

California State Assembly



Hearing Agenda

Assembly Budget Subcommittee No. 5 on State Administration

Assemblymember Sharon Quirk-Silva, Chair

Wednesday, May 20, 2026

1:30 P.M. – State Capitol, Room 447

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Public Comment will be taken in person after the completion of all panels and any discussion from the Members of the Subcommittee.

Items To Be Heard

Various Departments' May Revision Proposals

0840 – State Controller's Office

Issue 1: May Revision Proposals

The State Controller will provide an overview of their May Revision proposals.

Panel

- Department of Finance
- State Controller's Office
- Legislative Analyst's Office

May Revision Proposals

The State Controller's Office has six budget proposals in May Revision.

1. State Controller's Office (SCO) Fi\$Cal Book of Record Post Go-Live Support and Stabilization—It is requested that Item 0840-001-0001 be increased by \$7,082,000 in fiscal year 2026-27 and Item 0840-001-9740 be increased by \$4,528,000 in 2026-27 for consulting services to support SCO Fi\$Cal Book of Record post go-live support and stabilization. It is also requested that Item 0840-491 be added to reappropriate up to \$1,055,000 from Item 0840-001-0001, Budget Act of 2023, for contract costs related to the SCO Book of Record Functionality Migration to Fi\$Cal and Annual Comprehensive Financial Report support.
2. Broadcom Computer Associates Integrated Database Management System Software Licensing Costs Adjustment—It is requested that Item 0840-001-0001 be decreased by \$214,000 in 2026-27 and Item 0840-001-9740 be decreased by \$137,000 in 2026-27 to reflect the actual executed contract renewal amount.
3. California State Payroll System Project—It is requested that Item 0840-001-0001 be increased by \$59,132,000 and 8.5 positions in 2026-27, and \$1,576,000 and 8.5 positions ongoing, and Item 0840-001-9740 be increased by \$37,803,000 and 5.5 positions in 2026-27 and \$1,007,000 and 5.5 positions ongoing, to support project implementation.
4. Adjustment of Preliminary Funding and Budget Bill Language for California State Payroll System—It is requested that Item 0840-001-0001 be decreased by \$72 million in 2026-

27 and Item 0840-001-9740 be decreased by \$45 million in 2026-27 to reconcile the final amount needed for project development.

5. Annual Comprehensive Financial Report (ACFR) Engagement Team—It is requested that Item 0840-001-0001 be increased by \$1,437,000 in 2026-27 and Item 0840-001-9740 be increased by \$918,000 in 2026-27 for contracted resources to provide Generally Accepted Accounting Principles financial reporting assistance to various state departments to restore and sustain on-time publication of the state's ACFR.
6. Unclaimed Property Program Public Awareness Funding Adjustment—It is requested that Item 0840-001-0970 be increased by \$3 million in 2026-27 and ongoing. It is also requested that the existing cap be adjusted to \$3 million to support Unclaimed Property Program's public awareness efforts.

Staff Comment

The May Revision includes key proposals for the State Controller that have been anticipated to happen this year, but were provided so late in the process that it will be difficult for the Legislature to make final determinations. The January Budget included only one budget proposal, which the committee previously adopted, leaving these other critical operational budget items until the May Revision. Even then, the Department of Finance did not post the budget change proposals for SCO as of the time of writing this document and then only shared copies with committee staff on Sunday May 17th. There are four key areas that are of concern that need to be further explored before the June budget is complete.

1. Fi\$Cal Book of Record. This Subcommittee championed completing the Fi\$Cal project, and the Controller has responded. The State is on the verge of fully implementing the full intended scope of the Fi\$Cal project with the migration of the Book of Record into the Fi\$Cal ERP. This major step forward is due to thoughtful collaborative work from all partners in the project, but given the importance of collaboration to ensure that the data is correct and the accounting behind the book or record stays at its current level, the project may need additional project management resources to reduce risk to the overall project.
2. California State Payroll System Project. The May Revision provides less resources and functionality than staff expected for the beginning of implementation of this difficult and critical IT project. This project will standardize and modernize the way the state manages payroll, an effort the state has failed multiple times over decades. Given that the last time the state tried to implement a new system it turned into the state's largest IT project failure, starting implementation with 14 positions and little support for departments appears to repeat the decisions that caused project failure the last time.

3. Annual Comprehensive Fiscal Report. The ACFR is the state’s balance sheet, used in assessing our assets and liabilities for purposes of lending funding to the State and assigning our credit rating. The report has been late for 8 years in a row, with some reports delayed by more than a year. This Subcommittee discussed the impact of this late report and that prompted efforts by the State Controller that started in 2023. The most recent 2025 report was only 47 days late, and incredible improvement by the Controller, Finance, and department accounting teams. However, it still is not timely, which can impact the cost of borrowing or issuing bonds. It is not clear the funding level provided in the May Revision is sufficient to achieve the goal of an on-time report, which depends on resources to help departments that can’t close out their books. With additional functionality for presentations, the ACFR has the potential to highlight the state’s strong fiscal position and help make this report itself a showcase of the state’s better fiscal position.

4. State Controller Audits. The State Controller’s Office provides auditing and is expected to support the audits of local and state expenditures. However, this office lacks a dedicated audit unit and a clear mission of how its audit functions complement other entities like Finance and the Bureau of State Audits. As the Legislature demands more accountability and oversight of expenditures, having this additional audit capacity is a critical part of any effort to find fraud, waste, abuse, or mismanagement. It was expected that this year’s budget would provide resources to allow the State Controller’s Office to progress in developing a role, but no proposal was provided in the May Revision. The Subcommittee may wish to consider how to allow that discussion to continue during the fiscal year, so that a tangible proposal may be considered by 2027.

