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# SENATE COMMITTEE ON LOCAL GOVERNMENT

Senator María Elena Durazo, Chair

2025 - 2026 Regular

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**Bill No:** AB 2385

**Hearing Date:** 6/17/26

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**Fiscal:** Yes

**Version:** 4/27/26

**Consultant:** Peterson

## *LOCAL RECONSTRUCTION AGENCIES*

*Creates local reconstruction agencies and makes various changes to the Disaster Recovery Reconstruction Act of 1986 to facilitate their creation in the event of a disaster.*

### **Background**

***Redevelopment agencies.*** From the early 1950s until their dissolution in 2011, California redevelopment agencies (RDAs) used property tax increment financing (TIF) to pay for economic development projects in blighted areas pursuant to Community Redevelopment Law. Generally, TIF involves a local government forming a TIF district to issue bonds and use the bond proceeds to pay project costs within the boundaries of a specified project area. To repay the bonds, the district captures increased property tax revenues generated when projects the bonds finance increase assessed property values within the project area. To calculate the increased property tax revenues captured by the district, the amount of property tax revenues received by any local agency participating in the district is “frozen” at the amount it received from property within a project area prior to the project area’s formation. In future years, as the project area’s assessed valuation grows above the frozen base, the resulting additional property tax revenues—the so-called property tax “increment” revenues—flow to the TIF district instead of other local agencies. After the district has repaid the bonds using the incremental property tax revenues, the district dissolves, ending the diversion of tax increment revenues from participating local agencies.

Citing a significant state General Fund deficit, Governor Brown’s 2011-12 budget proposed eliminating RDAs and diverting billions of dollars of property tax revenues back to schools, cities, and counties to fund core services. Among the statutory changes the Legislature adopted to implement the 2011-12 budget, AB X1 26 (Blumenfeld, 2011) dissolved all RDAs. The California Supreme Court’s 2011 ruling in *California Redevelopment Association v. Matosantos* upheld the dissolution of RDAs.

RDAs’ dissolution deprived many local governments of the primary tool they used to eliminate physical and economic blight, finance new construction, improve public infrastructure, rehabilitate existing buildings, and increase the supply of affordable housing.

***Disaster RDAs.*** Because of their extraordinary powers to generate public capital and manage real estate, redevelopment agencies can speed recovery after disasters. The Community Redevelopment Disaster Project Law allows local officials to accelerate the adoption of redevelopment plans after declared disasters (AB 189, Hauser, 1995).

General redevelopment law sets time limits on redevelopment activities: 20 years to create debt, 30 years for the effectiveness of the redevelopment plan, and 45 years to repay debt with property tax increment revenues. The disaster redevelopment law cuts those deadlines to 10 years to create debt, 10 years for the plan's effectiveness, and 30 years to repay debt.

***Disaster Recovery Reconstruction Act of 1986 (DRRA).*** After the 1985 earthquake in Mexico City, the Legislature expanded the authority for local agencies to engage in pre- and post-disaster activities to prepare in advance of a disaster, such as a devastating earthquake, for the expeditious and orderly recovery and reconstruction of the community or region (AB 3595, Davis). DRRA authorized local agencies to prepare plans and ordinances facilitating the expeditious and orderly recovery and reconstruction of the area under its jurisdiction, should a disaster occur. This can include:

- An evaluation of the vulnerability of specific areas under its jurisdiction to damage from a potential disaster, together with streamlined procedures for the appropriate modification of existing general plans or zoning ordinances affecting those areas after a disaster;
- A contingency plan of action and organization for short-term and long-term recovery and reconstruction to be instituted after a disaster; and
- An ordinance, to be adopted prior to the disaster, which could be invoked as soon as possible after the event and which would provide necessary local authorization for disaster-related activities.

These plans and ordinances can include the authority and proposed establishment of a local reconstruction agency (LRA) with powers parallel to those of an RDA, except that the LRA would be authorized to operate beyond the confines of designated redevelopment areas and would have financing sources other than tax increment sources.

