Primer on California's Tax Increment Financing Tools 2nd Edition

Complete projects with tax increment financing tools to further your economic development goals.

California Association for Local Economic Development

2023 2nd Edition

Acknowledgments

The California Association for Local Economic Development (CALED) initiated this primer because we saw a need to help California jurisdictions understand some of the basics of using Enhanced Infrastructure Finance Districts (EIFDs) and Community Revitalization Investment Areas (CRIAs) to meet their economic development goals. As legislation over the past few years, some of it CALED-sponsored, improved and updated tax-increment financing tools, CALED saw a need to update the primer.

This primer update is the result of the combined effort of many individuals, and we appreciate all their contributions. Completion of this update could not have been possible without the contributions of the Economic Development Finance & Real Estate (EDFRE) Committee, the leadership of the Co-Chairs, Denise Malvetti and Jim Simon, and the coordination of the CALED Program Director, Michelle Stephens. We are also grateful for the financial support provided by the California Enterprise Development Authority.

About CALED

CALED is the premier statewide professional economic development organization dedicated to advancing its members' ability to achieve excellence in delivering economic development services to their communities and business clients.

Economic development is the creation of wealth in which community benefits are realized. It is more than a jobs program, it's an investment in growing your economy and enhancing the quality of life for all residents.

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Executive Summary

Several tax increment financing tools are available today in California to assist local communities with generating revenue to invest in economic development, infrastructure, affordable housing, and other development projects. Of the tools most often considered, Enhanced Infrastructure Financing Districts (EIFDs) and Community Revitalization and Investment Authorities (CRIAs) authorize the broadest uses of tax increment financing allowed in California. Cities and counties are increasingly exploring the adoption of these and other tax increment financing tools. While some opt to use these tools as an individual agency, others join in combined efforts with other local agencies to bring more financial resources to bear.

The California Association for Local Economic Development (CALED) created a technical committee on tax increment financing (TIF) comprised of expert practitioners, attorneys, and consultants to share knowledge and resources to help communities leverage these tools. This primer was prepared by CALED's technical committee members to give local governments and economic development organizations a practical guide to various tax increment financing tools, with an emphasis on EIFDs and CRIAs, to assist in the deployment of these emerging tools. Nothing in this primer should be construed as legal advice. Local governments should consult their attorneys when interpreting these laws.

This is the second edition of CALED's TIF Primer and is being updated to reflect both the evolving experience of practitioners with EIFDs and CRIAs and recent legislation effective as of January 1, 2023. Collectively, this primer incorporates the contents of legislative measures affecting EIFDs and CRIAs.

CALED will continue to issue periodic updates to this primer to reflect relevant legislation and highlight innovative uses of these tools to advance infrastructure, community, and economic development throughout California.

Legislation Impacting EIFD and CRIAs

- **SB 628 (Beall, 2014**) Established EIFD Law
- **AB 313 (Atkins, 2015**) Made Several Clarifying Amendments to EIFD Law
- **AB 2 (Alejo), 2015**) Established CRIA Law
- **AB 2942 (Alejo, 2016**) Made Several Clarifying Amendments to CRIA Law
- **AB 1568 (Bloom, 2017**) Established EIFD-Related Neighborhood Infill Finance and Transit Improvement Act (Known as NIFTI-1)
- **SB 961 (Allen, 2018**) Established EIFD-Related Second Neighborhood Infill Finance and Transit Improvement Act (Known as NIFTI-2)
- **SB 1145 (Leyva, 2018**) Made Changes to EIFD Law
- **AB 116 (Ting, 2019**) Made Changes to EIFD Law
- **SB 780 (Cortese, 2021**) Contained Comprehensive Amendments to EIFD and CRIA Law
- **SB 852 (Dodd, 2022**) Authorized EIFD-Related Climate Resilience Districts

Other Tax Increment Tools:

- **SB 308 (Seymour,1990**) Infrastructure Finance District Law
- **AB 229 (Perez, 2014**) Infrastructure and Revitalization Financing Districts
- **SB 63 (Hall, 2015**) Seaport Infrastructure Financing Districts
- **AB 1598 (Mullin, 2017**) Affordable Housing Authorities

CHAPTER I

Introduction to Tax Increment Financing (TIF)

Property Tax Basics

The California Constitution defines how property is taxed in the state and is primarily based upon the 1978 voter initiative Proposition 13, or "Prop 13" as it is commonly called. In broad terms, the county assessor determines the value of real property, and taxes are levied annually upon that property at a rate equal to one percent (1%) of its value.

Example of How Property is Taxed:

Assessed Value:	*$1,000,000*
General Tax Levy:	*1%*
Tax Revenue Generated:	*$10,000*

For most communities, property tax revenues are largely generated by secured properties (includes land and structures), with some value coming from unsecured properties (includes machinery, equipment, aircraft, and boats).

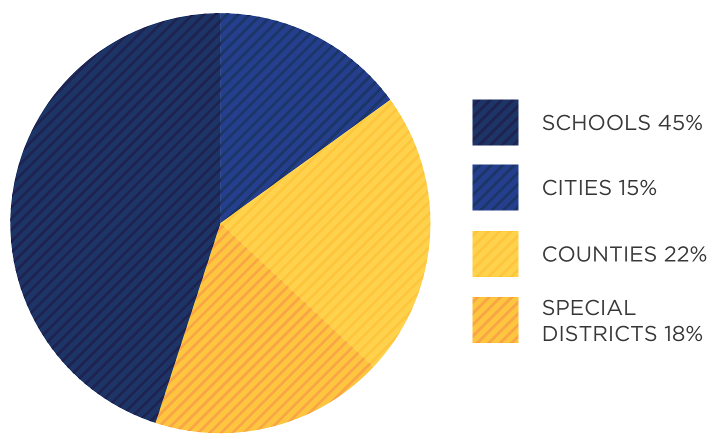
The county assessor establishes the initial value of a property when it is purchased or constructed. When a property is purchased, the assessed value is equal to the acquisition price, also known as the market value. Each year following acquisition, pursuant to Prop 13, the assessed value of the property can increase up to a maximum of two (2) percent per year. Thus, if a property is held for a long time and its market value increases at a faster rate than two percent, its assessed value will be below its market value. This two percent inflationary limitation means that the largest increases in assessed value come from (a) new development that triggers reassessment, or (b) property sale when the property is reassessed to the current market value.

The annual inflationary rate for property is determined by the State Board of Equalization, based on changes to the consumer price index. In most years, the consumer price index increases by more than two percent, so the maximum two percent inflationary rate is applied to the assessed value of a secured property. The rate can be lower, however, or even negative, as was the case during the recession years.

Property Tax Allocation

Property tax revenues are allocated under a formula rooted in Assembly Bill 8 (1979) that followed the passage of Prop 13. Under AB 8, each year the county auditor controller sets the property tax general levy shares for each taxing agency, based on the statutory formula (AB 8 Share). Property taxes generated by the one percent general levy are collected by the county's tax collector, then allocated to taxing entities according to their AB 8 shares.

Shares tend to remain relatively consistent from year to year. A typical allocation of funding among taxing agencies in California looks something like the graphic below but varies from place to place. Most notably, cities that incorporated after the passage of Prop 13 tend to have a smaller share of the general levy compared to older cities.



Example of Property Tax Allocation:

Property Tax Generated:	*$10,000*
Schools Receive 45%	*$4,500*
County Receives 22%	*$2,200*
Special Districts Receive 18%	*$1,800*
City Receives 15%	*$1,500*

[1] *County assessors establish assessed value of property with some limited exceptions, primarily affecting utility and railway values that are determined by the state Board of Equalization.*

Roots of Tax Increment

Stretching back to the New Deal programs that infused federal funding into infrastructure and redevelopment projects, cities have looked for ways to ameliorate blight in deteriorating neighborhoods using resources not otherwise available to them. The concept of tax increment financing blossomed in California in the 1950s, when the federal government was offering substantial urban renewal grants to communities that could come up with matching funds. Several California local governments decided to sell bonds secured by the future growth "increment" of property tax revenues they thought would result from the federal investment, and the idea worked.

By the 1970s, however, following a backlash against poor execution of many urban renewal projects, the federal government largely abandoned local redevelopment investment, leaving cities in a struggle to fund roads and services while fending off the impacts of poverty, crime, and building deterioration in aging communities. Many cities and counties reacted – in part - by increasing property taxes to fund services, a practice that led to Prop 13. With the restructured property tax system and lack of state and federal support, California local governments retooled, and tax increment financing became increasingly common in the 1980s and 1990s through the formation of redevelopment agencies. In 2011, concerns over the State's budgetary obligation to backfill diverted property tax funds for local school districts led to the dissolution of redevelopment agencies.

How Tax Increment is Generated

Tax increment is property tax revenue generated above an established "base year" value. This means that for increment to be available, assessed values must increase over the base year value.

Example

Base Year Assessed Value:	*$1,000,000*
Assumed Inflationary Increase Following Year:	*2%*
First Year After Base Year Assessed Value:	*$1,020,000*
Incremental Value (Current Year Less Base Year):	*$20,000*
General Levy	*1%*
Incremental Revenue Generated	*$200*

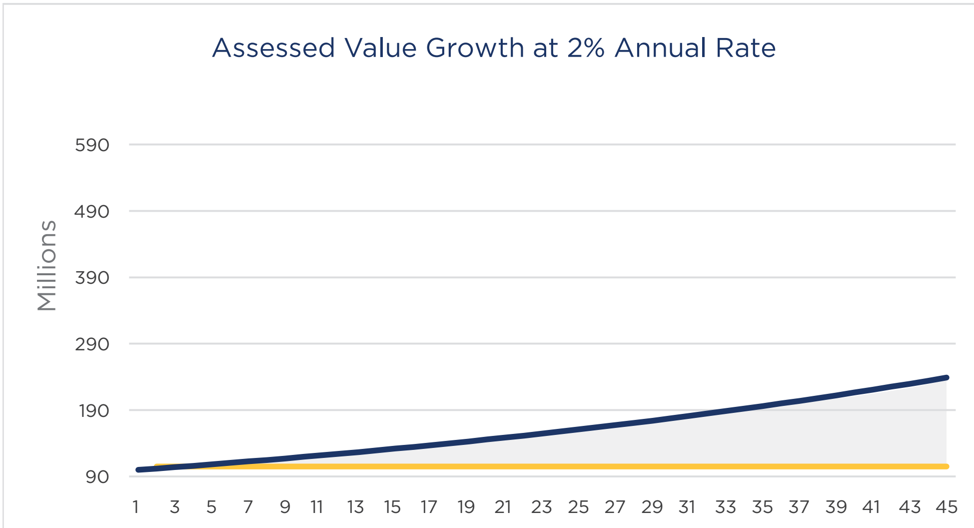
The founding principle from the 1950s-era federal program is that if investments are made into a specific area, assessed values will increase more rapidly through new development and property sales, which, in turn, triggers a property tax reassessment of their value and generates more revenue for local agencies. The following outlines an example how this works:

- An older, run-down commercial area has poor drainage, roads in disrepair, and businesses have left. Thus, the value of the land is depressed, and buildings suffer from lack of upkeep.
- The local government invests significant capital to upgrade the road and install storm water drains to prevent flooding, making the area more attractive to users.
- Developers and other private sector interests begin to invest in the area through improvements to existing buildings and new construction — businesses start to locate there again, and property values increase.
- Owners of improved buildings can now charge higher rents, motivating neighboring property owners to fix their buildings as well, until the area — that once was vacant and run down — is now on par (or better) than other nearby areas.
- Property values continue to increase within the affected area, generating more property tax revenue.

What Does Tax Increment Look Like Over Time?

The following are two examples of what property tax increment growth might look like over 45 years in an area with a base year assessed value of $100 million.

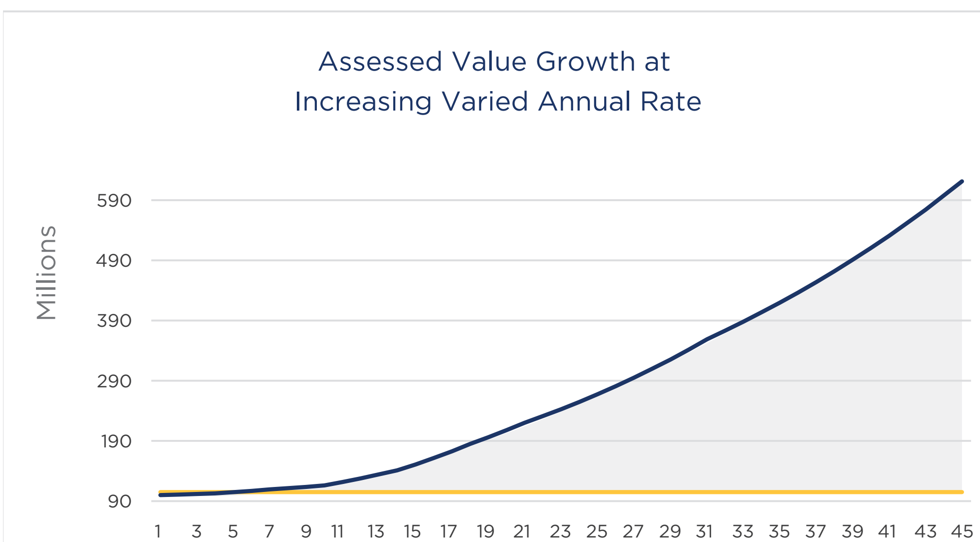
- In the first example, the assessed values grow by two percent each year without fail, which is optimistic for a truly depressed area. This results in $25 million of tax increment revenue over 45 years.
- In the second example, the area is assumed to have new development fostered by public investment, e.g. installation of a new road and storm drains. In this case, a faster rate of assessed value growth is projected, generating $80 million in tax increment revenue over the 45 years.



