CONCURRENCE IN SENATE AMENDMENTS
AB 1294 (Haney)
As Amended August 21, 2026
Majority vote. Tax Levy

SUMMARY

Creates an alternative, expanded welfare exemption that includes the provision of moderate-income rental housing as an eligible use, as specified.

Senate Amendments
Delete the contents of this bill that were considered by the Assembly and, instead:

1) Exempt for 15 years properties used exclusively for rental housing and related facilities that are owned and operated by religious, hospital, scientific, or charitable funds, foundations, limited liability companies (LLCs) or corporations, including partnerships in which the managing partner is an eligible nonprofit corporation or LLC, or by veterans' organizations, as defined. A qualifying entity must meet all the requirements of the existing welfare exemption, including that the property is used for the actual operation of the exempt activity.

2) Exempt property in a percentage of value equal to the number of units serving low- and moderate-income households relative to the total number of units on the property.

3) Require a property owner to certify and ensure that:

    a) There is an enforceable and verifiable agreement with a public agency, a recorded deed restriction, or other legal document that restricts the applicable project's usage and that provides that the units designated for use by low- and moderate-income households are continuously available to, or occupied by, low- and moderate-income households for at least 55 years;

    b) The initial rent charged upon occupancy for each qualifying unit is below the fair market rent for the unit type in comparable properties within the geographic submarket in which the property is located, as specified. If so deemed, the rent must be 10% below the fair-market rent in the relevant geographic submarket; and,

    c) The funds that would have been necessary to pay property taxes are used to maintain the affordability of, or reduce rents otherwise necessary for, the units occupied by qualifying households.

4) Restrict the amount by which rent can increase on qualifying units, as specified.

5) Allow a tenant's income to rise to 140% of the area median income (AMI) while remaining eligible for this bill's exemption.

6) Require that qualifying properties be newly constructed residential units or existing commercial properties that are converted into new residential units on the property on or after January 1, 2027, and before January 1, 2030. A qualifying property must be located in the Counties of Alameda or Sacramento, or the City and County of San Francisco.

7) Define "low- and moderate-income households" as the term "persons and families of low or moderate income" is defined in existing law.

8) Define related facilities as any manager's units and all common area spaces that are included within the physical boundaries of the rental housing development, as specified.

9) Declare that the intent of the Legislature is to apply the requirements of Revenue and Taxation Code (R&TC) Section 41 to this bill.

10) Find and declare that the specific goal of this bill is to support the creation of new housing units affordable to moderate-income households, the detailed performance indicators for which are the annual amount of assessed value exempted and the number of properties receiving the exemption.

11) Require the State Board of Equalization (BOE) to annually collect the above listed information from county assessors and report it to the Legislature on or before January 1, 2033, as specified.

12) Include double-jointing amendments to prevent a chaptering conflict with AB 2089 (Ward).

13) Take immediate effect as a tax levy.

COMMENTS

1) *California's housing crisis*: California is in a housing crisis. As noted by the Public Policy Institute of California, 55% and 38% of California renters and homeowners, respectively, are cost burdened, meaning those households spend 30% or more of their household income on housing[1]. By comparison, 50% of renters and 28% of homeowners are cost-burdened, nationally. Most argue that this cost-burden is precipitated by insufficient construction. Estimates for the number of new residential units that California must construct to address this shortage vary widely, with some estimating as high as 3.5 million units, and others projecting as low as 800,000 units[2].

2) *Basic economics of development*: The cost to develop any type of property can be broken down into three primary categories: hard costs, soft costs, and land costs. Hard costs are composed of the costs associated with the physical construction, such as labor, materials, and requirements regarding the actual construction of the building, like seismic improvements. Soft costs are those that result from the design and implementation of the project, which can include consultant fees, financing costs, and impact and development fees. Finally, land costs represent the cost to acquire the underlying land on which the property is built.

   Developers finance these costs through two main mechanisms, equity and debt. Equity constitutes the financing from investors who provide upfront funding for some future portion of the profits. Debt financing constitutes the loan(s) incurred by the developer and associated

---

[1] Public Policy Institute of California, "Californians and the Housing Crisis," https://www.ppic.org/interactive/californians-and-the-housing-crisis/, accessed August 2026.
[2] Christopher, Ben, "How bad is California's housing shortage? It depends on who's doing the counting," *CalMatters*, published September 26, 2025, https://calmatters.org/housing/2025/09/california-housing-shortage/, accessed August 2026.

interest payments. For affordable housing in particular, a third financing category exists in the form of public subsidy, like the Low-Income Housing Tax Credit (LIHTC) program.