DRRA allows cities and counties to take necessary actions to assure the orderly transition from emergencies declared to a systematic program of short-term and long-term recovery and reconstruction, including:

- Activating the ordinances, plans, and organizational arrangements made prior to the disaster, including the establishment of an LRA as specified by ordinance;
- Coordinating these actions with those taken under other provisions of law governing a declared emergency;
- Identifying areas where substantial damage or destruction has occurred;
- Reviewing and recommending modifications to the governing body of recovery and reconstruction plans adopted prior to the disaster;
- Determining appropriate methods of financing of activities undertaken by the LRA, including postevent funding sources both public and private.

Cities and counties can take these actions separately or jointly through cooperative arrangements made with other entities.

***Enhanced Infrastructure Financing Districts.*** After RDAs were dissolved in 2011, local officials sought other ways to use TIF to raise the capital they need to fund public works projects. In response, the Legislature enacted SB 628 (Beall, 2014) to allow local officials to create Enhanced Infrastructure Financing Districts (EIFDs), which augment the tax increment financing powers available to local agencies under existing infrastructure financing district

statutes. While the Legislature has created other similar financing tools, they have seldom, or never, been used.

EIFDs can finance public capital facilities or other specified projects of communitywide significance that provide significant benefits to the district or the surrounding community with an estimated useful life of 15 years or more. This includes projects that enable communities to adapt to the impacts of climate change, including, but not limited to, higher average temperatures, decreased air and water quality, the spread of infectious and vector-borne diseases, other public health impacts, extreme weather events, sea level rise, flooding, heat waves, wildfires, and drought (AB 733, Berman, 2017). To do this they must follow a specific process for adopting an infrastructure financing plan so that the public is aware of the projects the district intends to finance.

In addition to construction costs, EIFDs can finance: (1) planning and design work, (2) displacement of affordable housing residents, (3) defending the district against protests over existence or plans, and (4) the ongoing or capitalized costs to maintain the projects the district finances. The EIFD must not use bond proceeds to finance maintenance of any kind, and must not finance costs for ongoing operations or providing services.

An EIFD is governed by a public financing authority (PFA) with three members of each participating taxing entity's legislative body and a minimum of two public members. Member agencies can also appoint an alternate member from their legislative body. If at least three taxing entities participate in the district, they can agree to reduce the district's governing board to one member and one alternate member of each legislative body and a minimum of two public members.

***Climate resilience districts.*** SB 852 (Dodd, 2022) created climate resilience districts (CRDs), which not only have all the powers of an EIFD, and must go through the same public meeting and notice process to use TIF, but can also impose benefit assessments, special taxes, property-related fees, and other service charges. While EIFDs can finance a broad range of public facilities, CRDs can only finance projects dealing with climate resilience.

***Los Angeles fires.*** In early January 2025, extremely dry conditions and high winds in Los Angeles resulted in two of the most destructive wildfires in state history. The Palisades fire, which started on January 7<sup>th</sup>, burned a total of 23,448 acres and damaged or destroyed almost 8,000 structures in the Pacific Palisades and Topanga State Park area of west Los Angeles. That same day, other fires also broke out in the greater Los Angeles area: the Eaton and Hughes fires. The Eaton fire consumed 14,021 acres and damaged or destroyed more than 10,000 structures, including significant portions of the unincorporated community of Altadena. The fires destroyed about half of all properties in both Palisades and Altadena and caused the deaths of 30 people.

Real estate losses have been estimated to be as high as \$30 billion, and just under 13,000 households were displaced by the Palisades and Eaton fires. An estimated 9,592 single family homes and condominiums, 678 apartment units, 2,210 duplex and bungalow courts, and 373 mobilehomes were either heavily damaged or destroyed.