Staff Recommendation: Hold Open.

7600 California Department of Tax and Fee Administration

Issue 2: Taxation of Prewritten Software Trailer Bill Language

The May Revision proposes trailer bill language to extend the state's sales tax to sales of prewritten software broadly, no matter how the software is delivered. Custom software would remain exempt. The change would go into effect January 1, 2027.

Panel

- California Department of Tax and Fee Administration
- Department of Finance
- Legislative Analyst's Office

Background

Custom Software vs. Prewritten Software. When a business designs software for an individual client, it is custom software. Software not customized in this way is known as canned or prewritten software.

Different Ways to Deliver Software. People who buy software can get it in a few different ways: They can buy tangible objects that have the software already installed. Although buying software on disks has become less common, many other types of tangible goods—such as vehicles and personal electronics—include pre-installed software. They can download the software to devices they already own. They can access the software remotely, sometimes called “software as a service.”

California sales tax law generally only applies to sales of tangible goods but not to their digital equivalents. As a result of this historical practice, California currently taxes software only if delivered on a physical disc or drive, and not if it is downloaded or accessed remotely. In recent years, many states have updated their sales tax laws by applying sales tax to electronically delivered prewritten software, with the large majority taxing downloadable and locally-hosted software and an increasing number taxing Software-as-a-Service (SaaS). Of the 45 states with a sales tax, 35 states now fully tax prewritten software when electronically delivered and run locally on the customer's computer. 24 states tax SaaS, which represents a growing share of the software market as new products emerge (e.g., Salesforce's Sales Cloud, HubSpot, Teams) and software previously run on the customer's device (e.g., Microsoft Word, Adobe Acrobat) are increasingly accessed online or incorporated within SaaS platforms (e.g., SharePoint, Adobe Creative Cloud).

The Administration estimates that this would raise General Fund revenue by \$450 million and local sales tax revenue by \$560 million in 2026-27, when it would be in effect for half a year. The full-year revenue estimates for 2027-28 and ongoing are \$900 million General Fund and \$1.1 billion in local sales tax revenues.

Staff Comments

The Subcommittee may wish to ask the following:

1. When will the trailer bill language be available?
2. Can you explain how technology transfer agreements will be handled?
3. How will this affect Artificial Intelligence (AI) products and services?
4. How and where will the department draw the line between prewritten and custom software?
5. Why does this proposal limit the sales tax to just digital products at this time?

Staff Recommendation: Hold Open.

Issue 3: May Revision Letter

The California Department of Tax and Fee Administration will provide an overview of their May Revision proposals.

Panel

- California Department of Tax and Fee Administration
- Department of Finance
- Legislative Analyst’s Office

May Revision Proposals

1. **Operational Savings:** Requests that Item 7600-001-0001 be decreased by \$10 million (General Fund) ongoing to align with anticipated operational savings. Based on historic past-year saving trends, the Department can absorb this reduction without impacts to its operations or ability to meet statutory requirements.
2. **Administrative Resources for Digital Software Tax.** Requests that Item 7600-001-0001 be increased by \$450,000 ongoing and reimbursements be increased by \$300,000 ongoing to provide resources to administer the proposed Digital Software Tax

Staff Recommendation: Hold Open.

7730 – Franchise Tax Board

Issue 4: Federal Conformity Trailer Bill Language

The May Revision includes trailer bill language that effective beginning in tax year 2026, conforms state law to the federal tax treatment of Trump accounts.

Panel

- Franchise Tax Board
- Department of Finance
- Legislative Analyst's Office

Background

The federal H.R. 1 created a new individual retirement account for the benefit of children under the age of 18 who are U.S. citizens with a Social Security number. While California-specific data is not available, based on national data announced by the Internal Revenue Service on March 31, 2026, that more than 4 million children had signed up for the accounts nationally, there are likely hundreds of thousands of accounts that have been set up in California. The account allows individuals to contribute up to \$5,000 per year per child, and employers of the parent or the child can additionally contribute up to \$2,500 per year tax-free. The account is in the child's name, and the parent is the sole custodian until they turn 18. Funds can be accessed by the child without penalty for qualified expenses such as education, a first-home purchase, or starting a business. Income in the account grows tax-deferred, distributions are taxed as ordinary income, and the fund is generally subject to the same rules as traditional Individual Retirement Accounts. H.R. 1 also created a pilot program in which the federal government will deposit \$1,000 for children who are U.S. citizens with a Social Security number and were born after December 31, 2024, and before January 1, 2029, which would not count towards the account's contribution limit.

According to the Administration, conformity will provide tax relief to families with children and ensure that tax compliance is not a burden. Absent conformity, children with these accounts would be required to pay California tax on their earnings within the account rather than having their earnings grow tax-deferred, and employer contributions to the account would be taxed as wages. Without conformity, a difference in the federal and state tax treatment of these accounts would potentially require the filing of state tax returns by the child and the tracking of a separate California-only running total of taxed contributions and earnings across several decades to calculate tax liability when withdrawals are made.

According to the Administration, conformity to the tax treatment of these accounts is estimated to lead to revenue losses of \$1 million in 206-27, \$0.9 million in 2027-28, \$1.6 million in 2028-29 and \$3 million in 2029-30.

