

**CITY OF LOS ANGELES  
PROPOSED ENHANCED INFRASTRUCTURE FINANCE DISTRICT (“EIFD”)  
ESTABLISHMENT AND INVESTMENT POLICY**

**I. Overview**

EIFDs are an economic development tool created in 2015 that allows California cities and counties to finance specified types of projects with tax increment contributed by eligible consenting taxing entities. This proposed EIFD Establishment and Investment Policy (“Policy”) establishes the procedures and policies of forming an EIFD in the City of Los Angeles (“City”) and committing a portion of the City’s tax increment to an EIFD. This Policy focuses on the City’s commitment of tax increment to EIFDs, but note that the City prefers that EIFDs involve multi-agency investment, as EIFDs may be most appropriate (and successful) when multiple taxing entities participate.

The primary City department responsible for implementing the Policy is the Economic and Workforce Development Department (“EWDD”). However, EWDD will actively collaborate with the Council Offices, the Mayor’s Office, City Administrative Officer, Finance Department, and Chief Legislative Analyst to implement the Policy. As the lead agency, EWDD will coordinate the evaluation of EIFD formation and expenditures (investments), provide technical assistance to Council Offices and City departments, and otherwise ensure adherence to this Policy.

**Without careful planning and sound investment in projects that would otherwise not occur, forming an EIFD risks unnecessarily reducing future General Fund revenues. Accordingly, this Policy has been created in part to protect the General Fund.**

This Policy presents the following:

1. Outlines the City’s preliminary assessment of whether to form a proposed EIFD;
2. Explains the City’s approach to committing tax increment to an EIFD;
3. Provides an overview of EIFDs; and
4. Establishes the City’s procedures and policies related to accepting and responding to requests to establish EIFDs within City boundaries.

An Appendix to the Policy provides a summary of (a) the differences between EIFD and former Redevelopment Agency (“RDA”) financing, (b) current ambiguities in the legislation regarding EIFDs, and (c) Community Revitalization and Investment Authorities (CRIAs).

## II. Preliminary Assessment

Like all tax increment financing tools, EIFDs capture revenue that would have otherwise been distributed to eligible participating taxing entities. In other words, every dollar of tax increment above the base year that funds an EIFD is a dollar forfeited by consenting taxing entities. The intent of this Policy is to provide the City Council with a guide when making strategic trade-offs between General Fund revenue available for City operations and using EIFDs for highly selective public investment in catalytic projects.

**Prior to the City proceeding with the time-intensive and costly process to form an EIFD (this process is detailed later in this Policy), EWDD staff will conduct a preliminary assessment of the proposed EIFD and advise the City Council and the Mayor of its impacts and whether it appears that forming the proposed EIFD is in the City's economic and fiscal interest.** Ultimately, the City Council and the Mayor will determine whether to proceed with forming the proposed EIFD. Should these entities determine to proceed, a comprehensive feasibility study is legally required to be completed; this analysis would be entirely separate from EWDD staff's preliminary assessment.

EWDD staff will evaluate the following factors in their preliminary assessment:

- A. **Alignment with the City's Economic Development Strategy:** Do the goals proposed to be achieved by the EIFD align with the City's current economic development strategy?
- B. **Alignment with the City's Fiscal Strategy:** Would the City's investment of funds in the EIFD align with the City's current fiscal strategy?
- C. **Leveraging of City-Owned Property:** Would the EIFD include underutilized City-owned property that is currently underleveraged and would be better leveraged as a result of the EIFD?
- D. **Greater Suitability for Other Financing Tools:** Would the area or project be better suited for funding tools other than an EIFD?
- E. **Financial Feasibility:** Does it appear likely that the financial goals proposed to be achieved by the EIFD will actually be achieved?

