# SENATE COMMITTEE ON APPROPRIATIONS
**Senator Sabrina Cervantes, Chair**
**2025 - 2026 Regular Session**

**AB 817 (Mark González) - Cold storage facilities**

**Version:** August 19, 2026
**Policy Vote:** L. GOV. 4 - 2, REV. & TAX. 3 - 1
**Urgency:** No
**Mandate:** Yes
**Hearing Date:** August 27, 2026
**Consultant:** Robert Ingenito

**Bill Summary:** AB 817, among other changes, would enact Personal Income and Corporation Tax exclusions for settlement payments made in connection with the 2026 Boyle Heights fire incident.

**Fiscal Impact:**

- The Franchise Tax Board (FTB) estimates that, for every $50 million in qualified settlement amounts received, the General Fund revenue loss would be $1.5 million. FTB's implementation costs would be minor and absorbable.

- By imposing specified requirements on cities and counties, this bill creates a state-mandated local program. However, any resulting local government costs are not state-reimbursable because cities and counties have the authority to charge fees or assessments that are sufficient to cover the cost of providing the required program or services.

**Background:** Tax expenditure programs (TEPs) are special tax provisions that reduce the amount of revenues the "basic" tax system would otherwise generate in order to provide (1) benefits to certain groups of taxpayers, and/or (2) incentives to encourage certain types of behavior and activities, such as charitable giving. Specifically, current law provides for, among other things, various income and corporation tax credits and deductions, as well as exemptions from the sales and use tax. The Department of Finance is required to publish a list of TEPs (currently totaling several hundred), which currently exceed $94 billion annually.

Under existing federal and state tax law, amounts received through settlements are generally includable in gross income unless a specific exclusion applies. Settlement payments attributable to personal physical injuries or physical sickness are generally excluded from income, except for punitive damages. Similarly, reimbursements for costs incurred as a result of a qualifying event, such as payments to restore or replace damaged property, are generally excluded to the extent they reimburse the taxpayer for actual losses.

In contrast, settlement amounts attributable solely to emotional distress are generally taxable unless the emotional distress arises from a physical injury or sickness. Additionally, certain attorney's fees associated with settlement proceeds may be included in the calculation of taxable income under federal and state law. To the extent a settlement payment exceeds the taxpayer's costs or losses associated with the underlying event, the excess amount may be subject to taxation.

In response to certain catastrophic events, the Legislature has enacted targeted Personal Income Tax (PIT) and Corporation Tax (CT) exclusions to allow taxpayers to exclude specified disaster-related settlement payments from taxable income. These exclusions have generally been enacted on an event-specific basis and have applied to settlements intended to compensate victims for property damage, economic losses, or other impacts resulting from major disasters.

Absent additional legislative action, taxpayers receiving settlement payments related to future non-wildfire disasters may be required to include those amounts in taxable income. Similarly, taxpayers who previously received settlement payments related to disasters for which the Legislature did not enact a specific exclusion may have been unable to exclude those payments from state taxable income.

On June 17, 2026, a fire at a 500,000-square-foot cold-storage warehouse operated by Lineage Logistics in Boyle Heights burned for eight days and involved approximately 85 million pounds of frozen food. The fire reportedly began while subcontractors were working on the facility's rooftop solar system; the official cause remains under investigation. Smoke from the fire prompted shelter-in-place orders and air-quality advisories, and the Governor subsequently proclaimed a state of emergency in Los Angeles County and made emergency resources available.

Following the fire, residents and businesses reported smoke-related health and property impacts, including respiratory irritation, odors, pest infestations, and costs associated with air filtration, odor mitigation, pest control, and relocation. Multiple civil actions have been filed against Lineage and other entities alleging negligence, nuisance, trespass, premises liability, toxic exposure, property damage, personal injury, and business losses. To date, no court-approved settlement, claims administrator, or formal settlement-payment program for fire victims had been publicly reported.

**Proposed Law:** This bill, among other things, would do the following:

- Enact PIT and CT exclusions for any amount received in settlement by a qualified taxpayer (as defined) from a settlement entity (as defined) in connection with the 2026 Boyle Heights fire incident, for taxable years 2027 through 2031.

- Prohibit a city, county or city and county from approving building permit for cold storage facilities, as defined, unless its owner or lessor/operator (as defined) establishes a contingency fund, as defined, to be used upon declared national, state or local emergencies, as specified.

- Require an owner of a cold storage facility to provide evidence of the contingency fund at the discretion of local officials, as specified, and authorize an owner to require the lessee/operator, to establish and maintain the contingency fund.

- Require a cold storage facility to use the contingency fund for, among other things, providing support during the declared state of emergency or local emergency for affected communities, as specified.

**Related Legislation:**

- AB 760 (Ta) would enact Personal Income and Corporation Tax exclusions for settlement payments made in connection with the 2026 Garden Grove chemical leak. The bill is currently pending on the Assembly Floor.

- SB 883 (Umberg) would create an income exclusion for settlement amounts received by a qualified taxpayer for claims relating to the May 2026 chemical incident at the GKN Aerospace manufacturing facility for taxable. The bill is currently pending on the Assembly Floor.

- SB 268 (Choi, 2025) would have enacted Personal Income and Corporation Tax exclusions for gross income for qualified amounts received from a settlement entity to replace property damaged or destroyed in a natural disaster or accident or human-caused event declared a state of emergency by the Governor. The bill was held under submission on the Suspense File of this Committee.

**Staff Comments:** FTB notes that determining the bill's impact on the General Fund requires knowing both the amount of settlement payments received and the timing of those payments. Because the amount and timing of settlement payments are difficult to predict, the bill's overall revenue impact to the General Fund is unknown. As an estimate, FTB assumes that for every $50 million in qualified settlement amounts received, applying an average tax rate of 3 percent would result in a General Fund revenue loss of $1.5 million.

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