



## Development Impact Fees (DIFs)

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
Public Facilities	All	P/OS, T, W, WW, C	Strong, Moderate	All	Moderate	City of Salinas, Development Impact Fee Program

### DESCRIPTION

Enabled under California Government Code 66000 (the “Mitigation Fee Act”), Development Impact Fees (DIFs) are one time charges by a local agency to finance some or all of the cost of providing public facilities related to a new development project. DIFs are calculated based on the size and type of development. The enacting agency must identify the uses for the fee and show that there is a reasonable relationship between the public facilities needed and the development upon which the fee will be imposed.

### Targeted Uses

DIFs may be used to finance on-site and off-site public facilities needed to serve a new development. Fees may not be used to fund existing deficiencies in public facilities or exceed the cost of impacts created by the development.

### Setting (Place Type)

DIFs are appropriate for all settings, including urban, suburban, town and non-urban environments.

### Infrastructure Supported

DIFs may be used to finance a broad range of public improvements, public services, and community amenities including but not limited to:

- Parks and recreation facilities
- Transit and transportation facilities
- Water and stormwater facilities
- Sewage facilities
- Solid waste facilities
- Public service facilities (i.e. police, fire, library)



DIFs may support and finance transit facilities, such as the Watsonville Transit Center in Santa Cruz (Image source: Santa Cruz Sentinel)





## Development Impact Fees (DIFs)



Recycling facilities may be financed through DIFs.

### Ease of Use

Local agencies need to carefully evaluate how DIFs could affect the type(s) of development they want to attract. A DIF is not considered a tax and therefore does not need voter approval. Per AB1600 the local agency must hold a public hearing at a regularly scheduled meeting and give public notice twice before adopting an ordinance or resolution approving a fee program or fee increase. There are a number of procedures and requirements associated with implementing a fee program that make it a costly and time consuming process. In general, implementing a fee program requires local agencies to identify where future growth will occur and the cost of and facilities needed to support that growth. This often involves various planning documents such as general or master plans and, although not required, a capital improvement plan.

DIFs also require preparation of a study to establish the quantitative measures for the fees being imposed. The fee study should identify the purpose and use of the fee and demonstrate the relationship between the development project and both the use of the fee and the need for the public facility. The agency exacting the fee will also need to comply with the requirements outlined in AB 1600 regarding public hearings, adoption of ordinance and resolution, annual accounting requirements, and annual updates to the capital improvement plan.

### Market Conditions

DIFs are charged to new development and therefore require development activity in order to generate revenue. In some cases DIFs may be perceived as a deterrent to new development and a source of additional costs to property buyers, but they also may expand the amount of developable land by ensuring that public facilities can be provided to accommodate growth in cities or counties that otherwise could not collect revenue needed to provide infrastructure.

### Capacity and Scale

DIFs may be applied to residential, commercial, and mixed use projects at all scales. DIFs may be established for a range of projects by local legislation of general applicability or imposed on an ad hoc basis for a particular project.

### Timing and Lifecycle

AB 1600 sets time frames for public notifications, fee implementation, and accounting requirements, including that fees be spent within five years of collection; however, there is no specific time frame for updating fees. Additionally, if an agency adopts a capital improvement plan, that plan must be updated annually.



## Development Impact Fees (DIFs)

### CASE STUDY

#### City of Salinas, Development Impact Fee Program

The City of Salinas has an established development impact fee program. Per Article V, Development Impact Fees, of the Municipal Code, any project requiring a building permit must pay impact fees. Fees are collected for traffic impacts, sanitary sewer, storm drains, street trees and parks.

#### References

American Planning Association, *APA Policy Guide on Impact Fees*, 1997, <https://www.planning.org/policy/guides/adopted/impactfees.htm>, Accessed on June 12, 2016.

City Attorneys Department League of California Cities Continuing Education Seminar, *A Short Overview of Development Impact Fees*, 2003, <http://www.impactfees.com/publications%20pdf/short%20overview.pdf>.

City of Salinas. Permit & Inspection Services, [https://www2.municode.com/library/ca/salinas/codes/code\\_of\\_ordinances](https://www2.municode.com/library/ca/salinas/codes/code_of_ordinances), Accessed on June 17, 2016.

OLR. *How Development Fees Affect Residential Development*, 2002, <https://www.cga.ct.gov/2002/olrdata/pd/rpt/2002-R-0903.htm>, Accessed June 12, 2016.



The development impact fee established by the City of Salinas helps finance the city's infrastructure improvements (Image source: The Californian)



## Development Agreements

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
All	All	T, C, P/OS, U	All	All	Difficult	City of Santa Cruz/ Green Valley Corporation Development Agreement

### DESCRIPTION

A Development Agreement is a contract between a public agency and developer that outlines the obligations of both parties as well as the standards and conditions for a proposed development project. A development agreement allows public agencies to impose requirements on a project, such as development conditions or fees, in exchange for providing developers with greater assurance that a project can be built free of future regulatory changes.

### Targeted Uses

Development Agreements can be used for a variety of purposes that include financing public facilities or improvements.

### Setting (Place Type)

Development Agreements are appropriate for all settings including urban, suburban, and town, and non-urban.

### Infrastructure Supported

California Government Code Section 65865.2 requires Development Agreements to include provisions for reservation or dedication of land for public purposes and permits public agencies to include terms for financing public facilities. Agreements may include conditions for financing a variety of public facilities including but not limited to streets, parks, schools, or utility facilities. In general, Development Agreements allow greater flexibility than standard municipal conditions of approval, which can allow agencies gain more in fees and/or amenities from development projects.



*Development Agreements may include conditions for financing a variety of public facilities, such as utility facilities.*

### Market Conditions

In order to for a Development Agreement to occur, there must first be interest in development. Market conditions affect development opportunities and likewise influence a developer's willingness to enter an agreement. Some developers may avoid agreements due to the potential for costly requirements while others may be attracted to the savings associated with long term vesting of land use entitlements.



## Development Agreements

### Capacity and Scale

Development Agreements are suitable for large scale and smaller projects. Agreements are tailored to the individual needs of the project and jurisdiction. Larger projects may require longer terms to allow for the project to be fully constructed, often in phases.

### Ease of Use

Development agreements are subject to public notice requirements, and a public hearing must be held by the county or municipality considering an application for a Development Agreement. Per Government Code section 65867.5, Development Agreements are legislative acts approved by ordinance and subject to referendum. Development Agreements do not take effect until the 30-day referendum submittal period expires and carry a 90-day statute of limitations during which the adoption or amendment of a Development Agreement may be challenged legally. In addition, Development Agreements must be reviewed every 12 months for compliance by the granting agency.

### Timing and Lifecycle

The duration of the Development Agreement must be specified in the agreement, as well as the commencement and completion dates for the project.

## CASE STUDY

### City of Santa Cruz/Green Valley Corporation Development Agreement

A Development Agreement was approved by the City of Santa Cruz for a Green Valley Corporation project located



555 Pacific Avenue, a Green Valley Corporation project in Santa Cruz.

at 555 Pacific Avenue. The development project includes a 4-story building with 94 residential Small Ownership Units (SOUs), 4,680 square feet of ground commercial, and below grade parking with space for 123 cars and 144 bikes. The Development Agreement would eliminate the SOU Ordinance restrictions, which limit the number of rental units to 50 percent and would allow the developer to rent up to 100 percent of the 94 units for up to 15 years, in exchange for increasing the number of affordable housing units and/or contributing to the City's Affordable Housing Trust Fund (AHTF). The agreement would be valid for up to 15 years after which the project would be required to comply with all SOU Ordinance requirements.

### Reference

Institute for Local Self Government, *Development Agreement Manual: Collaboration in Pursuit of Community Interests*, 2002, <http://www.ca-ilg.org/document/development-agreement-manual-collaboration-pursuit-community-interests>, Accessed on July 15, 2016.



## Capital Leases

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
Equipment/ Project Financing	All	S, C, P/OS, T	All	All	Moderate	San Benito County Certificate of Participation

### DESCRIPTION

Lease financing (or capital leasing) allows government agencies to acquire assets through tax-exempt rent-to-own agreements. Agencies can also use these lease-purchase agreements for equipment procurement or project construction. Tax-exempt leases enable borrowing from investors, and, as with general obligation bonds, the borrowed funds must be repaid in regular installments of principal plus interest. Typical investors include banks, corporations, mutual funds, insurance companies, grantor trusts, and investment bankers. Financing of less than \$1 million typically involves a single investor or small group of investors.

There are two main types of privately placed tax-exempt leases:

- **Vendor-Financed Lease:** Equipment manufacturers often assume the role of owner-lessor to facilitate the sale of their product. The vendor may hold the lease for its entire term as an investment or sell and assign the lease to cover their expenses without receiving immediate compensation for the full purchase price.
- **Third-Party Financed Lease:** An investor or lease broker provides or arranges the financing of the leased asset. The vendor receives full payment from the third party, and the third party earns tax-exempt interest income from the lease payments made by the lessee.

