STRATEGICECONOMICS

Housing Financing Tools and Equitable, Location-Efficient Development in California

REPORT ON THE USE OF TAX INCREMENT FINANCING

Prepared in Accordance with California Senate Bill 961, 2017-2018 Regular Session

Prepared for:

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Introduction

In order to advance ambitious goals for housing production and greenhouse gas reduction, the State of California is interested in advancing policies that produce housing in location-efficient areas, including affordable housing. One variety of policy tool is tax-increment financing (TIF), which can facilitate housing production either by funding it directly, or by stimulating private development through the provision of infrastructure.

This executive summary summarizes the contents of a report prepared for the Governor's Office of Planning and Research (OPR) on the use of TIF tools for location-efficient housing in California. The report is designed to fulfill a requirement of state legislation (Senate Bill 961, 2017-2018 Reg. Sess.) to study the effectiveness of using TIF for location-efficient housing production.[1] While the main purpose of Senate Bill 961 was to establish a particular type of TIF tool ("NIFTI-2," see Appendix A for details), OPR makes no endorsement of the use of any particular TIF tool over another. The report reviews the range of TIF tools available in California, and is designed to address the following questions:

1. How effective have existing TIF tools been in advancing the State's development goals around housing production and sustainable growth?
2. What are the challenges that are impeding their use?
3. How might use of these tools be expanded to help increase housing production and community development in location-efficient areas?

In addition to this report, Strategic Economics also prepared a separate case study report profiling the use of TIF tools in three cities, and a report on the potential for bus transit to serve as anchors for transit-oriented development (TOD).

Study Approach

The report findings and conclusions are based upon:

- Review of reports, articles and other published sources on the topic of TIF in California;
- Interviews with 18 subject area experts and practitioners of TIF, including city staff and officials, state legislative analysts, and policy advocates;

[1] Government Code, section 65040.15 states: "On or before January 1, 2021, the Office of Planning and Research shall complete a study on the effectiveness of tax increment financing tools for increasing housing production, including a comparison of the relative advantages and disadvantages of infrastructure financing districts, enhanced infrastructure financing districts, affordable housing authorities, use of the Neighborhood Infill Finance and Transit Improvements Act, and use of the Second Neighborhood Infill Finance and Transit Improvements Act."

- Input from a working group consisting of representatives from a wide range of state agencies;
- Three detailed case studies of TIF districts currently being implemented in La Verne, Sacramento, and Fresno. (See separate report "Housing Financing Tools and Equitable, Location-Efficient Development: Case Studies Report".)

State Goals Related to Housing Production and Location-Efficient Development

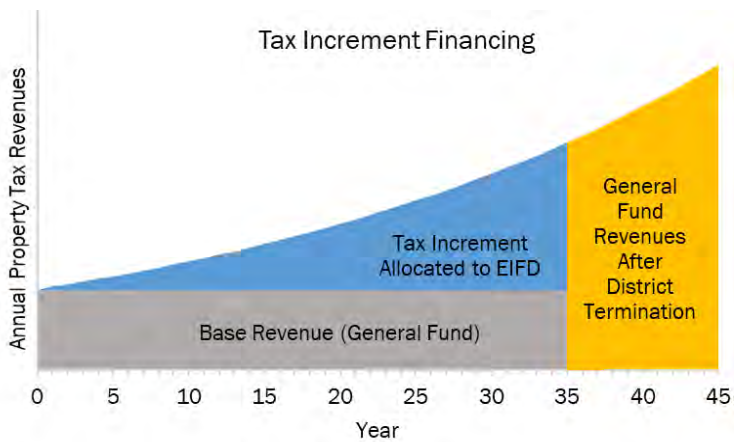
This report evaluates the potential use of TIF tools to further state goals related to housing production and location-efficient development. California's housing goals are generally expressed through the Regional Housing Needs Determination (RHND), which identifies the total number of homes each region in California must plan for in order to meet the housing needs of people at all income levels. In the past decade, housing production has averaged fewer than 80,000 new homes each year, significantly below the projected annual need of 180,000 additional homes. California also faces a crisis of affordability, with more than one third of renters paying more than 50 percent of their income for housing, and high rates of homelessness.

"Location efficiency" generally refers to neighborhoods that offer convenient access to jobs, retail and services, allowing residents to drive less to reach their daily destinations. Accordingly, one measure frequently used to evaluate location efficiency is vehicle miles traveled (VMT). The state does not have an explicit goal for location-efficient housing production; however, the California Air Resources Board has determined that that transportation choices resulting in reduced VMT is one of a handful of strategies that would achieve GHG reduction targets. Fossil fuels that power mobile sources are the largest contributor to GHG emissions, fine particulate matter and ozone in California. In order to mitigate the harmful effects of these pollutants on climate change and meet the State's climate targets to reduce GHGs by 40% to 1990 levels by 2030 and 80% by 2050, a combination of reduced VMT in addition to promoting wider use of cleaner technologies and fuel are necessary for meeting California's goals. OPR recently produced a CEQA technical advisory on evaluating transportation impacts using VMT and recommends achieving 15 percent lower per capita VMT than existing development connects with the State's emissions goals. Research also shows that new development will produce VMT that is comparable to the VMT of similar existing development. Therefore, state policy makers should consider encouraging housing development in areas where existing per capita household VMT is 15 percent below regional average to ensure that future residential VMT is reduced by the appropriate amount to achieve the state's climate commitments.

Overview of TIF in California

Tax increment financing (TIF) is a mechanism used to fund and finance public facilities and other improvements, often in infill locations where up-front investments are needed to enable real estate development. TIF captures incremental growth in tax revenues (usually property tax, although other types of revenue can also be collected) above and beyond what taxing entities currently receive within a designated geographic area. TIF revenues are typically used to pay back upfront costs or debt service for bonds issued to fund improvements such as infrastructure and other public facilities that are needed to catalyze private investment. TIF can also play an important role in providing funding for affordable housing.

Historically, TIF was a financing tool used by local redevelopment agencies (RDAs). RDAs were enabled as part of the Community Redevelopment Act passed in 1945, and in 1952 California voters approved a ballot measure enabling the use of TIF to fund redevelopment. While they were active, RDAs enjoyed broad powers, including mandatory participation of the multiple taxing agencies in a district. They often played a role in encouraging infill and transit-oriented development (TOD). Redevelopment was also an important local source of funding for affordable housing, because it required RDAs to set aside 20 percent of revenues for that purpose. However, because of the perception that many RDAs were not spending funds effectively, and because RDAs were capturing tax revenues that were needed by municipalities, school districts, and other taxing entities, redevelopment was dissolved by the state in 2012.



POST-REDEVELOPMENT TIF TOOLS

A summary of TIF tools that remain in California post redevelopment is shown in Figure E1. The main TIF tools currently available are:[2]

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[2] One additional TIF tool, the Annexation Development Plan (ADP), is available but was not a focus of this report. This is a specialized tool designed to help finance infrastructure in disadvantaged unincorporated communities during their annexation to an incorporated municipality. Because they are a seldom used tool targeted to very specific circumstances, they are not explored in detail in the report.

- **Infrastructure Financing Districts (IFDs).** IFDs are a version of TIF that was available for use outside the boundaries of redevelopment areas, and rarely implemented. IFDs lack any formalized locational requirements or allocation of funds to affordable housing, and stringent voting requirements make them more difficult to establish and to issue debt once established.

- **Enhanced Infrastructure Financing Districts (EIFDs)**. EIFDs were enabled in 2014, two years after the dissolution of redevelopment. EIFDs offer more flexibility than IFDs, particularly as successive legislation has relieved any voting requirements and expanded the list of eligible expenditures for which the tool could be used. EIFDs may be initiated by any affected taxing authority, including a city, county, or special district, and are governed by an Infrastructure Financing Plan. Each participating taxing authority may choose to contribute a portion of its share of the general one-percent property tax as well as the property tax in lieu of a vehicle license fees (VLF). EIFDs can be used for the purchase, construction, or improvement of any real property with a useful life of at least 15 years inside or outside the district, including affordable housing. However, EIFDs do not have an affordable housing requirement.

- **Infrastructure and Revitalization Financing Districts (IRFDs)**. IRFDs, which were enabled in 2014 with AB 229 (2013-2014 Reg. Sess.), are similar to EIFDs with a few important differences. IRFDs retain a two-thirds voting requirement in the original IFD law to form the district and issue bonds[3], and unlike EIFDs, property tax in lieu of VLF revenues may not be used. However, IRFDs come with some advantages over EIFDs. For example, IRFDs allow different "project areas" within a district, which can have different start dates to trigger the 40-year limit, as well as cross-collateralize debt.

New Tools with Location and Affordable Housing Requirements

Post-redevelopment, several new tools have been created that are specifically designed to target infill locations, disadvantaged communities, and/or affordable housing (see Figure E1):

- **Community Revitalization and Investment Authorities (CRIA).** CRIAs were created with the express purpose of targeting investment to low-income, distressed communities or former military bases. CRIAs also have a requirement to set aside 25 percent of revenues for low- and very low income housing. The rules for forming a CRIA are similar to EIFD with a few differences. For instance, CRIAs must adopt a Community Revitalization and Investment Plan, which, unlike an Infrastructure Financing Plan, is subject to a public hearing process with the opportunity for a majority protest.

- **Affordable Housing Authorities (AHAs).** Created in 2017, the specific purpose of AHAs is to use TIF to generate funds for low- and moderate-income housing, as well as supportive and transitional housing. There are no locational requirements. The creation of AHAs is similar to EIFDs and CRIAs, with the authority required to adopt and

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[3] IFDs and IRFDs require a two-thirds vote of registered voters in the district if more than 12 live within the district, or a two-thirds vote of property owners, both to establish the district, and to issue bonds.

implement an Affordable Housing Program. The funds must be spent in proportion to the taxing entity's RHNA requirements.

- **Neighborhood Infill Finance and Transit Improvement Districts (NIFTI 1 and 2).** Since 2017, California law has provided for a special type of EIFD targeted specifically to affordable housing production in infill areas. "NIFTI-1" originally provided for EIFDs located in a qualified infill site,[4] with a 20 percent affordable housing requirement. "NIFTI-2" was passed in 2018, further requiring the district be within one-half mile of a transit stop, and with 40 percent affordable housing. As an incentive to offset these additional requirements, NIFTI-1 and NIFTI-2 allow the use of sales tax increment in addition to property tax. NIFTI-1 and NIFTI-2 legislation also streamlined the process for issuing bonds by removing the 55 percent vote initially required of EIFDs. However, with AB 116 (2019-2020 Reg. Sess.), this voter requirement was amended for EIFDs across the board, effectively removing this particular advantage of NIFTI districts.

[4] An "infill site" is a parcel in an urbanized area and previously developed with a qualified urban use or surrounded by 75% qualified urban uses, as defined by California Public Resources Code Section 21061.3. "Qualified urban use" means any residential, commercial, public institutional, transit or transportation passenger facility, or retail use, or any combination of those uses, as defined by California Public Resources Code Section 21072.

FIGURE E1: SUMMARY OF TAX INCREMENT FINANCING TOOLS AND KEY ATTRIBUTES

TIF Tool (Year Established)	Rules for Establishment	Allowable Sources of Tax Increment	Affordable Housing Requirement[a]	Geographic Requirement
IFD (1990)	2/3rds vote for formation and issuing bonds	- Property tax	- 20% of units constructed by the IFD must be affordable	None
EIFD (2014)	Public hearing and protest process	- Property tax - Property tax in lieu of VLF	- None	None
IRFD (2014)	2/3rds vote for formation and issuing bonds	- Property tax	- 20% of units constructed by the IRFD must be affordable	None
CRIA (2015)	Public hearing and protest process	- Property tax - Property tax in lieu of VLF	- 25% of revenues allocated to affordable housing - 30% of units constructed by CRIA must be affordable - 15% of units constructed by other entities must be affordable	Targets disadvantaged communities that meet specific income requirements and other socioeconomic criteria
AHA (2017)	Public hearing and protest process	- Property tax - Property tax in lieu of VLF - Sales and use tax	- 95% of revenues allocated to affordable housing	None
NIFTI-1 (2017)	Public hearing and protest process	- Property tax - Property tax in lieu of VLF - Sales and use tax	- 20% of revenues allocated to affordable housing - 20% of units constructed within the district must be affordable	Qualified infill site (urban area)
NIFTI-2 (2018)	Public hearing and protest process	- Property tax - Property tax in lieu of VLF - Sales and use tax	- 40% of revenues allocated to affordable housing	Qualified infill site (urban area) + within 1/2 mile of a major transit stop

(a) For details on specific income levels targeted, see Appendix A for additional details on each TIF tool.
VLF = Vehicle License Fee
Source: Strategic Economics, 2020.

