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## SENATE COMMITTEE ON APPROPRIATIONS

Senator Anna Caballero, Chair  
2025 - 2026 Regular Session

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### **AB 1445 (Haney) - Downtown revitalization and economic recovery financing districts**

**Version:** July 17, 2025

**Urgency:** No

**Hearing Date:** August 18, 2025

**Policy Vote:** L. GOV. 5-0, HOUSING 8-1

**Mandate:** No

**Consultant:** Mark McKenzie

**Bill Summary:** AB 1445 would extend the authority for all cities and counties in the state to establish Downtown Revitalization and Economic Recovery Financing Districts (districts) to finance commercial-to-residential conversion projects with incremental property tax revenues generated by conversion projects within a district, as specified. The bill would also impose specified labor standards on those projects, including requirements that contractors pay prevailing wages, participate in apprenticeship programs, make specified healthcare expenditures, and use a skilled and trained workforce in certain circumstances.

#### **Fiscal Impact:**

- Staff estimates that the Department of Industrial Relations (DIR) would incur unknown, potentially significant ongoing workload costs in future fiscal years for oversight and enforcement activities related to prevailing wage and apprenticeship standards requirements on projects constructed pursuant to the provisions of this bill. There could be some penalty revenue gains to partially offset these costs. Actual costs and penalty revenues would depend upon the number of districts formed pursuant to the bill, the number of qualifying projects constructed under this bill, and the number of complaints and referrals to the Division of Labor Standards and Enforcement that require enforcement actions, investigations, and appeals. (State Public Works Enforcement Fund)

**Background:** Historically, the Community Redevelopment Law allowed a local government to establish redevelopment agencies (RDAs) and capture all of the increase in property taxes that is generated within the project area beyond the base year value (referred to as “tax increment”) over a period of decades. Prior to their dissolution pursuant to ABx1 26 (Blumenfeld) Chap. 5/2011, RDAs used tax increment financing, oftentimes issuing long-term debt in the form of tax allocation bonds, to address issues of blight, construct affordable housing, rehabilitate existing buildings, and finance development and infrastructure projects. Following the dissolution of RDAs, numerous state laws have been enacted to provide local agencies with various tax increment financing (TIF) tools to raise capital needed to fund public infrastructure projects, including Enhanced Infrastructure Financing Districts (EIFDs), Community Revitalization and Investment Authorities (CRIAs), Affordable Housing Authorities (AHAs), and two versions of Neighborhood Infill Finance and Transit Improvement districts (NIFTIs and NIFTI-2s). One primary distinction between RDA statutes and the more recent TIF tools is that the latter all require voluntary participation by affected taxing agencies, and none are authorized to involve the participation of the local school share of revenues.

Existing law, as enacted by 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. AB 2488 specifies the district formation process, governance structure, powers, financing plan, payment mechanics, affordability requirements, labor standards, and accountability measures. Existing law requires the San Francisco Board of Supervisors to establish a board for the district when it adopts a resolution of intention to form the district, and requires the district to prepare a downtown revitalization financing plan that outlines certain information and actions the district will take. Among other things, the financing plan must do the following:

- 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, and development of 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 is limited to the incremental tax revenues generated by the residential uses of that project for a period no greater than 30 years or until the district ceases to exist.
- 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, which can be no more than 45 years from the date the district distributes funding to the first project.
- Analyze the projected fiscal impact of the district on San Francisco, as specified.
- Require a plan to protect or replace any units that would be removed or demolished as part of the project, and to relocate residents consistent with existing law.
- Prohibit the district from receiving property tax increment that would go to other taxing entities.

After approving the financing plan, the district must establish a process for eligible projects to opt into receiving incremental tax revenue. Projects that opt in are considered public works and must pay prevailing wage, and comply with labor standards adopted by the Board of Supervisors, as specified. The first 1.5 million square feet of a commercial-to-residential conversion project is not subject to affordability standards, but after that, a project must comply with the local inclusionary requirements or ensure that at least 5% of total rental units that are affordable to very low-income households, at least 10% of rental units for lower-income households, or

10% of rental units for moderate-income households. Existing law prohibits any projects from opting in to receiving tax increment funding after December 31, 2032.

**Proposed Law:** AB 1445 would extend the authority to establish Downtown Revitalization and Economic Recovery Financing Districts (districts) to all cities and counties in the state using the same procedures specified in existing law for San Francisco, with certain modifications. Specifically, the bill would revise the requirements in the following ways:

- Require the resolution of intention to form a district to state that it will only finance commercial-to-residential conversion projects that meet all of the following requirements:
  - At least 75% of the development site's perimeter adjoins parcels that are developed for urban uses.
  - The project is located in a part of the city or county where the commercial office vacancy rate is 20% or greater.
  - The project is located within a transit priority area, as specified.
- Require at least 30% of the incremental tax revenues generated by a district outside of San Francisco to be used to finance low- and moderate-income rental housing units.
- Require a city or county governing body outside of San Francisco to adopt labor standards specific to commercial-to-residential conversion projects that opt into receiving incremental tax revenue.
- Require commercial-to-residential conversion projects that opt in to receive incremental tax revenue pursuant to this bill to meet certain labor standards, as specified in the Affordable Housing and High Road Jobs Act of 2022, that include the following:
  - A requirement for contractors to pay prevailing wages and maintain and verify payroll records, as specified.
  - Authorization for prevailing wage requirements to be enforced by the Labor Commissioner, an underpaid worker, or a joint labor-management committee through a civil action, as specified.
  - A requirement that a project of 50 or more housing units that is approved pursuant to this bill to meet additional standards, including requirements for project proponents to certify with a local agency that contractors will be paid prevailing wages, and for contractors to participate in an apprenticeship program and make health care expenditures for each employee, as specified.
  - Subject the development proponent to monthly compliance reporting with the labor standards above, and other reporting and disclosure requirements regarding payroll records, the apprenticeship program participation, and health care requirements, as specified.
  - Specify penalties for failure to provide specified reports and for other violations.
- Require projects involving buildings over 85 feet in height above grade to meet additional specified labor standards, including the use of a skilled and trained workforce, as specified.

**Related Legislation:** AB 2488 (Ting), Chap. 274/2024, authorized San Francisco to establish a Downtown Revitalization and Economic Recovery Financing District to finance commercial-to-residential conversion projects, as specified.

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