

Affordable Housing and Tax Increment Financing: A SCAG Whitepaper

SCAG / USC Demographic Workshop

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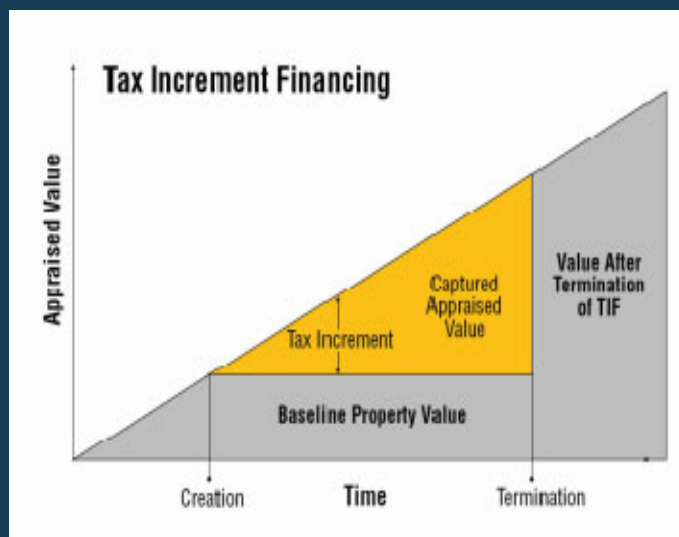


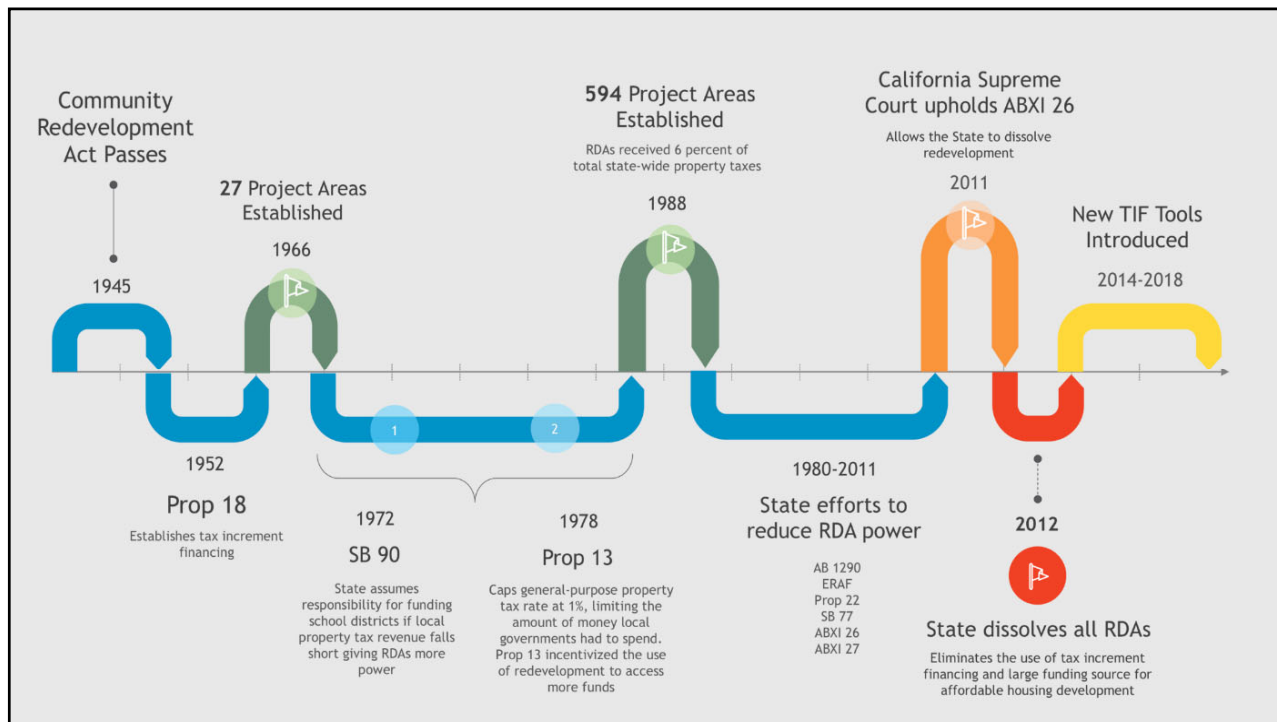
Refresher: What is Tax Increment Financing (TIF)?



