

# Enhanced Infrastructure Financing Districts: West Sacramento

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For half a century, much of California’s local economic development and affordable housing production was overseen by more than 400 local Redevelopment Agencies (RDAs). RDAs possessed the power to divert tax revenue and use it to finance affordable housing construction, infrastructure improvements, and other economic development activity. Following the dissolution of all RDAs in 2011, jurisdictions have begun to make use of new economic development financing tools to respond to needed investments. West Sacramento has been one such early adopter of new financing strategies. The following case study examines the creation of California’s first Enhanced Infrastructure Financing District (EIFD) in West Sacramento and its role as a new economic development and affordable housing financing tool in the post-redevelopment era.

## Background

The city of West Sacramento is situated across the Sacramento River from California’s state capital. Despite their physical proximity and economic ties, Sacramento and West Sacramento are distinct jurisdictions in different counties. With a population of just under 50,000, West Sacramento is about one-tenth the size of the state capital, although its population increased by more than 50 percent between 2000 and 2012. Within this same time period, average household income in West Sacramento increased by about 70 percent, reflecting a large increase in high-earning households. Still, many moderate-income individuals and families are burdened with housing costs that are more than a third of their total income.<sup>1</sup>

The city of West Sacramento was founded in 1987, and since its incorporation it has relied on Tax Increment Financing (TIF) to stimulate economic development following decades of disinvestment in the area.<sup>2</sup> TIF is a financing tool that allows municipalities to earmark property tax revenue from increases in assessed property values within a designated district to fund economic development, and was a practice overseen by RDAs.

The West Sacramento Redevelopment Project Area covers 5,416 acres and represents 45 percent of the city.<sup>3</sup> Between 1987 and 2010, West Sacramento’s RDA raised over \$134 million in tax-increment funding, which it leveraged to attract other investments from the public and private sector.<sup>4</sup> In addition to funding dozens of major infrastructure projects, West Sacramento’s RDA also produced over 1,100 affordable housing units.<sup>5</sup>

Following the dissolution of California’s RDAs in 2011, West Sacramento city leaders began looking for alternative financing strategies.<sup>6</sup> With nearly half of the city designated within its Redevelopment Project Area and many commercial and residential areas still impaired by inadequate infrastructure, an advisory team to the mayor sought out ways to continue the work of the RDA.<sup>7/8</sup> This effort culminated in the adoption of the Community Investment Action Plan (CI Plan) in 2012.

The CI Plan issued 20 recommendations for recreating a redevelopment program using a new set of financing and real estate tools. One recommendation consisted of committing former redevelopment funding to a new Community Investment Fund.<sup>9</sup> Since the funding first became available in fiscal year 2012-13 following the passage of Measure G, over \$15 million in Community Investment Funds have been allocated towards the planning, design, and construction of a variety of infrastructure projects in West Sacramento.<sup>10/11</sup>

## Enhanced Infrastructure Financing Districts

Creators of the CI Plan also recommended the formation of one or more TIF districts known as Infrastructure Financing Districts (IFDs) to restore the city's ability to bond against future revenue to finance infrastructure investments.<sup>12</sup> This recommendation proved challenging to implement.

California law has long made provisions for IFDs.<sup>13</sup> Established in 1990 through the Infrastructure Finance District Act,<sup>14</sup> IFDs are a lesser-known financing tool that allows for the creation of funding through a tax increment. They were seldom used because of significant barriers to their utilization, including a requirement of two-thirds voter approval for IFD creation, a prohibition on collecting the tax increment from school districts, and the disallowance of IFDs on former RDA sites.<sup>15/16</sup> Only two IFDs were created prior to the dissolution of RDAs.<sup>17</sup>

Though initially IFDs failed to gain traction, they were reexamined after the dissolution of RDAs as a potential method to leverage tax increment funds and invest in areas of need. In February 2014, Assembly Bill 471 (Atkins, 2014) amended IFD law by eliminating the prohibition of IFDs within former RDAs.<sup>18</sup> The legislative changes enacted by AB 471 enabled West Sacramento to form the Bridge District IFD in December 2014.

