Financing Infill Development in a Post-Redevelopment World

A Policy Paper by the California Planning Roundtable

Stanley R. Hoffman, FAICP, and William Anderson, FAICP

California Planning Roundtable Members

March 10, 2017

The California Planning Roundtable (CPR) is an organization of experienced planning professionals who are members of the American Planning Association (APA). Membership is balanced between the public and private sectors and between Northern and Southern California.

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"Examining Obstacles to Infill Development" is a project of the California Planning Roundtable (CPR) that can be found on CPR's website at http://www.cproundtable.org/infill/ . This project provides a framework and a practical guide for the practicing planner, urban designer, local officials, developers, and the general public -- as they seek to implement infill development. Guidance comes in the form of articles, links to related literature and organizations, and other resources that focus on infill.

This policy paper addresses economic challenges that typically face infill development and reviews available and emerging financial tools that can be used for implementation.

INFILL BENEFITS AND ITS NEED FOR INVESTMENTS

Successful infill communities occurs with critical investment in infrastructure, remediation of contaminated sites, and inclusion of balanced housing opportunities, including affordable housing for low- and moderate-income residents, and quality job creation. California Redevelopment Agencies once played an important role in making such investments, but were officially dissolved in California as of February 1, 2012. This eliminated a major property tax increment tool for financing public infrastructure, land acquisition and affordable housing that served as a significant catalyst for attracting private sector investment into areas in need of revitalization through infill development.

California's economic future, in many ways, depends on successful infill development that can:

- reduce greenhouse gas emissions;
- improve fiscal efficiency for public services;
- provide more affordable workforce housing closer to jobs;
- leverage public investment in transit;
- improve the public's health with neighborhoods where people can safely walk and bike;
- house an aging population close to services; and
- attract and retain workforce talent and businesses drawn to innovative and livable places.

The State has taken steps to create post-redevelopment financing replacements to augment the local toolbox for economic development. Senate Bill 628 was passed in 2014 and amended by AB 313 in 2015 as the "Enhanced Infrastructure Financing District (EIFD) legislation," and Assembly Bill No. 2 was passed in 2015 as another replacement mechanism for redevelopment authorizing local governments to create "Community Revitalization and Investment Authorities (CRIAs)."

A number of questions are raised as cities and counties try to understand and use these new property tax increment techniques:

- Will the mechanisms generate sufficient property tax increment in a timely manner?
- Will local jurisdictions need to combine with other taxing entities to be effective at leveraging sufficient property tax increment?

Urban Infill on El Cajon Boulevard, San Diego. *Public finance tools can be used to construct more affordable housing.*

Multimodal Infrastructure, Chicago. *Public finance tools can pay for infrastructure, such as pedestrian and bicycle facilities near transit.*

- How is bonding capacity enhanced when jurisdictions and agencies – except school districts – cooperate to achieve greater leverage?
- How can planning and collaboration policies support use of these financing mechanisms?
- Under an EIFD, will property tax in-lieu of motor vehicle license (VLF) fees be widely used for financing bond financing?

Will other financing mechanisms be needed for successful revitalization and infill? The following policy paper prepared by the California Planning Roundtable addresses the opportunities and challenges presented by: 1) providing background information regarding these new pieces of financing legislation; 2) discussing the key issues and questions that they raise; and, 3) recommending possible refinements and/or new financing implementation tools that may still be needed. The paper is directed toward practicing planners, public officials, developers, urban designers, and an interested public as they seek to understand the feasibility of these new financing tools for infill development in their jurisdictions.

KEY OBSERVATIONS

The following observations are based on the above questions on the use of these new infrastructure financing mechanisms:

> Many cities have insufficient property tax shares to effectively use EIFD or CRIA types of financing on their own.

Observation #1 – Property Tax Levels for Cities Alone are Insufficient. While the property tax shares can vary widely by specific jurisdictions or agencies, a key factor is that many cities may have insufficient future property tax increment to effectively use EIFD or CRIA types of financing. In California, property taxes are shared and municipalities have the lowest estimated average property tax shares compared with counties and special districts. Yet, cities are where the bulk of infill economic development activities to revitalize older areas are most likely to occur. Overall, participation by other taxing jurisdictions will be necessary to develop sufficient bonding capacity.

> A collaborative approach under SB 628 or AB 2 creates a more feasible infrastructure bond financing program for many jurisdictions.

Observation #2 – Collaboration is needed for Greater Leverage. Within the four major regional metro areas in California there are 22 counties, or 38%, out of all 58 counties. The estimated average share of their basic 1% property tax levy for cities is 11% compared with 16% for counties and an estimated 10% for special districts. This means that collaboration among overlapping governmental entities – excluding educational districts which is required by law - will result in more effective public infrastructure bond financing if they can leverage their respective shares of the property tax increment for common economic and community development benefits.

Figure 1 illustrates the average shares for cities and counties combined at 27%, or about 2.5 times greater than the cities' estimated average share of 11% without county participation. Figure 1 also shows that combining the average shares for cities, counties and special districts, it results in an even larger combined average share of 37%, or about 3.4 times the cities' average share alone.

The importance of this collaboration for many jurisdictions is shown in Figure 2, based on data from the California State Controller's office, the median property tax share level is about 10.1% for the cities within the four metro areas – i.e., about 156 cities (47% of the total cities) in these four metro areas are estimated to have less than a 10% share of the basic 1% property tax levy; what is even more striking is that 253 cities (76% of the total) fall under a 15% share of the basic 1% property tax levy.