EIFDs are a unique economic tool that generate significant tax increment only in particular instances; thus, EIFDs may have limited application in the City. For instance, as mentioned above, EIFDs may be more effective when more than one taxing entity is willing to commit tax increment. The exhibit on the next page lists five specific factors that EWDD staff will consider when preliminarily evaluating the financial feasibility of an EIFD. A Microsoft Excel model using City-specific data ("City of Los Angeles Preliminary EIFD Feasibility Test") has been developed by a third-party

independent consultant and made available to EWDD to aid in assessing many of these factors (see Figure 1).

Figure 1: Potential Factors Affecting the Financial Feasibility of an EIFD



### III. The City's Approach to Committing Tax Increment to an EIFD

Generally, the maximum tax increment that the City will commit to an EIFD is the lesser of:

- (a) 50% of its share of tax increment generated in the EIFD, or
- (b) The portion of tax increment generated in the EIFD that would not have occurred but for the formation of the EIFD, less the costs of forming and operating the EIFD.

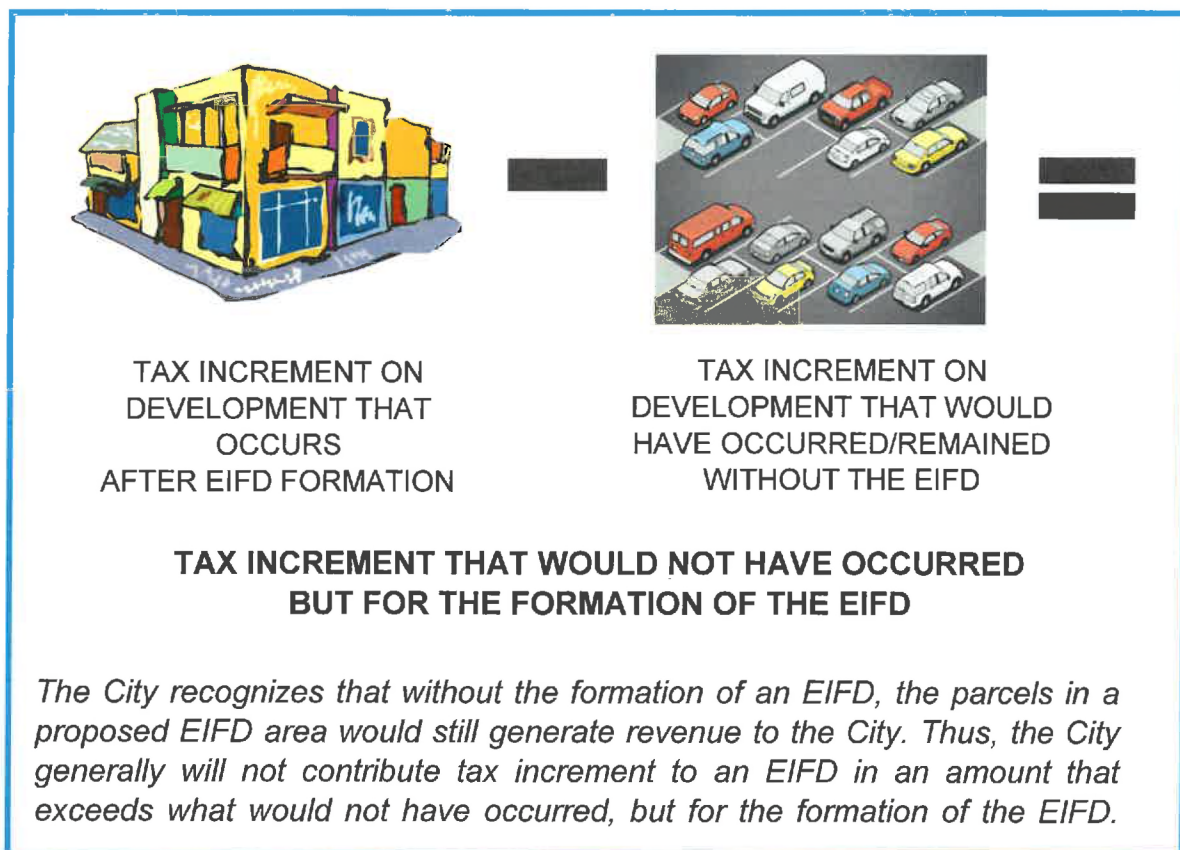
The 50% limit ensures that at least half of the City's share of tax increment above the base generated within a EIFD accrues to the City's General Fund, where it is available for the provision of public services both within the EIFD and other areas in the City.

