# REPORT OF THE
# CHIEF LEGISLATIVE ANALYST

DATE: February 19,2025

TO: Honorable Members of the City Council

FROM: Sharon M. Tso
Chief Legislative Analyst

Council File No. 21-1216
Assignment No. 22-02-0098

SUBJECT: Feasibility of Using Tax Increment Financing to Preserve Affordable Housing


**SUMMARY**

Motion (Rodriguez – de Leon, CF 21-1216) instructs the Chief Legislative Analyst, in coordination with the Los Angeles Housing Department, to report on the feasibility of using Tax Increment Financing (TIF) to preserve and protect affordable housing Citywide, including in geographies that are not "high resource areas" as defined by the Citywide Inclusionary Housing Policy in CF 19-0416. Our office, in consultation with the Los Angeles Housing Department, has prepared this report, which provides an overview of existing TIF tools in the State of California.


**RECOMMENDATIONS**

That the City Council note and file this report.

**DISCUSSION**

Tax Increment Financing (TIF) is a mechanism used to fund and finance redevelopment, infrastructure, and community improvements, often in infill locations where up-front investments are needed to enable real estate development. Tax increment is determined as the amount of property tax generated above an established "base year" value within a defined district boundary. When the value of properties within the district increase above the base year value, the amount of property tax revenues above the baseline are retained by the district for use consistent with the district formation authority. This may include property tax revenues generated by cities, counties, and other taxing entities. TIF revenues are typically used to pay upfront costs for the district and its projects and programs and for debt service for bonds issued to fund district improvements. Districts typically fund improvements such as infrastructure and other public facilities that are needed to catalyze private investment.

TIF can play an important role in providing funding for affordable housing. Some TIF tools require a certain percentage of revenues collected to be set aside for affordable housing.

TIF was the primary funding source used by redevelopment agencies (RDAs). They often played a role in encouraging infill and transit-oriented development. RDAs, by law, included mandatory participation of the multiple taxing agencies in a district. RDAs were required to set aside 20 percent of revenue for the funding of affordable housing. As of 2012, RDAs have been dissolved by the State and are no longer available as a tool for community redevelopment.

Despite elimination of RDAs, one legacy TIF program remains available, and the State has created several new TIF Programs. The TIF tools currently available in California are:

- *Infrastructure Financing Districts (IFDs).* IFDs were enabled in 1990. They are a version of TIF that were available for use outside the boundaries of redevelopment areas, and rarely implemented. IFDs lack any formalized locational requirements or allocation of funds to affordable housing, and stringent voting requirements make them difficult to establish and to issue debt once established.

- *Enhanced Infrastructure Financing Districts (EIFDs).* EIFDs were enabled in 2014. EIFDs offer more flexibility than IFDs, particularly as successive legislation has relieved any voting requirements and expanded the list of eligible expenditures for which the tool could be used. EIFDs may be initiated by any affected taxing authority, including a city, county, or special district, and are governed by an Infrastructure Financing Plan. Each participating taxing authority may choose to contribute a portion of its share of the general one-percent property tax as well as the property tax in lieu of a vehicle license fee (VLF). There are no locational requirements. EIFDs can be used for the purchase, construction, or improvement of any real property with a useful life of at least 15 years inside or outside the district, including affordable housing. While EIFDs are not required to set aside a specific percentage of affordable housing, all housing that is developed from EIFD proceeds must be affordable. In response to Motion (Blumenfield – Krekorian), dated October 24, 2023, the City Administrative Officer will be reporting on the City's EIFD policy (C.F. #23-1187).

- *Infrastructure and Revitalization Financing Districts* (IRFDs). IRFDs, enabled in 2014, are similar to EIFDs with a few important differences. IRFDs retain a two-thirds voting requirement in the original IFD law to form the district and issue bonds. Unlike EIFDs, property tax in lieu of VLF revenues may not be used. However, IRFDs come with some advantages over EIFDs. For example, IRFDs allow different "project areas" within a district.

There are also TIF tools that specifically target infill locations, disadvantaged communities, and affordable housing.

- *Community Revitalization and Investment Authorities (CRIAs).* CRIAs were created with the express purpose of targeting investment to distressed communities at or below 80 percent of area median income, former military bases, and certain other low-income areas. CRIAs also have a requirement to set aside 25 percent of revenues for low- and very low income housing. The rules for forming a CRIA are similar to the rules for forming an EIFD with a few differences. For instance, CRIAs must adopt a Community Revitalization and Investment Plan, which, unlike an Infrastructure Financing Plan, is subject to a public hearing process with the opportunity for a majority protest.

- *Affordable Housing Authorities (AHAs).* Created in 2017, the specific purpose of AHAs is to use TIF to generate funds for low- and moderate-income housing, as well as supportive and transitional housing. There are no locational requirements. The creation of AHAs is similar to EIFDs and CRIAs, with the authority required to adopt and implement an Affordable Housing Plan. The funds must be spent in proportion to the taxing entity's RHNA requirements.

- *Neighborhood Infill Finance and Transit Improvement Districts (NIFTI 1 and 2)*. Since 2017, California law has provided for a special type of EIFD targeted specifically to affordable housing production in infill areas. "NIFTI-1" originally provided for EIFDs located in a qualified infill site, with a 20 percent affordable housing requirement. "NIFTI-2" was passed in 2018, further requiring the district to be within one-half mile of a transit stop, and with 40 percent affordable housing. As an incentive to offset these additional requirements, NIFTI-1 and NIFTI-2 allow the use of sales tax increment in addition to property tax.

Due to relative ease of establishment, EIFDs and CRIAs currently are the most commonly used TIF tool in the State.

Using TIF to Preserve and Protect Affordable Housing

Among the TIF tools available, the AHA is most suited to directly supporting affordable housing development. An AHA could be used to provide bonds for affordable housing. AHAs can fund projects that increase, improve, and/or preserve affordable housing for very low-, low- and moderate-income households. State law requires that 95 percent of funds generated by an AHA must be spent on such projects. Similarly, CRIAs are mandated to set aside revenue for affordable housing. State law requires that 25 percent of tax increment revenue must be used to increase, improve, or preserve affordable housing. CRIAs also have the ability to acquire and dispose of properties. Neither AHAs nor CRIAs require a public vote for formation or to issue bonds. Both can fund projects anywhere within the established district.

TIF districts can be controversial because some or all of the increased tax revenue in the district is diverted to a special TIF fund and is not available for the same activities that other property tax revenue is used for, such as public schools, police and public safety, and recreational facilities. One way to address these concerns is to focus a TIF tool on a district where increases in tax revenue would be unlikely without the increased public investment resulting from the TIF. In such cases, the TIF district is generating new revenue, not diverting revenue that would have occurred even in its absence.

Examples Outside of California

- Austin, Texas has employed tax districts to preserve affordable housing opportunities in neighborhoods poised for rapid increases in housing prices.
- Chicago, Illinois allocates TIF revenues to support the redevelopment of vacant and foreclosed apartment buildings as affordable housing.
- Portland, Oregon has dedicated 45 percent of revenues from TIF districts to affordable housing. Between 2006 and 2019, the program generated almost $250 million for affordable housing.

**FISCAL IMPACT STATEMENT**

There is no impact to the General Fund.

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Analyst