Observation #3–Collaboration Can Lead to Greater Bonding Capacity. Based on CPR's illustrative calculations, at the property tax share level 10%, the estimated bond capacity supported by tax increment is about $9.2 million from private investment of $500 million assuming a 45 year bond at 6%. However, when the property tax share increases to 20%, this doubles the bond capacity to $18.4 million for this same investment. If the property tax share increases to 40%, this increases the estimated bonding capacity fourfold to $36.7 million. A recent SCAG presentation suggested– "as a rule of thumb" - that the level of property tax share should generally be above 15% of the 1% property tax levy for the city to be able to form a district on their own - if less than a 15% share, than the jurisdiction may have to find partners or seek supplemental funds.[1]

Observation #4 – Collaboration Allows More Jurisdictions to Achieve Feasible Infill Infrastructure Financing. For a given level of private sector investment, the property tax increment share can make a large difference in bonding capacity; however, it may not be feasible for many jurisdictions with relatively low shares to participate effectively with the post-RDA financing options. The collaborative approach would seem to be the best way to create a more feasible infrastructure bond financing program for many jurisdictions under SB 628 or AB 2 for infill and economic development.

Observation #5 – Use of Property Tax In-Lieu of VLF Fees for EIFD Bond Financing Appears to be a Less Likely Financing Option. While it is allowable under an EIFD (SB 628) to increase a local jurisdictions property tax share for bond financing by using the incremental growth in Property Tax in-lieu of Motor Vehicle License (VLF) fees, this option, in our judgment, is less likely to be used. VLF fees have traditionally been an important source of funding for ongoing General Fund operations and maintenance costs that will be difficult to divert to bond capacity. However, there may be some limited situations where it is in a jurisdiction's interest to divert general fund revenues to leverage private investment and economic development activities than would otherwise not occur.

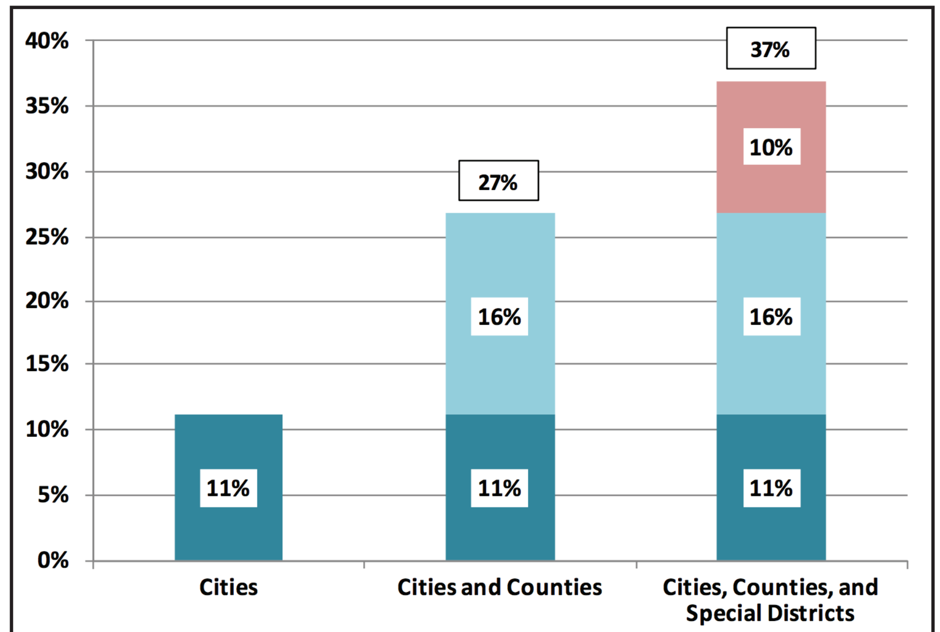
Observation #6 – Additional Financing Mechanisms are Viewed as Important for Successful Revitalization and Infill. While collaboration can increase the effective bonding capacity of the post-redevelopment financing mechanisms, other financing techniques are viewed as important additional tools for achieving successful infill development results. One possible technique that is proposed in this policy paper is a "Neighborhood Facilities and Service District."

Out of 332 cities in the four major metro areas in California, 47% are estimated to have less than a 10% share of the basic 1% property tax levy; 76% are estimated to have less than a 15% share.

[1] From a presentation by the Kosmont Companies to the regular meeting of SCAG's Community, Economic & Human Development Committee, Thursday, September 29, 2016.

Figure 1

Leverage Potential with Multi-Jurisdictional Collaboration Estimated Average Property Tax Rates For Cities, Counties and Special Districts, Excluding School Districts