LIMITATIONS OF TIF TOOLS POST REDEVELOPMENT

Limitations of existing TIF tools compared with redevelopment include:

- **Limited revenue potential.** Property tax shares vary widely among cities in California, and in many cases the local share of property tax is insufficient to generate enough revenue to make creation of a TIF worthwhile, or to warrant issuing a bond, absent participation by other taxing entities.
- **Need for voluntary participation by multiple taxing entities.** Unlike under redevelopment, participation by a taxing entity in a TIF district is optional (and participation by education districts is prohibited). Given that many cities receive a relatively low share of the one percent property tax, voluntary participation by other taxing entities is often required to make a TIF district feasible.
- **Limited powers in comparison with RDAs.** While each of the extant TIF tools enjoys a set of advantages and features that partially replace the mandate of RDAs, the tools and the authorities that implement them lack the scope of powers and flexibility that were enjoyed by RDAs.
- **Technical challenges.** The proliferation of TIF tools in recent years means they are not yet well-understood and suffer from some technical problems that place burdens on their implementation.

FACTORS THAT SUPPORT THE ESTABLISHMENT OF A TIF DISTRICT

Interviews and research reveal the following factors that support use of current TIF tools:

- **Relatively strong real estate market.** The success of TIF districts in capturing new revenue relies upon significant new private development taking place within the district.
- **Ability to capture a significant proportion of the property tax.** A popular rule-of-thumb states that at least 15 percent of the general one percent property tax is required to make TIF worth the effort. The estimated median share received by local jurisdictions in California is estimated to be ten percent and can range from zero to more than sixty percent.
- **Ability to partner with other taxing entities.** In many cases, TIF districts are not feasible without contributions from multiple taxing entities. Some cities have been able to increase revenues captured by a TIF district by partnering with their counties. Orange County and Los Angeles County have recently passed policies that enable them to contribute a share of their property tax revenue to TIF districts under specific circumstances, and each has participated in one district so far.
- **Availability of other sources of funding.** TIF is typically used in combination with other mechanisms for funding infrastructure and housing. In particular, up front funding sources are frequently required, given that TIF revenues are often not sufficient at the outset to issue a bond.

- **A limited number of property owners**. Most types of TIF districts require a series of public hearings and are subject to a majority protest by property owners. In addition to requiring education and outreach efforts, EIFDs also have annual noticing requirements that increase administrative costs and complexity in districts with more property owners.
- **Community support for development.** Because TIF districts can be halted by either a vote or a protest, whichever is applicable to the TIF district, community backing within the district boundaries is important.
- **A local champion.** TIF Districts benefit from a local champion who can advocate for the project, including making the case to city departments, elected officials, property owners, and other taxing entities.
- **An adopted specific plan that identifies infrastructure needs required to enable development.** These planning efforts are often a critical first step in defining goals for development and identifying needed infrastructure.

Use of Current TIF Tools

A map of locations where current TIF tools have been considered, proposed, or approved is provided in Figure E2. Note that the IFDs in Carlsbad and San Francisco were created under special circumstances prior to the end of redevelopment.

EIFDs are by far the most common type of district that have been explored, and they constitute the majority of the TIF districts implemented post redevelopment. Five EIFDs have been established, all with the purpose of funding infrastructure, and with no affordable housing set-aside. They are located in Otay Mesa (San Diego County), Placentia (Orange County), La Verne (Los Angeles County), West Sacramento (Yolo County), and Sacramento (Sacramento County). Of these, the Placentia and La Verne EIFDs will receive County participation. Three additional TIF districts are currently in the proposal stage: in Ontario and Redondo Beach in greater Los Angeles, and in the City of Fresno.

Several cities in California have explored the use of CRIA, but none have formally been proposed. CRIAs are a more specialized type of district designed for use in revitalizing neighborhoods. To be eligible, the area must meet specific standards related to household income and other factors. CRIAs offer certain advantages over an EIFD, such as the ability use eminent domain, and provide loans, grants and other assistance to businesses within the plan area. However, CRIAs are also seen as more challenging to implement, in part because they are restricted to locations that are likely to have a weaker real estate market (and therefore are unlikely to generate significant tax increment). Unlike EIFDs, CRIAs are required to be formed on a contiguous geography, which constrains their ability to be drawn in a way that maximizes the revenue opportunity. Also, while in some cases CRIAs are seen as attractive options because they include an affordable housing set aside, this also limits the ability to use revenues for other purposes, including investments that may be needed to help catalyze development. To date, most cities, cognizant of these limits and added complexity, are choosing to move forward with an EIFD instead.

No NIFTI OR AHA Districts have been considered or implemented. There is little public record of jurisdictions having considered implementing Neighborhood Infill Finance and Transit Improvement districts (NIFTIs) or Affordable Housing Authorities (AHAs). Research and interviews suggest that these districts are unlikely to be created because EIFDs offer greater flexibility in their implementation, with fewer affordable housing requirements. The required set asides for affordable housing limit the amount of revenue that can be used for other purposes (e.g., supportive infrastructure). In addition, there is an inherent tension between the desire to deliver affordable housing and the need to encourage high-value market rate uses that will generate significant tax increment. This is a particular challenge for AHAs, which are designed to focus exclusively on the delivery of affordable units (and not on high property tax generating uses). While NIFTI-2 was designed to offer incentives to offset the additional affordable housing requirements, these incentives have not been sufficient to generate interest in their use.

USE FOR LOCATION-EFFICIENT AND AFFORDABLE HOUSING

Figure E3 shows the linkages between establishing a TIF district, new private development, and the production of affordable housing. As shown, the public investment associated with a TIF district can help attract new market-rate housing and commercial development, both by reducing the cost to private development of providing infrastructure to serve new residents, and by demonstrating the public sector's commitment to improving the district. In turn, new market-rate development can generate tax increment revenues that can be directed to affordable housing via an affordable housing set aside (although for most tools this is not required). In addition, residential development within NIFTI and CRIA districts have inclusionary requirements that require a share of any residential development to be affordable housing.

Even where there is not an affordable housing set aside or inclusionary policy required by the district, it is important to note that TIF districts may help to encourage development of affordable housing by means of local inclusionary zoning policies, or generate funding for affordable housing through housing impact fees and/or commercial linkage fees. Similarly, with the exception of NIFTI districts, TIF tools do not have requirements related to location efficiency, however they can be used to help promote location-efficient housing development if the districts are located in location-efficient areas.

Only NIFTI districts have requirements related to both affordable housing and location efficiency, and none have been implemented to date. As described above, NIFTI-1 districts are designed to target infill locations and NIFTI-2 districts target infill locations near a transit stop.

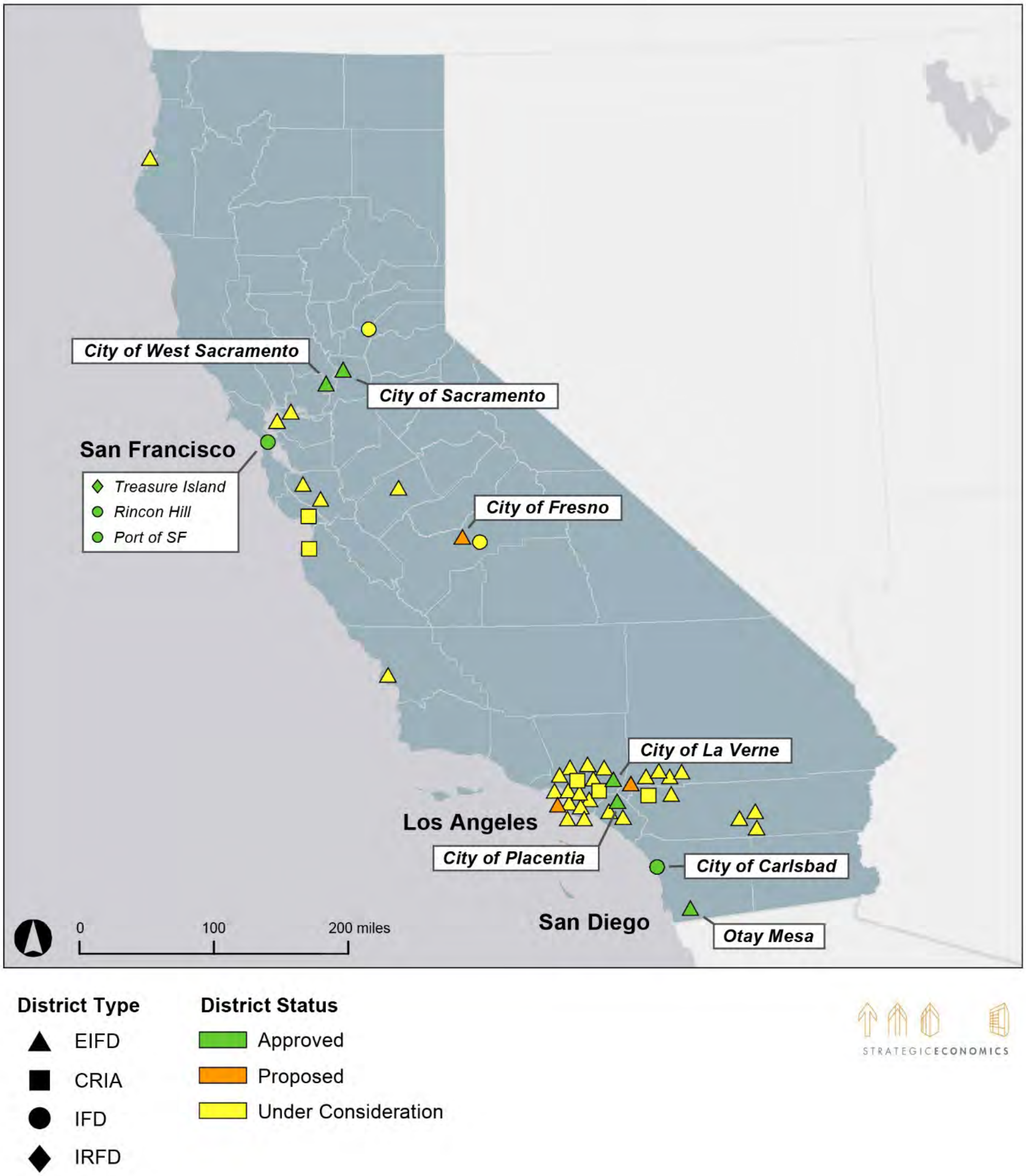
Only one recent TIF district is designed to directly fund affordable housing. San Francisco's Treasure Island IRFD plans to dedicate a portion of tax increment revenues for that purpose. However, the Treasure Island IRFD is an atypical case. Its ability to directly fund affordable housing is facilitated by the fact that San Francisco is both a city and a county, and therefore receives a higher proportion of the one percent general property tax. In addition, because

Treasure Island is a former military base, its base taxable value is extremely low, allowing the district to generate a very large increment when private development occurs.

Four of the five TIF districts that have been implemented are designed to fund infrastructure needed to enable development in location-efficient areas. The majority of these expenditures are for improvements that will lay the groundwork for location-efficient housing. For instance, the EIFD in La Verne was established to fund connective infrastructure between a planned LA Metro Station and future development in the area. The Otay Mesa district is the one EIFD located in an area that could be characterized as not being location efficient.

