

SENATE THIRD READING
SB 1003 (Grayson)
As Amended May 14, 2026
Majority vote

SUMMARY

Creates a subset of enhanced infrastructure financing districts (EIFDs) called Prohousing Enhanced Infrastructure Financing Districts (PEIFDs).

Major Provisions

- 1) Defines "lower income households", "persons and families of low or moderate income", "prohousing jurisdiction", and "very low income households" pursuant to existing law.
- 2) Defines "PEIFD" to mean an EIFD that meets the requirements established in this bill.
- 3) Authorizes a prohousing jurisdiction to establish a PEIFD by doing all of the following:
 - a) Adopting a resolution, as specified.
 - b) Finding by resolution that it is in compliance with existing law related to affirmatively furthering fair housing.
 - c) Adopting an infrastructure financing plan (IFP) that does both of the following:
 - i) Requires a review to ensure compliance with the requirements outlined in 3) every 10 years.
 - ii) Requires either of the following:
 - (1) At least 20% of any new housing units constructed or rehabilitated in the PEIFD will be affordable to persons and families of low or moderate income and at least 6% of new units will be affordable to very low income households.
 - (2) At least 30% of the total project area will be affordable to lower income households within 20 years of establishment of the PEIFD.
- 4) Specifies that all of the following apply to a PEIFD:
 - a) The PEIFD shall require, by recorded covenants or restrictions, that affordable units financed pursuant to this bill remain available at the applicable required affordable housing costs for the longest feasible time, but not less than 55 years for rental units and 45 years for owner-occupied units.
 - b) EIFD Law applies to a PEIFD except that a PEIFD shall not finance highways or interchanges.
- 5) Provides that the public financing authority of the PEIFD shall include both of the following in the annual report required by EIFD Law:

- a) The compliance review described in 3), above, in the years when that review is conducted.
 - b) The progress in complying with affordable housing obligations.
- 6) Prohibits a city or county from terminating a PEIFD if the district has not complied with its affordable housing obligations.
 - 7) Specifies that a city or county that has established a PEIFD that has its prohousing designation revoked shall make a diligent effort to remedy that status within 120 days of revocation.
 - 8) Provides that a prohousing jurisdiction shall receive enhanced points or preference beyond the baseline provided for other prohousing designated jurisdictions for the following:
 - a) If the jurisdiction has established a PEIFD.
 - b) An eligible project located within a PEIFD.
 - 9) Provides that funding awarded to a jurisdiction that has established a PEIFD, or to an eligible project located within one of those districts may be used for infrastructure components that directly support, strengthen, or accelerate implementation of the district, including house-enabling infrastructure, but only to the extent consistent with the requirements of the program pursuant to which funding was awarded.
 - 10) Adds to the list of "prohousing local policies" the establishment of a PEIFD.
 - 11) Contains findings and declarations to support its purposes.

COMMENTS

- 1) *Local Infrastructure Financing.* Funding and financing local government infrastructure is a core responsibility for local governments. The ways in which local governments have addressed these responsibilities has changed over time. Until voters passed Proposition 13 in 1978, cities, counties, and special districts could generally set property tax rates on property within its jurisdiction without an aggregate cap. Local governments received property tax revenue resulting from the appropriate property tax rate fixed by the local governments, and could use that revenue to build infrastructure projects and meet other needs. If a local government wanted to pay to build infrastructure in an area it planned to develop, it could increase its property tax rates to pay for those projects. Local governments could also enact taxes by ordinance. Proposition 13 both limited the maximum amount of any ad valorem tax on real property at 1% of full cash value, and imposed voter approval requirements for local taxes. Despite the notable benefits to property owners, these changes hampered local governments' ability to address infrastructure needs related to new development.
- 2) *Redevelopment.* Article XVI, Section 16 of the California Constitution authorizes the Legislature to provide for the formation of Redevelopment Agencies (RDAs) to eliminate blight in an area by means of a self-financing schedule that pays for the redevelopment project with tax increment derived from any increase in the assessed value of property within the redevelopment project area (or tax increment). Generally, property tax increment

financing involves a local government forming a tax increment financing 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 government 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 — flow to the tax increment financing district instead of other local governments. After the bonds have been fully repaid using the incremental property tax revenues, the district is dissolved, ending the diversion of tax increment revenues from participating local governments.