Example:

- City X creates TIF District in 2016
- City X receives \$1,000,000 in property taxes revenue in 2016 from properties within the TIF district
- Property tax revenue increases each year in the TIF district
- City X receives baseline \$1,000,000 (grey) and TIF district captures all increases above the \$1,000,000 (yellow)
- TIF district terminated in 2021, all property tax revenue goes to City X





Tax Increment Financing (TIF) Revenue Generation Potential



- If implemented across the SCAG Region, TIF revenue for EIFDs could sum to more than **\$32 Billion** over their 45-year district lifespan
- Taking into account the affordable housing set asides from CRIAs, NIFTIs, NIFTI #2, AHAs, TIF revenue could sum to nearly **\$100 Billion** over their district lifespans



EIFD

Enhanced Infrastructure Financing District

SB 628

Passed in 2014 by Sen. Beall, SB 628 allows cities to create specialized districts that utilize tax increment financing to fund a variety of sustainable infrastructure, transit, and affordable housing projects.

GOVERNANCE AND BOND ISSUANCE

- Formed through a Public Financing Authority (PFA)
- The PFA is made up of at least 3 members of the legislative body and two members of the public who live or work in the proposed district.
- The PFA adopts an Infrastructure Financing Plan (IFP) that details the development projects proposed for the district and how they will be funded via TIF
- **Bond issuance requires 55% voter approval**

KEY CHARACTERISTICS

- EIFDs have geographic flexibility, district boundaries can be drawn anywhere, can even be non-contiguous
- TIF revenues can be spent outside the district if close relationship to projects within the district
- No voter approval for plan adoption for PFA formation
- Can use property tax increment
- 45-Year district lifespan
- **No Affordable Housing Set-Aside**

PERMITTED USES

AFFORDABLE HOUSING • CHILDCARE FACILITIES • LIBRARIES • TRANSIT FACILITIES • PARKS AND OPEN SPACE • BROWNFIELD RESTORATION • INDUSTRIAL USES • TRANSIT PRIORITY PROJECTS • SUSTAINABLE COMMUNITIES STRATEGY PROJECTS • WATER AND SEWAGE INFRASTRUCTURE • WASTE DISPOSAL FACILITIES • FLOOD CONTROL INFRASTRUCTURE

WEAKNESSES

1. No Affordable Housing set-aside
2. Financial barriers to formation
 - Voluntary participation by the County
3. Political barriers
 - Bond issuance requires voter approval
 - PFA member requirements

RECOMMENDATIONS

1. Require an affordable housing set-aside and affordable housing requirement
2. Eliminate requirement of voter approval to issue bonds
3. Ease formation barriers
4. Encourage/Incentivize County participation

AHA

Affordable Housing Authority

AB 1598

Passed in 2017 by Sen. Mullin, AB 1598 allows cities to create specialized districts that utilize property, sales and use, and transaction and use tax increment financing to fund a affordable and workforce housing development.

GOVERNANCE AND BOND ISSUANCE

- The AHA must be made up of an odd number of members (at least 5). At least 3 members from a legislative body and one member of the public who live or work in the proposed district.
- The AHA adopts an Affordable Housing Investment Plan that details the development projects proposed for the district and how they will be funded via TIF
- Bond issuance does not require voter approval

KEY CHARACTERISTICS

- A minimum of 95% of TIF revenue must be used on affordable housing development
- District boundaries **must** be coterminous with the city boundaries to use sales and use or transaction and use tax increment
- Can use property, sales and use, and transaction and use tax increment
- 45-Year district lifespan