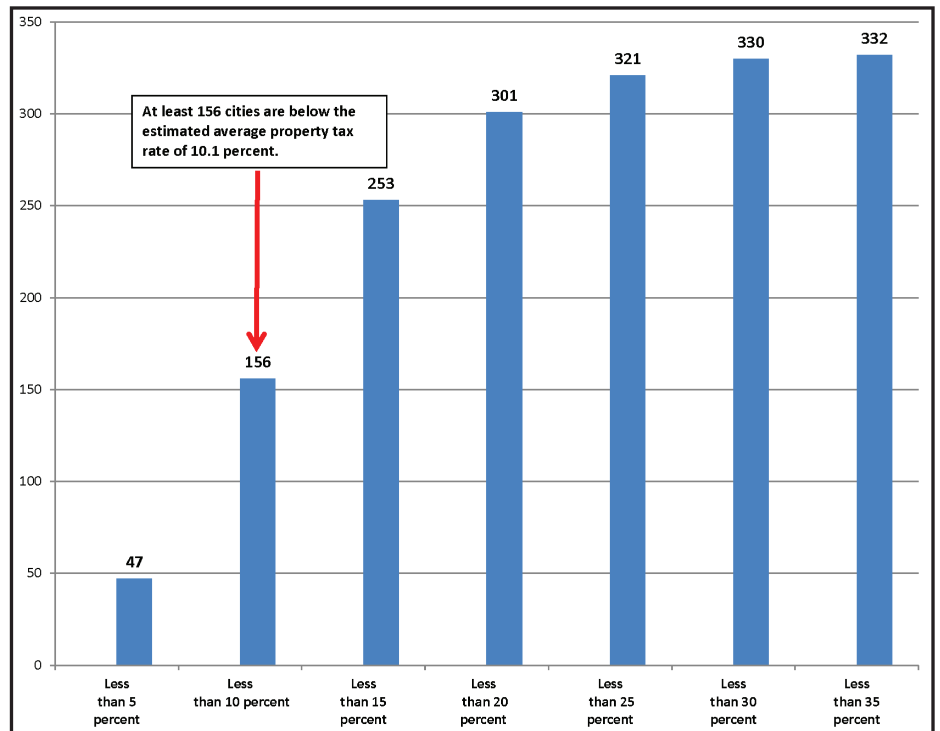


Note: The estimated average property tax shares are for cities, counties and special districts within the four major regional areas in California.

Sources: Stanley R. Hoffman Associates, Inc California Board of Equalization Annual Report, 2014-2015, Table 15

Figure 2

Property Tax Shares by Selected Ranges Cities in California by Major Regional Areas[1]



[1] The regional areas include: Southern California Association of Governments (SCAG), Association of Bay Area Governments (ABAG), the Sacramento Area Council of Governments (SACOG) and the San Diego Association of Governments (SANDAG).

Sources: Stanley R. Hoffman Associates, Inc. Property Tax Raw Data for Fiscal Years 2003 – 2016, California State Controller's Office Assessed Valuation Raw Data for Fiscal Years 2003-2016, California State Controller's Office

RECOMMENDED POLICY DIRECTIONS

To make meaningful investments for infill development, legislation or policies should be enacted that address these observations. Legislation and policies need to generate sufficient tax revenues for economic and community development at all levels of government, and promote the general welfare of the inhabitants of the State, using all appropriate means.

The following recommended policy directions are presented for consideration and discussion that could lead to effective approaches that would fit within an overall economic development and financing implementation strategy:

1. Build Sustainable Communities: the Case for Collaboration. Given that the range of property tax increment shares of the basic 1% property tax rate for many cities is relatively low, the case must be made for collaboration among overlapping jurisdictions and agencies to generate effective, sustainable economic development – particularly among cities incorporated post-Proposition 13, since 1978.

Other taxing jurisdictions, especially counties, have self-interest in participating and promoting social welfare, public health, and environmental benefits. The social costs of blight, poverty, and economic disinvestment are often indirectly born by counties and the State, such as social welfare programs, criminal justice, environmental benefits and public health. To the extent that funds are used to implement master and community plans for healthy community designs that encourage physical activity, active mobility, and healthy buildings, the public health benefits can result in reduced public health costs, some of which are borne by counties and the State.

2. Further Regional/County/City Coalitions for Common Economic Development Goals. – Within the various regions, regional, county and local governments can further their common goals by continuing to build coalitions among their respective jurisdictions and special districts – excluding educational districts whose property tax share is not allowed by law to be included in tax increment districts. Cooperation among overlapping jurisdictions should define areas of long-range collaboration that may lead to property tax increment participation and voluntary sharing agreements in targeted communities, and to the efficient financing and delivery of public infrastructure, facilities and services. SCAG is already taking this approach in its 6-county, Southern California region in developing a screening tool that local jurisdictions can use in evaluating whether an infrastructure financing approach is feasible for their needs.

In recent years, Metropolitan Planning Organizations in California have been providing tools and incentives to support infill development. Many have grant programs for local jurisdictions to update General Plans or prepare specific plans that include higher density and more mixed use development near existing and planned public transit. Funding has also been made available for local jurisdictions to build infrastructure that supports infill development. For example, in the San Diego region, the San Diego Association of Governments has a Smart Growth Incentive Program funded through the half cent TransNet sales tax that provides local jurisdictions planning grants up to $400,000 and capital grants up to $2 million through a competitive process. Since the program was launched in 2009, more than $30 million in funding has been awarded to 43 capital and 20 planning projects.

3. Transfer of Development Rights. Another approach is to link the transfer of development rights with tax sharing for a common purpose. This could be a voluntary program that guarantees County participation with the transfer of development rights from unincorporated county lands - to preserve open space, natural resources, and farmland – to urban receiving areas within cities. This voluntarily links rural land preservation to more sustainable urban infill development. It works by creating an

infra structure financing incentive for the receiving areas to buy rights to more development, while compensating rural land owners with the purchase and transfer of such rights. A county would then agree to share its portion of tax increment in the receiving area. The State of Washington, which has restrictive limitations on tax increment financing, has a similar program structured as tax sharing agreements.

4. Leverage Complementary Economic Development and Financing Approaches for Infill Development. Other mechanisms can be leveraged to work with or without Enhanced Infrastructure Financing Districts. Incentive or Bonus Zoning in exchange for extraordinary public benefits, by regulation or development agreement contract, is a form of value-capture practiced in places such as Vancouver BC, Arlington VA, San Francisco and other cities. These public benefits are above what is required as fair share mitigation under impact fee programs.

