

Tax Increment Financing is Back! Using the New EIFD Tool

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Using the New EIFD Tool for Economic Development

October 2, 2015

Presented by
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INTRODUCTION – SOURCES OF FUNDING

- EIFDs are empowered to provide financing for a broad range of infrastructure work:
- Formation process patterned after Mello-Roos
- Tax Increment



FORMATION PROCESS



- Process initiated only by city/county although other tax entities may participate
- Adopts a resolution of intention which defines the area, facilities
- AB 313 impact



WHAT IS THE IFD PLAN?



- The IFD Plan is the heart of the EIFD.
- Specifies what type of facilities are funded, tax increment contributions and other revenue sources
- Defines when the IFD will cease to exist



FACILITIES WHICH MAY BE FUNDED

- Includes the purchase, construction, expansion, improvement, seismic retrofit of any real or tangible property with a useful life of 15 years or greater.



PUBLIC HEARING REQUIREMENT

NOTICE OF PUBLIC HEARING

- Once the IFD plan is completed and circulated, it must be approved by the affected taxing entities.
- School districts may not participate
- Resolution of formation is adopted after the hearing
- Formation does not require vote of qualified electors



GOVERNANCE OF EIFD



- EIFD means a legally constituted government entity separate and apart from the entities which established it. Governed by a public financing authority composed of elected tax entity officials and public



ISSUANCE OF BONDS - REVENUES

- In order to issue bonds, a vote of the people is required. Voter approval rate is 55%.
- Circumstances dictate whether vote is by registered voters or landowners
- Tax increment allocated to EIFD supports debt service
- Bundling of other revenues
- Hybrid use of EIFD to fund CFD special tax



CERTAIN THINGS MUST BE DONE BEFORE THE EIFD PROCESS BEGINS

- The EIFD law allows EIFD to overlap the boundaries of former redevelopment projects.
- Finding of completion from DOF
- No redevelopment assets which are proposed to benefit the EIFD are subject to litigation involving the state
- State controller completes review of RDA transfer



Differences between RDA/EIFD



- Tax increment only that which voluntarily contributed
- No finding of blight
- EIFD does not have eminent domain powers



HOUSING

- An EIFD has no mandatory expenditure requirement for affordable housing. However, all housing financed by EIFD must be with a low/moderate affordable housing restriction.



CONCLUSION

- A fairly simple vehicle which may be utilized to fill a wide variety of infrastructure needs.



Thank You!

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WEST SACRAMENTO IFD/EIFD CASE STUDY

**Paul Blumberg,
Public Finance Manager**



WEST SACRAMENTO BACKGROUND

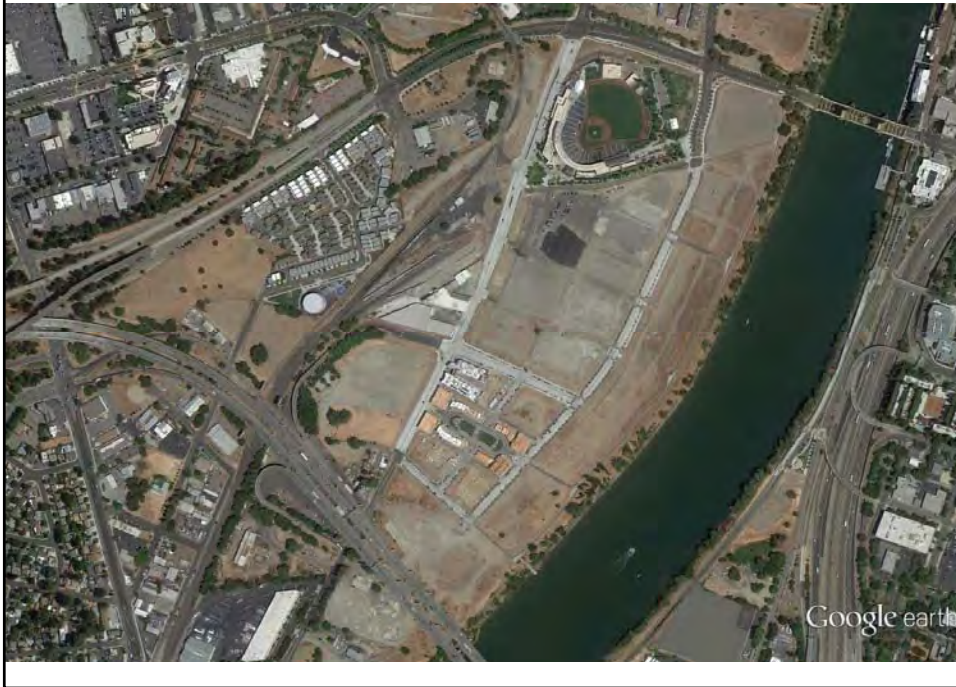
- City incorporated in 1987
- Redevelopment covered 45% of city
- Over its final 10 years, RDA contributed over \$60M in TI funds to riverfront area infrastructure
- RDA TI investment was doubled by infrastructure grants