When financing large projects, agencies can lower their borrowing costs by marketing lease obligations to multiple investors by issuing Certificates of Participation (COP). COPs entitle holders to a proportionate share of lease payments made by the government agency, similar to municipal bonds. COP transactions typically require a trustee to collect and disburse lease payments to multiple investors. A government agency may establish a non-profit to act as the third party lessor when no other agency or joint powers authority is available. Typical investors include banks, corporations, mutual funds, insurance companies, grantor trusts, and investment bankers.

### Targeted Uses

Lease financing can be used to purchase or use equipment and/or to construct major capital projects.

### Setting (Place Type)

Lease financing is appropriate for all settings, including urban, suburban, and rural environments.





## Capital Leases



Highways are an infrastructure that could receive funding from lease-financing.

### Infrastructure Supported

Lease financing can be used to fund real property such as:

- Roads, highways, and bridges
- Schools
- Public facilities
- Parks and libraries
- Jails

### Market Conditions

The principal objective of a financing lease agreement is to obtain use of the asset for the lowest cost possible. The following factors should be considered:

- Availability of cash at the time of procurement
- Competing demands on capital resources
- Need for and useful life of the asset
- Costs versus benefits over time
- Ability to improve bargaining positions with vendors

### Capacity and Scale

Lease financing can be used for small and large scale property and equipment.

### Ease of Use

A lease is generally not classified as “debt;” therefore, it does not require voter approval and is not subject to debt limitations.

### Timing and Lifecycle

The term of a lease may not exceed 120 percent of the average reasonable expected economic useful life of the property or project.

### CASE STUDY

#### San Benito County

In 1998, San Benito County issued a Certificate of Participation (COP) for the construction of a jail and juvenile hall facility that was paid in full, and the County now owns the property.



San Benito County Juvenile Hall.

### References

California Debt Advisory Commission, Guidelines for Leases and Certificates of Participation, <http://www.treasurer.ca.gov/cdiac/reports/Guidelines93-8.pdf>.

Fidelity Capital Markets, Lease-Backed Financing and Certificates of Participation, [https://capitalmarkets.fidelity.com/app/literature/view?itemCode=RD\\_558301&renditionType=pdf](https://capitalmarkets.fidelity.com/app/literature/view?itemCode=RD_558301&renditionType=pdf).



## Design-Build

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
Public Utilities	Urban, Suburban	T, L, WW, SW	Strong, Moderate	All	Moderate to Difficult	Monterey Peninsula Desalination Facility

### DESCRIPTION

Design-build is a construction delivery method whereby the owner of a project owner manages a single contractor for both the design and construction processes. Traditionally, construction projects are managed using the design-bid-build method, in which the project owner manages two separate contracts among the project designer and project contractor, who then sub-contract with additional consultants to complete the project work. The design-build method was introduced to the public sector through a series of State statutes. In 2001, AB 598 authorized certain transit operators to award this type of contract for transit projects totaling at least \$10 million and in 2006, AB 1329 authorized cities to utilize design-build. In 2015, SB 785 replaced these with a single statute applicable to local agencies, including cities. The design-build method has been integrated into the public sector procurement process by allowing agencies to contract directly with a general contractor for both design and construction work. The general contractor then subcontracts, through competitive bidding or other means, for an architect, engineer, and construction. The benefits include greater flexibility in awarding a contract, higher quality work, greater cost certainty, fewer claims, and faster project completion.

### Targeted Uses

SB 715 allows the design-build method to be used as a procurement process in place of the traditional design-bid-build method for the following project types: construction of new buildings and other improvements that are directly related to building construction, county sanitation wastewater treatment facilities, and park and recreational facilities. SB 715 does not allow the design-build for the construction of other infrastructure, such as streets and highways, public rail transit, or water resources facilities and infrastructure.

### Setting (Place Type)

The design-build method is appropriate for all settings, including urban, suburban, town, and non-urban environments.

### Infrastructure Supported

Design-build has been used as a procurement method for a broad range of projects, including but not limited to:

- County sanitation wastewater treatment facilities
- Park and recreational facilities
- New buildings, such as schools, libraries, museums and other public facilities

### Market Conditions

The design-build process provides an opportunity for large, experienced firms to perform the work under a single government contract. Additionally, the procurement process uses subjective criteria of experience, qualifications, and best value which can require a substantial amount of time to allow competitors to





## Design-Build

prepare proposals and agency officials to evaluate them. Thus, design-build may be favorable in a strong market that includes a pool of larger, well-established design and construction firms. However, some agencies have adopted more objective evaluation and selection processes and policies to offset these risks.

### Capacity and Scale

Design-build functions at both a small and large scale; however, there are pros and cons to both. A larger scale development would benefit from the design-build method by streamlining the complex development process, thus reducing overall cost, and minimizing risks. A smaller scale development would receive the same cost and time benefits from the design-build method, although those benefits may be reduced by the time-intensive procurement process. Thus, small projects with specific risks such as short schedules, complex phasing, and the potential to generate significant impacts would be ideal candidates for design-build.

### Ease of Use

Design-build is an effective method of project delivery as it reduces costs and administrative burden after the design-build contract is awarded, however it requires the administration of a lengthy procurement process. Also, certain project characteristics may negate the potential benefits of using the design-build method. For example, if the agency has not decided on the specific project design, then traditional design-bid-build may be the better alternative, as post-award programmatic changes can be expensive and disruptive. Additionally, the design-build method may not be more effective than design-bid-build for projects that include the following characteristics:



*Parks and playgrounds are some project types that can be constructed through a design-build process (Image source: Santa Cruz Life)*

- Prescriptive or restrictive design specifications.
- Not time-sensitive.
- Does not require specialty work or where the Design-Builder expertise is not critical.
- Long preliminary engineering phases for environmental permits, or other public works tasks that the agency may not choose to assign to the Design-Builder, as this offsets the potential benefits of overlapping design and construction phases.

For these reasons ease of use is moderate to difficult.

### Timing and Lifecycle

Design-build requires an agency to administer a three to six month procurement process. Therefore, this method can require additional planning prior to the award of a contract for the project's design and construction phases.



## Design-Build



The Monterey Peninsula Desalination Facility was constructed through a design-build process (Image source: WaterWorld)

### CASE STUDY

#### Monterey Peninsula Desalination Facility

Developed for California American Water, CDM Smith will serve as the design-build entity for the new desalination facility as part of the utility's \$320 million Monterey Peninsula Water Supply Project (MPWSP) to provide a sustainable water supply for the Monterey Peninsula. The desalination plant will include: pre-treatment filters; buildings for operations, reverse osmosis process and electrical equipment, and chemical storage/feed facilities; wastewater clarification, brine storage and pumping, and treated water storage and pumping. The design-build method for the \$87 million project was chosen by California American Water to expedite the project schedule, streamline administrative processes and guarantee costs. The 9-month procurement process included evaluation criteria that combined business, technical and cost metrics. Design work began in spring 2014, with construction occurring between fall 2015 and spring 2017. The plant is anticipated to open in mid to late 2017.

### References

CDM Smith. *Press Release, CDM Smith to Design-Build Monterey Peninsula Desalination Facility*. <http://cdmsmith.com/en-US/Discover-Us/News-and-Events/CDM-Smith-Awarded-Monterey-Peninsula-Project.aspx>. Accessed September 30, 2016.

League of California Cities 2015 Spring Conference. *Design-Build for Public Works Projects – Hanson Briggett*. <https://www.cacities.org/Resources-Documents/Member-Engagement/Professional-Departments/City-Attorneys/Library/2015/2015-Spring-Conference/5-2015-Spring-David-Gehrig-Design-Build-For-Public.aspx>. Accessed September 30, 2016.

The Planning Report, Metro Investment Report. *Legislative Analyst's Office Releases A Promising Design-Build Report. February 05, 2005*. <http://www.planningreport.com/2005/03/03/legislative-analysts-office-releases-promising-design-build-report>. Accessed September 30, 2016.

Washington State Department of Transportation. *Small Design-Build Pilot Project Evaluation - Highway Projects*. May 2015. <http://www.wsdot.wa.gov/publications/fulltext/LegReports/SmallDesignBuildPilotProjectsReport.pdf>. Accessed October 4, 2016.



## Special Benefit Assessment Districts

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
Public Utilities	Urban, Suburban	T, L, WW, SW	Strong, Moderate	All	Moderate to Difficult	Santa Cruz County Tourism Marketing District

### DESCRIPTION

A Special Benefit Assessment District is a local government financing tool for local public utility services. Special Districts collect assessments on annual property tax bills to improve utilities such as landscaping, street lighting, sanitation, and flood control. Special Districts are generally acceptable to property owners because they allocate to each parcel a fair share of the costs of a direct benefit over a period of years.

A Special Benefit Assessment District is initiated through a petition by a group of property owners to their local officials or through the initiative of local officials that see a need for improvement. A petition requires signature by a majority of property owners benefiting from the improvement proposed, while initiation by local officials requires a noticed public meeting. In either case, the governing agency then adopts a resolution of intent to form an assessment district that specifies the facilities to be financed, sets a public hearing for district approval, and orders the preparation of a report (usually conducted by an engineering firm) to assess the costs, impact, and per parcel tax estimate.

Following the public hearing, ballots (per Proposition 218) are mailed to each property owner within the proposed district, with a majority vote in favor required to form the district.