Base Year Value:
$100,000,000

Assessed Value Growth:
2% Per Year

Total Tax Increment Revenue in 45 Years:
$25 Million



Base Year Value:
$100,000,000

Assessed Value Growth:
Varied, with New Growth

Total Tax Increment Revenue in 45 Years:
$80 Million

CHAPTER I Introduction to Tax Increment Financing (TIF)

EIFDs and CRIAs – Emerging Financing Options in California

Adopted in 2014 and 2015 respectively, EIFDs and CRIAs have emerged as key tools for California communities to collaboratively fund regionally significant infrastructure and public facilities using tax increment financing. Desired for their flexibility, EIFDs have become a popular tool across the state with over 20 districts formed. While no CRIAs have been adopted yet, this financing mechanism is garnering more attention for its ability to use eminent domain to assemble land and revitalize economically burdened communities.

As communities gain interest in these tools, CALED and partners have worked together to amend and improve these mechanisms to ease adoption and implementation. The remainder of this document is dedicated to describing the most recent updates to these tools, and how public agencies are using them to advance community and economic development goals.

EIFDs in California as of August 2022

TIF District Name	Location	County	Transport & Parking	Housing	Water, Sewer & Drainage	Parks & Rec.	Public Safety	Other
West Sacramento EIFD No. 1	City of West Sacramento	Yolo	●	●	●	●		●
San Diego Otay Mesa EIFD	City of San Diego	San Diego	●		●	●	●	●
Riverstone EIFD No. 2018-3	County of Madera	Madera	●			●		
Tesoro Viejo EIFD No. 2018-1	County of Madera	Madera	●			●		●
Sacramento Stadium Area EIFD	City of Sacramento	Sacramento	●		●			
Crows Landing Industrial Business Park EIFD	Stanislaus County	Stanislaus	●		●			
La Verne EIFD	City of La Verne	Los Angeles	●		●			●
Fresno EIFD	City of Fresno	Fresno	●					
Placentia EIFD	City of Placentia	Orange	●		●			●
Riverwalk EIFD No. 2020-1	County of Madera	Madera	●			●		
West Carson EIFD	County of Los Angeles	Los Angeles	●	●		●		●
Aggie Square EIFD	City of Sacramento	Sacramento	●	●	●	●		●
Temecula Valley Wine Country EIFD	County of Riverside	Riverside	●			●		●
Palmdale EIFD	City of Palmdale	Los Angeles	●		●	●		●
Humboldt County Samoa Peninsula EIFD	County of Humboldt	Humboldt						●

Transport & Parking · Housing · Water, Sewer & Drainage · Parks & Rec. · Public Safety · Other

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These charts were created by CALED's Economic Development, Finance, and Real Estate (EDFRE) Committee.
Learn more about EDFRE at https://caled.org/everything-ed/caleds-economic-development-finance-real-estate-committee/

CHAPTER 2

Enhanced Infrastructure Financing Districts (EIFDs)

Overview

A number of different types of infrastructure districts have recently been approved by the California Legislature, the most prominent of which was the creation of Enhanced Infrastructure Financing Districts (EIFDs), authorized by State legislation enacted by SB 628 in 2014, and since amended by multiple other bills, including SB 780 of 2021. The statutory framework for EIFDs is found in Government Code §53398.50, et seq.

Eligible Projects

Traditional Uses:

EIFDs are empowered to provide financing for a broad range of infrastructure work, including traditional public works such as:

- roads and highways
- bridges
- parking facilities
- transit stations
- sewage and water facilities
- solid waste disposal
- port and harbor projects
- parks
- libraries
- childcare facilities
- flood control and drainage projects

Other Uses:

EIFDs may also finance a broader range of public uses for economic development purposes, including but not limited to:

- brownfield restoration and environmental mitigation
- military base reuse projects
- affordable housing
- mixed income residential and mixed-use projects
- private industrial buildings
- transit oriented development projects
- projects carrying out a sustainable communities strategy
- commercial structures for purposes of fostering small business COVID-19 recovery
- facilities for health, youth, homeless and social services
- remediation of contaminated property through the Polanco Redevelopment Act

Other capital projects with a useful life of at least 15 years are also eligible. The financed projects do not need to be located within the EIFD boundaries but must have a "tangible connection" to the district.

Eligible Costs:

An EIFD may finance a variety of activities, including:

1. The purchase, construction, expansion, improvement, seismic retrofit, or rehabilitation of any real or other tangible property with an estimated useful life of 15 years or longer of public capital facilities or other specified projects of communitywide significance that provide significant benefits to the district or the surrounding community. The facilities are not required to be physically located within the boundaries of the district. However, any facilities financed outside of a district shall have a tangible connection to the work of the district.
2. Planning and design work directly related to the purchase, construction, expansion, or rehabilitation of property.
3. Ongoing or capitalized costs to maintain public capital facilities financed in whole or in part by the district; however, bond proceeds may not be used for this purpose. A district shall not finance the costs of an ongoing operation or providing services of any kind.
4. Replacement of dwelling units occupied by very low-, low-, or moderate-income households removed or destroyed by district-related activities.

(See Sec. 53398.52 for more details)

CHAPTER 2

Enhanced Infrastructure Financing Districts (EIFDs)

Bills amending EIFD Law since enacted by SB 628 (Beall), Ch. 785, of 2014, include:

- **AB 313 (Atkins)**, Ch. 320, of 2015, includes various clarifications, including that EIFDs were not subject to Constitutional Art. XIII B appropriations provisions.
- **SB 63 (Hall)** Ch. 793 of 2015, authorizes an EIFD to finance improvements to port or harbor infrastructure.
- **AB 733 (Berman)**, Ch. 657, of 2017, authorizes EIFDs to finance projects addressing impacts of climate change.
- **AB 1568 (Bloom)** Ch. 562 of 2017, authorizes NIFTI (1), the Neighborhood Infill Finance and Transportation Improvements Act, which allows an EIFDs to access local sales tax revenue if agreeing to construct specified affordable housing in a district that is conterminous with the boundaries of the city or county establishing the district.
- **SB 540 (Roth)** Ch 369 of 2017, authorizes an EIFD or a CRIA to finance infrastructure within a Workforce Housing Opportunity Zone.
- **AB 1999 (Chau)** Ch 963 of 2018, authorizes an EIFD to finance projects which improve broadband services.
- **SB 1145 (Leyva)** Ch. 563 of 2018, authorizes EIFDs to fund maintenance of capital facilities financed in whole or part by the district.
- **SB 1498 (Sen. Local Government Committee)** Ch. 467 of 2018, contains several technical clarifications.
- **AB 116 (Ting)** Ch. 656 of 2019, authorizes EIFDs to issue bonds without a public vote if the formation of the entity complies with enhanced transparency requirements applied to the formation of CRIAs.
- **SB 961 (Allen)** Ch. 559 of 2019, authorizes NIFTI (2), the Second Neighborhood Infill Finance and Transportation Improvements Act, which allows EIFDs to access local sales tax revenue if agreeing to construct specified transit oriented development meeting significant affordable housing and other requirements in a district that is conterminous with the boundaries of the city or county establishing the district. This measure also included a provision to not require a public vote for debt issuance in exchange for enhanced transparency upon formation.
- **AB 1657 (Garcia)** Ch. 271 of 2020, establishes a blue ribbon commission to make recommendations on enhancing lithium extraction, including through the use of EIFD or CRIA financing tools.
- **AB 336 (Villapudua)** Ch. 22, Statutes of 2021, clarifies that a member of a legislative body of a participating affected taxing agency who serves on the EIFD's governing body may also serve on the governing body of a joint-powers agency.
- **AB 464 (Mullin)**, Ch. 25 of 2021, authorized an EIFD to fund the acquisition, construction or repair of COVID-impacted small businesses structures. The bill also allows an EIFD to assist non-profits providing health, homelessness, or social services.
- **SB 780 (Cortese)**, Ch. 391 of 2021, contains numerous changes to improve the governance and operation of EIFDs and CRIAs.
- **SB 852 (Dodd)** Ch 226 of 2022, authorized the creation of Climate Resilience Districts, which are deemed to also be an EIFD, and relies on many EIFD processes for formation and operation.
- **SB 1380 (Sen. Judiciary Committee)**, Ch. 78, Sec. 72, of 2022, made technical clarifications included in annual maintenance of the codes omnibus bill.
- **AB 2780 (Arambula)** Ch. 598, of 2022, authorizes the City of Selma to form an EIFD if it satisfies required payments associated with the dissolution of its former redevelopment agency.

Tax Increment, Property Tax in Lieu of VLF, and EIFDs

Unlike redevelopment agencies, EIFDs are only able to collect property tax increment from cities, counties, and special districts that voluntarily agree to contribute those funds, and cannot collect tax increment from K-12 school districts, community college districts, and county offices of education. Cities, counties, and special districts, which are generally allocated close to half of the property tax of an area, may agree to contribute all or part of their tax increment to the EIFD for up to 45 years. If the affected city, county, and special districts agree to participate, the potential tax increment that can be generated for an EIFD is substantial, but will be less if all taxing entities do not agree to participate.

Formation

Forming an EIFD

A city or county may propose one or more EIFDs within its territorial jurisdiction. Unlike former redevelopment, there are no geographic limitations on the size of the district or a required finding that the area of the infrastructure district is blighted or urbanized. Post formation amendments may be made in compliance with applicable formation procedures outlined below.

The main steps to get started:

1. **Initial Meeting:** An initial meeting where the sponsoring agency (County Board of Supervisors or City Council) adopts a Resolution of Intention to begin the process, and forms a Public Financing Authority (PFA) to govern the EIFD process. A notice of this resolution's adoption is sent to district landowners and the other taxing agencies. Each participating taxing entity may then adopt a resolution of intention to participate.
2. **PFA meeting:** PFA adopts a resolution that directs the preparation of the Infrastructure Financing Plan (IFP) and other administrative tasks.
3. **Infrastructure Financing Plan:** An IFP is then prepared by the PFA and sent to district landowners and the other taxing agencies for review (see details below). The IFP is the heart of the EIFD formation process, serving as a detailed business plan for carrying out the work of the district.
4. **PFA Meeting where IFP is presented:** The PFA then holds a noticed meeting where the IFP plan is presented and answers any questions from the public.
5. **Series of Three Public Hearings:** PFA proceeds with holding three noticed public hearings at least thirty days apart. Each hearing has separate mailing, publication, and posting requirements. **Landowners, taxing entities, and residents within the EIFD receive mailed notices.** The mailed notice for the meeting identified in step 4 and the first public hearing may be combined as one notice. Notices must show where the IFP is made available on the EIFD website and where copies are available.
6. **Details on Public Hearings:** At the first public hearing no action is taken. At the second public hearing, comments are considered and the PFA may take action to modify or reject the IFP. If insufficient protests are received at the third public hearing, the PFA may adopt the IFP and establish the EIFD. Insufficient protest constitutes less than 25 percent of the combined number of landowners and residents. If between 25 percent and 50 percent of the combined number of landowners and residents protest, then an election is called as to the formation of the EIFD. If over 50 percent protest, then the proceeding is halted.
7. **Adoption of IFP following Third Public Hearing:** Each participating taxing agency must pass its own resolution of approval prior to this third public hearing.
8. **Annual Report Requirements:** Prior to June 30 of each year, the PFA must hold a public hearing and adopt an annual report. The annual report shall contain a description of projects undertaken, tax increment revenues received, status of projects, comparison of actual revenues and expenses. PFA may not spend any funds received unless the annual report is adopted. The PFA shall also adopt an annual audit.

Structure of the PFA

The EIFD is a separate legal entity. This separate structure insulates the sponsoring agencies from liability for contracts and bonds of the EIFD because a debt of the district is not a general obligation of the city, county, or special district participating in the EIFD.

The EIFD law requires public participation in the governance of an EIFD, mandating that the board of the PFA include at least two public members in addition to members of the legislative bodies of the public agencies that form the district.

If the EIFD is formed by a single public agency, three members of the PFA board must be legislative members of the sponsoring agency (i.e., city council or county supervisors) and alternates are allowed.

If there are two or more sponsoring agencies, a majority of the PFA board will be comprised of legislative members of the sponsoring agencies plus two members of the public.