Prior to Proposition 13, very few RDAs existed; however, after its passage, RDAs became a source of funding for a variety of local infrastructure activities. Eventually, RDAs were required to set aside 20% of funding generated in a project area to increase the supply of low and moderate income housing in the project areas. At the time RDAs were dissolved, the Controller estimated that statewide, RDAs were obligated to spend \$1 billion on affordable housing. At the time of dissolution, over 400 RDAs statewide were diverting 12% of property taxes, over \$5.6 billion yearly.

In 2011, facing a severe budget shortfall, the Governor proposed eliminating RDAs in order to deliver more property taxes to other local agencies. Ultimately, the Legislature approved and the Governor signed two measures, ABX1 26 (Blumenfield), Chapter 5 and ABX1 27 (Blumenfield), Chapter 6 that together dissolved RDAs as they existed at the time and created a voluntary redevelopment program on a smaller scale. In response, the California Redevelopment Association (CRA) and the League of California Cities, along with other parties, filed suit challenging the two measures. The Supreme Court denied the petition for peremptory writ of mandate with respect to ABX1 26. However, the Court did grant CRA's petition with respect to ABX1 27. As a result, all RDAs were required to dissolve as of February 1, 2012.

- 3) *Attempts to Replace RDAs.* After the Supreme Court's 2011 Matosantos decision dissolved all RDAs, legislators enacted several measures creating new tax increment financing tools to pay for local economic development. The Legislature authorized the creation of EIFDs [SB 628 (Beall), Chapter 785, Statutes of 2014] quickly followed by CRIAs [AB 2 (Alejo), Chapter 319, Statutes of 2015]. Similar to EIFDs, CRIAs use tax increment financing to fund infrastructure projects. CRIAs may currently only be formed in economically depressed areas.

The Legislature has also authorized the formation of affordable housing authorities (AHAs), which may use tax increment financing exclusively for rehabilitating and constructing affordable housing and also do not require voter approval to issue bonds [AB 1598 (Mullin), Chapter 764, Statutes of 2017]. SB 961 (Allen), Chapter 559, Statutes of 2018, removed the vote requirement for a subset of EIFDs to issue bonds and required these EIFDs to instead solicit public input, and AB 116 (Ting), Chapter 656, Statutes of 2019, removed the voter

requirement for any EIFD to issue bonds in favor of a formal protest process. SB 852 (Dodd), Chapter 266, Statutes of 2022, created climate resilience districts (CRDs), which can also utilize tax-increment financing. CRDs were also given the authority to issue general obligation bonds and impose special taxes. In response to recent fires in California, SB 782 (Perez), Chapter 552, Statutes of 2025, created a subcategory of climate resilience districts (CRDs) to finance disaster recovery efforts.

While these entities share fundamental similarities with RDAs in terms of using various forms of tax-increment financing, they differ in two significant aspects, 1) not having access to the school's share of property tax increment, and 2) not automatically including the tax increment of other taxing entities.

- 4) *EIFD Law*. EIFDs are the most commonly used infrastructure financing tool created since the dissolution of RDAs. To create an EIFD, the legislative body of a city or county must adopt a resolution of intention to establish the EIFD. The resolution must state a time and place for a hearing on the proposal, the proposed district's boundaries, the types of facilities and development to be financed, the need for the district, the goals the district proposes to achieve, and that incremental property tax revenues may be used to finance the EIFD's activities.

An EIFD is governed by a public financing authority (PFA) with three members of each participating taxing entity's legislative body and a minimum of two public members. Member agencies can also appoint an alternate member from their legislative body. If at least three taxing entities participate in the district, they can agree to reduce the district's governing board to one member and one alternate member of each legislative body and a minimum of two public members.

The city or county must create the PFA at the same time it adopts the resolution of intention. The PFA then provides public notice and directs an official to prepare an IFP. This process requires the PFA to make the draft IFP available to the public and to each landowner within the area at least 30 days before noticing the first public meeting.