Staff Comments

The proposal is reasonable, staff has no concerns.

Staff Recommendation: Hold Open.

Issue 5: Reduce the \$800 Annual Business Tax Trailer Bill Language

The May Revision includes trailer bill language that effective for tax years 2027, 2028, and 2029, proposes to reduce the \$800 annual tax paid by limited liability companies (LLCs), limited partnerships (LPs), and limited liability partnerships (LLPs) in their first year of existence to \$400.

Panel

- Franchise Tax Board
- Department of Finance
- Legislative Analyst's Office

Background

California allowed the formation of LLCs in 1994. All LLCs are required to pay an annual LLC entity-level tax of \$800 and LLCs with income above \$250,000 also pay an annual fee based on income. In 1995, California allowed for the formation of LLPs, which also pay an annual tax equal to the minimum franchise tax of \$800. The \$800 annual tax was extended to LPs in 1997. LLCs, LPs, and LLPs are all pass-through business entities, meaning business income flows through to the owners and is taxed under the personal income tax, and each form generally provides limited liability protection for its owners, LLCs represent about 85 percent of the total number, and are much more commonly used by small businesses. The \$800 tax is paid by the entity for the privilege of doing business in California with limited liability protection, meaning that the business entity is distinct from its owners, and therefore the owners' personal assets are generally shielded from the entity's debts and legal obligations. The 2020 Budget Act eliminated the \$800 tax for first-year LLCs, LPs, and LLPs for tax years 2021 through 2023.

Staff Comments

According to the Administration, when the \$800 tax was eliminated between 2021 and 2023, LLC registrations increased substantially, averaging 318,000 per year in 2021 through 2023 compared to 185,000 from 2018 through 2020. While the COVID-19 Pandemic may have contributed to these trends, new LLC registrations in 2024, the year following the exemption's expiration, decreased to nearly 280,000 based on preliminary tax data, suggesting that the exemption was a meaningful contributor to higher levels of new business registrations.

Staff Recommendation: Hold Open.

Issue 6: Permanent Credit Limitation Trailer Bill Language

The May Revision includes trailer bill language to implement a permanent business credit limitation that is the greater of \$5 million per corporation per year or 50 percent of a corporation's pre-credit tax liability beginning in tax year 2027.

Panel

- Franchise Tax Board
- Department of Finance
- Legislative Analyst's Office

Background

Current federal and state law allows businesses to utilize tax credits to offset their tax liability on a dollar-for-dollar basis. Business tax credits are generally intended to incentivize a particular type of behavior.

The credit limitation ensures that all large corporations pay at least some minimum level of state taxes rather than offsetting all their tax liability with tax credits. This proposal preserves the incentive impact of tax credits by allowing larger corporations to offset up to 50 percent of their tax liability. Several large corporations have significant backlogs of business tax credits that result in them paying only the \$800 minimum tax each year.

Tax year 2023 data indicate that of the 342 corporations with net income above \$100 million, about 80 reduced their tax liability by at least 50 percent, with about 20 of those nearly zeroing out their tax liability entirely.

According to the Administration, this proposal does not affect smaller businesses. The \$5 million threshold protects smaller companies from the limitation since most companies do not have \$5 million or more in tax liability to offset. Tax data indicate that fewer than 100 companies take \$5 million or more in tax credits each year. For a corporation to generate \$5 million in tax liability, it would need to have at least \$57 million in net income.

In total, there are around 1.2 million corporations with California income that file a return each year, and overall, this proposal impacts a very small fraction of all corporations.

According to the Administration:

- The proposal only impacts business tax credits and does not affect any personal income tax credits such as the following: California Earned Income Tax Credit, the renter's credit, and the tax credits generated through payment of the Pass-Through Entity Elective Tax (PTET).
- This proposal does not affect the ability for taxpayers to claim refundable tax credits generated from the temporary credit limitation in effect for tax years 2024 through 2026. It also does not affect the calculation of refundability under the film tax credit and the ability to claim refundable tax credits under that program.
- Previous temporary credit limitations have been enacted alongside a suspension of net operating loss (NOL) use for medium and large businesses. This proposal does not include a suspension of NOLs.

Staff Comments

California has previously enacted temporary credit limitations to address budget shortfalls. In 2008 and 2009, the state limited business tax credits to 50 percent of a corporation's pre-credit tax liability if that corporation had \$500,000 or more in net income. In 2020 and 2021, the state enacted a \$5 million cap on the use of business tax credits in response to the COVID-19 Pandemic. In 2024, the state again enacted a \$5 million cap on the use of business tax credits for tax years 2024 through 2026.

The Subcommittee may wish to ask if the Administration intends to have this apply to the Low Income Housing Tax Credit?

Staff Recommendation: Hold Open.

Issue 7: May Revision Proposals

The Franchise Tax Board will provide an overview of their May Revision letter.

Panel

- Franchise Tax Board
- Department of Finance
- Legislative Analyst’s Office

May Revision Proposals

1. **Franchise Tax Board’s CalFile Resources Realignment.** Proposes decreases of \$921,000 and 9.9 positions in 2026-27, \$2,343,000 and 22.8 positions in 2027-28, and \$2,713,000 and 27.0 positions in 2028-29, and ongoing, to reflect savings associated with ceasing efforts to link the Franchise Tax Board’s CalFile system to the federal Internal Revenue Service’s Direct File system, due to the latter’s discontinuation. Instead, the Board will retain a reduced level of resources to complete a modified upgrade of CalFile by implementing the ability to upload federal information, modernize the user experience, and allow first-time and California Earned Income Tax Credit (CalEITC) filers to utilize this service.

