
**SENATE COMMITTEE ON
BUSINESS, PROFESSIONS AND ECONOMIC DEVELOPMENT**
Senator Dr. Aisha Wahab, Chair
2025 - 2026 Regular

Bill No: AB 2166 **Hearing Date:** June 22, 2026
Author: Carrillo
Version: April 27, 2026
Urgency: No **Fiscal:** Yes
Consultant: Sarah Mason

Subject: Multifamily housing development: offsite housing factories: backstop financing

SUMMARY: Establishes the Multifamily Backstop Financing Program to support multifamily projects by providing state-backed credit backstops to enable surety companies to issue payment and performance bonds to offsite housing factories in the state.

NOTE: *This bill is double-referred to the Senate Committee on Housing, second.*

Existing law:

- 1) Establishes the Governor's Office of Business and Economic Development (GO-Biz) within the Governor's Office for the purpose of serving as the lead state entity for economic strategy and marketing of California on issues relating to business development, private sector investment and economic growth. (Government Code (GC) §§ 12096 – 12098.5)
- 2) Establishes the Bergeson-Peace Infrastructure and Economic Development Bank Act and creates the IBank. (GC § 63000 *et seq.*)
- 3) Establishes the GO-Biz as the administrator of the Fund. (GC § 63021)
- 4) Authorizes IBank to make loans, issue bonds, and provide other economic development assistance, among other things. (GC § 63050 *et seq.*)

This bill:

- 1) Establishes, upon appropriation by the Legislature, the Multifamily Backstop Financing Program within the IBank to support multifamily housing projects through state-backed credit backstops.
- 2) Authorizes IBank to provide credit backstops to qualified applicants to facilitate the issuance of payment and performance bonds for qualified factories participating in qualified multifamily projects.
- 3) Requires that a credit backstop be issued only when it will be used by a qualified applicant to issue payment or performance bonds to a qualified factory for a qualified multifamily project.

- 4) Authorizes IBank to determine the percentage of a payment or performance bond that may be covered by a credit backstop.
- 5) Specifies that a credit backstop shall not replace traditional surety underwriting and may only be used to reduce tail risk.
- 6) Requires qualified applicants to continue making underwriting and bonding decisions in accordance with industry standards.
- 7) States the intent of the Legislature to establish provisions governing the prioritization and review of applications submitted under the program.
- 8) Requires IBank to adopt regulations necessary to implement the program.
- 9) Defines a qualified applicant as a surety company or surety insurer that issues construction bonds.
- 10) Defines a qualified factory as an in-state offsite housing factory, including volumetric, panelized, or other factory-built housing manufacturers, that provides obligations for qualified multifamily projects.
- 11) Defines a qualified multifamily project as a development located in California consisting entirely of multifamily residential uses or a mix of residential and nonresidential uses, provided that at least two-thirds of the project's square footage is designated for residential use.
- 12) Defines tail risk as a risk associated with low-probability but high-impact events, including events that occur more frequently than expected or result in unusually significant losses.

FISCAL EFFECT: This bill is keyed fiscal by Legislative Counsel. According to the Assembly Committee on Appropriations, IBank estimates General Fund costs in the hundreds of millions of dollars for an initial allocation to provide the financial backstops for qualifying applicants. This funding would be used to cover any failure of a housing manufacturer to perform or pay others for downstream workload. IBank estimates costs in the high millions to low-tens of millions of dollars for external consultants and 10 to 14 permanent staff positions to implement the new program. For context, to establish a recent startup, the Transmission Revolving Fund program, IBank has requested funding of \$3.6 million for seven staff positions and \$11 million for non-staff expenses. IBank estimates double the costs for implementing the proposed program given the lack of familiarity with the industry, greater complexity and as noted below the structural differences between existing IBank loan guarantee programs. IBank notes this program requires a different structure than IBank's existing Small Business Loan Guarantee Program, which is supported by a network of seven Financial Development Corporations and 158 participating lenders and has been built over 30 years. Without this kind of supporting infrastructure which funds IBank's Small Business Financing Center (SBFC) staffing, the IBank expects to need significantly more staffing than the existing SBFC team. This program also represents a new type of funding program in IBank to support qualified applicants through guarantees or backstops to provide

specified construction surety bonds. It is difficult to fully determine a fiscal estimate to implement the provisions of this bill and as such, IBank would need to perform an assessment of the market to understand associated risks and opportunities as well as to set up the program rules and requirements. To date, IBank has not been involved with industries related to housing or the building of housing.