WEST SACRAMENTO BRIDGE DISTRICT, 2004



WEST SACRAMENTO BRIDGE DISTRICT, 2014



BRIDGE DISTRICT REDEVELOPMENT PROJECT

- Over \$60 million project—rail removal, demolition, new roads, streetscape, utilities, parks, & water storage tank.
- CFDs formed by property owners, \$15 million of redevelopment TIF, & over \$30 million in grants.



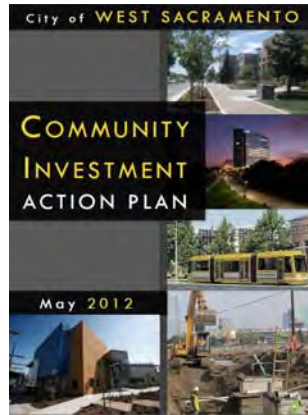
RESULTS

- Over 700 housing units completed or under construction.
- Riverfront entertainment venue under construction.
- Streetcar construction planned for 2016.



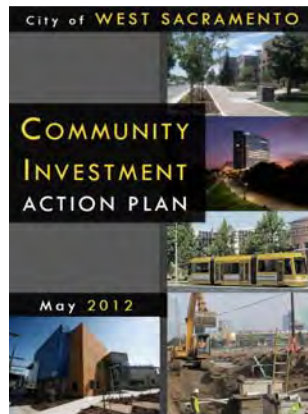
RESPONSE TO RDA ELIMINATION

- Mayor formed committee to study post-RDA options
- Staff produced Community Investment Action Plan
- GOAL:
Replicate RDA's level of infrastructure investment



RESULTS

- Measure G passed by 87%:
\$3.5 million/year for projects
- Identified IFDs as long-term tax increment solution
- Pursued IFD/EIFD legislation:
AB 417 & SB 628



BRIDGE DISTRICT IFD

- Development Agreements pledged tax increment for future infrastructure
- Unsuccessful litigation vs. State
- AB 471 enacted
- IFD formed in about 8 months, about \$100K in startup costs
- Property owner vote with simultaneous bond vote



BRIDGE DISTRICT IFD

- IFD projected to out-produce RDA 2:1
RDA expires in 2037 (\$150 million in TI)
IFD expires in 2044 (\$325 million in TI)
- IFD can pay for same infrastructure items committed to RDA TI
- Maintenance CFD formed simultaneously
- City now in process of analyzing & forming community-wide EIFD



WEST SACRAMENTO EIFD FORMATION

- What are the EIFD Boundaries:
Multiple EIFD's versus one large EIFD
- Map development projects, master plan areas, and Brownfield sites
- What are the projects to be funded through the EIFD



EIFD FORMATION ISSUES

- Consider creation of Joint Powers Agency to add other powers (i.e., Land Assemblage)
- Flexibility to budget EIFD funds on annual basis for “Pay as you go expenses” to mitigate fiscal impacts on General Fund
- Consider use of other funding sources in early years (i.e., CFD/Assessment Districts) to finance infrastructure
- Consider timing of bond authorization (start 45-year term)
- Must comply with CEQA

EIFD Case Study Feasibility Analysis

The Economics of Land Use



Oakland
Sacramento
Denver
Los Angeles

presented by:

Walter F. Kieser, Senior Principal

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Essential Characteristics of EIFD

- Boundary should encompass multiple properties and be large enough to capture sufficient tax increment
- Proposed development projects and other growth potential in area must be described, quantified, and “market real” in the near term
- Market analysis should determine value, market feasibility, and timing of development, and need for public investment
- Public infrastructure items and related funding needs must be identified and accurately cost-estimated
- Companion funding sources should be identified
- Fiscal effects should be measured and affordable to the city (reduction in future general fund revenue)

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Case Study Area and Characteristics