Variable impact fees within a city, where fees vary by community or subareas of the city, reflecting the contexts, standards, and marginal costs in each area, may provide an incentive for private development to invest in areas with lower impact fee costs, such as areas of a city that have surplus capacity in their existing infrastructure and public facilities, or have more efficient facility standards through compact development patterns. The cities of San Diego and Carlsbad are examples.

Some cities can choose to dedicate a portion of their general funds and certain subvention or grant funds, including net available revenue from distributions from the Redevelopment Property Tax Trust Fund, towards capital improvements and programmatic interventions that are purposefully linked to support infill development in designated areas.

5. Expand State Programs. The State's "Cap & Trade" dollars (under California's Affordable Housing and Sustainable Communities Program) is being used to finance infill infrastructure, and transit oriented development (TOD), including affordable housing near transit, to augment local public and private investment. These grant funds are conditioned upon demonstration of quantifiable VMT and GHG reduction as a result of infill development. The State's Strategic Growth Council and the Office of Planning and Research are both in the process of evaluating the effectiveness of the various financing and economic development approaches in the context of the State's overall economic development and sustainable community goals and objectives, and new policy and legislative initiatives - including for affordable housing - are being formulated.

6. Proposed Neighborhood Facilities and Service Districts. Opportunities exist to use land more efficiently, while remaining compatible with existing communities and their character, such as through good planning and design, effective public engagement, the development of surplus strip-commercial land along corridors, improvements to dilapidated properties, and re-purposing obsolete land uses. Many metropolitan regions focus new growth within existing communities, particularly as infill development near transit, as is expressed in each region's Sustainable Communities Strategy (as required by SB375 and AB32). However, infill growth creates additional demand for public facilities, such as parks, public safety, streetscape and circulation, libraries, and schools. Many of these older communities already have public facility deficits that have accumulated over decades, and are below general plan standards. Some resist new growth until these deficits are addressed. While impact fees can help fund facilities and services to serve incremental new growth, they cannot be used to fund existing deficiencies. A new mechanism is needed to help address these deficits to prepare them for new infill growth.

> Other tools are also needed to support successful infill development; one possible tool is a proposed "Neighborhood Facilities and Service District."

CPR proposes enactment of a new voter-approved funding mechanism to finance new public facilities and their operating costs at a sub-jurisdictional, neighborhood or community level for those older communities planned to take on future growth to achieve more environmentally and fiscally sustainable regional outcomes and stronger economies. The proposed Neighborhood Facilities and Service District (NFSD) mechanism is a special parcel tax that would:

- Generate new money for capital investments and service expenses, including operations and maintenance (unlike tax increment that only covers capital costs);
- Require approval by registered voters within the district and would only be applied by willing communities;
- Allow formation of non-contiguous districts, such as multiple transit priority areas, to create economies of scale;
- Allow pooling of revenue to service debt issued by a statewide mechanism;
- Further regional sustainability and implementation of SB375 and AB32 by applying only to previously developed areas, not undeveloped land for which other public facility financing mechanisms already exist.

While similar to Community Facility Districts (CFDs), the NFSD mechanism is intended to remedy existing public facility deficiencies in urbanized communities, to prepare them for infill growth, rather than to finance public facilities for new, greenfield development that only require a landowner vote when less than 12 registered voters live in the area -- a more common use of CFDs.

CONCLUSIONS - NEXT STEPS

Recent legislation that created new mechanisms to replace Redevelopment are welcome, but may fall short if carried out without the participation of multiple taxing authorities – particularly the counties working with the sponsoring cities. In most instances, a case can and should be made as to why and when it's in the interest of counties and some special districts to participate financially. Still, even then, other mechanisms may exist or are needed to create new revenue sources.

The focus of this paper is upon the use of post-redevelopment financing mechanisms for infill development that supports economic development. It is incumbent on local jurisdictions, engineers, urban designers and planners to devise infrastructure and public facilities efficiently with appropriate standards and co-benefits to minimize the costs these financing mechanisms are intended to fund. Land use policy and regulation, zoning and project review processes and lower parking ratios in areas served by transit and active mobility, as well as creative urban parks where land is expensive, can enhance infill and redevelopment feasibility and reduce capital and operating and maintenance costs to enable jurisdictions, property owners and tax payers to support these proposed mechanisms.

The California Planning Roundtable invites you to respond to this analysis and financing policy recommendations, and encourages your participation in the development of constructive solutions toward strong economic development, and effective financing and implementation tools for sustainable communities in California.

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APPENDIX A

Overview of the Post-Redevelopment Financing Legislation

According to the California Department of Finance, as part of the 2011 Budget Act, the State Legislature approved the dissolution of the state's 400 plus Redevelopment Agencies (RDAs). After a period of litigation, RDAs were officially dissolved as of February 1, 2012. As a result of the elimination of the RDAs, property tax revenues that were once used for economic development and affordable housing in eligible areas are now being used by Successor Agencies to pay required payments on existing bonds, other obligations, and pass-through payments to local governments.

The net available property tax revenues that exceed the enforceable obligations are being allocated as pass-through payments to cities, counties, special districts, and K-12 schools, community college districts, county offices of education, and the educational revenue augmentation fund (ERAF). The pass-through revenues are currently reported by the Department of Finance at the State level at about $6.33 billion annually with about 44 percent allocated to cities, counties and special districts and the remaining 56 percent allocated to the school and educational related districts and funds.

