SENATE COMMITTEE ON HOUSING
Senator Scott Wiener, Chair
2021 - 2022 Regular

Bill No:	SB 780	**Hearing Date:**	4/29/2021
Author:	Cortese		
Version:	4/13/2021		
Urgency:	No	**Fiscal:**	No
Consultant:	Alison Hughes		

SUBJECT: Local finance: public investment authorities

DIGEST: This bill makes several changes to enhanced infrastructure financing districts (EIFDs) and community revitalization infrastructure authorities (CRIAs).

ANALYSIS:

Existing law:

EIFDs

1) Authorizes local governments to create EIFDs and to use tax increment financing to finance public capital facilities or other specified projects.

2) Requires an EIFD to have a membership consisting of one of the following:

   a) If an EIFD has only one participating taxing entity, then the membership shall consist of three members of the legislative body of the participating entity and two members of the public chosen by the legislative body.

   b) If an EIFD has two or more participating affected taxing entities, the membership shall consist of a majority of members from the legislative bodies of the participating entities, and a minimum of two members of the public chosen by the legislative bodies of the participating entities.

3) Requires a legislative body, when designating an EIFD, to adopt a resolution of intention to establish a proposed district. The resolution of intention shall include, among other things, a statement that an EIFD is proposed to be established and a description of the boundaries, which may be accomplished by reference to a map.

4) Authorizes the EIFD, among other things, to purchase, construct, or improve of real property or maintain of public facilities, as specified.

5) Requires a designated official to prepare a proposed EIFD plan, which shall contain, among other things, a financing section, as specified.

6) Requires the EIFD plan to be sent to each property owner within the proposed EIFD and to each taxing entity together with any reports required by the California Environmental Quality Act (CEQA), as specified.

7) Requires the authority to review the EIFD plan at least annually and authorizes the authority to make amendments as needed.

CRIAs

8) Authorizes a local government to establish a CRIA to use property tax increment revenues to finance a community revitalization plan within an community revitalization area.

9) Requires a governing board to be appointed by the local government that created the CRIA and include three members of the legislative body of the local government and two public members.

10) Authorizes a CRIA to carry out a plan within a community revitalization area. Not less than 80% of the land shall be characterized by both of the following conditions:

    a) An annual median income that is less than 80% of the statewide, countywide, or citywide annual median income.

    b) Three of the following conditions: specified high unemployment rates, specified high crime rates, deteriorated or inadequate infrastructure, or deteriorated commercial or residential structures.

11) Authorizes a CRIA to carry out a plan, as an alternative to (8) above, within a community revitalization area if it meets either of the following: the area is established within a former military base that is not characterized by deteriorated or inadequate infrastructure and structures, or the census tracts or census block groups are situated within a disadvantaged community.

12) Authorizes a CRIA to, among other things, provide funding to rehabilitate, repair, upgrade, or construct infrastructure, provide for low- and moderate-

income housing, acquire and transfer real property, issue bonds, borrow money, receive grants or accept financial or other gifts, and provide direct assistance to businesses within the plan area in connection with new or existing facilities for industrial or manufacturing uses.

13) Requires that the repayments of the CRIAs debts and obligations shall not exceed 45 years. The plan shall specify that a CRIA shall dissolve as a legal entity in no more than 45 years.

14) Requires the CRIA to review the plan at least annually and make amendments necessary and appropriate, as specified.

Housing Elements

15) Requires cities and counties to prepare and adopt a general plan, including a housing element, to guide the future growth of a community. The housing element shall consist of an identification and analysis of existing and projected housing needs and a statement of goals, policy objectives, financial resources, and scheduled programs for the preservation, improvement, and development of housing. Requires the housing element to contain an assessment of housing needs and an inventory of resources and constraints relevant to meeting those needs.

16) Requires a locality's inventory of land suitable for residential development to be used to identify sites that can be developed for housing within the planning period and that are sufficient to provide for the locality's share of the regional housing need for all income levels. Land suitable for development includes, among other things: Residentially zoned sites that are capable of being developed at a higher density and sites zoned for nonresidential use that can be redeveloped for residential use, and for which the housing element includes a program to rezone the site, as necessary.

17) Defines a transit priority as a project that shall (a) contain at least 50% residential use, (b) provides a minimum net density of at least 20 dwelling units per acre; and (c) be within one-half mile of a major transit stop or high-quality transit corridor included in a regional transportation plan.

This bill:

EIFDs

1) Provides that if an EIFD has one or two participating tax entities, the legislative body may appoint one of its members to be an alternate member.