COMMENTS:

1. **Purpose.** This bill is sponsored by the California Housing Consortium and California Conference of Carpenters. According to the Author, "We all know California is in the midst of a housing crisis. The cost of building homes is high, leading to a construction shortage, that ultimately passes on these costs to homeowners and renters. This is especially true with affordable housing, which struggles even more than market-rate housing to find developers willing to build. A large part of that is just the cost of the building itself, which is the largest percentage of the cost of a new development. One way to significantly reduce that cost is by using factory-built housing. These homes are constructed in a factory and then brought to the project site to be propped up or put together, allowing lower costs due to their mass production. Unfortunately, these factories struggle in California, as they are unable to receive insurance coverage, preventing developers, lenders, and general contractors from using this cheaper alternative. AB 2166 creates a state-backed credit backstop, to allow these factories to be insured, subsequently creating a more affordable option for housing development. To build more affordable housing, we have to make it more affordable to build, AB 2166 will do that."

The Author states that "California's off-site housing manufacturing sector is stuck in a self-reinforcing cycle that blocks scale and prevents the industry from delivering on its promise of faster, lower-cost construction. The doom loop looks like this:

- Projects and general contractors want factories to be bonded to protect against factory failure mid-project.
- Sureties (insurance providers) are reluctant to issue bonds to scaling factories due to limited operating history, non-traditional assets, and volatile cash flow.
- Without bonding, developers have to take on additional, often untenable risk of financial loss in order to work with factories
- Factories can't win enough projects to build a track record and stable pipeline.
- Without a stable pipeline, factories remain financially fragile and at higher risk of failure.
- That fragility reinforces surety reluctance, which further reduces project access.
- Result: factories fail before they can scale, and California loses a pathway to lower-cost, higher-throughput housing production.

This is a market failure with broad public consequences: without an intervention that addresses risk of factory failure through bonding, California may struggle to stabilize

factory capacity, drive cost reductions through repetition and scale, and translate off-site innovation into real housing delivery.”

2. Background.

IBank and Infrastructure Financing. According to its website, the California Infrastructure and Economic Development Bank (IBank) was created in 1994 to finance public infrastructure and private development projects that promote economic development and improve quality of life in California communities. Located within GO-Biz, IBank has authority to issue taxable and tax-exempt revenue bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities, and leverage state and federal funds. Current programs include the Infrastructure State Revolving Fund Loan Program, California Lending for Energy and Environmental Needs Center, Climate Catalyst Revolving Loan Fund, Small Business Finance Center, and Bond Financing Program.

Payment and performance bonds are commonly used on construction projects to provide financial protections for project owners, lenders, contractors, subcontractors, and suppliers if a contractor or manufacturer fails to perform its obligations. Proponents of this bill contend that offsite housing manufacturers can face challenges obtaining such bonds because sureties may view the sector as carrying elevated or unfamiliar risks. This bill proposes to address that concern by authorizing IBank to provide state-backed credit support intended to reduce a portion of the risk assumed by private surety providers.

California’s Housing Shortage. California continues to face a significant housing shortage that has contributed to high housing costs and affordability challenges throughout the state. The California Department of Housing and Community Development (HCD) has estimated that approximately 2.5 million additional homes, including one million affordable homes, will be needed by 2030 to meet projected housing needs. Despite ongoing efforts to increase housing production, housing development has generally not kept pace with projected demand. Discussions have continued to explore strategies intended to reduce housing development costs, accelerate production timelines, and address barriers that may limit housing construction.