PERMITTED USES

LOW- TO MODERATE-INCOME HOUSING • AFFORDABLE WORKFORCE HOUSING • REMEDY OR REMOVAL OF HAZARDOUS SUBSTANCES

WEAKNESSES

1. Financial barriers to formation
 - Voluntary participation by the County
2. Geographic barriers
 - Coterminous factor
1. No requirement to spend funds across all income levels
 - All funds could be used for workforce housing

RECOMMENDATIONS

1. Require funds to be used at different income levels
2. Ease geographic formation barriers
3. Encourage/Incentivize County participation

NIFTI

Neighborhood Infill Finance and Transit Improvements

AB 1568

Passed in 2017 by Sen. Bloom, AB 1568 builds off of EIFD legislation by authorizing a city, county, or city and county to allocate local sales and use tax revenue or transaction and use tax revenue to an enhanced infrastructure financing district to fund projects in infill sites.

GOVERNANCE AND BOND ISSUANCE

- Formed through a Public Financing Authority (PFA)
- The PFA is made up of at least 3 members of the legislative body and two members of the public who live or work in the proposed district.
- The PFA adopts an Infrastructure Financing Plan (IFP) that details the development projects proposed for the district and how they will be funded via TIF
- **Bond issuance requires 55% voter approval**

KEY CHARACTERISTICS

- District boundaries **must** be coterminous with the city boundaries
- TIF revenue can only be spent on an infill site defined by Section 21061.3 of PRC
- Can use sales and use tax and transaction and use tax increment in addition to property tax increment
- 45-Year district lifespan
- 20% affordable housing set-aside

PERMITTED USES

AFFORDABLE HOUSING • CHILDCARE FACILITIES • LIBRARIES • TRANSIT FACILITIES • PARKS AND OPEN SPACE • BROWNFIELD RESTORATION • INDUSTRIAL USES • TRANSIT PRIORITY PROJECTS • SUSTAINABLE COMMUNITIES STRATEGY PROJECTS • WATER AND SEWAGE INFRASTRUCTURE • WASTE DISPOSAL FACILITIES • FLOOD CONTROL INFRASTRUCTURE

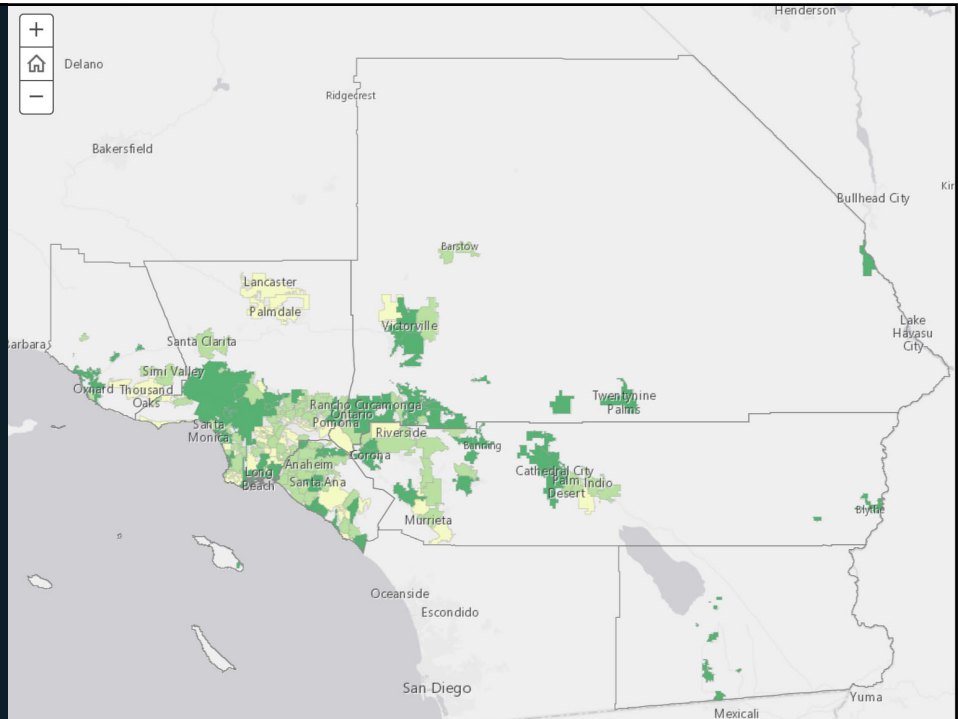
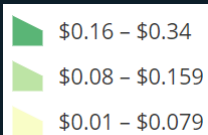
WEAKNESSES

