Enhanced Infrastructure Financing Districts:
New financing tools help communities make needed infrastructure investments

CALIFORNIA ECONOMIC SUMMIT

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STRUGGLING TO PAY FOR AN INFRASTRUCTURE PROJECT? NEW FINANCING POWERS CAN HELP.

Enhanced Infrastructure Financing Districts (EIFDs) offer local governments new financing authorities to build the foundation for livable, sustainable communities—from transit stations, mixed-use developments and parks to next-generation water systems. EIFDs can be formed by a city or county and all types of special districts. Through these new entities, authorized by legislation in 2014, local governments can form a public financing authority with the power to access and bundle an unprecedented array of funding streams—including the tax increment powers once used by redevelopment agencies.

To create a district: Pick a project, draw boundaries, invite partners

These new districts provide communities with a new way to pay for local infrastructure projects and meet regional sustainability goals.

To create a district, a city or county—or a group of cities, counties, or other local agencies—must first identify its goal. In some cities, a district could be used to restore a stretch of urban river. In others, it may focus on upgrading sidewalks and streets, while modifying runoff systems to capture stormwater. An EIFD can also be part of a broader effort to reduce traffic congestion and greenhouse gas emissions through mixed-use development around a new transit or High Speed Rail station.

Once a goal is identified, a district line is drawn around the area targeted for investment—which can be as small as a few city blocks or as large as a watershed. A city or county must initiate proceedings, inviting other local governments to join. The districts then provide a formal way for local governments to work together across jurisdictional lines—allowing local agencies to do together what they can't always afford to do by themselves.

Districts put their plans in motion by creating a public financing authority to operationalize the projects' details—and tap into a long list of potential revenue sources from each participating local government.

New powers are more flexible, broader than redevelopment

EIFDs have most of the powers of the redevelopment agencies disbanded in 2011—but the new districts have more flexibility and a more expansive financing toolkit. Some of the biggest differences:

- **Blight:** EIFDs are not required to focus only on blighted areas. They can provide project financing anywhere in a community.
- **Financing authority:** Like redevelopment agencies, EIFDs can fund projects by capturing a portion of the growth in property taxes they generate—though tax revenue intended for schools cannot be used. EIFDs can also use other financing tools—generating new revenue streams through benefit assessments and user fees—that can attract private investment and support a broader portfolio of projects.
- **Affordable housing:** EIFDs can be used to invest in affordable housing, but unlike redevelopment, there is not a required specific housing set-aside. EIFDs must follow state laws against displacing existing residents.

What an EIFD can invest in:

- **Transit Priority Projects** in sustainable communities strategies
- **Affordable housing** within mixed-income housing developments
- **Water projects** including stormwater capture, groundwater recharge, and river restoration
- **Transportation facilities,** including highways, parking, and transit
- **Renewable energy** projects
- **Community parks, recreation facilities, and open spaces**
- **Brownfield restoration,** environmental mitigation
- **Industrial structure construction** or repair

THE DETAILS: PAYING FOR INFRASTRUCTURE PROJECTS

Through enhanced districts, local governments can tap into all existing infrastructure financing authorities—while also accessing the tax increment powers once used by redevelopment agencies. The districts can also bundle these new revenue streams—choosing just the right option needed for a particular project—to support projects that cross city, county, and special district lines.

While the districts can also access state and federal funds, their local financing powers fall into two broad categories:

1. Revenues from property tax growth

To fund its investments, the district can capture a portion of the growth of local property tax revenues attributable to its projects—with the approval of the local entities involved. This includes revenue streams both inside and outside the district:

- **District-wide tax increment:** An EIFD can use a portion of existing property tax revenue growth within the district to support its investments. Once this revenue stream is created, the new district can issue tax increment bonds to attract private capital, with the approval of 55 percent of voters living within the district.
- **City- or county-wide revenues:** The EIFD can also capture a portion of the growth in city-wide or county-wide property tax revenues—with those governments' approval. This includes billions of dollars provided to local governments by the state to backfill the loss of Vehicle License Fee revenues.

2. Revenues from value project creates

An enhanced district can also use funds from benefit assessments and user fees levied on properties within the district. A link must be established between the payer and beneficiary for each project and property involved. These revenue streams, which can be magnified with private borrowing, include:

- **Benefit assessments:** The public financing authority can levy assessments against properties within the district based on the benefits derived from the project. These assessments require majority approval of the district's property owners.
- **User fees and public private partnerships:** A district can also charge fees for users of the infrastructure—and then leverage that revenue stream through private investment.
- **Loans:** A city, county, or special district can make loans to an EIFD.
- **Federal and state grants:** An EIFD can access federal and state funds, including state cap-and-trade proceeds.

CASE STUDY: Investing in infill

The challenge: As regions look to reduce sprawl and improve air quality, infill development has emerged as a popular solution. Cities eager to invest in transit stations, affordable housing, and mixed-use development have a new state resource in cap-and-trade funds. But finding a local match can be difficult—as is managing land use plans that require coordination of multiple cities, counties, and special districts.

How an EIFD can help: New financing districts can provide funding options and a way to work together on sustainable growth. A group of cities interested in building a transit line, new stations, and developing the neighborhoods around them, for example, could create a financing district to do all three. Along with the transit projects themselves, the district can identify a range of physical improvements—sidewalks, streets, redesigned traffic patterns, and new parking structures to create space for walking and bicycles. User fees from parking and circulation systems can be combined with cap-and-trade funds and revenue growth from rising property values to leverage private investment. The district then serves as a land use platform for cities, counties, and local agencies to work together to see the project to completion.

CASE STUDY: Paying for water projects

The challenge: Communities have long lists of deferred water projects—from restoring urban creeks to investing in systems to capture stormwater. The biggest reason? State investment is shrinking, local tax measures can only go so far, and local governments can't support projects with their own money.

How an EIFD can help: In the new enhanced districts, local governments have a funding solution. A city or county interested in working with resource agencies to expand a stormwater capture system, for example, can form a financing district empowered to conduct benefit assessments against local property owners and levy fees on water users. When combined with cap-and-trade funds and water treatment grants, this bundled revenue stream could attract private investment—and get many water projects off the shelf.

The CA Economic Summit is a partnership between California Forward and the California Stewardship Network, two civic organizations that supported—and helped shape—the 2014 legislation creating EIFDs. The Summit is now working with the Southwest Megaregion Alliance and Bay Area Council to assist local governments interested in using these new tools.

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