

# Infill Finance Options Study

**Presentation to:  
Strategic Growth Council  
June 3, 2014**

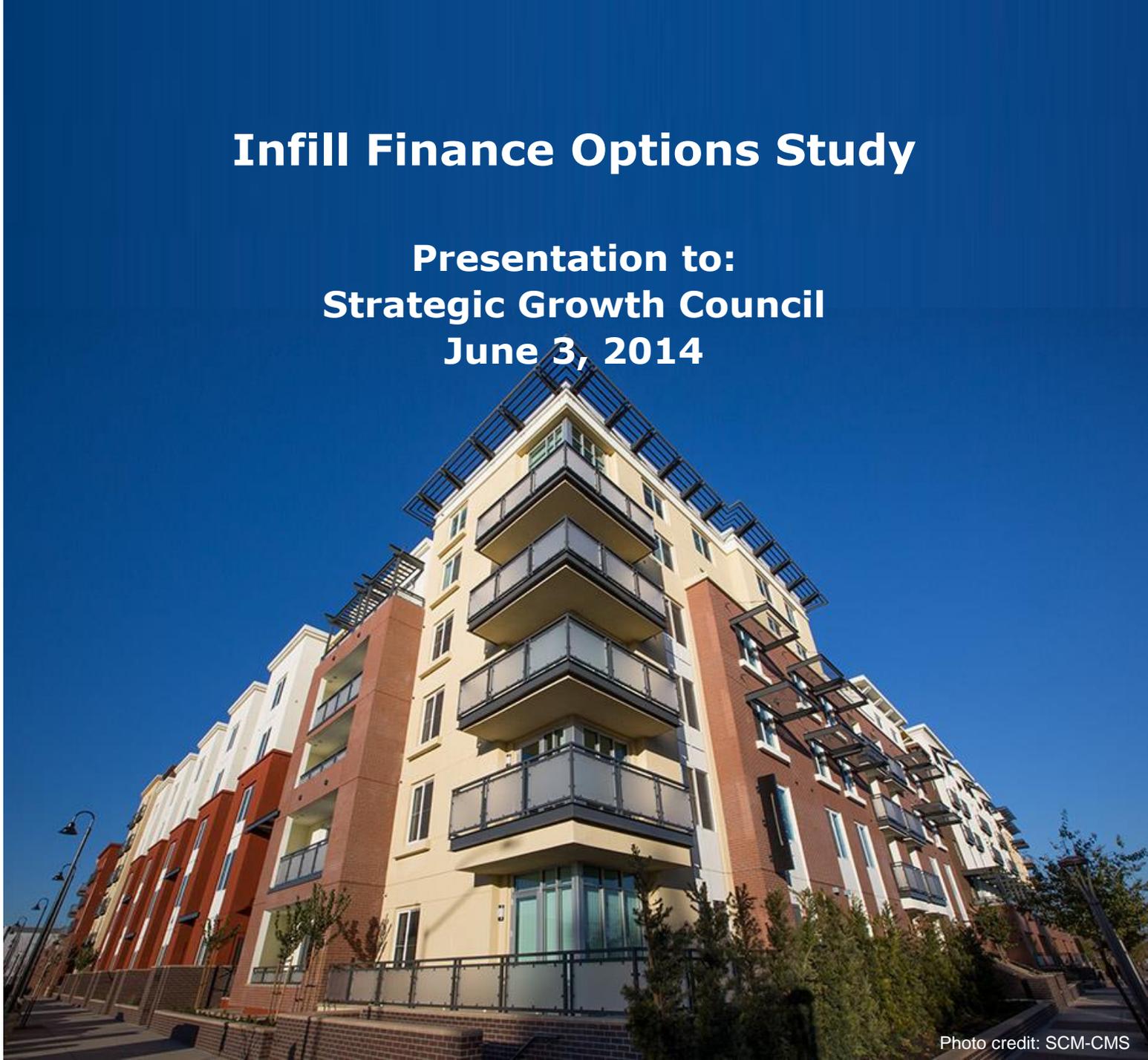


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# Overview

- Reasons for the Study
- Infill Development Challenges
  - Definitions
  - Context and Challenges
  - Case Studies
- Funding & Financing Recommendations
- Strategic Guidance