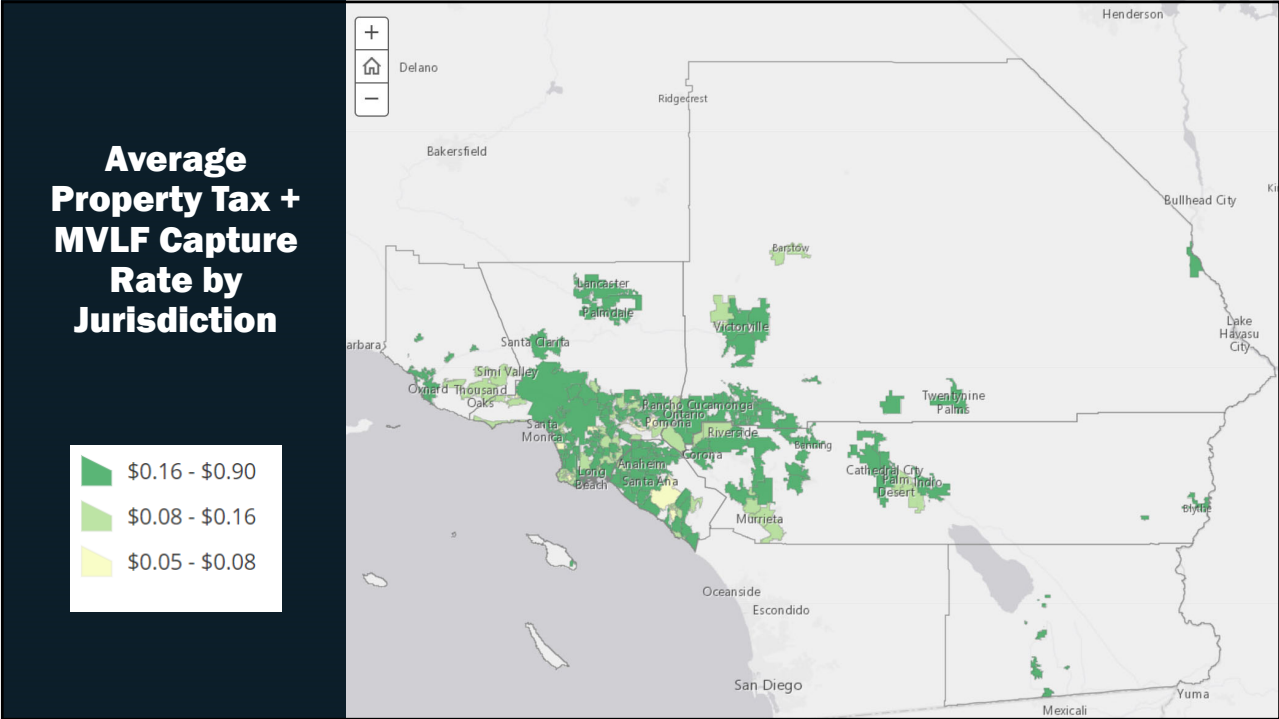
1. Small Affordable Housing set-aside
2. Coterminous factor
3. Financial barriers to formation
 - Voluntary participation by the County
 - Sales and Use tax revenue can be volatile year to year
4. Bond issuance requires voter approval

RECOMMENDATIONS

1. Allow geographic flexibility
2. Increase affordable housing set-aside
3. Eliminate requirement of voter approval to issue bonds
4. Encourage/Incentivize County participation

Average Property Tax Capture Rate by Jurisdiction





NIFTI #2

Neighborhood Infill Finance and Transit Improvements #2

SB 961

Passed in 2018 by Rep. Allen, SB 961 builds off of EIFD legislation by authorizing a city, county, or city and county to allocate local sales and use tax revenue or transaction and use tax revenue to an enhanced infrastructure financing district to fund projects near transit.