#### Targeted Uses

Special Districts are targeted toward public utilities.

#### Setting (Place Type)

Special Districts are designed to assist new development or development needing utility upgrades located in urban or suburban environments.

#### Infrastructure Supported

Special Benefit Assessment Districts may fund improvements and services that provide a direct and special benefit, including but not limited to:

- Streets
- Lighting
- Fire suppression
- Sewer/sanitation
- Flood control services



## Special Benefit Assessment Districts



*Special services, such as fire suppression services, may be funded through Special Districts.*

Infrastructure that provides general public benefit (such as schools and libraries) is not eligible for this financing mechanism.

### Market Conditions

Like any bond-funded effort, Special Districts are more likely to succeed in an up economy. Bonds purchased to back assessment districts tend to have higher interest rates and be more expensive to issue than other bonds. This is in part because benefit districts depend on property values, the unpredictability of which creates risks, including the potential inability of property owners to make future payments. The stronger the real estate market, the higher the likelihood that a lower interest rate may be obtained.

### Capacity and Scale

Assessment districts are applicable in both large and small utility districts since fire, sanitation, sewer, lighting, and other public utilities could be the size of a small town or regional. Special Districts can be easier to form on a larger scale so that costs are shared among more property owners, but they also can favor smaller areas where fewer votes are needed to create a district.

### Ease of Use

Special Districts can encounter resistance from property owners simply opposed to additional property-related costs. In addition, large developers or other owners of multiple properties may affect the vote based on their larger cost burden. After a district has been approved, it can evolve based on public interest and local official approval.

### Timing and Lifecycle

Assessments that fund capital improvement projects for public utilities may stop after the project is complete, but assessments for ongoing projects may continue as long as that service is provided.

## CASE STUDY

### Santa Cruz County Tourism Marketing District

The Santa Cruz County Tourism Marketing District (TMD), established in 2010, was developed to fund marketing and sales promotion efforts for the Santa Cruz lodging businesses located within the boundaries of the County of Santa Cruz. The TMD is implemented by the Santa Cruz County Conference and Visitors Council (SCCCVC). The SCCVC provides marketing and sales promotions to increase tourist lodging and market Santa Cruz County as a tourist, meeting, and event destination. The initial annual service plan budget for the TMD is approximately \$1.9 Million. The budget is intended to support the ongoing operations and administration of the existing Santa Cruz County Tourism Marketing District.



## Special Benefit Assessment Districts



Tourism in Santa Cruz County is supported through funding from the Santa Cruz County Marketing District.

### References

California Tax Data. *What is a 1982 Act Benefit Assessment District?* <http://www.californiataxdata.com/pdf/1982BADist.pdf>. Accessed May 23, 2016.

California Special Districts Association. Proposition 218: Guide for Special Districts. <http://www.csga.net/wp-content/uploads/2013/04/2013-CSDA-Prop-218-WEB.pdf>. Accessed May 23, 2016.

California Senate Governance and Finance Committee. *Assessing the Benefits of Benefit Assessments: A Citizen's Guide to Benefit Assessments in California*, 2nd Edition. <http://sgf.senate.ca.gov/sites/sgf.senate.ca.gov/files/BenefitAssessmentsPublication.pdf>. Accessed May 23, 2016.

City of Salinas. *The Downtown Salinas Community Benefit District 2015 Management District Plan*. <http://www.ci.salinas.ca.us/services/CBD/Management%20District%20Plan%202015%200519.pdf>. Accessed May 23, 2016.

Santa Cruz County Tourism Marketing District, *Management Plan 2015 Renewal*, <http://www.santacruz.org/Portals/0/PDF/Publications/Santa-Cruz-District-Plan-2015-Renewal.pdf>





## Business Improvement Districts (BIDs)

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
All	Urban, Suburban	All	Strong	Depends on Tool Used	Difficult	Cannery Row Business Improvement District

### DESCRIPTION

Business Improvement Districts (BIDs) are economic development public/private partnerships that provide funding and services to revitalize, retain, and expand commercial neighborhoods and regional business districts. These districts are formed based on the State Parking and Business Improvement Area Law (1989) and the Property and Business Improvement District Law (1994). The first was passed to improve underutilized business districts, and the second was created to add the ability to levy assessments on both business and property owners to provide adequate services to improve business districts.

To form a BID a city, county, or joint powers authority must adopt a resolution of intent that specifies the types of improvements and activities that will be funded, followed by public noticing and a public hearing. If approved by a majority of businesses affected by the BID creation, a BID advisory committee is appointed to oversee financing and activities through a management plan.

There are three types of BIDs that have different focus but generally the same goal of revitalizing a business district by funding infrastructure and services:

- Property-based (PBID) - which assess real property
- Business-based (BBID) - which assesses only business owners
- Tourism-based (TBID) - which assess hospitality and tourism-related businesses only

### Targeted Uses

The 1989 law allows financing of marketing, economic development, and municipal services such as security and sanitation. The 1994 act allows financing of infrastructure such as streets, buildings, and security facilities, and equipment. Both laws allow financing of parking facilities, parks, fountains, benches, trash receptacles, street lighting, and decorations. All funding may be used for initial capital

projects and/or on-going maintenance projects, but issuance of bonds is not allowed.

### Setting (Place Type)

BIDs may be used in commercial neighborhoods and regional business districts in either urban or suburban areas. Residential properties are not assessed as part of BIDs.





## Business Improvement Districts (BIDs)



BIDs finance a broad range of infrastructure including parks.  
(Source: City of Santa Cruz Department of Parks & Recreation)

### Infrastructure Supported

BIDs may finance a broad range of public infrastructure projects, including but not limited to:

- Parking facilities
- Parks
- Street furniture (eg, fountains, benches, trash receptacles, street lighting, decorations)
- Municipal services (ie, sewage systems)
- Rehabilitation, tear-down, or construction of buildings
- Streets
- Transit improvements
- Security facilities/equipment

### Market Conditions

The banding of businesses to create a more vibrant and attractive commercial center can occur in both a strong and weak economy, but tends to be more successful in a strong economy, wherein revenue potential can be increased through improvements. Generally businesses doing better in a strong market are more likely to agree to establish a BID. After a BID is established, planning for market fluctuations can help increase economic resiliency.

### Capacity and Scale

The success of BIDs depends on the type of BID, land use, size, and budgets of each district. Large office space BIDs have the most success in boosting property values in a surrounding area, as compared to small BIDs that consist of retail or industrial properties, usually due to BID budget size.

### Ease of Use

Forming a BID can be challenging, both in attracting participation and determining projects to be funded. The annual fee per business is proportional to estimated benefit, and businesses may disagree about how to use allocated funds. Issues may also arise with adjacent residents, who may be concerned about potential increased property taxes and BID committees influencing local decision-making.

### Timing and Lifecycle

Business Improvement Districts are assessed annually for the period that special improvements and activities are being financed. Typically this period is no longer than five years.



Street furniture could be one of many projects financed through BIDs.



## Business Improvement Districts (BIDs)



Cannery Row Business Improvement District, Monterey.

### CASE STUDY

#### Cannery Row Business Improvement District

The Cannery Row Business Improvement District is the historical commerce area of Monterey. Cannery Row consisted of canneries that failed after the collapse of the fishing industry in Monterey Bay in the 1950s and was the setting of John Steinbeck's well-known novel. The BID, established in 2004, has successfully solidified the area as an international tourism destination with the Monterey Bay Aquarium at its northern end, benefitting many retail and restaurant businesses in the district. All businesses in the district shall be subject to an annual assessment in the amount equivalent to a one hundred percent (100%) surcharge to the business license fee of each business up to a maximum of \$5,000 (except for professional services). Funds can be used to improve traffic, parking, streetscape cleanliness, public safety, and improving the physical appearance of the area within Cannery Row.

### References

California Tax Data. *What is a Business Improvement District?* <http://www.californiataxdata.com/pdf/businessimprovement.pdf>. Accessed May 18, 2016.

Olson, Rebecca J. and Lacey Keys. The Public Law Journal 31.4, 2008. Business Improvement Districts and Proposition 218 After Silicon Valley Taxpayers v. Santa Clara County Open Space Authority. [http://www.olsonhagel.com/news/publications/docs/Public-Law-Journal-Article\\_RJO-LK.pdf](http://www.olsonhagel.com/news/publications/docs/Public-Law-Journal-Article_RJO-LK.pdf). Accessed May 18, 2016.

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National League of Cities. *Sustainable Cities Institute. Business Improvement Districts (BIDs).* [http://www.sustainablecitiesinstitute.org/topics/land-use-and-planning/business-improvement-districts-\(bids\)](http://www.sustainablecitiesinstitute.org/topics/land-use-and-planning/business-improvement-districts-(bids)). Accessed May 18, 2016.



## Communities Facilities Districts (CFD)

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
All	Town, Non-Urban	All	Strong	All	Difficult	East Garrison Community Services District

### DESCRIPTION

Communities Facilities Districts (CFDs) enable the installation of new, or upgrade of aging, public infrastructure. Also known as Mello-Roos Districts, CFDs accommodate the simultaneous development of housing and public improvements, and they also allow developers to pass costs of building communities to homebuyers through an annual tax. A CFD may be established by any county, city, school district, or joint powers authority to finance public projects when no other adequate source of funding is available. A CFD consists of all properties that directly benefit from the improvements proposed.

