California Association for
Local Economic Development

# FAQs
# on California's
# New Tax Increment
# Financing Tools

*Get answers to frequently asked questions regarding CRIAs and EIFDs*

*Compare the tools to see which one works best for your project*

*Learn how to complete projects with new tax increment financing tools to increase economic development*

*Watch for CA TIF Primer coming soon*

# FAQs on California's New Tax Increment Financing Tools

***Tax increment financing (TIF) tools work by transferring the property tax revenues that flow from a designated project area to the city, county, and other taxing entities.***

Additional tax revenue in future years (the "increment") is diverted into a separate pool, which can be used to pay for improvements directly or to pay back bonds issued against the anticipated TIF revenue.

In California, TIF has historically been used by redevelopment agencies to raise funding for infrastructure improvements, housing and other projects in redevelopment areas. However, with the dissolution of redevelopment agencies as of February 1, 2012, the traditional form of TIF is not available. New financing mechanisms such as Enhanced Infrastructure Financing Districts (EIFDs) and Community Revitalization Investment Areas (CRIAs) are opportunities for public agencies to create more economic development within your community.

CALED has created a Technical TIF Committee comprised of expert practitioners, attorneys and consultants to assist in sharing knowledge and resources to help California communities leverage these new tools. This frequently asked questions document was created to help answer some of the most common questions about California's new TIF tools. For more information, please contact CALED.

## Why am I hearing so much about EIFDs and CRIAs lately?

Enhanced Infrastructure Financing Districts (EIFDs) and Community Revitalization and Investment Authorities (CRIAs) provide local governments a way to finance certain projects with tax increment. They authorize the broadest uses of tax increment allowed in California since Redevelopment, and are therefore generating a lot of interest as replacement tools.

## How is this tax increment different from redevelopment tax increment?

In general, like redevelopment, a base year is established and increases in revenues above base year levels are tax increment. Projects can be funded through a loan or bonds secured by tax increment, or on a cash basis.

Unlike redevelopment, school districts or educational entities may not contribute their property tax share to an EIFD or a CRIA. On average, schools are collectively allocated about half of the property tax share, which reduces the maximum possible contribution of tax increment to the remaining general levy.

All non-school taxing agencies must choose whether or not to participate in the EIFDs / CRIAs. If participating, each agency can choose to allocate all or just a portion of its revenue. The greater the number of participants, the greater the funding that becomes available. Planning projects that benefit more than one taxing agency may help garner support and increase funds through the EIFD or CRIA.

## CALED Technical TIF Committee Members

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## How does the funding work in an area that was a redevelopment project area?

In short, all Recognized Obligation Payment Schedule (ROPS) debts of a Successor Agency are senior to an EIFD or CRIA. This means that while an EIFD or CRIA could be formed where redevelopment project areas exist, available revenue may be limited while old redevelopment debts are paid. This would be especially important to understand if the EIFD/CRIA intended to fund projects with bonds, where extensive due diligence must be performed to show adequate revenues.

## What can I do with the money?

Generally, in an EIFD, you may purchase, improve, develop, rehabilitate, etc. public capital facilities or projects of "communitywide significance" which include:

- Roads, transit facilities, parking facilities
- Sewer treatment/water reclamation
- Flood control
- Child care facilities, libraries, parks, recreational facilities
- Facilities for solid waste
- Brownfield restoration/mitigation, including Polanco Act powers
- Projects on former military base
- Affordable housing
- Industrial structures
- Port/Harbor infrastructure

With a CRIA, you have more flexibility to invest directly in economic development efforts in addition to infrastructure. A CRIA may fund:

- Infrastructure improvements
- Affordable housing
- Hazardous substance remediation, including Polanco Act powers
- Building and other physical improvements
- Acquisition of property for economic development purposes
- Direct business assistance for industrial and manufacturing uses
- Reuse of previously developed sites

Note that a CRIA has a 25% affordable housing set-aside requirement.

## What are the differences between an EIFD and a CRIA?

Some of the key points of these tools are highlighted in the table below. It's important to think through what you hope to accomplish, as each tool has varied advantages and disadvantages.

| | EIFD | CRIA |
|---|---|---|
| ***Governing Body*** | Public Finance Authority | Community Revitalization Investment Authority |
| ***Qualification Criteria for area*** | No | Yes – median income requirements and certain economic indicators |
| ***Voter approval to form District*** | No | If 25-50% of property owners/residents protest, an election must he held. If more than 50% protest, adoption proceedings are terminated |
| ***Planning Documents Required*** | Infrastructure Financing Plan | Community Revitalization and Investment Plan |
| ***Other Formation Requirements*** | If a redevelopment project area is involved, Successor Agency must meet certain requirements including finding of completion | If City or County involved has a Successor Agency, the SA must meet certain requirements including finding of completion |
| ***Duration*** | Max 45 years from approval to issue bonds | Max 45 years from formation |
| ***Reporting Requirements*** | Audit every 2 years after issuance of bond debt | Substantive annual report; five year audit of housing expenditures; ten year protest proceeding which can stop all further action with majority protest |
| ***Affordable Housing Set-Aside*** | No, but can build/rehab units if affordability covenants exist or are instated | Yes, 25% of tax increment |
| ***Inclusionary Housing Requirement*** | If housing is financed, units restricted to low and moderate income | Covenants: 55-year rental, 45-year owner occupied, 15-year mutual self-help. Proportional expenditure limits apply. |
| ***Voter Approval to Issue Bonds*** | Yes – 55% | No |

