Date of Hearing: June 18, 2025

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT
Juan Carrillo, Chair
SB 74 (Seyarto) – As Amended April 7, 2025

SENATE VOTE: 38-0

SUBJECT: Office of Land Use and Climate Innovation: Infrastructure Gap-Fund Program.

SUMMARY: Requires the Office of Land Use and Climate Innovation (LCI) to establish the Infrastructure Gap-Fund Program (Program). Specifically, **this bill**:

1) Defines the following terms:

   a) "Additional projected costs" to mean costs beyond the initial budgeted costs for the infrastructure project, including, but not limited to, costs related to labor, materials, and additional permits.

   b) "Infrastructure project" to mean a broadband, fire station, school, health and safety improvement, or road project.

   c) "Local agency" to mean a county, city, city and county, or special district.

   d) "Local taxes" to mean any tax imposed by a local agency by ordinance or pursuant to the California Constitution.

   e) "Road project" to mean a project that decreases vehicle miles traveled on roads and improves the public health, safety, and welfare.

2) Specifies that, upon appropriation by the Legislature, LCI shall establish the Program to provide a grant to a local agency for the development and construction of an infrastructure project facing unforeseen costs after starting construction.

3) Allows LCI to award a grant that provides funding for up to 20% of an infrastructure project's additional projected cost after the project has started construction. LCI shall only grant awards for projects that meet all of the following conditions:

   a) The infrastructure project has started construction.

   b) The local agency has identified additional projected costs.

   c) The local agency has allocated existing local tax revenue for at least 45% of the initially budgeted total cost of the infrastructure project.

4) Requires the local agency when applying to the Program to demonstrate both of the following:

   a) Challenges with completing the project on time and on budget by providing an analysis of the additional costs not foreseen when the project started construction.

b) How the infrastructure project helps meets state and local goals by the construction of the infrastructure project.

5) Specifies that LCI shall develop guidelines to implement the program consistent with the requirements of this bill that establish the criteria by which grant application will be evaluated and funded.

6) Provides that this bill shall become operative on January 1, 2030.

FISCAL EFFECT: According to the Senate Appropriations Committee:

1) Unknown ongoing LCI costs in a future fiscal year, at least the high hundreds of thousands, and potentially in excess of $1 million annually, for dedicated staff to develop and administer the IGF Program. Specific duties include coordination with local agency stakeholders, developing and adopting guidelines and regulations, issuing requests for funding proposals, providing technical assistance, reviewing applications, awarding funds, and conducting ongoing monitoring activities. Staff notes that these costs would only be incurred to the extent funding is appropriated for the program after January 1, 2030, and the ultimate ongoing staffing needs would be partially dependent upon the amount of funding provided for the program. See Staff Comments. (General Fund)

2) Ongoing General Fund cost pressures, at least in the tens of millions annually beginning in the 2030-31 fiscal year, to provide funding for the IGF Program.

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.

   In response to Proposition 13, the Legislature enacted the Mello-Roos Community Facilities Act of 1982, which allows counties, cities, special districts, and school districts to levy special taxes (parcel taxes) to finance a wide variety of public works, including parks, recreation centers, schools, libraries, child care facilities, and utility infrastructure. A Mello-Roos Community Facilities District (CFD) issues bonds against these special taxes to finance the public works projects. Like all special taxes, Mello-Roos Act special taxes require 2/3-voter approval. If there are fewer than 12 registered voters, the affected landowners vote.

Many local governments also began requiring new developments to pay for the impacts they have on the community and the burden they impose on public services. When approving development projects, counties and cities can require the applicants to mitigate the project's effects by paying mitigation fees, impact fees, or developer fees to fund sidewalks, parks, schools, and fire stations, among others.

Finally, some local governments used redevelopment agencies (RDAs) to finance infrastructure until their dissolution in 2011. Under the Community Redevelopment Law, RDAs used property tax increment financing to pay for economic development projects in blighted areas. Generally, property tax increment financing (TIF) involves a local government forming a 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 the district captures, 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, flow to the TIF district instead of other local agencies. Generally, after the TIF district repays the bonds using the incremental property tax revenues, the district is dissolved, ending the diversion of tax increment revenues from participating local agencies. The most common type of TIF district is called an enhanced infrastructure financing district (EIFD), but other types exist, including climate resilience districts (CRDs) and community revitalization and investment authorities (CRIAs).

2) **Office of Land Use and Climate Innovation.** Existing law establishes LCI (formerly the Governor's Office of Planning and Research, or OPR) as the state's chief planning agency and requires LCI to advise local governments in their planning responsibilities and provides guidance on the California Environmental Quality Act (CEQA). Existing law establishes the position of federal grant administrator within the State Clearinghouse at LCI to serve as the state's primary point of contact for information on federal grants. Among other things, the federal grant administrator is authorized to work with state and local government officials, nonprofits, foundations, higher education institutions, and other interested parties on applying for and managing federal grants, and to provide training to encourage and improve the ability to pursue and manage federal grants.