## Reason for the Study

- The SGC is charged with assisting local government in meeting the greenhouse gas emission (GHG) reduction goals of AB32 and the broader goals of SB375
- Infill and transit-oriented development (TOD) are an essential component of GHG reductions and also contribute to the State's Planning Priorities and the SGC's broader mission
- Infill and TOD development is inhibited by difficult site conditions and significant up-front investments in infrastructure and public facilities

# Infill Development Challenges

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## Definition of “Infill Sites”

- Development within an existing urbanized area
- “Infill sites” are broadly defined to include larger urban planning areas (not individual parcels or projects)
- Infill sites have commonly been the subject of local planning efforts (specific plans, redevelopment plans, etc.)
- Metropolitan Planning Organization’s Sustainable Community Strategies (SCS) include planning for infill sites (e.g., ABAG’s “Priority Development Areas”)

# Infill Development Context

- Longstanding and ongoing local planning and financing efforts to pursue urban infill development
- A variety of physical and environmental development constraints are common
- A widening disparity between economically strong and weaker localities
- Intergovernmental conflicts and policy misalignments often impede development
- Inadequate local government resources

# Infill Challenges

- Inadequate market demand
- Site assembly constraints
- Higher construction costs
- Structured parking costs
- Inadequate existing “backbone” infrastructure
- Land use policy and regulatory hurdles
- Community opposition
- Regional infrastructure inadequacies
- Contaminated sites