The legislative body of the city or county forming the district may choose to dedicate any portion of its net available revenue to the district through the financing plan. According to SB 628, net available revenue means periodic distributions to the city, county or special district from the Redevelopment Property Tax Trust Fund that are available after all preexisting legal commitments and statutory obligations funded from that revenue are made. Pass-through revenues to schools and related educational districts cannot be used in the financing plan.

Senate Bill (SB) 628/Assembly Bill (AB) 313 Amendments. On September 29, 2014, Senate Bill 628 (SB 628, Beale) was passed, as summarized in Table 1, and later amended by AB 313, Atkins as a method for a jurisdiction to use some or all of their share of the 1% basic property tax levy for the purpose of financing specified public facilities or public infrastructure in an established EIFD. Also, other jurisdictions, agencies or special districts (except school and related educational districts) can voluntarily contribute all or some of their share of the 1% basic property tax levy.

The legislation does allow for the use of the incremental Property Tax In-Lieu of Motor Vehicle License (VLF) Fees that are generated jurisdiction-wide for bond financing. Only experience will tell whether local jurisdictions are willing to use this revenue source for capital bond financing that traditionally has been used for operations and maintenance costs.

The infrastructure financing plan shall specify if the district shall be funded solely through the district's share of property tax increment, governmental or private loans, grants, bonds, assessments, fees, or some combination thereof. Also, the district may expend up to 10 percent of any accrued property tax increment in the first two years of the effective date of the enhanced infrastructure financing district on planning and dissemination of information about the planned activities and the infrastructure financing plan and planned activities to possibility be funded by the district.

On September 22, 2015, Assembly Bill No. 313 (AB 313) was passed as an act to amend selected sections of SB 628. Among other actions, a few of the key refinements of the bill included: requiring the infrastructure financing plan to contain requirements for the replacement of all dwelling units to be removed or destroyed that are occupied by persons of very low-income, low-income, or moderate-income households; clarifying that the public financing authority is responsible for performing specified parts of the EIFD formation process; and clarifying that a defined special district can be considered as an affected taxing entity if it is providing any funding from its own sources.

Assembly Bill No. 2 (AB 2).AB 2, Alejo was passed in September of 2015, as another replacement mechanism for redevelopment (September 22, 2015), as summarized in Table 2, and authorizes local government to create Community Revitalization and Investment Authorities (CRIAs) to improve local public infrastructure and affordable housing. While similar in some respects to an EIFD in the use of the future General Fund property tax increment, AB 2 does have the power of eminent domain. Also, an election shall be called if between 25 percent and 50 percent of the combined property owners and residents in the area who are at least 18 years of age file a protest. If a majority, i.e., 50% plus 1 of the total property owners and residents vote against the plan, then the authority shall not take any further action to implement the proposed plan for at least one year.

While the AB 2 legislation does not strictly refer to the former concept of "urban blight," AB 2 has to meet strict requirements to repair deteriorated or inadequate infrastructure related to disadvantaged community criteria, such as median income less than 80 percent of the State median, and three of the following four conditions:

- Unemployment 3 percent higher than the State median;
- Crime rate 5 percent higher than the State median;
- Deteriorated or inadequate public infrastructure;
- Deteriorated commercial and residential structures.

Also, 25 percent of the property tax increment must be allocated to an affordable housing trust fund. Additionally, AB 2 is subject to some of the same limitations on the use of the property tax increment as the EIFD, because schools and related educational districts cannot participate and other jurisdictions, agencies and special districts only participate voluntarily.

An EIFD and a CRIA style infrastructure financing district would probably not be approved simultaneously, since they contain different pledges of property tax increment. Their application will probably depend on whether the intended financing is meant for broader community-wide purposes or targeted specifically for disadvantaged areas. Neither of these authorities may be used until the Department of Finance and the State Controller have certified completion of the redevelopment dissolution process.

Table 1
Enhanced Infrastructure Financing Districts (EIFD)
Key Features

Enhanced Infrastructure Financing District (EIFD)	
Authorization and Requirements	• Authorized under California Senate Bill (SB) 628, with SB 313 amendments • Authorizes a city or county to create an EIFD - Adoption of EIFD district does not require a vote, but issuance of infrastructure bonds does require a 55 percent approval of registered voters - Establishment of public financing authority comprised of appointed members of the local legislative body, participating entities and the public
Funding and Powers	• Use of jurisdiction's share of 1% Property Tax Increment; no increase in property tax • Use of County's or Special District's share of property tax increment is voluntary • Use of jurisdiction's increase in Property Tax in-lieu of Vehicle License Fee • Cannot use Education District's share of property tax increment • Can exist up to 45 years from the date of bond issuance • No eminent domain powers
Potential Projects	• Including, but not limited to public works, pedestrian/bicycle facilities, other public facilities and parks, recreation and open space • No requirement for affordable housing

Source: Stanley R. Hoffman Associates, Inc.
California Senate Bill (SB) 628, with Assembly Bill (AB) Amendments, Enhanced Infrastructure Financing District (EIFD)

Table 2
Community Revitalizations and Investment Authorities (CRIAs)
Key Features

Community Revitalization and Investment Authorities (CRIAs)	
Authorization and Requirements	• Authorized under California Assembly Bill No.2 (AB 2) • Authorizes local government to create Community Revitalization and Investment Authorities (CRIAs) • Area must have median income less than 80 percent of the State median and three of the following four criteria: - Unemployment 3 percent higher than State median - Crime rate 5 percent higher than State median - Deteriorated or inadequate public infrastructure - Deteriorated commercial and residential structures • Requires majority protest vote only if 25 to 50 percent of population over 18 and property owners oppose plan
Funding and Powers	• Use of jurisdiction's share of 1% Property Tax Increment; no increase in property tax - 25 precent of property tax increment must be allocated to an affordable housing trust fund • Use of County's or Special District's share of property tax increment is voluntary • Cannot use Education District's share of property tax increment • Does have eminent domain powers
Potential Projects	• Improvements to public infrastructure and incentivize affordable housing