The Mello-Roos Community Facilities Act of 1982 was passed to create an alternative to financing public projects in response to Proposition 13 (1978), which reduced property tax rates on multi-family homes, businesses, and farms, thereby limiting funding for public improvements and services. The CFD tax, isolated to the benefitting properties, is not ad-valorem and comes in the form of a Special Tax Lien imposed on annual property tax bills.

### Targeted Uses

CFDs may be used to finance public facilities, infrastructure, and community services for new residential, commercial, or industrial developments. The funds may also be used to recuperate administrative expenses used in forming the CFD and administering annual taxes and debt.

### Setting (Place Type)

CFDs are typically used in undeveloped areas to build basic utilities, infrastructure, and community services for new homes or commercial space, and they may also be used in older neighborhoods to fund new schools and expanded community services. CFDs generally are needed more in



CFDs fund a broad range of projects, including fire services.

rural areas because new neighborhoods in urban areas have a higher chance of being built within communities with adequate public facilities.



## Communities Facilities Districts (CFD)

### Infrastructure Supported

CFDs may finance a broad range of public projects, including but not limited to:

- Streets
- Sewer systems
- Utility infrastructure
- Police, fire, and ambulance service
- Schools
- Parks
- Libraries
- Museums and other cultural facilities

### Market Conditions

CFDs for new development favor strong real estate markets, where sale of properties protect developers from becoming financially overextended. In weak markets, new development is less common and buyers are less willing to pay higher taxes. CFDs for already developed areas need to consider during a weak market whether property owners with delinquent taxes might foreclose their homes instead of accepting additional tax burden.

### Capacity and Scale

A larger scale CFD can help relieve the tax burden on the buyers or property owners, while a smaller CFD tends to relieve the tax burden on the developer. Larger CFDs are more beneficial in creating higher-end community amenities and services due to the greater number of property taxes being collected.

### Ease of Use

CFD formation can be difficult and time consuming because it requires an election with two-thirds voter affirmation. Calculation of the tax rate (based on land use, built square footage) can be confusing for voters and



*Museums can potentially be funded through CFDs as well.*

land-backed securities such as CFDs are often considered relatively risky and a burden on taxpayers. Property owners with delinquent tax payments are subject to a one year repayment plan for the CFD tax, compared to five years for other taxes.

### Timing and Lifecycle

Taxes are charged to property owners annually until the bond is fully repaid, which usually takes 35 to 40 years. Charges may continue beyond that period at a reduced amount to maintain the CFD improvements.

## CASE STUDY

### East Garrison Community Services District

The East Garrison Community Services District is a suburban housing project in Monterey County, southwest of Salinas. Construction began in 2014 on the former Fort Ord Army Base. There are 1,400 planned housing units with future plans to add parks and schools. Streets, lights, and other public infrastructure are financed through a CFD.





## Communities Facilities Districts (CFD)



East Garrison Community Services District.

### References

California Tax Data. *What is Mello-Roos?* <http://www.californiataxdata.com/pdf/Mello-Roos2.pdf>. Accessed May 18<sup>th</sup>, 2016.

California Debt Advisory Commission. *Guidelines for Mello-Roos Financing*. [http://www.treasurer.ca.gov/cdiac/reports/M-Roos/MR\\_guidelines.pdf](http://www.treasurer.ca.gov/cdiac/reports/M-Roos/MR_guidelines.pdf). Accessed May 18<sup>th</sup>, 2016.

Legislative Analyst's Office. *Understanding California's Property Taxes*. <http://www.lao.ca.gov/reports/2012/tax/property-tax-primer-112912.aspx>. Accessed May 18<sup>th</sup>, 2016.

Orrick. *An Introduction to California Mello-Roos Community Facilities Districts*. <https://www.orrick.com/Events-and-Publications/Documents/1180.pdf>. Accessed May 18, 2016.



## Enhanced Infrastructure Financing Districts (EIFDs)

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
All	All	All	Depends on Tools Used	Large	Difficult	West Sacramento Bridge District

### DESCRIPTION

In response to the dissolution of redevelopment agencies in 2011, Senate Bill 628 (Beall 2014) authorizes California cities and counties to establish Enhanced Infrastructure Financing Districts (EIFDs) to fund public infrastructure through sources such as tax increment financing, special assessments, user fees, developer fees, and loans from participating public agencies. EIFDs offer a number of advantages over traditional infrastructure financing districts and community financing districts (CFDs), including by allowing multiple government agencies to allocate existing and anticipated new tax revenue towards shared goals. EIFD governing boards include two members of the public and representatives of participating agencies, including any affected taxing entities other than school districts which are not allowed.

### Targeted Uses

EIFDs may be used to finance infrastructure serving all land uses, including residential, mixed-use, commercial, industrial, and public uses.

### Setting (Place Type)

EIFDs are appropriate for all settings, including urban, suburban, town, and non-urban environments. Because tax increment bonds require electoral approval, an EIFD may be easier to use in less populated areas. EIFDs are particularly well suited for larger scale projects, such as highways or transit facilities.

### Infrastructure Supported

EIFDs can finance a range of public infrastructure projects, including but not limited to:

- Roads, highways and bridges
- Parking facilities
- Transit stations
- Sewage and water facilities
- Flood control and drainage projects
- Solid waste disposal
- Parks and libraries
- Child care facilities

EIFDs can also finance purchase, construction, expansion, improvement, and/or seismic retrofitting, including for:

- Brownfield restoration
- Environmental mitigation
- Military base reuse projects
- Affordable housing





## Enhanced Infrastructure Financing Districts (EIFDs)



*Flood control projects are able to be financed by EIFDs.*

- Private industrial buildings
- Transit oriented development projects
- Sustainable Community Strategies projects

EIFDs can fund projects outside of the EIFD as long as the project has a tangible connection to the district and provides a significant benefit to it. EIFDs may not be used for maintenance, operations, and services.

### Market Conditions

The relevance of market conditions depends on the specific financing tools used by the EIFD. If tax increment financing is used, development activity is needed to generate revenue and be effective. Other tools, such as user fees and debt financing, do not rely on new development and can therefore be useful in both strong and weak real estate markets.

### Capacity and Scale

Due to the administrative costs, EIFDs are best suited for larger and more complex projects. The ability to form a joint power authority allows EIFDs to address regional growth through infrastructure investments across jurisdictions.

### Ease of Use

Creation of an EIFD requires publication of the infrastructure finance plan, notice to landowners and affected taxing entities, and a public hearing. EIFDs are subject to biennial independent financial and performance audits.

EIFDs can be formed without elections. A vote is required to issue tax-increment bonds, but the approval threshold is 55 percent rather than the two-thirds for a traditional IFD. Formation of an assessment district requires 50 percent voter approval within the proposed boundary. EIFDs require the establishment of a “Public Financing Authority,” and a city or county must have dissolved any prior redevelopment agency. In addition to an Infrastructure Financing Plan that specifies public facilities and financing, an EIFD must approve a Strategic Plan establishing a link between payer and beneficiary for each project and property, which is a potentially complex and time consuming task.

### Timing and Lifecycle

EIFD tax increment is available for up to 45 years from the date of first bond issuance.



## Enhanced Infrastructure Financing Districts (EIFDs)

### CASE STUDY

#### West Sacramento Bridge District

The District began construction in 2010 of redevelopment of a former industrial area with an expected buildout of 4,000 residential units and 5.6 million square feet of commercial development. To complement other public and private funding sources, the EIFD covers new and reconstructed roadways, rail removal, streetscapes, utilities, water storage, new parks, pathways, and plazas.



West Sacramento Bridge District.

### References

California Community Economic Development Association.

*Enhanced Infrastructure Financing Districts: Resource Guide to EIFDs*. 2016. [www.cceda.com/wp-content/uploads/EIFD-Resource-Guide-Feb-20161.pdf](http://www.cceda.com/wp-content/uploads/EIFD-Resource-Guide-Feb-20161.pdf)

California Economic Summit. *Funding Sustainable Communities: A How-To Guide for Using New “Enhanced Infrastructure Financing Districts” (EIFDs)*. <https://cafwd.app.box.com/s/p8re0h7s6vkhm1st2uwq>. Accessed April 22, 2016.

California Legislative Counsel’s Digest. *SB-628 Enhanced Infrastructure Financing District*. [https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill\\_id=201320140SB628](https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201320140SB628). Accessed April 22, 2016.

California League of Cities. *Enhanced Infrastructure Financing District Bill Analysis*. <http://www.cacities.org/CMSPages/GetFile.aspx?nodeguid=d8e42eca-7647-4f12-98d4-e93383abc48c&lang=en-US>. Accessed April 22, 2016.



## Community Revitalization & Investment Authority (CRIA)

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
Infrastructure Improvements	Urban, Suburban	W, WW, T, B/P, C, P/OS	Strong	All	Difficult	Assembly Bill 2

### DESCRIPTION

Assembly Bill 2 (enacted 2015) authorizes local governments to establish a Community Revitalization and Investment Authority (CRIA) to revitalize disadvantaged neighborhoods using property tax increment revenue. The goals of AB 2 are to decrease crime and unemployment, repair and supplement infrastructure, and create affordable housing.