The exact percentage to be committed to the EIFD will be determined by the City Council, in consultation with the Mayor's Office, the Office of the City Administrative Officer, the Office of the Chief Legislative Analyst, and EWDD. In some cases, the City Council may elect to contribute more than 50% of the City's

share of tax increment generated in the EIFD. The following factors should be considered when determining the exact percentage to be committed to the EIFD:

- **Return on Investment:** Does it appear that the City's contribution to the EIFD will yield either a return on investment commensurate with present-day private sector investment or quantifiable progress in achieving one or more of the City's mission-driven goals (e.g., creation of affordable housing)?
- **Maximization of Private Funds:** Would tax increment generated by an EIFD truly serve as gap financing for the proposed development(s) in the EIFD? Have all other reasonable sources of financing been exhausted? How secure is the other funding?
- **Catalytic Potential:** Does careful analysis indicate that the EIFD will leverage significant private investment that, but for the formation of the EIFD, would likely not otherwise occur? Does the EIFD appear to have the potential to generate significant economic spin-off, particularly in disinvested areas?
- **Anticipated Job Creation:** How many temporary and permanent jobs are estimated to be created as a result of the EIFD?
- **Project Readiness:** How soon is the project expected to be developed? What major issues have yet to be resolved?

Figure 2:





#### IV. Overview of EIFDs

EIFDs were created by Senate Bill 628, which is codified in California Government Code (“Government Code”) Section 53398.50 through 53398.88 and took effect on January 1, 2015. The legislation was amended in 2015 by Assembly Bill 313 and Senate Bill 63.

Cities and counties may create one or more EIFDs, each of which functions as a legally constituted governmental entity separate and distinct from the city or county that established it, pursuant to Government Code Section 53398.51(f). EIFD boundaries may include non-contiguous areas, and may either encompass the parcels of a specific development project (referred to herein as a “project-based EIFD”) or a broader area (referred to herein as an “area-based EIFD”). EIFDs use tax increment contributed by consenting taxing entities to implement an infrastructure financing plan within a defined area to construct, improve, and/or rehabilitate specified types of projects with community-wide benefits. School districts may not participate.

A summary of five key components of EIFDs is provided below.

- **Established without voter approval, although the issuance of bonds requires 55% voter approval** among voters within the EIFD (unless less than 12 people are registered to vote in the District, in which case the vote is by landowners within the District, and each landowner has one vote for each acre or portion of an acre of land owned; a public agency is not considered a landowner unless it owns 100% of land in the EIFD).

- **May finance specified types of public infrastructure facilities and private facilities** (detail is provided in the next section).

- **Funded by property tax increment pledged by consenting taxing agencies** (no pass-through payments or set-asides are deducted; education districts may not consent; tax increment is available for up to 45 years from the date of approval of the first bond issuance or a public loan).

- **May be funded by additional sources**, including private sector partners, property tax allocations distributed to cities and counties in lieu of Vehicle License Fees (VLF), property tax revenue distributed to taxing entities after payment of successor agency debts, assessment or fee revenues, and loans from a city, county, or special district.

- **Governed by a board known as a “Public Financing Authority,”** which includes a majority of members of the legislative body of the participating taxing

entities and two or more members of the public chosen by the legislative body of the participating taxing entities.

