
THIRD READING

Bill No: AB 1635
Author: Ward (D), et al.
Amended: 6/26/24 in Senate
Vote: 21

SENATE GOVERNMENTAL ORG. COMMITTEE: 12-2, 6/25/24
AYES: Dodd, Wilk, Alvarado-Gil, Archuleta, Ashby, Bradford, Glazer, Ochoa
Bogh, Padilla, Roth, Rubio, Smallwood-Cuevas
NOES: Nguyen, Seyarto
NO VOTE RECORDED: Jones, Portantino

SENATE APPROPRIATIONS COMMITTEE: 4-2, 8/15/24
AYES: Caballero, Ashby, Becker, Wahab
NOES: Jones, Seyarto
NO VOTE RECORDED: Bradford

ASSEMBLY FLOOR: 70-0, 1/29/24 - See last page for vote

SUBJECT: Hillcrest property: leasing: housing development projects

SOURCE: Author

DIGEST: This bill requires the Department of General Services (DGS), in consultation with the Department of Motor Vehicles (DMV) to enter into good faith negotiations to lease the Hillcrest property, as specified.

ANALYSIS:

Existing law:

- 1) Establishes DGS, which is under the control of the Director of DGS, within the Government Operations Agency, and requires the director to perform various functions and duties with respect to property within the state, including entering into lease agreements.

- 2) Authorizes DGS, subject to legislative approval, to sell, lease, exchange, or transfer various specified properties for current market value, upon such other terms and conditions DGS determines are in the best interest of the state.
- 3) Authorizes DGS, with the consent of the state agency concerned, to, among other things, let for a period not to exceed five years, any real personal property that belongs to the state, unless otherwise prohibited or excepted.
- 4) Authorizes DGS, with the consent of the state agency concerned, to let for any period of time any real property or interest in real property that belongs to the state, when DGS deems the letting serves a beneficial public purpose limited to the development of housing, including permanent supportive or traditional housing and emergency shelters or park and recreation facilities. Under this section, DGS is authorized to enter into leases at less than market value provided that the cost of administering the lease is recovered. (Government Code 14671.2)
- 5) Requires DGS to create a digitized inventory of all excess state land, create screening tools for prioritizing affordable housing development on excess state land, and issue requests for proposals and select affordable housing developments on excess state land, as described.
- 6) Establishes criteria for state agencies to use in determining and reporting excess lands. A state agency must report land as surplus that is:
 - a) Not currently utilized, or is underutilized, for any existing or ongoing programs;
 - b) Land for which the agency cannot identify a specific utilization relative to future needs; and,
 - c) Land not identified by the state agency within its master plan for facility development.

This bill:

- 1) Requires DGS, on or before January 1, 2026, to enter into good faith negotiations to lease the Hillcrest property upon the terms and conditions and subject to those reservations and exceptions that DGS determined are in the best interest of the state.

- 2) Requires the lease to be subject to all of the following conditions:
 - a) The lease shall be with a housing sponsor.
 - b) The lease shall allow for the development of housing development projects.
 - c) The lease shall meet the requirements of and be consistent with, section 14671.2 of the Government Code which, among other things, requires that at least 20% of the housing units developed on this property shall be available for the term of the lease to, and occupied by, lower income households, of which at least 10% shall be available to, and occupied by, very low income households.
- 3) Provides that nothing in this bill shall be interpreted to require DGS to lease the Hillcrest property if the department, after good faith negotiations, determines that it is not in the best interest of the state.
- 4) Requires, if DGS determines that a lease of the Hillcrest property is not in the best interest of the state, the department to notify the Legislature, in writing, explaining the reasons supporting his determination.
- 5) Requires DGS to be reimbursed for any cost or expense incurred in the lease of the Hillcrest property by the DMV or from the proceeds of the lease of the Hillcrest property.
- 6) Defines “housing development projects” to mean a use consisting of any of the following:
 - a) Residential units only.
 - b) Mixed-use developments consisting of residential and nonresidential uses with at least two-thirds of the square footage designated for residential use.
 - c) Transitional housing or supportive housing.