For a more extensive comparison, see CALED's Tax Increment Financing Tools Comparison Chart

# FAQs on California's New Tax Increment Financing Tools

## What should I consider before escalating the idea further?

1. Identify types of projects you would want to get done
   a. Are they a better fit for an EIFD or a CRIA?
   b. Will another taxing agency/agencies partner with you to support those projects?
   c. Are there other funding sources to leverage?
2. Determine ideal boundary alternatives
   a. Is there the potential for growth that will generate tax increment for investment?
   b. Is there a redevelopment project area already in existence there?
   c. If a CRIA, does the area qualify?
   d. Are there significant residential uses, and if so, will residents support bond issuance for an EIFD or approval of the formation of a CRIA?
3. Perform a back-of-the-envelope analysis to determine the revenue potential. This cursory look could be done as follows:

| STEP | EXAMPLE |
|---|---|
| Identify tax rate areas that roughly reflect the potential EIFD or CRIA | TRAs 10001 and 10002 approximate our ideal boundaries |
| Obtain assessed value reports by tax rate area from the Auditor Controller | Combined TRAs assessed value = $10,000,000 |
| Assume an annual assessed value growth rate, and add in any potential development to identify future increment above current assessed value | 3% annual growth rate, no new development<br>Year 1: $10M x 3% = new assessed value of $10,300,000<br>Incremental assessed value:<br>$10.3M – $10M (base) = $300,000 |
| Multiply annual increment by 1%, then by the general levy share you anticipate can be achieved (e.g. city only, city and county, city and special district) | Incremental revenue: $300,000 x 1% = $3,000<br>Assume City and County participate with combined levy share of 25%<br>$3,000 x 25% = $750 collected in Year 1 |
| Project for 45 years (for estimating purposes) to determine gross increment | Repeat calculation:<br>Year 2: $10,300,000 AV x 3%, less base, etc. |

4. Up front funding to initiate an EIFD or CRIA could be expensive, including staff time, consultants, special counsel, etc. At a minimum, you will need to consider costs and time for:
   a. More in-depth revenue estimates to determine fiscal feasibility
   b. Outreach and negotiations with taxing agencies
   c. Formation of Public Finance Authority / JPA if necessary
   d. Drafting of Plan for adoption – note that both the Infrastructure Financing Plan and the Community Revitalization and Investment Plan are substantive documents, and are subject to CEQA.
   e. In the case of a CRIA, the project could result in the need for a vote.
5. Can your general fund absorb growing costs of service delivery while giving up a portion of its revenue to an EIFD or CRIA?
6. Are potential projects already captured by other CEQA documentation, or can they be? For example, an EIR for a general plan update could double as the necessary documentation for an EIFD/CRIA if planned in advance.
7. When do you expect your redevelopment project area to expire, and is it an area still needing investment? Setting up an EIFD or CRIA now may put a tool in place you can leverage more later.

EIFDs and CRIAs are tools for entrepreneurial cities and counties that see an opportunity to leverage tax increment for the benefit of their communities. Yes, these tools probably aren't a silver bullet for the many issues that face us, and yes, initiating these efforts seems a bit daunting. However, Redevelopment – as we once knew it – was tough to get going as well. We learned, we got better at it, and have some really good examples of public investment and partnership throughout the state as a result. We can take those lessons and apply them here. You might already have projects in mind that could benefit from these districts; and if you don't, consider that we may see a revolution in land use, transportation, and environmental stewardship over the next 25 years. Putting these tools in place now may be just a part of preparing for the future.

# Tax Increment Financing Tools Comparison Chart

This chart was created by CALED's Tax Increment Financing Technical Committee to provide a summary of key similarities and differences between Enhanced Infrastructure Financing Districts (EIFDs), Community Revitalization Investment Authorities (CRIAs), and former Redevelopment Agencies (RDAs). To obtain more information and technical assistance on tax increment financing tools available to California cities and counties, visit *www.caled.org*.