3) **Bill Summary.** This bill requires LCI to establish the Program, upon appropriation by the Legislature, to provide grants to local agencies for the development and construction of infrastructure projects facing unforeseen costs after starting construction. Grants may be awarded to fund up to 20% of a project's additional projected cost after the project has started construction, and projects must meet certain conditions to receive the grant funding. This bill also requires LCI to develop guidelines to implement the Program. This bill becomes operative on January 1, 2030. This bill is sponsored by the Author.

4) **Author's Statement.** According to the Author, "Many critical infrastructure projects in California have been delayed for years due to escalating costs, chronic underfunding, and rising inflation. SB 74 creates the Infrastructure Gap Fund to provide grants covering up to 20% of additional costs that have accrued on top of original costs since starting construction

for infrastructure projects, including but not limited to roads, schools, and broadband. Projects like the I-215 Keller Road interchange, where costs skyrocketed from $12 million in 2013 to $40 million in 2024, is just one instance of the urgent need for financial support to complete these chronically delayed projects. SB 74 will provide our local agencies and special districts with a resource to complete funding for critical infrastructure projects that help meet state and local goals, have already started construction, and can demonstrate financial challenges."

5) **Previous Legislation.** SB 955 (Seyarto) of 2024 would have required OPR to establish an IGF Program, upon appropriation by the Legislature after January 1, 2027, to provide grants to local agencies to develop and construct specified infrastructure projects. The program that would have been established in SB 955 was similar to the Program established by this bill, but the eligibility criteria and conditions were different. SB 955 was held on the Senate Appropriations Committee Suspense File.

   AB 444 (Addis) of 2023 would have required OPR, upon appropriation of funds by the Legislature, to develop and implement the California Defense Community Infrastructure Program to provide grants and technical assistance to local agencies for matching funds and other costs related to community improvements supportive of a military institution, as specified. AB 444 was held on the Senate Appropriations Committee Suspense File.

   AB 972 (Maienschein) of 2023 would have required OPR to convene a specified statewide, cross-agency Local Assistance and Grant Program Streamlining Workgroup by January 1, 2025 to centralize local assistance and develop a coordinated system to manage available state and federal funding, as specified. AB 972 was held on the Senate Appropriations Committee Suspense File.

6) **Arguments in Support.** According to the Rural County Representatives of California (RCRC), "Rural counties have strained under the challenges of aging infrastructure, increasing costs for labor and materials associated with inflation, and growing complexities in funding infrastructure projects. These issues are further complicated by increasing staff workloads, state and federal mandates, and grant competitiveness and cost, leaving the smallest and most disadvantaged communities sometimes with the largest burdens. Many state and federal grants require a high bar to entry, often requiring expert consultants to prepare applications, which is costly and does not guarantee success. Furthermore, some funding sources are reimbursement-based, which can cause cashflow issues in smaller communities, depending on the size of the funds in comparison to the county budget.

   "Despite these major hurtles, rural counties are nimble and have developed pathways to serve their communities, often stacking multiple funding sources to conduct studies and complete infrastructure projects or banding together and allocating regional resources, when appropriate. In some cases, formalized regions arranged under Joint Powers Authorities (JPAs) allow individual communities to overcome infrastructure hurdles by joining together staff, funding, and relationships with neighboring communities. JPAs are currently funding and building infrastructure across the state, including broadband, housing, roads, schools, water systems, and solid waste facilities.

   "These methods, while an option for many California communities, sometimes fall short when a project cost or duration balloons due to external factors and existing funding sources have been exhausted. SB 74 may enhance financing across the state, especially in rural communities, where gap funding can help mitigate challenges due to weather, permitting, staffing, and changes to local law and statute - all of which may increase the cost of the project after construction has begun and budgets have been established."

7) **Arguments in Opposition.** None on file.

REGISTERED SUPPORT / OPPOSITION:

Support

Associated General Contractors, California Chapters
Association of California Cities – Orange County
California Special Districts Association
California State Association of Counties
Chino Valley Chamber of Commerce
City of Agoura Hills
City of Anderson
City of Buena Park
City of Garden Grove
City of La Mirada
City of Laguna Beach
City of Lakewood
City of Lathrop
City of Los Alamitos
City of Manteca
City of Murrieta
City of Ontario
City of Paramount
City of Rocklin
City of Shasta Lake
City of Suisun City
City of Thousand Oaks
League of California Cities
Livable California
Mission Street Neighbors
Monterey County
Office of Riverside County Superintendent of Schools
Orange County Council of Governments
Rural County Representatives of California
Southern California Contractors Association
Southwest California Legislative Council
Streets for All

Opposition

None on file

Analysis Prepared by: Jimmy MacDonald / L. GOV. / (916) 319-3958