



FINANCING COMMUNITY REVITALIZATION: ENHANCED INFRASTRUCTURE FINANCING DISTRICTS (EIFDs)

Introduction

While California's economic outlook continues to brighten, there are communities in the developed environment that do not benefit from the state's overall economic growth. For the most part these are neighborhoods that continue to lack investment from the broader growing economy. Although the California Redevelopment Law provided a variety of powers and financing to assist underserved communities, these authorities no longer exist. In 2013 the CA Economic Summit worked with the Governor Brown Administration to construct a broad range of powers that could be used by city or county governments to address infrastructure needs of regions and their communities.

These new "Enhanced Infrastructure Financing Districts" (EIFDs), if structured correctly, can play an important role in driving sustainable growth by connecting a variety of infrastructure and housing projects with a wide array of funding streams. Recognizing that a variety of local governments (cities, a county and single purpose agencies) are involved providing infrastructure as well as services, the EIFD was constructed to bring multiple agencies to meet a variety of local and regional investment priorities. The EIFD has access to the statutes that authorize a variety of procurement options including public-private partnerships.

This paper outlines the three steps that must be taken to form an EIFD—and highlights how local jurisdictions can bring to bear an array of funding streams through this new authority to finance a range of infrastructure projects. Two examples are also provided of how an EIFD can be used to support community revitalization efforts (see sidebar) and water projects, in particular.

- **Step 1: Identify what needs to be done**
- **Step 2: Establish an EIFD**
- **Step 3: Locate available funding streams**

EXAMPLE 1: COMMUNITY REVITALIZATION

How an EIFD can help: While long-term funding for sustainable communities is still uncertain, EIFDs provide a complementary set of financing tools for supporting sustainable growth type of growth. They can also serve as a platform for the types of policy integration necessary to successfully develop interconnected transportation, housing, and mixed use projects.

Establishing an EIFD: A city or county would take the lead in establishing the district. The district boundaries could be citywide or focused on individual neighborhoods.

Creating an Investment Program: An investment program can target a range of physical improvements in residential neighborhoods such as transportation and street improvements including storm drainage systems that can captured storm water and used for the benefit of the neighborhood.

Allow more flexible institutional collaborations: The EIFD gives communities more flexibility to accommodate regions' growth by making infrastructure investments across jurisdictions.

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STEP 1: IDENTIFY WHAT NEEDS TO BE DONE

To create an EIFD, a local agency—or a group of agencies—will need to first identify what is to be accomplished and outline an investment program with the types of projects necessary to accomplish these objectives. Case studies in sidebars explore how water infrastructure and community revitalizations projects could be supported through an EIFD. In Step 1, community engagement matters, since community consensus will drive how—and if—the project develops.

STEP 2: ESTABLISH AN EIFD

A city or county initiates proceedings by adopting a resolution of intention to form the district. Once formed, the legislative body of the entity forming the district appoints a Public Financing Authority (PFA) that is composed of three members of the agency that formed the district as well as two public members. In the case of multiple agency participation, representatives of the participating agencies would serve on the PFA. Next, the PFA prepares a plan for the improvements to be financed, the financing tools to be used, and the related environmental documents.

STEP 3: LOCATE AVAILABLE FUNDING STREAMS

The EIFD can access a variety of funding and financing authorities contained in the Integrated Infrastructure Financing District Act, as well as authority for public private partnerships and a variety of procurement practices. At root, the EIFD is simply a method for local agencies acting individually or collectively to capture a portion of economic growth and invest it in a variety of activities that will provide a communitywide benefit and act as an incentive for economic investment. The most important of these is ability to capture growth in the property tax. The four major funding streams available to an EIFD are outlined below:

1. Property tax increment

Property taxes provide the primary means for capturing economic growth. The concept of tax increment relies on an underlying assumption that infrastructure investments will produce sufficient economic activity to generate property tax revenue that will be sufficient over time to finance the investment. EIFDs have access to two different streams of property tax increment: 1) the portion of local property taxes known as the AB 8 share that is distributed statewide to all taxing agencies (except education agencies) and 2) the increment attributable to the Vehicle License Fee (VLF) “swap” adopted in 2004, which transformed a fee levied on car owners into a new share of the growth in gross assessed property value within a city or county.

