

Date: July 17, 2002
To: Inter-Regional Partnership
From: IRP Staff
RE: AB 499/Incentives Update

Background

The Inter-Regional Partnership has prioritized six housing and economic development related incentives for application to the Jobs/Housing Opportunity Zones, including:

- Tax Increment Financing
- Enterprise Zone Status
- Priority Status for Zones in State Programs
 - Priority in state bond allocations through the California Debt Limit Allocation Committee (CDLAC)
 - Tax credits for housing as issued through the California Tax Credit Allocation Committee (CTCAC)
- Cash Grants
- Priority for Inter-regional Improvement Program funds
- Childcare Assistance

Staff has been working on the necessary legislative and regulatory changes that would direct the prioritized incentives to the Zones. This report details the current status of the incentives work, including AB 499, discusses how to better gain overall state support for incentives, and recommends next steps for future work on the incentives.

Discussion

AB 499 Update

As presented at the May 15, 2002 IRP meeting, staff was working with Assembly Member Cogdill on a bill (AB 499) that would put into place a number of the incentives listed above. Since May, AB 499 was amended with the IRP proposed changes, introduced into the Senate Housing and Community Development Committee, and then subsequently amended by the author for another purpose (all IRP references were removed.) Assembly Member Cogdill amended the bill due to strong opposition to the IRP related incentives in the bill.

Opposition to AB 499 was received from both the State Treasurer, Philip Angelides, who chairs both CDLAC and CTCAC, and the State Department of Housing and Community Development (HCD). Both agencies sent letters of opposition to Assembly Member Cogdill and Senator Joseph Dunn. (Senator Dunn is the Chair of the Senate Committee on Housing, which is was the committee assigned to hear the bill.)

Angelides opposed AB 499 for three reasons:

- AB 499 was duplicative of existing CTCAC and CDLAC regulations in that both programs already have in place regulations that promote smart growth principles, including proximity to public transit and employment centers.
- AB 499 would set aside limited resources to the exclusion of other communities. (This point was made to staff during a meeting with CDLAC Executive Director, Laurie Wier. Ms. Wier had indicated that any changes to CTCAC or CDLAC procedures would have to be statewide or they would not receive support.)
- AB 499 would violate federal tax law. (Staff is uncertain as to how the proposed changes would have violated federal law, but will clarify this issue before future work is done with CTCAC and CDLAC.)

HCD's concerns with AB 499 related to issues of sprawl and the enterprise zone incentive. HCD felt that the legislation would discourage local planners "from choosing infill sites in favor of sites on the urban fringe." This point relates to some of the Zones being located in rural or semi rural areas with limited infrastructure in place.

Concerning the enterprise zone incentive, the legislation was written so that only Stanislaus County would meet the criteria for the enterprise zone designation. It was Assembly Member Cogdill's intent to provide a direct benefit for Stanislaus County. The inclusion of the enterprise zone in this form was necessary to garner the Assembly Member's support for the IRP related changes to AB 499. HCD expressed that they "... would prefer that the IRP Program benefit as many counties as possible." (Attachments 1 and 2 are copies of both the HCD and Philip Angelides' letters.)

Gaining Broad Support for Incentives

Currently, there is limited support by state agencies to sponsor incentives that benefit specific geographic areas. State grants, bond allocations, tax credits, and other state-sponsored housing and economic development programs are statewide, with applicants competing from all over the state for program benefits. Any changes to these programs that offer even marginal support to a particular geographic area is met with significant opposition. The action steps listed under this section are intended to overcome this opposition

Action 1: Work with Senator Tom Torlakson to modify existing Jobs/Housing legislation (Government Code 65891) to more clearly define incentives and state agencies' roles in putting incentives in place.

- Draft bill by September 2002 for IRP approval.
- Introduce bill in Senate in January 2003.

Action 2: Work with state legislators, i.e. Senator Tom Torlakson and Senator Sheila Kuehl, to advocate for legislation that would require that any city, county, or city and county participating in an Inter-Regional Partnership that is awarded a Zone (and adopts and implements substantially comparable practices and policies for development within the Zone) receive priority eligibility in the award of competitive grants, for infrastructure, commercial or industrial development, or other economic development within the Zone. This bill would be modeled after SB 1521 (Kuehl).

