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THIRD READING

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Bill No: SB 1036  
Author: Grayson (D)  
Amended: 4/8/26  
Vote: 21

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SENATE LOCAL GOVERNMENT COMMITTEE: 7-0, 4/15/26  
AYES: Durazo, Choi, Arreguín, Ashby, Cervantes, Laird, Seyarto

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**SUBJECT:** Mitigation Fee Act

**SOURCE:** Author

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**DIGEST:** This bill requires that, if a development demolishes or changes an existing use, the local agency has to offset the fee amount to account for the demolition or change so that the fee amount is attributable only to the development's incremental impact on public facilities or services.

**ANALYSIS:**

Existing law:

- 1) Allows local governments to require applicants for development projects to pay fees to mitigate the project's effects, known as mitigation or development impact fees.
- 2) Requires, under the Mitigation Fee Act, local officials that are establishing, increasing, or imposing a fee as a condition of approving a development project to:
  - a) Identify the fee's purpose.
  - b) Identify the fee's use, including the public facilities to be financed.
  - c) Determine a reasonable relationship between the fee's use and the development.

- d) Determine a reasonable relationship between the public facility's need and the development.
  - e) Determine a reasonable relationship between the fee's amount and the cost of the public facility.
  - f) Hold at least one open and public meeting prior to levying a new fee or increasing an existing one.
  - g) If they decide to adopt capital improvement plans, indicate the approximate location, size, time of availability, and estimates of cost for all facilities or improvements to be financed with the fees.
  - h) Deposit and spend the fees within five years of collecting them.
  - i) Refund fees or make specific findings on when and how the fees will be spent for construction, if the fees aren't spent within five years of collection.
- 3) Requires local agencies to deposit mitigation fees to fund a capital improvement associated with a development in a separate account or fund.
  - 4) Requires local agencies that impose mitigation fees to produce an annual report within 180 days of the end of the fiscal year that includes specified information.
  - 5) Requires a city, county, or special district that has an internet website to post and update on their websites specified information, including a current schedule of housing development project costs, zoning ordinances and development standards, annual impact fee reports, and an archive of specified impact fee nexus studies.
  - 6) Requires local agencies to conduct and adopt a nexus study prior to the adoption of an impact fee, and specified standards and practices.

This bill:

- 1) Requires that, if a development demolishes or changes an existing use, the local agency has to offset the fee amount to account for the demolition or change so that the fee amount is attributable only to the development's incremental impact on public facilities or services.
- 2) Provides that it applies to capacity charges.
- 3) Provides that, if the offset amount exceeds the fee amount, the developer cannot use that remainder to refund or offset any other fees.

## Background

*Connection and capacity charges.* Connection fees and capacity charges are one-time fees assessed on new customers that reflect the reasonable cost of providing service, typically for water or sewer systems. A local agency assesses a connection fee when it physically connects a structure to the water or sewer system, which pays for or the physical facilities necessary to make a water connection or sewer connection, such as meters, meter boxes, pipelines, and the estimated reasonable cost of labor and materials for their installation of those facilities. A local agency assesses a capacity charge on the customer to cover the proportional cost of maintaining or constructing system wide infrastructure necessary to meet the additional water or sewer demand for new users of the system. The Mitigation Fee Act governs connection fees and capacity charges, but state law provides separate provisions related to their oversight and accounting.

*Net impacts.* Not all development projects are on empty parcels. In some cases, they replace one use for another, which may change the impact that development project has on local agencies. The underlying project may have paid impact fees for its use as an office, but that did not account for the additional public services necessary to support residential development, like increased utility usage, schools, and other public services. If the local agency applied the same fees on the development reusing the existing development as it did for an entirely new residential development, the fees would not account for the existing infrastructure serving the development.

## Comments

*Purpose of the bill.* According to the author, “The Mitigation Fee Act allows local jurisdictions to impose impact fees on specific developments to help “mitigate” the costs of new or additional facilities that are needed to serve those developments. In order to charge a fee, there must be a reasonable relationship between the fee’s use and the project on which the fee is imposed. Many development projects involve the redevelopment of sites with existing uses that already contribute to the demand for services or facilities funded by a particular impact fee. In certain cases, during redevelopment projects, local agencies can provide a “credit” to help reduce fees to account for prior usage. When accounting for prior use, many local jurisdictions currently recognize credits for most impact fees, however, this is not always the case throughout the state. To help provide uniformity and clarity under the Mitigation Fee Act, SB 1036 would require that all jurisdictions provide “credit” for prior uses when a project is redeveloping a site with similar prior uses.

This bill would help reduce the costs of duplicative impact fees, helping to lower overall development costs and unlock more housing across California.”

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

**SUPPORT:** (Verified 4/16/26)

AARP

Bay Area Council

Cal Chamber

California Association of Realtors

California Building Industry Association

California Council for Affordable Housing

Cbia

Fieldstead and Company, INC.

Habitat for Humanity California

Spur

Zillow Group

**OPPOSITION:** (Verified 4/16/26)

City of Pico Rivera

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\*\*\*\* **END** \*\*\*\*