If there are three or more participating agencies, the participating taxing entities may agree to appoint one member and one alternate member of their respective legislative bodies plus two public members.

Preparing an IFP for an EIFD

After the adoption of a resolution of intention to establish an EIFD, the next major step in the formation process is preparing an IFP. The IFP is the core governing document of the district and includes the following elements:

- the list of facilities to be funded by the EIFD
- the tax revenues to be allocated to the EIFD
- a cap on the portion of tax increment to be allocated to the EIFD
- a cap on the total dollar amount of taxes to be dedicated to the EIFD
- the anticipated fiscal impacts to participating taxing agencies
- The IFP may be designed to have project areas with unique end dates when the 45-year term will conclude, which may be any of the following:
    - 45-years from the date a participating local agency approved a loan to the EIFD.
    - 45 years from the date an EIFD's bond issuance is approved.
    - 45 years from the date when an EIFD, which is divided into project areas, receives more than $100,000 in annual tax increment revenue from a designated project area. Each project area may have a separate and unique time limit.

Contents of the IFP

An overriding requirement of the IFP is that it be consistent with the general plan (and the specific plan as applicable) of the governing city or county. The required contents of the IFP are provided in Government Code Section 53398.63 and consist of the following:

1. **A map and legal description of the proposed district.** The properties within the proposed district may include non-contiguous properties and may include all or only a portion of the district properties designated in the resolution of intention.
2. **A description of the public facilities and other forms of development or financial assistance that are proposed in the district area.** The district will only be permitted to fund improvements that are listed in the IFP, so it is important to identify all improvements that the district may potentially want to finance with EIFD revenues. The EIFD statute requires a more detailed description of facilities to be funded with tax increment revenues than were generally provided in redevelopment plans. The EIFD statute requires that the description include the proposed location, timing, and cost of the facilities, development, and financial assistance. The code also requires that all facilities, development, and financial assistance that are being provided in the area of the district be described, including:
    a. facilities to be provided by the private sector;
    b. facilities to be provided by governmental agencies without EIFD funding;
    c. facilities to be financed with EIFD revenues; and
    d. facilities to be provided jointly (by private sector and governmental agencies).

    A good approach to addressing these requirements is to include both a narrative description and a matrix chart in the IFP that lists each facility, development, and financial assistance, its cost, schedule, and location, and then identifies the mix of funding sources. The IFP is not required to quantify the mix of funding sources to be used to finance each public facility, just the cost of the improvement and the conceptual mix of funding sources.
3. **If funding from affected taxing entities is incorporated into the financing plan, a finding that the development and financial assistance are of communitywide significance and provide significant benefits to an area larger than the area of the district is needed.** The EIFD statute does not define "communitywide significance" or how to measure "significant

benefits." IFPs have included a narrative description of the benefits that will accrue to the broader community to be created by the development in the district and the proposed facilities to be funded by the EIFD.

4. **A financing section, which shall contain all the following information:**

   a. **Maximum commitment of tax increment.** The plan must specify the maximum portion of the incremental tax revenue of the city/county that each affected taxing entity proposes to commit to the district for each year during which the district will receive incremental tax revenue. This is a policy decision of each participating taxing agency that may be informed by the findings of the fiscal impact analysis and/or other considerations. It is advantageous to the district for the maximum percentage to be established at 100 percent, but it can be less than 100 percent. The IFP can also specify a different maximum for each year of the EIFD, and each taxing agency can prescribe its own schedule of annual maximum portions. The maximum portion that is stated in the IFP represents a cap on the portion that may be deposited in any given year but does not represent an obligatory contribution. As part of its annual budget-setting process, the city/county and any participating taxing agencies may decide in any given year to deposit a portion that is less than the maximum (unless the district has issued bonds whose repayment is secured by a specific deposit of property tax increment to the district).

   b. **A projection of tax revenues to be received by the district on an annual basis over the term of the EIFD.** The IFP is required to provide an annual projection of the tax increment as well as any other public tax revenues to be deposited into the district. Examples of other tax revenues include property taxes in-lieu of motor vehicle license fees (VLF revenue), CFD taxes, net available revenue from the Successor Agency's Redevelopment Property Tax Trust Fund, assessment district funds, etc. Local sales taxes may not be contributed unless the EIFD boundaries are coterminous with the boundaries of the forming city or county, and the EIFD dedicates revenues to affordable housing under either of the Neighborhood Infill Finance and Transportation Improvements Act (NIFTI) options. This projection is typically based on the anticipated schedule of growth of assessed property values within the district, which is also typically included in the IFP. This projection reflects the anticipated schedule and growth of assessed value in the district but does not limit the actual dollar amount of revenues to be received by the district.

   c. **A plan for financing public facilities, including a detailed description of any intention to issue debt.** The IFP must include a description of the anticipated financing plan. Typically, the IFP indicates that the district intends to use multiple funding sources, including, for example, pay-as-you-go annual deposits into the EIFD, developer advances, VLF revenues, CFD bond proceeds, and/or California Infrastructure Bank loans to be repaid from EIFD revenues. The IFP should identify the specific sources of tax revenue intended to be deposited into the district and include a level of detail that is responsive to the specific needs of the situation and the adopting jurisdiction. The EIFD statute does not require the IFP to estimate the magnitude of bonds to be issued or include a "sources and uses of funds" statement that quantifies the various sources of revenue.

   d. **A limit on the total number of dollars of taxes that may be allocated to the district pursuant to the plan.** The IFP must contain a cap on the aggregate amount of nominal tax dollars to be allocated to the district over the term of the district. The cap will apply to the sum of property tax increment, VLF, and any other tax revenues to be deposited into the district. This cap will govern the district over the 45-year term and can be modified only through a formal amendment process. Accordingly, it is prudent for the cap to be based on a conservative schedule for securing approval to issue bonds and somewhat aggressive, but realistic assumptions regarding the magnitude, schedule, and assessed value of new development within the district, the turnover rate of properties, and the annual growth rate of property values.

e. **A date on which the district will cease to exist.** Typically, the approval to issue bonds will be secured after the district is formed on a date that is not known at the time of formation. To maximize the term of the EIFD's existence, the general recommendation is that the IFP state that the EIFD will terminate 45 years from the date on which the issuance of bonds or loan is approved. If the EIFD is proposed to be divided into project areas, however, each project area may have a separate and unique time limit based upon when the area generates more than $100,000 in annual revenue.

f. **Analysis of the fiscal impacts to the city/county.** The IFP must include an analysis of the cost to the city/county to provide facilities and services as well tax and fee revenues to be received by the city/county from the development anticipated within the district. The analysis is to address impacts during both the construction and post-completion periods. The analysis should estimate the impacts assuming the requested diversion of tax revenue from the city/county to the EIFD. Given that the analysis must address impacts during construction as well as after development is complete, it is helpful for the fiscal impact analysis to provide a cash flow projection of anticipated fiscal revenues and expenses during construction and over the anticipated 45-year term of the EIFD. The fiscal analysis can be provided as an attachment to the IFP, with the findings referenced in the main body of the IFP.

g. **Analysis of the fiscal impacts to other taxing agencies.** In the event that more than one taxing agency agrees to participate (i.e. contribute incremental property tax dollars to the district), the IFP shall include an analysis of the fiscal impacts on those participating agencies. The fiscal analysis should evaluate the net impacts to each agency net of revenues to be dedicated to the district over the anticipated 45-year term of the project area or district.

h. **Financing plan for costs incurred from reimbursing a developer of a Transit Priority Project Program.** If the EIFD will encompass territory subject to the Transit Priority Project Program, pursuant to Section 65470 of the Government Code, the financing plan may reimburse a developer for permit expenses incurred and other affordable housing-related expenses.

5. **Replacement housing plan.** If any occupied dwelling units are proposed to be removed or destroyed in the course of private development or public works construction within the district, then the IFP shall include a plan for replacing the units and relocating displaced occupants.

6. **The district's goals to be achieved for each public facility and project to be financed by the district.** The IFP shall describe the goals that the district anticipates it will achieve by funding the public facilities and projects that are identified in the IFP.

Financing

Financing EIFDs – Raising the Capital

One of the keys in the EIFD financing model is the bundling of revenues. While the tax increment revenue component will most likely provide the largest piece of the revenues, it by itself is just a piece of the puzzle.

The largest revenue source likely generated is the tax increment collected from within the boundaries of the EIFD. The level of tax increment collected for the EIFD is set as of the base year and the base year is established at the time the ordinance is adopted establishing the EIFD. Depending on how the IFP is structured, the amount of tax increment collected may vary over time and may be collected in different amounts from the consenting taxing entities.

In addition to tax increment, a related revenue source may include property tax revenue received by cities and counties from the state to backfill local revenue losses following the 2004 reduction in the state vehicle licensing fee (property tax in lieu of VLF revenue).

Following the vehicle licensing fees component, the next level of revenues may come from assessments and Mello-Roos special taxes. An EIFD is authorized to use revenues from any of the following sources:

- Improvement Act of 1911
- Municipal Improvement Act of 1913

- The Improvement Bond Act of 1915
- The Landscape and Lighting Act of 1972
- The Vehicle and Parking District Law of 1943
- The Parking District Law of 1951
- The Park and Playground Act of 1909
- The Mello-Roos Community Facilities Act of 1982
- The Benefit Assessment Act of 1982
- Facilities Benefit Assessments levied by city, or any similar assessment levied by a charter city

Assembling Revenues for Financing

Leveraging an EIFD's revenues may take several forms. The various types of obligations an EIFD may pursue include the following:

A. **Bonds.** In order to issue bonds, the PFA must first initiate proceedings by a majority vote of its board. No election is required to issue bonds. Once the issuance of bonds is approved, the term of the EIFD is capped at 45 years from the date of approval.

B. **Loans.** Government Code section 53398.87 authorizes a city, county, or special district that contains territory within the boundaries of the EIFD to loan money to the EIFD for purposes of funding authorized activities. Money loaned pursuant to this provision must not exceed the Local Agency Investment Fund (LAIF) rate in effect at the time the loan is approved by the lending agency. As with the approval of the issuance of bonds, the approval of a loan by the lending agency sets in motion the 45-year term of the EIFD.

C. **Other Financing Instruments.** The statutes governing EIFDs state that the sole purpose of an EIFD is to finance improvements. Furthermore, one of the elements to be included in the IFP is a detailed description of the EIFD's plan to incur debt. Debt is defined to mean any binding obligation to repay a sum of money, including obligations in the form of bonds, certificates of participation, long-term leases, and loans.

Accordingly, while subject to interpretation, it may be implied from these provisions that, in addition to the bonds and loans discussed above, an EIFD may enter into contractual arrangements with lenders and repay these obligations by tax increment revenues. These arrangements may take the form of notes or other types of debt instruments.

Other Considerations

EIFDs and Redevelopment Agencies

Since the EIFD legislation was formed in the wake of redevelopment dissolution, there is a great emphasis on ensuring that existing redevelopment issues are resolved before forming an EIFD. EIFDs may overlap the boundaries of former redevelopment projects, but an EIFD cannot be formed until the State issues a finding of completion for the redevelopment project. No former redevelopment agency assets involved in litigation with the State may be used in the EIFD until the litigation is resolved and any debt or obligation of the district shall be subordinate to all enforceable obligations of the former redevelopment agency.

One significant positive provision for cities/counties with former redevelopment project areas is that the city/county forming the district may choose to dedicate to the EIFD any portion of distributions from the Redevelopment Property Tax Trust Fund (RPTTF) that are available to the city/county after all preexisting legal commitments and statutory obligations. These RPTTF monies can provide much needed “seed” money to finance infrastructure improvements until new development occurs within the EIFD and generates tax increment.

Affordable Housing

There is no low- or moderate-income housing requirement for EIFDs, but EIFDs may finance affordable and mixed income housing projects, including transit-oriented development and infill housing. Long-term affordability covenants (55 years for rental housing and 45 years for ownership housing) are required for housing financed by EIFDs.

Two statutes, however, have been approved which offer EIFDs access to sales tax revenue in exchange for various levels of commitment related to affordable housing:

- AB 1568 (Bloom) Ch. 562 of 2017, authorizes NIFTI (1), the Neighborhood Infill Finance and Transportation Improvements

Act, which allows EIFDs to access local sales tax revenue if agreeing to construct specified affordable housing in a district that is conterminous with the boundaries of the city or county establishing the district.

- SB 961 (Allen) Ch. 559 of 2019, authorizes NIFTI (2), the Second Neighborhood Infill Finance and Transportation Improvements Act, which allows EIFDs to access local sales tax revenue if agreeing to construct specified transit oriented development meeting significant affordable housing and other requirements in a district that is conterminous with the boundaries of the city or county establishing the district.

California Environmental Quality Act

The EIFD legislation does not specify how to comply with the California Environmental Quality Act in the formation and implementation of districts.

Open Government Laws

Government transparency requirements, including the Brown Act open meeting law, Public Records Act, and Political Reform Act, apply to EIFDs.