2) Provides that if an EIFD has three participating tax entities, the legislative bodies may, upon agreement by all participating affected taxing entities, appoint only one member and one alternative member of their respective bodies to the public financing authority, and a minimum of two members of the public chosen by the legislative bodies of the participating entities.

3) Authorizes an EIFD map to identify project areas.

4) Requires the EIFD plan to contain either of the following:

   a) A date on which the EIFD will cease to exist, not more than 45 years from the date on which the issuance of bonds is approved or the issuance of a loan is approved by a governing board of a local agency.

   b) If the district is subdivided into project areas, a date on which the plan will cease to be in effect and all tax allocations to the district will end and a date on which the authority to repay indebtedness with incremental tax revenues will end, not to exceed 45 years, as specified.

5) Provides for an alternative schedule to mailing the EIFD plan and any CEQA documents, and any additional required notices, as specified.

6) Authorities amendments to the EIFD plan, including proposals to finance affordable housing and additional eligible projects, to be approved by a majority vote of the governing board at a public hearing held following the 30-day notice describing the proposed changes mailed to all property owners, residents, and affected taxing entities. Additional amendments shall be adopted in accordance with all notices and hearing requirements for affected landowners and residents, as specified.

7) Provides that if after the date of the formation of the EIFD, an affected taxing entity adopts a resolution approving the EIFD plan and to participate in the division of taxes to finance an EIFD, the division of taxes shall be based upon the last equalized assessment roll that is used for the district, as specified.

CRIA

8) Authorizes the governing board of the CRIA to appoint one of its members to be an alternate, as specified.

9) Adds sites identified in a local government's housing element that are suitable for residential development, including parcels that allow transit priority projects, to the list of alternative locations where local agencies can establish CRIAs if they comply with either a sustainable communities strategy or an alternative planning strategy.

10) Authorizes a CRIA to provide direct assistance to business within the plan area in connection with the redevelopment or conversion of underutilized office or retail structures or parcels into housing.

11) Requires the plan to specify that the CRIA shall dissolve in no more than 45 years from the date upon which the issuance of the debt is approved for a plan, or approved for a project area designated by the CRIA, as specified.

12) Provides that, if a CRIA divides the plan into multiple project areas, the date on which the plan will cease to be in effect and all tax allocations to the CRIA will end and a date on which the repayment of indebtedness with incremental tax revenues will not exceed 45 years, as specified.

13) Requires the CRIA to prepare an annual independent financial audit paid for from revenues from the CRIA, and to make amendments to an approved plan including proposals to finance affordable housing by a majority vote of the governing board, as specified.

14) Requires the CRIA, every 15 years, to consider whether property owners and residents within the plan area wish to prepare amendments to the plan, as specified.

COMMENTS

1) *Author's statement*. "After the elimination of redevelopment agencies, the state has tried to find effective solutions to spur economic development and build affordable housing in local communities. EIFDs and CRIAs have shown promise, yet have proven to be overly cumbersome to establish and operate. SB 780 will successfully revitalize these tools, empowering local agencies to leverage their tax increment to spur the development of affordable housing and public infrastructure in their communities."

2) *Housing elements.* Every city and county in California is required to develop a general plan that outlines the community's vision of future development through a series of policy statements and goals. Each community's general plan must include a housing element, which outlines a long-term plan for meeting

the community's existing and projected housing needs. In general, a housing element must identify and analyze existing and projected housing needs, identify adequate sites with appropriate zoning to meet its share of the regional housing needs allocation, and ensure that regulatory systems provide opportunities for, and do not unduly constrain, housing development. As part of the process to identify adequate sites, a city or county first prepares an inventory of existing sites zoned for housing. When the inventory of existing sites is insufficient to accommodate the need for one or more income categories, the housing element must contain a program to rezone sites within the first three years of the planning period.

3) *Tax increment financing (TIF).* According to Governor's Office of Planning and Research (OPR), TIF is a mechanism used to fund and finance public facilities and other improvements, often in infill locations where up-front investments are needed to enable real estate development.[1] TIF captures incremental growth in tax revenues (usually property tax, although other types of revenue can also be collected) above and beyond what taxing entities receive within a designated area. TIF revenues are typically used to pay back upfront costs or debt service for bonds issued to fund improvements such as infrastructure and other public facilities that are needed to facilitate private investment. TIF can play an important role in providing funding for affordable housing. Historically, TIF was a financing tool used by local redevelopment agencies (RDAs). While they were active, RDAs enjoyed broad powers and often played a role in encouraging infill and TOD. RDAs were also an important local source of funding for affordable housing, because state law required RDAs to set aside 20% of revenues for that purpose. RDAs were dissolved by the state in 2012, partly due to concerns about how TIF revenues were being used (*ie* not meeting their obligations to fund affordable housing).