The primary means for a developer to derive revenue to repay the various financing mechanisms are the rents charged to units in the development[3]. In other words, as the costs of a development increase, the rent charged to tenants increases.

3) *The welfare exemption*: The California Constitution provides that property used for a charitable purpose that is owned and operated by eligible entities is exempt from taxation. This Constitutional authorization is commonly referred to as the welfare exemption. It is unclear whether renting units to moderate-income households constitutes a charitable activity.

4) *Costs of multi-family low-income housing construction*: Constructing affordable low-income housing is a costly endeavor. The total development cost of a square foot of new residential development at the market rate is $531 in the San Francisco Bay Area region. For LIHTC properties in that region, this figure rises to $731, hence the need for greater governmental support for LIHTC properties[4]. Additionally, the California Association of Realtors, in its letter opposing this bill, accurately notes that moderate-income units already benefit from existing governmental incentives, density bonuses, and other streamlining, contrary to claims by some advocates that moderate-income housing does not benefit from any type of governmental incentive.

5) *Equivalent incentive*: This bill would provide a welfare exemption to property rented to low- and moderate-income households without distinguishing between the level of incentive. In other words, the same incentive would be applied to low- and moderate-income units. Revenue could arguably be dedicated to more inclusive community needs such as the unprecedented homelessness crisis impacting California communities and the associated public health concerns. One might reasonably question whether developers would build low-income units if they can build moderate-income units instead and still receive the same level of exemption for that unit. Additionally, a reasonable inquirer might consider whether others in the community with greater financial need will be unable to access affordable units if low-income units are displaced for moderate-income units.

6) *Erosion of the property tax base*: Rental residential housing is a core component of the property tax base, and property tax revenues are a primary source of local government and school funding. Reducing property tax revenues, while increasing the total number of developments, places increased burdens on existing governmental services. To address this burden, local jurisdictions may need to reduce or cut services or enact parcel taxes, other special taxes, or property-related charges and fees to fund the additional services needed for that increased development.

---

[3] Garcia, David, "Making It Pencil: The Math Behind Housing Development," *The Terner Center for Housing Innovation, UC Berkeley,* published August 2019, *https://ternercenter.berkeley.edu/wp-content/uploads/2020/08/Making_It_Pencil_The_Math_Behind_Housing_Development.pdf,* accessed August 2026.
[4] Ward, Jason M., Luke Schalke, "The High Cost of Producing Multifamily Housing in California," *The RAND Corporation*, published 2025, https://www.rand.org/pubs/research_reports/RRA3743-1.html, accessed August 2026, pgs. 15-16.

7) *Newly constructed*: This bill would authorize application of the welfare exemption to newly constructed units rented to low- and moderate-income households, subject to certain affordability restrictions. According to the author's office and sponsors, the stated intent of this bill is to limit the expanded exemption to units newly built from the ground-up. This bill could potentially deviate from that intent. Property tax law defines the terms "newly constructed" and "new construction" broadly. These definitions encompass rehabilitation, conversion, or renovation of a property to a "like-new" state. It appears this bill could confer the welfare exemption to units that were converted from low-income to moderate-income.

8) *The impact of fees and delays*: As noted previously, soft costs include development and impact fees imposed by a local jurisdiction. San Francisco imposes nearly $37,000 in municipal impact fees per newly constructed residential unit, and nearly $32,000 in fees per newly constructed LIHTC unit. These represent 6.3% and 3% of total development costs[5]. Some argue that these fees arise from the need to offset the artificially reduced residential property taxes resulting from Proposition 13[6]. Exempting certain residential developments rented to moderate-income households may create an incentive to further increase fees charged to nonexempt developments, thereby potentially suppressing the development of nonexempt units and exacerbating the very problem this bill seeks to address, namely, the production of new residential units.

   Additionally, it appears San Francisco is unique in the total development time from submittal of a project for approval to actual construction. San Francisco takes approximately 523 days for a housing project to be entitled, compared to 385 days for the next slowest jurisdiction in California. It takes nearly 605 days for San Francisco to issue a building permit to an already entitled housing project, compared to 418 days in the next slowest jurisdiction[7]. These delays add real costs to a development, which, in turn, generally reduce overall development or increase rents charged to tenants of nonexempt properties that are developed[8]. During these periods of delay, developers must absorb any cost resulting from the delays, including additional property taxes. Thus, it could be argued that this bill addresses a symptom, namely the cost of carrying property taxes for longer periods, rather than the underlying cause of delays.