Constitutional Debt Limit

The constitutional debt limit prohibits a city, county, school district, or board of education from incurring indebtedness beyond that public agency's ability to repay the obligation from revenues received in the same fiscal year in which the obligation is incurred (Article XVI, section 18 of the California Constitution). While the EIFD does not fall under the umbrella of the constitutional debt limit, the promise of a city or a county to pay its tax increment revenues to an EIFD over multiple years may be interpreted as a debt because the city or county would be incurring a liability in excess of its revenues for the current year. It is this city/county obligation which may be subject to the constitutional debt limit. There are several opinions on how to deal with this issue. Some parties believe the issue may be resolved as part of a validation proceeding while others believe a re-characterization of the payment of tax revenues to the EIFD would present a possible solution. Resolution of the constitutional debt limit will be necessary prior to issuing debt for public sale or funding by private lenders.

Climate Resilience Districts

The Climate Resilience District Act, contained in Sections 62300-62312 of the Government Code, by SB 852 (Dodd, 2022), is designed to allow cities and counties to create funding for projects to address climate change mitigation, adaptation, or resilience. Under this new law, cities, counties, or cities and counties may form Climate Resilience Districts (CRDs), which special districts may also join. Unlike EIFDs, participating agencies in CRDs are not obligated to agree to contribute tax increment revenue in order to join the district, which is separate from the formation process.

CRDs are a specialized type of EIFDs that allow for not only the collection of tax increment revenue but also the authority to raise additional funding for eligible projects and operating expenses by way of levying a benefit assessment, special tax, property-related fee, or other services charge(s) or fee(s) consistent with the California Constitution. (EIFDs may use these revenues contributed from member agencies, but only CRDs allow the district itself to levy.)

CRDs also are distinct from EIFDs as they are explicitly authorized to be formed across county lines. With respect to the overlap with EIFDs, CRDs are deemed to be EIFDs when created and generally must follow the process of forming an EIFD in order to be authorized to collect tax increment revenues.

With the passing of SB 852, the first CRD was established by the statue, the Sonoma County Regional Climate Protection Authority, although the bill did not automatically grant the Authority the power to use any tax increment revenues until it complies with the process to do so pursuant to Government Code Section 62304.

A. CRD and EIFD Distinctions

Pursuant to Section 62302(e)(2), CRDs are generally deemed to be an EIFD. To collect tax increment revenue, CRDs must prepare and adopt an infrastructure financing plan, procure resolutions from cities, counties, or special districts authorizing them to collect a share of the tax increment revenue, and mirror the membership requirements of EIFDs as contained in Section 53391.51. Like EIFDs, CRDs may issue bonds as well.

While CRDs are a type of EIFDs, there are some key distinctions that CRDs can:

- Use no more than 5 percent of any tax increment may be used for administration: While current EIFD law does not establish a limit on the amount of tax increment that the district may use for administration. Government Code Section 62306 requires that a minimum of 95 percent of allocated tax increment revenues be used to fund eligible projects, and not more than 5 percent on administration. The Climate Resilience District Act does not establish expressed limits on administration costs from other sources of funding.
- Levy taxes: Unlike an EIFD that may only utilize such revenues contributed from participating agencies, a CRD may itself levy a benefit assessment, special tax, or property-related fee or other service charge or fee. This includes benefit assessments under the Improvement Act of 1911, the Improvement Bond Act of 1915, the Municipal Improvement Act of 1913, the Landscaping and Lighting Act of 1972, and any other statutory authorization.
- Apply for and receive grants from federal and state agencies.
- Solicit and accept gifts, fees, grants, and allocations from public and private entities.
- Issue revenue bonds pursuant to the Revenue Bond Act of 1941 subject to constitutional requirements.
- Incur general obligation bonded indebtedness for the acquisition or improvement of real property or for funding or refunding of any outstanding bonded indebtedness, subject to constitutional requirements.
- Receive and manage a dedicated revenue source.

B. CRD Formation Process

The process of formation begins with adoption of a resolution of intention to establish the CRD by the city, county, or city and county. The resolution needs to describe the boundaries of the proposed district, state the type of eligible projects (as defined in the Climate Resilience District Act), and explain the need for the district and goals it proposes to achieve.

C. Infrastructure Financing Plan

If the CRD is to include a tax increment provision, the CRD would then need to follow the process for formation of an EIFD, including enacting a resolution providing for the division of taxes from participating entities as well as prepare and adopt an IFP. Otherwise, these steps are not required for CRDs.

D. Powers and Uses of CRD Funds

CRDs are expressly authorized to raise and allocate funds for "eligible projects" and operating expenses, the latter of which may include the expenses of operating the CRD, planning of eligible projects, and operational expenses of any eligible project.

Eligible projects are defined in Government Code Section 62302(b) and generally include the following types of projects, including capital projects, that are designed and implemented to address climate change mitigation, adaptation, or resilience, including but not limited to the following:

- Projects that address river, water, or sea level rise, or rising groundwater, including wetlands or marsh restoration, vegetated dunes, living shorelines, erosion control, or levees.
- Projects that address extreme heat or the urban heat island effect, including increasing shade, deploying cool building and surface materials, using cool pavements, constructing, improving, or modifying new or existing facilities, or increasing access to cooling opportunities.
- Projects that address extreme cold, rain, or snow, including constructing, improving, or modifying new or existing facilities.
- Projects that address the risk of wildfire, including establishing fire breaks, prescribed burning, structure hardening, or vegetation control.
- Projects that address the risk of drought, including multiuse land repurposing, groundwater replenishment, groundwater storage, or conjunctive use.
- Projects that address the risk of flooding, including structure elevation or relocation, wetlands restoration, flood easements or bypasses, or levees.
- While each CRD may adopt priorities for projects, all CRDs must give priority to projects that use natural infrastructure (as defined in Public Resources Code Section 71154(c)(3)) and/or projects that address the needs of under-resourced

communities (as defined in Public Resources Code 71340(d)). Additionally, CRDs are required to seek input from under-resourced communities in the planning, development, and implementation of projects.

- Finally, any CRD project is deemed a public work for which prevailing wages must be paid, and the Climate Resilience Districts Act establishes procedures and requirements on the CRD to ensure this is achieved by general contractors, contractors, and subcontractors at every tier.

E. Financing

If the CRD is to propose a measure requiring voter approval (such as a benefit assessment), the board of supervisors of the county or counties must call for a special election on said measure, rather than be consolidated with the next regularly scheduled statewide election.

CHAPTER 3

Community Revitalization and Investment Authorities

Overview

Community Revitalization and Investment Authorities (CRIAs) offer local governments tax increment financing and bonding authority combined with some of the powers granted to former local redevelopment agencies, including the ability to use eminent domain to pursue community development activities. They were first authorized in 2015 by AB 2 (Alejo), and then later amended by both AB 2492 (Alejo) of 2016 and SB 780 (Cortese) of 2021, and contained in Sections 62000-62208 of the Government Code. CRIAs are similar to EIFDs in many respects, but they are more limited geographically, have powers to acquire and dispose of property, and if they collect tax increment revenue must set aside at least 25 percent for affordable housing. This chapter provides an overview of CRIAs.

Location and Powers

CRIAs are authorized to use tax increment revenue to improve infrastructure, assist businesses, and support affordable housing. Given that they have the power of eminent domain and can assemble and dispose of property, the areas (including project areas within a community) where CRIAs may be established must meet certain conditions. The areas where CRIAs may be established became significantly more flexible following the passage of SB 780 (Cortese), and may meet any of the following criteria:

- Sites designated as suitable for housing in a local housing element. Significant portions of a community may meet this designation, because recent expansions of state housing element law have more than doubled the required number of designated sites for most communities.
- Parcels zoned to allow transit priority projects, that meet the criteria of a Sustainable Communities Strategy as regulated by the California Air Resources Board. These sites may include areas within ½ mile of a defined major transit stop or high quality transit corridor.
- Areas where 70 percent of the area includes lower income census tracts that meet specified criteria reflecting economic challenges and physical deterioration. (Somewhat similar to the prior redevelopment concept of "blight").
- Census tracts or census block groups qualifying as "disadvantaged communities" under the California Environmental Protection Agency. Some entire communities may meet this test.
- Closed former military bases.

CRIAs generally have the following powers:

- Adopt a Revitalization Plan.
- Acquire and transfer real property, including with eminent domain.
- Provide funding to rehabilitate, repair, upgrade, or construct infrastructure.
- Fund owner or tenant improvement loans and grants.
- Fund the construction of foundations, platforms, or similar structures for provision of air right sites for use as residential, commercial, industrial, or other uses contemplated in the Revitalization Plan.
- Provide direct assistance to businesses for industrial and manufacturing uses, subject to certain limitations, or the redevelopment or conversion of underutilized office or retail structures or parcels into housing.
- Undertake brownfield cleanup using Polanco Redevelopment Act authority.
- Provide for seismic retrofits of existing buildings.
- Provide for low- and moderate-income housing. If they collect tax increment, CRIAs must designate at least 25 percent of revenue for affordable housing.
- Issue bonds.
- Borrow and accept funds or assistance from the local, state, or federal government agencies.
- Borrow and accept funds or assistance from private entities.
- Qualify for funding as a Disadvantaged Community pursuant to Water Code §79505.5 or under Govt. Code §56033.5.
- Enter into an agreement with a qualified community

development entity to coordinate investments of funds derived from the New Markets Tax Credits.

As with former redevelopment agencies, CRIAs are prohibited from:

- Providing direct assistance to automobile dealerships on land previously undeveloped for urban use.
- Providing direct assistance to a development on a parcel of land with five or more acres, if the land was not previously developed for urban use and will generate sales taxes (unless the principal permitted use is office, hotel, manufacturing, or industrial.)
- Providing direct or indirect assistance to a development or business used for gambling or gaming.
- Funding facilities or activities located outside the boundaries of the Revitalization Area.

The eminent domain provisions of CRIA law are derived from former redevelopment agency authority. In order for a CRIA to exercise its power to acquire property through eminent domain, the subject property may not be condemned for a continuation of its present use. Additionally, if eminent domain is not commenced within three years of adoption of the Revitalization Plan, a property owner may offer to sell the property to the CRIA at fair market value. If so, the CRIA must either purchase the property or commence eminent domain for the property within 18 months of the offer, otherwise the property owner may bring an inverse condemnation action.

Formation

A CRIA is formed by adopting a resolution authorizing its formation. The CRIA's governing board adopts a "community revitalization and investment plan" (Revitalization Plan) for a designated "community revitalization and investment area" (Revitalization Area) as described below.

Two Types of CRIAs

The legislation authorizes the creation of two types of CRIAs.

1. Single member CRIA consisting only of the city or county that sponsors the CRIA. The CRIA is adopted by resolution of the city council or board of supervisors. The sponsoring community's legislative body also appoints the governing body of a single member CRIA, which must consist of three members of the sponsoring community's legislative body (or appointed alternative members) and two members of the public who live or work within the Revitalization Area.
2. Multi-entity CRIA where one or more local governments can join with one or more taxing entities to create a joint powers authority to function as a CRIA. All taxing entities in a particular jurisdiction, except school and community college districts and redevelopment successor agencies, can participate in CRIAs. A majority of the members of a multi-entity CRIA must be members of the legislative bodies of the public entities that created the CRIA (or appointed alternative members) and include at least two members of the public who live or work within the Revitalization Area. If there are more than three participating taxing entities, their legislative bodies may agree to appoint only one member of their respective legislative bodies and one alternate member.

There is no clear advantage to selecting one type of CRIA over the other, except that other affected taxing entities might be more likely to pledge tax increment funds and commit long-term to a CRIA that provides the taxing entities a role in its governance.

A community that previously sponsored a redevelopment agency cannot create a CRIA unless the successor agency to the former redevelopment agency first makes the following findings:

- It has received a finding of completion from the California Department of Finance.
- No former redevelopment agency assets that are the subject of litigation with the state can be used to benefit the efforts of the CRIA unless otherwise permitted by the final judgment of a court.
- It has complied with all orders of the State Controller, if any, relating to the return of former redevelopment agency assets that had been transferred to other public agencies by the former redevelopment agency after January 1, 2011.

Revitalization Areas

Revitalization Areas, which can be designated within multiple project areas within a community, must meet any of the following specific statutory requirements:

- Sites designated for housing or transit priority projects must be deemed suitable for housing development in state approved housing elements, including parcels zoned to allow transit priority projects, that meet the criteria of a Sustainable Communities Strategy as regulated by the California Air Resources Board (Government Code 14522.1 et seq.).
- Areas With Poverty and Deteriorated Conditions: At least 70 percent of the property located within the Revitalization Area must be characterized by:
  - An annual median household income that is less than 80 percent of any of the following metrics (at the option of the CRIA): statewide, countywide, or citywide annual median income **AND**:
  - Three of four of the following conditions:
    - An unemployment rate 3 percent higher than the statewide average annual unemployment rate.
    - Crime rates 5 percent higher than the statewide average crime rate for violent or property crime offenses.
    - Deteriorated or inadequate infrastructure, including streets, sidewalks, water supply, sewer treatment and processing, and parks.
    - Deteriorated commercial or residential structures.
- State Recognized Disadvantaged Communities: A Disadvantaged Community, as defined by the State Environmental Protection Agency for investment of the Greenhouse Gas Reduction Fund ("cap and trade") auction funds.
- Former Military Base: A former military base with largely deteriorated or inadequate infrastructure and structures.

