The Economics of Land Use

Financing Infill Site Development: Readiness and the role of EIFD and CRIA

presented to

Resources for Sustainable Redevelopment and Land Recycling in San Jose

presented by

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Center for Creative Land Recycling and the City of San Jose

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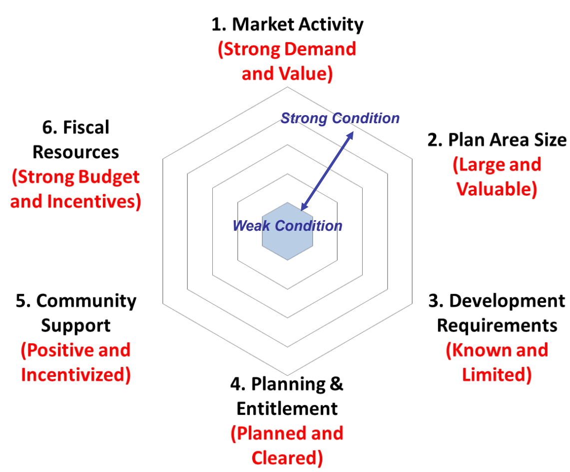
Overview

- Redeveloping "Environmentally challenged" infill sites occurs in context of City's infill development potential and strategy
- Understanding and improving "development readiness" and related value of infill sites is a first step toward redevelopment
- Combining developer-based funding, land secured financing, City funding and financing, and regional, State and federal grants typically will be necessary
- Available "tax increment" financing tools (EIFD, CRIA) in some cases are beneficial elements of a comprehensive infill development and financing strategy

Infill Development Context

- Supporting regional and local planning efforts
- Market conditions and potential vary widely area-to-area; generally strong in San Jose
- Physical and environmental constraints are common
- Infill sites generally have higher land acquisition and construction costs (e.g., structured parking)
- Obtaining entitlements often hampered by community opposition or lack of supportive City policy
- Local government finanicial resources and capacity are often inadequate

Measuring Infill Site Development Readiness



Infrastructure Financing Sources

SOURCE	TOOL	Best When . . .
Developer-Based Funding	• Impact Fees • Private Financing	• Strong Market • Community Support • Limited Fiscal Resources • Project-Focused Investments
Land-Secured Funding	• Community Facilities Districts • Benefit Assessment Districts	• Strong Market • Community Support • Limited Fiscal Resources • Project-Focused Investments or "Special Benefits" • Non-Residential Area
City Funding & Financing	• GO Bonds • Revenue Bonds • Parcel Taxes • Sales Taxes • Capitalizing Leases • EIFD/CRIA	• Strong Market • Community Support • Strong Fiscal Resources • General Benefit or Existing Deficiencies
State & Federal Programs	• Grants • Low-Cost Loans	• Limited Market & Fiscal Resources • General Benefit or Existing Deficiencies

Tax Increment Financing

- "Tax increment financing" taps growth in property tax value from new development for a specified public purposes including infrastructure financing.
- "Tax increment financing" extensively used by Redevelopment Agencies before their dissolution (2014).
  - Blight removal
  - Infrastructure Improvements
  - Affordable Housing
- State has authorized two new types of tax increment financing:
  - Enhanced Infrastructure Financing Districts (EIFD)
  - Community Revitalization and Investment Authorities (CRIA)

Enhanced Infrastructure Financing District

- Can fund wide variety of public investments including affordable housing
- Governed by an appointed “Public Finance Authority”
- No “blight findings” or voter approval required (bond sales require 55 % voter approval)
- Noncontiguous boundaries permitted
- Can be formed in former Redevelopment Project Areas
- Term is 45 years from first bond sale
- Facilities of communitywide benefit can be funded outside district (expanded list)
- Other revenue sources can be pledged and other local taxing entities can participate
- “Infrastructure Financing Plan” that identifies items to be funded and fiscal effects is required

Community Revitalization and Investment Authority

- Derives from Redevelopment Law, requires increased transparency and establishes eligibility criteria related to income, unemployment, crime, and blight
- Formation by ordinance, subject to protest proceedings
- Governed by an appointed Community Revitalization and Investment Authority
- Requires Community Revitalization and Investment Plan
- Can be formed in former Redevelopment Project Areas
- 25% of tax increment must be set aside for affordable housing

EIFD versus CRIA

Item	EIFD	CRIA
Separate Authority and Governing Board	Public Finance Authority	Community Revitalization Investment Authority
Implementation Plan	Yes	Yes
Voluntary Tax Entity Participation	Yes	Yes
Qualification Criteria	No	Yes
Mandatory Expenditure for Affordable Housing	No	Yes
Voter Approval to Form District	No	Yes (if protest)
Voter Requirement for Bonding Authority	Yes	No
Eminent Domain Powers	No	Yes
Non-Contiguous Boundaries	Yes	No
Funding of Improvements Outside of District Boundaries	Yes	No
Term	45 years from bond issuance	45 years from district formation

Opportunities Created by EIFD and CRIA

- Taps "property tax increment" that when combined with other funding and financing can achieve redevelopment objectives, including remediation
- Formation process for both EIFD and CRIA straightforward, not requiring voter approval or consent of other entities
- EIFD and CRIA may combine other public revenue and finance a diversity of public and private improvements (from which public benefits derive)
- Multiple jurisdictions can participate by agreement creating opportunity for area and region-service improvements solutions including major transportation projects and affordable housing

Issues of EIFD and CRIA

Issue #1 -- Timing of funding availability

Issue #2 -- Limited funding potential

Issue #3 -- City’s fiscal constraints

Issue #1: Timing of Tax Increment Revenues

- Redevelopment typical requires “up front” capital for infrastructure improvements; tax increment is created only after development occurs
- Tax increment available depends on timing and pace of development and related increase in assessed valuation
- Substantial bonding capacity is created only when project or area development nears “buildout”.

Issue #2: Limited Available Increment

- Tax increment limited by apportionment factors of the participating taxing entities
- City tax increment factor is only a portion of the total one percent property tax
- Any pending RDA obligations may also reduce increment available

Property Tax Allocation by Taxing Entity*	Post ERAF Distribution Factor
City	13.6%
Santa Clara County	15.9%
Evergreen Elementary	26.8%
East Side Union High	15.3%
San Jose - Evergreen Community College	7.4%
County School Service	3.5%
Santa Clara Valley Water District East Zone 1	1.9%
Santa Clara County Water District	0.2%
Bay Area Air Quality Management District	0.2%
Guadalupe Coyote Resource Conservation District	0.0%
Santa Clara County Importation Water - Misc District	0.6%
Santa Clara Valley Water District West Zone 4	0.1%
Educational Revenue Relief Fund (ERAF)	14.5%
Total Gross Property Tax Rates	**100%**

*The distribution factors displayed are to be used for illustrative purposes and are an example of TRA 17-028, located in the City of San Jose.

Source: Santa Clara County Assessor Controller-Treasurer Department FY 2016 -2017

Issue #3: Jurisdiction's Revenue Constraints

1. Cities, including San Jose, continue to have challenges meeting annual operating expenses
2. New development typically is expected to "pay its own way" (not create a fiscal impact on City)
3. EIFD/CRIA shift City's General Fund property tax revenues to redevelopment purposes.
4. Required fiscal analysis and related mitigation must address impact on funding of municipal services.

For More Information

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White Paper: Infrastructure Financing for Infill Development in the Bay Area
http://mtc.ca.gov/sites/default/files/Infrax_Financing_White_Paper_6-23-16.pdf