Background

Author Statement. According to the author’s office, “housing solutions are one of the top priorities for Californians, and it’s been said more than once that the State

of California should do more to contribute land opportunities to these solutions. In 2007, SB 754 authorized the DMV to enter into agreements for multi-use development of the San Diego Hillcrest DMV site, to include a replacement facility for DMV operations, however re-development of the site remains unfulfilled.”

The author’s office further states that, “as we approach 20 years of authorization with no progress for the site, AB 1635 will update SB 754 to more specifically direct redevelopment to include middle- and lower-income affordable housing opportunities through partnership with a local public housing agency, integrate a replacement DMV facility already under consideration, evaluate potential shared parking scenarios, and include public plaza or other amenities permitting retention of use by a popular Sunday Farmer’s Market which will blend with incoming City-sponsored public space improvements. This will allow a clearer picture for site program vision, maximize housing outcomes, and accelerate a timeline to complete what is becoming a hole in the revitalization of the surrounding neighborhood with shared State and local goals met.”

Hillcrest Property. The DMV at the Hillcrest property is a two-story, 14,319 square-foot building built in 1960. The site is 2.46 acres and includes approximately 170 parking spaces. The parking lot is often used for after-hours community events.

In 2007, SB 754 (Kehoe, Chapter 681, Statutes of 2007) authorized DGS to execute ground leases on three DMV sites, including the Hillcrest property DMV, to facilitate the development of mixed-use projects that would fund their rehabilitation. In support of SB 754, DMV wrote “SB 754 is designed to allow the DMV to replace three of its aging, state-owned field offices at no net cost to the state, while bringing considerable benefits to the local communities. The San Diego, San Francisco, and Rancho Cucamonga properties are outdated, undersized, and do not meet current standards for accessibility, energy efficiency, or safety.”

Since the passage of SB 754 in 2007, the Rancho Cucamonga facility was replaced with a new, stand-alone DMV. The San Diego and San Francisco DMVs continue to operate out of the same facilities identified in SB 754. On both sites, DMV has released proposed plans to replace the existing facilities with stand-alone DMVs, but has paused these plans based on community feedback seeking new housing on the sites. For the San Francisco site, DGS currently is in the process of using the authorization granted by SB 754 to allow for affordable housing at the site.

Current Process for Surplus Property. The DGS is currently responsible for the disposition of state-owned property that has been declared surplus to future state needs. The Legislature must declare the property to be surplus and must authorize the Director of DGS to sell, exchange, lease, or transfer the surplus property according to specified procedures set forth in law.

Generally, current law requires surplus property to be transferred or sold at market value, or upon such other terms and conditions that DGS determines are in the best interest of the state. Current law gives right of first refusal on any surplus property to a local agency and then to a nonprofit affordable housing sponsor, prior to being offered for sale to private entities or individuals in the open market. In addition, DGS is authorized to sell surplus property to a local agency or to a nonprofit affordable housing sponsor at a sales price less than fair market value if DGS determines that such a discount will enable housing for individuals or families of low or moderate income.

In 2019, Governor Newsom, issued Executive Order N-06-19 (EO) which reoriented DGS's priorities to focus on facilitating conversion of *excess* property to affordable housing. Within the required three months, DGS reviewed over 44,000 parcels, and identified 92 properties potentially suitable for housing. As of March 2022, DGS had offered 19 of these properties for affordable housing development, each of which is proceeding through the planning, development, or construction phase. These properties are expected to provide approximately 1,700 units of affordable housing. The contents of the EO were later codified by SB 561 (Dodd, Chapter 446, Statutes of 2022) and AB 2233 (Quirk-Silva, Chapter 438, Statutes of 2022)

Additionally, current law, under Government Code section 14671.2 authorizes DGS, with the consent of the state agency concerned, to let for any period of time any real property or interest in real property that belongs to the state, when DGS deems the letting serves a beneficial public purpose limited to the development of housing, including permanent supportive or traditional housing and emergency shelters or park and recreation facilities.