Revitalization Areas can include areas located in a former redevelopment project area if the successor agency makes the findings set forth above, and the Revitalization Plan acknowledges that the tax increment amounts payable to a CRIA from the former redevelopment project area properties are subject and subordinate to any pre-existing successor agency enforceable obligations.

Revitalization Plans

After its creation and prior to conducting any activities, a CRIA must adopt a Revitalization Plan identifying the specific activities it will carry out and finance. Each Revitalization Plan must include:

- A statement of the principal goals and objectives of the plan.
- A description of the deteriorated or inadequate infrastructure in the Revitalization Area and a program for construction of adequate infrastructure.
- A detailed affordable housing program.
- A program to remedy or remove hazardous materials, if any.
- A program to provide funding or to facilitate economic revitalization.
- A fiscal analysis with projected revenue and expenses over a 5-year planning horizon, including the potential to issue bonds.
- A provision for tax increment financing if the CRIA so elects. (For example, a CRIA could also be established without tax increment financing and function as local tool to assemble property to support community revitalization, infrastructure, and housing activities.)
- Time limits that cannot exceed:
  - 30-year time limit on establishing debt.
  - 45-year time limit for plan effectiveness, repayment of debt, and receipt of tax increment (commencing after the issuance of debt is approved for a plan, or $100,000 in annual tax increment is received for a project area).
  - 12-year time limit for acquiring property by eminent domain.
- A description of how the proposed Revitalization Area meets the requirements set forth above.
- A prohibition on the reduction of the total number of housing units occupied by low-income households, accounting for number of bedrooms, in the Revitalization Area during the life of the plan.
- A requirement to replace any low- and moderate-income housing units within two years of their destruction or removal.

Care must be taken in preparing the Revitalization Plan as the CRIA is prohibited from spending funds on any purposes that are not identified in the plan.

Amendments to the existing Revitalization Plan may occur within the following timeframes:

- Amendments to an approved plan, including those that propose the financing of affordable housing and additional eligible projects, may be approved by a majority vote of the Board at a public hearing with 30-day notice provided to all property owners, residents, and taxing agencies.

- Amendments to add territory, increase the tax increment collection limit, or approve a public facility must be adopted with the more expansive noticing, hearing, and protest option required for a plan adoption.

Adoption Process

The CRIA legislation provides specific processes and procedures that a CRIA must consider in adopting the plan, including a public meeting, three public hearings held at least 30 days apart, a protest process, and in specified instances, voter approval.

The draft Revitalization Plan must be provided to the public and each property owner within the proposed Revitalization Area at a meeting held at least 30 days prior to giving notice of the first public hearing. The purposes of the meeting are to present the plan, answer questions, and consider comments from the public. The public meeting must be noticed by posting on the CRIA's website and by mail to each landowner and resident within the proposed Revitalization Area.

- At the first public hearing, the CRIA's board will consider comments but take no action. The first public hearing is noticed by posting on the CRIA's website, by mail to each landowner and resident within the proposed Revitalization Area, and by publication in the newspaper for not less than once a week for four successive weeks prior to the first public hearing.
- At the second public hearing, the CRIA's board will consider additional comments and may take action to modify or reject the proposed plan. The second public hearing is noticed by posting on the CRIA's website, by mail to each landowner and resident within the proposed Revitalization Area, and by publication in the newspaper at least 10 days prior to the second public hearing. This notice shall include summaries of any changes made to the plan after the first public hearing and indicate where the public can review the plan prior to the hearing.
- If the plan is not rejected at the second public hearing, then at the third public hearing the CRIA's board will consider all comments, conduct a protest proceeding, and may then choose to either terminate the plan, refer the plan to an election, or adopt the plan. The third public hearing is noticed by posting on the CRIA's website, by mail to each landowner and resident within the proposed Revitalization Area, and by publication in the newspaper at least 10 days prior to the third public hearing. This notice must include a copy of the final plan for consideration and the right to protest. Although one consolidated notice for the public meeting and all three public hearings may be possible if no changes are made to the plan, communities considering a CRIA should be prepared to incur the cost of providing all four of these notices (including separate mailings) and a possible election.

During the protest hearing at the third meeting, if more than 50 percent of combined property owners and residents protest, the plan establishment proceedings terminate. If between 25 percent and 50 percent of combined property owners and residents protest, an election (which may be conducted by mail-in ballot) is to be held within 90 days of the third public hearing. If the majority of the combined property owners and residents vote against the plan at the election, the proposed plan is terminated and the CRIA cannot consider a new plan for at least one year. If fewer than 25 percent of combined property owners and residents protest, the plan can be adopted by ordinance, subject to referendum.

Depending on the details of the proposal, the method of compliance with the California Environmental Quality Act should be determined by legal counsel.

Financing

CRIAs are funded with tax increment generated from the increase in property taxes that occurs after adoption of the formation ordinance, and which are allocable from to the sponsoring community and each participating taxing entity.

Tax Increment, Loans & Bonds

Tax Increment:
In order to enable the receipt of tax increment revenue pass-throughs by a CRIA, a participating taxing entity must adopt a resolution directing the county auditor-controller to allocate some or all its share of the tax increment funds from properties located within a Revitalization Area. Other taxing entities may also choose to participate in the CRIA by dedicating a percentage of their tax increment funds to the CRIA. Such participation can be without restriction or may be limited in scope and purpose as a participating

entity sees fit. Participating taxing entities may set a time limit to pledges of their shares of tax increment to a CRIA and they may also restrict the use of such funds to specific purposes or programs in the agreement. Prior to adopting such a tax sharing resolution, the participating taxing entity and the CRIA's governing board must agree in writing to limit the amount of administrative and overhead expenses to be paid with tax increment funds. A taxing entity that chooses to participate in a CRIA may also revoke its participation upon 60 days' written notice to the county auditor-controller, subject to repayment of any debt issued by the CRIA against said taxing entity's share of tax increment revenues prior to such a revocation.

A city, county, or special district may also adopt a resolution transferring funds to a CRIA from the following other sources:

- Property taxes received by a city or county from dissolved redevelopment agencies.
- Property taxes received by a city or county in lieu of former vehicle license fee funds.
- Funds derived from various assessments that may be imposed by a special district.

Loans & Other Funds:
CRIAs may additionally borrow and accept funds or assistance from local, state, or federal government agencies and private entities; qualify for funding as a Disadvantaged Community pursuant to Water Code §79505.5 or under Govt. Code §56033.5 (e.g. Prop 1/84 grant funds); and/or enter into an agreement with a qualified community development entity to coordinate investments of funds derived from the New Markets Tax Credit program.

Similar to how former redevelopment agencies harnessed the power of tax increment, the most benefit to a Revitalization Area is likely to be derived by utilizing TIF. A CRIA can leverage its available resources by issuing bonds or other obligations in the capital markets, the repayment of which is to be made from future tax increment and other available revenues of the CRIA.

Bonds:
CRIAs are authorized to issue bonds without voter approval, but initial funding of a new CRIA may be challenging to arrange if only impoverished areas are included. A CRIA's tax base must grow enough from its original or "base year" size in order for enough incremental tax revenues to be available to support a financing. Changes made by SB 780, however, provide more flexibility for CRIAs to now include individual project areas, and more territory. CRIAs can now include all housing sites designated in a local housing element and territory which qualifies for transit priority projects in a CRIA. In addition, for impoverished areas, SB 780 expanded the amount of non-impoverished territory that may be included to 30 percent. In all these cases, the participating taxing entities may choose to make a loan to a CRIA by utilizing a variety of tools and techniques at their disposal, including advances of reserves or the issuance of their own obligations such as certificates of participation or revenue bonds, or the obligations of financing districts such as special tax bonds or assessment bonds, as well as other forms of obligations that such entities may legally issue. Once a CRIA is able to procure its own financing, such loans from the participating taxing entities can be repaid from the tax increment revenues of the CRIA.

In addition, SB 780 revised language to provide additional certainty that all bonds, projects, and other obligations approved by a CRIA would be fully paid and completed. These changes were designed to address prior concerns involving the potential protest process that may now occur at 15-year intervals.

Other Considerations

Funding for Housing

If a CRIA chooses to use tax increment financing, at least 25 percent of tax increment allocated to a CRIA must be deposited into a Low- and Moderate-Income Housing Fund (Housing Fund) to assist with the community's supply of low- and moderate-income housing within the Revitalization Area. Use of the Housing Fund must comply with very detailed rules which are too extensive for this primer, but are similar to the prior Community Redevelopment Law and are summarized here. Rather than managing the affordable housing funds, a CRIA has the option to transfer the affordable housing funding and responsibility to another entity, if it makes findings that the transfer will reduce administrative costs or expedite the construction of affordable housing. Funds and associated administrative responsibilities may be transferred to the housing authority within the CRIA's sponsoring community, the housing successor to a former redevelopment agency, or a nonprofit housing developer.

Housing receiving assistance from the Housing Fund is required to be affordable for the following time frames through recorded affordability covenants:

- Rental units: 55 years.
- Ownership units: 45 years.
- Mutual self-help housing units: 15 years.

Expenditures of the Housing Fund over each 10-year period must be targeted to low- and very low-income categories in the same proportion as the total number of housing units needed for low- and very low-income households bears to the total number of units needed for moderate-, low-, and very low-income households within the community, as determined in the community's Regional Housing Needs Allocation.

Expenditures of the Housing Fund over the life of the Revitalization Plan must also be targeted to non-senior households in the same proportion as the number of low-income households with a member under 65 years bears to the total number of low-income households in the community as reported in US Census.

The CRIA (or the entity which has accepted a transfer of the housing funding and administrative responsibilities) will be subject to penalties if it fails to expend or encumber the monies in the Housing Fund in a timely manner. An "excess surplus" exists when the unexpended and unencumbered amount in the Housing Fund exceeds the greater of $1,000,000 or the total amount deposited in the CRIA's Housing Fund during the preceding four years. The CRIA, or other responsible entity, has three years after the date an excess surplus exists to expend or encumber the funds or it will face penalties, including a requirement to spend additional funds for affordable housing and imposition of limits on the expenditure of non-housing funds.

Replacement Housing

CRIAs are subject to the following replacement housing obligations when low- and moderate-income units are destroyed or removed as part a project that is subject to a written agreement with the CRIA or is assisted by the CRIA:

- One for one replacement obligation, with the same or greater number of bedrooms, for destroyed units housing extremely low, very low-, low-, or moderate-income households at the same income categories as the destroyed units.
- Units must be replaced within 2 years of unit destruction.
- Units must be replaced within the Revitalization Area.
- Recorded affordability restrictions for the same affordability periods as set forth above for Housing Fund assistance are required.

Relocation

CRIAs are also required to adopt relocation plans, provide relocation assistance, and make all the relocation payments to persons displaced from housing and nonprofit local community institutions displaced from facilities they use for institutional purposes in the Revitalization Area.

Production of Housing

- Prior to expiration of the Revitalization Plan, 30 percent of the housing units constructed or substantially rehabilitated by the CRIA must be made available to low- and moderate-income households at an affordable housing cost, with 50 percent of those units available to very low-income households at an affordable housing cost.
- Prior to expiration of the Revitalization Plan, 15 percent of the housing units constructed or substantially rehabilitated by any entity other than the CRIA must be made available to low- and moderate-income households at an affordable housing cost, with 40 percent of those units available to very low-income households at an affordable housing cost. This provision essentially imposes a 15 percent affordable housing requirement for housing constructed by private parties. CRIA's, however, may use their affordable housing funding to donate land and otherwise help finance these required units. This obligation may also be satisfied by building two units outside the plan area

for every one that would otherwise be required.

- Recorded affordability restrictions for the same affordability periods as set forth above for Housing Fund assistance are required.

Five-Year Housing Compliance Audit

Beginning in the calendar year in which the CRIA has been allocated a cumulative total of more than $1,000,000 in the Housing Fund and every five years thereafter, the CRIA must conduct an independent audit to determine compliance with the affordable housing requirements based on guidelines to be issued by the State Controller. Fines are imposed for non-compliance.

Additional Accountability

CRIAs are subject to special annual and 15-year review procedures. These additional requirements are connected to prior policy debates over the alleged misuse by some former redevelopment agencies of redevelopment authority, including eminent domain. The 15-year review, allows for an accountability "check in" with residents and property owners subject to the CRIA's jurisdiction. SB 780 made numerous changes to these provisions which provides clarity that all bond debts and other obligations incurred by a CRIA will be paid in the event that future activity by a the CRIA is disallowed. [See Sec. 62006, subdivisions (d)-(h)].