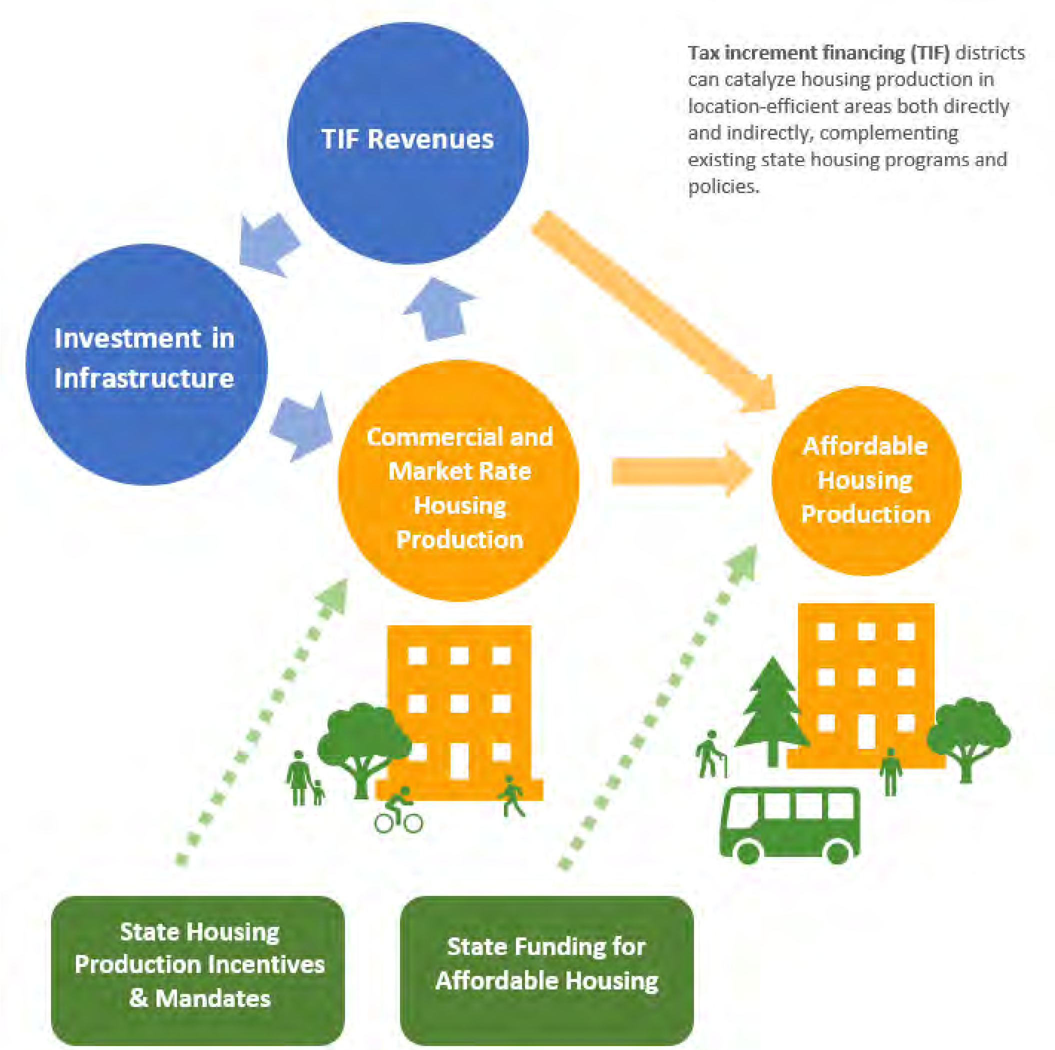
The five EIFDs are also contributing to housing production, and in some cases indirectly assisting with affordable housing. The total housing anticipated in the development programs for the approved districts total approximately 38,000 units, of which 24,500 are in location-efficient areas. While none of the EIFDs are currently planned to fund affordable housing, some will indirectly help to enable affordable housing, either by providing supportive infrastructure or through use of an inclusionary housing requirement adopted by the jurisdiction.

FIGURE E2: TIF DISTRICTS CONSIDERED, PROPOSED, OR APPROVED IN CALIFORNIA



Note: District locations are approximate.
Sources: Kosmont & Associates, 2020; Keyser Marston Associates, 2020; Southern California Association of Governments, 2018; Strategic Economics, 2020.

FIGURE E3: TIF, PRIVATE DEVELOPMENT, AND AFFORDABLE HOUSING PRODUCTION



Key Findings and Recommendations

1. **While a variety of new TIF tools have been created in the past several years, they are not well understood and have not been widely used.** The laws governing TIF tools have also changed over time, making it challenging for practitioners to understand their potential application.

   Recommendations:

   a. Explore ways that the state can assist with educational resources. These might include:

      i. An online mapping tool with case studies that describe details of how TIF tools have been used in combination with other funding and financing sources, to provide examples and facilitate peer-to-peer learning between jurisdictions.

      ii. An online resource that can be used to evaluate the potential viability of TIF tools given local conditions.

      iii. Simple materials that describe how TIF tools work, the community benefits they provide and optimal conditions for success, for use with property owners, residents and local officials.

      iv. Technical assistance for communities who are considering implementation of TIF tools in location-efficient areas and with a focus on affordable housing.

2. **The limited revenue potential of existing TIF tools significantly limits their ability to assist in meeting state housing goals.** Many cities in California receive relatively low shares of the one percent general property tax, which makes it unlikely that they will utilize TIF tools absent collaboration with other taxing entities. While there are examples of counties that have agreed to contribute to TIF districts, it is likely that many counties will not share the same goals or otherwise have an incentive to participate in a district. Furthermore, the amount of revenue generated by TIF is often insufficient to dedicate funds to affordable housing while also funding infrastructure needed to catalyze development.

   Recommendations:

   a. Explore ways that the state might facilitate collaboration between cities, counties and other taxing entities, such as encouraging the development of county policies that allow for participation in TIF districts.

   b. Explore ways to potentially leverage existing state programs and funding sources to enable use of TIF to promote location-efficient development and affordable housing in places where TIF tools alone may be insufficient. These might include:

i. Targeting planning resources to assist local jurisdictions in conducting planning efforts that will support housing production in location-efficient areas and consider use of TIF.

ii. Exploring ways that state infrastructure grants or loans might help to enable use of TIF tools, particularly in meeting the need for up front funding sources.

iii. Exploring ways the state might partner to assist local jurisdictions in leveraging federal resources for planning and technical assistance or complementing TIF with federal grants or loans.

3. **EIFDs are not being used to fund affordable housing and specific TIF tools created to encourage location-efficient development and affordable housing are not being implemented.** Of the existing TIF tools, EIFDs are the most commonly used, but they are not required to target location-efficient development or fund affordable housing. Nevertheless, many of the EIFDs established to date are in location-efficient areas, and some are assisting affordable housing development in an indirect way (e.g., by providing needed infrastructure for affordable housing projects or enabling development in areas with inclusionary housing policies). NIFTI districts, meanwhile, are not being implemented because they are seen as more restrictive and less flexible than EIFDs.

   Recommendations:

   a. Explore the potential benefits of legislation that would allow the state to contribute revenues to NIFTI or other TIF districts under specific circumstances where they will further state housing and location-efficiency goals, in particular where they will align with other state programs and investments designed to focus growth over the longer term.

   b. Explore whether additional changes to state laws governing NIFTI might help to incentivize its use.

4. **Interviews conducted for this study also revealed a variety of ways that EIFD legislation might be changed or clarified to facilitate their use:**

   a. Although they have statutory authority to issue debt, EIFDs do not have constitutional authority to issue debt. The weaker language of the EIFD law, with lacks a mention of the California constitution, creates legal uncertainties that have disincentivized some jurisdictions from pursuing EIFD.

   b. EIFDs would benefit a legislative change or additional guidance to provide clarity on their requirements for environmental review. In order to establish a district, practitioners are unclear about whether CEQA review is required only for the projects named in the Infrastructure Financing Plan, or whether all the private development envisioned for the district is to be included as well.

c. There appears to be an inconsistency in the language of AB 116. One part of the law mentions the IFP is approved by resolution, another mentions approval by ordinance.

d. AB 116 removed the voter requirement for issuing bonds for an EIFD, replacing the requirement with a public hearing and protest process. While interviewees agreed this change made the implementation of the district less burdensome overall, it created uncertainty for some EIFDs initiated before the change in requirement. To avoid a legal challenge, some PFAs that already followed the former implementation rules are also following the new rules.

I. INTRODUCTION

Report Purpose

This report fulfills a requirement by State legislation (Senate Bill 961, 2017-2018 Reg. Sess.) to study the effectiveness of using tax increment financing (TIF) for location-efficient housing production in California.[5] As directed by the Governor's Office of Planning and Research and following the requirements in Senate Bill 961, Strategic Economics prepared three reports:

1) A report on the use of current TIF tools in California (this report)
2) A case study report profiling the use of TIF tools in three cities; and
3) A report on the potential for bus transit to serve as anchors for transit-oriented development (TOD).

This report reviews the range of TIF tools available in California, and is designed to answer the following questions:

- How effective have existing TIF tools been in advancing the State's development goals around housing production and sustainable growth?
- What are the challenges that are impeding their use?
- How might use of these tools be expanded to help increase housing production and community development in location-efficient areas?

While the main purpose of Senate Bill 961 was to establish a particular type of TIF tool ("NIFTI-2," see Appendix A for details), OPR makes no endorsement of the use of any particular TIF tool over another.

Background

In order to advance ambitious goals for housing production and greenhouse gas reduction, the State of California is interested in advancing policies that produce housing in location-efficient areas, including affordable housing. One variety of policy tool is tax-increment financing (TIF), which can facilitate housing production either by funding it directly, or by stimulating private development by investing in infrastructure.

Over the last six years, the State has created a variety of new TIF tools, including some that are intended to encourage affordable housing in urban infill and transit-served areas. TIF

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[5] Government Code, section 65040.15, states: "On or before January 1, 2021, the Office of Planning and Research shall complete a study on the effectiveness of tax increment financing tools for increasing housing production, including a comparison of the relative advantages and disadvantages of infrastructure financing districts, enhanced infrastructure financing districts, affordable housing authorities, use of the Neighborhood Infill Finance and Transit Improvements Act, and use of the Second Neighborhood Infill Finance and Transit Improvements Act."

districts have the potential to catalyze housing production in location-efficient areas by providing a dedicated source of funding for public infrastructure improvements, environmental remediation, and other community and economic development activities. In addition to catalyzing increased production of private, market-rate housing, TIF districts can also generate funding for deed-restricted affordable housing for low- and moderate-income households.

Study Approach

The report findings and conclusions are based upon:

- Review of reports, articles and other published sources on the topic of TIF in California;
- Interviews with 18 subject area experts and practitioners of TIF, including city staff and officials, state legislative analysts, and policy advocates;
- Input from a working group consisting of representatives from a wide range of state agencies; and
- Three detailed case studies of TIF districts currently being implemented in La Verne, Sacramento, and Fresno. (See separate report "Housing Financing Tools and Equitable, Location-Efficient Development: Case Studies Report".)

Report Organization

The remainder of this report is organized into the following sections:

- **Section II: Overview of TIF in California**. An overview of the use of TIF in California and the tools that are currently available.
- **Section III: Use of Current TIF Tools**. An analysis of the location and extent of TIF tools implemented or considered to date.
- **Section IV: Use of TIF for Location-Efficient Housing**. An evaluation of the challenges and opportunities associated with the use of TIF for location-efficient housing.
- **Section V: Key Findings and Recommendations**. A summary of the key findings and recommendations for each.

II. OVERVIEW OF TIF IN CALIFORNIA

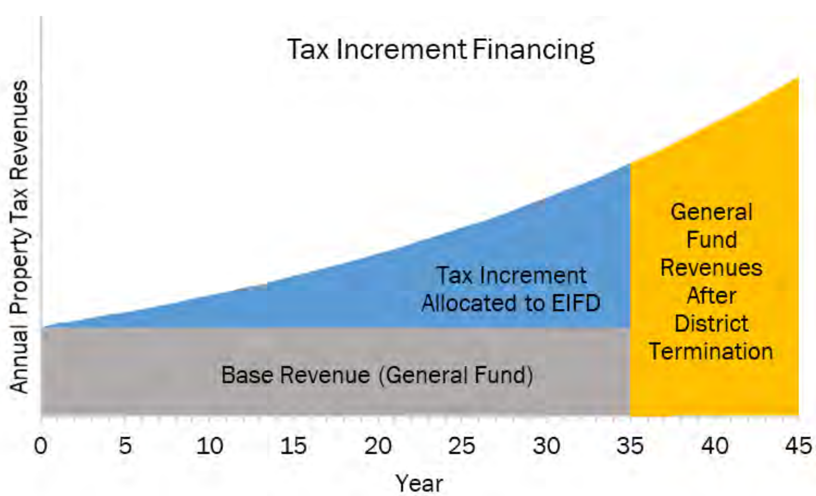
This section provides an overview of the use of TIF in California to date, including an introduction to TIF, the history of its use by redevelopment agencies (RDAs), and an overview of the current TIF tools available in the post-redevelopment era. Additional details about each of the TIF Tools is provided in Appendix A.

