FUNDING SUSTAINABLE COMMUNITIES:
A HOW-TO GUIDE FOR USING NEW "ENHANCED INFRASTRUCTURE FINANCING DISTRICTS" (EIFDS)

While California's economic outlook is beginning to brighten, the state still must grapple with some imposing fiscal challenges in the years to come—especially in finding ways to meet the infrastructure needs of its growing population. By some estimates, the state will need to invest $765 billion in the next 10 years on everything from transportation and energy to water and school facilities, but the state and local governments only have the resources to pay for about half of this amount.

This is why the California Economic Summit's Infrastructure Action Team spent the last year urging state leaders to provide communities with new financing tools they need to take on these challenges themselves—and to begin to invest in everything from long-neglected sidewalks and roads to the mass-transit, affordable housing, and sustainable communities that California's long-term prosperity depends on.

With inadequate state funding for these projects—and with no sign of increased federal support—the Summit Action Team concluded that existing public resources must be complemented by a new working relationship among the public, private, and non-profit sectors.

The Administration has identified this same problem and offered a potential solution—proposing to expand an existing local financing authority that will allow cities and other local agencies to invest in infrastructure projects from affordable housing and transit facilities to sewage treatment, stormwater management, and water reclamation.

If structured correctly, the Summit believes these new "Enhanced Infrastructure Financing Districts" (EIFDs) could play an important role in driving sustainable growth by connecting a vast number of infrastructure projects with a new array of funding streams.

On the pages that follow, the Summit provides a guide for how these districts can be established and how they can operate.

HOW NEW EIFDS CAN IMPROVE LOCAL INFRASTRUCTURE DEVELOPMENT

- **Reduce vote requirement:** Forming an EIFD would require 55 percent approval, instead of the current two-thirds. Once established, a district could use a range of financial tools without further voter approval. Only issuing tax increment bonds would require another vote—with a vote threshold of 55 percent.
- **Expand financing authority:** The new EIFDs would allow local leaders to support infrastructure projects through multiple funding streams, including a full complement of existing public mechanisms (tax increment authority, benefit assessments, and fees), as well as private investment.
- **Increase investment in different types of infrastructure:** The enhanced districts would be able to build every type of infrastructure: transportation, water, flood control and storm water quality management, transportation, energy, public facilities, energy, and environmental mitigation—so long as a direct connection can be established between the needed infrastructure and its users.
- **Allow more flexible institutional collaborations:** The Administration's proposal also would give communities more flexibility to accommodate regional growth by making infrastructure investments across jurisdictions through Joint Power Authorities.

Creating a Successful EIFD: A How-To Guide

The Administration's proposed EIFDs would give communities more authority to build the infrastructure California needs to achieve its growth and sustainability goals. These financing districts would not only be able to build all public infrastructure, they could also serve as a platform for multiple funding streams—including private financing. The districts could also encourage the types of policy integration necessary to successfully implement regional sustainable communities strategies. Cities and counties, in conjunction with special districts, can successfully use this new authority by following these three steps:

Step 1: Identify What Needs to be Done

To create an EIFD, a local agency—or a group of agencies—need to identify what it is trying to accomplish (a range of desired outcomes) and then outline an investment program with the types of projects necessary to accomplish these objectives. Case studies are provided in sidebars exploring how water infrastructure and infill development projects, for example, could be supported through an EIFD.

Step 2: Locate Available Funding Streams

At the same time, the public agency must determine how to fund these investments using the wide variety of funding streams available to EIFDs. These could include state and federal funds, as well as a number of other options that make EIFDs a more robust investment mechanism than local governments currently have at their disposal. These include:

- **Assessment revenues:** The new EIFD authority would allow local agencies to conduct benefit assessments of each property—determining how much property owners would directly benefit from the infrastructure investment—and then access these resources using existing Integrating Investment Act (IIA) authority. This would require only a simple majority vote of the properties within the district.
- **Fee revenues:** The EIFD would also be able to fund investments by levying user fees under the Infrastructure Financing Authority Act (IFAA). These fees, in turn, could leverage further private investment. The IFAA has no vote requirement.

Case Study: Water and Other Infrastructure

Goal: A public agency wants to upgrade sidewalks and streets, while modifying runoff systems to capture stormwater, reduce pollutants, and improve urban vegetation.

How an EIFD Could Help: While existing, single-purpose funding makes it difficult to achieve all of these outcomes, they could be accomplished using the full range of tools provided by an EIFD—especially with the newly-expanded definition of water services signed into law in July after the passage of AB 2403 (Rendon).