CRIAs are required to review the plan at least annually. They must adopt an annual report before June 30 of each year at a public hearing with the report available at least 30 days prior to the hearing. The annual report must describe the following for the fiscal year: projects undertaken and comparative progress with projects, comparison of actual revenues and expenses to budgeted revenues and expenses, the amount of tax increment revenue received, the amount of revenue expended for affordable housing, the amount of revenue used to assist private business, and assessment of the status of completion of the CRIA's projects. The CRIA also must have an annual independent financial audit prepared, paid for from revenues of the CRIA, in connection with annual review.

In addition to the annual report, a CRIA is required to conduct a protest proceeding every 15 years to determine if the Revitalization Plan should continue. If more than 50 percent of the combined property owners and residents protest, the CRIA shall take no further action to implement new projects under the Revitalization Plan on and after the date of the election.

If between 25 percent and 50 percent of combined property owners and residents protest, an election (which may be conducted by mail-in ballot) is held within 90 days of the protest proceeding and the CRIA cannot approve or initiate any new projects until the election is held. If the majority of the combined property owners and residents vote against the Revitalization Plan, the CRIA shall take no further action to implement the Revitalization Plan. The CRIA may continue to fulfill its obligations to repay bonded indebtedness, complete previously approved projects or contractual obligations, and expend funds to complete the CRIA's affordable housing obligations.

CHAPTER 4

Practical Considerations for Implementing Tax Increment Financing

Overview

Existing tax increment financing tools offer a variety of options for local agencies seeking to improve infrastructure, revitalize neighborhoods, and expand jobs and economic opportunities within a community. Still jurisdictions need to take a comprehensive and strategic approach to understanding tradeoffs and exploring opportunities. CALED recommends local agencies evaluate the following factors:

1. **Identify Appropriate Tools to Match Needs:** While EIFDs have emerged as the most popular tool currently under consideration by public agencies, it is also worth evaluating the other tax increment options that the Legislature has made available. Local agencies have a menu of options to choose from. For example, in areas where the public agency needs address deteriorated conditions or assemble parcels, then a CRIA may be worth considering, since it has the former RDA powers including eminent domain. If affordable housing is the principal objective, then an Affordable Housing Authority may be worth considering since local sales tax can also be dedicated to these entities. Climate Resilience Districts offer tailored solutions along with additional powers other TIF tools lack.
2. **Evaluate market realities:** Unfavorable market conditions are difficult to influence through public policy and public investment. Accordingly, it is important to conduct market analysis and understand the severity of market constraints on development policy objectives and the potential for public actions to influence market conditions. Weak real estate market conditions or extraordinary infrastructure costs may not be overcome with readily available funding resources or financing techniques. In these instances of low development value or high cost, measures will need to be taken by the local jurisdiction to improve market attractiveness of the area, to lower infrastructure costs, or to attract funding from non-development-based funding sources such regional, state, or federal grants.
3. **Select TIF Boundaries Carefully:** Compared to former redevelopment agencies, existing TIF tools provide more flexibility for establishing boundaries, which can range from a specific area, multiple project areas, to an entire community. SB 780 (Cortese) of 2021, expanded areas where CRIAs may be utilized. The availability of tax increment revenue is highly contingent on the volume and pace of development activity. In many cases, up-front funds are needed to install improvements needed for "shovel-ready" development sites. Such improvements might include infrastructure upgrades and retrofits, extensions, expansions, or other public facilities necessary to accommodate and catalyze desired development activity. Communities need to thoughtfully include properties where near-term future development is probable to yield the necessary uplift in assessed values to generate near-term tax increment revenues.
4. **Explore partnerships with another taxing entities:** The property tax received by an individual city or county is often limited, which makes exploring partnerships among agencies, such as cities, counties, and eligible special districts, particularly important to maximize the benefit of today's tax increment financing districts. When more than one local government jurisdiction (i.e., multiple taxing entities) dedicate their share of tax increment to the district, additional resources may be leveraged to complete infrastructure, housing, economic development, and other improvements. These investments, in turn, will increase revenues to the affected agencies and benefit the region or a specific project. Under these new tools, taxing entities have a choice of how much tax increment they contribute. This scalability may allow other taxing entities to realize a greater return on investment than they would have received if the TIF tool had not been created to support new development to spur property tax growth. Examples of where city-county local partnerships are occurring, include the following:
   - A. August 2020: La Verne EIFD, with the City and County of Los Angeles participating,
   - B. January 2021: Placentia EIFD, with the City and County of Orange participating, and
   - C. November 2021: Palmdale EIFD, with the City and

County of Los Angeles participating.

5. **Leverage Other Land Secured Financing Mechanisms:** In some cases, today's tax increment financing districts can also be used in concert with a number of other financing approaches in order to be most effective. It is a common practice for local jurisdictions establishing EIFDs to also consider the parallel implementation of a more traditional land-secured financing mechanism, such as a Mello Roos Community Facilities District (CFD). Property owners that agree to participate in a CFD may be able to accelerate debt issuance through the issuance of tax-exempt municipal bonds with debt repayment secured by special taxes imposed on the subject properties. As sufficient EIFD tax increment revenues become available, those revenues are available to replace debt service repayment revenue streams, either reducing the annual special tax burden on property owners or freeing up project-generated revenues for other uses. The viability of layering a land-secured financing mechanism with formation of an EIFD to accelerate debt issuance hinges upon development capacity for additional annual special tax burdens sufficient to support the issuance of bonds.

6. **Review Sample Tax Increment Financing Model:** Appendix A provides an example of an EIFD tax increment model to demonstrate the timing and magnitude of funding available relative to a hypothetical development project and associated assessed value growth. This example highlights the primary challenge to implementing one of the new tax increment tools – tax increment revenues are needed well before development commences to fund the required infrastructure and public facilities. Revenue generation, however, is dependent on the timing and pace of development, which is contingent on market absorption and associated finished real estate values. Tax increment revenues sufficient to issue bonds rely upon substantial levels of vertical development, which may take many years to achieve.

7. **Evaluate Impacts on Local General Funds and Plan for Maintenance:** Property tax revenue is an important source of General Fund revenues to fund public services such as police, fire, libraries, and other government operations. Revenue constraints may create fiscal challenges to the use of tax increment revenues, as local governments must also consider the funding of public services needed to serve the project. Ultimately, a local jurisdiction should weigh the economic opportunities created by a TIF tool to the circumstances if a district is not formed. Most often, a tax increment financing district makes prudent sense if the district causes economic growth in a community that would otherwise not occur.

   Several financing strategies exist to ameliorate the diversion of General Fund property tax revenues while still ensuring adequate service provision. Approaches may include special taxes and assessments (e.g. CFD for services or maintenance, special benefit assessment district, property based improvement districts, etc.), fiscal mitigation payments, public-private partnerships, consideration of service level standards, and other mechanisms to resolve potential fiscal deficits.

   Ensuring that you have a plan in place for maintenance of facilities developed by the district is also important. Language in each of these tools related to funding maintenance will vary. For EIFDs, certain ongoing and capitalized maintenance is specifically authorized; in CRIAs, however, while maintenance is not specifically mentioned, it could likely be permissible since the tool includes authority to repair and rehabilitate facilities.

Conclusion

The challenges and approaches described above suggest that local jurisdictions need to take a comprehensive and strategic approach to implementing tax increment financing mechanisms. Consideration of these mechanisms must weigh these potential challenges against the benefits anticipated from accommodating and catalyzing desired development activity. Clear policies and criteria regarding the use of these tax increment mechanisms should be established as part of an overall infrastructure financing and development policy strategy and framework.

APPENDIX A
Sample Tax Increment Financing Model

This appendix is provided to support the suggested considerations in Chapter 4 for implementing one of the tax increment financing tools discussed in this primer. Although an EIFD is used in this example, the tax increment model for the other available tools would be similar (net of the affordable housing set-aside for CRIAs).

Example EIFD Funding Model

Table 1 on page 29 illustrates the availability of tax increment revenues under a hypothetical EIFD formation and development scenario. As explained in Chapter 1, tax increment revenue streams are generated based on the assessed value of new development as well as growth in the existing assessed value within the Project Area. The example set forth in Table 1 offers a high-level summary of tax increment financing mechanics based on hypothetical assumptions as specified in the discussion below.

Hypothetical Development Scenario

City A is interested in forming an EIFD for an infill development area with an existing assessed value of $500 million. The City estimates that over the next 15 years, this development area can accommodate a combination of industrial, office, retail, and multifamily residential development totaling $1.5 billion in new assessed value. Tax increment generated by new development activity is anticipated to commence approximately 2 years following EIFD formation.

Tax Increment Revenue Potential

Table 1 identifies the tax increment revenue potential for this hypothetical Project Area over the next 30 years. Tax increment projections are based on the assessed value growth generated by increased assessed valuations for existing development as well as new development activity. Each of the columns in Table 1 are described below:

Beginning Assessed Value: In this example, the combined assessed value of properties within the EIFD is $500 million at the base year. The base assessed value for the district is established based on the assessed value at the time of EIFD formation and is the basis for the "Beginning Assessed Value" identified in Table 1.

Annual Assessed Value Growth: This example model assumes that the assessed value of existing development within the EIFD will increase at a rate of 3 percent annually. This assumption incorporates the legislated 2 percent assessed value increase under Proposition 13 plus additional property transactions which establish a new assessed value basis and account for the remaining 1 percent assessed value growth on existing development.

New Assessed Value: As new development activity occurs, that new development will generate new assessed value added to the property tax rolls. In subsequent years, this "new assessed value" is also assumed to escalate by 3 percent annually.

Ending Assessed Value and Cumulative Growth: Assessed value growth and new assessed value added to the property tax roll are added to the beginning assessed value to calculate the ending assessed value and cumulative growth in assessed value. For any given year, the cumulative growth in assessed value provides the basis for the tax increment calculations and is calculated by subtracting the base assessed value from that year's ending assessed value.

Gross Tax Increment: The gross tax increment generated each year is then calculated by applying the gross 1 percent property tax rate to the cumulative growth in assessed value for that year.

Net Tax Increment: The net tax increment is calculated based on the post-Educational Revenue Augmentation Fund (ERAF) share of property tax (AB 8) allocation received by the City. In this example, we assume City A's post-ERAF property tax allocation is 20 percent of the gross tax increment. Note that for the sake of simplicity, this analysis focuses solely on City A's share of property tax revenues only. As discussed in Chapter 2, other types of revenue can be allocated to EIFDs for tax increment financing such as property tax in lieu of vehicle license fee revenue. This net tax increment amount is then reduced by an administrative fee, assumed in this analysis to be $5,000 annually escalated by 2 percent annually.

EIFD Project Tax Increment: In this example, the EIFD is formed in Fiscal Year (FY) 1, but assessed value generated by new

APPENDIX A Sample Tax Increment Financing Model

development activity is not anticipated until FY 3. Nevertheless, in FY 1 and FY 2, growth in the existing assessed value generates marginal amounts of tax increment revenue. In FY 3 through FY 17, new development activity in the EIFD generates approximately $100 million in new assessed value annually. As new development activity generates substantial assessed value growth the available tax increment revenues increase commensurately. In FY 3, available tax increment revenues are roughly $287,000. By FY 17 (full build-out of the hypothetical EIFD), this amount grows to nearly $4.4 million, and continues to grow at 3 percent annually (assumed rate of growth on existing development) through FY 30. Total tax increment generated over the 30 year period exceeds $106 million.

Bond Issuance

Leveraging tax increment funding streams to issue bonds is one approach to secure required up-front capital, but this approach is limited in its utility by the need to accumulate sufficient tax increment to pay annual debt service. Typically, tax increment revenues of at least $500,000 would be needed to support a bond issuance. This level of tax increment funding will require substantial development activity – in our example this level of funding is not generated until over $200 million of development activity has already occurred (FY 4).