***SB 782 (Pérez, 2025).*** SB 782 (Perez) created a subcategory of CRDs to finance disaster recovery efforts. These districts have the same powers of a CRD, but with several differences. Under existing law, before CRDs can use tax increment financing, they have to go through various meetings and notices. SB 782 allowed a city or county to bypass some of these meeting

and notice requirements if a resolution that is adopted to use tax increment financing contains specified information and if the following are met:

- District boundaries are limited to areas where disaster damage is so prevalent and substantial that there is a significant reduction in the normal pre-disaster economic or physical usage of an area that cannot reasonably be expected to be reversed or alleviated during the term of the infrastructure financing plan (IFP) without redevelopment;
- Areas adjacent to the disaster area may be included but those areas must not be more than 20% of the total district area; and
- The city or county adopts the resolution within two years of the disaster proclamation.

SB 782 also required the entity proposing formation of a district to hold two public meetings on the proposal and specified what must be considered at each meeting, the noticing requirements, and the requirements for the preparation and adoption of an IFP. Lastly, the bill enumerated how a district may use its revenue, including limiting the use of bond proceeds from being used for the cost of operation, programs or providing services.

**Blue Ribbon Commission.** In February 2025, the Los Angeles County Board of Supervisors created the Blue Ribbon Commission (BRC) on Climate Action and Fire Safe Recovery to:

- Help residents, neighborhoods, and the region rebuild single family homes, multi-family housing, schools, places of worship, community buildings, commercial buildings, and infrastructure in a more resilient, sustainable manner to better ensure long-term survivability and insurability;
- Help retrofit existing homes, businesses, and infrastructure in at-risk communities, while supporting the well-being of residents, workers, and community members; and
- Advance regionwide climate mitigation and resilience measures and investments to reduce risks from other climate shocks and disasters.

On June 20, 2025, the BRC released its final recommendations and action plans. One of its recommendations was to update the DRRRA to encourage and enable local jurisdictions to plan for effective recovery before a disaster by creating a “reconstruction authority” that can be activated when disaster strikes. Without amendments, the reconstruction authority in the DRRRA is an RDA, which the state dissolved in 2011, meaning the DRRRA does not clearly identify the powers of the reconstruction authority.

The author wants to update the DRRRA to implement the BRC’s recommendation to create reconstruction authorities in the event of a disaster.

### **Proposed Law**

Assembly Bill 2385 creates local reconstruction agencies (LRAs) and makes various changes to the Disaster Recovery Reconstruction Act of 1986 (DRRA) to facilitate their creation.

**LRAs.** If a city or county adopts a disaster recovery plan under DRRRA that includes the authority to establish an LRA, the city or county can adopt an ordinance to establish the agency to coordinate disaster recovery efforts in disaster-impacted areas. The city or county must include procedures for determining the boundaries of the LRA in the ordinance. The ordinance can grant LRAs various powers including:

- Within the local reconstruction area, purchase, lease, obtain option upon, acquire by gift, grant, bequest, devise, eminent domain, or otherwise acquire, any real or personal property, any interest in property, and any improvements on it, including repurchase of developed property previously owned by the reconstruction agency;
- Dispose of assets, including by sale or lease;
- Issue bonds pursuant to EIFD law which do not require voter approval;
- Incur and restructure debt pursuant to the same requirements that apply to the establishing city or county;
- Accept financial or other assistance from public or private sources;
- State that incremental property tax revenue from the city or county and all affected taxing entities will be allocated within the local reconstruction area;
- Prepare and carry out plans for the improvement, rehabilitation, recovery, and redevelopment of disaster-impacted areas;
- Make loans or provide funds or financial assistance to residents and businesses;
- Provide for the insurance of any operations of the reconstruction agency against risks or hazards;
- Disseminate information related to disaster recovery; and
- Prepare applications for various governmental programs and grants relating to disaster recovery, housing, and community development, and plan and carry out those programs.

An LRA has the same board composition as an EIFD, except that at least one of the public members must be a resident or business owner within the district. The city or county that creates the LRA must specify how long the agency can exist, which must not be longer than 45 years.