- Draft bill by September 2002 for IRP approval.
- Introduce bill in Senate in January 2003.

Action 3: Work with state legislators to draft legislation to create a statewide Jobs/Housing Opportunity Zone program. The intent would be to work with other IRPs throughout the state who are also

looking at jobs/housing balance related issues. Teaming up with other IRPs would build support for incentives for jobs/housing issues that could be applied statewide.

A bill that could be modeled is AB 1284 (Lowenthal) which seeks to create Housing Opportunity Districts to promote, encourage, and facilitate adequate housing development and transit oriented public improvements. AB 1284 would authorize a city, county, or city and county, that has adopted a transit village plan to create a housing opportunity district, subject to approval by the Department of Housing and Community Development. The bill would require the property tax revenues resulting from increases in assessed value due to affordable housing construction to be paid to the district.

- Draft bill by September 2002 for IRP approval.
- Introduce bill in Senate in January 2003.

Recommended Actions: Next Steps

In bringing incentives to the Jobs/Housing Opportunity Zones, IRP staff encountered much opposition, which became increasingly clear with the failure of AB 499. In light of this opposition and other complexities with the incentives, staff recommends that the IRP direct staff to do the following:

- Meet with the economic development agencies, housing advocates and zone applicants to review the list of incentives and actions to date to bring them to fruition. The goal would be to share with these groups the opposition and other problems encountered with the individual incentives, discuss mechanisms for overcoming obstacles and discuss the option of pursuing different incentives that may be less contentious.
- Work with the other seven Inter-Regional Partnerships throughout the state to determine if we can work jointly on obtaining jobs/housing related incentives.
- Communicate to Senator Tom Torlakson the difficulty the IRP is having in garnering incentives for the Zones. Request that Senator Torlakson, or a representative, come to the next IRP meeting to discuss incentives options and strategies.
- Direct staff to work with Senator Tom Torlakson on modifying the existing IRP legislation to more clearly define the incentives component.
- Direct staff to move forward with gaining broad support for incentives by working with Senator's Torlakson and Kuehl on a SB 1521 like proposal.
- Direct staff to work with IRPs throughout the state and legislators to draft proposal for statewide Jobs/Housing Zone program.

Attachment 1



PHILIP ANGELIDES
Treasurer
State of California

June 13, 2002

The Honorable Joseph Dunn
Chair, Senate Committee on Housing
and Community Development
State Capitol, Room 5100
Sacramento, CA 95814

Dear Senator ~~Dunn~~: Joe

I am writing in opposition to AB 499 (Cogdill) which would, among other things, require that the California Tax Credit Allocation Committee (CTCAC) and the California Debt Limit Allocation Committee (CDLAC), both of which I Chair, set-aside tax credit and tax-exempt bond allocation for jobs/housing opportunity zones within five different counties known as the Inter-Regional Partnership (IRP).

Although the goals of the IRP program and the jobs/housing opportunity zones are laudable and important, I believe that AB 499, as recently amended, has serious flaws. I believe the bill is duplicative of existing CTCAC and CDLAC regulations; would set aside limited resources to the exclusion of other communities throughout California; and would violate federal tax law.

As you know, the tax-exempt bond and competitive tax credit programs under CTCAC and CDLAC are administered on a statewide basis, taking into consideration the housing needs of the entire State. Because the IRP is an organization of elected officials from the Counties of Alameda, Contra Costa, Santa Clara, San Joaquin and Stanislaus, and the jobs/housing opportunity zones are, by definition, located within these five counties, any set-aside for this program would be to the exclusion of the rest of the State and would therefore not result in a fair administration of these programs.

In addition, I think it is important to understand that both CTCAC and CDLAC already have in place regulations that promote many of the goals of AB 499. CDLAC and CTCAC have adopted a scoring process which awards points to projects meeting various smart growth principles including proximity to public transit, employment centers, essential shopping needs, and the like.

