League
of California
Cities

Reassembling Redevelopment

And next generation tax increment tools

October 31, 2018

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Outline

- Recap on the RDA tool we lost.
- New tax increment tools created & their uses and opportunities
- What is needed going forward.

What We Had…

400+Redevelopment Agencies, with $6 billion annual investment in:

- Community revitalization, economic development, transit oriented development & infrastructure.
- Affordable housing (over $1 billion annually). All taxing entities contributed (including state General Fund via school share).
- Concept was these investments benefitted the larger community, and all taxing entities would realize increased revenue once project was completed.

City Realities Post -R D A

- Cities lost most experienced economic development staff.
- Remaining staff focused on salvaging whatever possible in the DOF-dissolution process.
- Lots of litigation and tension. Several comprehensive DOF clean-up bills changed rules.
- Haven’t had time or capacity to fully consider new tools.
- Cities have “trust issues” with the reliability of new state tools.

Other Local Realities

- City budgets continue to face challenges.
- Staffing levels have not rebounded since recession.
- Sales tax eroding as a reliable revenue source (changing retail marketplace, internet commerce, and shift to a service economy).
- Property tax growth varies based upon local economic conditions.
- Pension liabilities are outstripping revenue growth, and further squeezing the ability to provide services.

Benefits of RDA’s

- *<u>Concentrated financial lift</u>* to revitalize area.
- *“Provided resources to solve problems and address community issues.” Bill Bogaard, former Mayor of Pasadena and League President.*
- Enabled assembly of lots into larger parcels.
- Debt issued based upon property tax increment.
- Increased property values repaid debt.
- Once area is revitalized: *“all boats rise”.*

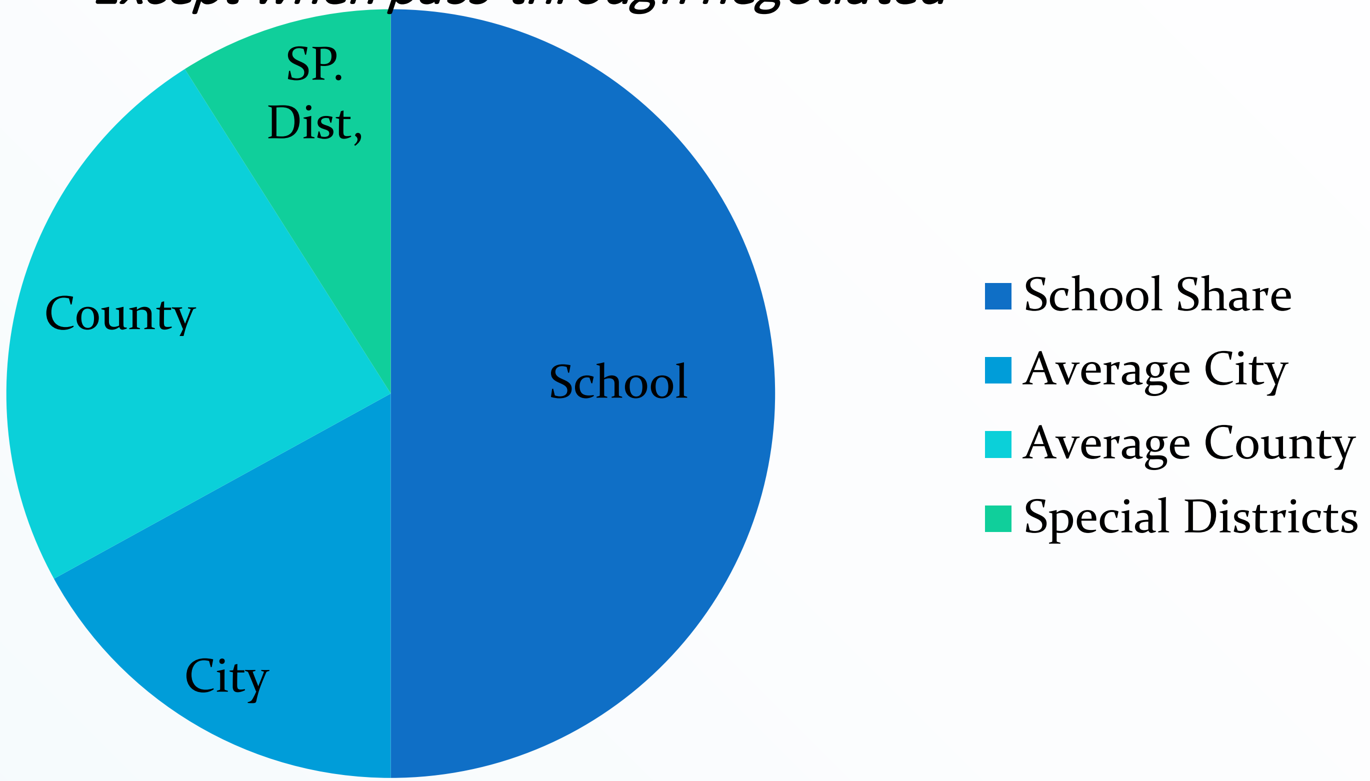
Formation of RDA ’s

- Governed by 200 pages of statute.
- Had to establish “blight" (deteriorated conditions, infrastructure, etc.) would not be remedied “but for” RDA.
- Plan formed with input from a “project area committee”.
- Local affected taxing entities could negotiate property tax “pass through” agreements.