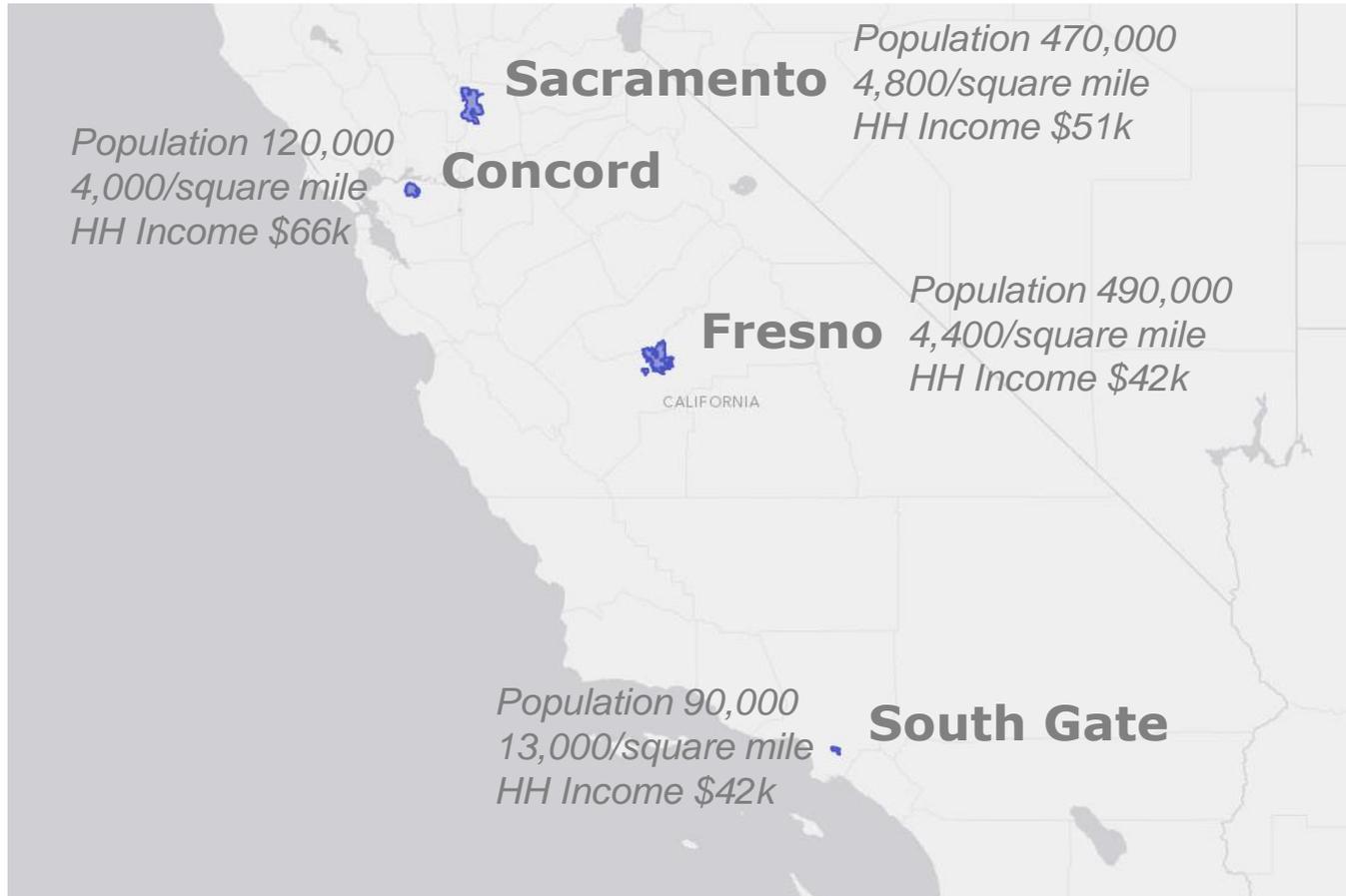
# Case Studies

- Case studies conducted to explore the dimensions of infill development challenges and need for additional funding
- A set of common “metrics” developed to reveal feasibility issues
- Selected case studies chosen to reflect a range of common circumstances
- Metrics may play role in subsequent funding allocation and priorities

# Case Studies

- Bay Area City Center
  - Concord Downtown
  - \$26 million infrastructure program
- Northern California Regional Center
  - Sacramento River District
  - \$320 million infrastructure program
- Central Valley Regional Center
  - Fresno Downtown
  - \$175 million infrastructure program
- Southern California Transit Neighborhood
  - Southgate Station Area
  - \$17 million infrastructure program

# Case Study Locations



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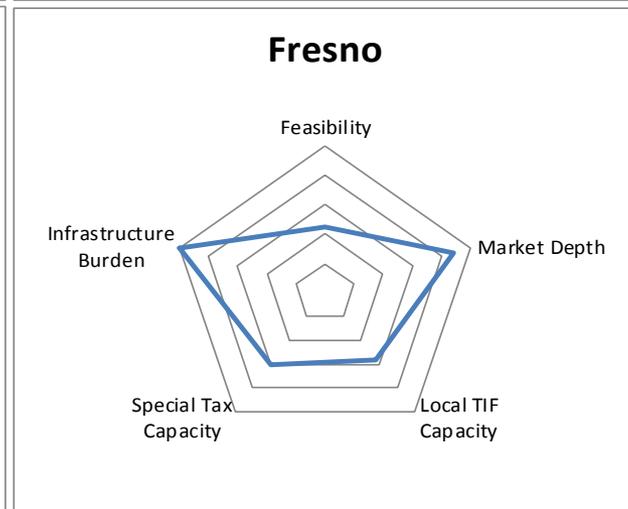
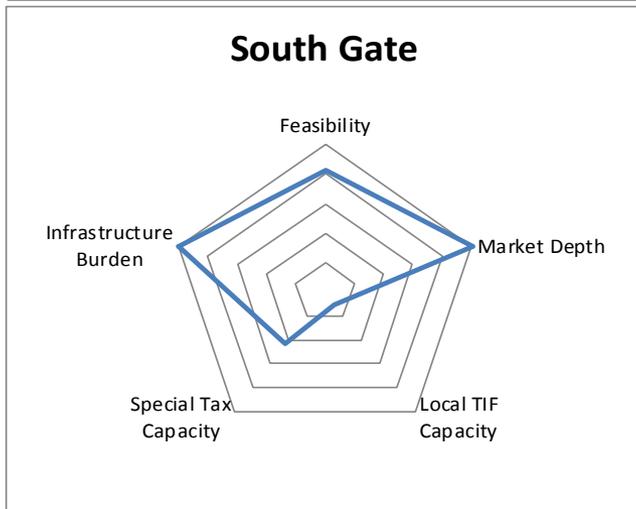
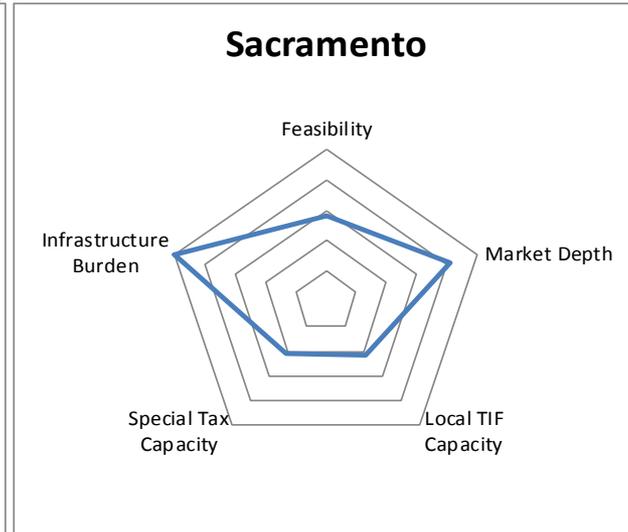
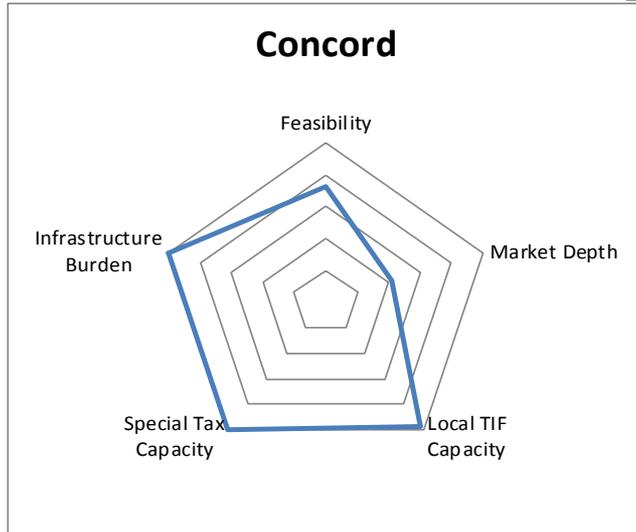
# Case Study Findings