West Sacramento joined a statewide effort to further reshape IFD law to finance infrastructure and other economic development activities. The resulting Senate Bill 628 (Beall, 2014) updated and improved the original IFD law through the creation of Enhanced Infrastructure Financing Districts (EIFDs).<sup>19</sup> With the EIFD bill, legislators expanded on the IFD statute by widening the scope of eligible projects, eliminating the voter requirement to form a district, lowering the voter threshold to pass a bond from 2/3rd to 55 percent, lengthening the term district, and allowing EIFDs to be formed and gain access to unleveraged (debt free) revenue without a vote. The following year, AB 313 granted EIFDs the power to finance remediation of contaminated property within their bounds.<sup>20/21</sup>

A form of TIF, an EIFD allows cities or counties to create a separate government entity to finance infrastructure projects within a defined geographic area.<sup>22</sup> Considered the broadest use of tax increment financing since before the dissolution of RDAs, EIFDs have generated an increasing amount of interest from cities and counties for their ability to finance construction and rehabilitation of public infrastructure and private facilities (Table 1).<sup>23</sup> Like RDAs and IFDs, EIFDs cannot pay for maintenance, routine repairs or operations, and cannot acquire or sell property itself or use eminent domain. However, EIFDs differ from their predecessors in several significant ways:

- » **EIFDs do not include a housing requirement, but can support production and preservation of affordable housing.** EIFD funding can be used to support affordable housing development in a variety of ways. First, EIFD funding may be used to directly subsidize rent-restricted units within mixed-income developments. EIFD funding can also pay

for infrastructure costs and development fees associated with housing construction, as well as provision of services to affordable housing residents.<sup>24</sup>

- » **EIFDs can finance a broader range of infrastructure and community development projects.** EIFDs can finance traditional public works such as roads and highways, bridges, parking facilities, transit stations, sewage and water facilities, flood control and drainage projects, solid waste disposal, parks, libraries, and child care facilities. They can also finance non-traditional projects including brownfield restoration and environmental mitigation, military base reuse projects, private industrial buildings, transit priority projects, mixed-use development, and projects that implement a Sustainable Communities Strategy (SCS). Costs eligible for EIFD financing include construction, acquisition, and rehabilitation costs, as well as planning and design expenses.

West Sacramento laid out plans to build on the community investment created through Measure G by means of a new EIFD, and officially formed California's first EIFD in June of 2017. For West Sacramento, the EIFD had the potential to be a significant source of funding for infrastructure and economic development, and would allow the city to add bonding capability to current and future TIF revenue in the EIFD area.<sup>25</sup>

Several elements supported the successful formation of West Sacramento's EIFD:

- » **Local government leadership.** Recognizing the importance of tax-increment financing to long-term economic development, city leaders were quick to respond with the adoption of the CI Plan. In addition, the City Council was actively involved in statewide legislative efforts to amend the IFD law and expand its parameters in the EIFD law.
- » **A strong tax base.** West Sacramento's share of tax collection, in combination with its large portion of unpopulated, underdeveloped property, gave the city an advantage in adopting new financing tools. With almost half of every property tax dollar retained by the city, West Sacramento could form an EIFD without depending on partnering agencies. In a post-redevelopment environment where many counties were still reluctant to part with their tax increment, having more financial autonomy proved key.
- » **Institutional knowledge.** For many cities, the loss of redevelopment funding also meant the loss of RDA staff and their knowledge regarding land use regulations and tax-increment financing. By retaining a core group of redevelopment staff after the dissolution of RDAs, the city preserved the multidisciplinary expertise necessary to initiate and implement future community investment projects using new financial models.<sup>26</sup> According to West Sacramento Director for Economic Development and Housing, Aaron Laurel, the "tool is only as good as the people" there to implement it.<sup>27</sup>
- » **Streamlining of planning requirements.** For West Sacramento, coordination between EIFD district formation and

Table 1: Infrastructure Development Tools

	RDA	“Classic” IFDs	EIFDs
<b>Qualifying Criteria</b>	Blight Findings	None	None
<b>Governance</b>	City Council	City Council	Public Finance Authority
<b>Projects</b>	Any projects “in the interest of the general welfare.”	Limited infrastructure projects of “communitywide significance.”	Expanded infrastructure projects of “communitywide significance.”
<b>Geographic Limits on Funding</b>	Projects must be inside of RDA area	Projects must be inside of IFD area (non-contiguous); may not overlap with former RDA area	Projects must be inside of EIFD area (non-contiguous); can overlap with former RDA area
<b>Voter Approval for Formation</b>	None	2/3rd approval	None
<b>Voter Approval for Bonding</b>	None	2/3rd approval	55% approval
			Multiple Funding Streams
<b>Financing Tools/ Resources</b>	Tax Increment Financing  (Each taxing entity in the RDA – county, schools, special districts)	Tax Increment Financing  (Only for consenting taxing agencies; education districts may not consent)	Tax Increment Financing, Development Impact fee, Special Assessment District, Developer Agreement, User Fees  (Only for consenting taxing agencies; education districts may not consent)
<b>Term</b>	30 years from creation of district	30 years from creation of district	45 years from bond issuance
<b>Planning Document</b>	Redevelopment Plan	Infrastructure Financing Plan	Infrastructure Financing Plan
<b>CEQA</b>	Yes - EIR	Yes (may be covered by CEQA documentation for project)	Yes (may be covered by CEQA documentation for project)
<b>Eminent Domain</b>	Yes	No	No
<b>Housing Set-Aside</b>	20% of funds	None	None
<b>Replacement Housing</b>	Required, including long-term affordability covenants		