Prior RDA Funding

Growth From *<u>All</u>* Property Tax Shares Went to RDA

Except when pass-through negotiated



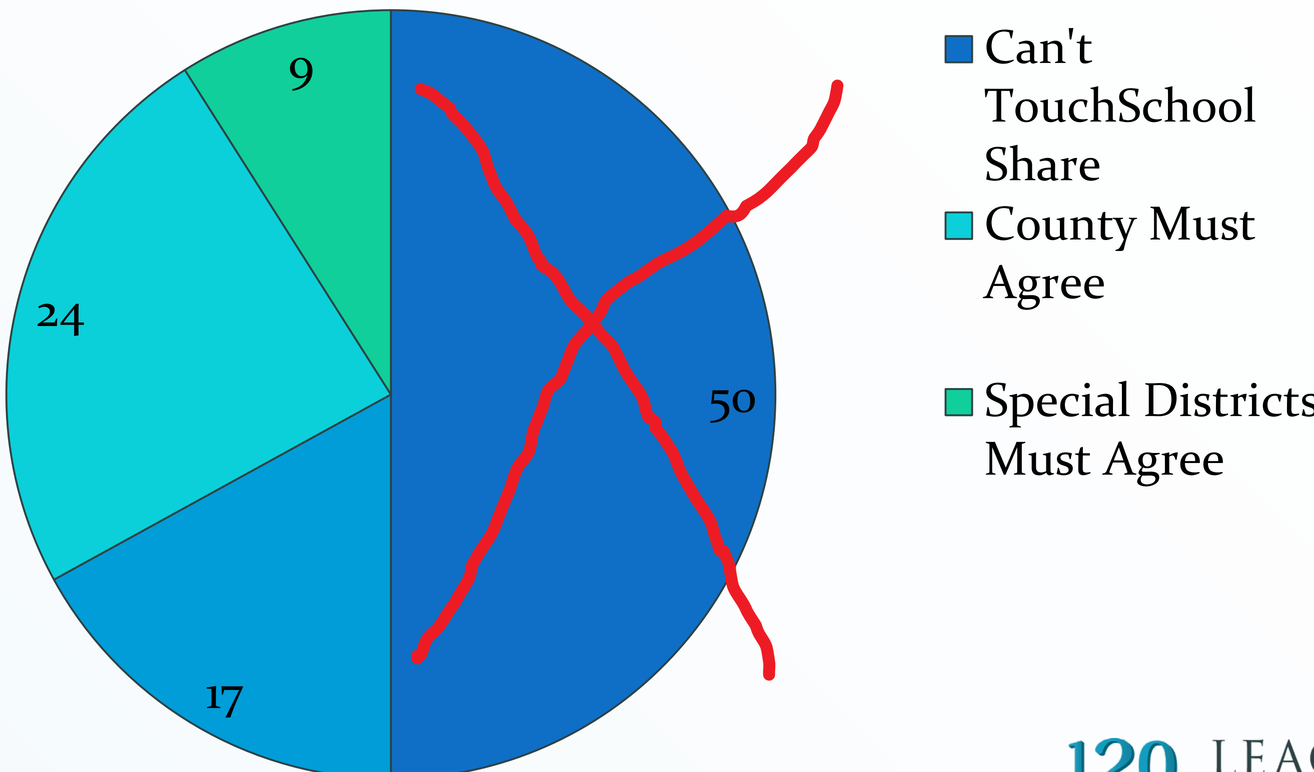
New Tax Increment Tools

- Enhanced Infrastructure Financing District (EIFD) .
- Community Revitalization and Investment Authorities (CRIA).
- Affordable Housing Authorities (AHA).
- Annexation Development Plans (ADP).
- Seaport Infrastructure Financing Districts.
- Military Base Infrastructure and Revitalization Financing Districts.

Given the current exclusion of 50% of property tax growth from the school share, these tools are much less fiscally robust than former RDA's.

New Tools Funding

Growth Only Goes to Entity Based On *Agreement*, *No School Share (Prop. 98 State Budget Concerns)*.



New Tools: Additional Financing Options

Participating entities to an **EIFD, CRIA, or Affordable Housing Authority** can also agree to direct some or all:

- Property tax received in lieu of former VLF;
- Property tax residuals from former RDA; or
- Funding derived from various special assessments and fee revenue (landscaping and lighting dist., Mello-Roos, etc.

Enhanced Infrastructure Financing Districts (EIFD)

- Can finance broad array of public infrastructure.
- Can also finance private:
  - Industrial structures;
  - Transit priority projects;
  - Projects implementing a sustainable communities strategy;
  - Affordable housing; and
  - Facilities constructed to house provides of consumer goods and services.
- Flexibility on boundaries. Can also do multi-jurisdictional.
- 55% vote *if EIFD issues bonds*.