DGS is authorized to enter into leases at less than fair market value provided that the cost of administering the lease is recovered. The ability to enter into a lease below fair market value is important as it provides the developer with valuable savings that the developer can pass on to the public in the form of affordable housing units. Under this authorization, the lease must include at least 20% of the

housing units be for lower income households, of which, at least 10% shall be available to very low income households.

This bill simply requires DGS, in consultation with DMV, to enter into negotiations for the possible lease of the Hillcrest property in San Diego. The bill makes it clear that the department is under no obligation to enter into a lease if, after good faith negotiations, the department finds that entering into such a lease is not in the best interest of the state.

Related/Prior Legislation

SB 754 (Kehoe, Chapter 681, Statutes of 2007) authorized DGS, with the consent of the DMV, to lease or exchange, for a term of years as determined by the Director, the Hillcrest property, as specified.

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

According to the Senate Appropriations Committee, unknown costs to DMV, should a lease be entered into for a portion of or the entirety of the Hillcrest property. DMV notes that the current space would not be able to accommodate a full-service 22-terminal field office with the required number of parking spaces if a portion is leased.

If DMV would be required to vacate the space and build a new site, the department notes it would require approximately 4.26 acres of land in the San Diego area. Until construction of a new field office is completed, a temporary space may be needed to continue serving the public. Costs to acquire the land and for office construction are unknown, but DMV estimates range into the tens of millions of dollars.

If DMV would not be required to vacate the property, the department will still likely need a temporary space while construction on the property is completed. These costs are also unknown, but potentially range in the millions of dollars.

Additionally, unknown costs for DGS to facilitate the lease of the Hillcrest property (Property Acquisition Law Money Account). DGS's expenses will be reimbursed from lease proceeds. While DGS does not have an estimate of potential lease revenues, the revenues may not be significant as the department typically leases properties for affordable housing development for a nominal amount.

SUPPORT: (Verified 8/14/24)

California Housing Partnership
Circulate San Diego
City of San Diego
San Diego Housing Commission
San Diego Regional Chamber of Commerce

OPPOSITION: (Verified 8/14/24)

None received

ARGUMENTS IN SUPPORT: According to the City of San Diego, “the Hillcrest site was identified fifteen years ago as a prime site for housing collocated on the excess property of the DMV facility. Its location near transit facilities and walkability within the urban core makes it perfectly suited for housing development. However, setbacks and bureaucratic obstacles have prevented the state from finalizing agreements to bring the project to fruition. AB 1635 will help make the City’s reforms a reality by providing much-needed real estate identified by the San Diego Housing Commission.”

ASSEMBLY FLOOR: 70-0, 1/29/24

AYES: Aguiar-Curry, Alanis, Alvarez, Arambula, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Juan Carrillo, Wendy Carrillo, Cervantes, Connolly, Davies, Flora, Mike Fong, Friedman, Gabriel, Garcia, Gipson, Grayson, Haney, Hart, Holden, Hoover, Irwin, Jackson, Jones-Sawyer, Kalra, Lee, Low, Lowenthal, Maienschein, Mathis, McCarty, McKinnor, Muratsuchi, Stephanie Nguyen, Ortega, Pacheco, Papan, Joe Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Rendon, Reyes, Luz Rivas, Rodriguez, Blanca Rubio, Santiago, Schiavo, Soria, Ta, Ting, Valencia, Villapudua, Waldron, Wallis, Ward, Weber, Wicks, Wilson, Wood, Zbur, Robert Rivas

NO VOTE RECORDED: Addis, Chen, Megan Dahle, Dixon, Essayli, Vince Fong, Gallagher, Lackey, Jim Patterson, Sanchez

Prepared by: Felipe Lopez / G.O. / (916) 651-1530
8/18/24 8:50:53

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