SENATE THIRD READING
SB 5 (Cabaldon)
As Amended September 2, 2025
Majority vote

SUMMARY

Prohibits enhanced infrastructure financing districts (EIFDs) and community revitalization and investment authorities (CRIAs) from including property taxes collected from parcels enrolled in a Williamson Act (WA) or farmland security zone (FSZ) contract.

Major Provisions

1) Specifies that property taxes authorized to be divided and allocated pursuant to EIFD and CRIA law shall not include taxes levied upon any of the following:

   a) A parcel of land enrolled in a WA contract.

   b) A parcel of land enrolled in a FSZ contract.

   c) A parcel of land subject to a WA contract or a FSZ contract that has been canceled or nonrenewed, until the next equalized assessment roll made after either of the following, at the option of the local agency:

      i) Cancellation or nonrenewal of the WA contract or the FSZ contract.

      ii) Rezoning of the parcel for residential, commercial, industrial, or other uses.

2) *Contains chaptering language to avoid potential conflicts with SB 516 (Ashby).*

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.

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 infrastructure and 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.

3) *Williamson Act.* The WA, administered by the California Department of Conservation (DOC), helps conserve agricultural and open space land by allowing private property owners to enter into voluntary contracts with counties and cities. These contracts enforceably restrict the land to agriculture, open space, and compatible uses.

In return for these voluntary contracts, county assessors reduce the value of WA contracted lands to reflect the value of their use as agriculture or open space, instead of the allowable

assessment value pursuant to Proposition 13. WA contracts have a 10-year term and automatically renew each year, so that the term is always 10 years in the future.

In 1998, the Legislature created an option of establishing a FSZ, which offers landowners a greater property tax reduction for a minimum 20-year contract. The Revenue and Taxation Code sets out valuation procedures for land under WA and FSZ contracts, as well as for other lands where the use is enforceably restricted in various ways, including scenic restrictions, open space easements, restrictions for timber cultivation, and wildlife habitat contracts.

As of 2022, about 15.1 million acres of land across 52 counties were under WA contracts. According to DOC, participation in the program has been steady, hovering at about 16 million acres enrolled under contract statewide since the early 1980s. This number represents about one third of all privately held land in California, and about one half of the state's agricultural land. DOC estimates that individual landowners have saved anywhere from 20% to 75% in reduced property taxes each year, depending upon their circumstances. The DOC's WA Status Report of 2020-2021, its latest report, noted, "Concerns and questions continue to arise regarding cannabis, solar fields, use compatibility, breach of contract, and most recently, the Sustainable Groundwater Management Act (SGMA)… Most of these types of questions are best addressed at the local level."

4) *Getting out of a WA Contract.* A landowner who wants to develop land restricted by a WA contract has three options: nonrenewal, cancellation, and rescission.

   a) *Non-renewal.* Under this process, either the landowner or local officials give "notice of nonrenewal," which stops the automatic annual renewals and allows the contract to run down over the next 10 years (20 years for FSZs).

   b) *Cancellation.* Local officials can cancel a contract at the request of the landowner. To do so, local officials must make findings that cancellation is in the public interest and that cancellation is consistent with the purposes of the WA. In addition, the landowner must pay a cancellation fee that is equal to 12.5% of the "cancellation valuation" of the property (25% in the case of FSZs).

      Typically, the county assessor determines the cancellation valuation. However, a landowner and DOC can separately agree on a cancellation valuation for the land, which takes the place of the value identified by the county assessor. Local officials may approve or deny a cancellation once the cancellation value is determined.

   c) *Rescission.* A city or county, upon petition by a landowner, may enter into an agreement with a landowner to rescind a WA contract in order to simultaneously place other land under an agricultural conservation easement, provided that the Board of Supervisors or City Council makes certain findings, including that the proposed easement will make a beneficial contribution to the conservation of agricultural land in its area. The land proposed to be placed under an agricultural conservation easement must be of equal size or larger than the land under the WA that will be rescinded, and must be equally or more suitable for agricultural use than the land under the WA that will be rescinded.

      In determining the suitability of the land for agricultural use, the city or county must consider the soil quality and water availability of the land, adjacent land uses, and any agricultural support infrastructure. The Secretary of Resources must approve the

agreement and, in order to do so, must find that the parcel proposed for the new contract is expected to be used for, and is large enough and in an area to sustain, commercial agricultural production, among other things.

5) *Subvention Payments.* Historically, the state made subvention payments to counties in order to make up for a portion of the resulting losses in local property tax revenue from WA and FSZ contracts, and other enforceable open space restriction programs. Specifically, state law requires the Secretary of Natural Resources to direct the Controller to pay eligible cities and counties, out of continuously appropriated funds, at the following annual rates for enforceably restricted land:

   a) Five dollars per acre for prime agricultural land that is subject to open space easement, WA or FSZ contract, or timber production easement.

   b) One dollar per acre for other land devoted to open-space uses of statewide significance.

   c) Eight dollars per acre for land under a FSZ contract that is within three miles of the boundaries of the sphere of influence of an incorporated city.

