

Date of Hearing: June 15, 2022

ASSEMBLY COMMITTEE ON ACCOUNTABILITY AND ADMINISTRATIVE REVIEW

Cottie Petrie-Norris, Chair

SB 561 (Dodd) – As Amended May 27, 2022

SENATE VOTE: 37-0

SUBJECT: State surplus property: digital inventory: long-term leases: affordable housing

SUMMARY: Requires the Department of General Services (DGS) to develop criteria to evaluate the suitability of state-owned parcels determined or declared excess to be used for affordable housing, as specified. Specifically, **this bill:**

- 1) Requires DGS to develop criteria to evaluate the suitability of state-owned parcels determined or declared excess to be used for affordable housing, as specified, by June 1, 2023.
 - a) Mandates DGS to, using the criteria developed, conduct a comprehensive survey of all state-owned parcels by January 1, 2024, and every four years thereafter.
 - b) Specifies DGS shall create a digitized inventory of all state-owned parcels that are determined or declared in excess of the state's foreseeable needs and suitable for affordable housing development, as specified, and updated upon the conclusion of each comprehensive study.
- 2) Requires DGS, in consultation with the Department of Housing and Community Development (HCD), to issue request for proposals for the development of affordable housing on suitable individual parcels, as specified.
 - a) Requires a request for proposals to include all of the following information:
 - i) The number of housing units to be built and preserved.
 - ii) The maximization of land resources and level for affordability applicable to the housing units.
 - iii) The feasibility of breaking ground within two years of entering a lease and completing the construction of the units within three years of entering the lease.
 - iv) The cost of construction per residential unit.
 - v) The use of renewable construction materials.
 - vi) The developer's demonstrated capacity to complete affordable housing projects.
 - vii) Any other criteria deemed relevant by DGS.
- 3) Requires DGS to establish criteria for ranking and selecting applicants that submit a request for proposal.

- 4) States that, notwithstanding any other law, DGS may enter into a low-cost, long-term ground lease with an affordable housing developer that submits a proposal to develop affordable housing under this bill.

EXISTING LAW:

- 1) Executive Order N-06-19 requires DGS and HCD to identify excess state-owned property for affordable housing projects.
- 2) Requires DGS to follow a series of specified steps in the disposal of state properties identified as excess to the programmatic needs of a controlling department or agency.
- 3) Requires HCD and DGS to develop a searchable database of surplus local sites for affordable housing, and for HCD to provide DGS with an annual list of vacant sites suitable and available for residential development.
- 4) Permits the Director of DGS to, with the consent of the state agency concerned, let for any period of time any real property or interest in real property that belongs to the state, when the director deems the letting serves a beneficial public purpose limited to the development of housing, as specified.
- 5) Specifies that at least 20 percent of the housing units developed on state property leased for housing shall be available for the term of the lease to, and be occupied by, lower-income households. Ten percent shall be available to, and occupied by, very low income households.
- 6) Permits the Director of DGS to enter into affordable housing leases at less than market value, provided the cost of administering the lease is recovered. HCD shall recommend to the Director of DGS a lease amount that will enable the provision of housing for lower-income households.
- 7) Defines "excess land" to mean state property that is no longer needed for either an existing or ongoing state program or a function of the state.

FISCAL EFFECT: According to the Senate Appropriations Committee, pursuant to Senate Rule 28.8, this bill will result in negligible state costs.

COMMENTS:**The Surplus State Property Process**

When a state-owned real property has been identified as excess to the programmatic needs of the controlling department, DGS proceeds to dispose of the property per the following steps, listed in priority order:

- 1) Determine if there is another state use for the property. If so, DGS may transfer the jurisdiction of the property to the other department upon terms and conditions deemed to be in the best interest of the state by the Director of DGS, with the concurrence of the Department of Finance.
- 2) If there is no state use for the property, the property is included in the annual omnibus surplus bill which upon enactment authorizes the Director of DGS to dispose of the

property by sale, lease, exchange, a sale combined with an exchange, or another manner of disposition as authorized by the Legislature.

