

- 2) Provides that a local agency can move forward with one of the actions described in (1) if a local agency makes the following findings supported by substantial evidence that:
 - a) Establishment of the CFD, levying the special taxes, or incurring bond debt would have a specific adverse impact upon the public interest;
 - b) If the local agency has identified the site in its housing element as a site to accommodate low- or very low-income households, the establishment of the CFD, levying the special taxes, or incurring bond debt is not necessary to develop the site at specified densities; or,
 - c) Establishment of the CFD, levying the special taxes, or incurring bond debt would make units for lower- and moderate-income households unaffordable to those households.
- 3) Requires a CFD to do the following to meet the definition of a CHID:
 - a) Have been established solely to finance specified utility, flood, and storm protection services that serve a housing development project that includes units affordable to lower- or moderate-income households;
 - b) Have had unanimous landowner approval for the CFD's establishment; and,
 - c) Have had unanimous landowner approval for taxes the CFD would levy.
- 4) Provides that this bill does not require or prohibit the local agency from taking any other actions with respect to CHIDs.

Background

Local government finance. A series of propositions have drastically cut into local revenue sources, requiring local governments to look elsewhere to fund services that the public demands. First, Proposition 13 (1978) capped property tax rates at 1% of assessed value (which only changes upon new construction or when ownership changes) and required 2/3 voter approval for special taxes; as a result, local governments turned to general taxes to avoid the higher voter threshold. When Proposition 62 (1986) required majority voter approval of general taxes, local agencies imposed assessments that were more closely tied to the benefit that an individual property owner receives. Subsequently, Proposition 218 (1996) required voter approval of parcel taxes, assessments, and property-related fees.

Since they cannot impose broad-based taxes without great difficulty, cities and counties follow a simple principle: new developments should pay for the impacts they have on the community and the burden they impose on public services.

Mello-Roos Districts. The Mello-Roos Community Facilities Act allows counties, cities, special districts, and school districts to finance public works projects and a limited list of public services by levying special taxes (parcel taxes). A Mello-Roos Community Facilities District (CFD) issues bonds against these special taxes to finance the public works projects. Like all special taxes, Mello-Roos Act special taxes require two-thirds voter approval. If there are fewer than 12 registered voters, the affected landowners vote.

The Mello-Roos Act is an important feature of the local fiscal landscape, providing local officials with a key tool for accumulating the public capital needed to pay for the public works projects that make new residential development possible. Since 1985, CFDs have issued over \$18 billion in long-term bonds, mostly for capital improvements. Without access to Mello-Roos bond funding, many builders would have to pay higher development impact fees and raise housing prices. Based on nearly 30 years of experience, practitioners want the Legislature to adjust several statutory features of the Mello-Roos Community Facilities Act. Local agencies can use CFDs to finance a wide range of projects, including everything from parks, schools, libraries, utility projects, stormwater projects, among others.

Comments

- 1) *Author's statement.* "AB 2397 closes a loophole by ensuring that a local jurisdiction must justify a decision to deny a community facilities housing district. At a time when California faces a severe housing shortage, we need to remove every unnecessary obstacle to production. This bill is a targeted, practical step to ensure that financing doesn't become the hidden veto on desperately needed housing."
- 2) *Home rule.* The initial intent of the Mello-Roos Community Facilities Act was to allow local agencies to finance public works projects and a limited list of public services by levying special taxes (parcel taxes). It was always in the hands of local agencies to determine whether passing on the costs of infrastructure to current or future landowners made sense, or whether financing infrastructure costs through a parcel tax would put too much of a burden on future homeowners.

Since financing infrastructure for new development through a CFD has become a common practice, the author wants to ensure that local agencies do not use the CFD formation process to deny a housing development project that the local agency has already approved. This bill would prohibit a local agency from abandoning or refusing to create a Mello-Roos district for a critical housing infrastructure district, which is created to finance a narrow set of infrastructure costs – public utilities and flood and storm water for low- or moderate-income

housing. To qualify, 100% of the property owners must petition for the financing. If a local agency does reverse course on financing this type of project, it would be required to make a finding that establishing the district, levying the special taxes, or incurring bonded indebtedness, as applicable, would have a specific adverse impact upon the public interest and the infrastructure is not needed to support the development of the site as the density required by Housing Element Law. The intent of this bill is to ensure that if a developer is relying upon financing from a Mello-Roos district for infrastructure and has followed the correct process for petitioning to create one, the local agency cannot abandon the creation of the district except in narrow cases.

3) *Department of corrections.* **The author, due to timing, is requesting to process technical amendments as committee amendments to correct drafting errors. The amendments do the following:**

(b) The legislative body shall not take any of the following actions with respect to a critical housing infrastructure district unless it makes **any of** the findings set forth in subdivision (c):

(1) Abandon the proposed establishment of the district pursuant to Section 53325.

(2) Refuse to adopt an ordinance levying special taxes pursuant to Section 53340.

(3) Refuse to adopt a resolution necessary to incur bonded indebtedness pursuant to Sections 53345, 53351, or 53356.

(c) Prior to taking any action described in subdivision (b), the legislative body shall make **at least one of** the following findings based upon substantial evidence:

(1) Establishment of the district, levying the special taxes, or incurring bonded indebtedness, as applicable, would have a specific adverse impact upon the public interest.

(2) Establishment of the district, levying the special taxes, or incurring bonded indebtedness, as applicable, would result in housing costs for the units dedicated to lower income households and moderate income households that no longer meet the definition of affordable housing costs pursuant to Section

50052.5 of the Health and Safety Code for lower income households or moderate income households.

(3) If the site has been identified in the housing element pursuant to Sections 65583 and 65583.2 as a site to accommodate any portion of the jurisdiction's regional housing need for low-income or very low income households, establishment of the district, levying the special taxes, or incurring bonded indebtedness, as applicable, is not necessary for development of the site at the densities specified in subparagraph (B) of paragraph (3) of subdivision (c) of Section 65583.2.

4) *Incoming!* This bill was heard in the Local Government Committee on June 10th and passed on a vote of 7-0.

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

POSITIONS: (Communicated to the committee before noon on Wednesday, June 24th, 2026.)

SUPPORT:

None received.

OPPOSITION:

None received.

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