Source: California Association for Local Economic Development; Kosmont Companies

the General Plan update proved key. As a result, proposed projects contemplated within the EIFD are also contemplated in the General Plan Environmental Impact Report (EIR), meaning that the new district could use the General Plan EIR to meet its requirements under the California Environmental Quality Act (CEQA). According to Laurel, CEQA requirements are a “non-starter” for a lot of cities due to the high costs of performing a programmatic level EIR.<sup>28</sup> When coupled with a lower property tax revenue, EIFDs become financially infeasible for many cities.

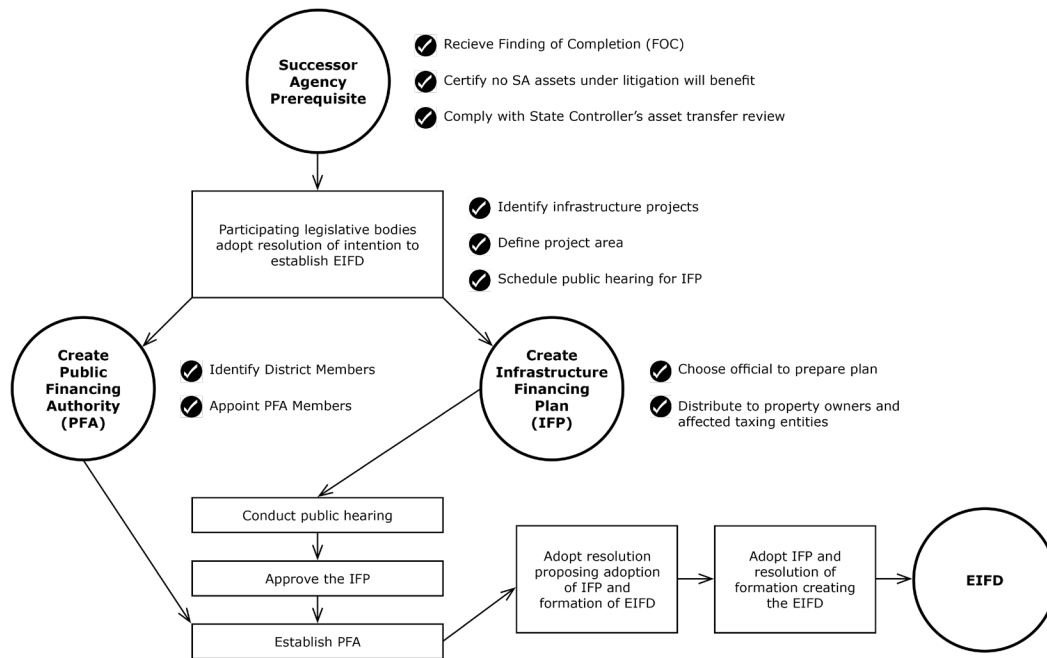
To form its EIFD, West Sacramento had to meet stringent conditions. Any jurisdiction interested in forming an EIFD must satisfactorily dissolve the former RDA, form a Public Financing Authority (PFA), and create an Infrastructure Financing Plan (IFP). The IFP is the heart of the EIFD formation process (Figure 1), serving as a detailed business plan.<sup>29</sup>

## Implementation

West Sacramento’s Bridge District IFD includes plans to develop 188 acres of industrial and vacant parcels into a high-density, mixed-use, transit-oriented development located just over a mile away from downtown Sacramento’s central business district. When completed, the Bridge District is anticipating the creation of 4,000 residential units and 5.6 million square feet of commercial development, 500,000 square feet of which is expected to be dedicated to retail.<sup>30/31</sup> All told, this development is projected to support 9,378 residents and 16,000 jobs.<sup>32</sup>

In addition, the city’s newly-formed EIFD covers almost a quarter of West Sacramento’s land area over a total of 4,144 acres, much of which was formerly within the bounds of the city’s redevelopment area. The EIFD is projected to generate revenues of \$1.1 billion in funding for revitalization and development of public facilities and urban infill areas.<sup>33</sup>

Figure 1: EIFD Formation Process



Sources: Economic Development & Housing Commission; Kosmont Companies

While EIFDs fund and finance infrastructure in a way that is like RDAs, EIFDs are more limited in how property tax is diverted.<sup>34</sup> Much like former RDAs, EIFDs are financed through the tax increment generated from growth in property taxes. Before the dissolution of RDAs,<sup>35</sup> most of the growth in property tax within redevelopment areas was diverted to the redevelopment agency, and away from the state, counties, and other local entities. By comparison, EIFDs only divert the sponsor jurisdictions' shares of property tax that would otherwise accrue to the sponsor's General Fund account.<sup>36</sup> Unlike RDAs, EIFDs cannot reduce funding for public schools, levy new taxes, or divert revenue from any non-consenting municipalities or special districts. For this reason, EIFDs provide significantly less tax increment revenue.