#### *Infrastructure Financing Plan*

Among other information, the infrastructure financing plan that guides the Public Financing Authority's implementation of each EIFD must include a detailed description of the development or financial assistance that is proposed in the EIFD, a limit on the total number of tax dollars that may be allocated to the EIFD, and a date on which the EIFD will cease to exist and all tax allocation to the EIFD will end. The plan is prepared by the city/county engineer or another appropriate official designated by the city or county's legislative body. Once drafted, the following must occur before it is adopted by the legislative body:

1. The plan must be sent to each landowner in the proposed EIFD, each affected taxing entity, the planning commission, and the legislative body.
2. The official who prepared the plan must consult with each affected taxing entity and meet with representatives of any affected taxing entity that desires such a meeting; any affected taxing entity must be able to suggest revisions.
3. The legislative body must conduct a public hearing, for which specific public notices must be issued.
4. The governing body of each affected taxing entity committing tax increment must adopt a resolution approving the plan.

#### *Use of EIFD Funds*

Pursuant to Government Code Section 53398.52(b), EIFDs may only finance public capital facilities or other projects of communitywide significance that provide significant benefits to the district or surrounding community, including but not limited to:

- Highways, interchanges, ramps and bridges, and arterial streets
- Parking and transit facilities
- Sewage treatment and water reclamation plants and interceptor pipes
- Water collection/treatment facilities for urban uses
- Flood control levees and dams, retention basins, and drainage channels
- Child care facilities
- Libraries
- Parks, recreational facilities, open space

- Waste transfer and disposal facilities, including transfer stations and vehicles
- Brownfield restoration and other environmental mitigation
- Former military base reuse projects (or payment/transfer of funds to military base reuse authority)
- Industrial buildings (acquisition, development or repair)
- Transit priority projects
- Rental or for-sale affordable housing (acquisition, construction, or rehabilitation)
- Projects implementing a Sustainable Communities Strategy or alternative greenhouse gas emission reduction strategy
- Port or harbor infrastructure

Pursuant to Government Code Section 53398.52, EIFDs may finance any of the following:

- Purchase, construction, expansion, improvement, seismic retrofit, or rehabilitation of any real or other tangible property with an estimated useful life of 15 years or longer, provided that the property is a public capital facility or other project of communitywide significance that provides significant benefits to the district or surrounding community
- Planning and design work directly related to the purchase, construction, expansion, or rehabilitation of property
- Costs related to the replacement of any dwelling units removed or destroyed in the course of private development or public works construction within the EIFD
- Costs related to any action or proceeding to attack, review, set aside, void, or annul the creation of an EIFD, adoption of an infrastructure financing plan, or an election related to the EIFD

EIFDs may finance facilities physically located outside of the EIFD, provided that the facilities have a tangible connection to the work of the EIFD. EIFDs may not finance routine maintenance, repair work, or the costs of an ongoing operation or providing services of any kind.

### *Forming an EIFD*

Completing the multi-step process of creating an EIFD in the City of Los Angeles may take as long as two years and cost as much as \$500,000 (exclusive of bond issuance costs). Table 1 summarizes the key activities that must be performed by City and County staff, consultants, legal counsel, and the Public Financing

Authority prior to EIFD formation. Appendix A shows a prototypical schedule of forming an EIFD in the City; the schedule sequentially provides details regarding required meetings, reporting, and public noticing. Note that cities and counties that previously created a redevelopment agency may form an EIFD only after:

1. The successor agency receives a "Finding of Completion" from the State Department of Finance ("DOF");
2. The city/county certifies to DOF that there are no former RDA assets under litigation that would benefit from an EIFD; and
3. The city/county has complied with the State Controller's asset transfer review.

At the time of the writing of this Policy, the City meets each of these three requirements.