Staff Comments

The Subcommittee may wish to ask FTB for an update on tax filers who have claimed the CA EITC as compared to last year. Can FTB explain what impact the changes on the Federal level have had on the CA EITC program?

Staff Recommendation: Hold Open.

**8260 – California Arts Council
7730 - Franchise Tax Board**

Issue 8: Reauthorizing Keep Arts in Schools Voluntary Contribution Fund

The May Revision includes trailer bill language to reauthorize keep arts in schools voluntary tax contribution fund.

Panel

- California Arts Council
- Franchise Tax Board
- Department of Finance
- Legislative Analyst’s Office

May Revision Proposals

The proposed trailer bill language would reestablish the Keep Arts in Schools Voluntary Tax Contribution Fund and. would allow an individual taxpayer to designate on their tax return that a specified amount in excess of their tax liability be transferred to the fund

Staff Comment

The Subcommittee may wish to ask the following:

1. Did the Keep Arts in Schools Voluntary Tax Contribution fall off of the list because it didn't meet the minimum contribution at the Franchise Tax Board or because it is the end of the seventh year?
2. Volunteer contributions are usually run through the policy process, why is this one included in the budget process?

Staff Recommendation: Hold Open.

0509 – Governor’s Office of Business and Economic Development

Issue 9: May Revision Proposals

The Governor’s Office of Business and Economic Development will provide an overview of their May Revision letter.

Panel

- Governor’s Office of Business and Economic Development
- Department of Finance
- Legislative Analyst’s Office

May Revision Proposal

1. **California Civic Media Program** — Adds \$10 million in 2026-27 and 2027-28, for transfer to the California Civic Media Fund to support the Civic Media Program. This program is a public-private partnership to support the work of California’s newsrooms, increase access to information, and strengthen community engagement. This funding is in addition to the \$10 million General Fund provided by Chapter 649, Statutes of 2025 (SB 155), increasing the total investments in this program to \$30 million General Fund.
2. **Reappropriation: Regional Initiative for Social Enterprises**—Reappropriates up to \$1 million from Item 0509-102-0001, 2022 Budget Act, for the California Regional Initiative for Social Enterprise (CA RISE) program. This reappropriation provides an encumbrance period through June 30, 2027.
3. **Natcast Funding Reversion**—Reverts unspent funds provided in the 2025 Budget Act intended to reimburse capital expenditure costs for the construction of the Design and Collaboration Facility in Sunnyvale, California, which will no longer proceed.

Staff Comments

The Subcommittee may wish to ask GO-BIZ for the original amount of funding allocated for CA RISE, how much has been spent, and what projects have been created through these funds.

Additionally, the Subcommittee may wish to ask for an update on the Natcast program.

Staff Recommendation: Hold Open.

0950 – State Treasurer’s Office

Issue 10: May Revision Proposals

The State Treasurer’s Office will provide an overview of their May Revision letter.

Panel

- State Treasurer’s Office
- Department of Finance
- Legislative Analyst’s Office

May Revision Proposal

1. **Reappropriation: CalAccount Blue Ribbon Commission**—Reappropriates up to \$360,000 from Item 0950-001-0001, Provision 5, Budget Act of 2025, for the continuation of efforts by the CalAccount Blue Ribbon Commission to study the feasibility and implementation of the CalAccounts program.

The CalAccount Blue Ribbon Commission to conduct a market analysis and feasibility study of CalAccount, a no-fee, no-penalty federally insured transaction account, and related payment services, intended to expand access to basic financial services for Californians. To support this effort, the State Treasurer’s Office (STO) received \$4 million in General Fund support over three years and contracted with the RAND Corporation to conduct the independent market analysis required under the statute.

RAND released its findings in July 2024, identifying a significant need for affordable banking services among unbanked and underbanked Californians. Approximately one in four California households lack access to traditional banking services or rely on high-cost alternatives such as prepaid debit cards, payday lenders, and check-cashing services. RAND found that a CalAccount program may be feasible but identified several implementation considerations, including the need to incentivize financial institution participation and address potential enrollment barriers among target populations.

RAND recommended additional analysis to further evaluate program design, enrollment strategies, and operational considerations prior to implementation. In 2025–26, the STO received \$1 million in General Fund support to continue this work. The STO seeks to reappropriate up to \$360,000 to fiscal year 2026–27 to support one staff and contracting costs necessary to complete the remaining feasibility and implementation evaluation.

- 2. Augmentation of Treasurer’s Canceled Bond Sales Contingency Authority—**
Proposes to increase from \$1.7 million to \$8 million, allowing the Department of Finance, upon certification by the Treasurer, to cover additional expenses for canceled general obligation bond, lease-revenue bond, and revenue anticipation note sales from the General Fund (after first applying any available bond funds), with required legislative notification within 30 days.

Staff Comments

The Subcommittee may wish to ask the following:

1. To provide an update to the CalAccount Blue Ribbon Commission. Why do the funds need to be reappropriated?
2. Can the Treasurer’s Office explain why the increase is needed and when the last time this language was changed?

Staff Recommendation: Hold Open.