9) *Conflicting rent-restriction provisions?* The existing low-income rental welfare exemption requires that units be rented at affordable rates, which is generally considered a rent equal to 30% or less of the eligible household's income. It appears this bill deviates from that threshold by providing that the initial rent be 10% or less than the fair market rent determined by the federal Department of Housing and Urban Development's Small Area Fair Market Rent for the applicable ZIP code. Committee staff is unclear as to how these conflicting requirements would interact.

---

[5] Ward, *et al.*, pg. 29.
[6] Stockinger, Trevor, Shelby Dunagan, *et al.*, "The Impact of Fees: Rethinking Local Revenues for More Multifamily Housing," *California YIMBY Education Fund*, published April 2024, https://cayimby.org/wp-content/uploads/2024/06/Impact_Fees-Report-06112024-v3.pdf, accessed August 2026, pg. 5.
[7] Housing Policy Development Division, "San Francisco Housing Policy and Practice Review," California Department of Housing and Community Development, https://www.hcd.ca.gov/sites/default/files/docs/policy-and-research/plan-report/sf-housing-policy-and-practice-review.pdf, accessed August 2026, pg. 2.
[8] Ward, *et al.*, pgs. 34-36.

According to the Author
The author has submitted the following statement in support of this bill:

> California's housing crisis is forcing teachers, nurses, firefighters, construction workers, and other working Californians out of the communities they serve. While we have programs that support low-income housing, we continue to underbuild housing for middle-income residents who earn too much to qualify for affordable housing but cannot afford market-rate rents. AB 1294 creates a pilot program in Alameda, Sacramento, and San Francisco counties to encourage the construction of rental housing for households earning up to 120% of Area Median Income. By providing a partial property tax exemption, the bill helps make these projects financially feasible and expands housing options for working families. We need housing for the people who keep California running.

Arguments in Support
The Mayor of San Francisco, writing in support of a previous, but substantively similar, version of this bill, states, in part:

> San Francisco faces a housing affordability crisis that affects the middle-income workforce that keeps our city functioning every day. Nurses, teachers, police officers, firefighters, and other essential workers increasingly struggle to find housing they can afford within the communities they serve. While existing programs and subsidies support development of housing for very low- and low-income households, there are virtually no comparable funding sources to support the creation of housing for moderate-income residents.

Arguments in Opposition
The Sacramento County Assessor, writing in opposition to a previous, but substantively similar, version of this bill, states, in part:

> AB 1294 provides that the moderate-income provisions apply only to properties on which residential units were newly constructed, or where existing commercial uses were converted into new residential units. However, the bill does not define "newly constructed" for purposes of this exemption.
>
> This creates uncertainty because [R&TC] Section 70 defines "newly constructed" and "new construction" broadly for property tax purposes. That definition can include additions, alterations, major rehabilitation, modernization, renovation, or conversion to a different use. As a result, the term may be read more broadly than ground-up residential construction.

FISCAL COMMENTS

The Senate Appropriations Committee, in its analysis of this bill, states:

1) The BOE indicates that this bill would reduce annual property tax revenues in the range of \$18 million to \$26 million. Reductions in local property tax revenues, in turn, can increase General Fund Proposition 98 spending by up to roughly 50 percent (the exact amount depends on the specific amount of the annual Proposition 98 guarantee, which in turn depends upon a variety of economic, demographic and budgetary factors). The BOE would incur minor administrative costs to implement the provisions of the bill.

2) By changing the duties of local tax officials, this bill creates a state-mandated local program. To the extent the Commission on State Mandates determines that the provisions of this bill create a new program or impose a higher level of service on local agencies, local agencies could claim reimbursement of those costs. The magnitude is unknown (General Fund).

VOTES:

ASM HOUSING AND COMMUNITY DEVELOPMENT: 12-0-0
YES: Haney, Patterson, Ávila Farías, Caloza, Gallagher, Garcia, Kalra, Lee, Quirk-Silva, Ta, Wicks, Wilson

ASM LOCAL GOVERNMENT: 10-0-0
YES: Carrillo, Ta, Hoover, Pacheco, Ramos, Ransom, Blanca Rubio, Stefani, Ward, Wilson

ASM APPROPRIATIONS: 14-0-1
YES: Wicks, Arambula, Calderon, Caloza, Dixon, Elhawary, Fong, Mark González, Hart, Pacheco, Pellerin, Solache, Ta, Tangipa
ABS, ABST OR NV: Sanchez

ASSEMBLY FLOOR: 78-0-1
YES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas
ABS, ABST OR NV: Sanchez

UPDATED

VERSION: August 21, 2026

CONSULTANT: Harrison Bowlby / REV. & TAX. / (916) 319-2098 FN: 0004328