Item	Beginning Assessed Value	Annual AV Growth [1]	New AV Added to Roll	Ending Assessed Value	Cumulative Growth in AV	Gross Tax Increment [2]	Net Tax Increment [3]	Less County Admin. Fee [4]	EIFD Project Tax Increment
Formula					a	b=a*1%	c=b*20.00%	d	e=c-d
Base AV	$500,000,000								
FY 1	$500,000,000	$15,000,000	$0	$515,000,000	$15,000,000	$150,000	$30,000	($5,000)	$25,000
FY 2	$515,000,000	$15,450,000	$0	$530,450,000	$30,450,000	$304,500	$60,900	($5,100)	$55,800
FY 3	$530,450,000	$15,913,500	$100,000,000	$646,363,500	$146,363,500	$1,463,635	$292,727	($5,202)	$287,525
FY 4	$646,363,500	$19,390,905	$100,000,000	$765,754,405	$265,754,405	$2,657,544	$531,509	($5,306)	$526,203
FY 5	$765,754,405	$22,972,632	$100,000,000	$888,727,037	$388,727,037	$3,887,270	$777,454	($5,412)	$772,042
FY 6	$888,727,037	$26,661,811	$100,000,000	$1,015,388,848	$515,388,848	$5,153,888	$1,030,778	($5,520)	$1,025,257
FY 7	$1,015,388,848	$30,461,665	$100,000,000	$1,145,850,514	$645,850,514	$6,458,505	$1,291,701	($5,631)	$1,286,070
FY 8	$1,145,850,514	$34,375,515	$100,000,000	$1,280,226,029	$780,226,029	$7,802,260	$1,560,452	($5,743)	$1,554,709
FY 9	$1,280,226,029	$38,406,781	$100,000,000	$1,418,632,810	$918,632,810	$9,186,328	$1,837,266	($5,858)	$1,831,407
FY 10	$1,418,632,810	$42,558,984	$100,000,000	$1,561,191,794	$1,061,191,794	$10,611,918	$2,122,384	($5,975)	$2,116,408
FY 11	$1,561,191,794	$46,835,754	$100,000,000	$1,708,027,548	$1,208,027,548	$12,080,275	$2,416,055	($6,095)	$2,409,960
FY 12	$1,708,027,548	$51,240,826	$100,000,000	$1,859,268,375	$1,359,268,375	$13,592,684	$2,718,537	($6,217)	$2,712,320
FY 13	$1,859,268,375	$55,778,051	$100,000,000	$2,015,046,426	$1,515,046,426	$15,150,464	$3,030,093	($6,341)	$3,023,752
FY 14	$2,015,046,426	$60,451,393	$100,000,000	$2,175,497,819	$1,675,497,819	$16,754,978	$3,350,996	($6,468)	$3,344,528
FY 15	$2,175,497,819	$65,264,935	$100,000,000	$2,340,762,753	$1,840,762,753	$18,407,628	$3,681,526	($6,597)	$3,674,928
FY 16	$2,340,762,753	$70,222,883	$100,000,000	$2,510,985,636	$2,010,985,636	$20,109,856	$4,021,971	($6,729)	$4,015,242
FY 17	$2,510,985,636	$75,329,569	$100,000,000	$2,686,315,205	$2,186,315,205	$21,863,152	$4,372,630	($6,864)	$4,365,766
FY 18	$2,686,315,205	$80,589,456	$0	$2,766,904,661	$2,266,904,661	$22,669,047	$4,533,809	($7,001)	$4,526,808
FY 19	$2,766,904,661	$83,007,140	$0	$2,849,911,801	$2,349,911,801	$23,499,118	$4,699,824	($7,141)	$4,692,682
FY 20	$2,849,911,801	$85,497,354	$0	$2,935,409,155	$2,435,409,155	$24,354,092	$4,870,818	($7,284)	$4,863,534
FY 21	$2,935,409,155	$88,062,275	$0	$3,023,471,429	$2,523,471,429	$25,234,714	$5,046,943	($7,430)	$5,039,513
FY 22	$3,023,471,429	$90,704,143	$0	$3,114,175,572	$2,614,175,572	$26,141,756	$5,228,351	($7,578)	$5,220,773
FY 23	$3,114,175,572	$93,425,267	$0	$3,207,600,839	$2,707,600,839	$27,076,008	$5,415,202	($7,730)	$5,407,472
FY 24	$3,207,600,839	$96,228,025	$0	$3,303,828,865	$2,803,828,865	$28,038,289	$5,607,658	($7,884)	$5,599,773
FY 25	$3,303,828,865	$99,114,866	$0	$3,402,943,731	$2,902,943,731	$29,029,437	$5,805,887	($8,042)	$5,797,845
FY 26	$3,402,943,731	$102,088,312	$0	$3,505,032,043	$3,005,032,043	$30,050,320	$6,010,064	($8,203)	$6,001,861
FY 27	$3,505,032,043	$105,150,961	$0	$3,610,183,004	$3,110,183,004	$31,101,830	$6,220,366	($8,367)	$6,211,999
FY 28	$3,610,183,004	$108,305,490	$0	$3,718,488,494	$3,218,488,494	$32,184,885	$6,436,977	($8,534)	$6,428,443
FY 29	$3,718,488,494	$111,554,655	$0	$3,830,043,149	$3,330,043,149	$33,300,431	$6,660,086	($8,705)	$6,651,381
FY 30	$3,830,043,149	$114,901,294	$0	$3,944,944,443	$3,444,944,443	$34,449,444	$6,889,889	($8,879)	$6,881,010
30 Year Total			$1,500,000,000		$53,276,425,884	$532,764,259	$106,552,852	($202,840)	$106,350,011

[1] Assessed value estimated to increase by 3% annually, accounting for assumed legislated annual increase of 2% and additional property transactions within EIFD boundary.

[2] Gross Tax Increment is 1% of the difference between assessed values in current and base years.

[3] Net Tax Increment of 20% reflects an example value for post-ERAF General Fund percentage of the 1% property tax revenue for jurisdiction dedicating their tax increment, which would be available for funding infrastructure, net of the percentage for all other taxing entities within the district boundary.

[4] A placeholder administrative cost of $5,000 is assumed to increase annually by 2%.

APPENDIX B
Code Sections

The table below provides references to the sections of California law that are applicable to each of the tax increment financing tools discussed in this primer.

TIF Tool	California Code Section
Enhanced Infrastructure Financing Districts	Government Code § 53398.50-53398.88
Community Revitalization and Investment Authorities	Government Code § 62000-62208
Annexation of Unincorporated Disadvantaged Communities	Government Code § 56653 Revenue and Taxation Code § 99.3
Infrastructure Revitalization Financing Districts	Government Code § 53369-53369.49
Infrastructure Financing Districts	Government Code § 53395-53397.11
Afforadable Housing Authorities	Government Code § 62250-62262
Climate Resilience Districts	Government Code § 62300-62312
Neighborhood Infill Finance and Transit Improvements Act, or NIFTI-1	Government Code § 65040.15
Second Neighborhood Infill Finance and Transit Improvements Act, or NIFTI-2	Government Code § 53398.75.7

APPENDIX C
Glossary of Terms

The following defined terms appear in this primer.

Assessment Roll: A record of taxable property in a city or county prepared by the county tax assessor. An assessment roll of a city, for example, includes each individual parcel within its taxing jurisdiction and shows the assessed value of each.

Assessor: A county government official who determines the value of a property for local real estate taxation purposes.

Auditor Controller: The chief accounting officer of a county responsible for budget control, disbursements and receipts, and financial reporting.

Base Year: The fiscal year that is the starting point that is used to calculate annual property tax growth in the years following the formation of a tax increment financing district.

Educational Revenue Augmentation Fund: ERAF is a mechanism; enacted in July of 1992 by the State Legislature to shift local tax revenues from cities, counties, and special districts to a State controlled Education Revenue Augmentation Fund.

General Levy: The ad valorem property tax rate levied by counties, which in 1978 was set to a maximum of one percent by Proposition 13.

Increment: The incremental increase in property taxes above the base year level derived from increases in land value resulting from new development, land transactions, or the two percent inflationary rate.

Inflationary Rate: The rate at which property taxes increase from year to year. In California, this rate is limited to no greater than two percent per year pursuant to Proposition 13.

Redevelopment Property Tax Trust Fund: the Special Fund required to be created by the Successor Agency and administered by the County Auditor/Controller.

Secured Assessed Value: The assessed value of real property, including land and improvements such as buildings, structures, fences, and fixtures that are permanently attached to the land.

Taxing Entity: A government entity, such as a city, county, school district, or special district that receives a designated portion of property tax.

Unsecured Assessed Value: The assessed value of personal property, including any tangible, moveable property that is not designated as real property such as aircraft, boats, factory equipment, computers and other office equipment, and improvements on the real estate of others.

Utility Value: The assessed value of property owned by utilities, such as power generating plants, power lines, cable, railroads, etc., except for property held for investment purposes only. Utility property is divided into non-unitary property (railroads) and unitary property (all other types).

APPENDIX D
Summary of Other Tax Increment Financing Tools

The demise of redevelopment led to a flurry of legislation to authorize more limited forms of tax increment financing tools available to local government. In addition to the EIFDs and CRIAs featured in this primer, there are other forms of tax increment financing tools available to local governments in California. These include Annexation Development Plans (ADPs) for Unincorporated Disadvantaged Communities and Infrastructure and Revitalization Financing Districts (IRFDs). This appendix discusses the formation, powers, and limitations of these tools.

ADPs for Unincorporated Disadvantaged Communities

SB 614 was adopted to provide additional options for financing infrastructure in unincorporated disadvantaged communities. When a city or district proposes a change of organization or reorganization under the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (annexation proposal) to a local agency formation commission (LAFCO), the applicant is required to prepare a plan for providing services within the affected territory. SB 614 allows an applicant for an annexation proposal that includes an unincorporated disadvantaged community to adopt an ADP to fund the services and structures identified in the ADP. An unincorporated disadvantaged community is defined as an inhabited territory that constitutes all or a portion of a community with an annual median household income that is less than 80 percent of the statewide area median household income.

A. **Formation**

All applicants for annexation proposals must submit a plan for providing services within the affected territory that is required to include the information below, along with any additional information required by the LAFCO or its executive officer:

- An enumeration and description of the services to be extended to the affected territory.
- The level and range of the services.
- An indication of when those services can feasibly be extended to the affected territory.
- An indication of any improvement or upgrading of structures, roads, sewer or water facilities, or other conditions the local agency would impose or require within the affected territory if the change of organization or reorganization is completed.
- Information with respect to how those services will be financed.

Through January 1, 2025, an annexation proposal that includes annexation of an unincorporated disadvantaged community may include in the resolution of application an ADP to improve or upgrade infrastructure to serve the territory through the formation of a special district or reorganization of one or more existing special districts.

The ADP must include information that demonstrates that the formation or reorganization of the special district will provide all of the following:

- The necessary financial resources to improve or upgrade structures, roads, sewer or water facilities, or other infrastructure.
- The identity of the local entity that will be responsible for the delivery and maintenance of the services identified in the application.
- An estimated timeframe for constructing and delivering the services identified in the application.
- The governance, oversight, and long-term maintenance of the services identified in the application after the initial costs are recouped and the tax increment financing terminates.

A LAFCO may approve an annexation proposal to include the formation of a special district or reorganization of a community services district, municipal water district, sanitary district, or other special district with such special district's consent. The LAFCO must include in its resolution making determinations an explanation of the financing mechanism including any plans to issue debt.

B. **Powers**

If an annexation proposal for an unincorporated disadvantaged community is approved with an ADP, the district has the authority to carry out the ADP, collect tax increment, and finance the services and infrastructure improvements identified in the ADP. Infrastructure improvements that can be funded include, but are not limited to, water, wastewater, storm water systems and local streets, roads, and sidewalks, to serve the territory.

C. **Financing**

An ADP may, with the consent of each special district's governing body, also contain a provision for the sharing of tax increment for areas included in the territory. The tax increment will be calculated from the date the "certificate of completion" is recorded with the county recorder confirming the successful completion of the annexation proposal and must be deposited into a special fund of the special district. If the ADP authorizes the allocation of tax increment to the special district, the ADP must also specify the date upon which tax increment allocations will terminate.

The services and infrastructure identified in an ADP may be financed with tax increment on a pay as you go basis. Additionally, the annexation development plan may include authority to issue bonds to finance those services and infrastructure improvements. A consenting local agency may also advance funds to the special district which can be used solely for the purposes identified in the ADP. Any funds advanced to the special district may be repaid from tax increment received by the special district.

D. **Special Requirements**

There are no special affordable housing or other requirements applicable to the activities conducted under an ADP.

E. **Challenges and Limitations**

ADPs are only available in the instance where an annexation proposal includes territory that qualifies as an unincorporated disadvantaged community and unless extended by the State legislature will only be available through January 1, 2025, thus limiting this tool's applicability.

Any portions of unincorporated disadvantaged communities that overlap with a former redevelopment project area may not be included in an ADP. Also, the distribution of tax increment under an ADP may not result in a reduction of property tax revenues allocated to school entities.

Infrastructure and Revitalization Financing Districts (IRFDs)

Infrastructure and Revitalization Financing Districts (IRFDs) were authorized under AB 229, the primary purpose of which was to give local governments tools and resources to fund public infrastructure, affordable housing, economic development and job creation, and environmental protection and remediation. To that end, IRFDs are authorized to undertake and finance specified activities to meet those goals.

A. **IRFD and EIFD Distinctions**

Since the laws enabling IRFDs and EIFDs were both adapted from Infrastructure Financing District law (discussed later in this appendix), IRFDs share many common elements with EIFDs. However, there are a few important differences between the two tools, as follows:

Term: The maximum term of an IRFD is 40 years, while the maximum term of an EIFD is 45 years.

Governance: IRFDs are governed by the legislative body that forms the District, which would be either a city or a county. EIFDs are governed by a Financing Authority (PFA), which is a separate legal entity formed specifically to govern the EIFD and detailed in Chapter 2 of this primer.

Voter approval process for formation: The formation of an IRFD is subject to a vote of qualified electors and two-thirds of the cast votes must be in favor of creating the district. In comparison, the formation of an EIFD is subject to a process of three public hearings and potentially a protest vote, which is detailed in Chapter 2 of this primer.

