



CITY OF LONG BEACH R-13

OFFICE OF THE CITY MANAGER

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August 16, 2011

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Amend the City's State Legislative Agenda related to Redevelopment and Housing.
(Citywide)

DISCUSSION

As part of the State Budget earlier this year, the State passed AB X1 26 and AB X1 27, abolishing redevelopment and creating a process for cities to pay in order to continue redevelopment activities. Concurrent to that process, the Legislature introduced bills that seek to change the allowed uses of redevelopment funds. SB 450 (Lowenthal) proposes new restrictions on how redevelopment agencies can use Low and Moderate Income Housing Set-Aside Funds (Low/Mod Funds). AB 1250 (Alejo) places restrictions on how redevelopment dollars can be used, and prohibits the creation of additional redevelopment zones if a city has more than 25 percent of their land area in a redevelopment zone. These bills were discussed in the August 2, 2011 City Council study session on Redevelopment, and the City Council requested that the City take a position on several of the issues contained in those two bills. Further information on these two bills can be found in Attachment A.

A number of the provisions in these bills, and in potentially other future legislation being discussed, would have detrimental effects on redevelopment and housing in Long Beach. While SB 450 and AB 1250 may or may not move forward, it is expected that components of those bills may be included in proposed legislation to "clean up" AB X1 26 and AB X1 27. As such, staff recommends adding the following provisions to the State Legislative Agenda.

Proposed Additions:

- Oppose efforts to require a repayment of Housing Set Aside funds currently allowed as an eligible use to pay to the State (AB X1 27)
- Support code enforcement as an eligible use of both Low/Mod Funds and Redevelopment
- Oppose efforts to limit acquisition-rehabilitation as a method of providing replacement housing in built-out cities
- Oppose changes to the current proportionality requirements on the expenditure of Low/Mod Funds for cities that have met their affordable housing requirements in past planning cycles
- Oppose formulas that prohibit forming new redevelopment areas that are not based on need
- Oppose other changes to redevelopment that would place a substantial burden on the Redevelopment Agency or the City of Long Beach

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FISCAL IMPACT

There is no expected fiscal impact from the addition of these items to the Legislative Agenda. However, if some of the proposed changes to State Legislation went into effect, there would be significant impact on the City. For example, the repayment of \$18,391,730 in affordable housing dollars is not currently contemplated under AB X1 27. If the Redevelopment Agency were required to repay those dollars, significant additional reductions to Redevelopment projects would result. Changes to affordable housing policy could result in significant increased cost of providing affordable housing, resulting in fewer units being constructed.

This item was reviewed by Assistant City Attorney Heather Mahood and Budget Officer Victoria Bell on August 8, 2011.

TIMING CONSIDERATION

City Council action is requested on August 16, 2011, as legislation may be considered in August when the Legislature returns from recess.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



PATRICK H. WEST
CITY MANAGER

Attachment



ATTACHMENT A

SUMMARY OF SENATE BILL 450 AND ASSEMBLY BILL 1250

AUGUST 2011

Senate Bill 450: Affordable Housing Reform

Summary

In February of this year, State Senator Alan Lowenthal introduced Senate Bill 450 (SB 450), which proposes new restrictions on how redevelopment agencies can use Low and Moderate Income Housing Set-Aside Funds (Low/Mod Funds). As of today, SB 450 has passed the full Senate and the Assembly Committee on Housing and Community Development, and has been referred to the Assembly Appropriations Committee. Every vote has seen unanimous approval by State legislators.

SB450 sets new requirements for;

- 1) The percent of total Low/Mod Funds that must be spent on extremely low-, very low- and low-income housing units;
- 2) The maximum number of units and under what conditions a city may satisfy its housing replacement obligation through the rehabilitation of existing units;
- 3) The percent of total Low/Mod Funds that can be spent on General Administration expenses;
- 4) How long agencies have to develop affordable housing on land purchased with Low/Mod Funds, and;
- 5) The use of Low/Mod funds. SB 450 prohibits the use of Low/Mod Funds for code enforcement, certain types of land use planning, lobbying, and administration of non-development activities, sets significant new annual reporting requirements, and sets limitations on the use of excess Low/Mod Funds.

Low/Mod Requirements for Extremely Low, Very Low and Low-Income Housing

Current law requires that redevelopment agencies spend Low/Mod Funds in at least the same proportion as the total number of units needed for persons of very low-, low- and moderate-income within the community as defined by the regional housing needs assessment. SB 450 would represent a major policy shift in how those funds are spent, requiring 75 percent of the funds to be spent on extremely low-, very low-, or low-income housing. Within this 75 percent, at least 25 percent of Low/Mod Funds must be spent on extremely low-income housing, and at least 50 percent on extremely low- or very low-income housing.

Long Beach has been a significant producer of affordable housing, constructing or substantially rehabilitating 2,304 affordable units since 2000, 51 percent of which were very-low income housing, 42 percent low-income housing, and 7 percent moderate-income housing. In addition, the new income-level spending requirements will be measured every 5-years on a cumulative basis, as opposed to the current 10-year implementation planning period. If Long Beach is found to be in violation of the new requirements at any point, the new law will require the city to cease all Low/Mod Fund expenditures for assistance to households with incomes above 50 percent of the median family income until the city has once again met SB 450 income-level spending restrictions. This change in policy will result in a substantial decrease in the overall number of affordable units to be built in Long Beach, as housing for extremely-low households are significantly more expensive to create.

