CONCURRENCE IN SENATE AMENDMENTS
AB 2397 (Ta)
As Amended August 13, 2026
Majority vote

SUMMARY

This bill creates a subset of community facilities districts (CFDs) called critical housing infrastructure districts (CHIDs), and prohibits a local agency from taking specified actions with respect to a CHID.

Senate Amendments

1) Provide that the legislative body shall make *at least one of* a number of findings prior to taking specified actions.

2) Add to the list of findings a legislative body can make for the purposes of 1), above, that the establishment of the CHID, levying the special taxes, or incurring bonded indebtedness, as applicable, would result in housing costs for the housing for very low, low-, or moderate-income households that no longer meet the definition of affordable housing costs pursuant to existing law.

3) Make other technical changes.

COMMENTS

1) *Mello-Roos.* The Mello-Roos Community Facilities Act allows counties, cities, special districts, and school districts to levy special taxes (parcel taxes), with 2/3rds voter approval, to finance a wide variety of public works, including parks, recreation centers, schools, libraries, child care facilities, and utility infrastructure. A Mello-Roos district issues bonds against these special taxes to finance the public works projects.

   In addition to financing public capital facilities, Mello-Roos special taxes can fund a limited list of public services: police services, fire protection, recreation programs, library services, museum operations, park maintenance, flood protection, hazardous waste cleanup, street and road maintenance, lighting of parks, parkways, streets, roads, and open space, plowing and removal of snow, and graffiti management and removal.

   To initiate the formation of a Mello-Roos district, one of three things must happen: A written request for the establishment of a district signed by two members of the legislative body, through a petition signed by not less than 10% of the registered voters, or a petition signed by not less than 10% of landowners owning the requisite portion of the area of a proposed district. The written request or petition filed are not required to be acted upon until payment of a specified fee is paid. Within 90 days of either receiving a written request by two members of the legislative body or a petition filed, and the payment of the required fee, a local agency's legislative body must adopt a resolution of intention to establish the district, which must do all of the following: describe the district's boundaries; describe the facilities and services proposed to be financed; state that a special tax, secured by a lien against real property, will be annually levied; specify, in detail, the rate, method of apportionment, and manner of collections of the special tax; and, fix a time and place for public hearing.

After holding the hearing and considering protests, the legislative body, to establish the Mello-Roos district, must adopt a resolution of formation containing all of the information provided in the resolution of intention; and, if a special tax is to be levied, include additional information about the tax levy that must be approved by registered voters. The local agency may modify the resolution by eliminating proposed facilities or services, by changing the rate or method of apportionment of the proposed special tax in order to reduce the special tax, or by removing territory from the proposed district.

If 50% or more registered voters, or the owners of one-half or more of the area of land in the territory proposed to be included in the district, file written protests against the formation of the district, the district cannot be established. The legislative body must submit the levy of any special taxes to the voters of the district. If there are fewer than 12 registered voters in the territory of the Mello-Roos district, the affected landowners vote. In that case, landowners get one vote per acre included in the Mello-Roos district. The special tax imposed by a Mello-Roos district is a lien upon the real property. Should a property owner fail to pay the special tax, the local governmental entity may (and will typically be required to) foreclose upon the real property to collect the special tax.

2) *Mello-Roos Controversies.* The Mello-Roos Act has been 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. However, Mello-Roos districts have not existed without controversy. As detailed in the May 24, 1992, "State Panel Seeking Tougher Rules for Mello-Roos Districts : Legislation: The commission is recommending changes aimed at giving home buyers more protection." In the *Los Angeles Time*, "Mello-Roos districts, also called community facilities districts, usually are created when a large chunk of vacant land is owned by only one or two developers.

"The districts then sell bonds to finance public facilities that enable development of the land. Until homes and businesses are built and occupied, the landowners pay the Mello-Roos taxes used to pay off the bonds. But as new homeowners and businesses move in, they assume the cost of repaying the bond debt, which can amount to more than $1,000 a year on top of their regular property taxes.

"The Times articles detailed several weaknesses and failings of the system. Among them:

Home buyers often are not aware of the amount of debt their local Mello-Roos district is authorized to accumulate or the projects that can be funded with bond proceeds.

In some instances, local government officials have quietly imposed Mello-Roos taxes that favor developers at the expense of home buyers.

Governments in Orange and Riverside counties have entered into deals with developers that were in trouble financially, imperiling the security of the bonds.

Developers have been allowed to select the appraisers who value the land that is collateral for the bonds.

"For example, Lake Elsinore, a city of 19,200 residents in Riverside County, has authorized the issuance of $500 million in bonds, to the surprise and concern of both residents and state officials.

