

Date: February 22, 2008

Committee Meeting Date: February 21, 2008

Board Meeting Date: March 6, 2008

BOARD MEMORANDUM

ACTION ITEM

TO: Santa Clara Valley Transportation Authority
Board of Directors

THROUGH: Michael T. Burns
General Manager

FROM: Kurt Evans
Government Affairs Manager

SUBJECT: Support Position for AB 1221 (Ma)

Policy-Related Action: Yes

Government Code Section 84308 Applies: No

RECOMMENDATION:

Adopt a support position for AB 1221 (Ma), which allows local officials to divert property tax increment revenues to pay for new bonds for infrastructure within transit village development districts.

BACKGROUND:

The major provisions of AB 1221 are as follows:

Transit Village Plans: The Transit Village Planning Act, which was enacted in 1994, allows cities and counties to plan more intense development within a quarter-mile of rail or light rail stations, ferry terminals, bus hubs, or bus transfer stations. Transit village plans identify areas where local officials are willing to grant density bonuses to builders. To qualify, a transit village plan must demonstrate five public benefits, selected from a statutory list of 13 public benefits. AB 1221 expands the maximum size of a transit village development district to a half-mile of the exterior of the transit station's parcel.

Property Tax Increment Revenues: Cities and counties can set up community redevelopment agencies and issue tax allocation bonds that are backed by property tax increment revenues. Redevelopment agencies divert the property tax revenues generated by rising property value assessments within designated redevelopment project areas for up to 45 years to pay for these bonds. These property tax increment revenues would have gone to other local governments, including schools and community colleges. Redevelopment officials spend the proceeds of their bonds to stimulate private investment in blighted areas, finance public works, and build affordable housing.

Cities and counties can create Infrastructure Financing Districts (IFDs) and issue bonds to pay for community scale public works: highways, transit, water systems, sewer projects, flood control, child care facilities, libraries, parks, and solid waste facilities. To repay their bonds, the IFDs can divert property tax increment revenues from other local governments (but not from schools or community colleges) for 30 years, but only if the other local governments agree to the diversion. Unlike redevelopment, the property in an IFD does not have to be blighted, but an IFD cannot overlap a redevelopment project area.

AB 1221 allows a city or county that has a transit village plan to issue bonds to develop and improve the infrastructure set forth in that plan. The legislation allows the city or county to repay these bonds with property tax increment revenues diverted from local governments, but only if the other local governments agree to the diversion. Each local government that agrees to this diversion must also agree on how the bond proceeds will be used. County offices of education, school districts, and community college districts cannot divert their property tax increment revenues to repay the bonds. The bill prohibits a city or county from using the territory of a redevelopment project area to generate the property tax increment revenues to repay the bonds of a transit village plan.

Affordable Housing: Redevelopment agencies must set aside 20 percent of their property tax increment revenues and deposit that money into a Low- and Moderate-Income Housing Fund. They must spend these funds to increase the supply of low- and moderate-income housing. If a redevelopment project destroys affordable housing, officials must pay relocation assistance to the residents and replace the affordable housing. When financing affordable housing, redevelopment agencies must follow inclusionary housing standards. Unlike redevelopment agencies, IFDs do not need to set aside property tax increment revenues for affordable housing.

AB 1221 requires a city or county that uses property tax increment revenues from infrastructure bonds for a transit village plan to set aside 20 percent of those revenues for affordable housing, following the requirements that apply to redevelopment agencies. Like redevelopment agencies, they must also relocate residents and replace the affordable housing that they destroy.

DISCUSSION:

The public sector's investment in commuter rail, light rail, ferries, and bus lines is part of a broader strategy to improve air quality, reduce traffic congestion, and promote compact development. When communities encourage transit agencies to build rail and bus systems but then fail to promote higher-density development around transit stations, the loss is social as well as physical. One reason that communities do not encourage more density around transit stations is the lack of fiscal incentives to pay for the public works needed to support the new residents and businesses. AB 1221 lets cities and counties capture the fiscal benefits of new construction inside transit villages by harnessing property tax increment financing for transit village development. Because AB 1221 is intended to remove a roadblock to transit-oriented development by encouraging cities and counties to combine transit village planning with property tax increment financing, without having to set up redevelopment project areas, we recommend that the Board of Directors support this measure.

ALTERNATIVES:

The Board of Directors could decide to adopt a position for AB 1221 that is different from the one being recommended, or could opt to take no position on this bill at this time.

FISCAL IMPACT:

There is no immediate fiscal impact associated with this recommendation.

STANDING COMMITTEE DISCUSSION/RECOMMENDATION:

The Administration and Finance Committee considered this item on February 21, 2008, as a Committee of the Whole, with Directors Don Gage and Chuck Reed attending. Both Directors Gage and Reed expressed support for the staff recommendation, commenting that AB 1221 would be a useful tool in encouraging transit-oriented development. Director Reed asked a series of practical questions related to how the provisions of AB 1221 could conceivably be implemented if the bill were to be enacted into law. Key points of interest included:

1. The boundaries of a transit village development district are within the purview of the proponent jurisdiction, consistent with the requirements of the Transit Village Planning Act of 1994.
2. Revenues generated by tax increment financing pursuant to AB 1221 can go to infrastructure improvements that support the development within the designated transit village development district. Director Reed specifically emphasized the importance of building adequate school facilities and other community services to support new transit-oriented development.
3. Under the provisions of AB 1221, property tax revenues identified for schools cannot be part of any diversion. Furthermore, any diversion requires the approval of the affected jurisdictions (i.e., the appropriate cities and county).