
THIRD READING

Bill No: AB 1338
Author: Solache (D)
Amended: 6/10/26 in Senate
Vote: 21

SENATE TRANSPORTATION COMMITTEE: 12-0, 6/30/26
AYES: Cortese, Strickland, Archuleta, Arreguín, Blakespear, Dahle, Grayson,
Menjivar, Richardson, Seyarto, Valladares, Wiener
NO VOTE RECORDED: Gonzalez

SENATE APPROPRIATIONS COMMITTEE: Senate Rule 28.8

ASSEMBLY FLOOR: 74-3, 5/27/25 - See last page for vote

SUBJECT: Department of Transportation: transferred property: City of
Lynwood

SOURCE: City of Lynwood

DIGEST: This bill requires the California Department of Transportation (Caltrans), upon request from the City of Lynwood, to develop and enter into an agreement with the city to transfer the deed restriction imposed on a property, as defined, to an adjacent property.

ANALYSIS:

Existing law:

- 1) Vests Caltrans with full possession and control of all state highways and all property and rights on property acquired for state highway purposes.
- 2) Authorizes Caltrans to acquire, either in fee or in any lesser estate or interest, any real property that it considers necessary for state highway purposes.

- 3) Defines “excess real property” to mean all land and improvements situated outside of calculated highway right-of-way lines not needed or used for highway or other public purposes, including, but not limited to, those leased to public agencies, as defined, and available for sale or exchange.
- 4) Requires Caltrans to adopt rules and regulations to determine which real property outside of calculated right-of-way lines is no longer needed or used for highway or other public purposes, and which is available for sale or exchange.
- 5) Authorizes Caltrans, if they determine that real property or an interest therein, previously or hereafter acquired by the state for highway purposes, is no longer necessary for those purposes, to sell, contract to sell, sell by trust deed, or exchange the real property or interest therein in the manner and upon terms, standards, and conditions established by the California Transportation Commission (CTC).

This bill:

- 1) Defines “Fernwood Avenue property” to mean the parcel owned by the City of Lynwood, located in the City of Lynwood between Fernwood Avenue and Imperial Highway, legally described and identified as Parcels 1 and 2 in the City of Lynwood Certificate of Compliance having Instrument Number 20250434105, and to be developed as affordable and market-rate housing.
- 2) Defines “Imperial Highway property” to mean the parcel located in, and owned by, the City of Lynwood, legally described in the Caltrans Director’s Deed having Instrument Number 20170260321, and formerly identified as the Caltrans Parcel Number DD 058166-01-01.
- 3) Requires Caltrans, upon request from the City of Lynwood, to develop and enter into an agreement with the city to release and remove the deed restriction imposed on the Imperial Highway property if all the following requirements are met:
 - a) The City of Lynwood agrees to transfer the deed restriction to the Fernwood Avenue property.
 - b) The Fernwood Avenue property is equal to or greater in size than the Imperial Highway property.

- c) The Fernwood Avenue property is appraised at a value equal to, or greater than, the appraised value of the Imperial Highway property on a per-acre basis.
 - d) The deed restriction to be applied to the Fernwood Avenue property is 45 years, beginning on the date that the deed restriction is recorded.
- 4) Stipulates that the appraised value of the Imperial Highway property shall be based on the appraised value of the parcel at the time of its acquisition from the department, and the appraised value of the Fernwood Avenue property shall be based on the appraised value of the parcel at the time of the transfer of the deed restriction.
 - 5) Requires the City of Lynwood, if they enter into an agreement with Caltrans, to submit a report to the Legislature, including the Assembly and Senate Committees on Transportation, on the use of the bill to develop the Imperial Highway property and the Fernwood Avenue property.
 - 6) Requires the report to be submitted within one year of the agreement and annually thereafter until the planned development projects are completed.
 - 7) Requires each report to include, but not be limited to, all of the following:
 - a) Plans for the development of the properties, including types of development.
 - b) The status of any pending projects on the properties.
 - c) The number of affordable housing units, affordability level, and size of units.
 - d) Any public financing or grants that were used to build the developments.
 - 8) Contains findings and declarations to support the purpose of the bill.
 - 9) Declares that a special statute is necessary because of the unique nature of the Imperial Highway property located in the City of Lynwood in the County of Los Angeles and the state's goal and commitment to affordable and market-rate housing.