"Trouble is brewing in one of the city's housing developments called Tuscany Hills. Fewer than 200 of the planned 2,000 homes have been built, leaving Tuscany Hills with a $14.1-million bond debt that can't be retired because there are not yet enough residents."[1]

Despite past controversies, there are a number of safeguards in Mello-Roos Law to ensure that both the local agency and the residents or landowners approve of the establishment of a Mello-Roos district, including, allowing the local agency to abandon the establishment of the Mello-Roos district, modify the resolution of intention by eliminating proposed facilities or services or by changing the rate or method of apportionment of the proposed special tax, and a protest process and subsequent tax election.

3) *Current State of Mello-Roos.* To monitor the use and financial health of Mello-Roos districts, state law requires issuers of Mello-Roos bonds sold on or after January 1, 1993, to file Yearly Fiscal Status Report (YSFR) with the California Debt and Investment Advisory Commission (CDIAC) until the bonds are retired. In CDIAC's "Mello-Roos Yearly Fiscal Status Report Summary for Reporting Year 2023-24," for reporting year (RY) 2023-23, a total of 1,200 Mello-Roos districts were required to submit reports for 1,864 debt issues, including 171 new issues that sold during the RY. The original principal issued for the Mello-Roos bonds reported to CDIAC for RY 2023-24 totaled $20.8 billion. At the end of the RY, the amount of principal outstanding was $16.3 billion, approximately 78.4% of the original principal amount.

   According to CDIAC, "Detailed delinquent parcel and tax information is required to be submitted and summarizes ongoing unpaid amounts that may be cumulative over reporting years. The amount of delinquent taxes reported to CDIAC for RY 2023–24 totaled $134.9 million, a 49.5% increase over RY 2022–23 ($90.2 million). The CFD that had the largest volume of delinquencies was Northstar Community Services District CFD No. 1 with approximately $41.0 million.

   "… The total number of delinquent parcels for RY 2023–24 was 16,685 compared to 18,615 for RY 2022–23, a decrease of 10.4%. The top four CFDs with the largest number of delinquent parcels are the same as RY 2022–23. The CFD with the most reported delinquent parcels was South Lake Tahoe Recreation Facilities Joint Powers Authority CFD No. 2000-1 with 2,343."[2]

According to the Author
"The Housing Accountability Act, which is current law, lays out strict guidelines for local governments to follow when approving or denying development projects. However, some local jurisdictions are denying projects that meet the goals of the HAA on the grounds that they disapprove of the project's financing. It is not the intent of this bill to require local governments to take on bonded debt, but rather to ensure that all developers get equal treatment when constructing low and moderate-income housing, which is desperately needed."

Arguments in Support
None on file.

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[1] https://www.latimes.com/archives/la-xpm-1992-05-24-mn-471-story.html
[2] https://www.treasurer.ca.gov/cdiac/reports/M-Roos/2023.pdf

Arguments in Opposition
" According to Solano County, on a previous version of this bill, …AB 2397 goes too far. It creates loopholes that constrain local decision-making, making it difficult, if not impossible, for jurisdictions to reject or modify financing structures that may not be in the best interest of their communities. In doing so, it removes essential protections for homeowners, the County, and the public. At a time when California should be strengthening local-state partnerships to responsibly expand housing, this bill instead weakens accountability and local oversight.

FISCAL COMMENTS

None.

VOTES:

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

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

ASSEMBLY FLOOR: 66-0-14
YES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bryan, Calderon, Caloza, Carrillo, Castillo, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Fong, Gabriel, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Jackson, Johnson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Patel, Patterson, Pellerin, Quirk-Silva, Ramos, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Ward, Wilson, Zbur, Rivas
ABS, ABST OR NV: Arambula, Bonta, Chen, Flora, Gallagher, Hart, Hoover, Irwin, Papan, Petrie-Norris, Celeste Rodriguez, Valencia, Wallis, Wicks

SENATE FLOOR: 38-0-2
YES: Allen, Alvarado-Gil, Archuleta, Arreguín, Ashby, Becker, Cabaldon, Caballero, Cervantes, Choi, Cortese, Dahle, Durazo, Gonzalez, Grayson, Grove, Hurtado, Jones, Laird, McGuire, McNerney, Menjivar, Niello, Ochoa Bogh, Padilla, Pérez, Reyes, Richardson, Rubio, Seyarto, Smallwood-Cuevas, Stern, Strickland, Umberg, Valladares, Wahab, Weber Pierson, Wiener
ABS, ABST OR NV: Blakespear, Limón

UPDATED

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