Each CRIA is governed by a board of three members of the city or county's legislative body and two appointed members of the public from within the revitalization and investment area. The board establishes a Revitalization Plan for an area where at least 80 percent of land has an annual household income of less than 80 percent of the statewide annual median income. In addition, a Revitalization Area must meet at least three of the following requirements:

1. An unemployment rate that is at least three percent higher than the statewide median
2. A crime rate that is at least five percent higher than the statewide median
3. Deteriorated or inadequate infrastructure
4. Deteriorated commercial or residential structures

AB 2 also requires a minimum of 25 percent of the tax revenue to be used solely for increasing the number of affordable units, improving conditions of affordable housing, and/or preserving the affordable housing supply. The number of housing units occupied by low income or lower income households cannot decrease due to the Revitalization Plan. Any housing units for low- or moderate-income households must be replaced within two years if they are removed or destroyed.

### Targeted Uses

A primary intended use of CRIA funds is to improve infrastructure in the wake of the loss of redevelopment agencies in California.

### Setting (Place Type)

Revitalization Areas typically lie within urbanized areas and may include former redevelopment project areas as long as any pre-existing successor agency obligations are acknowledged. Former military bases can also qualify as revitalization areas.





## Community Revitalization & Investment Authority (CRIA)

### Infrastructure Supported

CRIAs provide redevelopment funding for infrastructure including, but not limited to:

- Low- and moderate-income housing
- Commercial buildings
- Parks
- Sewer treatment facilities
- Sidewalks
- Streets
- Water supply systems
- Brownfield cleanup
- Seismic retrofit of existing buildings

AB 2 prohibits funding for gaming or gambling activities, automobile dealerships on previously undeveloped land, and development on five or more previously undeveloped acres that generates sales taxes unless for a hotel, office, or industrial use.

### Market Conditions

In a recession, property tax-based funds can disappear, but in a stable market revitalization plans generally can proceed as anticipated.

### Capacity and Scale

The size of an eligible disadvantaged community can vary significantly and even span jurisdictional boundaries.

### Ease of Use

CRIAs require three public hearings and majority approval by voters within the plan area. CRIA plans can only be amended annually, and plan area property owners and residents may stop a plan after 10 years with majority voter approval. The CRIA board must place a limit on use of tax-increment funds for administrative or overhead purposes before the plan is adopted.



*CRIA redevelopment funding could support the development of commercial buildings.*

### Timing and Lifecycle

The Revitalization Plan is subject to certain time limits, including:

- 30-year time limit on establishing debt;
- 45-year time limit for plan effectiveness;
- 45-year time limit on repayment of debt and receipt of tax increment; and
- 12-year time limit for acquiring property by eminent domain.

Taxes are collected until the plan is completed or until the time limit has been met.

### CASE STUDY

AB 2 is too new for any established case studies to be cited.



## Community Revitalization & Investment Authority (CRIA)

### References

California Legislative Information. Bill Text – AB-2 Community Revitalization Authority. [https://leginfo.ca.gov/faces/billNavClient.xhtml?bill\\_id=201520160AB2](https://leginfo.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB2). Accessed July 19, 2016.

Duran-Brown, Bernadette M. “Governor Signs AB2 Which Will Allow the Creation of Community Revitalization and Investment Authorities.” September 25, 2015. [http://www.nossaman.com/Governor\\_Signs\\_AB2](http://www.nossaman.com/Governor_Signs_AB2). Accessed July 19, 2016.

League of California Cities. Community Revitalization and Investment Authorities AB 2 (Alejo and Garcia) Chapter 319, Statutes of 2015. October 6, 2015. <https://www.cacities.org/Resources-Documents/Policy-Advocacy-Section/Hot-Issues/New-Tax-Increment-Tools/AB-2-Summary-10-6-15.aspx>. Accessed July 19, 2016.

Tiedemann, Karen, Lynn Hutchins, and Rafael Yaquian. “What You Need to Know About AB 2 and Community Revitalization Tools.” April 2016. <http://www.westerncity.com/Western-City/April-2016/What-You-Need-to-Know-About-AB-2-and-Community-Revitalization-Tools/>. Accessed July 19, 2016.

Tierra West Advisors. “Implementing AB2 – The Redevelopment Replacement.” May 15, 2016. <http://tierrawestadvisors.com/ab2/>. Accessed July 19, 2016.



## Parcel Taxes

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
Program or service	All	None	Strong, Moderate	All	Moderate to Difficult	North Monterey County Recreation and Park District

### DESCRIPTION

A parcel tax is a type of property tax imposed by local agencies at a rate based on the characteristics of a parcel to fund a specific government program or service. California State law authorizes local agencies such as cities, counties, schools, hospitals, and public safety districts to impose parcel taxes as long as the tax is not based on the value of the property. Because parcel taxes involve a direct increase in property taxes, they require two-thirds voter approval. There are no common standards for the amount or type of parcel tax imposed by a local agency, so rates, exemptions, and effective dates can vary significantly across local agencies.

Common parcel taxes levied throughout California can be flat rate or based on the following parcel characteristics:

- Date of parcel creation
- Length of street frontage
- Land use
- Number of rooms
- Square footage

Local agencies may grant exemptions to senior citizens, disabled individuals, and/or property owners with multiple contiguous parcels.

### Targeted Uses

Revenue from parcel taxes are commonly used to finance a specific government program or service such as education, public parks, or public safety.

### Setting (Place Type)

Parcel taxes are appropriate for all settings, including urban, suburban, town, and non-urban environments.

### Infrastructure Supported

Revenue from parcel taxes cannot directly fund infrastructure projects.

### Market Conditions

Tax collectors process parcel taxes in the same manner and at the same time as ad valorem property tax, thus similar penalty and interest provisions apply if parcel taxes go





## Parcel Taxes

unpaid. Communities with a steadily increasing population, a growing labor force, low unemployment rates, and a diversified economy should be well positioned to afford additional property taxes.

### Capacity and Scale

Parcel taxes can be used on both large and small projects. However, due to the voter approval requirements, parcel taxes may be best suited to fund larger programs or services.

### Ease of Use

The political climate of the area is an important factor. Campaigning to gain voter approval can prove time intensive and costly for the local agency.

### Timing and Lifecycle

As local agencies are not required to include a sunset date on a parcel tax ordinance/resolution, most parcel taxes are imposed in perpetuity.

## CASE STUDY

### North Monterey County Recreation and Park District

In 1999, voters in North Monterey County approved authorized the North County Recreation and Park District to levy a special tax in order to finance the maintenance of the Rancho Moro Cojo Park and related expenses. The maximum special tax for each assessor's parcel, single-family and multi-family, was \$564 in 1999. The special tax has increased by two percent each subsequent year and will continue to do so indefinitely.

### References

California Tax Foundation, *Piecing Together California's Parcel Taxes*, <http://www.caltaxfoundation.org/reports/parceltax-summary.pdf>.

California Taxpayers Association, *The Other Property Tax: An Overview of Parcel Taxes in California*, <http://www.caltax.org/ParcelTaxPolicyBrief.pdf>.



Maintenance of Rancho Moro Cojo Park is financed through a special voter-approved tax.



## Sales Taxes and Other Local Taxes

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
All	All	T, U, W, WW, L	Strong, Moderate	All	Moderate to Difficult	Monterey-Salinas Transit (MST)

### DESCRIPTION

Local governments have the authority to establish special taxing districts to impose a sales tax or use tax in addition to the standard statewide rate. The additional revenue can be used to fund a variety of services that benefit the community. Special taxing districts are typically organized when local residents or landowners identify a need in the community and determine that the creation of a special district provides the solution. A petition from property owners is subject to review and approval by the Local Agency Formation Commission (LAFCO). Once the LAFCO approves the proposed new special district, the creation of the new district requires majority voter approval. Any increase in sales or use taxes proposed by special taxing districts requires two-thirds voter approval.

### Targeted Uses

Revenue from sales or use taxes levied by special districts can be used to fund a variety of community services and public works projects depending on the type of special district. Common districts include: airport, cemetery, community services, fire protection, harbor and port, healthcare, irrigation, library, mosquito and pest abatement, reclamations and levee, recreation and park, resource conservation, sanitation, transit, utility, veterans memorial, and water.

### Setting (Place Type)

Sales or use taxes are appropriate for all settings, including urban, suburban, town, and non-urban environments.

### Infrastructure Supported

Revenue from sales or use taxes is commonly used to finance a specific community service or public works projects such as:

- Road maintenance and street lighting
- Levee repairs and water storage systems
- Water treatment and recycling facilities
- Harbor, ports, and airports



Airports are commonly funded by sales or use taxes (Image source: Sacramento County Airport System)



## Sales Taxes and Other Local Taxes



Sales and use taxes could be used to fund harbors.

### Market Conditions

Communities with a steadily increasing population, a growing labor force, low unemployment rates, and a diversified economy tend to be better positioned to afford additional sales or use taxes.