Interest in Factory-Built and Offsite Housing. One strategy receiving increased attention is factory-built, modular, and other forms of offsite construction. Unlike traditional construction, where most building components are assembled at the project site, offsite construction shifts a significant portion of production to a factory setting before components are transported for final assembly.

California already regulates factory-built housing through HCD’s Factory-Built Housing Program, which oversees residential structures manufactured in a factory and transported to their permanent installation site. HCD has noted that factory-based production may provide opportunities for increased standardization, improved production efficiencies, and potential cost savings under certain circumstances.

Researchers, policymakers, and industry stakeholders have evaluated whether industrialized construction methods could help California produce housing more

quickly and efficiently. The Turner Center for Housing Innovation at UC Berkeley has published research examining offsite and modular construction and recently worked with the Assembly Select Committee on Housing Construction Innovation to identify potential opportunities and barriers associated with wider adoption of these methods. According to the Turner Center, construction innovation may help address challenges associated with high construction costs, labor shortages, and project delays that affect housing production throughout the state.

In 2026, the Assembly Select Committee on Housing Construction Innovation examined factory-based housing production and potential policy changes intended to support expansion of the sector as part of broader discussions regarding housing production and construction innovation.

Barriers to Scaling Offsite Construction. Although proponents contend that modular and factory-built construction may reduce project timelines and construction costs, adoption has remained limited. Researchers and industry participants have identified a variety of challenges, including transportation costs, financing constraints, insurance and bonding requirements, supply-chain considerations, workforce issues, and regulatory barriers.

Some lenders, insurers, investors, and surety providers have viewed factory-built construction as a newer and less familiar delivery model, which may create challenges in securing financing and risk-management products. Recent research has suggested that efforts to reduce financial barriers and perceived risk may facilitate broader adoption of industrialized construction methods.

This bill seeks to address one aspect of those challenges by authorizing a state-backed credit backstop program intended to reduce risk exposure for surety companies that issue payment and performance bonds to qualified offsite housing factories.

- 3. Arguments in Support.** Supporters state that “By creating a state bonding mechanism for modular housing factories, AB 2166 will support factory growth, help stabilize the industry, and lead to lower construction costs over time.” They note the Turner Center’s recent report *Potential Pathways to Scale Innovative Construction Methods in California* which discusses opportunities for the state to adopt industrialized construction methods. According to supporters, “It highlights the advantages of factory-built housing and summarizes some of the barriers that prevent the scaling of innovative construction strategies in California.” They note that this bill will help to address some of the barriers identified in the report.

The League of California Cities writes that “Factory-built housing has been an option for housing development under California law since the late 1960s, but uptake of these projects has been limited so far. One reason for the slow uptake may be the lack of financing to build factories that produce the necessary factory-built components and homes for residential development. AB 2166 provides an important funding source to support the development of factories, which may create economic development opportunities in local communities and result in more housing options for developers to build the housing local agencies have planned for in their communities.”

According to supporters, “Lenders, developers, and general contractors often need factories to be bonded to protect against factory failure. However, insurance providers, or sureties, are reluctant to issue bonds to scaling factories. Without bonding, developers and their lenders must take on additional risk of financial loss to work with factories or opt to move forward with conventional construction methods instead. To promote industry growth, reduce financial risk, and address liability gaps, AB 2166 creates a fund that covers a percentage of the surety bond, enabling surety companies to insure more modular housing factories.”

Leading Age California writes that “By stabilizing the factory-built housing sector, the bill will promote industry growth, reduce risk for affordable housing developers, and contribute to lower construction costs over time. For nonprofit affordable senior housing providers, these changes can expand access to cost-saving construction methods and improve the feasibility of deeply affordable projects serving older adults.”

SUPPORT AND OPPOSITION:

Support:

Abundance Network
Autodesk, INC.
Bay Area Council
California Conference of Carpenters
California Council for Affordable Housing
California Housing Consortium
California Yimby
Casita Coalition
CBIA
Circulate Planning & Policy
Eden Housing
Housing Trust Silicon Valley
Inner City Law Center
Leadingage California
League of California Cities
Non-profit Housing Association of Northern California
Student Homes Coalition

Opposition:

None received

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