- 30,000 resident suburban city in the outer Bay Area
- 80-acre district historically composed of historic town center, single-family homes, light-industrial uses, public uses, and agriculture
- Recent redevelopment has resulted in land use intensification (mixed-use housing/retail) in prime locations
- 20-acres remain under-utilized and appear well-positioned for redevelopment
- Horizontal infrastructure including water, sewer, and streetscape improvement are required to support redevelopment going forward

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Case Study Development Projects

- Residential
 - Compact residential development
 - 30 Dwelling Units / Acre
 - 600 Units total
 - Market support for \$400,000 to \$500,000 per unit
- Commercial
 - Retail / Office / Medical Office
 - 150,000 square feet
 - Market support for \$275 to \$325 per square foot
- Absorption
 - 5-year absorption of development pipeline

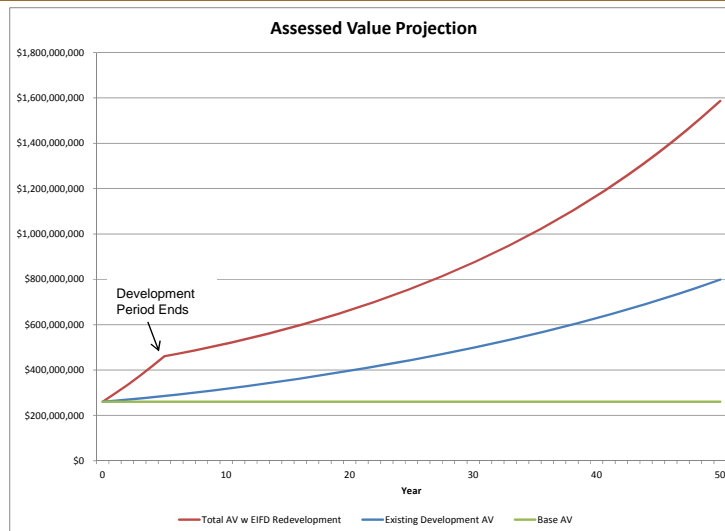
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Tax Increment and Bond Capacity

- Tax increment includes that from new development and also turnover and the two percent growth of the existing development and the new development over time
- Assessed value growth is rapid during buildout and then builds based on re-sales and the two percent base growth; bond capacity grows proportionately
- There is substantial variation, city-to-city, in property tax increment allocation factors (AB-8)
- The local tax increment factor is very important – a low factor will yield very little tax increment and related bond capacity
- EIFD financing (bonds) will generally provide “back-end” funding; it may take years for sufficient tax increment to be created

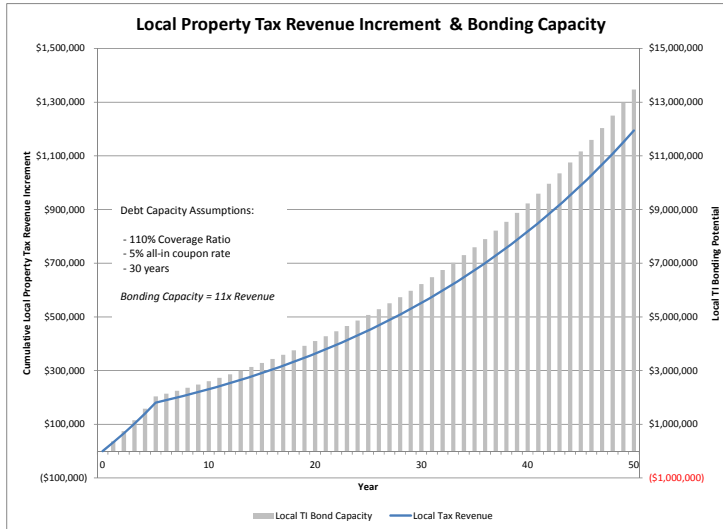
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Assessed Value Forecast



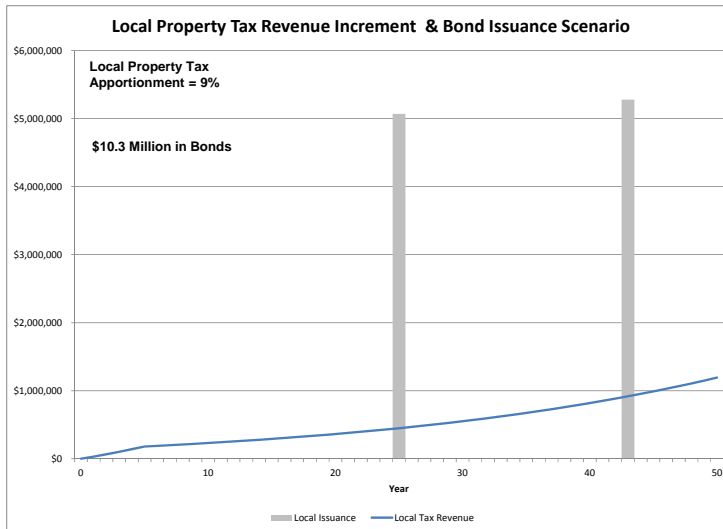
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Assessed Value and Tax Increment Forecast



