
SENATE COMMITTEE ON LOCAL GOVERNMENT

Senator María Elena Durazo, Chair
2025 - 2026 Regular

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DOWNTOWN REVITALIZATION AND ECONOMIC RECOVERY FINANCING DISTRICTS

Expands Downtown Revitalization and Economic Recovery Financing Districts statewide.

Background

Adaptive reuse. Adaptive reuse is the process of converting an existing non-residential building to housing. The ability to adaptively reuse a building is highly dependent on the initially designed use. For example, uses such as warehouses and big box retail are not generally suitable to adaptive reuse, because their tall ceilings, single stories, and rudimentary plumbing would need to be completely redone to be appropriate for human habitation. Office buildings maintain some potential for conversion, because their multi-floor layout is conducive to housing; however, the large configuration of most office buildings makes it difficult to provide the necessary light and air that is required for residential units. For these conversions to occur, they would also need to be financially beneficial to the property owner. Other commercial properties, like hotels and motels, are more conducive to adaptive reuse, since they already have separate residential units often with bathrooms.

Downtown Revitalization and Economic Recovery Financing Districts. AB 2488 (Ting, 2024). allows San Francisco to create a Downtown Revitalization and Economic Recovery Financing District (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. The measure allows the San Francisco Board of Supervisors to form a district by adopting a resolution that includes specified information.

When the Board of Supervisors establishes the district, it must also form a district board at the same time comprising 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. Members cannot receive compensation, but they can be reimbursed for actual and necessary expenses.

The district to use incremental property tax revenues generated by commercial-to-residential conversion projects that opt into the district. The district can only finance commercial-to-residential conversion projects the district determines are of communitywide significance and provide significant benefits to the district or San Francisco.

To create the district, it must approve a financing plan over the course of 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.

The financing plan must comply with specified conditions and outline certain actions the district will take. To ensure that the city can fund projects effectively, the financing plan must include:

- 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;
- Require each project that includes nonresidential development to develop residential and nonresidential portions of the development concurrently, as specified;
- 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;
- 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;
- Require that distributions transfer to the new property owner if the project is sold;
- 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;
- Specify the maximum portion of the incremental tax revenue proposed for the district for each year;
- 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;
- 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;
- Analyze the projected fiscal impact of the district on San Francisco;
- 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; and
- Prohibit the district from receiving property tax increment that would go to other taxing entities.

After approving the financing plan, the district must 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. 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.

No affordability requirements apply to the first 1.5 million square feet of opted-in commercial-to-residential conversion projects. After the first 1.5 million square feet are developed, projects must comply with one of the following affordability requirements (or the local inclusionary requirement, whichever is higher):

- At least 5% of total units for rent are affordable to very low-income households;
- At least 10% of total units for rent are affordable to lower-income households; or
- At least 10% of total units for sale are affordable to moderate-income households.

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 Board of Supervisors. If the Board of Supervisors does not adopt labor standards, then the project cannot receive incremental tax revenue or net available revenue.

In an effort to encourage more conversions of underutilized office space into housing, the author wants to expand Downtown Revitalization and Economic Recovery Financing Districts statewide.

Proposed Law

Assembly Bill 1445 expands Downtown Revitalization and Economic Recovery Financing Districts (districts) statewide. Under the measure, any city or county could establish one district. These districts would follow the same procedure for their creation as AB 2488 allowed Downtown San Francisco. A downtown district could only finance commercial-to-residential conversion projects that meet all the following requirements:

- At least 75% of the development site's perimeter adjoins parcels developed with urban uses, including sites separated by a street or highway;
- The commercial office vacancy rate in the area is 20% or greater; and
- Is located in a transit priority area.

Comments

1. Purpose of the bill. According to the author, "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.”

2. Caution: wet paint. San Francisco is still in the process of creating the district that AB 2448 allowed them to just last year. In fact, the Mayor just signed the resolution of intent to form the district on June 12, 2025. San Francisco now has to figure out the financing plan that will guide the district’s activities. Before San Francisco has proven that such a district can effectively finance commercial to residential conversions, AB 1445 expands these districts statewide. This is problematic because San Francisco has already identified various implementation challenges. First, AB 2488 allowed San Francisco to dedicate certain state revenues associated with vehicle license fees according to property valuation. However, this revenue is not determined at a parcel level, so it is unclear how San Francisco could determine the level of revenue it should allocate to these projects. AB 1445 replicates this mechanism without addressing this question. Second, AB 1445 copies from AB 2488 the requirement that revenues go back to specific buildings. But local governments assess property values at the parcel level, not the building level. San Francisco has not yet come up with a method for determining increment at a building level. AB 1445 expands these downtown districts before learning whether San Francisco can address these implementation challenges. To resolve one of these challenges, the Committee may wish to consider amending the bill to remove provisions related to vehicle license fee adjustments.

3. Labor standards. AB 2488 required projects to pay prevailing wages and abide by labor standards that San Francisco adopted for projects based on labor standards that a regional housing finance agency, the Bay Area Housing Finance Authority (BAHFA) would adopt for its proposed regional tax measure. AB 1445 extends these same provisions statewide. This is problematic for a couple reasons. First, that regional tax measure did not move forward, so the BAHFA did not adopt labor standards for that measure, meaning the labor standards that apply to the district is now up to the San Francisco Board of Supervisors. Second, if BAHFA did adopt labor standards for a future regional tax measure, any downtown district would have to follow standards they had no part in developing and do not otherwise apply to their jurisdiction. The Committee may wish to consider amending the bill to clarify what labor standards apply to these districts.

4. Let’s be clear. Committee staff recommend the following clarifying amendments:

- AB 2488 allowed adapt reuse projects to receive property tax increment after they receive their certificate of occupancy. While generally all projects receive a final inspection, not all projects receive a certificate of occupancy. Now that AB 1445 expands these districts outside of San Francisco, the Committee may wish to consider amending the bill to allow the final inspection to count as the certificate of occupancy for projects that do not require a certificate of occupancy.
- The measure refers to the legislative body of a city or county and defines that term to mean the city council or county board of supervisors. However, in other sections of law legislative body refers more broadly. To avoid unnecessary confusion, the Committee may wish to consider amending the bill to replace references to “legislative body” with “governing body.”

5. Related legislation. AB 507 (Haney) enacts the Office to Housing Conversion Act, which creates a streamlined, ministerial approval process for adaptive reuse projects and provides

certain financial incentives for the adaptive reuse of existing buildings. The measure is also scheduled to be heard at the Committee's July 2nd hearing.

6. Coming and going. The Senate Rules Committee has ordered a double referral of AB 1445: first to the Committee on Local Government to hear issues relating to tax increment financing, and second to the Committee on Housing.

Assembly Actions

Assembly Local Government Committee:	9-0
Assembly Housing and Community Development Committee:	11-0
Assembly Floor:	63-0

Support and Opposition (6/27/25)

Support: Abundant Housing LA
 California Apartment Association
 California Downtown Association
 California Travel Association (CALTRAVEL)
 Circulate San Diego
 City of Mission Viejo
 Housing Action Coalition
 Housing Trust Silicon Valley
 Ingka Procurement LLC (IKEA)
 League of California Cities
 Spur
 Streets for All

Opposition: State Association of Auditor-Controllers.

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