Source: Stanley R. Hoffman Associates, Inc.
California Assembly (AB) No. 2, Community Revitalization Authority (CRIA)

APPENDIX B

Distribution of Average Property Tax Rates by Major Regional Areas

The effectiveness of these new tax increment measures depends upon:

- The local agency's share of property taxes
- The extent to which other taxing jurisdictions choose to voluntarily participate
- The amount of private investment generated in the financing district
- Under EIFD's specifically, the willingness of the local city or county to dedicate incremental property tax in-lieu of VLF funds to infrastructure financing that would otherwise go into the general fund for operations and maintenance.

Average property tax shares of the basic 1% property tax levy by types of governmental entities are presented in Table 3 by each county within the following four major regional areas within California:

- Southern California Association of Governments (SCAG)
- Association of Bay Area Governments (ABAG)
- Sacramento Association of Governments (SACOG)
- San Diego Association of Governments (SANDAG)

These average percentage distributions are based on the California Board of Equalization's Table 15 from their Fiscal Year 2014-2015 Annual Report. The initial allocations are without any adjustment for the subsequent allocation of Educational Revenue Augmentation Funds (ERAF) to the Sales and Use Tax Compensation Fund or to cities and counties due to the Vehicle License Fee (VLF) swap. County levies for school purposes such as junior college tuition and countywide school levies are included with the school levies.

These are countywide average percentage distributions for the cities, counties, and other agencies and special districts within their respective counties; specific tax rate areas within different jurisdictional areas may be higher or lower than the averages. The share for the City of San Francisco is shown as zero, because it has a combined City/County share and this combined share is shown under the County of San Francisco.

According to the California Department of Finance, the population of California is estimated at 39.26 million as of January 1, 2016. As shown in Table 3, these four regional areas, or Council of Governments (COGs), represent over 32.33 million persons - about 82% of the total population within California. These COGs range from a high of 18.95 million persons for the SCAG region to a low of 2.44 million persons for the SACOG region. The other COGs within California represent less than a million persons each.

Within the four major regional areas – as shown in Table 4, the estimated average share of the basic 1% property tax levy for cities is 11% compared with 16% for counties and an assumed10% for Special Districts. The assumed average allocation of 10% for Special Districts was made based on the California Legislative Analyst's Office report: The 2012-13 Budget: Unwinding Redevelopment, Marianne O'Malley, et al, February 17, 2012, as shown in their Table 5. For education districts, the estimated average is 52%, but as mentioned earlier, education districts cannot participate in these types of post-redevelopment financing approaches.

Table 3
Average California Property Tax Distributions
Major Regional Areas
California Board of Equalization: Fiscal Year 2014-2015

Regional Area	Population	Average Allocation of 1% Property Tax Levy[2]				Total
		Cities	County	Other Districts[3]	Education	
SCAG	**18,954,083**					
Los Angeles County	10,241,335	14%	20%	18%	47%	99%
Orange County	3,183,011	10%	6%	21%	62%	99%
Ventura County	856,508	8%	16%	23%	53%	100%
Riverside County	2,347,828	6%	10%	38%	46%	100%
San Bernardino County	2,139,570	6%	10%	41%	43%	100%
Imperial County	185,831	7%	17%	20%	56%	100%
ABAG	**7,649,565**					
Alameda County	1,627,865	18%	13%	23%	45%	99%
Contra Costa County	1,123,429	8%	11%	27%	54%	100%
Marin County	262,274	10%	17%	13%	60%	100%
Napa County	142,028	9%	20%	4%	67%	100%
San Francisco[4]	866,583	0%	59%	11%	30%	100%
San Mateo County	766,041	10%	11%	16%	63%	100%
Santa Clara County	1,927,888	9%	14%	15%	62%	100%
Solano County	431,498	12%	16%	24%	48%	100%
Sonoma County	501,959	5%	20%	13%	61%	99%
SACOG	**2,439,051**					
El Dorado County	183,750	2%	22%	25%	51%	100%
Placer County	373,796	7%	17%	12%	64%	100%
Sacramento County	1,495,297	10%	16%	19%	55%	100%
Sutter County	97,308	8%	16%	10%	66%	100%
Yolo County	214,555	16%	9%	18%	56%	99%
Yuba County	74,345	2%	19%	8%	70%	99%
SANDAG	**3,288,612**					
San Diego County	3,288,612	12%	12%	13%	63%	100%
Weighted Average		**11%**	**16%**	**21%**	**52%**	**100%**
Subtotal - Major Regions in CA	**32,331,311**					
Total Population - California	**39,255,883**					
Percent of California Population	**82%**					

Note: Due to rounding, some totals may not add up exactly to 100 percent.
1. These percentage distributions are based on the initial allocations without any adjustment for the subsequent allocation of Educational Revenue Augmentation Funds (ERAF) funds to either the Sales and Use Tax Compensation Fund or to cities and counties due to the Vehicle License Fee swap. County levies for school purposes such as junior college tuition and countywide school levies are included with school levies.
2. These are weighted average percentage distributions for the cities, counties, and other districts and agencies within each county; specific tax rate areas within different geographic areas may be higher or lower than the averages. The averages are weighted based on each county's population.
3. The total for Other Districts also includes allocations to redevelopment agencies so that an estimated average allocation of 10% for Special Districts is made based on the California Legislative Analyst's Office report: The 2012-13 Budget: Unwinding Redevelopment, Marianne O'Malley, et al, February 17, 2012, Table 5.
4. The City of San Francisco is shown as zero, but it has a combined City/County Rate.