**TABLE 1: Primary EIFD Formation Activities<sup>1</sup>**

| 1. PRELIMINARY ACTIVITIES                         |   |
|---|---|
| Staff/Consultant Activities                       | <ul style="list-style-type: none"> <li>• Conduct Feasibility Analysis</li> <li>• Assemble and Consult with Bond Team</li> <li>• Consult Taxing Entities and Coordinate Public Financing Authority ("Authority") Membership</li> <li>• Identify Registered Voters/Landowners and Coordinate Election Procedures (only if Authority plans to issue bonds or levy special assessments/fees)</li> <li>• Draft Resolution of Intention, Resolution Forming Authority, Operational Documents, Relocation and Replacement Plan (if applicable), and Statement of Preparation</li> <li>• Prepare Legal Description and Map</li> <li>• Finalize List of Projects/Goals, Financial Projections, and Financing Plan</li> </ul>   |
| Legal Counsel Activities                          | <ul style="list-style-type: none"> <li>• Draft Authority Formation Documents, Letter Regarding Conflict Law, and City/Authority Cooperation Agreement</li> </ul>  |
| City Clerk Activities                             | <ul style="list-style-type: none"> <li>• Mail Resolution of Intention to Landowners, Taxing Entities, and the Authority</li> </ul>  |
| Public Financing Authority Activities             | <ul style="list-style-type: none"> <li>• Approve Operational Documents</li> </ul>   |
| 2. REPORTS & PUBLIC NOTICING                      |   |
| Staff/Consultant Activities                       | <ul style="list-style-type: none"> <li>• Draft and Transmit Notice of Preparation and Receive Comments</li> <li>• File Notice of Completion and Receive Comments</li> <li>• Draft and Circulate 1st and 2nd Administrative Draft Infrastructure Financing Plans and Receive Comments</li> <li>• Draft and Circulate Administrative Draft EIR, Draft EIR, Administrative Draft Final EIR and MMRP, and Final EIR and Receive Comments</li> <li>• Prepare for and Hold EIR Scoping Meeting, 1st Community Workshop, and Community Information Meeting (preparation includes public noticing and preparing meeting materials)</li> <li>• Prepare for Public Hearing (including public noticing and drafting meeting materials)</li> <li>• Meet with Affected Taxing Entities upon Request</li> </ul> |
| Legal Counsel Activities                          | <ul style="list-style-type: none"> <li>• Determine Type of EIR Required</li> </ul>  |
| City Clerk Activities                             | <ul style="list-style-type: none"> <li>• Prepare Public Hearing Materials</li> </ul>  |
| Public Financing Authority Activities             | <ul style="list-style-type: none"> <li>• Conduct Public Hearing and Consider Approval of EIFD Adoption</li> </ul>   |
| 3. BOND ISSUANCE (if applicable)                  |   |
| Staff/Consultant Activities                       | <ul style="list-style-type: none"> <li>• Mail Resolution of Bond Issuance to County Registrar-Recorder/County Clerk</li> <li>• Mail Proposal to Issue Bonds to Voters</li> <li>• Coordinate Election with County Registrar-Recorder/County Clerk</li> </ul>   |
| City Clerk Activities                             | <ul style="list-style-type: none"> <li>• Publish Resolution of Intent to Issue Bonds</li> </ul>   |
| County Registrar-Recorder/County Clerk Activities | <ul style="list-style-type: none"> <li>• Administer General Election or Special Election by Mail-in Ballot</li> </ul>   |
| Public Financing Authority Activities             | <ul style="list-style-type: none"> <li>• Adopt Resolution Initiating Proceedings to Issue Bonds (if voters approve issuance)</li> </ul>   |

<sup>1</sup> EWDD is responsible for the overall management of forming the City's EIFDs, but would seek assistance from other City departments as appropriate.

### *EIFD Operational Costs*

Once created, an EIFD requires administration, including accounting, auditing, and coordination among multiple City departments. The amount of administrative costs per EIFD could vary widely based on the number of operational EIFDs in the City and whether the administration is done by existing City staff, a new governmental entity created specifically to manage the City's EIFDs, consultants, or some combination of these options. City-specific policies (some of which may not yet be formed) would also affect administrative costs. For example, the City could require that staff in the Office of the City Administrative Officer serve as support staff to the City's designated members of each EIFD's Public Financing Authority, if not members of the Public Financing Authority themselves.

