Tax Increment Financing

Revised Funding Template Provides Options for Local Projects

California state government has substantially reduced its commitment to local economic development over the last seven years. While the economy has been strong, traditional tools to support local infrastructure and affordable housing related to economic development have withered.

One of the legacies of Governor Edmund G. Brown Jr. has been to reduce the state's profile in local economic development. Part of this was driven by budget exigencies, while part was driven by his skepticism of the value of state efforts and the need to push local responsibilities firmly to local governments.

The Governor joined with the Legislature in 2013 to dump the state's venerable Enterprise Zone program, which provided hundreds of millions of dollars in tax abatements and other incentives to companies that located jobs in several dozen designated zones in distressed urban cores and rural areas.

Even more consequential was the elimination of cities' redevelopment programs. At the Governor's insistence, in 2011 the Legislature abolished state support for redevelopment agencies, fatally undermining their financial model, which was based on sharing property tax increment from new development in blighted zones.

The Governor successfully argued, during the worst economic downturn in 70 years and facing a $25 billion state budget deficit, that support for redevelopment agencies was a lower priority than, say, public education and health care for the poor. Legislative allies pointed out instances of abuses in the program, including designating greenfield developments as "blighted."

The upshot of this decision was to constrict the pipeline of revenues for infrastructure to support local development, subsidies for affordable housing in these zones, and incentives to businesses to locate or expand in the redevelopment areas. Affordable housing has suffered a reduction of more than $1 billion a year from the loss of redevelopment subsidies.

While overall economic and job growth has been strong in California since the end of the last recession, local governments have been constrained in directing infrastructure, affordable housing and economic development to disadvantaged areas. The next economic downturn will further stress any residual efforts to advance local economic development.

REVISED FINANCING TEMPLATES

Since the demise of these programs and subsidies, the Legislature has cobbled together several infrastructure financing agency templates that local governments can utilize at their option. The key element to each is the use of tax increment financing, which designates the increment of property tax revenues attributable to new development in the affected zone back to infrastructure and subsidies in the zone.

The primary difference between the old redevelopment program and today's lighter versions is that the property tax assigned to schools and community colleges (about half of each property tax dollar) does not transfer to the new agency, thereby reducing by half the financing potential of these agencies.

Because the state makes up the difference in school finances between local property taxes and their constitutionally guaranteed funding (Proposition 98), any allocation of schools' property taxes to other agencies comes as a cost to the state General Fund.

Nonetheless, economic developers insist that tax increment financing is a useful, if today a less powerful, local development tool.

Advantages include:

- Zones and projects use existing tax revenues, not new taxes.
- Voter approval is necessary only to create bonded debt, not to create a revenue stream.
- Dedicated tax increment can leverage other public and private resources, such as cap-and-trade revenues, local vehicle license fee subventions, development or user fees, state bond revenues, federal grants, and private investments.
- Securitizing the tax increment over many years (through bonded debt) increases private investor confidence for projects.

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LEGISLATION SUPPORTING LOCAL DEVELOPMENT

In 2014, the Legislature established Enhanced Infrastructure Financing Districts (EIFDs), which are independent local agencies that can be governed by cities, counties and/or special districts. These districts can use property tax increments created by the constituent entities (but not from schools) as well as development and user fees, and state or federal grants or loans. The districts can issue bonds with a 55% local vote backed by tax increment to finance public capital facilities or projects of communitywide significance.

In 2015, the Legislature established Community Revitalization and Investment Authorities (CRIAs), which were similar to EIFDs, but created more of a focus on affordable housing. As of mid-2018, some 15 to 20 EIFDs or CRIAs are under consideration, with three approved.

CALCHAMBER POSITION

The California Chamber of Commerce supports enhancement of existing local economic development tools, and the addition of new tools to the toolbox. This includes evaluation of richer tax increment revenue stream available to local agencies.

Key considerations for 2019 will include:

• Can the state dedicate a portion of schools' property tax increment to these economic development and affordable housing districts? After all, this is tax increment, which implies that the project which creates the new property tax revenue would not have existed but for the new economic development investment. This could be true in particular for disadvantaged or economically distressed areas.

• Should greater state investment in these economic development zones imply more local investment for affordable housing?

• Should some of the limited permit and litigation streamlining made available to certain housing projects by 2017 legislation be extended to include other economic development (especially infrastructure) projects?

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