Introduction to Tax Increment Financing

Tax increment financing (TIF) is a mechanism used widely across the United States to fund and finance public facilities and other improvements, often in infill locations where up-front investments are needed to enable real estate development. TIF may be used for a single project, or within a broader district. TIF captures incremental growth in tax revenues (usually property tax, although other types of revenue can also be collected) above and beyond what taxing entities currently receive within a designated geographic area (See Figure 1). The revenue captured by the TIF is determined by setting a “Base Year” (Year 0 in the Figure), and taxes collected in the district thereafter above the level in the base year (“the increment”) are then allocated to the district. TIF revenues are typically used to pay back upfront costs or debt service for bonds issued to fund improvements. The allowable use of funds varies in different states; however, funds are typically used for infrastructure, affordable housing, and other public facilities that are generally needed to catalyze private investment.

Because TIF districts receive their funding from growth in tax revenue over a base amount, they typically only generate significant revenues in areas where the tax base can be expanded via private development. In most cases, cities pursue TIF to fund infrastructure or other improvements that will help to catalyze development that would otherwise not occur.

FIGURE 1: ILLUSTRATION OF TAX INCREMENT FINANCING



History of California Redevelopment and TIF Tools

TIF has been used in California for nearly seven decades. Historically, TIF was a financing tool used by local redevelopment agencies (RDAs). RDAs were enabled as part of the Community Redevelopment Act passed in 1945, but it was not until 1952 that California voters approved a ballot measure enabling the use of TIF to fund redevelopment. (Prior to 1952, RDAs generally relied on federal funding.)

TIF and RDAs expanded significantly in the 1970s once the State began guaranteeing certain funding levels for school districts. Because the State could be relied upon to backfill school funding if local property tax revenues dropped below a certain level, an incentive was created for local jurisdictions to expand the size and scope of RDAs to capture more of the tax increment that might otherwise go to schools. Following that, the passage of Proposition 13 in 1978 placed fiscal constraints on local jurisdictions, further incentivizing the use of TIF. As a result of these changes in state law, RDAs became a popular way for funding infrastructure and affordable housing across California, even as they consumed an increasing portion of local tax dollars, in turn increasing the State resources required to keep school districts funded at mandated levels.[6]

The establishment of RDAs included two key conditions. First, redevelopment areas were limited only to areas with a finding of blight. Second, twenty percent of the tax increment collected by RDAs would be allocated to a fund dedicated to affordable housing. As RDAs became widespread in the state, they became a powerful tool for cities to encourage infill and transit-oriented development.

However, one criticism of the implementation of redevelopment law was that some RDAs were ineffective in utilizing their affordable housing funds. In 2011, as RDAs were being phased out in California, a Legislative Analyst's Office report noted that "state audits and oversight reports frequently conclude that a significant number of redevelopment agencies take actions that have the effect of reducing their housing program productivity," such as leaving the funds unspent or spending them on planning, administrative costs, and land acquisition without moving forward with construction.[7] Another practical criticism of RDAs was the perception that agencies were not effectively generating new economic development for the region and state as a whole, but rather cannibalizing growth that otherwise would have occurred elsewhere within the region or state.

Because of the perception that many RDAs were not spending funds effectively, and because RDAs were capturing tax revenues that could otherwise be allocated to municipalities, school districts, and other taxing entities, they were phased out in 2012 during the recessionary fiscal crisis in California. The State's main motivation for dissolving RDAs was to reallocate

[6] "Redevelopment Agencies in California: History, Benefits, Excesses, and Closure," U.S. Department of Housing and Urban Development Office of Policy Development and Research, January 2014.

[7] "The 2011-2012 Budget: Should California End Redevelopment Agencies?" California Legislative Analyst's Office, February 8, 2011.

redevelopment funds back to school districts, a step that would then reduce the need for the State to backfill these budgets.

Current TIF Tools

Post-redevelopment, a series of additional TIF tools was passed into State law, partially aimed at filling some of the financing and funding capacity gaps that remained. (Outside of RDAs, only one other form of TIF was available in California when redevelopment was dissolved: Infrastructure Financing Districts (IFD), which had been rarely used.) However, each in this set of newer tools has a more limited set of powers compared to redevelopment. Most important, participation by taxing entities is voluntary, whereas RDAs were entitled to capture the tax increment from all taxing entities.

The post-redevelopment TIF tools, as well as IFDs, are described below and in Figure 2, and the timeline of TIF legislation in California is shown in Figure 3. (For additional details about each tool, including rules for establishment and locational and affordable housing requirements, see Appendix A.)

- **Infrastructure Financing Districts.** Introduced in California with the passage of SB 308 (1990-1991, Reg. Sess.), IFDs are an alternative version of TIF that were available for use outside the boundaries of redevelopment areas. Unlike for RDAs, IFDs lack any location requirements or allocation of funds to affordable housing, and stringent voting requirements make them more difficult to establish and to issue debt once established. Formation of an IFD requires a two-thirds vote, and another two-thirds vote must be won to issue debt. (The vote is taken among registered voters if there are twelve or more such voters in the district; otherwise, a vote of property owners is taken.)

  IFDs may be initiated by any affected taxing authority, including a city, county, or special district. The IFD is governed by an Infrastructure Financing Plan and is authorized to collect tax increment from California's general one-percent property tax. Funds can be used for capital improvements such as highways, transit, water systems, sewer projects, flood control, childcare facilities, libraries, parks, and solid waste facilities. As described later in this report, IFDs have not been widely implemented.

- **Enhanced Infrastructure Financing Districts.** EIFDs were enabled in 2014, two years after the dissolution of redevelopment (SB 628 [2013-2014 Reg. Sess.]). EIFDs offer more flexibility than IFDs, particularly as successive legislation (such as AB 313 [2015-2016, Reg. Sess.], SB 1145 [2017-2018 Reg. Sess.], and AB 116 [2019-2020 Reg. Sess.]) has relieved any voting requirements and expanded the list of eligible expenditures for which the tool can be used. Whereas IFDs require a supermajority vote to establish the district and issue debt, EIFDs have a set of public hearing and notification requirements, with an opportunity to protest.[8]

[8] Prior to the passage of AB 116, there was a 55 percent voting requirement to issue bonds. See AB 116 (2019-2020 Reg. Sess.) for specific amendments.

Like IFDs, EIFDs may be initiated by any affected taxing authority, including a city, county, or special district, which forms a Public Financing Authority (PFA) to adopt and implement the Infrastructure Financing Plan. Each participating taxing authority may choose to contribute a portion of its share of the general one-percent property tax as well as the property tax in lieu of vehicle license fee (VLF). EIFDs can be used for the purchase, construction, or improvement of any real property with a useful life of at least 15 years inside or outside the district, and, since 2018, they can fund the maintenance of public facilities financed by the district. However, EIFDs cannot be used to finance any other costs of ongoing operations or services. **Seaport Infrastructure Financing Districts** are essentially EIFDs governed by a "harbor agency," rather than a public financing authority, and have a two-thirds voting requirement to issue bonds.

- **Infrastructure and Revitalization Financing Districts.** IRFDs, which were enabled in 2014 with AB 229, are similar to EIFDs with a few important differences. IRFDs retain the two-thirds voting requirement in the IFD law to form the district and issue bonds, and property tax in lieu of VLF revenues may not be used. However, IRFDs come with some advantages over EIFDs. For example, IRFDs allow multiple "project areas" within a district, for which bonds can be issued secured by the entire district. While IRFDs have a 40-year term, the term can start at different times for each project area within the IRFD. The flexibility in the start dates for different project areas, and ability to cross-collateralize debt between the project areas are among the main benefits of IRFDs. Additionally, they can also be created without the development of a separate financing authority and are allowed to annex property, which is not possible in an EIFD.
- **Community Revitalization and Investment Authorities.** CRIAs were enabled in 2015 with AB 2 (2015-2015 Reg. Sess.). They were created with the express purpose of targeting investment to low-income, distressed areas. Formed by a city or county, CRIAs must meet at least one of the criteria below:

    1. At least 80 percent of the census tract or block groups meet criteria related to household income, unemployment, crime rate, and/or deteriorated infrastructure.
    2. Census tracts or census block groups are within a disadvantaged community, as defined by California Environmental Protection Agency to be burdened in the areas of public health and economic opportunity.
    3. Areas within a former military base that has significantly deteriorated infrastructure or structures.

    CRIAs also come with a set of affordable housing requirements. First, 25 percent of revenues generated for the district are required to be set aside for low and moderate income housing. Additionally, 30 percent of units developed by the CRIA must be affordable, as well as 15 percent of units developed by private developers.

    CRIAs do have some additional powers that EIFDs lack, including the ability to buy and sell property (including eminent domain). They also include provisions for greater community oversight, including citizen participation on the governing board. The key rules for forming a CRIA are similar to EIFD with a few differences that can make them more challenging to implement. For instance, CRIAs must adopt a Community

Revitalization and Investment Plan, which, unlike an Infrastructure Financing Plan, is subject to majority protest.

- **Affordable Housing Authorities.** AHAs were created in 2017 with AB 1598 (2017-2018 Reg. Sess.). Cities and counties already had the ability to create housing authorities, which administer local housing programs and provide affordable housing and other assistance. AB 1598 allows cities and counties to create new housing authorities that are designed to use TIF to generate funds for low- and moderate-income housing, as well as supportive and transitional housing. There are no locational requirements. The creation of AHAs is similar to EIFDs and CRIAs, with the authority required to adopt and implement an Affordable Housing Program. The program is intended to serve the income levels identified by the Regional Housing Need Allocation (RHNA) for the local area, and the legislation includes a requirement that funds be spent in proportion to the jurisdiction's RHNA requirements.
- **Neighborhood Infill Finance and Transit Improvement Districts (1 and 2).** Since 2017, California law has provided for a special type of EIFD targeted specifically to affordable housing production in infill areas. "NIFTI-1", established with AB 1568 (2017-2018 Reg. Sess.), originally provided for EIFDs located on qualified infill "sites,[9] with a 20 percent affordable housing requirement. "NIFTI-2" was passed with SB 961 in 2018[10], further requiring the district be within one-half mile of a transit stop, and 40 percent affordable housing. As an incentive to offset these additional requirements, NIFTI-1 and NIFTI-2 allow the use of sales tax increment in addition to property tax. NIFTI-1 and NIFTI-2 legislation also streamlined the process for issuing bonds by removing the 55 percent vote initially required of EIFDs. However, with AB 116, this voter requirement was amended for EIFDs across the board, effectively removing this particular advantage of NIFTI districts.
- **Annexation Development Plan.** Established **with SB 614 (2014-2015, Reg. Sess.), ADPs** are a specialized tool for financing infrastructure in disadvantaged unincorporated communities during their annexation to an incorporated municipality. Because they are a seldom used tool targeted to very specific circumstances, they are not explored in detail in this report.

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[9] An "infill site" is a parcel in an urbanized area and previously developed with a qualified urban use or surrounded by 75% qualified urban uses, as defined by California Public Resources Code Section 21061.3 . "Qualified urban use" means any residential, commercial, public institutional, transit or transportation passenger facility, or retail use, or any combination of those uses, as defined by California Public Resources Code Section 21072.
[10] A provision in SB 961 included the requirement to perform this study for the Governor's Office of Planning and Research. (Gov. Code, Section 5040.15.)