1701 Department of Financial Protection and Innovation

Issue 11: Franchise Brokers Registration System Enhancements

The May Revision includes an increase of \$125,000 one-time to allow the Department of Financial Protection and Innovation (DFPI) to update its existing Franchise Registration and Securities Electronic Submissions System. Pursuant to Chapter 518, Statutes of 2024 (SB 919), third-party franchise brokers are required to register with DFPI prior to affecting the sale of a franchise. These resources will support the system modifications needed for DFPI to collect applications for registration and point of contact information, registration documents for franchisees, and fee payments, beginning July 1, 2027.

Panel

- Department of Financial Protection and Innovation
- Department of Finance
- Legislative Analyst's Office

May Revision Proposal

California has two major laws governing the franchisor-franchisee relationship. Chapter 1400, Statutes of 1970 (Fin. Code, §31000 et seq.), known as the Franchise Investment Law (FIL), provides rules for the marketing of franchise opportunities and the formation of the franchise relationship (offer and sale of a franchise). Chapter 1355, Statutes of 1980 (Bus. and Prof. Code, §. 20000 et seq.), known as the Franchise Relations Act (FRA), governs the ongoing relationship between the franchisor and the franchisee to prevent unfair practices in the renewal, transfer, or termination of a franchise domiciled or operated in California.

The FIL regulates the offer and sale of franchises by requiring franchisors to register with the Department before offering and selling franchises in California. The FIL also requires franchisors to provide specified documents, including a franchise disclosure document, to prospective franchisees before the sale of a franchise so the prospective franchisee has the information necessary to make an informed investment decision.

The Department's Franchise Investment Program is responsible for reviewing applications and renewals. Franchise filings are made electronically through a self-service portal called the Franchise Registration and Securities Electronic Submissions System (FRANSES). The Department also reviews external complaints or creates internal complaints when non-compliance is identified in an application and then commences investigations and negotiates consent orders or referrals to the Department's Enforcement Division (Enforcement) as needed.

The Department requests one-time resources to fund information technology (IT) enhancements to create a module in FRANCES to facilitate the capture of third-party franchise broker information.

Staff Comments

Staff has no concerns with this proposal.

Staff Recommendation: Hold Open.

8885 – Commission on State Mandates

Issue 12: May Revision Proposals

The Commission on State Mandates will provide an overview of their May Revision Proposal.

Panel

- Commission on State Mandates
- Department of Finance
- Legislative Analyst’s Office

May Revision Proposal

1. **Commission on State Mandates (Commission) Increased Lease Costs**—Requests an increase by \$20,000 one-time to support the Commission’s increased lease costs associated with the expiration of a prior concession that provided a rent-free month. This adjustment is necessary to ensure the Commission can meet its operational needs.
2. **Technical Adjustment to Funded Mandates**—Decreases Funded Mandates by \$1,108,000 one-time, Increases the Administrative License Suspense (Special Fund) mandate by \$477,000 ongoing, and increases the Pesticide Use Report (Special Fund) mandate by \$1,000 ongoing, to reflect revised state mandate estimates. These adjustments are necessary to provide the proper reimbursement amounts for each state mandate.

Staff Comments

Staff has no concerns with these proposals.

Staff Recommendation: Hold Open.

1700 Civil Rights Department

Issue 13: Enforcement Investigation & Conciliation Enhancements

The May Revision includes \$838,000 General Fund in 2026-27, 2027-28, and 2028-29, and 6.0 permanent positions to reduce wait time and increase settlements of employment and housing complaints.

Panel

- Civil Rights Department
- Department of Finance
- Legislative Analyst's Office

May Revision Proposals

The Civil Rights Department (CRD) receives, investigates, conciliates, mediates, and prosecutes complaints of alleged violations of numerous civil rights laws. The laws enforced by CRD include the Fair Employment and Housing Act (FEHA) (Gov. Code § 12900 et seq.), the Equal Pay Act (EPA) (Labor Code § 1197.5), the Unruh Civil Rights Act (Civ. Code § 51) (prohibiting discrimination by business establishments), Civil Code section 51.9 (prohibiting sexual harassment in professional relationships), the Disabled Persons Act (Civ. Code § 54.1) (guaranteeing people with disabilities full and equal access), the California Trafficking Victims Protection Act (Civ. Code § 52.5), the Ralph Civil Rights Act (Civ. Code § 51.7) (prohibiting violence and intimidation by threats of violence based on protected characteristics), and Government Code section 11135 et seq. (prohibiting discrimination in all state-funded activities and programs).

The number and the scope of laws enforced by CRD have increased in recent years. This has contributed to an increased workload in the number of complaints the department receives each year, as well as greater complexity of the investigations themselves, resulting in more time required on each case for staff to conduct quality investigations. Significant changes in the law include prohibition of housing discrimination based on source of income (Chapter 600, Statutes of 2019 (SB 329)), California Family Rights Act expansions (Chapter 86, Statutes of 2020 (SB 1383)), Cannabis Use Discrimination (Chapter 392, Statutes of 2022 (AB 2188) (Chapter 408, Statutes of 2023 (SB 700)), Bereavement Leave Protections (Chapter 767, Statutes of 2022 (AB 1949)), Leave for Reproductive Loss Protections (Chapter 724, Statutes of 2023 (SB 848)), credit history of persons receiving government rent subsidies (Chapter 776, Statutes of 2023 (SB 267)), and Victims of Violence (Chapter 967, Statutes of 2024 (AB 2499))(Chapter 148, Statutes of 2025 (AB 406)).