(EIFD) Options: NIFTY 1 &@2

Neighborhood Infill Finance and Transit Improvements Act (NIFTY)

Allows EIFD's to access sales tax if it builds affordable housing:

NIFTY 1: (AB 1568 (Bloom), CH. 562/2017

- EIFD must be coterminous with establishing city/county
- 20% for very low (*at least 9% low & 6% very low*)
- On infill site
- Can't use funds for highways or interchanges
- Can't terminate EIFD, if housing obligations are not completed.

NIFTY 2: SB 961 (Allen) CH. 559/2018

- EIFD must be coterminous with establishing city/county
- 40% dedicated to below 60% AMI (*least half must be spent on extremely low, below 30% AMI)*
- Residency priorities to those displaced or employed within two miles of district.
- 10 percent must be spent on parks, urban forestry, pedestrian or bicycle facilities.
- Remaining revenues must be spent on:
    - Multi-family affordable housing with commercial space on ground floor.
    - Transit capital projects.
    - Transit-oriented development projects.
    - Capital projects that implement a complete streets programs.
    - Parking structures in lieu of onsite parking for proposed developments.
- No public vote of EIFD bond issuance if, comprehensive public protest/vote options are complied with that are identical to provisions required of Community Revitalization Investment Authorities (CRIAs)

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Community Revitalization Investment Authorities (CRIA)

- Modeled on Former RDA authority and powers; can provide assistance to business and includes eminent domain.
- 80% of census tracts must meet 3 of 4 deteriorated conditions. Parallels with state definition of "disadvantaged community." Agency authorized to receive funds via cap and trade program.
- Setting up involves more community involvement. Voters have power to initially reject, or invalidate at 10-year intervals, via majority protest.
- 25% affordable housing set-aside required. Projects receive state priority for housing funds.

Affordable Housing Authority Law

- Solely focused on production of affordable and moderate housing and supporting infrastructure.
- Assisting units up to 120% of AMI, proportionate to jurisdiction's RHNA allocation.
- Eligible to receive sales tax *if* entity is "coterminous" with boundaries of creating local agency "city."
- Can use property tax base year five years prior to formation.
- Prohibits inclusion of former RDA areas until debts are repaid
- Projects receive state priority for housing funds.
- No public vote required for adoption of plan or bond issuance

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Other Tax increment Tools

SB 614 (Wolk). Annexation Development Plans Chapter 784, Statutes of 2014.

Authorizes tax-increment financing to be adopted by consenting local agencies (city and/or a county or special district) to improve or upgrade structures, roads, sewer or water facilities or other infrastructure as part of annexing a disadvantaged unincorporated community.

Other Tax increment Tools

- SB 68 (Hall). Chapter 83, Statutes of 2015.

  Establishes a financing tool for seaport infrastructure based upon a modified form of the Enhanced Infrastructure Finance District law.

- AB 229 (Perez). Military Base Infrastructure and Revitalization Financing Districts. Chapter 775, Statutes of 2014.

  Creates infrastructure and revitalization financing districts (IRFD's), separate and apart from existing law that established infrastructure financing districts (IFD's), authorizes a military base reuse authority to form a district, and allow these districts to finance a broader range of projects and facilities.

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Other Economic Development Programs

- California Competes—Tax credits allocated by GO Biz.
- Hiring Tax Credit – (partial replacement of EZ's) underused.
- Manufacturers Tax Credit.
- Film Tax Credits.
- CAEATFA (Sales Tax Credits allocated by Treasurer) can have negative local impacts.
- AB 806 (Dodd and Frazier) (2016) offers additional authority for local economic development.
- Strategic Growth Council
- New potential with federal opportunity zones.

Challenges of Using New Tax Increment Tools

- For many cities (with 5%-10%-15% of property tax share) simply not enough financial lift to justify use of tools.
- City may not be financially able to divert other revenue to support longer term investments.
- Counties and special districts reluctant, and have other challenges and priorities, also may be less interested in revitalization work in urban core.

Opportunity

State-Local Partnerships to Advance Common Goals

What are Our Common goals?

- ✓Affordable housing.
- ✓Improving disadvantaged communities.
- ✓Transit oriented development.
- ✓Reducing greenhouse gas
- ✓Infrastructure .
- ✓Economic development and job creation.
- ✓Improving local schools as part of community revitalization efforts.

Recommendations

- ✓ No need to reinvent wheel.
- ✓ Incentivize the use of the community-based tools that exist (EIFD, Affordable Housing Authorities, CRIA, etc).
- ✓ Authorize plans and projects that advance state priorities to access school share (ERAF reduction), if:
  - ✓ The plan/project is approved by state oversight entity.
  - ✓ It is expected that the Legislature will cap state's exposure re Prop 98 at some level.

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Recommendations

- ✓State commitment on funding <u>**must**</u> be reliable. *(No repeated budget raids like former RDA)*
- ✓Clarify expectations at outset. Don’t keep changing the rules.

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Let's Get It Done!

Questions?