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California's New Tax Increment Financing Law Could Unlock Billions of Dollars.

When California Gov. Jerry Brown signed a new law on Sept. 29 to facilitate infrastructure financing, he gave hope to people in the Golden State and beyond that local governments would pick up where constrained state and federal budgets have failed to meet enormous needs for road, transit, water, sewer and many other projects.

The law, S.B. 628, is expected to revitalize the practice of tax-increment financing in California—a means of generating revenue based on projections of higher property values and taxes arising from long-term property development following in the wake of infrastructure construction. It lowers voter-approval thresholds and expands the range of infrastructure projects eligible for support. If communities embrace the new statute, billions of dollars in new financing will become available.

Last year, the American Society of Civil Engineers estimated U.S. infrastructure funding needs of $3.6 trillion through the end of the decade, with funding streams expected to produce only $2 trillion. Another study, just released by the International Monetary Fund reports that infrastructure quality in the United States has been declining since 2006, and now ranks behind that of other major countries: Germany, France, Japan, Canada and the United Kingdom. The study asserts that the time is right for a major infrastructure push.

In this country, "the national consensus on infrastructure has broken and a new framework, and new institutional arrangements, are needed," says Mark Pisano, a professor of the practice of public administration at the University of Southern California and a force behind the new state law.

Congress has not seen fit to increase the 18.4 cents-per-gallon gas tax that's been on the books for year, instead funding the national highway "trust fund" with stop-gap gimmicks that expire in May. Water, sewer and other infrastructure needs are also underfunded, according to the civil engineers.

The prospect that California's new law may have the breadth to address many local infrastructure needs is seen in West Sacramento, just across the river from the state's capital city. It is one of just two or three jurisdictions in the state that is on the road, albeit under an older statute, to successful use of forward-looking tax increment financing, or TIF.

This, as a Las Vegas craps player might say, involves betting on the come: counting on revenues that will accrue from private investment that follows development of high-quality infrastructure in new or redeveloped areas. Tax increment bonding under the new law allows jurisdictions to look out 45 years as they project new building and consequent new property tax revenues.

West Sacramento's Bridge District, once a crumbling, decrepit industrial area, is now benefitting from rapid revitalization thanks to such financing techniques. A major boost to the area came in 2000, when a new ballpark, Raley Field opened as home to the Sacramento River Cats, Triple-A affiliate of baseball's World Series champion San Francisco Giants. After much work to deindustrialize the rest of the Bridge District, housing and retail are coming on line.

Financing Techniques Evolve

The heyday of California tax-increment financing came during the first decade of this century, when state law allowed cities to create “urban redevelopment zones.” To fund investment in blighted areas, the zones could collect part (an “increment”) of assumed property tax growth. This, of course, deprived the cities themselves of revenues they might need to finance their operations, and the broad law also allowed increments to be collected against other municipal entities, notably school districts and community colleges.

West Sacramento’s redevelopment zone covered 45 percent of the city and generated $60 million, or about $5 million a year, to fund infrastructure from 2000 to 2012. But then the state government rescinded redevelopment zone authority. In a wrenching state budget crisis, the governor and legislature decided they could ill afford to continue backfilling school budgets for the revenues they’d lost to the redevelopment zones.

West Sacramento acted to ensure that remaining redevelopment tax funds would remain available. The Bridge District was already deep into its revitalization program. Highways had been torn down, rail lines removed, and blighted areas cleaned. Apartment complexes were under construction. But much more infrastructure was needed to achieve the vision of a dynamic community, with parks, public spaces and a reclaimed riverfront.

So the city and its economic development manager, Aaron Laurel, decided to employ another legislative authority to create Increment Financing Districts, or IFDs. This law, which has now been replaced by S.B. 628, required a two-thirds vote of property owners in the district, both to create the district and then, in another vote, to authorize issuance of bonds. These were high hurdles and West Sacramento’s was one of few significant initiatives that met them.

The other, in San Francisco’s Rincon Hill, is clearing blight and creating new living opportunities near the base of the San Francisco-Oakland Bay Bridge and not far from AT&T Park and the Embarcadero.

With most renewal projects stalled, urban infrastructure experts began a drive to enact the new TIF law that would be easier for communities to use. California Forward, a foundation-supported government reform organization whose board has included many prominent citizens, was among leaders of the effort.

Pisano, who served as the executive director of the Southern California Association of Governments for 31 years before his professorship at USC’s Price School of Public Policy (pictured here), worked with California Forward fiscal policy expert Fred Silva, in drafting language and later writing a guide to using the new authorities.

The new law includes major departures from past practice:

- Communities can now establish “enhanced” IFDs without a vote.
- A vote is still required to create bonding authority but now just 55 percent of ownership approval is needed, down from 67 percent.
- IFDs can now look out as far as 45 years when calculating increases in property values, allowing much larger valuations than under the present 30-year limit.
- Unlike bonding under the old redevelopment authority, funds can be used both inside and outside the financing district—for example to build two new bridges and a streetcar line running across an existing bridge between West Sacramento to downtown Sacramento.

In addition the new law will allow a broader range of infrastructure needs—roads, transit, bridges, water, sewer and other underground utilities, cleaning of brownfields, parks and more.

The 45-year term "is a really big deal," says Laurel, observing that adding 15 years of assumed development will allow substantially larger bonding authority—likely more than offsetting the loss of authority to include school district revenues in the increment financing plan. Parks in the Bridge District are high on his priority list.

As his bill, S.B. 628, was approved by the legislature, State Sen. Jim Beall, a Democrat from San Jose, says it would "help local jurisdictions finance transportation projects and transit-oriented development.'' He noted the large funding gaps local leaders face as they try to make investments in everything from aging water mains and crumbling local roads to next-generation transit stations. In Los Angeles alone, for example, the nation's second-largest city is estimated to have a backlog of $8.1 billion in deferred infrastructure maintenance—a figure as large as the city's entire annual budget, reports California Forward staffer Justin Ewers.

Pisano, during a recent meeting of a National Academy of Public Administration infrastructure task force he chairs, observed that billions of dollars in private funds are "looking for a place to land" in financing infrastructure projects. Private highways and bridges are showing the way, but additional novel institutional arrangements are needed to boost further progress.

California's new law should encourage more public-private partnerships, Pisano says, and in this and other regards may contribute to a new vision for building infrastructure and revitalizing the U.S. economy.

Government Executive

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November 11, 2014

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