**DRRA.** AB 2385 enumerates more policies that a city or county can include in its DRP, including:

- Identifying additional strategies that go into a DRP's contingency plan of action;
- Procedures for integration with state and federal recovery frameworks; and
- Expanding the types of organizational arrangements DRPs can make between cities and counties to include CRDs and EIFDs.

AB 2385 also imposes additional requirements on DRPs:

- If the city or county determines that it should amend its general plan to ensure consistency with the DRP, the city or county must amend their general plan within a reasonable time; and
- To assist local jurisdictions preparing DRPs, the Office of Land Use and Climate Innovation (LCI) must consult with the Office of Emergency Services (OES) and appropriate regional agencies to develop model ordinances for DRPs; and
- OES, in consultation with LCI must prepare guidance on DRPs.

The measure also removes references to RDAs, and instead includes provisions to authorize the creation of LRAs.

AB 2385 also defines its terms.

### Comments

1. Purpose of the bill. According to the author, “In the immediate aftermath of a wildfire, flood, or earthquake, first responders and community members rise to the challenge in the face of devastation. But after the crisis subsides, in the months and years following a disaster, people are often left navigating a complex web of insurance companies, disaster response agencies, and financial lenders.

“AB 2385 will provide local governments with a legal framework that they can modify to fit their needs that helps them prepare for the inevitable disaster. Communities recover best when they plan for recovery before disaster strikes.”

2. Sure, but will it work? Proposition 13 (1978) capped property tax rates at 1% of assessed value (which only changes upon new construction or when ownership changes). If properties do not get reassessed, the Constitution caps growth at 2% per year. The general theory behind TIF is that a local agency creates a district because it expects significant property tax growth generated through reassessments when property changes hands or is improved. Otherwise, a TIF district only receives the increment that comes from the 2% growth, which may not be sufficient to generate enough revenue to finance significant infrastructure projects in a timely fashion. When the TIF district uses these resources to finance infrastructure projects, it can springboard additional property tax growth. In other words, the TIF district pays for itself.

When RDAs existed, they had at least two important advantages over current TIF districts. First, they received increment from the school share of property tax revenue, which the state backfilled from the General Fund in many cases. Second, they received an increment that would have otherwise gone to other local agencies without their approval. This generated billions of dollars in additional funds that cities and counties could only access through redevelopment. Even with these key features, research has found that RDAs generally did not generate enough growth in property values to justify the property tax revenue they received. For example, a Public Policy Institute of California study on 38 different RDA projects found that, “Across all the projects, the RDAs generated just 51 percent of their tax increment revenues in fiscal year 1994–1995. This means that other governments—the state, counties, and special districts—provided subsidies to these RDAs of over \$38 million that year (after accounting for pass-through payments).”<sup>1</sup> This research suggests that TIF districts, including the LRAs enacted by AB 2385, won’t effectively finance infrastructure projects without a subsidy.

3. Timing is everything. AB 2385 allows LRAs to create TIF districts. A key factor in the success of a TIF district is figuring out when to create it. If the local agency forms the TIF district too soon, it will be years until it begins to create sufficient revenue to successfully finance projects, or the development may not materialize, meaning the resources to create the district are wasted. If the local agency forms the TIF district too late, reassessments may occur before the district begins to capture revenue and the district may never provide sufficient revenue to successfully finance projects.

TIF districts are most effective when local governments create them before a transformative development event, such as significant investment in specific area. Once completed, property values surrounding these transformative development events will likely increase as demand for housing and commercial businesses increases, which in turn increases revenue flowing to the TIF district. If a local agency did not create the TIF, the increment would flow back to the city’s

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<sup>1</sup> Michael Dardia, *Subsidizing Redevelopment in California* (Public Policy Institute of California: January 1998). [http://www.ppic.org/content/pubs/report/R\\_298MDR.pdf](http://www.ppic.org/content/pubs/report/R_298MDR.pdf)

general fund and be divvied out to the city's existing programs and services. Some of these resources may find their way to the same areas of the district, but those resources may be insufficient to issue debt to finance projects. Without a district, debt for these projects would be more difficult to issue because they would likely require 2/3 voter approval under the State Constitution.