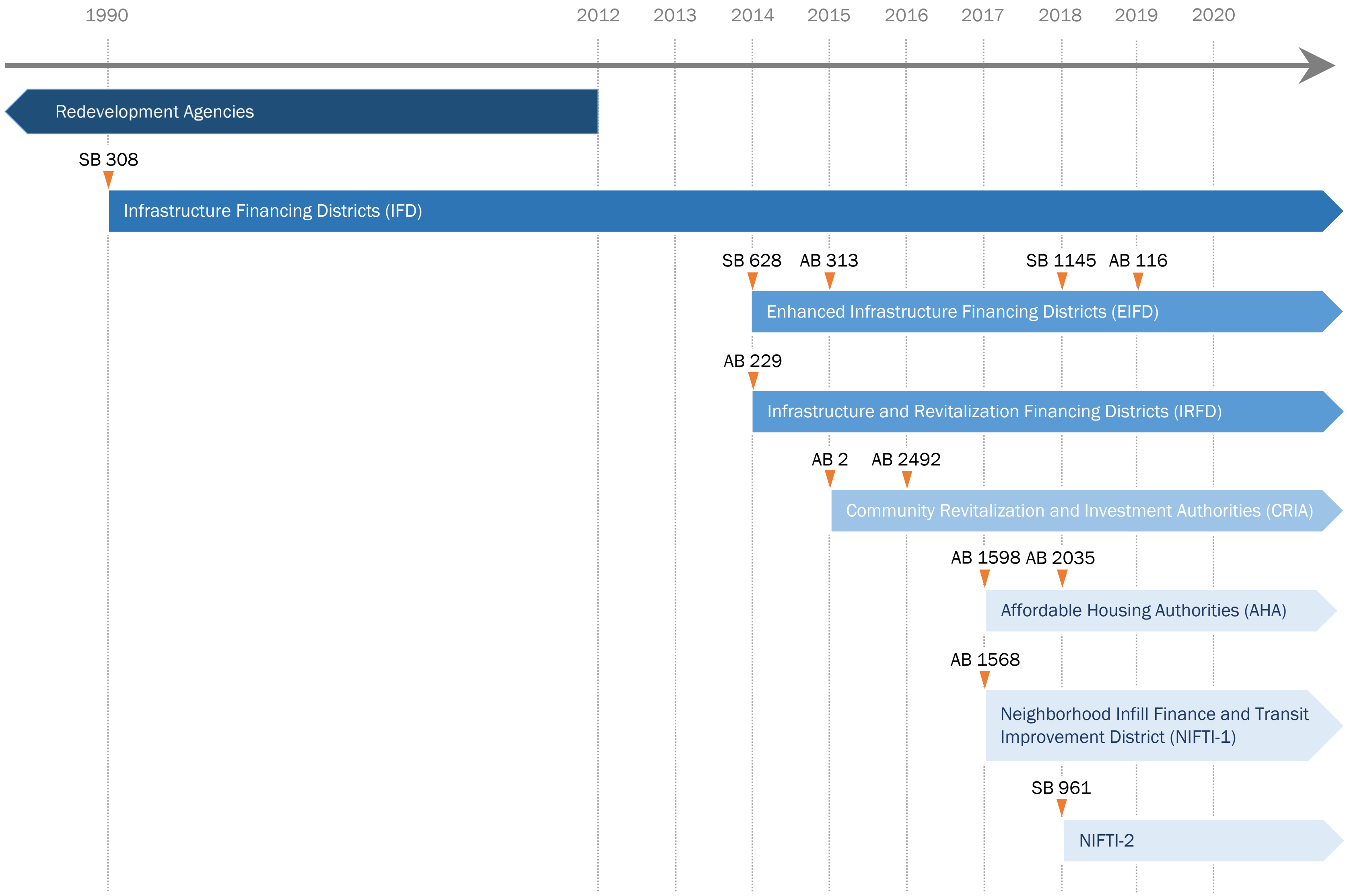
FIGURE 2: COMPARISON OF ELIGIBLE REVENUES, POWERS, AND REQUIREMENTS OF TIF TOOLS

	RDA	IFD	EIFD	IRFD	CRIA	AHA	NIFTI-1	NIFTI-2
Date Established	1952	1990	2014	2014	2015	2017	2017	2018
Can collect property tax revenues	Yes[a]	Limited[b]	Limited[b]	Limited[b]	Limited[b]	Limited[b]	Limited[b]	Limited[b]
Can collect property tax in lieu of VLF revenues	No	No	Limited[b]	No	Limited[b]	Limited[b]	Limited[b]	Limited[b]
Can collect sales and use tax	No	No	No	No	No	Limited[b]	Limited[b]	Limited[b]
Finance Capital Projects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pay for Ongoing Maintenance	No	No	Yes[c]	No	No	No	Yes[c]	Yes[c]
Eminent Domain	Yes	No	Limited[d]	No	Yes	Yes	Limited[d]	Limited[d]
Voting requirement to establish	No	Yes	No	Yes	No	No	No	No
Voting requirement to issue bonds	No	Yes	No	Yes	No	No	No	No
Locational requirements	Yes – blighted areas[e]	No	No	No	Yes – low income, distressed areas[f]	No	Yes – infill location[g]	Yes – infill location + ½ mile from transit stop [h]
Affordable housing set-aside (See Appendix A for more details)	Yes (20%)	No	No	No	Yes (25%)	Yes -- Primary purpose (95%)	Yes (20%)	Yes (40%)

[a] Mandatory for all taxing agencies.
[b] Taxing agencies must consent and cannot include education districts. Can only collect the share of tax increment specified in the district's governing plan.
[c] With the passage of SB 1145 in 2018, EIFDs can fund the ongoing maintenance of public facilities that are financed in whole or in part by the district.
[d] Only for environmental remediation.
[e] A blight finding was required to establish redevelopment areas.
[f] Must meet specific socioeconomic criteria for low-income, distressed areas or military bases.
[g] Must be located in a qualified infill location as defined by the California Public Resources Code.
[h] Must be located in a qualified infill location as defined by the California Public Resources Code, and within a half-mile of a major transit stop as defined in Government Code Section 21064.3.

Source: This table was adapted from "California Economic Development Financing Tools," California Association for Local Economic Development, 2019. https://caled.org/wp-content/uploads/2019/07/CALED_EconomicDevTools_FINAL.pdf; Strategic Economics, 2020.

FIGURE 3: HISTORY OF TAX INCREMENT FINANCING TOOLS AND KEY LEGISLATION



Source: Strategic Economics, 2020.

Key Limitations of Existing TIF Tools

While the newer TIF tools, taken together, are frequently touted as “redevelopment 2.0,” they lack many of the powers available to RDAs, and many have not been widely used – or used at all – to date. Key limitations of extant TIF tools are outlined below, including some comparisons with the use of TIF under redevelopment.

- **Limited revenue potential.** As described in greater detail in Section 3, property tax shares vary widely among cities in California, and in many cases the local share of property tax is insufficient to generate enough revenue to make creation of a TIF worthwhile, or to warrant issuing a bond, absent participation by other taxing entities.
- **Need for voluntary participation by multiple taxing entities.** Unlike under redevelopment, participation by a taxing entity in a TIF district is optional (and participation by education districts is prohibited). Given that many cities receive a relatively low share of the one percent property tax, voluntary participation by other taxing entities is often required to make a TIF district feasible.
- **Limited powers in comparison with RDAs.** While each of the extant TIF tools enjoys a set of advantages and features that partially replace the mandate of RDAs, the tools and the authorities that implement them lack the full scope of powers and flexibility enjoyed by RDAs. One important power of RDAs was land acquisition, including through eminent domain. By contrast, EIFDs can only be used to finance land acquisition, and can use eminent domain only for environmental remediation. (Only CRIAs have similar power for land acquisition as RDAs, but they have other requirements that can disincentivize their use.)
- **Technical challenges.** The proliferation of TIF tools in recent years means they are not yet well-understood and suffer from some technical challenges that place burdens on their implementation. Some recommendations for legislative fixes for EIFDs, based on interviewees’ experience implementing the tool, are summarized in the recommendations in Section V.

IMPACT OF COVID-19

As of the writing of this report, the COVID-19 global pandemic has had a deep economic impact across the State of California and will remain a major strain on the State's economy for the foreseeable future. The economic disruption resulting from the pandemic and California's stay-at-home orders has, or is expected to, negatively impact urban development markets, employment, city and State budgets, and overall confidence in new urban development projects and expenditures. Some of the likely impacts of COVID-19 on the future of TIF are summarized below:

- Because the economic slowdown will cause local budgets to come under strain, cities may be less likely to pursue the use of TIF tools that restrict their flexibility over the use their general funds in the longer run. While in some cases TIF proponents have been successful at convincing cities they will far better over the long run with TIF, the economic uncertainty complicates this case.
- In urban areas, the pandemic has created uncertainty in real estate markets and has resulted in a slowdown in new investment. This uncertainty is likely to make it difficult to enact new TIF districts, because TIF relies on new development to generate revenue.
- The disruptions associated with the pandemic are likely to remain the primary focus for city staff and other public entities, leaving limited capacity to pursue new initiatives such as TIF.
- Reduced property values because of the pandemic may help spur more TIF activity once the economic recovery takes hold. When calculating the tax increment for a district, the lower assessed property values translate to a lower base taxing level for the calculation, which could create an opportunity to capture greater increment as the economy rebounds.

III. USE OF CURRENT TIF TOOLS

This section describes the extent to which current TIF tools have been explored and implemented, including their location and the type. The second part of the section summarizes the key factors that support the establishment of a TIF district using the current tools, based on research and interviews.

Location of TIF Districts

Dozens of jurisdictions have at least studied the potential for implementing TIF districts post-redevelopment. Figure 4 shows a map of TIF districts that have been approved, proposed, or considered throughout California. Notably, TIF has been explored in many parts of the state, including in some rural areas. However, TIF districts have been implemented in only a handful of instances, generally in major metropolitan areas. Three additional TIF districts have moved into the proposal or implementation stage in the Cities of Ontario and Redondo Beach, and in the City of Fresno.

In Southern California, where much of the initial interest and conversations have occurred, the consideration of TIF has included a variety of suburban locations, such as La Verne, Placentia, and Redondo Beach. While the revenue potential in many of these locations is relatively low, EIFDs can be feasible in these locations if there is potential to partner with their respective counties. La Verne and Placentia have secured county participation, and Redondo Beach is seeking it. Another factor contributing to TIF activity in Southern California was the Transit Oriented Communities Tax Increment Financing Pilot Program (TOC TIF), a program sponsored by L.A. Metro to offer planning grants to explore the use of TIF.

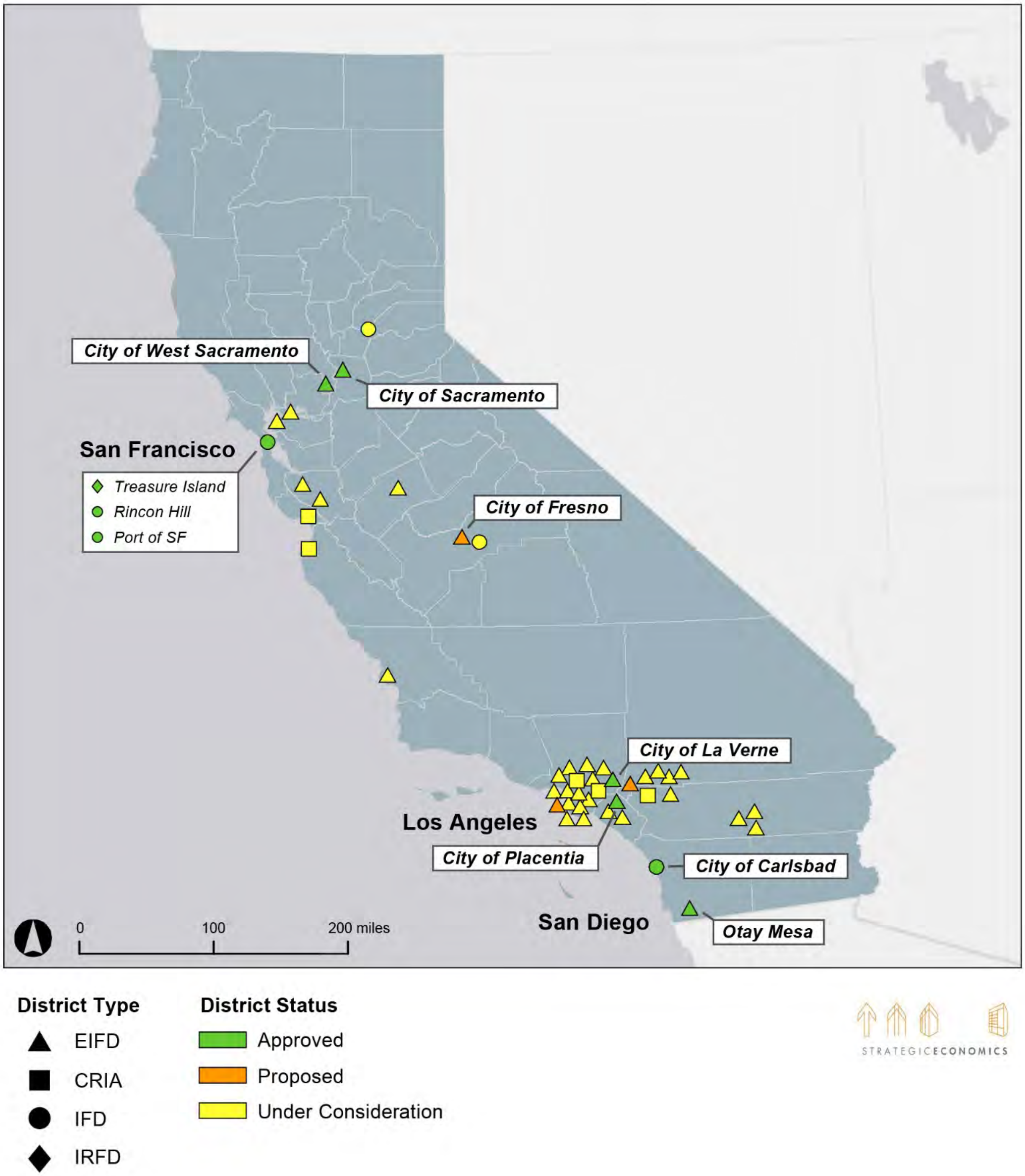
Types of Districts

EIFDs are by far the most common type of district explored, and they constitute the majority of TIF districts implemented post-redevelopment. Five EIFDs have been established, all with the purpose of funding infrastructure, and with no affordable housing set-aside. They are located in Otay Mesa (San Diego County), Placentia (Orange County), La Verne (Los Angeles County), West Sacramento (Yolo County), and Sacramento (Sacramento County). Of these, the Placentia and La Verne EIFDs will receive County participation. Three additional TIF districts are currently in proposal stages: in Ontario and Redondo Beach in greater Los Angeles, and in the City of Fresno.