Length of formation process: The formation of an IRFD is subject to one public hearing and can be completed in a shorter time span than an EIFD, which requires a series of three public hearings, with each being at least 30-days after the prior public hearing.

Permitted financing activities of district: Both tools permit the district to fund a broad array of facilities. The eligible expenditures and limitations that are unique to the IRFD relative to the EIFD are as follows:

Permitted activities that are Unique to IRFDs	Prohibited activities that are Unique to IRFDs
Acquisition, construction, or repair of market rate housing, provided that 20% of units financed by the district are restricted to low- and moderate-income households.	Routine maintenance or repair work of any kind (EIFDs may fund the cost to maintain public capital facilities financed in whole or in part by the district)
Acquisition, construction, or repair of commercial structures for private use (without conditions that apply to funding by EIFDs)	

Eligible revenue sources for the district: IRFDs may use two sources of funds: 1) property tax increment generated by properties within the boundaries of the district that is voluntarily dedicated by participating taxing agencies; and 2) eligible distributions to the sponsoring jurisdiction's Redevelopment Property Tax Trust Fund (RPTTF) after all legal obligations from that revenue have been made. In comparison, additional sources of revenue may be deposited into EIFDs, including property tax revenues in lieu of motor vehicle license fees (VLF revenues), and assessment district revenues and other sources that are detailed in Chapter 2 of this primer.

B. **IRFD Formation Process**

A city, county, city and county, or joint powers authority (a sponsoring agency) can form an IRFD. The sponsoring agency's legislative body may designate one or more proposed IRFDs within the sponsoring agency's jurisdiction. An IRFD may be divided into "project areas" which share a common purpose or goal and an overall financing plan, but with differing limitations. Any Taxing Entity may join in the district except for educational entities and redevelopment successor agencies. The governing board of the sponsoring community that sponsors the IRFD (either a city council or county board of supervisors, or the base reuse authority's governing board) is the governing board of the IRFD. The process to form the IRFD involves several legislative actions, creation of an Infrastructure Financing Plan (IFP), and an election, all as further described below.

The first step in establishing an IRFD is the adoption of a resolution of intention by the sponsoring agency's legislative body. A copy of the resolution must be mailed to each landowner within a proposed IRFD and to each Taxing Entity. The legislative body must then designate and direct the city engineer or other appropriate official (the "designated official") to prepare a proposed IFP.

C. **Infrastructure Financing Plan**

Like EIFDs, IRFDs require the preparation of an Infrastructure Financing Plan (IFP). The contents of the IFP for the two types of districts share many common elements, but there are some differences. The required elements of an IFP for an IRFD include:

- Finding of consistency with the general plan of the governing city or county.
- Map and legal description of the proposed district.
- Description of the public facilities and other forms of development or financial assistance that is proposed in the area of the district.
- Finding that public facilities are of community-wide significance.
- Financing section, which shall contain all of the following information:
  - Maximum portion of the incremental tax revenue of the city/county and each affected taxing entity proposes to commit to the district for each year during which the district will receive incremental tax revenue (the portion can vary over time);
  - Plan for financing public facilities;
  - A limit on the total number of dollars of taxes that may be allocated to the district pursuant to the plan;
  - Analysis of the fiscal impacts to the city/county;
  - Analysis of the fiscal impacts to other taxing agencies; and
  - Financing plan for costs incurred from reimbursing a developer of a Transit Priority Project Program.
- Date on which the district will cease to exist. The term is either 40 years from the date that the ordinance forming the IRFD is adopted, or a later date specified in the formation ordinance. One approach that has been used is for the date to be the start of the fiscal year when tax increment within the district achieves a specified dollar amount. This enables the district to be formed early but not trigger the start of the 40-year term until the district is receiving significant tax revenue. In comparison, the termination date for EIFDs without project areas is tied to the date that the issuance of bonds or a loan from the city/county to the district is approved. Theoretically, if bonds or a city/county loan is not issued, then the EIFD could remain active indefinitely.

If applicable, the plan shall also include a specification of the maximum portion of incremental tax revenue of the city and of each affected taxing entity proposed to be committed to the district for each year during which the district will receive incremental tax revenue. The portions may change over time and need not be the same for all affected taxing entities.

- Replacement housing plan. Under an EIFD, a replacement housing plan must be included if any occupied dwelling units are proposed to be removed or destroyed in the course of private development or public works construction within the district. For IRFDs, the obligation to replace lost units and provide a replacement housing plan is limited to lost dwelling units that are occupied by persons of low- or moderate-income.

Note: Section 53369.6 (b) requires 20 percent of units that are destroyed and not occupied by Low/Mod households to be replaced with Low/Mod units.

The proposed IFP and any CEQA documentation must be sent to each landowner within the boundaries of the IRFD, and to each Taxing Entity, the planning commission, and the sponsoring agency's legislative body. Once the proposed IFP is prepared, mailed, and made available to the public, the designated official must consult with Taxing Entities, upon request by any Taxing Entity. The sponsoring agency's legislative body must then conduct a public hearing to adopt the proposed IFP with notice mailed to landowners and Taxing Entities as well as published in the local newspaper. The legislative body has the discretion to modify the proposed IFP by eliminating or reducing the size and cost of proposed public works, by reducing the amount of proposed debt, or reducing the portion, amount, or duration of tax increment revenue to be committed to the IRFD.

D. IRFD Formation Election

At the conclusion of the public hearing on the IFP, if the legislative body adopts a resolution proposing formation of an IRFD, then an election must be held to approve the formation of the IRFD and adoption of the IFP. If at least 12 persons are registered to vote in the proposed district, the vote is by registered voters within the proposed district; otherwise, the vote is landowner vote, with each landowner receiving one vote per acre or partial acre of land owned within the proposed district. The IRFD formation and adoption of the plan must receive two-thirds (2/3rds) of the votes. If the voters approve the IRFD and IFP, the sponsoring community's legislative body forms the IRFD and adopts the IFP by ordinance. The sponsoring agency's legislative body may add territory to an existing IRFD or amend the IFP by following same procedures for establishing the IRFD discussed above.

E. Powers and Uses of IRFD Funds

IRFDs can finance capital facilities through the purchase, construction, expansion, improvement, seismic retrofit, or rehabilitation of any property with an estimated useful life of at least 15 years and that is of communitywide significance, including:

- Highways, interchanges, ramps and bridges, arterial streets, parking facilities, and transit facilities.
- Sewage treatment and water reclamation plants and interceptor pipes.
- Facilities for collecting and treating of water for urban uses.
- Flood control levees and dams, retention basins, and drainage channels.
- Childcare facilities.
- Libraries.
- Parks, recreational facilities, open space, and habitat restoration.
- Facilities for the transfer and disposal of solid waste, including transfer stations and vehicles.
- Brownfield restoration and other environmental mitigation.
- Purchase of land and property for development purposes and related site improvements
- Acquisition, construction, or repair of housing for rental or purchase, including multipurpose facilities.
- Acquisition, construction, or repair of commercial or industrial structures for private use.
- Repayment of the transfer of funds to a military base reuse authority.
- Any project that implements a sustainable communities strategy.

IRFDs can also finance the planning and design work that is directly related to the purchase, construction, expansion, or rehabilitation of the public facilities. The facilities funded by the IRFD need not be physically located within the IRFD's boundaries.

Revenues available to the IRFD may be used to directly pay for eligible work or accumulated for up to 5 years to fund that work; pledged to pay the principal of, and interest on, tax increment bonds, Mello Roos bonds, or improvement bonds; advanced for allowable purposes to an Integrated Financing District; and used to acquire completed facilities. The IRFD may pay for the costs of complying with the replacement housing obligations, relocation assistance obligations, and administrative costs to the county in connection with property tax distribution under the IRFD and may also fund any action necessary to implement the powers under the Polanco Redevelopment Act.

An IRFD may finance projects in former military bases, only if the project is consistent with the authority reuse plan and is approved by the military base reuse authority, if applicable.

F. Financing

The activities of IRFDs are primarily funded with tax increment. IRFDs are structured to mainly rely on tax increment dedicated by the sponsoring community and each participating Taxing Entity, and any additional commitment of "net available revenues" by the sponsoring agency. "Net available revenues" are distributions to the city from the Redevelopment Property Tax Trust Fund that are available to the city after the payment of existing obligations. The governing board of any participating Taxing Entity must adopt a resolution agreeing to the amount of its participation and that resolution must be received by the sponsoring community no later than the public hearing on the IRFD. The sponsoring community may pledge any portion of residual distributions it receives from the redevelopment agency dissolution process.

IRFDs can issue bonds but must obtain voter approval for bond issuances using the same election criteria as for establishment of the district (two-thirds majority vote). Sponsoring communities may wish to schedule the bond election at the same time as the adoption election. Sale of the bonds can be made at negotiated sale or public sale, and must be sold at par or at a discount not to exceed 5 percent of par. Negotiated sales are limited to bond issuances that do not exceed $5,000,000. Public sales must be noticed by publication in a newspaper of general circulation and in financial newspapers published in the City and County of San Francisco and the City of Los Angeles.

IRFDs can enter into various debt obligations in the form of bonds, certificates of participation, long-term leases, loans from governmental agencies, banks, other financial institutions, private businesses, or individuals with all debt of the IRFD required to mature within 30 years of issuance. IRFD revenue may be pledged to pay debt service on Improvement Bonds and Community Facility District bonds. Any debt obligation of the IRFD must be subordinate to an enforceable obligation of a successor agency to a former redevelopment agency. The bonds and obligations of the IRFD are obligations only of the IRFD and not of the sponsoring community, State, or any of its political subdivisions.

G. **Special Requirements**

Similar to EIFDs, IRFDs are subject to a number of affordable housing related requirements:

- Replacement Housing:
  If any dwelling units occupied by low- or moderate-income persons are proposed to be removed or destroyed, then a replacement housing plan is required to be part of the IFP. IRFDs require a one for one replacement obligation for units housing low- or moderate-income households that are destroyed by projects financed by the district. Twenty percent of any market rate units destroyed by the IRFD must be replaced. The replacement housing requirements do not specify any particular percentage of units in particular income categories, nor are there requirements for recorded affordability restrictions or affordability terms. Destroyed units must be replaced within four years (compared with a 2-year requirement for EIFDs) and must be located within district boundaries, or in the case of a military base, anywhere within the territory of the former base consistent with the base reuse plan. Low- and moderate-income dwelling units cannot be destroyed until there are suitable housing units, at comparable cost to the units from which households were displaced, available and ready for occupancy. The housing units shall be suitable to the needs of the displaced households and shall be decent, safe, sanitary, and otherwise standard dwellings
- Relocation Assistance:
  The IRFD must provide relocation assistance and make all the relocation payments to persons displaced by any public or private development activity occurring within the IRFD. The law appears to require relocation assistance for displacement even if there is no public involvement in the development as long as the displacement occurs in the district.
- Affordable Housing Production:
  Twenty percent of units constructed by the IRFD must be made available to and occupied by low- and moderate-income households at an affordable housing cost. There is no inclusionary housing production requirement for all other units constructed or rehabilitated within district. The production requirements do not specify any particular percentage of units in particular income categories, nor is there a requirement for recorded affordability restrictions or affordability terms.

H. **Other Conditions**

Once established, an IRFD can exist for a term of up to 40 years, or such later date as specified by the ordinance establishing the IRFD. The IRFD cannot supplant facilities or services already available within that territory when the IRFD was created, except if those facilities or services are essentially nonfunctional, obsolete, hazardous, or in need of upgrading or rehabilitation. The additional facilities or services may supplement existing facilities and services as needed to serve new developments. Additionally, an IRFD may not finance routine maintenance, repair work, costs of ongoing operations, or for providing services of any kind.

An IRFD cannot fund any project in an area that overlaps a former redevelopment project area unless the successor agency to the former redevelopment agency has received a finding of completion from the State Department of Finance. Any debt of the IRFD will be subordinate to the pre-existing enforceable obligations of the former redevelopment agency so that must be accounted for in the IRFD's financing plan.

No later than June 30 of each year after the adoption of an IFP for an IRFD, the sponsoring agency's legislative body must post an annual report on its internet website containing a summary of the IRFD's expenditures, a description of the progress made toward the IRFD's goals, and an assessment of completion of the IRFDs' projects.

Infrastructure Financing Districts

Infrastructure Financing Districts (IFDs) have been an available tax increment financing tool since the early 1990s. They were not widely used during the era of redevelopment as IFDs were considerably less flexible than redevelopment agencies. The IFD law was the predecessor of the new EIFD and IRFD laws that were enacted by State legislation following the end of redevelopment, but the old IFD law still exists under a separate section of the California Government Code because a handful of IFDs still exist. While technically IFDs are still an option for cities and counties seeking to use tax increment financing, EIFDs and even IRFDs are far superior tools. For example, the 30-year term of an IFD is one of many limitations of the tool when placed in comparison to their successor options.

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