Sources: Stanley R. Hoffman Associates, Inc.
California Board of Equalization Annual Report, 2014-2015, Table 15

Table 4

Average Property Tax Distributions for Fiscal Year 2014-2015 Selected Statistical Measures

Selected Statistical Measures[1]	Average Allocation of 1% Property Tax Levy			
	Cities	County	Special Districts[2]	Education[3]
Average[4]	11%	16%	10%	52%
High[4]	18%	59%	41%	70%
Low[4]	0%	6%	4%	30%
Total Number of Jurisdictions:				
Within Major Regional Areas	333	22	N/A	460
Within State of California	482	58	N/A	946
Percent of Total	69%	38%	N/A	49%

1. These measures are for major regional areas in California.
2. The estimated average allocation of 10% for Special Districts is made based on the California Legislative Analyst's Office report: The 2012-13 Budget: Unwinding Redevelopment, Marianne O'Malley, et al, February 17, 2012, Table 5.
3. For the education category, the total number of school districts includes unified, elementary and high school districts, and other educational entities.
5. The City/County of San Francisco has a combined City/County share and was included in these statistical measures under the County of San Francisco.

Sources: Stanley R. Hoffman Associates, Inc.
California Board of Equalization Annual Report, 2014-2015, Table 15

Table 5 shows the distribution of the property tax rates of the cities within the four major regional areas by 5 percentage point intervals from less than 5 percent to less than 35 percent. All of the cities within the four regions are within this range, except the City of San Francisco which has a combined city-county property tax rate of 59.1 percent and was not included. The median property tax rate is estimated at 10.1 percent. From this distribution for the four metro areas, as shown in Table 5, an estimated 156 jurisdictions - out of the 333 cities that were included – had property tax rates of less than 10 percent. That represents about 47 percent of the cities in the four major regional areas. What is even more striking is that 253 cities (76% of the total) fell under a 15% share of the basic 1% property tax levy for the four metro areas.

Table 5

Property Tax Distribution by Selected Ranges for 2014
Cities in California by Major Regional Areas: SCAG, ABAG, SACOG, and SANDAG[1]

Regional Area	Total Cities Property Tax Allocation by Selected Ranges									
	Average	Less than 5 percent	Less than 10 percent	Less than 15 percent	Less than 20 percent	Less than 25 percent	Less than 30 percent	Less than 35 percent	Number of Cities less than Median	Total Cities
SCAG	**9.7%**	**39**	**109**	**164**	**181**	**189**	**191**	**191**	**94**	**191**
Imperial County	10.2%	1	3	7	7	7	7	7	3	7
Los Angeles County	9.0%	21	57	77	83	88	88	88	44	88
Orange County	10.7%	4	14	30	33	33	34	34	16	34
Riverside County	9.1%	6	16	26	27	27	28	28	14	28
San Bernardino County	11.2%	5	13	17	21	24	24	24	12	24
Ventura County	10.0%	2	6	7	10	10	10	10	5	10
ABAG	**12.8%**	**7**	**40**	**68**	**85**	**93**	**98**	**100**	**47**	**101**
Alameda County	19.2%	1	1	4	8	11	12	14	7	14
Contra Costa County	9.2%	4	14	16	18	18	19	19	9	19
Marin County	16.7%	0	2	5	7	10	11	11	5	11
Napa County	17.3%	0	0	1	4	4	5	5	2	5
San Francisco[2]	59.1%	0	0	0	0	0	0	0	0	1
San Mateo County	12.4%	0	7	14	18	20	20	20	10	20
Santa Clara County	8.8%	0	10	15	15	15	15	15	7	15
Solano County	14.4%	1	1	4	6	6	7	7	3	7
Sonoma County	9.1%	1	5	9	9	9	9	9	4	9
SACOG	**15.0%**	**1**	**4**	**10**	**19**	**22**	**23**	**23**	**11**	**23**
El Dorado County	9.3%	1	1	1	2	2	2	2	1	2
Placer County	12.9%	0	1	4	6	6	6	6	3	6
Sacramento County	14.5%	0	2	4	5	7	7	7	3	7
Sutter County	17.0%	0	0	0	2	2	2	2	1	2
Yolo County	20.3%	0	0	0	2	3	4	4	2	4
Yuba County	15.7%	0	0	1	2	2	2	2	1	2
SANDAG	**14.0%**	**0**	**3**	**11**	**16**	**17**	**18**	**18**	**9**	**18**
San Diego County	14.0%	0	3	11	16	17	18	18	9	18
TOTAL	**11.3%**	**47**	**156**	**253**	**301**	**321**	**330**	**332**	**161**	**333**

1. The regional acronyms include: Southern California Association of Governments, the Association of Bay Area Governments (ABAG), the Sacramento Area Council of Governments (SACOG), and the San Diego Association of Governments (SANDAG).
2. The City and County of San Francisco has a combined property tax rate of 59.1% which is higher than the above ranges shown.

