

Date of Hearing: June 19, 2019

ASSEMBLY COMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

David Chiu, Chair

SB 532 (Portantino) – As Amended April 24, 2019

**SENATE VOTE:** 32-4

**SUBJECT:** Redevelopment: City of Glendale: bond proceeds: affordable housing

**SUMMARY:** Authorizes the City of Glendale to use remaining redevelopment agency (RDA) bond proceeds for predevelopment, development, acquisition, rehabilitation, and preservation of affordable housing. Specifically, **this bill:**

- 1) Provides that if the City of Glendale uses remaining bond proceeds for affordable housing then the Last and Final Recognized Obligation Payment Schedule (ROPs) must be adjusted to allow for the allocation of revenues from the Redevelopment Property Tax Trust Fund (RPTTF) to the successor agency (SA) of the City of Glendale, to pay down principal and interest on the bonds.
- 2) Requires any affordable housing units that are demolished as a result of the remaining bond proceeds to be replaced with units of an equivalent size and occupied by households of the same or lower income as those households in occupancy.
- 3) Requires the remaining bond proceeds to be spent to finance 100% affordable housing developments.
- 4) Defines “affordable housing” to mean housing available to very-low, low-, and moderate-income households at an affordable cost.
- 5) Defines “affordable cost” to mean households pay no more than 30% of their income toward housing costs.

**EXISTING LAW:**

- 1) Requires bond proceeds derived from bonds issued on or before December 31, 2010, in excess of the amounts need to satisfy approved enforceable obligations must be expend in a manner consistent with the original bond covenants. Any bond funds that cannot be spent consistent with the original bond covenants must be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation.
- 2) Allows successor agencies (SA) to RDAs that have received a finding of completion from Department of Finance to use some of the bond proceeds from bonds sold after January 1, 2011, as follows:
  - a) No more than 5 percent of the proceeds may be expended unless the successor agency meets the following criteria:
    - i) If the SA has an approved Last and Final ROPS, the agency may expend no more than 20% of the proceeds; and

- ii) Creates a process that the earlier that the bonds were issued in 2011, the more the SA is able to expend, ranging from 45 percent to percent.
- b) If a SA provides the oversight board and the department with documentation that proves that the bonds were approved by the former RDA prior to January 31, 2011, but the issuance of the bonds were delayed by the action of a third-party metropolitan regional transportation authority beyond January 31, 2011, the SA may expend the associated bond proceeds for a total of no more than 45 percent.
- c) Any proceeds derived from bonds issued by former RDA after December 31, 2010, that were issued to refund or refinance tax-exempt bonds issued by former RDAs on or before December 31, 2010, and are in excess of the amount needed to refund or refinance may be expended by the SA for a total of no more than 45 percent. The SA must provide the oversight board and department the resolution by the former RDA approved the bonds.

**FISCAL EFFECT:** Unknown.

**COMMENTS:**

*Background:* The Community Redevelopment Law (CRL) allowed a local government to establish a redevelopment project area and capture all of the increase in property taxes generated within the area (referred to as “tax increment”) over a period of decades. RDAs were authorized to issue bonds against the tax increment and use the proceeds of the bonds to support their efforts to eliminate blight through economic development. RDAs were required 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, facing a severe budget shortfall, Governor Brown proposed eliminating RDAs in order to deliver more property taxes to other local agencies. Redevelopment redirected 12% of property taxes statewide away from schools and other local taxing entities and into economic development and affordable housing. Ultimately, the Legislature approved and the Governor signed two measures, AB 26 X1 (Blumenfield), Chapter 5, Statutes of 2011-12 First Extraordinary Session, and AB 27 X1 (Blumenfield), Chapter 6, Statutes of 2011-12 First Extraordinary Session, 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 AB 26 X1. However, the Court did grant the petition with respect to AB 27 X1. As a result, all RDAs were required to dissolve as of February 1, 2012.

*Dissolution process:* As part of the winding down of RDAs were required to submit, a Recognized Obligations Payment Schedule (ROPS) to the Department of Finance (DOF) that listed all of the enforceable obligations (EO) or the outstanding debts of the RDA including bonds, documented contracts, loans borrowed from the RDA, and payments required by the federal government. DOF reviews and approves all ROPS.

Property taxes that had previously gone to a RDA in the form of tax increment now go to the RPTTF to pay the former obligations of the RDA and any remaining amounts are divided up among the taxing entities – schools, counties, and special districts. Funds in the RPTTF are first

used to pay for enforceable obligations on the former RDA included on the ROPS and approved by DOF and any preexisting pass-through payments such as pension obligations. If funds remain in the RPTTF after payments are made for each successor agency's ROPS, they are considered to be residual RPTTF funds, and are distributed proportionally to the taxing entities that would otherwise have received property tax revenues from the former project areas.

*Bond proceeds:* Generally, successor agencies were given limited discretion to use bond proceeds issued prior to dissolution that were not clearly obligated to pay for enforceable obligations of the RDA. However, successor agencies that received a "finding of completion" from DOF were given some additional discretion regarding the use of bonds proceeds. In order to receive the finding of completion, a SA had to undergo specified due diligence reviews and make the required payments to DOF. Once a SA received its Last and Final ROPS, it could use bonds issued prior to December 31, 2010 consistent with the bond covenants. Any bond proceeds that could not be used consistent with the underlying bond covenants were required to defease the bonds or to purchase those same outstanding bonds on the open bond market. Successor agencies with a Last and Final ROPS were also given authority to use bond proceeds issued after January 1, 2011 in a manner consistent with the bond covenants. Successor agencies were given greater latitude to use bond proceeds issued earlier in 2011.

This bill would allow the City of Glendale to use both housing and non-housing bond proceeds for affordable housing and homelessness services. According to DOF's website, 20 cities have bond proceeds from housing bonds totaling over \$135 million in the state that could be used for affordable housing purposes. Thirty-three cities have over \$264 million in bond proceeds from non-housing bonds. This bill would apply to bonds issued for both housing and non-housing purposes. Some general bonds could have been issued for housing purposes, provided the bond covenants allowed for affordable housing.

*Related legislation:* This committee approved AB 411 (Stone) which allows the City of Santa Cruz to use remaining bond proceeds for affordable housing and homelessness. That bill was amended in this committee to allow 10% of the funds to be used for moderate income housing and require the remaining to be spent according to requirements that apply to remaining Low and Moderate Income Housing Fund from former redevelopment agencies. These requirements generally require the funds to be spent on more deeply targeted housing and homelessness. SB 532 requires any housing that is removed as a result of investment from the bond proceeds be replaced with housing of equivalent size and affordability. In addition, the bond proceeds may only be used for developments that are 100% affordable.

*Committee amendment:* The committee may wish to consider clarify that bond proceeds may only be used for affordable housing if consistent with the underlying bond covenants. The committee made a similar technical amendment to AB 411 (Stone) when that bill was heard in April.

*Double-referred:* This bill was also referred to the Assembly Committee on Local Government where it will be heard should it pass out of this committee.

**REGISTERED SUPPORT / OPPOSITION:**

**Support**

City of Glendale (Sponsor)  
California Apartment Association  
So. CAL NAHRO

**Opposition**

California Teachers Association

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