California Government Code Section 53398.76 specifies that EIFDs must bear all costs incurred by a county in relation to the division of taxes levied upon taxable property within an EIFD. Additionally, Government Code Section 53398.69(c) allows EIFDs to expend up to 10% of any accrued tax increment in the first two years of the district's existence on planning and dissemination of information to residents in the EIFD about the infrastructure financing plan and planned activities to be funded by the EIFD. The law does not specify whether other administrative costs must be borne by the EIFD, the City, some or all of the taxing entities consenting to contribute tax increment to the EIFD, or some combination of these options.

## **V. Accepting and Responding to Requests to Establish EIFDs in the City**

The City's process for determining whether to proceed with forming a proposed EIFD is as follows:

1. EWDD, the Mayor's Office, or a City Council Office submits an EIFD Preliminary Assessment Request Form to EWDD to conduct a preliminary assessment of a proposed EIFD via e-mail.
2. EWDD staff conducts a preliminary assessment of the proposed EIFD; this assessment is detailed above in Section II.
3. Based on the EWDD staff's preliminary assessment, EWDD reports to City Council on whether it appears that forming the proposed EIFD is in the City's economic and fiscal interest.
4. City Council either (a) determines not to proceed with forming the proposed EIFD or (b) approves a motion to conduct a comprehensive feasibility study of the proposed EIFD, which is a legally required step in forming an EIFD. Should the City Council approve a motion to conduct a comprehensive feasibility study, the motion must include a

description of the approximate boundaries of the proposed EIFD, as well as the goals to be achieved.

5. EWDD staff and/or consultants complete a comprehensive feasibility study of the proposed EIFD.
6. Based on the conclusions of the comprehensive feasibility study, the City Council and the Mayor determine whether to proceed with forming the proposed EIFD.

#### *Accepting Requests to Establish EIFDs in the City*

The following information is required to be included in the request to initiate EWDD staff's preliminary assessment of a proposed EIFD (Step 1 above):

#### **REQUIRED CONTENTS OF REQUEST TO INITIATE CITY STAFF REVIEW OF A PROPOSED EIFD**

1. Map of area(s) to be included in the EIFD, with boundaries clearly marked.
2. Statement regarding the need for the EIFD and the goals proposed to be achieved by the EIFD.
3. Description of the type of development proposed to be assisted by the EIFD and an estimate of the total costs and timing of these improvements (keeping in mind that the EIFD will begin generating tax increment about one full year after EIFD formation).
4. Statement regarding the percentage of City, County, and/or other taxing entities' share of tax increment proposed to be committed to the EIFD and a summary of any communications with those taxing entities concerning their willingness to contribute, (keeping in mind that: (a) education districts may not contribute from their share of tax increment, (b) the percentage of taxing entities' share of tax increment need not be the same for all taxing entities and the percentage may change over time, (c) unless the City Council specifies otherwise, the City will not contribute more than the lesser of 50% of its share of tax increment or the portion of tax increment generated in the EIFD that would not have occurred but for the formation of the EIFD, less the costs of forming and operating the EIFD, and (d) taxing entities other than the City may not be willing to contribute from their share of tax increment).
5. Statement regarding the anticipated sources and amounts of EIFD funding in addition to tax increment.

6. Statement regarding whether a bond issuance will be sought (bond issuance requires 55% voter approval among voters/landowners within the EIFD; see Page 5 for detail).
7. Statement regarding the party or parties proposed to bear the formation and operational costs of the EIFD.
8. For project-specific EIFDs only: Estimate of the number of jobs created as a result of the new private development expected in the EIFD, broken down by full-time, part-time, and temporary positions.

*Responding to Requests to Establish EIFDs in the City*

Within 120 days of receiving all of the required information detailed above at the e-mail address provided above, EWDD will report to the City Council with its recommendation on whether to proceed with the formation of the EIFD.

Note that proceeding with any steps of forming of an EIFD does not guarantee that the EIFD will ultimately be created, as this is dependent on a variety of factors, including the results of the comprehensive feasibility study required by law.