Comments

- 1) *Purpose of the bill.* According to the author, “AB 1338 would help the City of Lynwood resolve a unique land utilization issue in order to develop a mix of affordable housing and retail space for the benefit of the surrounding, underserved community. The larger project area will be designed and developed to provide affordable housing and public benefit to the City and would ensure that the public use remains for an extended time.”
- 2) *Caltrans excess property.* Under current law, Caltrans has the ability to sell or exchange property considered “excess,” meaning real property acquired by the state for a transportation purposes that is no longer necessary for those purposes. Excess property is sold at auction, either by an oral public auction or a sealed bid auction. Under certain circumstances, excess property may be offered for sale directly to adjoining property owners. It may also be offered for direct sale to public agencies if the property is to be used for a public purpose. Under state and federal law, Caltrans must set the price of excess property at current fair market value, however, Caltrans can offer property to public agencies for less than fair market value for a continued public use, such as parks. CTC is tasked with developing the terms, standards, and conditions for any property sale. Additionally, CTC approves the final sale or transfer of any excess property at a public meeting.
- 3) *City of Lynwood purchased Caltrans property and cleaned it up.* The City of Lynwood is a city in Los Angeles County located near South Gate and Compton and has a population of roughly 67,000. The city owns multiple adjoining parcels of land directly adjacent to Interstate 105 in the west part of the city that were purchased at two different times from Caltrans as part of the department’s excess property process. The so-called Fernwood Avenue property was purchased by the city in 2004. The so-called Imperial Highway property was purchased from Caltrans in 2016.

Both properties were purchased for fair market value and approved by CTC. As a condition of the sale, the Caltrans Director’s Deed, which conveyed the property, required that it be used exclusively for public purposes for a period of 15 years from the recorded date of the deed. The deed also states that if the property ceases to be used exclusively for public purposes Caltrans may terminate the deed, and the property would revert to Caltrans. Current state law does not define what a public purpose is for the purposes of Caltrans and CTC’s approval processes.

The property is part of the larger site, when coupled with the previously purchased Caltrans property, and noting that the full site required major environmental remediation to be ready for development. The city spent approximately \$10 million on environmental cleanup.

- 4) *Now the City wants to develop the property.* The City of Lynwood has been working with a developer to design and construct a mixed-use development which would encompass both the Fernwood Avenue property and the Imperial Highway property. The planned development would include commercial buildings, affordable apartments, and for-sale townhomes. Specifically, the project is broken into two phases. Phase I includes commercial development with four new commercial buildings, including three drive-thrus and one multi-tenet retail space. Phase II includes a 54-unit affordable apartment complex. Half of the affordable units would be restricted for very low-income households, earning less than 50% Area Median Income (AMI), and the remaining half for low-income households, earning less than 60% AMI. Phase II also includes 20 for-sale townhomes.

According to the City of Lynwood, the entire project has been environmentally cleared. The Phase I commercial development is ready to go to construction. The Phase II residential projects are currently in the design phase. Phase II would be partially funded by revenue from the commercial development. Additionally, the city is working with the developer on possible funding sources for the affordable housing components of the residential project. Specifically, the city is working with the Los Angeles County Development Authority (LACDA), which provides grant and loans from the Affordable Housing Trust Funds for capital funding, Section 8 Project-Based Vouchers (PBVs), and Project-Based Veterans Affairs Supportive Housing (PBVASH) Vouchers for the creation and operation of eligible permanent affordable multifamily rental housing units. However, the location of property for the Lynwood development may put the project in jeopardy. LACDA's most recent guidelines, published April 2026 prior to a new round of funding, included language specifically stating that housing projects located within 500 feet of a freeway may only be considered for funding if all other eligible projects have been considered for funding and funds are still available.

