THIRD READING

Bill No: AB 1445
Author: Haney (D), et al.
Amended: 7/17/25 in Senate
Vote: 21

SENATE LOCAL GOVERNMENT COMMITTEE: 5-0, 7/2/25
AYES: Durazo, Arreguín, Cabaldon, Laird, Wiener
NO VOTE RECORDED: Choi, Seyarto

SENATE HOUSING COMMITTEE: 8-1, 7/15/25
AYES: Wahab, Arreguín, Caballero, Cortese, Durazo, Gonzalez, Grayson, Padilla
NOES: Ochoa Bogh
NO VOTE RECORDED: Seyarto, Cabaldon

SENATE APPROPRIATIONS COMMITTEE: 5-0, 8/29/25
AYES: Caballero, Cabaldon, Grayson, Richardson, Wahab
NO VOTE RECORDED: Seyarto, Dahle

ASSEMBLY FLOOR: 63-0, 5/23/25 - See last page for vote

**SUBJECT:** Downtown revitalization and economic recovery financing districts

**SOURCE:** Author

**DIGEST:** This bill expands Downtown Revitalization and Economic Recovery Financing Districts AB 2488, (Ting, Chapter 274, Statutes of 2024) statewide.

**ANALYSIS:**

Existing law:

1) 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: 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 (Board) to form a district by adopting a resolution that includes specified information.

2) Requires the Board, when it establishes the district, to also form a district board at the same time comprising three members of the Board and two members of the public chosen by the Board.

3) Authorizes the Board to appoint one supervisor to serve as an alternate. Members cannot receive compensation, but they can be reimbursed for actual and necessary expenses.

4) Authorizes the district to use incremental property tax revenues generated by commercial-to-residential conversion projects that opt into the district.

5) Provides that 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.

6) Requires the Board, when creating the district, to approve a financing plan over the course of three public hearings. The district must meet specified noticing requirements for these meetings

7) Requires the financing plan to 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:

   a) Description of the potential commercial-to-residential conversion projects in the district. Eligible projects can be mixed-use, but must dedicate at least 60% of the square footage for residential use;

   b) Provisions that require each project that includes non-residential development to develop residential and non-residential portions of the development concurrently, as specified;

   c) Identification of 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;

   d) Requirements for incremental tax revenues generated by each individual commercial-to-residential conversion project to 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;

e) Requirements that distributions transfer to the new property owner if the project is sold;

f) Requirements 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;

g) Specifies the maximum portion of the incremental tax revenue proposed for the district for each year;

h) A date when the district ceases to exist that is no more than 45 years from the date the district distributes funding to the first project;

i) An analysis of 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;

j) An analysis of the projected fiscal impact of the district on San Francisco;

k) Requirements for the removal or demolition of any residential units, a plan to protect or replace those units, and a plan to relocate residents consistent with existing law; and

l) Prohibitions against the district from receiving property tax increment that would go to other taxing entities.

8) Requires, after approving the financing plan, the district to 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.

a) 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.

b) If the district approves the project, the district must 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.

9) Provides that projects do not need to include any affordable housing units in 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):

a) At least 5% of total units for rent are affordable to very low-income households;

b) At least 10% of total units for rent are affordable to lower- income households; or

c) At least 10% of total units for sale are affordable to moderate-income households.

10) Provides that commercial-to-residential projects that opt-in to receive funding are considered public works and must pay prevailing wage and additional specified labor standards.

This bill:

1) Expands Downtown Revitalization and Economic Recovery Financing Districts (districts) statewide.

2) Provides that, in districts outside of San Francisco, a city or county may establish one district. These districts would follow the same procedures for their creation as outlined under AB 2488.

3) Provides that for districts outside of San Francisco, a downtown district can only finance commercial-to-residential conversion projects that meet all the following requirements:

a) At least 75% of the development site's perimeter adjoins parcels developed with urban uses, including sites separated by a street or highway;

b) The commercial office vacancy rate in the area is 20% or greater; and

c) The project is located in a transit priority area.

4) Requires projects that receive tax revenue to comply with specified labor standards.

5) Require that 30% of the revenues of a district outside of San Francisco support the required affordable housing units.

6) Make other technical and conforming changes.

**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, Chapter 274, Statutes of 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.

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.

**Comments**

1) *Purpose of this 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. However, San Francisco has already identified various implementation challenges, including how the tax revenues would be allocated to specific buildings. Before San Francisco has proven that such a district can effectively finance commercial to residential conversions, AB 1445 expands these districts statewide. The Legislature may wish to consider whether it should authorize the use of these districts elsewhere before San Francisco demonstrates that these districts function as intended.

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

According to the Senate Appropriations Committee:

- 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)

**SUPPORT:** (Verified 8/29/25)

Abundant Housing LA
California Apartment Association
California Association for Local Economic Development
California Council for Affordable Housing
California Downtown Association
California Travel Association
Circulate San Diego
City of Mission Viejo
Housing Action Coalition
Housing Trust Silicon Valley
Ingka Procurement LLC
Kosmont Companies
League of California Cities
Oakland; City of
Spur
Streets for All

**OPPOSITION:** (Verified 8/29/25)

California State Association of County Auditors

ASSEMBLY FLOOR: 63-0, 5/23/25
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Calderon, Caloza, Carrillo, Connolly, Davies, Elhawary, Flora, Fong, Gabriel, Garcia, Gipson, Mark González, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Kalra, Krell, Lee, Lowenthal, McKinnor, Muratsuchi, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Solache, Soria, Stefani, Ta, Valencia, Wallis, Ward, Wilson, Zbur, Rivas

NO VOTE RECORDED: Bryan, Castillo, Chen, DeMaio, Dixon, Ellis, Gallagher, Jeff Gonzalez, Hadwick, Lackey, Macedo, Nguyen, Sanchez, Sharp-Collins, Tangipa, Wicks

Prepared by: Jonathan Peterson / L. GOV. / (916) 651-4119
8/29/25 21:14:41

****** END ******