
SENATE COMMITTEE ON LOCAL GOVERNMENT

Senator María Elena Durazo, Chair

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PROHOUSING ENHANCED INFRASTRUCTURE FINANCING DISTRICTS

Creates a subset of enhanced infrastructure financing districts called Prohousing Enhanced Infrastructure Financing Districts.

Background

Enhanced Infrastructure Financing Districts. From the early 1950s until they were dissolved in 2011, California redevelopment agencies (RDAs) used property tax increment financing to pay for economic development projects in blighted areas pursuant to the provisions of the Community Redevelopment Law. Generally, property tax increment financing involves a local government forming a tax increment financing (TIF) district to issue bonds and use the bond proceeds to pay project costs within the boundaries of a specified project area. To repay the bonds, the district captures increased property tax revenues that are generated when projects financed by the bonds increase assessed property values within the project area. To calculate the increased property tax revenues captured by the district, the amount of property tax revenues received by any local agency participating in the district is “frozen” at the amount it received from property within a project area prior to the project area’s formation. In future years, as the project area’s assessed valuation grows above the frozen base, the resulting additional property tax revenues—the so-called property tax “increment” revenues—flows to the TIF district instead of other local agencies. After the TIF district fully repays the bonds using the incremental property tax revenues, the district dissolves, ending the diversion of tax increment revenues from participating local agencies.

Following their dissolution, local officials sought other ways to use TIF to raise the capital they need to fund public works projects. In response, the Legislature enacted SB 628 (Beall, 2014) to allow local officials to create Enhanced Infrastructure Financing Districts (EIFDs), which augment the tax increment financing powers available to local agencies under existing infrastructure financing district statutes. While the Legislature has created other similar financing tools, they have seldom, or never, been used.

EIFDs can finance public capital facilities or other specified projects of communitywide significance that provide significant benefits to the district or the surrounding community with an estimated useful life of 15 years or more, like infrastructure. To do this, they must follow a specific process for adopting an infrastructure financing plan (IFP) so that the public is aware of the projects the district intends to finance.

In addition to construction costs, EIFDs can finance: (1) planning and design work, (2) displacement of affordable housing residents, (3) defending the district against protests over

existence or plans, and (4) the ongoing or capitalized costs to maintain the projects the district finances. The EIFD must not use bond proceeds to finance maintenance of any kind, and must not finance costs for ongoing operations or providing services.

Pro-housing jurisdictions. In 2019, AB 101 (Committee on the Budget) required the Department of Housing and Community Development (HCD) to create a process to designate cities and counties as pro-housing if their local policies facilitate the planning, approval, or construction of housing. “Pro-housing” jurisdictions receive a competitive advantage in applying for certain state programs, including the Affordable Housing and Sustainable Communities Program, Transformative Climate Communities Program, and the Infill Infrastructure Grant Program.

Jurisdictions applying to HCD must:

- Have a compliant housing element;
- Have submitted their annual housing progress reports;
- Completed all necessary rezoning;
- Comply with all state housing laws;
- Have a policy for the treatment of homeless encampments; and
- Adopt a resolution to establish their pro-housing status.

Additionally, local governments with pro-housing designation are eligible to apply for funds from the Prohousing Incentive Program, which rewards local governments with pro-housing designation with additional planning or implementation funding to accelerate affordable housing production and preservation.

Infrastructure needs to support housing development. In its 2025 Report Card for California’s Infrastructure, the American Society of Civil Engineers found that:

“Although improvements have been made – resulting in six category grades improving – a ‘C-’ indicates that California’s built environment is not equipped to keep pace with the needs of the largest economy and population in the U.S., particularly as diverse environmental challenges impact infrastructure systems. California’s aviation, energy, hazardous waste, levees, ports and rail grades all improved compared to their 2019 marks, while the state’s dams, drinking water, schools and stormwater categories decreased.”

In March 2023, the Senate Committee on Governance and Finance held an informational hearing called *Bridging the Gap: Local Government Infrastructure*, which highlighted challenges local governments experience when building the infrastructure necessary for increasing housing development. According to the hearing’s background paper, “After the restrictions from Proposition 13 and the dissolution of RDAs, local officials had to pursue alternatives to help address infrastructure needs associated with new development.” While alternatives have been pursued, the paper found that:

“Many of the tools that local governments have to generate funding for infrastructure financing require time to raise the revenue necessary. For example, if a city decided to create a TIF district, or impose a new tax, it needs to wait until it generates sufficient revenue to afford repayments before it can issue bonds to

finance projects. Additionally, not all local agencies have the bonding capacity to address all their infrastructure needs, nor do they necessarily want to increase the taxes that their residents pay to finance these projects.”

The author wants to create a new type of EIFD for pro-housing jurisdictions to help finance infrastructure needed to encourage housing development.

Proposed Law

Senate Bill 1003 creates Prohousing Enhanced Infrastructure Financing Districts (PEIFDs) and the Infrastructure Partnership Financing Program (IPFP).