- Metrics applied reveal unique problems in each Case Study
- Current market values often are insufficient to support high density development let alone fund additional infrastructure – a potential “market failure”
- Even when development is feasible, the infrastructure burden may be infeasible with existing tools (e.g., fees, special taxes, and tax increment)

## Case Study Findings, continued

- Upfront “horizontal” public infrastructure costs are often unaffordable relative to timing of planned private development
- In some areas the planned development program is large relative to local market transaction volumes creating a timing constraint for infrastructure investment
- Tax Increment Financing (TIF) capacity is greatly influenced by individual jurisdiction’s AB-8 property tax allocation

# Infill Feasibility Metrics



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# Funding & Financing Recommendations

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# Recommendations

Four categories:

- Modifications to Existing State Legislation and Programs
- New State Bond Programs
- State Legislation and Initiatives to Create New Funding Sources
- Enhanced Role of the State to provide Catalyst Funding and Participate in Market Risk

# Modifications

1. Allocate a portion of the State's Cap-and-Trade Program funding to support infill development (e.g. The Governor's Proposed Budget and Steinberg Senate Proposal)
2. Improve local tax increment financing (TIF) authority and related local government infill development powers
3. Create a new lending program providing needed credit enhancement to local governments pursuing infill development to share risks with the private capital markets

## **Recommendation #1: Direct Cap-and-Trade funding to infill development**

- Fund local investments in infill housing, mixed-use development, site assembly, infrastructure, and transportation
- Allocate funds to local governments based on development scale, GHG reductions, cost-effectiveness, and other relevant criteria
- Capitalize (fund) an infill development lending program that augments available public and private financing and assumes extended development risk based upon policy objectives

## **Recommendation #2: Amend Infrastructure Finance District (IFD) Trailer Bill to promote TIF**

- Eliminate voter-approval requirement for IFD formation (while retaining the requirement for debt issuance)
- Reduce Redevelopment Agency (RDA)-related requirements
- Provide State-funded incentive for IFDs located in infill areas
- Clarify and broaden uses for IFD financing similar to other development-related assessment districts

## **Recommendation #3: Create a new “revolving fund” lending program**

- Address unmet financing needs faced by local government (e.g., “mezzanine” financing for land-secured financing districts)
- Provide credit enhancement early in the development process when infrastructure investments are needed but sufficient tax or fee funding has not yet developed
- Fill financing gaps through subsidies providing financing for transactions that would otherwise not take place