GOVERNANCE AND BOND ISSUANCE

- Formed through a Public Financing Authority (PFA)
- The PFA is made up of at least 3 members of the legislative body and two members of the public who live or work in the proposed district.
- The PFA adopts an Infrastructure Financing Plan (IFP) that details the development projects proposed for the district and how they will be funded via TIF
- Bond issuance does not require voter approval but district subject to protest vote every 10 years

KEY CHARACTERISTICS

- District boundaries **must** be coterminous with the city boundaries
- TIF revenue can only be spent on projects within a ½ mile radius of a major transit stop (Sec. 20164.3 PRC)
- Can use sales and use tax and transaction and use tax increment in addition to property tax increment
- 45-Year district lifespan
- 40% affordable housing set-aside
- 10% Park/Public Space set-aside

PERMITTED USES

AFFORDABLE HOUSING • TRANSIT CAPITAL PROJECTS • TRANSIT-ORIENTED DEVELOPMENT PROJECTS • COMPLETE STREETS CAPITAL PROJECTS • PARKING • PROGRAMS TO REDUCE GHG EMISSIONS BY REDUCING VMT AND AUTOMOBILE TRIPS • PARKS/OPEN SPACE/URBAN FORESTRY/GREENING IMPROVEMENTS • ACTIVE TRANSPORTATION PROJECTS

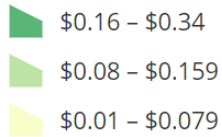
WEAKNESSES

1. Coterminous factor
2. Financial barriers to formation
 - Voluntary participation by the County
 - Sales and Use tax revenue can be volatile year to year
3. 10-Year public hearing protest vote

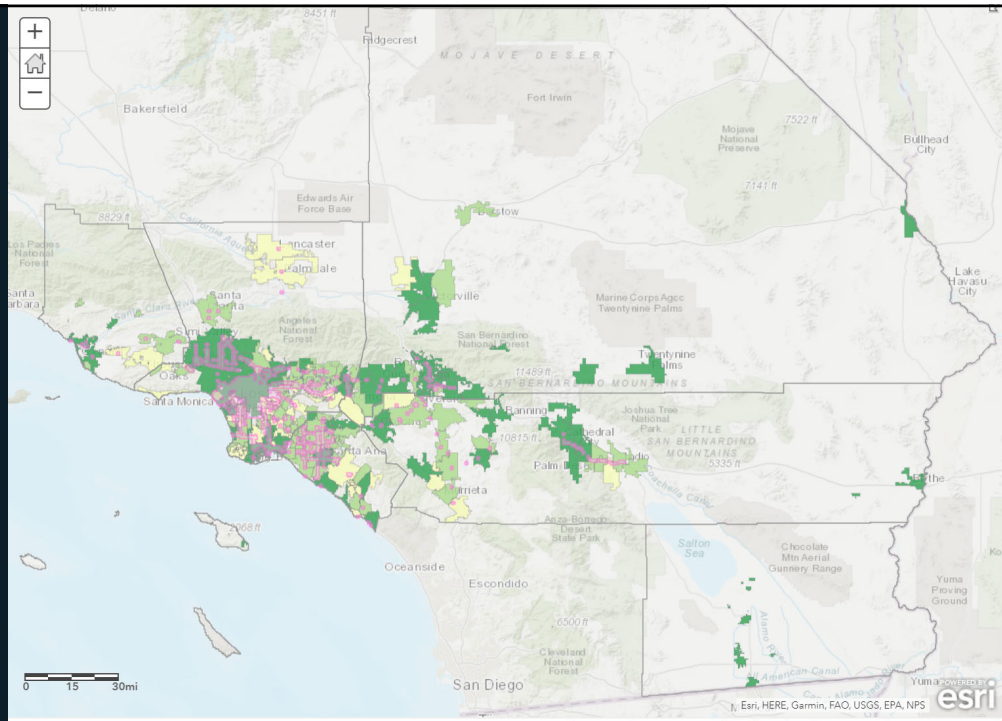
RECOMMENDATIONS

1. Ease geographic barriers – coterminous factor
2. Ease political barriers to formation
3. Encourage/Incentivize County participation
4. Eliminate 10-year public hearing to decrease risk of abrupt termination