### Capacity and Scale

Revenue from sales or use taxes can be used on both large scale and small services. However, due to the voter approval requirements, parcel taxes may be best suited to fund larger projects or programs.

### Ease of Use

Local prosperity is a key factor in determining whether an added tax may be successful. Campaigning to gain voter approval can prove time intensive and costly for the special taxing district.

### Timing and Lifecycle

Sales or use taxes are imposed at the time of purchase or use. Special Districts are not required to include a sunset date on the sales or use tax.

## CASE STUDY

### Monterey-Salinas Transit (MST)

In 2014, Monterey county voters approved a 0.125 percent sales tax increase for public transit. The MST began collecting sales tax revenue in 2015 to fund services and equipment that support transportation programs for senior citizens, veterans, and people with disabilities. There is no sunset date for this additional sales tax.

### References

California Districts Association, *About Districts*, <http://www.districtsmakethedifference.org/#!/about-districts/c1enr>, Accessed on June 21, 2016.

California Districts Association, *About Special Districts Guide*, <http://www.csda.net/wp-content/uploads/2013/02/About-Special-Districts-Guide.pdf>.

California State Board of Equalization, *District Taxes, Rates, and Effective Dates*, <https://www.boe.ca.gov/pdf/boe105.pdf>.



The MST generates sales tax revenue that support transportation programs such as senior citizen transportation shuttles.



## General Obligation Bonds (GO Bonds)

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
All	All	T, C, P/OS	Moderate to Strong	All	Difficult	North Monterey County Unified School District Measure H

### DESCRIPTION

Proposition 46, approved by California voters in 1986, restored authority for the issuance of General Obligation (GO) bonds by any city, county, city and county, school district, community college district, or special district, secured by *ad valorem* taxes (which are based on the value of a transaction or property). GO bonds are backed by the full faith and credit of the issuer or by a promise to levy taxes, as necessary, to pay debt, or both. Because GO bonds generally involve an increase in property taxes, they require voter approval.

Per Article XVI, Section 18 of the State Constitution, local agencies must obtain two-thirds voter approval before incurring indebtedness. However, Proposition 39 authorizes bonds for repair, construction, or replacement of kindergarten through 12<sup>th</sup> grade school facilities, community college districts, and county education offices with 55 percent approval of the local vote. Once a bond measure is approved, the agency can begin levying taxes on the next property tax bill in the amount necessary to pay principal and interest on the bond. The charge will continue until the bond is paid in full. Although the agency issuing the GO bond is authorized to levy *ad valorem* taxes at the rate necessary to repay the debt, the following limitations exist to avoid excessive GO debt:

- Cities can incur a maximum GO debt of 15 percent of the assessed valuation of all property within their city limit.
- Counties can incur a maximum GO debt of five percent of the assessed valuation of property.
- Unified School Districts can incur a maximum GO debt of 2.5 percent of the assessed valuation of property.
- Elementary and High School Districts can incur a maximum GO debt of 1.25 percent of the assessed valuation of property.

### Targeted Uses

GO Bonds are commonly used to finance construction, acquisition, or improvements to public buildings, roads, schools, libraries, jails, and other large capital projects. GO bonds cannot be used to fund equipment purchases or pay for operation or maintenance costs.

### Setting (Place Type)

GO Bonds are appropriate for all settings, including urban, suburban, town, and non-urban environments.





## General Obligation Bonds (GO Bonds)



Schools are a type of project that could be financed by GO bonds.

### Infrastructure Supported

GO bonds can be used to finance a broad range of public infrastructure projects, including but not limited to:

- Roads, highways, and bridges
- Schools
- Public facilities
- Parks and libraries
- Jails

### Market Conditions

GO bonds are secured by an agency's pledge to levy taxes until the debt is repaid; thus repayment is largely dependent on the economics of the region. Areas with a steadily increasing population, a growing labor force, low unemployment rates, and a diversified economy should be well positioned to repay the debt incurred.

### Capacity and Scale

GO bonds can be used on both large and small projects. However, due to the voter approval requirements, GO bonds may be best suited for larger public projects.

### Ease of Use

The issuing agency initiates a GO bond election by passing a resolution to place the proposed bond issue on the ballot.

The resolution must provide detailed information on the public project to be financed and the proposed increase in the tax rate, ballot arguments, and specific uses of the proceeds from the bond.

### Timing and Lifecycle

The charge on the property tax bill continues until the bonds are paid in full.

## CASE STUDY

### North Monterey County Unified School District

Measure H, approved in 2013 with 61 percent voter approval, authorized issuance of a \$23,800,000 GO bond by North Monterey County Unified School District (NMCUSD). Funds from Measure H will allow the district to replace roofs, upgrade libraries, athletic facilities, and classroom technology, and replace aging heating, plumbing, and ventilation systems. The average yearly cost to property owners within the NMCUSD will be \$39 per \$100,000 of assessed valuation.

### References

California Debt & Investment Advisory Commission, *An Overview of Local Government General Obligation Bond Issuance Trends 1985-2005*, 2008. <http://www.treasurer.ca.gov/cdiac/publications/trends.pdf>.

California Tax Information, What is a General Obligation Bond, <http://www.californiataxdata.com/pdf/GOBond.pdf>

North Monterey County Unified School District, Measure H Fact Sheet, <http://nmcusd-ca.schoolloop.com/file/1303568662415/1342580315176/1850191725088994778.pdf>





## Revenue Bonds

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
All	All	T, C, U, W, WW	Moderate to Strong	All	Easy to Moderate	Central Valley Project Water System Revenue Bonds

### DESCRIPTION

A revenue bond is a type of municipal bond that finances income producing projects and is secured by revenues generated by those projects. Local authorities that generate revenue by providing services to the public can issue revenue bonds. Income generated should be sufficient to pay for the cost of operations, maintenance, interest, and principal of the bond. Therefore, revenue bonds are best suited to finance projects that:

- Operate on a service charge or user-fee basis
- Are self-supporting
- Produce revenue without compromising important economic or social objectives of the community

Ideally, projects funded by revenue bonds should serve the community paying for the respective services. Income generated from revenue bonds can take the form of user charges, tolls, or special taxes (levied on items such as tobacco or alcohol). Most revenue bonds are sold in \$5,000 increments and mature in 20 to 30 years. However, some revenue bonds have staggered maturity dates and do not mature at the same time. Unlike General Obligation bonds, voter approval is not required to assess a revenue bond.

### Targeted Uses

Revenue bonds are commonly used to finance the construction of public buildings, airports, roads, water and sewer projects, and schools.

### Setting (Place Type)

Revenue bonds are appropriate for all settings, including urban, suburban, town, and non-urban environments.

### Infrastructure Supported

Revenue bonds can be used to finance a broad range of public infrastructure projects, including but not limited to:

- Transportation projects
- Schools
- Utility projects, such as broadband and fiber optic systems
- Water and sewer distribution, collection, and treatment facilities





## Revenue Bonds



Flood control projects are able to be financed by EIFDs (Source: The Fiber Optic Association).

### Market Conditions

Revenue bonds are secured by income generated by a project, thus repayment is largely dependent on the amount of the fee and the affordability of the fee. Communities with a steadily increasing population, a growing labor force, low unemployment rates, and a diversified economy usually are better positioned to fund a project and collect fees.

### Capacity and Scale

Revenue bonds can be used on both large scale and small projects. Income generated from the project needs to be sufficient to fund operations, maintenance, and interest and principal repayment.

### Ease of Use

Since consumer spending is the primary source of repayment for revenue bonds, projects should be resilient to changes in consumer behavior or economic downturns. Facilities that deliver essential services, such as water supply and sewer systems, are less susceptible to changing political climates and more likely to generate a dependable revenue stream. When evaluating whether to issue revenue bonds, it is important to consider:

- The overall economic health of the region, customer base, and the impact that bond repayment might have on the entity's ability to sustain its revenues.
- The exact source of the revenues that will service and repay the debt.
- The entity's track record of operational effectiveness through multiple economic cycles.

In addition, the issuer of a revenue bond enters into legal commitments, known as covenants, that govern and provide public information regarding structuring of rates and the order in which revenues will be applied across expenditures.

Unlike General Obligation bonds, revenue bonds do not require voter approval.

### Timing and Lifecycle

The maturity term for revenue bonds generally ranges from one to 30 years. Typically, the further out the maturity date, the higher the interest rate.



## Revenue Bonds

### CASE STUDY

#### Central Valley Project Water System Revenue Bonds

In 2015, the State of California Department of Water Resources issued a revenue bond for the Central Valley Project Water System (Revenue Bond Series AR) in the amount of \$161,445,000. The purpose of the bond is to fund construction of certain Water System Projects, refund Department outstanding commercial paper notes, make a deposit to a Debt Service Reserve Account, fund interest on a portion of the Series AR bonds, and pay the cost of issuance for the Series AR Bond. The Series AR bonds can be issued in any multiple of \$5,000. The State of California Department of Water Resources has a variety of projects that are expected to be financed by bonds including the North Bay Aqueduct Alternative Intake Project is a water system project which includes the construction of a new point of diversion along the Sacramento River, a new pumping plant, an inline storage tank, and up to 30 miles of underground pipeline that will connect to the existing North Bay Aqueduct.