Several cities in California have explored the use of CRIA, but none have formally been proposed. As described in the previous section, CRIAs are a more specialized type of district designed for use in revitalizing neighborhoods and to be eligible the area must meet specific eligibility standards related to household income and other factors. CRIAs offer certain advantages over an EIFD, such as the ability to create an authority that can use eminent domain, and provide loans, grants and other assistance to businesses within the plan area. However, CRIAs are also seen as more challenging to implement, for a few reasons:

- The geographic restrictions that limit CRIAs to areas that are in need of reinvestment also mean that they are likely to be in a weaker real estate market, limiting their ability to generate tax increment. In contrast, EIFD's have no restrictions on how their boundaries may be defined, can include non-contiguous areas, and can fund improvements outside the district.

FIGURE 4: TIF DISTRICTS APPROVED, PROPOSED, OR CONSIDERED IN CALIFORNIA (EXCLUDING REDEVELOPMENT)



Note: District locations are approximate.
Sources: Kosmont & Associates, 2020; Keyser Marston Associates, 2020; Southern California Association of Governments, 2018; Strategic Economics, 2020.

- While in some cases CRIAs are seen as attractive options because they include an affordable housing set aside, this also limits the ability to use revenues for other purposes, including investments that may be needed to help catalyze development.
- CRIAs are subject to more public oversight and are more complex to implement. They are subject to more reporting requirements, audits at regular intervals, and they must conduct a protest proceeding every ten years.

As a result, to date most cities are choosing to move forward with an EIFD instead, because the tool is seen as easier to implement.

No NIFTI OR AHA districts have been considered or implemented. There is little public record of jurisdictions having considered implementing Neighborhood Infill Finance and Transit Improvement districts (NIFTIs) or Affordable Housing Authorities (AHAs). Research and interviews suggest that these districts are unlikely to be created because EIFDs offer greater flexibility in their implementation, with fewer affordable housing requirements. The required set asides for affordable housing limits the amount of revenue that can be used for other purposes (e.g., supportive infrastructure). In addition, there is an inherent tension between the desire to deliver affordable housing and the need to encourage high-value market rate uses that will generate significant tax increment. This is a particular challenge for AHAs, which are designed to focus exclusively on the delivery of affordable units (and not on high property tax generating uses). While NIFTI-2 was designed to offer incentives to offset the additional affordable housing requirements, these incentives have not been sufficient to generate interest in their use.

IFDs have been implemented in Carlsbad and San Francisco. The planning for these IFDs, which were enabled by legislation in 1990, generally began prior to the availability of EIFDs. TIF districts in San Francisco can be quite complex, in some cases combining IFD and IRFD and encompassing multiple project areas. Additionally, in order to move forward, the Port of San Francisco IFD (containing the Mission Rock and Pier 70 project areas) required special legislation tailored to the particular needs of waterfront property. For these reasons, and because San Francisco enjoys access to the highest property tax share in California, its use of TIF is not typical of the rest of the state.

One IRFD has been implemented in California, to support San Francisco's reuse of a military base on Treasure Island. According to one consultant for the project, an IRFD was preferred for Treasure Island over the more typical EIFD, because IRFDs allow phasing over multiple project areas, which overall allowed the district to raise more tax increment revenue across the multiple phases of the project. Additionally, an IRFD is being considered in combination within the larger Port of San Francisco IFD to fund affordable housing in some project areas.

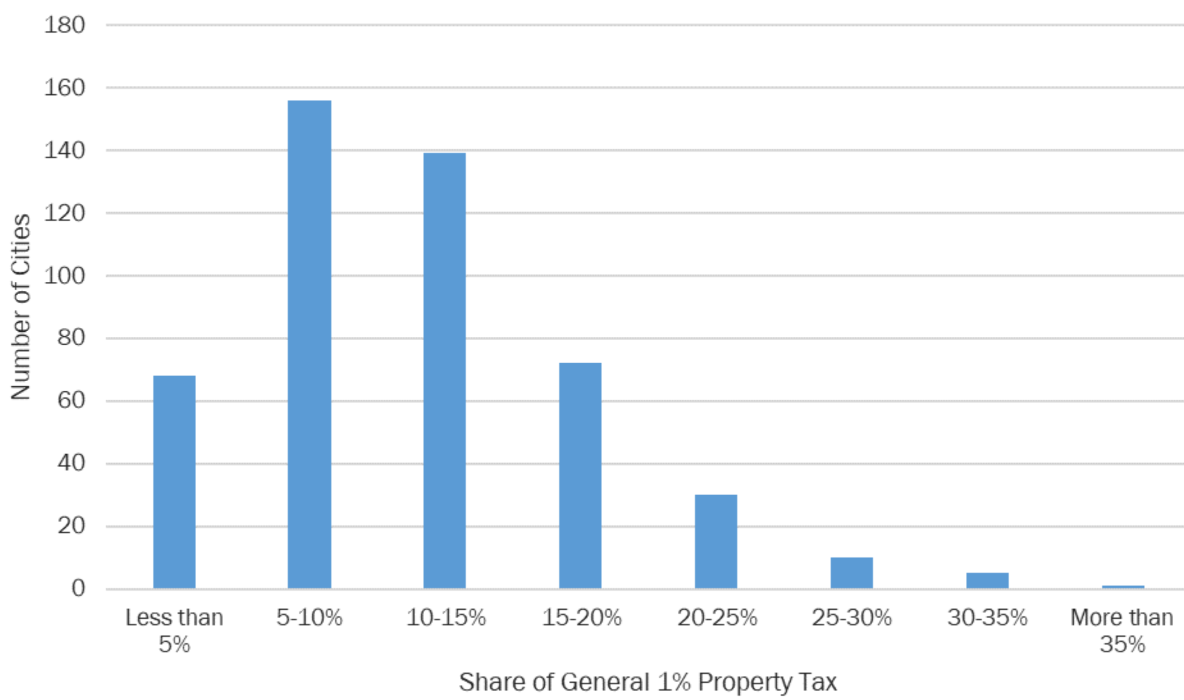
Factors that Support the Establishment of a TIF District

Based on a review of the progress of TIF districts in California, as well as the practical experience of interview subjects, several points emerge as factors that increase the likelihood that a TIF district will be initiated by a locality and successfully implemented:

Strong real estate market. As explained in Section III, the success of TIF districts in capturing new revenue depends on significant new private development taking place in the district. Typically, areas with stronger real estate markets are able to generate a higher level of revenue with lower risk.

Ability to capture a high proportion of the property tax. A common rule-of-thumb states that at least 15 percent of the general one percent property tax is required to make TIF worth the effort, and the majority of California cities receive a lower share. As shown in Figure 5, the estimated median share is approximately 10 percent. All of the districts implemented to date are in jurisdictions with shares higher than the median, ranging from 14 percent of property tax to 64 percent in San Francisco, which benefits from being both a city and a county.

FIGURE 5: DISTRIBUTION OF CITY SHARES OF GENERAL PROPERTY TAX



Note: City tax shares were estimated using available tax data from the California State Controller's Office and Board of Equalization. The estimated shares do not include any distributions collected from redevelopment successor agencies. In some areas with successor agencies, the actual share may be significantly higher.
Sources: Property Tax Raw Data from California State Controller's Office, 2018; Board of Equalization Table 11, 2018; Strategic Economics, 2020.

Ability to partner with other taxing entities. Given the low property tax share received by many cities, in many cases, TIF districts are not feasible without voluntary contributions from other taxing entities. Some cities have been able to increase revenues captured by a TIF district by partnering with their counties. Orange County and Los Angeles County have recently passed policies that enable them to contribute a share of their property tax revenue to TIF districts under specific circumstances, and each has participated in one district so far. For example, Los Angeles County has agreed to contribute half of its 27 percent share along with the City of La Verne (18 percent share) to the La Verne TIF district.

For an explanation of local property tax shares, see the text box on page 27.

Availability of other sources of funding. TIF is typically used in combination with other mechanisms for funding infrastructure and housing. Up front funding can be especially important for TIF, because the district often requires time to grow a sizable tax increment. For example, the San Francisco Treasure Island IRFD is being used in combination with a Mello-Roos Community Facilities District (CFD), which levies a special tax on new development beyond the general property tax. The CFD generates an immediate revenue stream. Treasure Island will also utilize one-time developer fees and exactions, which are also common components of a capital stack for infrastructure and affordable housing funding.

A limited number of property owners. Most types of TIF districts require a series of public hearings and are subject to a majority protest by property owners. In addition to requiring education and outreach efforts, EIFDs also have annual noticing requirements that increase administrative costs and complexity in districts with more property owners.

Community support for development. Depending on the tool being implemented, TIF districts with at least 12 registered voters can be halted either by a required vote or by a protest process, so community backing with the district boundaries is important. It is also important to garner support with the wider community, who are represented by the local government enacting the TIF district.

A local champion. TIF Districts benefit from a local champion who can advocate for the project, including making the case to city departments, elected officials, property owners, and other taxing entities.

An adopted specific plan that identifies infrastructure needs required to enable development. These planning efforts are often a critical first step in defining goals for development, identifying needed infrastructure, and securing support by property owners and community members. For example, before the City of La Verne moved forward with plans to form an EIFD to fund connective infrastructure for its LA Metro station area, it had adopted Old Town Specific Plan that anticipated development and the needed infrastructure for the area.

IMPORTANCE OF LOCAL PROPERTY TAX SHARE

In California, general property tax revenues are split between the State, county, and local jurisdiction. The share of property tax allocated locally varies by jurisdiction, with some communities deemed “no property tax” or “low property tax” cities. (See a map of estimated property tax shares in Figure 6.) Out of the general one-percent property tax levied in California, the median allocation to local jurisdictions is estimated to be approximately 10 percent, with the remaining shares going to counties, school districts, the State, and other taxing entities.

As of 2015, 77 cities were designated “low and no” property tax cities based on their low or zero allocation. These communities receive little to no property tax revenue, and generally depend on their respective counties for services. A frequently cited rule-of-thumb states that a local community must receive at least 15 percent of the property tax to make formation of a TIF district worth the effort. In some cases jurisdictions with low or modest property tax shares may seek participation from other taxing entities in order to generate pooled revenue from multiple sources. However, they are unlikely to be able to encourage participation by other taxing entities if they are not contributing a share themselves.

FIGURE 6: ESTIMATED SHARE OF ONE PERCENT GENERAL PROPERTY TAX BY CITY

Note: City tax shares were estimated using available tax data from the California State Controller's Office and Board of Equalization. The estimated shares do not include any distributions collected from redevelopment successor agencies.
Source: Property Tax Raw Data from California State Controller's Office, 2018; Board of Equalization Table 11, 2018; Strategic Economics, 2020.

IV. POTENTIAL FOR TIF TOOLS TO ASSIST WITH LOCATION-EFFICIENT HOUSING PRODUCTION

This section focuses on the specific question of utilizing TIF to meet state goals related to location-efficient housing, including:

- An overview of state goals related to housing production and location-efficient development;
- A discussion of the extent to which TIF is being used to facilitate location-efficient housing, including affordable housing, highlighting key barriers to their increased use.
- An overview of complementary state programs that can be used to facilitate use of TIF in location-efficient areas.

Key findings and recommendations about the key challenges and opportunities for expanding the use of TIF for housing in location-efficient areas are provided in Section V.