Staff Comment

The resources included in this proposal are consistent with past actions by the Legislature. Last year the Budget provided one time funding for enforcement investigation and conciliation enhancements. The funding in the May Revision would stabilize the program for the next three years.

The Subcommittee may wish to ask the Civil Rights Department about the Enforcement, Investigation, and Mediation Enhancement program that was funded at \$1.4 million in 2025-26? Will the resources expire on June 30,2026? What is the current workload and has this workload increased recently?

Staff Recommendation: Hold Open.

2240 – Department of Housing and Community Development

Issue 14: Homeless Housing, Assistance and Prevention Program (HHAP) Accountability Trailer Bill Language

The May Revision includes trailer bill language to address additional accountability measures for the HHAP program.

Panel

- Department of Housing and Community Development
- Department of Finance
- Legislative Analyst's Office

May Revision Proposal

The Administration's proposal includes the following:

- Streamlines the application process by requiring the HHAP 7 to be administered under the HHAP 6 Regionally Coordinated Homelessness Action Plans, with updated budget plans to reflect HHAP 7 funding.
- Requires cities receiving HHAP funds (and their counties) to have a prohousing designation and provide a local match.
- Requires HHAP recipients to have a compliant housing element and to adopt an encampment policy aligned with state guidelines.
- Deletes the specific statutory System Performance Measures (SPMs) and adds language giving the California Interagency Council on Homelessness (Cal ICH) authority to adopt and "periodically update" SPMs based on data in the state's homelessness data system; and
- Clarifies that unexpended funds for all rounds will be recaptured by HCD as a reduction in future allocations, with recaptured funds allocated to other eligible applicants in the region, to the extent practicable.

Key Areas of the proposal for the Administration:

1. **Prohousing Designation:** Grantees must obtain and maintain a Prohousing Designation as a condition of funding. This requirement reinforces the existing connection between local housing policies and regional homelessness outcomes while maximizing the use of limited state resources. Strengthening the alignment between HHAP funding with the

Prohousing Designation helps direct resources in a manner supported by local policies that expand housing supply, improving the effectiveness of investments in reducing and preventing homelessness.

2. **Local Match:** Local match requirements are widely used in state and federal programs to promote shared responsibility and alignment in achieving program outcomes. This proposal will foster alignment between local and regional funding, in-kind and philanthropic contributions, and other available resources with HHAP investments to scale limited state funds.

Staff Comments

Assembly Budget Subcommittee 7 held a hearing on February 18, 2026, on accountability on the HHAP program. During those discussions, members and advocates discussed ways to improve the accountability provisions program including streamlining the applications process, streamlining reporting requirements, and the importance of transparency in the system performance standards including standardizing information collected and the importance of consistency in program rules.

The Subcommittee may wish to ask the following:

1. What is the Administration's main goal with accountability provisions?
2. If the SPMs are deleted in statute, how will reporting requirements be transparent? Is there a list of SPMs that Cal ICH will collect? Will this slow down the administration of the next round? How often will Cal ICH update SPMs and how will recipients be notified and how will they have to comply?
3. In statute, there is no reference to encampment policy, however, in the Round 6 NOFA, there was an encampment reporting policy. Can you provide more information from the NOFA on the encampment policy and what the trailer bill language is seeking to change?
4. Can the department discuss the importance of the prohousing designation? How will it apply to the COCs?
5. Can the department walk through the local match and what the expectations are for locals?

Staff Recommendation: Hold Open.

Issue 15: Impact Fees on State Funded Program Trailer Bill Language

The May Revision includes trailer bill language to address impact fees on state funded programs. This TBL would prohibit a city or county, when acting as an applicant or co-applicant for certain state affordable housing awards, from charging development impact fees. Also, affordable housing developers that apply for certain state awards as a sole applicant would receive an advantage on their application if the local government has agreed to waive or reduce the development impact fee.

Panel

- Department of Housing and Community Development
- Department of Finance
- Legislative Analyst’s Office

May Revision Proposal

This proposal would reduce local development impact fees on state-funded affordable housing projects to help ensure limited state housing resources are used to build affordable housing rather than recycled back into locally imposed fees. The proposal would prohibit cities or counties from imposing development impact fees on projects where the local government is directly applying for or co-applying for state housing funding, while also incentivizing local governments to reduce or waive impact fees on affordable housing projects applying for competitive state funding by allowing those fee reductions or waivers to qualify as eligible local or in-kind contributions in competitive housing programs administered by the California Housing and Homelessness Agency (CHHA).

The proposal builds on the Administration’s “one-stop shop” housing finance proposal introduced in the Governor’s Budget to streamline state affordable housing funding and reduce unnecessary development costs. Together, these reforms could reduce affordable housing development costs of impacted projects and generate significant annual savings, allowing existing state housing resources to support an estimated increase of thousands of additional affordable housing units each year.

Staff Comment

This proposal follows a recent report by the Turner Center which found that development impact fees add an average of \$20,000 per unit in costs for affordable housing projects in California.

Related legislation includes AB 602 (Chapter 347, Statutes of 2021), which imposes a number of new requirements to impact fee nexus studies prepared by cities, counties, and special districts, and makes related changes.

The Subcommittee may wish to ask the following:

1. Which affordable housing programs would be subject to the TBL?
2. Please explain if this TBL applies to special districts?
3. Are there times when impact fees are necessary?
4. Could this proposal lead to situations where a city or a county may not want to be a lead or co-applicant to a project? Will that deter some projects from coming online?

