THIRD READING

Bill No: AB 2166
Author: Carrillo (D) and Wicks (D), et al.
Amended: 4/27/26 in Assembly
Vote: 21

SENATE BUS., PROF. & ECON. DEV. COMMITTEE: 8-1, 6/22/26
AYES: Wahab, Choi, Archuleta, Arreguín, Caballero, Menjivar, Richardson, Umberg
NOES: Niello
NO VOTE RECORDED: Smallwood-Cuevas, Strickland

SENATE HOUSING COMMITTEE: 8-0, 6/30/26
AYES: Arreguín, Cabaldon, Caballero, Cortese, Durazo, Grayson, Ochoa Bogh, Padilla
NO VOTE RECORDED: Seyarto, Gonzalez

SENATE APPROPRIATIONS COMMITTEE: 6-0, 8/13/26
AYES: Cervantes, Cabaldon, Dahle, Grayson, Richardson, Wahab
NO VOTE RECORDED: Seyarto

ASSEMBLY FLOOR: 70-1, 5/21/26 - See last page for vote

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

SOURCE: California Housing Consortium
California Conference of Carpenters

DIGEST: This bill 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.

ANALYSIS:

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 California Infrastructure Economic Development Bank (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.

Background

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 continues to face a significant housing shortage that has contributed to high housing costs and affordability challenges throughout the state. 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. 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. 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.

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.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

According to the Senate Appropriations Committee:

> Unknown, unabsorbable one-time and ongoing costs, likely ranging from the tens to hundreds of millions of dollars (General Fund and special fund), for IBank to establish and administer a new construction surety bond guarantee program. Specifically, IBank anticipates:
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> - Unknown, significant one-time costs, likely ranging in the millions of dollars, to conduct a market assessment to evaluate risks and establish program rules.

- One-time seed funding in the hundreds of millions of dollars to provide financial backstops for qualifying applicants and cover potential manufacturer defaults.

- Ongoing costs in the tens of millions of dollars, including an additional 10.0 to 14.0 permanent staff to maintain the program. As a recent budget comparison, IBank requested $11 million in one-time funding and $3.6 million ongoing for 7.0 permanent positions to establish a Transmission Revolving Fund program. IBank expects to need at least double the resources of that program to meet the mandates of the Multifamily Housing Development Program, as IBank lacks experience in housing construction-related financing.

While the proposed program may share some similarities with IBank's existing Small Business Loan Guarantee Program (SBLGP), IBank notes that the bill creates a new type of funding program requiring a fundamentally different structure. Unlike the SBLGP, which relies on a 30-year-old network of seven Financial Development Corporations and 158 participating lenders, the program proposed by this bill lacks a supporting infrastructure and will require significantly more internal staffing than the current Small Business Finance Center team.

SUPPORT: (Verified 8/14/26)

California Conference of Carpenters (co-source)
California Housing Consortium (co-source)
Abundance Network
Autodesk, INC.
Bay Area Council
California Council for Affordable Housing
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: (Verified 8/14/26)

None received

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 Terner 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."

ASSEMBLY FLOOR: 70-1, 5/21/26

AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Connolly, Davies, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Irwin, Jackson, Kalra, Krell, Lee, Lowenthal, Macedo, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas
NOES: DeMaio
NO VOTE RECORDED: Arambula, Chen, Dixon, Garcia, Hoover, Johnson, Lackey, Ramos, Celeste Rodriguez

Prepared by: Sarah Mason / B., P. & E.D. /
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