4) *Alphabet soup: IFDs, EIFDs, IRFDs, CRIAs, AHAs, NIFTIs, and NIFTI-2s.* Since the dissolution of RDAs, the Legislature has created numerous new TIF tools to authorize local governments to raise revenues to finance local infrastructure. Below is a chart summarizing the various available TIF tools.

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[1] Office of Planning and Research. *Housing Financing Tools and Equitable, Location-Efficient Development in California: Report on the Use of Tax Increment Financing.* (December 29, 2020) https://www.opr.ca.gov/docs/20210203-TIF_Tools_Final_Report.pdf

TIFs + Enabling Legislation	Location Reqs	Rev Sources	Affordable Housing Reqs	Expenditures	Number Created
Infrastructure Financing Districts (IFD), SB 208 (Seymour, Chapter 1575, 1990)	None	Property tax increment	None	Capital improvements only, such as highways, transit, water systems, sewer projects, flood control, childcare facilities, libraries, parks, and solid waste	2
Enhanced Infrastructure Financing Districts (EIFD), SB 628 (Beall, Chapter 785, 2014)	None	Property tax increment, increment from property tax in-lieu of vehicle license fees	None	Purchase, construction, or improvement of real property; can be used for maintenance of public faclities, as specified	5
Infrastructure and Revitalization Financing District (IRFD), AB 229 (Perez, Chapter 775, 2014)	None	Property tax increment	None	Same as IFDs plus watershed lands, flood management, brownfield restoration and other environmental mitigation, purchase of real property, housing acquisition or construction, commercial acquisition or construction, and repayment transfer funds nto a military base reuse authority	0
Community Revitalization and Infrastructure Authority (CRIA), AB 2 (Alejo, Chapter 319, 2015)	Disadvantaged communities, as specified, or an area within a former military base, as specified.	Property tax increment, increment from property tax in-lieu of vehicle license fees	25% for affordable housing	Wide range of capital improvements within its boundaries	0
Affordable Housing Authorities, AB 1598 (Mullin, Chpater 764, 2017)	None	Property tax increment, increment from property tax in-lieu of vehicle license fees, sales and use tax increment	95% for increasing and preserving affordable housing, as specified.	Financing low- and moderate-income housing, including supportive and transitional housing.	0
Neighborhood Infill Finance and Transit Districts (NIFTI), AB 1568 (Bloom, Chapter 562, 2017)	Qualified infill site	Property tax increment, increment from property tax in-lieu of vehicle license fees, sales and use tax increment	20% of revenues for acquisition, rehabilitation or construction of affordable housing; 20% for all housing to be affordable	Wide range of capital improvements and affordable housing	0

Second Neighborhood Infill Finance and Transit Districts (NIFTI-2), SB 961 (Allen, Chapter 559, 2018)	Qualified infill site and within 1/2 mile of a major transit stop	Property tax increment, increment from property tax in-lieu of vehicle license fees, sales and use tax increment	40% of revenues must be spent on affordable housing; 50% of affordable housing funds for households below 60% AMI and 50% for households below 30% AMI		0

5) *OPR reports.* SB 961 (Allen, Chapter 559, Statutes of 2018) required OPR to, on or before January 1, 2021, complete a study and make recommendations on (1) the effectiveness of TIFs, (2) the relative advantages and disadvantages of different types of TIF tools, and (3) the impacts of extending NIFTI-2s to areas around bus stops, including segregated bus lanes. The first report identified several key limitations current TIF districts share:

   a) They have limited revenue potential to make district formation worthwhile;

   b) Unlike redevelopment where taxing entity participation was mandatory, current TIF districts rely on volunteer participation;

   c) They have limited powers compared to RDAs; and

   d) Some technical challenges interfere with their development.

   The reports found that despite the multitude of TIF tools available for local agencies to choose from, only five EIFDs had been created by the end of 2020: Otay Mesa (San Diego County), Placentia (Orange County), La Verne (Los Angeles County), West Sacramento (Yolo County), and Sacramento (Sacramento County).[2] Of these five, only the Placentia and La Verne EIFDs will include County participation. Three additional TIF districts are under consideration in the cities of Fresno, Ontario, and Redondo Beach. Within the EIFDs created, the total housing anticipated is around 38,000 units; the report notes that while the funds will not fund affordable housing, some will indirectly help to enable affordable housing, either by providing supportive infrastructure or through the use of an inclusionary housing requirement. To overcome these challenges and encourage the creation of more TIF districts, OPR recommended the following:

[2] The report points out that two IFDs were created, but these were created under unique circumstances prior to the end of redevelopment

a) Make online resources and technical assistance available to practitioners to better understand their application.

b) Explore ways to encourage participation of multiple taxing entities and leverage state resources to increase TIF district revenue potential.

c) Explore changes to TIF districts to encourage their adoption in alignment with state affordable housing and location efficiency goals.

d) Make various technical changes to resolve potential confusion with TIF statutes.