### References

California Debt and Investment Advisory Commission, *California Debt Issuance Primer Handbook*, <http://www.treasurer.ca.gov/cdiac/debtpubs/handbook.pdf>.

California State Treasurer, *Buy California Bonds*, <http://www.buycaliforniabonds.com/opportunities.asp>, accessed on June 15, 2016.

Nuveen Investments, *Municipal Bonds: Understanding the Fundamentals*, <http://www.nuveen.com/Home/Documents/Default.aspx?fileId=54108>, accessed on June 15, 2016.

State of California Department of Water Resources, The California State Water Project, <http://emma.msrb.org/EP792356-EP613490-EP1015036.pdf>.



Central Valley Project Water System.



## User Fees

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
Service or Commodity	All	T, C, U, W, WW, E	All	All	Moderate to Difficult	Santa Cruz County 9-1-1 Emergency Response Fee

### DESCRIPTION

User Fees can be established to recover construction and operation costs for community services or amenities that are typically funded through a bond and provided by a government entity. User Fees are distinguished from taxes by being charged for a service that is optional for community members to use and paid only by users of the service. Accordingly, User Fees are often considered more equitable than taxes, and User Fees are calculated to compensate the provided infrastructure or service without exceeding that cost. User Fees are transparent and tend to heighten public awareness of the cost of providing a service, and therefore its benefit as well.

### Targeted Uses

User Fees are intended to provide a new service or commodity to a community without imposing a cost burden on community members that do not use or otherwise benefit from the new amenity.

### Setting (Place Type)

User Fees are appropriate in urban, suburban, town, or non-urban settings, but can be more successful in areas with larger populations to contribute to cost recovery more quickly. User Fees are not always geographically restricted and may cross jurisdictional boundaries.

### Infrastructure Supported

User Fees are collected for many different types of services, including but not limited to:

- Toll roads
- Community centers



Collected user fees could be used to fund toll roads.

- Water supply and treatment systems
- Waste management
- Energy utilities

### Market Conditions

User Fees are tied strongly to supply and demand. For example, fees for water use in California increased significantly during the drought as supply could not keep pace with demand. The drought also demonstrated how



## User Fees

fee increases can in turn affect market conditions by changing consumer behavior: conservation resulting from consumer avoidance of higher fees helped reduce demand.

Utilities differ from less essential commodities in that there is always demand and few competitors. For a non-essential commodity such as a recreation center, User Fees are tied to local or regional market strength, particularly consumer disposable income, as well as supply. If a recreation center is the only such facility in a large geographical area, fees may be higher than in a more densely populated area with competing facilities. User Fees may be adjusted from time to time to reflect changes in demand, as well as changes in administrative or maintenance costs, which may be linked to inflation and other economic drivers.

### Capacity and Scale

User Fees can apply to large or small-scale projects, but they are best suited for ongoing, long-term amenities.

### Ease of Use

User Fees are more readily accepted than many other funding sources because of their direct and immediate relationship to a service provided. The ability to adjust User Fees also allows agencies to respond to community interests and use resources more efficiently based on actual demand. Municipal agencies are sometimes reluctant to employ User Fees due to the administrative effort associated with fee collection, though fees can cover some administrative costs.

### Timing and Lifecycle

The collected user fees are calculated and schedule to repay the bond used in creating the service. Once the costs of the built infrastructure are fully repaid, user fees may still be charged; however, the remaining revenue will be dedicated to service and maintenance.

## CASE STUDY

### Santa Cruz County 9-1-1 Emergency Response Fee

Santa Cruz County charges a \$1.47 per month fee per line for telephone subscribers to the 911 communication system that provides immediate access to emergency services. The cost covered installation of an emergency communications center and continues to covers maintenance and upgrades of the communication system and operations in the case of a failure at the center. Lifeline customers, senior citizens over 62 years of age, and other citizens may apply for exemption of these fees.

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## Housing Trust Fund

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
Housing	All	Housing	All	All	Moderate to Difficult	Monterey Bay Economic Partnership

### DESCRIPTION

The Federal Housing Trust Fund (HTF) was established in 2008 under Title I of the Housing and Economic Recovery Act, Section 1131. HTF provides grants to states and state-designated entities to preserve and increase rental housing and homeownership opportunities for extremely low income and very low income families, including homeless families. State-designated entities include local housing trust funds (501c3 non-profit organizations) and cities or counties that administer eligible local housing trust funds.

HTF grant funds can be used to preserve and increase new affordable housing through acquisition, new construction, reconstruction, and/or rehabilitation of non-luxury housing. The United States Department of Housing and Urban Development (HUD) allocates the amount of HTF funds available to each state using a formula based on Census data and four “need” factors as follows:

- The ratio of the shortage of standard rental units both affordable and available to extremely low income (ELI) renter households, in the grantee State, to the aggregate shortage of standard rental units affordable and available to ELI renter households in all states (weight 0.5)
- The ratio of the shortage of standard rental housing both affordable and available to very low income (VLI) renter households, in the grantee state, to the aggregate shortage of standard rental units affordable and available to VLI renter households in all states (weight 0.125)
- The ratio of ELI renter households in the grantee state living with either incomplete kitchen or plumbing facilities, more than one person per room, or paying more than 50 percent of income for housing costs to the aggregate of number of ELI households with these characteristics in all states (weight 0.25)
- The ratio of VLI renter households in the grantee State paying more than 50 percent of income on rent relative to the aggregate number of VLI renter households with this characteristic in all states (weight 0.125)

At least 80 percent of HTF funds must be used for production, preservation, rehabilitation, or operation of rental housing. A maximum of 10 percent can be used for first-time homebuyer housing production, preservation, and





## Housing Trust Fund

rehabilitation; down payment assistance, closing cost assistance, and assistance for interest rate buy-downs. At least 75 percent of the funds for rental housing must benefit extremely low income households and 25 percent of the funds must benefit very low income households.

Local communities can also create housing trust funds that do not depend on State or federal funding. The most common forms of dedicated revenues agencies use for local housing trust funds include housing impact fees, redevelopment tax increment, discretionary local revenues, grants, and charitable contributions.

### Targeted Uses

HTF grants funds are primarily intended for construction, rehabilitation, and preservation of rental housing for extremely low- and very low income families.

### Setting (Place Type)

HTF grants can be applied in urban, suburban, town, and non-urban settings.

### Infrastructure Supported

HTF grants cannot be used to support infrastructure projects.

### Market Conditions

Market conditions are only relevant insofar as they may affect the gap between housing cost and affordability. States and grantee's experiencing higher ELI and VLI housing shortages relative to the national average stand to receive more funding than others.

### Capacity and Scale

HTF grants can be used for both large and small ELI and VLI housing opportunities.

### Ease of Use

Most of the significant time-consuming requirements of the program apply at the state allocation level. Interested potential grantees need to contact the State Housing and Community Development Department to determine grant application and administration requirements based on the type of project or activity proposed. For local housing trusts that do not depend on State or federal funding, the difficulty lies with identifying and maintain revenue sources, selecting the agency to administer the trust fund, and designing the trust fund program.

### Timing and Lifecycle

HUD accepts HTF allocation plans on a yearly basis.

## CASE STUDY

### Monterey Bay Economic Partnership

Monterey Bay Economic Partnership (MBEP) is creating a new housing trust for the AMBAG region sponsored by the Monterey Bay Economic Partnership and Housing Trust Silicon Valley. The local housing trust is not dependent on State or federal funds and has committed to raising funds through private donations. MBEP loans will finance acquisition, predevelopment or construction of affordable





## Housing Trust Fund

housing in Monterey, Santa Cruz, and San Benito counties. Loan amounts will range from \$500,000 unsecured and up to \$2,000,000 secured, possibly more for projects that meet the appropriate credit profile, for a term of up to 5 years.

### References

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*The Monterey Bay Housing Trust, a housing initiative sponsored by the Monterey Bay Economic Partnership, provided funds to develop this affordable housing project in Marina. (Image source: Santa Cruz Sentinel)*



## Cap and Trade

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
Reduce Environmental Impact / GHG	All	All	All	All	Moderate	Ekhorn Slough

### DESCRIPTION

California's Cap and Trade Program was adopted in 2012 to help implement the Global Warming Solutions Act of 2006 (AB32), which was passed to limit and reduce California's greenhouse gas (GHG) emissions to 1990 levels. The Cap and Trade Program was established as a way to regulate and incentivize the reduction of GHG for private corporations based in the state. A cap on GHG emissions is determined (and reduced) annually to reach the 1990 emissions level goal by 2020. Quarterly, companies can sell and purchase a limited supply of "carbon credits" that permit the right to emit GHGs. Revenue from the carbon trading market is placed in the State's Greenhouse Gas Reduction Fund (GGRF), which annually provides hundreds of millions of dollars in funding for transit, housing, renewable energy, water and energy conservation, waste diversion, and related sustainability projects.

