, and 6246)

**FISCAL EFFECT:** None.

**COMMENTS:**

**Author's Statement:** "As a result from the sharp decline in return-to-office rates during the Covid-19 pandemic, and subsequent suburban sprawl patterns, many of California's downtowns are failing to return to pre-pandemic rates of visitation, revenue-generating dollars, and foot traffic. Office vacancy rates in cities across the state continue to hover around 30 percent, while commercial property values are in a sharp decline.

While there has been interest in converting office spaces into mixed-use housing, many developers are unable to actually carry out conversions due to costly, but necessary, upgrades and structural changes to allow for housing to be built. AB 1445 would provide necessary tools to support the creation of affordable, mixed-use housing on former commercial spaces in downtowns across California, giving way to increased foot traffic and sustainable downtown neighborhoods. By allowing cities to opt into a tax increment financing model, AB 1445 will provide much-needed financing for office-to-housing conversions.

At a time when cities across the state face budget shortfalls, we cannot afford to allow our downtowns, the main cultural, economic, and revenue-generating districts of California's cities, to crumble."

**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 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.

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. Eventually, RDAs were required to set-aside 20% of funding generated in a project area to increase the supply of low and moderate income housing in the project areas. At the time RDAs were dissolved, the Controller estimated that statewide, RDAs were obligated to spend \$1 billion on affordable housing. At the time of dissolution, over 400 RDAs statewide were diverting 12% of property taxes, over \$5.6 billion yearly.

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.

***New Tax Increment Tools:*** After the Supreme Court's 2011 Matosantos decision dissolved all RDAs, legislators enacted several measures creating new tax increment financing tools to pay for local economic development. The Legislature authorized the creation of Enhanced Infrastructure Financing Districts (EIFDs) [SB 628 (Beall), Chapter 785, Statutes of 2014] quickly followed by Community Revitalization and Investment Authorities (CRIAs) [AB 2 (Alejo), Chapter 319, Statutes of 2015]. Similar to EIFDs, CRIAs use tax increment financing to fund infrastructure projects. CRIAs may currently only be formed in economically depressed areas.

The Legislature has also authorized the formation of affordable housing authorities (AHAs), which may use tax increment financing exclusively for rehabilitating and constructing affordable housing and also do not require voter approval to issue bonds [AB 1598 (Mullin), Chapter 764, Statutes of 2017]. SB 961 (Allen), Chapter 559, Statutes of 2018, removed the vote requirement for a subset of EIFDs to issue bonds and required these EIFDs to instead solicit public input, and AB 116 (Ting), Chapter 656, Statutes of 2019, removed the voter requirement for any EIFD to issue bonds in favor of a formal protest process. SB 852 (Dodd), Chapter 266, Statutes of 2022, created climate resilience districts (CRDs), which can also utilize tax-increment financing. CRDs were also given the authority to issue general obligation bonds and impose special taxes. While these entities share fundamental similarities with RDAs in terms of using various forms of tax-increment financing, they differ in two significant aspects, 1) not having access to the school's share of property tax increment, and 2) not automatically including the tax increment of other taxing entities.

Lastly, AB 2488 (Ting), Chapter 274, Statutes of 2024, authorized the City and County of San Francisco to create a district for the purpose of commercial-residential conversion projects.

AB 2488 (Ting), Chapter 274, Statutes of 2024 allowed San Francisco to establish a district, but placed many provisions restricting its use. AB 2488 did not grant a district access to a share of property tax increment like other tax increment financing tools as EIFDs or CRIAs, which capture property tax prior to projects being built. Instead, it takes increment generated by a specific project and returns it to the project's owner, rather than allowing those funds to flow to San Francisco's general fund.

This bill builds on AB 2488 to allow any city or county in the state to establish one district. A district can only finance commercial-to-residential conversion projects that are urban infill sites (at least 75% of the perimeter of a perimeter of the site of the development adjoins parcels that are developed with urban use), is located within an area where the commercial office building vacancy rate is 20 percent or greater, and is within a transit priority area.

As in AB 2488, this bill allows all cities and counties to convert 1.5 million square feet of commercial building space prior to being subject to affordable housing requirements.

AB 2488 contained provisions that require San Francisco to adopt labor standards that commercial-to-residential projects must meet. These labor standards are to be the same as projects specifically funded by the BAHFA. San Francisco does not adopt these labor standards, a commercial-to-residential conversion project must not receive the property tax incentive. BAHFA has yet to adopted labor standards. As currently drafted, the same labor standards that apply to BAHFA would likely apply statewide to commercial-to-residential projects receiving the property tax incentive this bill allows.

***Recent State Adaptive Reuse Efforts:*** One of the state's primary efforts to address homelessness during the COVID-19 pandemic involved turning existing hotels and motels into housing for individuals experiencing homelessness, known as Project Homekey. These uses are already divided into quarters designed for short-term human habitation and can readily be converted to housing with the addition of kitchens. As of February 29, 2024, the Legislative Analyst's Office reported that Project Homekey has funded 250 projects and assisted 15,319 units of housing with a total expenditure of \$3.35 billion. The cost of converting a unit under Project Homekey, at \$218,683 per unit, is less than the current cost of constructing a new multifamily unit which averages at a little under \$600,000 a unit as calculated by a recent report from the UC Berkeley's Turner Center for Housing Innovation, *Making it Pencil: the Math of Housing Development-2023*. This report found that for a multifamily mixed-use project with five stories of residential and a nonresidential ground floor, the average cost per unit in the Bay Area is \$637,000 in the East Bay and \$623,000 in the South Bay, \$594,000 in Los Angeles, and \$508,000 in Sacramento. The Legislature has also enacted other policies to facilitate the conversion of commercial properties into housing. SB 6 (Caballero, 2022) which enacted the Middle Class Housing Act of 2022, which established housing as an allowable use on any parcel zoned for office or retail uses. AB 2011 (Wicks, 2022) established a streamlined, ministerial approval process, not subject to the California Environmental Quality Act (CEQA), for certain infill multifamily affordable housing projects that are located on land that is zoned for retail, office, or parking.

***Arguments in Support:*** According to SPUR and other supporters, "Downtowns are vital to the economic health of our cities and residents. Because of the density of economic activity, downtown investment provides a higher level of return per dollar invested than other parts of the city. While on average downtowns make up 3% of all citywide land, they deliver an average of 16% of citywide property tax revenue, 42% of hotel tax revenue, and 12% of sales tax revenue.

However, as a result of the sharp decline in return-to-office rates during the Covid-19 pandemic, and suburban sprawl, many of California’s downtowns are failing to return to pre-pandemic rates of visitation, revenue-generating dollars, and foot traffic. Office vacancy rates in cities across the state continue to hover around 30 percent, and commercial property values are in a sharp decline – all while California faces economic uncertainty. AB 1445 would provide necessary tools to support the creation of affordable, mixed-use housing on former commercial spaces in downtowns across California.”

*Arguments in Opposition:* None on file.

## **REGISTERED SUPPORT / OPPOSITION:**

### **Support**

Abundant Housing LA  
California Apartment Association  
California Association for Local Economic Development  
California Travel Association  
Circulate San Diego  
Housing Action Coalition  
Housing Trust Silicon Valley  
Ingka Procurement (IKEA)  
Kosmont Companies  
SPUR

### **Opposition**

None file.

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