*Ambiguities in the Law*

As mentioned above, EIFDs were created by law in 2015. At the time of the writing of this Policy, no EIFDs have been formed in California. The law is still ambiguous in several respects, including the following:

- Whether and how taxing entities may amend or rescind their contribution of tax increment to an EIFD after previously committing a portion or all of their share of tax increment to the EIFD;
- Whether the city/county that formed an EIFD may elect to bear some or all costs of forming an EIFD;
- Whether an EIFD may exist in perpetuity if bonds are never issued; and
- Whether and how infrastructure financing plans may be amended after formation of an EIFD.

Future legislation may clarify these and other ambiguities, in which case this Policy may be amended.



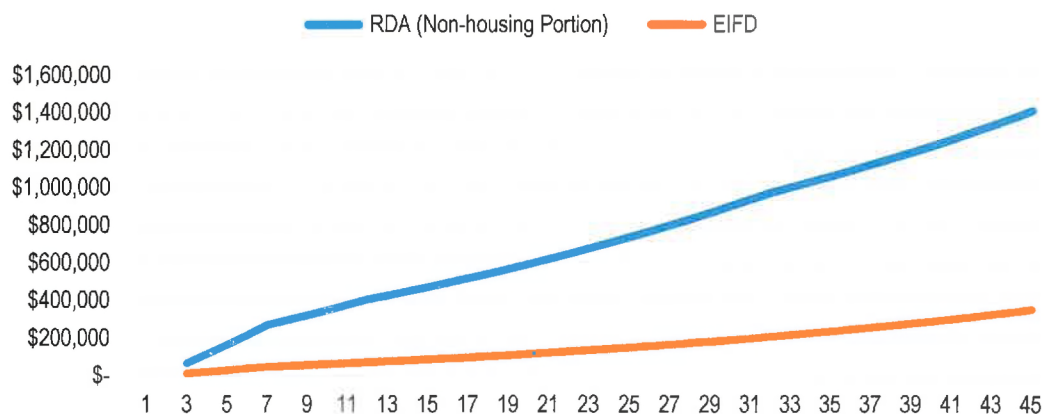
## APPENDIX

### *EIFD vs. RDA Financing*

EIFDs provide cities and counties a much-needed tax increment financing tool following the elimination of California's 400 redevelopment agencies in February 2012. Still, it is imperative to note that an EIFD is not likely to generate nearly as much tax increment as a redevelopment project area with identical boundaries would have. Before dissolution, redevelopment was a commonly used economic development tool that diverted property tax increment in a particular community from all taxing entities to a wide variety of projects in that community. In contrast, EIFDs divert property tax increment from only consenting taxing agencies, and education districts are not permitted to consent. Below is a sample comparison of tax increment generated over 45 years by a RDA and an EIFD with the same geographic boundaries.<sup>2</sup> As the graph illustrates, by design, EIFDs yield significantly less tax increment than the former RDAs.

### Not Nearly the Same as Redevelopment:

Illustrative Comparison of RDA vs. EIFD Tax Increment over 45 Years



<sup>2</sup> Both scenarios assume a \$100 million base year value, 3% annual assessed valuation growth, and \$5 million of new private development value in Years 3 - 7. The RDA scenario nets out statutory pass-through payments and a County administration fee, which is estimated as 1.5% of gross tax increment. The EIFD scenario does not net out any administrative costs and assumes that the only contributing taxing entity is the City, which was assumed to contribute 100% of its 10% property tax share.

*Community Revitalization and Investment Authorities (CRIAs)*

Another relatively new tax increment financing tool is a Community Revitalization and Investment Authority (CRIA), which differs from an EIFD in several ways, including the following:

- Requires that 80% of the area meet certain demographic criteria and include deteriorating infrastructure or buildings;
- May be used to finance more types of economic development projects;
- Requires that 25% of revenues be set aside to fund affordable housing;
- Allows taxing entities that consented to contribute tax increment to reverse their commitment of funds at any time, unless the funds are pledged to repay bonds;
- Does not require voter approval to issue bonds;
- Grants eminent domain authority in instances unrelated to environmental remediation; and
- Requires more public reporting.