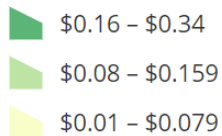
Average Property Tax Capture Rate by Jurisdiction with Transit Priority Areas



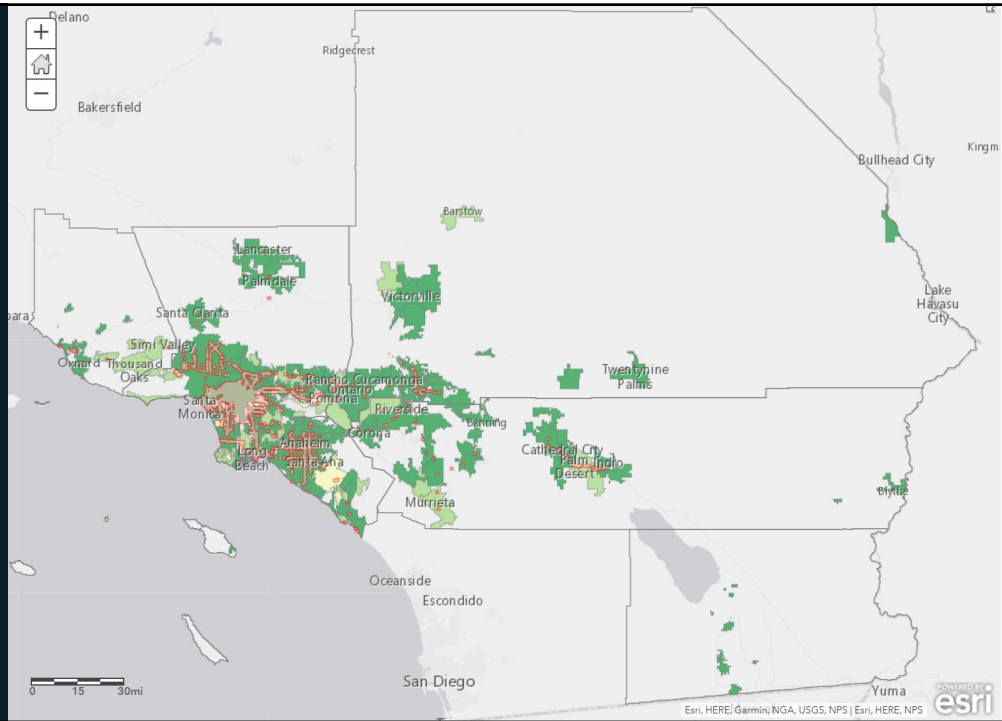
Major Transit Stops 1/2 mile buffer



Average Property Tax + MVLFCapture Rate by Jurisdiction with Transit Priority Areas



Major Transit Stops 1/2 mile buffer



CRIA

Community Revitalization Investment Authority

AB 2

Passed in 2015 by Sen. Alejo, AB 2 aims to revitalize disadvantaged communities through redevelopment projects. The bill allows cities to use property tax increment financing to fund projects in eligible areas.