Establishing the EIFD: A city or county would need to take the lead because of the possible use of public indebtedness to pay for the project. If multiple cities or counties were involved, a Joint Powers Authority could be formed. The district boundaries could be a tributary to a water body or even an entire watershed. A workplan would be developed and presented to the district properties. A vote would occur to obtain the 55 percent approval for the EIFD and a simple majority for an Assessment District.

Creating Investment Program: An investment program would then be developed, identifying a range of physical improvements and their costs—sidewalks, streets, redesigned runoff, use of landscaping as water storage, and other property improvements. Localized stormwater storage, infiltration, and treatment facilities could be included. The plan would also include operations and maintenance schedules to reduce life-cycle costs.

Crafting a Financing Package: At the same time, a financing package would be developed using a "tipping point" analysis to calculate how much property values will be increased by improvements to sidewalks, streets, urban vegetation, water supply, and flood control. Assessments per parcel would be conducted and revenue streams forecast. The jurisdictions could amortize their current budgets for single-purpose investments and create availability payment schedules for assessment proceedings. Groundwater infiltration volumes could also be calculated this way to determine a revenue stream. State grants could also be leveraged for water treatment.

Combining into a Strategic Plan: Together, these assessments, water revenues, availability payments, tax increments, and state grants would support a final strategic plan directly linking infrastructure beneficiaries and payers. The EIFD would provide the authority, leadership, and institutional framework to implement it.

- **Public debt:** If the investment program requires public indebtedness, the agency could also use the authority of the EIFD to tap two public revenue sources: (1) A percentage of the growth of the property tax base that results from the investment (an approach similar to the one used by redevelopment agencies); or (2) An amortized portion of local budgets known as an "availability payment" that can serve as a reliable method of compensating infrastructure vendors working for a specific period of time.

Step 3: Establish Link Between Payer and Beneficiary

While all of these funding streams can be used in conjunction with each other, a final strategic plan combining these resources must include one last consideration: For each project and property involved, a link must be established between the payer and the beneficiary.

This is a potentially complex task, of course—one that has caused local governments for years to turn instead to sales tax measures and state bonds to support infrastructure projects. But innovations in the planning profession are making this approach much more feasible. In the "Blueprint" growth-visioning process used by the Southern California Association of Governments, for example, planners relied on geographic informational systems analysis and modeling to identify when specific land parcels experienced a "tipping point" in value as a result of public infrastructure and land-use investments. A modification of this "tipping point" analysis is under development that will allow the same approach to be used for water infrastructure—giving planners a way to determine how geomorphology within an EIFD, for example, determines how water runoff impacts individual land parcels.

By using these tools, the proportionality analysis needed to satisfy Proposition 218 and Proposition 26 can be established—and an EIFD can successfully tap into a wealth of new revenue streams directly linking infrastructure beneficiaries with taxpayers. This will empower local leaders to address local infrastructure issues—and provide California with a way to take on one of its preeminent fiscal challenges.

Case Study: Infill Development

Goal: Many cities are eager to make investments in projects like expanded transit stations, affordable housing, and mixed-use development that support the state's sustainable communities policy framework. They will also help cities meet mobility, air quality, and energy reduction targets in Regional Transportation Plans.

How an EIFD Could Help: While long-term funding for sustainable communities is still uncertain, EIFDs provide a complementary set of financing tools for supporting this type of growth. They can also serve as a platform for the types of policy integration necessary to successfully develop interconnected transportation, housing, and land-use projects.

Establishing the EIFD: As above, a city or county would take the lead because of the use of public indebtedness. A JPA would once again be an option. The district boundaries could be a larger transit station development zone, for example, that includes collector systems.

Creating Investment Program: An investment program would target a range of interactive physical improvements—sidewalks, streets, redesigned traffic patterns, and the use of parking structures to create more space for walking and bicycles. The EIFD investment program would also include operations and maintenance schedules to reduce life-cycle costs.

Crafting a Financing Package: A business plan would be created using a "tipping point" analysis calculating how much property values are increased by these investments. In many cases, investments like parking districts and circulation systems could generate fees that could be captured using the fee authority of the EIFD. Tax increment could also be used to leverage these assessment and fee funding streams. To encourage affordable housing development, the Strategic Growth Council could also use new cap & trade funds to further leverage this system.

Combining into a Strategic Plan: Once again, all of these new EIFD authorities would be combined in a strategic plan—one that provides cities with a unique instrument that can integrate all of the different types of projects encouraged by SB 375.

Special thanks to the Southwest Megaregion Alliance for its contributions to developing this guidebook.

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