The California Constitution allows the Legislature to authorize local agencies to provide for the assessment or reassessment of taxable property "physically damaged or destroyed" for property tax purposes. Upon a taxpayer filing a valid claim, assessors must revalue property affected by the disaster, which often lowers the assessed value of the property to the land value leading to significantly less property tax revenue for affected local agencies. The property retains its disaster-affected value until fully restored, reconstructed, or rebuilt.

Timing will be even more important in the case of a disaster-oriented TIF district like those authorized by AB 2385. Forming a TIF district when most properties are at their disaster-affected values could generate significant TIF revenues if properties are rebuilt or improved. However, this shifts property tax revenue away from core programs or services towards infrastructure. Unless properties change ownership or receive significant improvements, property tax revenue will only return to its pre-disaster levels as the artificially low assessments following the disaster return to normal, meaning the district is shifting dollars from programs and services to infrastructure, not generating revenue beyond pre-disaster levels. In other words, if the city or county forms the district too early and captures too much TIF revenue, city or county budget problems could deepen and resources to maintain staffing levels may fall short. On the other hand, if the city or county creates the TIF district too late in the rebuild process, the assessor may have already restored property values to their pre-disaster levels, meaning the district generates very little TIF revenue, and may not help the city or county to finance infrastructure necessary for the rebuilding efforts.

If enacted, cities and counties need to time the creation of these disaster recovery districts to balance their existing budgetary needs and generate sufficient revenue to finance infrastructure projects. AB 2385 trusts local governments to make this decision on their own, but more oversight or accountability may be necessary to ensure these local governments avoid making economic conditions worse.

4. Sins of the father. A number of factors contributed to the downfall of redevelopment. Chief among them were fiscal concerns: by 2009-10, the state paid over \$2 billion a year to backfill property taxes that RDAs captured from K-14 schools. But examples of poor spending by redevelopment agencies also figured into legislators' decisions. Studies of redevelopment by the Legislative Analyst's Office, the State Controller, the Public Policy Institute of California, and others found that redevelopment often subsidized private development—such as car dealerships, large retail chain stores, and bars—with dubious public benefits using eminent domain. With very limited exceptions, post-redevelopment TIF tools have not had the power of eminent domain. AB 2385 overlooks one of the key lessons learned from RDA's downfall. The Committee may wish to consider amending the bill to remove eminent domain from an LRA's powers.

5. What's the procedure? AB 2385 allows for cities and counties to create LRAs by simply passing an ordinance. After doing so, an LRA receives broad powers from TIF to eminent domain to incurring debt and issuing bonds. Given the checkered past of RDAs, when the Legislature has authorized new TIF districts, they have ensured these new agencies remain

accountable to the public by requiring a multistep formation process that ensures a base level of public participation. AB 2385 would depart from that precedent and grant TIF powers without such a procedure. To ensure the public has adequate opportunity to weigh in on TIF district creation, the Committee may wish to consider amending the bill to require an LRA to go through the same process as CRDs or SB 782 districts before they can use their TIF powers.

6. Coming and going. The Senate Rules Committee has ordered a double referral of AB 2385: first to the Committee on Local Government to hear issues related to local government finance, and second to the Committee on Emergency Management.

**Assembly Actions**

Assembly Committee on Emergency Management:	6-0
Assembly Committee on Local Government:	10-0
Assembly Committee on Appropriations:	15-0
Assembly Floor:	78-0

**Support and Opposition** (6/19/2026)

Support: Blue Ribbon Commission for Climate Action and Fire Safe Recovery  
City of Thousand Oaks  
League of California Cities  
Town of Truckee

Opposition: None Submitted

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