## Powers

| TOPIC | RDA | EIFD | CRIA |
|---|---|---|---|
| ***Infrastructure Financing*** | Yes, if no other reasonable means of financing available | Yes, for public capital facilities and projects of communitywide significance | Yes |
| ***Land Acquisition*** | Yes (may acquire itself or finance acquisition) | Yes (finance acquisition only) | Yes (may acquire itself or finance acquisition) |
| ***Eminent Domain*** | Yes – 12 year limit | No | Yes – 12 year limit |
| ***Land Conveyance*** | Yes | No | Yes |
| ***Environmental Remediation*** | Yes | Yes | Yes |
| ***Affordable Housing*** | Yes | Yes | Yes |
| ***Private Commercial Rehabilitation*** | Yes, for commercial rehabilitation loans and industrial/ manufacturing financing | Yes, for acquisition, construction or repair of industrial structures | Yes |
| ***Maintenance, Operations and Services*** | No | No | No |

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# Tax Increment Financing Tools Comparison Chart

## Formation

| TOPIC | RDA | EIFD | CRIA |
|---|---|---|---|
| ***Blight Finding*** | Yes | No | 80% of revitalization area income must be less than 80% statewide median income<br>Must also meet 3 of 4 tests:<br>1. unemployment rate 3% higher than state rate<br>2. crime rate 5% higher than state rate<br>3. deteriorated/inadequate infrastructure<br>4. deteriorated commercial and residential buildings |
| ***Urbanization Finding*** | Yes | No | No |
| ***Relationship with RDA*** | - | • EIFD may include former redevelopment project area<br>• Successor Agency must have Finding of Completion for RDA project, RDA litigation must be resolved, Controller review must be complete | • CRIA may include former redevelopment project area<br>• Successor Agency must have Finding of Completion for RDA project, RDA litigation must be resolved, Controller review must be complete |
| ***Citizen Committee Review*** | Yes – if residential eminent domain allowed | No | Voter protest hearing |
| ***Governing Board*** | Usually same as City Council/ County Board that established RDA | • Governing board is separate public financing authority<br>• If one taxing entity: 3 members of entity's legislative body + 2 public members<br>• If multiple taxing entities: majority of members of each entity's legislative body + 2 public members | • If one taxing entity: 3 members of entity's legislative body + 2 public members<br>• If multiple taxing entities: majority of members of each entity's legislative body + 2 public members |
| ***Noticed Public Hearing*** | Yes | Yes | Yes – 3 hearings |
| ***Preparation of Plan*** | Yes – Redevelopment Plan | Yes – Infrastructure Financing Plan | Yes – Community Revitalization and Investment Plan |
| ***Public Agency Vote*** | Simple Majority | Simple Majority | Simple Majority |
| ***Voter Approval of Formation*** | No | No | Yes, if 25 – 50% of voters protest at public hearing |
| ***CEQA*** | Yes – EIR | Yes (may be covered by CEQA documentation for project) | Yes (may be covered by CEQA documentation for project) |

# Tax Increment Financing Tools Comparison Chart

## Financing

| TOPIC | RDA | EIFD | CRIA |
|---|---|---|---|
| ***Property Tax Increment*** | Yes – mandatory for all taxing agencies | Yes – only for consenting taxing agencies; education districts may not consent | Yes – only for consenting taxing agencies; education districts may not consent |
| ***Amount of Tax Increment to District*** | All | All or portions of consenting agencies' share as designated in plan | All or portions of consenting agencies' share as designated in plan |
| ***Issuance of Tax Allocation Bonds*** | Yes | Yes | Yes |
| ***Vote for Bond Issuance*** | RDA Board – Simple majority | IFD Board – simple majority + District Voters – 55% majority | No (issuance of bonds provided for in plan adopted by Authority) |
| ***Term*** | Up to 45 years receipt of taxes to repay debt | Up to 45 years from issuance of bonds | Up to 45 years from district formation |
| ***Relationship to RDA Debt*** | - | Subordinate to RDA enforceable obligations | Subordinate to RDA enforceable obligations |

## Special Requirements

| TOPIC | RDA | EIFD | CRIA |
|---|---|---|---|
| ***Mandatory Expenditure for Affordable Housing*** | Yes – 20% of funds | No | Yes – 25% of funds |
| ***Inclusionary Housing*** | Yes – 15% of privately developed housing, 30% of RDA developed housing | Yes – 100% of EIFD financed housing | Yes – 15% of privately developed housing, 30% of CRIA developed housing |
| ***Replacement Housing*** | Yes | Yes | Yes |
| ***Relocation*** | Yes | Yes | Yes |
| ***Owner Participation Rights*** | Yes | No | No |
| ***Restriction on Assistance to Big Box Stores and Auto Dealers*** | Yes | No | Yes |
| ***Prevailing Wages*** | • Required for RDA's own projects<br>• For assistance to other projects, depends on form of assistance | Depends on form of assistance | Depends on form of assistance |
| ***Tax Sharing Payments to Other Taxing Agencies*** | Yes – Required for 1994-2011 plans, permitted for pre-1994 plans | No | No |

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  - Revitalizing & Developing Infill Areas: West Sacramento Case Study.
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  - From Application to Approval: The process and politics of getting a project through completion.
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**Published By:**

California Association for Local Economic Development
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