   According to the Legislative Analyst's Office (LAO), the state annually appropriated around $35 million to $40 million each year from 1994 to 2008 for subvention payments to local governments. However, funding for subventions was suspended in Fiscal Year 2009-10 in response to budgetary pressures. A one-time appropriation of $10 million was made for Fiscal Year 2010-11, but no appropriations for subvention payments have been made since then. In the intervening years, only one county, Imperial, has exited the WA program.

According to the Author
"SB 5 ensures that developers cannot exploit the artificially low value of protected agricultural land through the tax increment financing of Enhanced Infrastructure Financing Districts (EIFDs) and Community Revitalization and Investment Areas (CRIAs). The use of EIFDs and CRIAs on lands under Williamson Act contracts undermines the intent of both programs by allowing private development interests to benefit from artificially reduced property tax assessments granted to preserve agricultural land.

"This bill would exclude taxes levied upon a parcel of land enrolled in or subject to a Williamson Act contract or a farmland security zone contract from the allocation to an EIFD or CRIA until the next equalized assessment roll made after both of the following: (1) The cancellation or nonrenewal of the contract; (2) and the rezoning of the parcel for non-agricultural use, preventing the misuse of public funds for private objectives."

Arguments in Support
According to Solano County, "While EIFDs and CRIAs are intended to promote economic development and revitalize local communities, the Williamson Act serves a different public purpose: protecting agricultural resources and preventing the premature conversion of valuable farmland by offering landowners reduced property tax assessments during the length of the contract period.

"Allowing an EIFD or CRIA to capture tax increments calculated using Williamson Act-reduced assessments results in an unintended double benefit. The EIFD or CRIA gains not only from

future increases in property value, but also from the artificially low starting tax base meant as a public tradeoff to preserve agricultural resources.

"More money diverted to a tax increment financing district means less revenue goes to local agencies, effectively shifting more of the financial burden for services onto taxpayers. Instead of requiring private developments to contribute their fair share to the public infrastructure necessary for their projects, this mechanism further subsidizes EIFDs and CRIAs at public expense. Maintaining transparency and accountability in EIFDs and CRIAs requires preventing them from exploiting legal loopholes to secure unearned financial advantages.

"Using EIFDs and CRIAs on lands subject to Williamson Act contracts undermines the core purposes of both programs. It allows private development interests to benefit from property tax reductions specifically intended to preserve agricultural land. To the extent SB 5 intends to and will address that unearned benefit to private developers at the expense of the public, Solano County supports SB 5."

Arguments in Opposition
According to the California Building Industry Association and a coalition in opposition, "This bill addresses a problem that does not exist. There is no substantive evidence that the Williamson Act is currently being undermined or that its protections for agricultural and open-space lands are inadequate. In fact, the Act already imposes rigorous restrictions and includes local oversight to ensure land remains in agricultural use, unless formally and lawfully removed from contract.

"What SB 5 would do is restrict the discretion of democratically elected local governments in rural and agricultural areas from determining for themselves how they want to use their local tax increment financing authority. EIFDs were created as a flexible tool for local governments to finance projects without raising taxes including broadband, affordable housing, renewable energy, transportation networks, and modern water systems. By imposing a broad, one-size-fits-all ban across the state, SB 5 would eliminate one of the few remaining infrastructure financing and economic development mechanisms available to fund improvements in these areas.

"It is important to note that the decision as to if and how to use EIFD and CRIA funds can never be made by a private sector interest and can only be made by democratically elected local officials, and in the case of Williamson Act lands, only after complying with the rigorous rules for taking such properties out of agricultural use. At a time when regions across the state are struggling to finance critical infrastructure and economic development projects to meet our transportation, communication, climate and housing needs, there is no reason to tie the hands of local officials when reacting to the circumstances of their unique communities.

"Local governments already play a crucial role in decision-making for both EIFD formation and Williamson Act contract termination. A community, through a transparent and democratic process, should have the right to decide if and how to use EIFD funding to support the investments necessary to promote climate resilience, rural vitality, and equitable development. SB 5 takes that choice away without delivering meaningful environmental or fiscal protections in return."

FISCAL COMMENTS

None.

VOTES

SENATE FLOOR: 32-5-3
YES: Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Cortese, Dahle, Durazo, Gonzalez, Grayson, Jones, Laird, Limón, McGuire, McNerney, Menjivar, Niello, Ochoa Bogh, Padilla, Pérez, Richardson, Rubio, Smallwood-Cuevas, Stern, Umberg, Wahab, Weber Pierson, Wiener
NO: Alvarado-Gil, Choi, Grove, Seyarto, Strickland
ABS, ABST OR NV: Hurtado, Reyes, Valladares

ASM LOCAL GOVERNMENT: 9-0-1
YES: Carrillo, Hoover, Pacheco, Ramos, Ransom, Blanca Rubio, Stefani, Ward, Wilson
ABS, ABST OR NV: Ta

UPDATED

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