- 3) Once a property has been authorized for disposition as surplus and upon DGS posting the property on the surplus property web page, local governmental agencies, and affordable housing sponsors have 90 days to notify DGS of their interest in the property.
- 4) Local agencies may acquire surplus property for open space, public parks, development of local government-owned facilities, or affordable housing. Local agencies pay fair market value as determined by a DGS-approved appraisal. Property that is being acquired for parks or open space may be sold at less than fair market value at the discretion of the Director of DGS.
- 5) If there is no local agency interest, then affordable housing sponsors may acquire the property for development of housing for persons of low or moderate-income. The Director of DGS may sell the property for less than fair market value if it is determined that a discount will allow for the provision of affordable housing for families of low or moderate-income.
- 6) Local agencies and affordable housing sponsors are required to execute a purchase and sale agreement within 60 days of receiving notice from DGS that they have been selected to receive the property and must close escrow within 60 days of the execution of the agreement by DGS.
- 7) Property not acquired by a local agency or affordable housing sponsor is then offered for sale on the open market pursuant to a public bidding process designed to obtain the highest and most certain return which is deemed to be the fair market value.

Recent State Actions – Surplus Property and Affordable Housing

In 2019, Governor Newsom ordered DGS and HCD to identify excess state-owned property for affordable housing projects via Executive Order (EO) N-06-19. In doing so, this EO changed DGS's priorities to focus on facilitating the conversion of excess state property to affordable housing. Over 44,000 parcels were reviewed, and 92 properties were identified by DGS as potentially suitable for housing. As of March 2022, DGS has offered 19 of these properties for development, each of which is proceeding through the planning, development, or construction phase. These projects will provide approximately 1,700 units of affordable housing.

In March 2022, the State Auditor issued a report on the state's efforts to repurpose underutilized state buildings for affordable housing, particularly as more state workers shifted to remote work. The report found areas for improvement in building off the EO: that at current staffing levels, it will take DGS seven more years to offer up the remaining 73 properties identified in the initial analysis; given the expedited nature of the initial review; DGS missed sites that would have been identified using more rigorous search criteria; and the EO did not create an ongoing process for reviewing, identifying and disposing of surplus land for the provision of affordable housing.

This bill seeks to address the Auditor's report by requiring DGS to develop criteria to evaluate the suitability of excess state property for affordable housing; and to conduct a comprehensive review of all state-owned parcels on January 1, 2024, and every four years thereafter.

Additionally, this bill will require DGS to establish criteria for ranking and selecting applicants for a request for proposal and authorizes DGS to enter into a low-cost, long-term ground lease with an affordable housing developer. This bill is substantially similar, but not identical to, AB 2233 (Quirk Silva).

According to the Author:

“As has been documented, the State of California is facing a tremendous need for affordable housing. Understanding this problem, Governor Newsom issued Executive Order N-06-19 in 2019, which prioritized the use of excess and surplus state-owned land to support the development of affordable housing. In 2021, the State Auditor issued a report which found that while the executive order had proven effective in its intent, the executive order could have been improved by, among things, establishing portions of the executive order into statute. SB 561 seeks to establish many of the recommendations that the State Auditor made to continue to leverage state own property for the construction of affordable housing in California.”

Arguments in Support: None on file.

Arguments in Opposition: None on file.

PRIOR/RELATED LEGISLATION

AB 2233 (Quirk-Silva), of the current legislative session, requires DGS to develop a plan to facilitate development of affordable housing on state-owned excess land.

AB 1486 (Ting), Chapter 664, Statutes of 2019, made numerous changes to the Local Surplus Lands Act, including requiring HCD to develop a database of searchable surplus sites that could be developed for affordable housing.

SB 6 (Beall), Chapter 667, Statutes of 2019, required HCD to provide DGS with an annual list of vacant sites that are suitable and available for residential development, as identified by local governments, and requires DGS to develop a searchable database of those sites and state surplus sites.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file

Opposition

None on file

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