- 5) *The City can't locate the housing where the deed restrictions are.* As described above, both properties that would include the multi-use development were purchased through Caltrans excess property process. Both contained a 15-year

deed restriction requiring the property to be used for a public purpose. Although public purpose is not defined in state law, the city expressed its intent to build affordable housing on the site. The 15-year clock on the Fernwood Avenue property has run out, meaning the city may develop the property for any type of use, including commercial. However, the deed restriction on the Imperial Highway property still has roughly 6 years.

The problem identified by the city and the reason for this bill is that the Imperial Highway Property abuts Interstate 105, within 500 feet, and would therefore not be able to compete for needed affordable housing funds. Additionally, as mentioned, there are serious health and safety concerns with building housing that close to the freeway and it would require mitigation.

- 6) *The City needs to swap.* This bill would essentially swap the deed restriction requiring development for public purposes from the Imperial Highway property to the Fernwood Avenue property. The city and the developer have moved forward with the project, planning for the Imperial Highway deed restriction to either be cancelled or swapped. Specifically, this bill requires Caltrans, upon request from the city, to develop and enter into an agreement to release and remove the deed restriction imposed on the Imperial Highway property. This bill further defines the requirements for the agreement. Additionally, to keep the Legislature up to date on the development project, the bill requires the city to submit an annual report on the use of the provisions of the bill to develop the properties.
- 7) *Do we need a bill to make it happen?* The City of Lynwood originally contacted Caltrans District 7 in 2023 to request the removal of the deed restriction. Caltrans informed the city that the deed restriction was included pursuant to CTC's procedures for the sale of excess property, and that Caltrans did not have authority to approve the city's request to reassign the deed restriction and stating that, "parties are legally bound to follow the terms in the agreement." According to the author, he contacted CTC in February 2025 on behalf of the city. The city and author communicated numerous times with CTC over the course of 2025, but no final resolution was reached. Additionally, the author introduced AB 1168 in 2025 to require Caltrans to release and remove the deed restriction on the Imperial Highway property. The bill did not move forward; however, the author sent a letter co-signed by Assembly Transportation Chair Wilson to CTC in August 2025 requesting assistance with the matter.

It is unclear who has the authority to possibly come to agreement with the city through administrative means and whether it is allowable under state law and policy. Caltrans is responsible for the identification, sale, and transfer of its excess property, including issuing a Director's Deed with the terms of the sale and any restrictions. However, CTC is ultimately responsible for approving those actions through a vote of the commission in a public meeting.

Additional questions arise as to what activities are considered development for a public purpose under state and federal law and regulations. As mentioned, the term is undefined in state law. Affordable housing development is critical to meet the state's housing goals and comply with the Regional Housing Needs Assessment (RHNA). It is conceivable that affordable housing could be interpreted as a public purpose in California.

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

SUPPORT: (Verified 8/3/26)

City of Lynwood (source)

Diversity Builders Alliance

Los Angeles County Supervisor Janice Hahn

Lynwood Sports Association

Lynwood Unified School District

Lynwood Unified School District

Primestor Development

U.S. House of Representatives - Office of Congresswoman Nanette Barragan (CA-44)

OPPOSITION: (Verified 8/3/26)

None received

ARGUMENTS IN SUPPORT: Writing in support of this bill, Los Angeles County Supervisor Janice Hahn states, "California is in a housing crisis, and the State has made housing production one of its most urgent priorities. AB 1338 reflects exactly the kind of local-state partnership and creative problem-solving that is needed to meet that challenge. The City of Lynwood is a fully built-out community with limited land available for new development. Every city-owned parcel is precious, and the City has worked diligently to make the most of this one — completing environmental remediation, complying with the Surplus Land Act,

and engaging in a thorough disposition process. AB 1338 removes the last structural barrier standing between Lynwood and the housing its residents need.”

ASSEMBLY FLOOR: 74-3, 5/27/25

AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, Dixon, Elhawary, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, McKinnor, Muratsuchi, Ortega, Pacheco, Papan, Patel, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas

NOES: DeMaio, Ellis, Patterson

NO VOTE RECORDED: Jeff Gonzalez, Nguyen

Prepared by: Melissa White / TRANS. / (916) 651-4121
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**** END ****