Staff Recommendation: Hold Open

Issue 16: May Revision Proposals

The Department of Housing and Community Development will provide an overview of their May Revision letter.

Panel

- Department of Housing and Community Development
- Department of Finance
- Legislative Analyst's Office

May Revision Proposal

1. **2021 Infill Infrastructure Grant (IIG) Reappropriation**—Extends the encumbrance period for \$237 million included in the 2021 Budget Act for the IIG Program to promote additional construction of infill infrastructure and housing projects.

Chapter 159, Statutes of 2019 (AB 101) created the IIG Program of 2019. The 2021 Budget Act included \$250 million General Fund (IIG 2021 General Fund) to fund infrastructure that supports housing development in infill areas. Due to increasing development costs and heightened competition for public funding, many awarded projects struggle to assemble the funding necessary to move forward. If a project is unable to secure full funding or otherwise move forward, the project must disencumber the awarded funds back to HCD.

There remains a small balance of approximately \$6.95 million in IIG 2021 General Fund due to disencumbered and unawarded project funds. Therefore, HCD requests budget bill language to extend the encumbrance deadline for \$6.95 million included in the 2021 Budget Act for IIG from June 30, 2026 to June 30, 2029 to assist additional construction of infill infrastructure and housing projects.

HCD requests to extend the encumbrance date for \$6.95 million in IIG Program of 2019 funds from the 2021 Budget Act for an additional three years. HCD estimates that the extension will result in infrastructure improvements for an additional two projects.

2. **Encampment Resolution Funding Unused Administrative Funding**—Reverts \$603,000 (General Fund), which was appropriated in the 2022 Budget Act to the California Interagency Council on Homelessness for the administration of the Encampment Resolution Funding program and subsequently transferred to the Department of Housing and Community Development, per Health and Safety Code

section 50231 (e) and (f). These funds are no longer needed given the associated awards have been fully implemented.

Staff Comments

The Subcommittee may wish to ask the following:

1. Will the funding for the IIL program be subject to the impact fees trailer bill language if it is enacted?

Staff Recommendation: Hold Open

2245 - California Housing Finance Agency

Issue 17: Disaster Rebuilding Fund and Trailer Bill Language

The May Revision includes \$56 million one-time General Fund to establish the Disaster Rebuilding Fund to expand access to construction and renovation financing for disaster-impacted homeowners. Additionally, this proposal includes trailer bill language to create the Disaster Rebuilding Fund.

Panel

- California Housing Finance Agency (CalHFA)
- Department of Finance
- Legislative Analyst's Office

May Revision Proposal

CalHFA requests \$56 million one-time General Fund to establish the Disaster Rebuilding Fund to expand access to construction and renovation financing for disaster-impacted homeowners. Resources will support various programs designed to address specific financing challenges for homeowners who meet the program's income limits and whose homes were damaged or destroyed by a qualified disaster. This allocation may also be supported by additional special and philanthropic funds for which proposed program expenditures are eligible.

General Fund resources included in this request will be supplemented by \$44 million in available funds remaining from the National Mortgage Settlement Fund, for a total \$100 million investment. These supplemental funds were previously appropriated to CalHFA out of the original \$300 million National Mortgage Settlement Fund appropriation, and will be deployed to support eligible Disaster Rebuilding Fund program uses. These programs are designed to reduce lender risk, lower borrower costs, and strengthen borrowers ability to qualify for both construction and permanent financing.

Trailer Bill Language: This proposal will establish a Disaster Rebuilding Fund to deliver targeted interventions that reduce construction lending risk and lower associated financing costs. These tools are designed to expand access to construction financing for eligible homeowners whose properties are damaged or destroyed by a qualified disaster.

The Disaster Rebuilding Fund will offer a suite of financing programs designed to:

- Reduce construction lender risk related to defaults and delinquencies
- Lower the overall cost of construction financing
- Improve borrowers' ability to qualify for construction financing

Under CalHFA's existing authorities, the fund is planned to implement targeted financing tools including:

- A construction loan loss guarantee
- A construction loan rate buydown
- Contingent on available funds, a subordinate deferred payment second mortgage.

According to CalHFA, together, these programs aim to expand access to construction financing, support rebuilding, and promote long term community recovery.

Staff Comment

The Subcommittee may wish to ask the following:

1. Who will be eligible for the funding and how will CalHFA put out information on the program?
2. How many homeowners does CalHFA anticipate will be helped with this program?
3. Will these funds be exclusively for the LA fires?
4. Is there any additional National Mortgage Settlement Funding available beyond the funding included in this program?

Staff Recommendation: Hold Open

0516 – California Housing and Homelessness Agency

Issue 18: Resources in Support of the Governor’s Reorganization

The Governor’s budget proposes resources for the realignment of programs and workload to support the Governor’s Reorganization Plan (2025). The California Housing and Homelessness Agency requests the net zero transfer of 1.0 position and \$185,000 General Fund from the California Interagency Council on Homelessness (Cal ICH) to support the communications and external affairs workload. The Department of Housing and Community Development requests a net-zero transfer of 2.0 positions and \$497,000 General Fund from Cal ICH to support administrative and fiscal operations. The Housing and Development Finance Committee requests 1.0 new position for a Chief Deputy Director, supported with existing resources.