State Goals Related to Housing Production and Location-Efficient Development

California's housing production goals are generally expressed through the Regional Housing Needs Determination (RHND), which identifies the total number of homes each region in California must plan for in order to meet the housing needs of people at all income levels. In the past decade, housing production has averaged fewer than 80,000 new homes each year, significantly below the projected annual need of 180,000 additional homes. California also faces a crisis of affordability, with more than one third of renters paying more than 50 percent of their income for housing, and high rates of homelessness.

"Location efficiency" generally refers to neighborhoods that offer convenient access to transit, jobs, retail and services, allowing residents to drive less to reach their daily destinations. Accordingly, one measure frequently used to evaluate location efficiency is vehicle miles traveled (VMT). The state does not have an explicit goal for location-efficient housing production; however the California Air Resources Board has determined that that transportation choices resulting in reduced VMT is one of a handful of strategies that would achieve GHG reduction targets.[11] Fossil fuels that power mobile sources are the largest contributor to GHG emissions, fine particulate matter and ozone in California. In order to mitigate the harmful effects of these pollutants on climate change and meet the State's climate targets to reduce GHGs by 40% to 1990 levels by 2030 and 80% by 2050, a combination of reduced VMT in addition to promoting wider use of cleaner technologies and fuel are necessary for meeting California's goals. OPR recently produced a CEQA technical

[11] California Air Resources Board 2017 Scoping Plan-Identified VMT Reductions and Relationship to State Climate Goals; January, 2019.

advisory[12] on evaluating transportation impacts using VMT and recommends achieving 15 percent lower per capita VMT than existing development connects with the State's emissions goals. Research also shows that new development will produce VMT that is comparable to the VMT of similar existing development. Therefore, state policy makers should consider encouraging housing development in areas where existing per capita household VMT is 15 percent below regional average to ensure that future residential VMT is reduced by the appropriate amount to achieve the state's climate commitments.

Use of TIF for Location-Efficient Housing Production

Figure 7 shows the linkages between establishing a TIF district, new private development, and the production of affordable housing. As shown, the public investment associated with a TIF district can help attract new market-rate housing and commercial development, both by reducing the cost to private development of providing infrastructure to serve new residents, and by demonstrating the public sector's commitment to improving the district. In turn, new market-rate development can generate tax increment revenues that can be directed to affordable housing via an affordable housing set aside (although for most tools this is not required). In addition, residential development within NIFTI and CRIA districts have inclusionary requirements that require a share of any residential development to be affordable housing.

Even where there is not an affordable housing set aside or inclusionary policy required by the district, it is important to note that TIF districts may help to encourage development of affordable housing by means of local inclusionary zoning policies, or generate funding for affordable housing through housing impact fees and/or commercial linkage fees. Similarly, with the exception of NIFTI districts, TIF tools do not have requirements related to location efficiency, however they can be used to help promote location-efficient housing development if the districts are located in location-efficient areas.

[12] Technical Advisory on Evaluating Transportation Impacts in CEQA; December 2018

FIGURE 7: TIF, PRIVATE DEVELOPMENT, AND AFFORDABLE HOUSING PRODUCTION

A table of the six TIF districts approved post redevelopment is shown in Figure 8.

Only NIFTI districts have requirements related to both affordable housing and location efficiency, and none have been implemented to date. As described previously, NIFTI-1 districts are designed to target infill locations and NIFTI 2 districts target infill locations near a transit stop. As discussed in the previous sections of this report, interviews with experts and practitioners found that cities have generally opted to implement EIFDs instead of NIFTI districts because they offer more flexibility and are easier to implement. In addition, the incentives offered as part of the legislation are not viewed as sufficient to encourage their use. NIFTI-1 and NIFTI-2 allow the use of sales tax increment in addition to property tax, however interviewees noted that because sales tax revenues tend to be more volatile, and because they are typically dedicated for other local uses, the ability to include these revenues is unlikely to stimulate additional interest in most cases. As mentioned previously, the NIFTI-1 and NIFTI-2 legislation also streamlined the process for issuing bonds by removing the 55 percent vote initially required of EIFDs. However, with AB 116, this voter requirement was amended for EIFDs as well.

Only one recent TIF district is designed to directly fund affordable housing. San Francisco's Treasure Island IRFD plans to dedicate a portion of tax increment revenues for that purpose. However, the Treasure Island IRFD is an atypical case. Its ability to directly fund affordable housing is facilitated by the fact that San Francisco is both a city and a county, and therefore receives a higher proportion of the one percent general property tax. In addition, because Treasure Island is a former military base, its base taxable value is extremely low, allowing the district to generate a very large increment when private development occurs.

Four of the five TIF districts that have been implemented are designed to fund infrastructure needed to enable development in location-efficient areas. These districts are EIFDs that dedicate all their proceeds to infrastructure rather than housing. The majority these expenditures are for improvements that are helping to lay the groundwork for location-efficient housing. For instance, the EIFD in La Verne (see Case Study report for more details) was established to fund connective infrastructure between a planned LA Metro station and development in the area. The EIFDs in West Sacramento, Sacramento and Placentia are all located in urban infill locations, and while the primary purpose of the Sacramento Railyards TIF is to help fund a stadium, the improvements will also help to facilitate nearby residential development. The Otay Mesa district is the one EIFD located in an area that could be characterized as not being location efficient.

The five EIFDs are also contributing to housing production, and in some cases indirectly assisting with affordable housing. The total housing anticipated in the development programs for the approved districts total approximately 38,000 units, of which 24,500 are in location-efficient areas. While none of the EIFDs are currently planned to fund affordable housing, some will indirectly help to enable affordable housing, either by providing supportive infrastructure or through use of an inclusionary housing requirement adopted by the jurisdiction.

FIGURE 8: APPROVED TIF DISTRICTS POST-REDEVELOPMENT

Location	Type of District	Year Approved	Transit Serving the District	District Land Area	Development Program (a)	Improvements and Total Cost to be Funded
City of La Verne & Los Angeles County	EIFD	2017 (County joined in 2020)	Future Metro Gold Line light rail station	111 acres	1,700 residential units, 150 hotel rooms, 100,000 sf retail, 150,000 sf business park	$33 million of infrastructure improvements around the City's future Metro Gold Line light rail station; includes street traffic improvements, pedestrian improvements, a pedestrian bridge, landscaping, lighting, and other utilities improvements. Potential bond proceeds are $67 million.
City of West Sacramento	EIFD	2017	Proposed streetcar	4,144 acres	11,920 residential units, 492 hotel rooms, 20,633 sf commercial/industrial	$1.5 billion of infrastructure to catalyze high-density, mixed-use, transit-oriented development in the City's Bridge District. Potential bond proceeds are $535 million.
Otay Mesa	EIFD	2017	Planned BRT	2,000 acres	13,624 residential units, 510 acres of industrial, 53 of acres retail, 37 acres of office.	$1.2 billion of infrastructure to support a new urban village at southern border with Mexico. Potential bond proceeds are $155 million.
San Francisco - Treasure Island	IRFD	2017	Muni Bus	360 acres	Up to 8,000 residential units, 500 hotel rooms, 550,000 commercial and historic reuse	$970 million for housing costs and $250 million in facilities costs.

Location	Type of District	Year Approved	Transit Serving the District	District Land Area	Development Program (a)	Improvements and Total Cost to be Funded
City of Sacramento	EIFD	2019	Sacramento's Regional Transit Center (EIFD plan includes possible funding for BRT)	42 acres	1,217 residential units, 200 hotel rooms, 132,700 sf retail, 309,000 sf office, 22,000 seat stadium	$27.2 million of infrastructure to support Major League Soccer stadium and ancillary development. Potential bond proceeds are up to $59.7 million.
City of Placentia & Orange County	EIFD	2019	Future Metrolink infill station	300 acres	1,600 residential units, 116 hotel rooms, 125,000 sf commercial	$8.2 million of street improvements in the City's Old Town Placentia Revitalization Plan area and the City's Transit-oriented Development ("TOD") Packing House District; Includes pedestrian connectivity and landscape and lighting upgrades. Potential bond proceeds are $8 million.

(a) Approximately 38,000 total residential units anticipated across TIF Districts included in table above (24,500 units estimated to be in location-efficient areas).
Sources: Infrastructure Financing Plan for each district; Strategic Economics, 2020.

State Programs that Can Complement the Use of TIF to Achieve State Housing Goals

A variety of federal, state, regional and local funding sources can be used in conjunction with TIF to assist with location-efficient housing production. Federal programs include Opportunity Zones, which allow investors to enjoy tax advantages from redirecting capital gains to economically distressed areas, and tax credit programs such as New Market Tax Credits and Low Income Housing Tax Credits.

The State of California has a range of programs and policies that are used to advance its goals for equitable and location-efficient housing, including programs that address housing directly, as well as indirect assistance such as infrastructure funding programs, planning grants and other technical assistance, and brownfield remediation programs. Many of these programs are designed to target infill locations and/or would give preference for projects that use TIF revenues. Key programs are summarized below.

HOUSING

All the programs listed below contain selection criteria or scoring that would preference projects that receive TIF revenues.

- **Transit-Oriented Development Housing Program.** This program includes low-interest loans for rental housing, mortgage assistance for ownership housing, and infrastructure improvements to connect housing to transit. The program contains guidelines for density, size of project, and location near transit.
- **Affordable Housing and Sustainable Communities.** The AHSC program offers grants and loans for affordable housing near transit and for projects that demonstrate a reduction in GHG emissions.
- **Multifamily Housing Program.** The MHP program offers deferred payment loans to assist affordable housing development focused on permanent and transitional rental housing for lower income households. This program tends to be targeted to very and extremely low income levels.

INFRASTRUCTURE

- **Infill Infrastructure Grant Program.** IIGP offers grants as gap financing for capital improvement projects that support infill housing development. The selection funding awards points for secured funding such as TIF district funds.
- **Infrastructure State Revolving Fund.** This program offers financing to public agencies and non-profit corporations, sponsored by public agencies, for a wide variety of infrastructure and economic development projects.

- **Transit and Intercity Rail Capital Program.** TIRCP funds capital improvements to modernize the state's intercity, commuter, and urban rail systems, as well as bus and ferry transit systems, to reduce greenhouse gas emissions.

BROWNFIELD ASSISTANCE

- **Grants and loans from the Department of Toxic Substances Control.** DTSC offers several sources of assistance for the investigation and preparations of brownfield sites for new development.

TECHNICAL ASSISTANCE

- **SB 2 Building Jobs and Homes Act Grants.** SB 2 dollars are the State's first permanent source of affordable housing funding and provides an ongoing competitive revenue stream for the development of affordable housing. SB 2 Planning grants were non-competitive and provided planning assistance to local governments to encourage streamlined housing approvals and accelerated housing production for only the first year of the SB 2 program in 2019.
- **Transformative Climate Communities Planning Grants.** TCC grants support planning activities that directly benefit low-income and "disadvantaged communities." The planning should align with TCC Program goals of reducing GHG emissions, improving public health outcomes and increasing economic opportunities for residents.
- **Local and Regional Early Action Planning Grants.** LEAP and REAP provide one-time grant funding to update planning documents and implement process improvements that will facilitate the acceleration of housing production and compliance with State mandates for housing production. (Note: the deadline to apply for this funding is in early 2021).

V. KEY FINDINGS AND RECOMMENDATIONS

This report explored the effectiveness of existing TIF tools in advancing state goals related to housing production and greenhouse gas reduction. Below are key findings about the effectiveness of TIF tools to date, challenges impeding their use, and how use of these tools might be expanded to help increase housing production and community development in location-efficient areas.

1. **While a variety of new TIF tools have been created in the past several years, they are not well understood and have not been widely used.** The laws governing TIF tools have also changed over time, making it challenging for practitioners to understand their potential application.

   Recommendations:

   a. Explore ways that the state can assist with educational resources. These might include:

      i. An online mapping tool with case studies that describe details of how TIF tools have been used in combination with other funding and financing sources, to provide examples and facilitate peer-to-peer learning between jurisdictions.

      ii. An online resource that can be used to evaluate the potential viability of TIF tools given local conditions.

      iii. Simple materials that describe how TIF tools work, the community benefits they provide and optimal conditions for success, for use with property owners, residents and local officials.

      iv. Technical assistance for communities who are considering implementation of TIF tools in location-efficient areas and with a focus on affordable housing.

2. **The limited revenue potential of existing TIF tools significantly limits their ability to assist in meeting state housing goals.** Many cities in California receive relatively low shares of the one percent general property tax, which makes it unlikely that they will utilize TIF tools absent collaboration with other taxing entities. While there are examples of counties that have agreed to contribute to TIF districts, it is likely that many counties will not share the same goals or otherwise have an incentive to participate in a district. Furthermore, the amount of revenue generated by TIF is often insufficient to dedicate funds to affordable housing while also funding infrastructure needed to catalyze development.