- 5) *Prohousing Local Policies*. In 2019, the Legislature enacted legislation [AB 101 (Committee on Budget), Chapter 159, Statutes of 2019], which required California Department of Housing and Community Development (HCD) to designate cities and counties as prohousing if their local policies facilitate the planning, approval, or construction of housing.

"Prohousing" jurisdictions receive a competitive advantage in applying for certain state programs, including but not limited to the Affordable Housing and Sustainable Communities Program, the Transformative Climate Communities Program, and the Infill Incentive Grant Program.

Additionally, local governments with a prohousing designation are eligible to apply for funds from the Prohousing Incentive Program, which is designed to reward local governments with a prohousing designation with additional planning or implementation funding to accelerate affordable housing production and preservation. Eligible uses include: construction and rehabilitation of affordable housing, homeownership, matching funds for housing trust funds, services for permanent supportive housing units, and housing for people experiencing homelessness.

Although AB 101 provided examples of prohousing local policies, the Department of Housing and Community Development (HCD) has discretion over the final policies. HCD initially adopted emergency regulations on June 25, 2021, and later adopted permanent regulations, which were approved on January 2, 2024. HCD began accepting applications under these regulations on March 2, 2024

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 Pro-Housing Enhanced Infrastructure Districts which would support local jurisdictions to build infrastructure for infill housing. This bill will help create an incentive structure that will provide additional benefits to local jurisdictions who create pro-housing enhanced infrastructure districts, or PEIFD. Under this program, local jurisdictions will be able to create Pro-Housing Enhanced Infrastructure Financing Districts (PEIFDs). If a local jurisdiction creates a PEIFD, they will receive additional points towards programs that can help provide support for housing related infrastructure. By creating PEIFDs, this ensures greater accountability for development projects, while reducing costs upfront. Ultimately SB 1003 will help unlock housing, leverage local investment, and generate lasting returns."

Arguments in Support

According to the California Apartment Association, "SB 1003 would allow local governments that have proven to be part of the solution of the housing crisis to raise capital to build affordable housing and associated infrastructure through PEIFDs. Only local governments with a prohousing designation would be eligible to create a PEIFD. The prohousing enhanced infrastructure financing district must have a 55-year deed-restriction for affordable housing rental units as well as a 45-year deed restriction on owner-occupied units thereby ensuring that communities have a mix of low-income homeowners and tenants. This will protect the community's investment in the future for decades to come.

"We appreciate the goal of SB 1003 to lower upfront costs for housing development by helping pay for infrastructure, which can be expensive and slow projects down. It also aims to (i) encourage more housing in existing communities; (ii) ensure projects include affordable housing; and (iii) reward communities with state law compliant housing elements. These are all worthy and necessary goals as California aims to quickly address the need for affordable housing."

Arguments in Opposition

None on file.

FISCAL COMMENTS

According to the Assembly Appropriations Committee, HCD anticipates minor and absorbable costs to revise the guidelines of specified programs to provide enhanced bonus points or preferences for cities and counties with an established PEIFD.

VOTES**SENATE FLOOR: 32-7-1**

YES: Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Cortese, Durazo, Gonzalez, Grayson, Hurtado, Laird, Limón, McGuire, McNerney, Menjivar, Ochoa Bogh, Padilla, Pérez, Reyes, Richardson, Rubio, Smallwood-Cuevas, Stern, Strickland, Umberg, Wahab, Weber Pierson, Wiener

NO: Alvarado-Gil, Choi, Dahle, Grove, Jones, Seyarto, Valladares

ABS, ABST OR NV: Niello

ASM LOCAL GOVERNMENT: 10-0-0

YES: Carrillo, Ta, Alanis, Pacheco, Fong, Ransom, Blanca Rubio, Stefani, Ward, Wilson

ASM HOUSING AND COMMUNITY DEVELOPMENT: 11-0-1

YES: Haney, Ávila Farías, Caloza, Garcia, Kalra, Lee, Ward, Ta, Tangipa, Wicks, Wilson

ABS, ABST OR NV: Patterson

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