Property tax growth relies on improvements or changes in ownership to drive up the assessed value of land—and therefore increase revenues. Increment also depends not just on economic activity but on each

EXAMPLE 2: WATER RESOURCE MANAGEMENT

How an EIFD could help: While existing, single-purpose funding makes it difficult to achieve major resource investments they could be accomplished using an integrated approach through the full range of tools provided by an EIFD.

Establishing the EIFD: A city or county would take the lead establishing a district and invite special districts that have an interest in the investment to participate in the district. The district boundaries could be a tributary to a water body or an entire watershed.

Creating an investment program: The current Integrated Regional Water Management (IRWM) planning process is developing an investment program for water resources in regions in most areas of the state.

Crafting a financing package: A financing package would be developed using a “tipping point” analysis to calculate how much property values will be increased by investments as well as fees and the use of the growth in the property tax.

Combining into a strategic plan: Together, these assessments, water revenues, availability payments, tax increments, and state grants would support a final strategic plan directly linking infrastructure beneficiaries and payers.

jurisdiction's share of the property tax. Cities that receive a small share of the property tax—say 5% to 10%—will derive little increment from investment. Cities with 20% to 25% share of the property tax will be able to fund greater infrastructure investments.

- **State allocated share of the property tax (AB 8 share):** Cities receive a portion of the property tax through a 1979 statute that allocates property tax revenue among agencies that levied property taxes prior to the adoption of Proposition 13 in 1978. As a property owner within a city, a portion of the property taxes paid goes to the city, the county, local school and community college districts as well as special purpose districts that received property taxes prior to 1978. Property tax increment is attributable to the share of the property tax that the participating agency receives. For example, if a city receives a 15% share of the property tax relative to the share of other local agencies, it will determine the amount of growth is set aside for the PFA.

Under the old RDA tax increment model, tax increment was captured from all of the taxing agencies as well as school districts. Under the EIFD increment is limited to the agencies that are participating in the EIFD.

- **Vehicle License Fee backfill:** There is a VLF Adjustment Amount in each city and county. This account receives property tax revenue and grows in proportion to the growth of gross assessed valuation in that jurisdiction. This “prior year plus growth” model means that the resource compounds over time. From 2005-06 on, the VLF backfill has no relationship to actual VLF revenues, and has been converted into an increased share of the property tax—tied to the growth in assessed value. This is “gross” growth in assessed valuation in the jurisdiction. The net impact to local governments provided a bonus: The reduction in the VLF tax rate in 2004 required a backfill of about \$4 billion. In 2015 the backfill requirement totaled over \$7.5 billion. Additionally, since this property tax allocation is not dampened by existing redevelopment obligations, it grows fast than other property taxes in many communities. The amount of growth is sensitive to community investment in all land uses—residential, commercial and industrial.

2. Assessment revenues

The EIFD authority allows local agencies to conduct benefit assessments of property within the district—determining which ones would directly benefit from the infrastructure investment. The relationship between assessment and benefits derived is an essential element of the PFA. It is often described as the “proportionality” requirement: the assessment must be proportional to the benefit derived. In this case, the scale of benefits matters. The use of benefit assessments tends to work best in a defined geographic scope such as neighborhood improvements/preservation in combination with multi-use/transit oriented development. In this case, assessments and their attendant benefits can be easily measured.

3. Fee revenues

The EIFD would also be able to fund investments by levying user fees under the Infrastructure Financing Authority Act. These fees, in turn, could leverage further private investment. The IFAA has no vote requirement.

4. Public debt

A variety of the financing tools can also be used to secure indebtedness. To the extent that tax allocation bonds are issued supported by an allocation of property tax increment, a 55% voter approval is required. If the bonds are supported by tax increment from the AB 8 share, the vote requirement applies to the voters within the territory of the EIFD. If tax increment from the VLF backfill supports indebtedness, a communitywide vote is required since the property tax originates from property that is communitywide.

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Vote requirements of applicable financing tools available to the PFA and will include any vote requirement in the underlying statutes such as special taxes authorized in the Community Facilities Financing Districts that require a 2/3rds vote.