   Recommendations:

a. Explore ways that the state might facilitate collaboration between cities, counties and other taxing entities, such as encouraging the development of county policies that allow for participation in TIF districts.

b. Explore ways to potentially leverage existing state programs and funding sources to enable use of TIF to promote location-efficient development and affordable housing in places where TIF tools alone may be insufficient. These might include:

   i. Targeting planning resources to assist local jurisdictions in conducting planning efforts that will support housing production in location-efficient areas and consider use of TIF.

   ii. Exploring ways that state infrastructure grants or loans might help to enable use of TIF tools, particularly in meeting the need for up front funding sources.

   iii. Exploring ways the state might partner to assist local jurisdictions in leveraging federal resources for planning and technical assistance or complementing TIF with federal grants or loans.

3. **EIFDs are not being used to fund affordable housing and specific TIF tools created to encourage location-efficient development and affordable housing are not being implemented.** Of the existing TIF tools, EIFDs are the most commonly used, but they are not required to target location-efficient development or fund affordable housing. Nevertheless, many of the EIFDs established to date are in location-efficient areas, and some are assisting affordable housing development in an indirect way (e.g., by providing needed infrastructure for affordable housing projects or enabling development in areas with inclusionary housing policies). NIFTI districts, meanwhile, are not being implemented because they are seen as more restrictive and less flexible than EIFDs.

   Recommendations:

   a. Explore the potential benefits of legislation that would allow the state to contribute revenues to NIFTI or other TIF districts under specific circumstances where they will further state housing and location-efficiency goals, in particular where they will align with other state programs and investments designed to focus growth over the longer term.

   b. Explore whether additional changes to state laws governing NIFTI might help to incentivize its use.

4. **Interviews conducted for this study also revealed a variety of ways that EIFD legislation might be changed or clarified to facilitate their use:**

   a. Although they have statutory authority to issue debt, EIFDs do not have constitutional authority to issue debt. The weaker language of the EIFD law, with lacks a mention of the California constitution, creates legal uncertainties that have disincentivized some jurisdictions from pursuing EIFD.

b. EIFDs would benefit a legislative change or additional guidance to provide clarity on their requirements for environmental review. In order to establish a district, practitioners are unclear about whether CEQA review is required only for the projects named in the Infrastructure Financing Plan, or whether all the private development envisioned for the district is to be included as well.

c. There appears to be an inconsistency in the language of AB 116. One part of the law mentions the IFP is approved by resolution, another mentions approval by ordinance.

d. AB 116 removed the voter requirement for issuing bonds for an EIFD, replacing the requirement with a public hearing and protest process. While interviewees agreed this change made the implementation of the district less burdensome overall, it created uncertainty for some EIFDs initiated before the change in requirement. To avoid a legal challenge, some PFAs that already followed the former implementation rules are also following the new rules.

VI. APPENDIX A: SUMMARY OF TIF TOOLS

Infrastructure Financing Districts (IFDs)

ENABLING LEGISLATION

- Established by Senate Bill 208 (1990-1991 Reg. Sess.).

LOCATIONAL REQUIREMENTS

- There are no locational requirements.

AFFORDABLE HOUSING REQUIREMENTS

- There are no affordable housing requirements.

ALLOWABLE EXPENDITURES

- Funds can be used for capital improvements such as highways, transit, water systems, sewer projects, flood control, childcare facilities, libraries, parks, and solid waste facilities.
- IFDs cannot pay for maintenance, repairs, operating costs, and services.

RULES FOR ESTABLISHMENT

- The IFD must past a two-thirds vote. If there are at least twelve registered voters within the proposed district boundaries, the vote is taken of the residents of the district. Otherwise, a vote is taken of landowners to form the district.
- There is a similar two-third voter requirement for issuing bonds.

POTENTIAL REVENUE SOURCES

- Property tax increment.

OTHER NOTES

- IFDs have a lifespan up to 30 years.

Enhanced Infrastructure Financing District (EIFD)

ENABLING LEGISLATION

- Established by SB 628 (2014-2015 Reg. Sess.) and amended by the following: AB 313 (2015-2016 Reg. Sess.), SB 1145 (2018-2019 Reg. Sess.), AB 116 (2019-2020 Reg. Sess.).

LOCATIONAL REQUIREMENTS

- None.

AFFORDABLE HOUSING REQUIREMENTS

- None.

ALLOWABLE EXPENDITURES

- EIFDs can fund the purchase, construction, or improvement of any real property with a useful life of at least 15 years inside or outside the district.[13]
- Funds can use be used for the maintenance of public facilities that are at least partially funded by the district. However, EIFDs cannot be used to finance the costs of an ongoing operation or provide services of any kind.

RULES FOR ESTABLISHMENT

- There is no voter requirement for formation.[14]
- The formation of the district can be protested during a public hearing process and halted by majority vote if an election is called by the protest.
- EIFD boundaries can be non-contiguous.

POTENTIAL REVENUE SOURCES

- Property tax increment.
- Increment from property tax in-lieu of vehicle license fees.

OTHER NOTES

- EIFDs have a lifespan of up to 45 years.

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[13] Improvements can be located outside EIFD boundaries.
[14] As of 2020, voter approval for issuing bonds is no longer required.

Infrastructure and Revitalization Financing Districts (IRFD)

ENABLING LEGISLATION

- Established by AB 229 (2014-2015 Reg. Sess.).

LOCATIONAL REQUIREMENTS

- There are no locational requirements.

AFFORDABLE HOUSING REQUIREMENTS

- There are no affordable housing requirements.

ALLOWABLE EXPENDITURES

- Funds can be used for capital improvements such as highways, transit, water systems, sewer projects, flood control, childcare facilities, libraries, parks, and solid waste facilities.
- IRFDs can also fund watershed lands, flood management, habitat and brownfield restoration and other environmental mitigation, purchase of real property for development, housing acquisition or construction or repair, commercial or industrial acquisition or construction or repair, and the repayment transfer funds into a military base reuse authority.

RULES FOR ESTABLISHMENT

- The IRFD must past a two-thirds vote. If there are at least twelve registered voters within the proposed district boundaries, the vote is taken of the residents of the district. Otherwise, a vote is taken of landowners to form the district.
- There is a similar two-third voter requirement for issuing bonds.

POTENTIAL REVENUE SOURCES

- Property tax increment.

OTHER NOTES

- IRFDs have a lifespan of up to 40 years.
- IRFDs allow for creating different “project areas” in the district, which can issue bonds secured by the entire district.
- IRFDs are allowed to annex property.

Community Revitalization and Investment Authority (CRIA)

ENABLING LEGISLATION

- Established by AB 2 (2015-2016 Reg. Sess.) and amended by AB 2492 (2016 Reg. Sess.).

LOCATIONAL REQUIREMENTS

- CRIAs may only be formed in areas that meet one of the three options below:
  1. At least 80 percent of the census tract or block groups meet criteria related to household income, unemployment, crime rate, and/or deteriorated infrastructure.
  2. Census tracts or census block groups are within a disadvantaged community, as defined by California Environmental Protection Agency to be burdened in the areas of public health and economic opportunity.
  3. An area within a former military base that has significantly deteriorated infrastructure/ structures.

AFFORDABLE HOUSING REQUIREMENTS

- CRIAs are required to set aside 25 percent of revenues for affordable housing targeted to low and moderate incomes.
- Housing funds cannot be spent on moderate-income housing at a higher proportion than the RHNA proportion for the moderate-income category.
- Housing funds cannot be spent on senior housing at a higher proportion than senior households in the community.

ALLOWABLE EXPENDITURES

- CRIAs can fund a wide range of capital improvements within its boundaries and are required to set aside funds for affordable housing.

RULES FOR ESTABLISHMENT

- CRIAs must adopt a Community Revitalization and Investment Plan to guide implementation.
- Adoption of a Plan is subject to a protest of over 50 percent of the combined number of property owners and residents in the area.

POTENTIAL REVENUE SOURCES

- Property tax increment.
- Increment from property tax in-lieu of vehicle license fees.

OTHER NOTES

- CRIAs allow for creating different "project areas" in the district, which can issue bonds secured by the entire district.
- CRIAs can exercise the power of eminent domain, land acquisition, and conveyance.

Affordable Housing Authority (AHA)

ENABLING LEGISLATION

- Established by AB 1598 (2017-2018 Reg. Sess.) and amended by AB 2035 (2017-2018 Reg. Sess.).

LOCATIONAL REQUIREMENTS

- None.

AFFORDABLE HOUSING REQUIREMENTS

- 95 percent of funds must be used to increase or preserve low and moderate-income, affordable workforce housing, and supportive/transitional housing.[15]
- Funds must be allocated by housing affordability level in proportion to the city or county's Regional Housing Needs Assessment (RHNA) requirements.

ALLOWABLE EXPENDITURES

- AHAs are for the sole purpose of financing low and moderate-income and affordable workforce housing.
- Supportive and transitional housing was included with AB 2035.
- There is no requirement to spend revenues in "blighted" areas.

RULES FOR ESTABLISHMENT

- AHAs must adopt and implement an affordable housing plan.
- Adoption of a plan is subject to majority protest.

POTENTIAL REVENUE SOURCES

- Property tax increment
- Increment from property tax in-lieu of vehicle license fee
- Sales and use tax increment

OTHER NOTES

- AHAs can exercise the power of eminent domain

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[15] No more than five percent of funds can be used for administrative costs.

Neighborhood Infill Finance and Transit District (NIFTI-1)

ENABLING LEGISLATION

- Established by AB 1568 (2017-2018 Reg. Sess.).

LOCATIONAL REQUIREMENTS

- Districts must be located in a qualified infill site.[16]

AFFORDABLE HOUSING REQUIREMENTS

- At least 20 percent of revenues must be used for the acquisition, rehabilitation, or construction of affordable housing.
- At least 20 percent of all housing constructed in the district must be affordable to low or moderate-income households.[17]

ALLOWABLE EXPENDITURES

- Districts can fund a wide range of capital improvements and are required to set aside funds for affordable housing.

RULES FOR ESTABLISHMENT

- There is no voter requirement for formation.
- The formation of the district can be protested during a public hearing process and halted by majority vote if an election is called by the protest.

POTENTIAL REVENUE SOURCES

- Property tax increment
- Increment from property tax in-lieu of vehicle license fee
- Sales and use tax increment

[16] An "infill site" is a parcel in an urbanized area and previously developed with a qualified urban use or surrounded by 75% qualified urban uses, as defined by California Public Resources Code Section 21061.3 . “Qualified urban use” means any residential, commercial, public institutional, transit or transportation passenger facility, or retail use, or any combination of those uses, as defined by California Public Resources Code Section 21072.

[17] From CA Section 53398.75.5: at least 20 percent of any new housing units constructed in the district be affordable to persons and families of low or moderate income with at least 6 percent of the new units affordable to very low-income households and at least 9 percent of the new units affordable to persons and families of low income.

Second Neighborhood Infill Finance and Transit District (NIFTI-2)

ENABLING LEGISLATION

- Established by SB 961 (2018-2019 Reg. Sess.).

LOCATIONAL REQUIREMENTS

- Districts must be located in a qualified infill site.[18]
- Districts must also be located within a half-mile of a major transit stop as defined in Government Code Section 21064.3.

AFFORDABLE HOUSING REQUIREMENTS

- At least 40 percent of revenues must be spent on affordable housing.
- Half of affordable housing funds must be allocated to housing with income thresholds less than 60% of AMI and the other half of funds must be used for housing with income thresholds at less than 30% AMI.

ALLOWABLE EXPENDITURES

- Districts can fund a wide range of capital improvements and are required to set aside funds for affordable housing.

RULES FOR ESTABLISHMENT

- There is no voter requirement for formation.
- The formation of the district can be protested during a public hearing process and halted by majority vote if an election is called by the protest.

POTENTIAL REVENUE SOURCES

- Property tax increment.
- Increment from property tax in-lieu of vehicle license fee.
- Sales and use tax increment.

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[18] An "infill site" is a parcel in an urbanized area and previously developed with a qualified urban use or surrounded by 75% qualified urban uses, as defined by California Public Resources Code Section 21061.3. “Qualified urban use” means any residential, commercial, public institutional, transit or transportation passenger facility, or retail use, or any combination of those uses, as defined by California Public Resources Code Section 21072.