Housing Replacement Through Rehabilitation

Currently, whenever dwelling units housing persons of low or moderate-income are razed or removed from the market as a result of redevelopment, redevelopment agencies are required to rehabilitate, develop, or construct an equal number of replacement units for rental or sale to persons of low or moderate-income. Adding to this requirement, SB 450 establishes that whenever dwelling units occupied by or affordable to persons of low or moderate-income are removed through redevelopment, agencies are required to replace at least 75 percent of those units through new construction. As Long Beach is a built-out city with very little opportunity for new construction, redevelopment relies heavily on acquisition-rehabilitation to meet our affordable housing goals. The 75 percent construction requirement will make meeting those goals exceedingly difficult.

General Administration Expenses

SB 450 restricts the amount that may be spent on planning and general administration to 10 percent of Low/Mod Funds, with an additional 10 percent allowed for planning and administrative expenses that are directly associated with a particular project or program. In addition, SB 450 requires that at the time the redevelopment agency submits its' Annual Report to the City Council, the Council must adopt a resolution finding that actual planning and administration expenses for the completed fiscal year satisfy the restrictions listed above. Failure to adopt this resolution will result in a major audit violation.

Development of Affordable Housing Time Limits

Under current law, for property acquired using Low/Mod Funds, RA's must "initiate activities consistent with" the development of the property for housing affordable to persons of low- and moderate-income within five years of land acquisition. Under SB 450, agencies are instead required to complete at least one of the following activities within the five-year timeframe:

- 1) Enter into a disposition and development agreement (DDA) or a land lease with a third party for the development of affordable housing;
- 2) Obtain final land use entitlements and secure full financing for agency development of affordable housing; or
- 3) Submit a remedial action plan to the appropriate oversight agency for the cleanup of contamination.

If the agency fails to complete at least one of the above activities or if less than 10 percent of the dwelling units or floor area of a project is developed within 10 years, the agency must reimburse the Low/Mod Fund 150 percent of the amount expended to acquire the land, or the current fair market value, whichever is greater. An agency may petition the Department of Housing and Community Development for up to a five-year extension, provided the agency failed to complete the required development activities due to circumstances beyond the agency's control.

Code Enforcement and Other Restrictions

SB450 prohibits agencies from directing Low/Mod Funds towards 1) code enforcement, 2) land use planning or related activities of a planning department, 3) lobbying, or 4) administration of non-redevelopment activities unrelated to Low/Mod eligible activities. Long Beach is currently using Low/Mod set-aside for code enforcement, and will have to find other funding sources to continue existing levels of this service. Long Beach currently spends \$5.4 million annually on code enforcement, with Low/Mod Funds from Housing covering 4 percent of that cost (\$216,422).

Reporting Requirements

SB 450 also requires agencies to adopt significant new reporting requirements for their Implementation Plan, online Affordable Housing Database, and Annual Report. New information to be reported on includes the amount spent on administration and overhead costs, a list of property owned by the agency, a list of affordable housing replacement obligations, details on the housing units developed with Low/Mod Funding (including affordability and ownership status), and other related pieces of information.

Excess Surplus

Excess surplus in the Low/Mod Fund will no longer be permitted to be transferred to the local housing authority under SB 450, but must be expended in three years time. Excess surplus means any unexpended and unencumbered amount in an agency's Low/Mod Fund that exceeds the greater of \$1,000,000 or the aggregate amount deposited into the Low/Mod Fund during the agency's preceding four fiscal years.

Assembly Bill 1250: Redevelopment Reform

Summary

Assembly Bill 1250 (AB 1250) was introduced to the Assembly Committee on Rules in February of this year in order to make a technical, non-substantive change to the Community Redevelopment Law. However, in May of this year the bill was rewritten in committee to act as an alternative to ABX1 26 and ABX1 27 and was sponsored by the California Redevelopment Association and the League of California Cities. Although Assembly Bill 1250 never made it past the Rules Committee and has not been acted upon since passage of ABX1 26 and ABX1 27, components of AB 1250 are still being considered by state officials and may be included in future legislation.

AB 1250 proposes the following changes:

- 1) If over 25% of a community's total land area is already included in a redevelopment project area, no new land may be added. Communities with existing redevelopment project areas which, when aggregated, account for more than 25% of the community's total land area may continue redevelopment in these areas until expiration.
- 2) Any new redevelopment project area or addition to an existing project area will be prohibited from receiving the school share of local property tax or tax increment;
- 3) At least 50% of non-housing expenditures must be targeted towards the following areas for the first five year's after the bill's passage:
 - a. Development resulting in significant job retention or creation;
 - b. Remediation of contaminated properties;
 - c. Infill and transit-oriented development;
 - d. Military base conversion; or
 - e. Public infrastructure, excluding buildings.
- 4) The Project Area Committee (PAC) assigned to each project area must review and provide recommendations for the redevelopment agency's Implementation Plan every 5 years. Every 10 years, the PAC is given the authority to approve or disapprove of the Plan. If the PAC disapproves, the Implementation Plan may only be adopted by the redevelopment agency upon a two-thirds vote of its members.

AB 1250 also issues new regulations to revise and consolidate reporting for redevelopment agencies and develops a more standardized methodology for the calculation, payment, and reporting of passthrough payments.