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To the extent that IRP projects have similar goals, they would score well and be competitive under the existing CDLAC and CTCAC point systems. Moreover, CTCAC, within its allocation system, already has a percentage of credit that is specifically allocated to projects located in three of the five counties that are a part of this Pilot Program, meaning that at least two projects are annually awarded to projects in those counties. In addition, CTCAC is currently reviewing its geographic areas, utilizing new census data, and will likely be changing those geographic areas in the future, based on needs assessments. Changes of this sort, for both CDLAC and CTCAC, should be done using regulatory, not statutory authority, which is more flexible and responsive to changing conditions and needs.

Finally, the currently proposed language for the CTCAC "preferences" would violate Section 42 of the Internal Revenue Code, which requires that states give preference to projects with certain characteristics. The proposed language would combine the federal preferences into one, create a second preference for jobs/housing opportunity zone projects, and say that a preference would be given if *either or both* are met.

As Treasurer and Chair of both CTCAC and CDLAC, I have worked hard to promote state policy to advance sustainable growth practices, including the encouragement of a jobs/housing balance policy. For the above-mentioned reasons, I respectfully request a no vote on this measure. If you have any questions, please do not hesitate to contact me or have your staff contact my Legislative Director, Duncan McFetridge, at (916) 653-2995.

Sincerely,

Philip Angelides
State Treasurer

STATE OF CALIFORNIA - BUSINESS, TRANSPORTATION, AND HOUSING AGENCY

GRAY DAVIS, Governor

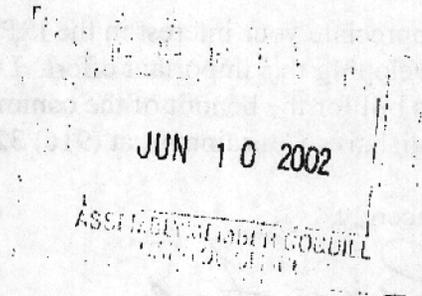
**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
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June 7, 2002

The Honorable David Cogdill
Member of the Assembly
State Capitol
Sacramento, CA 95814



Dear Assembly Member Cogdill:

The Department of Housing and Community Development (Department) must respectfully oppose your AB 499 as amended April 22, 2002. The Department believes this bill could alter the Inter-Regional Pilot (IRP) Program to encourage urban sprawl and discourage cooperation between local governments contrary to the Program's intent.

As you know, the purpose of the IRP Program is to develop incentives to mitigate the imbalance of jobs and housing in the Counties of Alameda, Contra Costa, Santa Clara, San Joaquin, and Stanislaus. Under this Program, local planners from several jurisdictions have tentatively identified geographic zones where job or housing developments could be completed in the most expeditious and cost-effective manner. Once these zones are finalized, planning staff will recommend State financial incentives needed to make these developments possible.

AB 499 would allow local planners to consider land without urban infrastructure for a job or housing development zone. The Department believes that such an allowance could effectively discourage local planners from choosing infill sites in favor of sites on the urban fringe, thereby increasing urban sprawl. Sites without infrastructure would also require more time for development to occur and compromise the IRP Program's goal of expediting the development process.

AB 499 would also grant an Enterprise Zone to any one of the five IRP Program counties that meet the bill's criteria related to population and economic conditions. Although more than one county could benefit from an Enterprise Zone, this bill defines eligibility criteria so narrowly that only Stanislaus County would qualify. The Department would prefer that IRP Program incentives benefit as many counties as possible. Limiting benefits to a single county would diminish the Program's flexibility and the spirit of inter-regional cooperation that is fundamental to the Program.

The Honorable David Cogdill
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I appreciate your interest in the IRP Program and encourage you to remain involved in further developing this important effort. I would be happy to meet with you to discuss ways to improve this bill for the benefit of the communities served by the Program. Please contact Edna Maita, Legislative Coordinator, at (916) 323-0169, if you have any questions in this regard.

Sincerely,



Renée Franken
Deputy Director for Legislation

cc: Mike Gotch, Legislative Secretary
Governor's Office