GOVERNANCE AND BOND ISSUANCE

- Formed through a Joint Powers Agreement (JPA)
- The JPA is made up of at least 3 members of the legislative body and two members of the public who live or work in the proposed district.
- The PFA adopts a community revitalization and investment plan that details the development projects proposed for the district and how they will be funded via TIF
- Adoption of the plan is subject to majority protest by property owners and residents in the district

KEY CHARACTERISTICS

- The policy is modeled after the Community Redevelopment Law
- 80% of the land in a CRIA must be "eligible census tracts"
- Bond issuance does not require voter approval
- 45-Year district lifespan
- 25% affordable housing set-aside
- 12 years of eminent domain
- 10-year public hearing protest vote with property owners and residents

PERMITTED USES

LOW AND MODERATE INCOME HOUSING • VARIOUS INFRASTRUCTURE PROJECTS • HAZARDOUS SUBSTANCE REMEDY OR REMOVAL • SEISMIC RETROFITS

WEAKNESSES

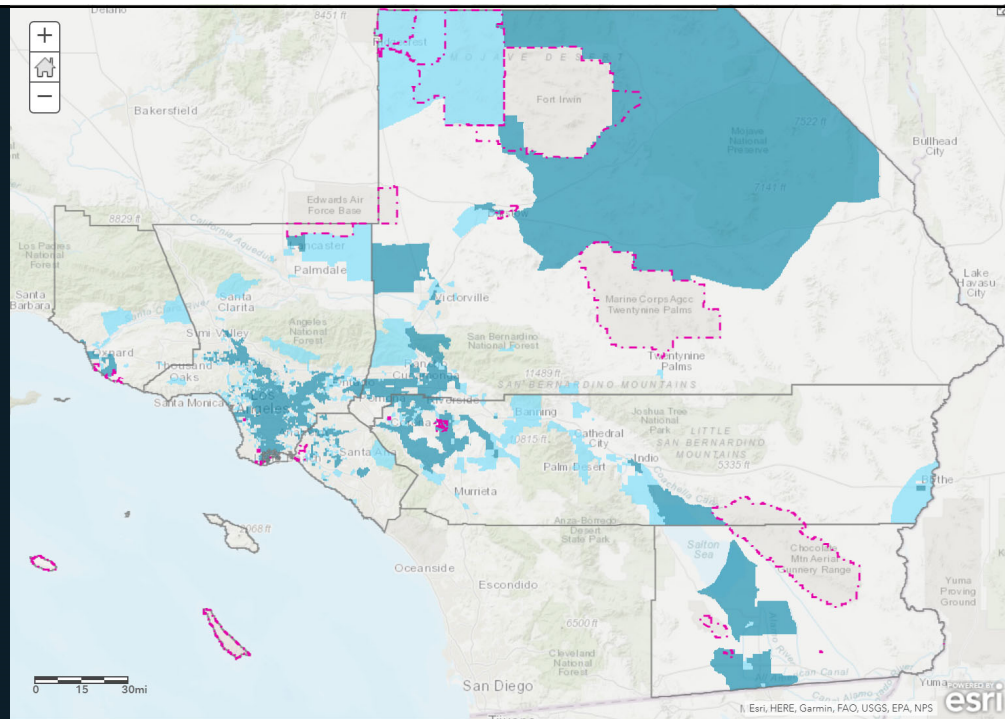
1. Financial barriers to formation
 - Voluntary participation by the County
2. Political barriers
 - Plan is subject to majority protest
 - 10-year protest vote

RECOMMENDATIONS

1. Increase affordable housing set-aside
2. Ease political and financial barriers
 - Eliminate 10-year public hearing vote to decrease risk of abrupt termination
 - Encourage county participation or allow right to county share to increase funding capacity of tool

CRIA Eligibility Score

- CRIA Eligible
- Potentially CRIA Eligible
- Military Base



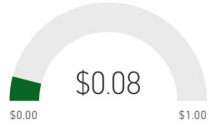
Ventura County Tax Increment Financial Assessment Summary

Choose a City...

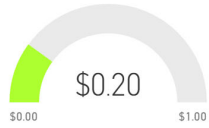
Camarillo

A city's property tax capture rate is a determinate of its' financial autonomy to create a TIF district. The higher a city's property tax capture rate, the less likely they will need County of Special District participation.