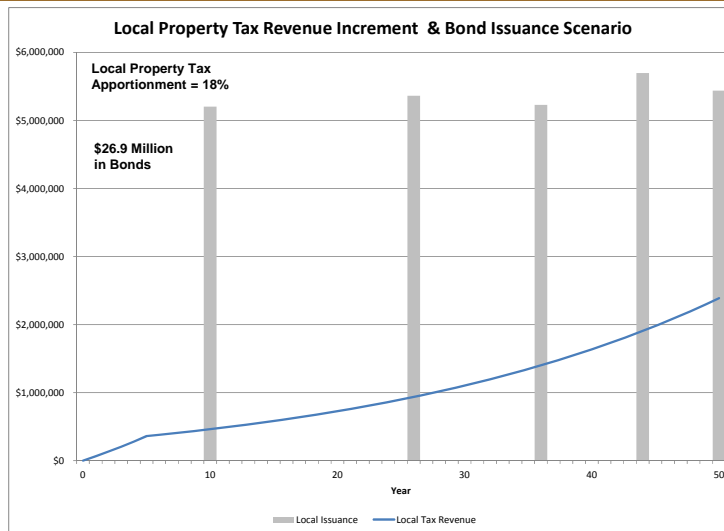
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Bond Issuance Scenario



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Bond Issuance Scenario (2x tax factor)



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Comparison of Scenarios

- With nine percent increment factor bond capacity is \$10.3 million with issuance delayed for 25 years
- With 18 percent increment factor bond capacity is \$26.9 million with issue in year 10
- Case Study forecast scenarios illustrate the need for significant early year funding from other sources and additional property tax increment or other revenue pledges to increase bond capacity

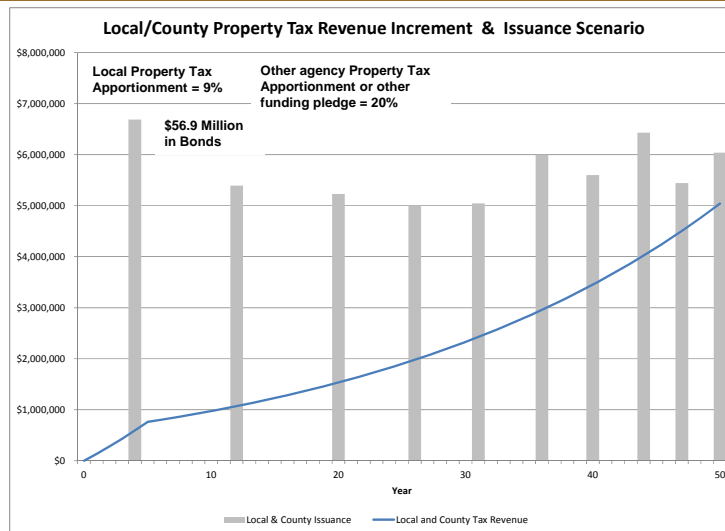
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Other Funding Sources

- Development impact fees, Community Facilities District special taxes, and matching funding from other agencies will often be necessary to achieve a complete funding package by providing early year funding
- Partnerships with other taxing jurisdictions (e.g., county) involving a pledge of their property tax increment
- Pledging city “property tax in lieu of sales tax” revenues or other local funding sources
- Achieving State participation (matching funding) for qualifying EIFDs
- Assuming such other funding sources in the Case Study, bond capacity increases to \$56.9 million, with first issue in year 5

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Bond Issuance Scenario with Other Agency Participation



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Summary -- Key EIFD Feasibility Issues

- Justification – do the infrastructure investments serve a public purpose?
- Affordability -- are the fiscal effects acceptable?
- Development Feasibility – is there a strong likelihood of development occurring in timely manner?
- Other Funding – is funding available to cover early year costs and to supplement bond debt service?
- Effectiveness – do combined financial resources and bond capacity pay for needed infrastructure?
- Creditworthiness – is scale and quality of development adequate to attract bond buyers?