6) *Changes to EIFDs and CRIAs.* This bill allows local agencies forming an EIFD or CRIA to: appoint an alternate member of their legislative body; and form "project areas" within a proposed CRIA or EIFD rather than create separate districts. This bill also makes several EIFD-specific changes. Specifically, it requires the EIFD to make the EIFD plan available to the public on its website; clarifies that when a taxing entity joins an EIFD, its tax increment calculation is based on the last equalized assessment roll; and allows the EIFD to consolidate existing requirements to mail the plan when complete and make the plan available at least 30 days before noticing the first public meeting. Lastly, this bill requires the CRIA, every 15 years to consider whether the property owners and residents within the plan area wish to propose amendments to the plan. The author notes that these will make these tools more appealing for local governments to use.

7) *Housing provisions*. This bill makes three changes related to housing that, according to the sponsor, the California Association for Local Economic Development, could make CRIAs and EIFDs more useful for local governments and therefore more likely to result in housing construction.

a) *Expand eligible areas within CRIAs.* When CRIAs were created in 2015, they were modeled on RDAs and therefore limited to traditionally disadvantaged areas. This bill would dramatically expand eligible areas where CRIAs may be established by including sites suitable for residential development that are included in a local governments housing element, as well as include parcels zoned to include transit priority projects. While other TIFs, such as IFDs and EIFDs, do not have location limitations as narrow as CRIAs, it does beg the question as to whether TIFs should be more targeted or not. Additionally, unlike EIFDs, CRIAs require 25% of the funds to be used for affordable housing. According to the sponsors, the hope is locals will be incentivized to use CRIAs and facilitate the construction of housing on these sites.

b) *Expediting project approvals*. This bill would also allow for the EIFD or CRIA board to amend the district plan, including proposals to finance additional affordable housing projects included in the initial plan. This would be done by a majority vote of the EIFD or CRIA board at a public hearing following a 30-day mailed notice of the proposed changes to all property owners, residents, and affected taxing entities. According to the sponsors, this would expedite approval by avoiding a 120-day hearing process, and protest option that is required for initial formation.

c) *Use of funds for underutilized commercial properties*. Lastly, this bill would authorize CRIAs to provide direct assistance to businesses within the plan area in connection with the redevelopment or conversion of underutilized office or retail structures or parcels into housing.

8) *Overall impacts*. RDAs were widely adopted for two reasons. First, they allowed cities and counties to take increment from the school share of the property tax, which the state backfilled from the General Fund in many cases. This generated billions of dollars in additional funds that cities and counties could only access through redevelopment. Second, they allowed cities and counties to skirt voter approval requirements on debt issuance. While both EIFDs and CRIAs do not require voter approval to issue bonds, this bill does not grant them any funds beyond what would be otherwise available, making them significantly less attractive. This bill makes several changes to streamline EIFD and CRIA formation: it allows for alternate board members, creates a plan amendment process, and allows districts to create project areas. While certain changes like consolidating boards with more than three tax entities seem to align with OPR's recommendation to encourage participation of other taxing entities, this bill does not address other OPR recommendations such as leveraging state funding, or finding a way for TIF districts to be successful in areas that do not receive a significant share of property tax revenue.

9) *Department of Corrections.* There is an incorrect citation in the bill. **The author will accept an amendment to make the following correction:**

Page 19, Line 18:
pursuant to paragraph (3) or (4) <u>**of subdivision (a)**</u> of Section 65583.2,

10) *Double-referral*. This bill passed out of the Senate Governance and Finance Committee on April 8, 2021 with a vote of 5-0.

RELATED LEGISLATION:

SB 563 (Allen, 2021) – makes several changes to the Second Neighborhood Infill Finance and Transit Improvements Act (NIFTI-2). *This bill will also be heard at today's hearing.*

FISCAL EFFECT: Appropriation: No Fiscal Com.: No Local: No

POSITIONS: (Communicated to the committee before noon on Friday, April 23, 2021.)

SUPPORT:

City of Lakewood
City of Lynwood
City of San Diego
City of West Sacramento
County of Monterey
Desert Valleys Builders Association
Keyser Marston Associates, INC.
League of California Cities
RSG, INC.
San Francisco Bay Area Planning and Urban Research Association (SPUR)
Southern California Edison
Southwest California Legislative Council

OPPOSITION:

None received

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