Panel

- California Housing and Homelessness Agency
- Department of Finance
- Legislative Analyst’s Office

May Revision Proposal

1. **Communications and External Affairs Resources to Support CHHA.** This proposal requests the transfer of the 1.0 Manager 1 position and \$185,000 General Fund from Cal ICH to CHHA. The Manager I will report to the Deputy Secretary of External Affairs and lead the development and implementation of external affairs and communications functions for CHHA and its entities.

This position will support marketing, branding and design, and digital communications to ensure recognition and clarity around the Agency’s role and scope are elevated for stakeholders. This position will also support emerging needs including community engagement planning for the Undersecretary and Deputy Secretaries, a robust research program to support engagement, Agency and Department policy development and programs, and data coordination with the Departments to maximize the impact of collective data tools and resources.

2. **Administrative Resources to support CHHA, Cal ICH, and HDFC.** This proposal requests the transfer of the following 2.0 positions and \$497,000 General Fund from Cal ICH to HCD to strengthen administrative support and improve operational efficiency. HCD maintains robust administrative systems, including dedicated human resources, contracting, and procurement divisions that are already equipped to provide full-service

support. Transferring these positions from Cal ICH to HCD will help provide an efficient and centralized framework for CHHA, HDFC, and Cal ICH.

- a. Human Resources (HR) Specialist (SSM I Specialist): This position will report to Manager II within the Human Resources Branch and will provide support for the most complex and sensitive HR services.
 - b. Procurement Specialist (SSM I Specialist): This position will report to Manager II within the Business & Contract Services and will provide support for the most complex and sensitive procurement and contracting services.
3. **Leadership Resource for HDFC.** Lastly, this proposal requests position authority for 1.0 Chief Deputy Director to support the establishment and operation of HDFC during this period of significant organizational transition and growth. This position will be supported using existing resources.

Staff Comment

The Subcommittee may wish the following:

1. Can CHAA provide any updates on the reorganization to date.
2. During prior discussions on reorganization, there has been a shifting of resources, what resources are being used for the Chief Deputy Director and is this sustainable long term?

Staff Recommendation: Hold Open.

0968 – California Tax Credit Allocation Committee

Issue 19: May Revision Proposals

The May Revision includes two budget change proposals for additional resources for the California Tax Credit Allocation Committee.

Panel

- California Tax Credit Allocation Committee
- Department of Finance
- Legislative Analyst’s Office

May Revision Proposals

1. **Compliance Section Workload.** The California Tax Credit Allocation Committee (CTCAC) requests an increase of \$613,000 for (1) Supervisor I position and two (2) Analyst II positions in the Compliance Section to accommodate the ongoing workload created by the operation of the programs and by an expansion of duties created by state legislation chaptered in 2024.

AB 846 was signed into law in 2024 requiring CTCAC, on or before June 30, 2025, to adopt regulations limiting annual rent increases for tenants in properties that received an allocation of the low-income housing tax credit, prior to April 3, 2024. The bill would require the committee, on or before June 30, 2026, and annually thereafter, to assess the limit, as specified.

Implementation of AB 846 will add additional workload including, but not limited to, updating data collection of tenant inquiries and IT systems, the review of rent increase limit inquiries and potential violations, and processing waiver requests. Additionally, CTCAC will review and analyze the data collected to assess the limit annually.

There has been a significant increase in the volume of inquiries related to the rent increase limit and waiver requests. In 2025, CTCAC’s rent inquiries increased, but more importantly the staff time required to research, contact the management company, gather documentation, calculate rents, and bring forth a recommendation has doubled since the change in 2024. The average compliance inquiry processing time has increased from 1-3 hours to 2-6 hours or more.

The rent increase limit waiver requirements were finalized and formally enacted in September of 2025. Staff reviewed four (4) waiver requests in 2025, requiring approximately 120-160 staff hours. Moving forward, staff anticipate reviewing 15 or more waiver requests annually, resulting in an estimated 450-600 staff hours annually with continued increases each subsequent year. increased annually.

- 2. Development Section Workload.** The California Tax Credit Allocation Committee (CTCAC) requests an increase of \$1,321,000 for one (1) Supervisor I position and six (6) Analyst II positions in the Development Section to accommodate the ongoing workload created by the operation of the programs and by an expansion of duties created by federal legislation signed into law in 2025.

The One Big Beautiful Bill Act was signed into law in 2025, increasing the federal 9% tax credit authority by 12% annually and reducing the “50% test” to 25% for federal 4% tax credit projects. The two changes will increase the number of projects awarded federal 9% tax credits and potentially double the number of projects awarded federal 4% tax credits. Novogradac, a national affordable housing and tax credit consulting firm, estimates these two changes would increase the amount of LIHTC units developed in California by over 20,000 per year.

Following quick implementation of the “25% test,” CTCAC awarded more than double the applications in the third round; this resulted in 10,000 more LIHTC units for 2025 compared to 2024, on pace to exceed the 20,000 increase estimated per year. The estimated increase in units are in addition to the 18,000-20,000 units already being added to the CTCAC portfolio annually.

Staff Comment

The Subcommittee may wish to ask how the proposed changes to create a one-stop shop will affect the workload at CTCAC?

Staff Recommendation: Hold Open

This agenda and other publications are available on the Assembly Budget Committee’s website at: [Sub 6 Hearing Agendas | California State Assembly](#). You may contact the Committee at (916) 319-2099. This agenda was prepared by Genevieve Morelos, Christian Griffith, and Guy Strahl.