PEIFDs. This subtype of EIFDs is different from traditional EIFDs in that a city or county can only create one if:

- The city or county that creates it is a pro-housing jurisdiction;
- Its infrastructure financing plan (IFP) requires one of the following:
 - At least 20% of any new housing units constructed or rehabilitated in the PEIFD will be affordable to low- or moderate-income households, and at least 6 percent of new units will be affordable to very low-income households; or
 - At least 30% of the total project area will be affordable to lower income households within 20 years of the PEIFD’s establishment;
- The city or county adopts a resolution that it is affirmatively furthering fair housing; and
- The IFP requires a review every 10 years.

Affordable housing units the PEIFD funds must remain affordable for the longest feasible time, but not less than 55 years for rental units and 45 years for owner-occupied units.

PEIFDs are different from EIFDs in that they cannot fund highway or highway interchange projects.

A city or county cannot terminate a PEIFD if it has not complied with its affordable housing obligations. In addition to information required for any EIFD, a PEIFD must also include information on its progress in complying with its affordable housing obligations in its annual report. A city or county with a PEIFD that loses its pro-housing designation must regain its status within 120 days after revocation. If the city or county does not, it cannot do any of the PEIFD specific activities until it regains its status.

When it comes to scoring competitive housing and infrastructure programs the following receive enhanced points or preferences:

- Jurisdictions with PEIFDs;
- Projects in a jurisdiction with a PEIFD; or

IPFP. Under this program, a PEIFD must apply to HCD for a loan or grant to finance infrastructure projects needed to support a housing development project. The application must:

- Identify a specific infill housing development project and the development proponent who is sponsoring the project. The project must include a portion of deed-restricted affordable housing units;
- Describe the qualified housing development project, including the total number housing units, and the total number of housing units subject to a recorded affordability restriction;
- Include the amount and type of funding requested (grants or loans);
- Describe the local resources that will be used to finance infrastructure associated with the qualified housing development project;
- List the infrastructure projects needed to assist the development of qualified housing development projects along with an estimated cost and completion date for each of those projects; and
- Include an analysis showing that the benefits to the public in terms of the number of units subject to a recorded affordability restriction or more affordable rents is likely to exceed the benefit to the development proponent in terms of reduced production costs.

The measure makes findings to support its purposes.

Comments

1. Purpose of the bill. According to the author, “While many state programs exist to support affordable housing construction, there are fewer programs available that help to provide funding for infill infrastructure. SB 1003 establishes the Infrastructure Partnership Financing Program, which would support local jurisdictions build infrastructure for infill housing. Under this program, local jurisdictions will be able to create Pro-Housing Enhanced Infrastructure Financing Districts (PEIFDs), working with housing developers to identify infill infrastructure needs, and then jointly apply to the Infrastructure Partnership Financing Program for state assistance. By creating PEIFDs, this ensures greater accountability for development projects, whilst reducing costs upfront. Ultimately SB 1003 will help unlock housing, leverage local investment, and generate lasting returns.”

2. Sure, but will it work? Proposition 13 (1978) capped property tax rates at 1% of assessed value (which only changes upon new construction or when ownership changes). If properties do not get reassessed, the Constitution caps growth at 2% per year. The general theory behind TIF is that a local agency creates a district because it expects significant property tax growth generated through reassessments when property changes hands or is improved. Otherwise, a TIF district only receives the increment that comes from the 2% growth, which may not be sufficient to generate enough revenue to finance significant infrastructure projects in a timely fashion. When the TIF district uses these resources to finance infrastructure projects, it can springboard additional property tax growth. In other words, the TIF district pays for itself.

When RDAs existed, they had at least two important advantages over current TIF districts. First, they received increment from the school share of property tax revenue, which the state backfilled from the General Fund in many cases. Second, they received increment that would have otherwise gone to other local agencies without their approval. This generated billions of dollars in additional funds that cities and counties could only access through redevelopment. Even with these key features, research has found that RDAs generally did not generate enough growth in property values to justify the property tax revenue they received. For example, a Public Policy Institute of California study on 38 different RDA projects found that, “Across all the projects, the RDAs generated just 51 percent of their tax increment revenues in fiscal year 1994–1995. This

means that other governments—the state, counties, and special districts—provided subsidies to these RDAs of over \$38 million that year (after accounting for pass-through payments).”¹ This research suggests that TIF districts, like PEIFDs won’t effectively finance infrastructure projects without a subsidy.

3. Putting your money where your mouth is. SB 1003 attempts to address a long-standing issue with post-redevelopment TIF tools: a lack of state participation. However, the measure’s state financing program has one key shortcoming: it does not require the Legislature to make a specific appropriation, it merely sets up the process for allocating state funds if appropriated. There is no guarantee that an appropriation will be made in any year, or for a sufficient number of consecutive years, to make a significant impact on a city or county’s housing needs.

4. Coming and going. The Senate Rules Committee has ordered a double referral of SB 1003: first to the Committee on Local Government to hear issues related to local government powers, and second to the Committee on Housing.

Support and Opposition (4/10/2026)

Support: None Submitted

Opposition: None Submitted

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¹ Michael Dardia, Subsidizing Redevelopment in California (Public Policy Institute of California: January 1998). http://www.ppic.org/content/pubs/report/R_298MDR.pdf