# New State Bond & Funding Programs

- State voters have passed ballot-box initiatives that authorized significant funding for housing, transportation, other public infrastructure (e.g., Propositions 1A, 1B, and 1C, 2004)
- Two new bond programs could “jump-start” and catalyze infill development by providing competitive grant funding directly to local governments for infrastructure and affordable housing
- New stable funding sources for infrastructure and affordable housing

## **Recommendation #4: Infill Development Infrastructure Bond**

- Pursue a new voter-approved bond initiative to provide grant funding for transit infrastructure, “complete streets,” and other urban mobility programs that support infill development

## **Recommendation #5: Affordable Housing Solutions – New One-time and Recurring Revenue**

- Adopt and implement a State property transfer fee or other tax funding sources to provide a stable funding for affordable housing
- Pursue a new voter-approved bond initiative that funds local government-sponsored affordable housing
- Use bond funding in combination with “matching” funds from other sources to meet local affordable housing and related infrastructure needs

## **Recommendation #6: State Participation in IFD-enabled TIF**

- Provide a direct financial incentive to cities and counties pursuing infill development through an IFD
- Augment or “match” local property tax funds to local governments’ TIF funding with State sources
- The infill development TIF incentive could be funded from Cap-and-Trade funds

## **Recommendation #7: Amend voter approval thresholds for special taxes and debt issuance**

- Propose a constitutional amendment that lowers the voter-approval threshold for special taxes from the current 2/3 to 55 percent
- Limit amendment to financing public infrastructure, facilities, or services in infill development areas

## **Recommendation #8: New Investment Tax Credit Program**

- Design and implement a State investment tax credit program
- Provide State income tax credits to qualifying infill development-related private investments
- Model program on existing Low-Income Housing Tax Credit (LIHTC) program administered by the State's Tax Credit Allocation Committee

## **Recommendation #9: Increased State Motor Fuel Taxes**

- Introduce a new motor vehicle tax to provide funding for mass transit
- Fund transit facilities and services that improve infill development potential
- Additional motor fuel tax of \$0.025 per gallon could generate approximately \$350 million per year Statewide
- Fund improvements and operations on a need-based and performance-competitive basis

# Sources & Uses

	Site Acquisition	Real Estate Construction	Parking Construction	Local Infrastructure	Regional Infrastructure	Brownfield Remediation	O&M
Cap-and-Trade Funding	✓	✓	✓	✓	✓	✓	✓
Amended IFD	✓	✓	✓	✓	-	✓	✓
Revolving Loan Program	✓	-	✓	✓	-	✓	-
Infrastructure Bond	-	-	-	✓	✓	-	-
Affordable Housing Bond	✓	✓	-	-	-	-	-
Infill Area Special Taxes	-	-	✓	✓	-	-	✓
Infill Tax Credit Program	-	✓	-	-	-	-	-
Document Recording Fees	-	✓	-	-	-	-	-
Motor Fuel Taxes	-	-	-	-	✓	-	✓



# Strategic Guidance

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# Inter-governmental Infill Development Program

- Funding and financing recommendations should be pursued through a coherent State, regional, and local government program
- Leadership at the State level is necessary to create and manage the program
- Regional (MPOs, Congestion Management Agencies (CMAs)) and local governments have key roles
- Existing impediments and conflicts should be resolved as part of this effort

# Inter-governmental Infill Development Objectives

- Align State, regional, and local government policy and programs
- Reduce regulatory complexity and burden (CEQA, etc.)
- Provide one-time and recurring State funding to local governments for infill development
- Improve local government access to local municipal credit and bonding
- Increase authority to assemble private lands and enter into partnerships with the private sector

# The Role of the State

- Provide technical support and assistance to regional and local agencies
- Lower regulatory hurdles and policy conflicts
- Offer additional state funding and improve local funding options
- Increase direct investment in infill development through grant and revolving funds programs

# Regional Infill Development Actions

- Focus federal transportation grant funding on infill development areas
- Concentrate county transportation sales tax measure revenue on infill areas
- Create incentives for implementation of Regional Housing Needs Allocations and compliance with housing elements
- Provide ongoing technical support to local governments through Sustainable Community Strategies
- Promote SCS development and inter-regional solutions

# Local Government Actions

- Provide regulatory certainty, transparency, and streamlining
- Pursue improved urban context and public realm within infill areas
- Improve the physical readiness and availability of infill development sites
- Create infill development area capital investment plans
- Develop infill area affordable housing strategies

# Question & Answer Discussion

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