Sources: Stanley R. Hoffman Associates,Inc.
Property Tax Raw Data for Fiscal Years 2003-2016, California State Controller's Office Assessed Valuation Raw Data for Fiscal Years 2003 -2016, California State Controller's Office

APPENDIX C

EXPANDING PUBLIC INFRASTRUCTURE BOND POTENTIAL

Because of the relatively lower property tax shares for cities, expanding the public infrastructure bond potential is seen as essential in creating an effective public financing mechanism for sustainable economic development. Table 6 and Figure 3 hypothetically illustrate the power of collaboration among overlapping governmental entities by developing greater leverage power, or "strength in numbers" – not unlike the involuntarily approach accomplished under former redevelopment agencies. But in this new collaborative case, education districts would be excluded and other jurisdictions and districts joining together would have to result from recognizing and realizing common benefit from voluntary joint action.

As shown in Figure 3, the potential infrastructure bond capacity effect of testing two variables is presented:

- testing range of property tax share combinations ranging from 5% to 40%
- testing range of private sector investments from $100.0 million to $500.0 million

As shown in Table 6 and Figure 3, at the property tax share level of 10%, the estimated bond capacity is about $1.8 million for a hypothetical investment of $100 million ranging up to about $9.2 million for an investment of $500 million. However, when the property tax share increases to 20%, this doubles the bond capacity to $3.7 million to $18.4 million for these same two hypothetical investments. And, if the property tax share increases to 40%, this increases the estimated bonding capacity fourfold from $7.3 million to $36.7 million, respectively.

For a given level of private sector investment, the property tax increment share can make a large difference in bonding capacity ranging from where it may not be feasible for many jurisdictions with relatively low shares to a more effective district with the collaborative approach of combining shares with other jurisdictions and/or special districts. Since an estimated 76% of the jurisdictions using only their own property tax increment are below the estimated average "rule of thumb" property tax share level of 15%, discussed earlier and illustrated in Figure 2, the collaborative approach would seem to be the best way to create a more feasible infrastructure bond financing program for infill and economic development.

While it is possible to increase a local jurisdictions property tax share yield under an EIFD (SB 628) by using the incremental growth in Property Tax in-lieu of Motor Vehicle License (VLF) fees, it is an outstanding question as to whether most jurisdictions will be willing to trade an important source of funding for operations and maintenance funding for capital improvements in a tax increment district. Historically, this was a rebate to local jurisdictions for the motor vehicle license fees collected at the State level and previously rebated primarily on a per capita and vehicle ownership basis. When the vehicle license fees were reduced under former Governor Schwarzenegger's administration, the VLF was reallocated on the basis of the increase in the gross assessed property valuation.

It is State policy to empower cities, counties, and a city and county with a common set of powers and resources that they may elect to use solely or in concert with other local agencies or special districts to pursue local and regional economic development strategies adopted to meet their infrastructure and service needs. It is hoped that any legislation that is enacted as a result of the observations discussed herein will be consistent with and strengthen those policies to generate adequate tax revenues to promote the general welfare of communities throughout the State.

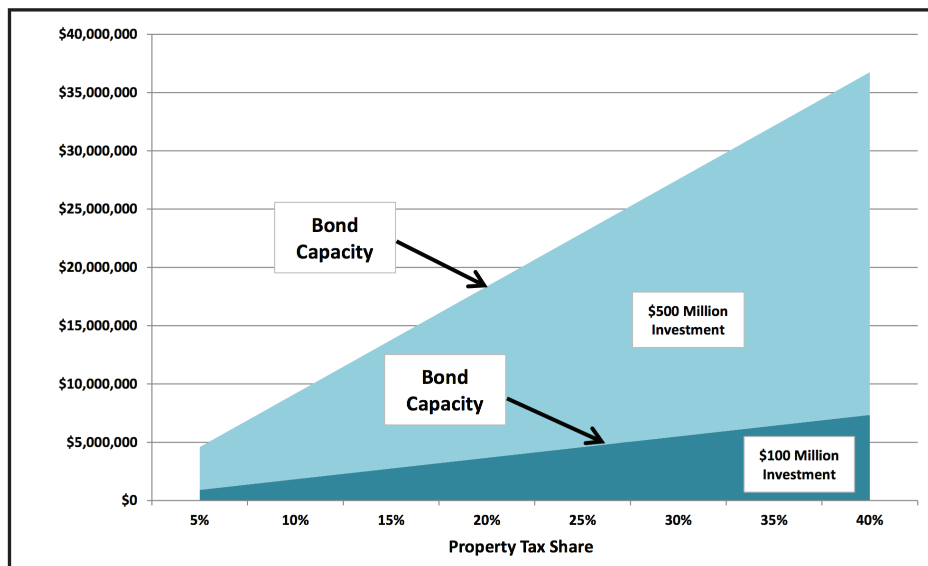
Table 6
Estimated Bond Capacity Potential
For Selected Property Tax Increment Share and Private Sector Investment Assumptions

Illustrative Levels of Private Sector Investment	Estimated Bond Capacity (in millions)[1] For Selected Range of Property Tax Increment Shares and Levels of Investment							
	5%	10%	15%	20%	25%	30%	35%	40%
$100,000,000	$0.9	***$1.8***	$2.8	$3.7	***$4.6***	$5.5	$6.4	***$7.3***
$500,000,000	$4.6	***$9.2***	$13.8	$18.4	***$23.0***	$27.6	$32.2	***$36.7***

1. The estimated bond capacity potential is based on a bond interest rate of 6.0% for a term of 45 years with a coverage factor of 1.25 and estimated bond costs at 5.0%; a property tax increment growth factor of 3% per year is also applied to the base investment valuation.

Source: Stanley R. Hoffman Associates, Inc.

Figure 3
Estimated Bond Capacity by
Property Tax Share $100 Million versus $500 Million Investment



Source: Stanley R. Hoffman Associates, Inc.