City Capture Rate per assessed dollar

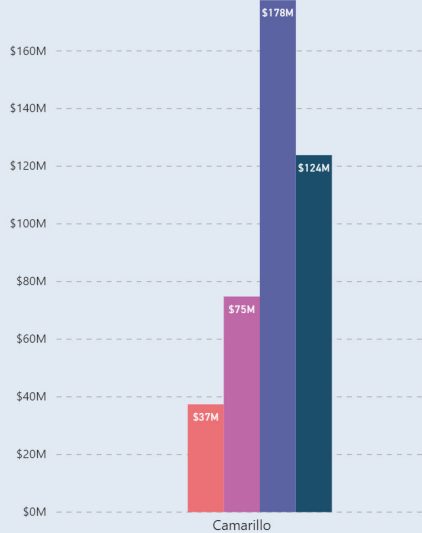


County Capture Rate per assessed dollar



Affordable Housing Revenue (45 Years NPV)

● CRIA ● NIFTI ● NIFTI #2 ● AHA ● RDA



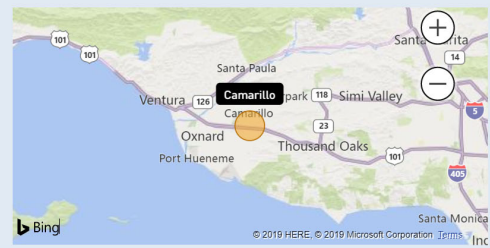
What % of property tax increment do you want to take?

100%

City Only Total TIF Lifetime Revenue (45 Years NPV)



City and County Total TIF Lifetime Revenue (45 Years NPV)



FINANCIAL ASSESSMENT METHODOLOGY

The financial assessment is broken up into two scenarios: **base case** and **high case**. The two scenarios provide conservative and high estimates for the amount of TIF revenue each City could potentially make.

BASE CASE

The base case scenario assumes no sales or new development in the SCAG region for the lifetime of the TIF. The base case scenario only assumes a 1% annual increase in assessed property value and uses a risk adjusted average annual growth rate to forecast sales and use tax revenue for each city.

1. Total property tax is calculated using a **1% General Assessment tax rate**
2. Future assessed value is determined by a **1% annual increase**
3. TIF revenue generation assumes a **45-Year lifespan** and a **6% discount rate** for property tax increment and sales and use tax increment
4. To forecast the increase of sales and use tax revenue for the lifetime of the TIF, we use an **average annual growth rate** calculated from historic sales and use tax revenue data (BOE 1999-2014). The base case scenario uses a **"risk adjusted" average annual growth rate** which is one standard deviation below the average annual growth rate for a conservative estimate.

HIGH CASE

Property Tax Assumptions

Assumes property sales and new development on vacant parcels will increase total assessed property value and therefore TIF revenue.

- To calculate the number of sales each year for residential and commercial uses, we use a **median annual churn rate**.
- **Total annual average increase in assessed property value** each year is calculated by multiplying the total number of units/commercial square footage, the churn rate, the median sale price/price per square foot, and percent increase in price in each city.
- For new development on vacant parcels, we will assume an increase from current assessed value to average sale price for residential and average price per square foot for commercial. We will assume 85% of vacant units/parcels will increase in assessed value based on the SCAG land use permitted density (dwelling units/acre).

Sales and Use Tax Assumptions

- To forecast the amount of sales and use tax revenue increase each year, we will use the average annual growth rate for each city. This rate is based on historic sales and use tax revenue for each city (BOE 1999-2014).

SCAG Recommendations



- Support a State-funded pilot program designed to catalyze “first movers” in district establishment may alleviate stresses associated with district formation and encourage more localities to also support State priorities
- Site-specific impediments to housing development could also be minimized through CEQA streamlining or through State financial support for jurisdictions facing legal challenges against bona fide housing developments
- Metropolitan Planning Organizations (MPOs) and regional Councils of Governments (COGs) are well-positioned to support TIF and other geographically-targeted policies
- Other geographically-targeted development programs such as federal Opportunity Zones (OZs) and recent changes to state economic development policy could also be employed in increasing housing supply



THANK YOU!

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