To mitigate the limited funding stream, EIFDs are allowed broader financing authority under the EIFD structure. Still, even with a wider range of funding sources at their disposal, jurisdictions with property tax allocations under 20 percent of every property tax dollar may struggle to form an EIFD unless counties or special districts voluntarily agree to contribute all or part of their property tax increment to the EIFD.<sup>37</sup> There is a wide disparity in property tax allocation statewide, with a typical jurisdiction receiving a 15 percent property tax allocation.<sup>38</sup> Along with other fiscal challenges at the local level, the primary challenge for West Sacramento and other jurisdictions interested in implementing an EIFD will be coordinating the financing revenue necessary for it to be feasible and effective.

## Lessons Learned

- » **EIFDs offer a new tax-increment financing tool for cities and counties post-redevelopment.** EIFDs address the critical gap in funding created with the dissolution of redevelopment. While tax increments generated via an EIFD may not be as significant as redevelopment-era funds, EIFDs offer a variety of financing alternatives including development impact fees, special assessment districts, developer agreements, and user fees. Regulatory reform, technical assistance, political will, and regional support are necessary to support this new financing strategy.
- » **EIFDs can provide financing for affordable housing and infrastructure improvements that might otherwise be passed on to the developer.** Unlike preceding TIF tools, EIFDs do not have a housing requirement. However, EIFDs can be used to subsidize affordable housing development, reimburse costs to affordable housing developers, and offset infrastructure costs.
- » **For jurisdictions with low property tax shares, EIFDs may be financially infeasible absent multi-agency support.** Not all jurisdictions will be able to follow West Sacramento's example. As more localities adopt EIFDs, the breadth of their feasibility will become clearer.

## Useful Sources

CALED Primer on Tax Increment Financing  
<https://caled.org/wp-content/uploads/2016/02/TIF-Booklet-10-161.pdf>

## Endnotes

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11. Infrastructure projects funded through Community Investment Funds include: The McGowan Bridge, Village Parkway Extension, Washington District and Grand Gateway infrastructure, C Street Bridge, Broadway Bridge, bicycle-pedestrian improvement projects and the implementation of the Pioneer Bluff Transition Plan. See: Economic Development & Housing Commission, “Workshop on West Sacramento Enhanced Infrastructure Financing District.”
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15. Gov’t Code § 53395, *et seq.*
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19. California Gov’t Code §53398.50, *et seq.*
20. California Gov’t Code § 53398.50-53398.88.

21. Granted under the Polanco RDA Act (remediation) or Division 20, Chapter 6.10 of the Health & Safety Code (environmental cleanup).
22. Beall, codified as Ch. 785, Stats. 2014.
23. California Association for Local Economic Development. (2017). "Primer on California's New Tax Increment Financing Tools." CALED. Retrieved from: [caled.org/tif-technical-committee](http://caled.org/tif-technical-committee).
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26. City of West Sacramento. (2012). "Community Investment Action Plan."
27. Laurel, A. (2017). Interview with West Sacramento Economic Development and Housing Director Aaron Laurel, interview by Liana Arnold, Telephone Interview.
28. Ibid.
29. If a redevelopment project area is involved, the jurisdiction's Successor Agency (SA) must obtain a "Finding of Completion" (FOC) from the Department of Finance (DOF), certifying the dissolution of the former redevelopment agency, including the payment of all successor debts incurred while a part of the redevelopment agency. The "Finding of Completion" must also certify that no SA assets under litigation will benefit. Once participating legislative bodies adopt a Resolution of Intention (ROI) and define a project area, a Public Financing Authority (PFA) made up of representatives of participating agencies is formed. The PFA acts as the Governing Board of the EIFD with each participating party allocating a portion of its tax increment to the District. Once established, the PFA prepares the Infrastructure Financing Plan (IFP) that details the investment program and funding streams for projects and describes facilities and development to be financed by the EIFD. An IFP is then sent to district landowners and the other taxing agencies for review.
30. Build out estimates according to a 77 percent build out rate. See: City of West Sacramento. (2010). "Bridge District Facts." *City of West Sacramento*. Retrieved from: <https://www.cityofwestsacramento.org/civica/filebank/blobload.asp?BlobID=6943>.
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