GGRF funding targets "disadvantaged communities," described per SB 35 as areas:

- burdened by environmental pollution and other risks that lead to worse public health
- have high proportions of low income households and/or unemployed persons, low levels of educational attainment and/or home ownership, and high rent burdens

The [CalEnviroScreen](#) tool is used to identify the communities that have the greatest environmental, public health, and socioeconomic burdens.

### Targeted Uses

Cap and Trade funds are used for projects that can reduce California's environmental impact and help uplift disadvantaged communities.

### Setting (Place Type)

Funding can be applicable in both all settings, ideally in a disadvantaged community identified through CalEnviroScreen.

### Infrastructure Supported

GGRF funding can support any infrastructure that would help reduce impacts on the environment and on disadvantaged communities, including but not limited to:

- Renewable energy
  - Photovoltaic cell installation
  - Home energy upgrades
- Water conservation
  - Changing from flood to drip irrigation





## Cap and Trade



Cap and Trade funding finances infrastructure projects, such as High Speed Rail, that would reduce environmental impact.

- Alternative transportation
  - High Speed Rail
  - Electric vehicle charging stations
  - Bus Rapid Transit/Light Rail
  - Purchase of clean emitting vehicles/fleet
- Land use/development
  - Affordable housing
  - Transit-Oriented Development
  - Infill development
  - Land conservation

### Market Conditions

Carbon credit pricing fluctuates based on supply and demand, which results in higher prices and more available funding in a stable or growing economy. Since the Cap and Trade market is still fairly new, a contingency plan has not been created for when existing regulations and incentives are not enough to incentivize consumers and businesses to make the required reductions.

### Capacity and Scale

The scale of projects funded by Cap and Trade revenue varies greatly. Some of the funds are for statewide and long-term projects such as California High Speed Rail, while



Renewable energy projects could also receive Cap and Trade funding.

others are small and short-term, such as replacing a local government fleet with zero emission vehicles. There are also intermediate-scale projects, such as acquisition of wetlands for restoration and conservation. There is no limit to the scale or capacity of this funding tool.

### Ease of Use

The application process is very a competitive and complicated process. Each administering agency is required to track and report on the benefits of the California Climate Investments funded under their program(s) and each funding recipient is required to provide the necessary data or access to data for their project to support reporting on project outcomes. Funding applications can be submitted online using the State FFAST online tool.

### Timing and Lifecycle

Grants are awarded either in a one-time transaction or incrementally depending on the type or project and amount of money that is granted.



## Cap and Trade



The Elkhorn Slough in Watsonville received Cap and Trade funding for salt marsh restoration.

### CASE STUDY

#### Elkhorn Slough

The Elkhorn Slough in Watsonville received \$3 million from the Greenhouse Gas Revenue Fund Water Action Plan program to increase carbon sequestration through salt marsh restoration in 2016. The funds helped the Department of Fish and Wildlife restore 61 acres of tidal salt marsh and five acres of perennial grassland, and the grant also supports research on carbon sequestration. The project is expected to reduce 13,000 million tons of carbon dioxide equivalent. In addition to GHG reduction, the project also aims to restore coastal wetlands by reducing tidal scour, improve estuarine wildlife habitat, and improve water quality.

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## Economic Development Administration Grants

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
All	All	All	Weak	All	Easy to Moderate	City of Santa Cruz

### DESCRIPTION

The United States Department of Commerce Economic Development Administration (EDA) offers flexible grant programs for not for-profit entities to fund a range of capital investments within economically distressed regions that foster job creation and attract private investment. State and local government, Indian tribes, Economic Development Districts, public and private non-profits, universities and other higher education entities are eligible to apply for EDA grant programs. The EDA offers funding for:

- Public Works – construction, expansion, or upgrading of infrastructure such as water and sewer systems, industrial parks, and transportation systems; facilities such as job-training centers and business incubators; and brownfield redevelopment.
- Economic Adjustment Assistance – technical, planning, and public works infrastructure assistance for regions experiencing adverse economic changes such as decline in manufacturing employment due to plant or base closure, changing trade patterns, natural disaster, or changed regulations.
- Planning – developing, maintaining, and implementing a Comprehensive Economic Development Strategy and related short-term planning activities.
- Local Technical Assistance – preparation of targeted feasibility studies for potential economic development projects such as an industrial park or a high-technology business incubator.

EDA grants awards generally do not exceed 50 percent of the total cost of a project. A prospective applicant can arrange for review by the Regional EDA office of a proposed project to confirm eligibility and provide technical assistance. The criteria used to evaluate project applications can vary depending on the grant program. Once the application is accepted and funds are disbursed, the applicant is responsible for submitting financial, progress, and performance reports.

#### Targeted Uses

EDA grants can be used to fund a variety of projects including public works and infrastructure projects.

#### Setting (Place Type)

EDA grants are appropriate for all settings, including urban, suburban, town and non-urban environments.





## Economic Development Administration Grants



Many infrastructure projects can be supported by EDAs.

### Infrastructure Supported

EDA grant programs can support a wide range of infrastructure projects including:

- Water and sewer systems
- Industrial parks
- business incubator facilities
- Port expansion projects
- Brownfields redevelopment

### Market Conditions

EDA funding is targeted to areas with recent and/or current negative market conditions. Regions seeking EDA funding must qualify as “economically distressed” by having an unemployment rate that is at least one percent higher than the national average and per capita income 80 percent or less of the national average. In addition, EDA must determine that the region has a “special need.” However, EDA can determine that a project will directly benefit a geographic area within the region that is underemployed or low income independent of these criteria.

### Capacity and Scale

EDA grants can be used on both large and small projects, but priority is given to projects that connect regional economies to the worldwide marketplace.

### Ease of Use

The EDA has specific application submittal criteria and an extensive review process. Once an application is accepted, the project is subject to monitoring and reporting requirements by the EDA.

### Timing and Lifecycle

EDA grant applications are accepted on a rolling basis.

## CASE STUDY

### City of Santa Cruz

In June 2016, the EDA awarded the \$850,000 to the city of Santa Cruz, to fund the development of a design specifications and engineering report to repair the tsunami damaged wharf in the City of Santa Cruz. This project also funded the development of a strategic master plan to increase resiliency to future disasters through economic diversification. This EDA investment was part of a \$1,020,000 project that supported a community’s long-term recovery, spur job creation, leverage private investment, and promote disaster resiliency.



# Economic Development Administration Grants

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## USDA Grants and Loans

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
All	Urban, Suburban	W, WW, T, B/P, C, P/OS	Strong, Moderate	All	Moderate	Del Rey Oaks and Gonzales CDBG Grant

### DESCRIPTION

The United States Department of Agriculture administers more than 50 grant and loan programs for rural regions to improve local communities. This wide variety of programs can fund public, non-profit, or private projects for economic development in the following categories:

- Rural business-cooperative services
- Rural housing services for community facilities
- Rural housing services for multi-family housing
- Rural housing services for single-family housing
- Rural utilities services for electric programs
- Rural utilities services for telecommunications programs
- Rural utilities services for water & environmental programs

Grants and loans are awarded and administered at a federal level.

### Targeted Uses

USDA grants and loans are intended to stimulate economic development in rural regions and promote economic diversity by emphasizing the importance of multi-jurisdictional projects.

### Setting (Place Type)

USDA grants or loans require a project to be located in a rural area and/or in a city with less than 50,000 people.

### Infrastructure Supported

Many of the USDA grant and loan programs support infrastructure including, but not limited to:

- Health care facilities
- Community facilities
- Utilities infrastructure
- Housing
- Business developments





## USDA Grants and Loans



USDA grant and loan programs can support development of facilities such as health care facilities (Image source: The Center for Health Design)

### Market Conditions

The effect of market conditions varies based on the type of infrastructure or activity funded by the grant or loan. In some cases, a down economy can provide incentive for USDA to provide funding.

### Capacity and Scale

USDA grants and loans can be used for both small and large scale projects.

### Ease of Use

Federal oversight make this grant generally complex to use, though each program varies in ease of use depending on the requirements.

### Timing and Lifecycle

The timing of each grant or loan varies with each program.

## CASE STUDY

### USDA's Food Insecurity Nutrition Incentive Program

In 2015, the USDA's Food Insecurity Nutrition Incentive program awarded the Ecology Center, in Berkeley California, \$3.7 million in funds to be disbursed over a period of two years. The Ecology Center administers Market Match programs throughout the State and expects to use the grant to assist its 30 partners which include mobile markets, farm stands, community-supported agriculture outlets, and certified farmers' markets. The Agriculture and Land Based Training Association (ALBA), a Salinas-based non-profit, has been a partner since 2009. ALBA receives funds from the Ecology Center to administer Market Match programs for some farmers markets in Santa Cruz, Monterey, and San Benito counties.

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## Community Development Block Grants (CDBG)

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
All	Urban, Suburban	W, WW, T, B/P, C, P/OS	Strong, moderate	All	Moderate	Del Rey Oaks and Gonzales CDBG Grant

### DESCRIPTION

The Housing and Community Development (HCD) Act of 1974 established the Community Development Block Grant (CDBG) program to fund physical improvements in underserved communities. The grant is a flexible source of funding because eligible project must meet just one of three related major criteria – funding requested must:

- help develop and create viable urban communities that benefit low and moderate-income residents in designated census tracts
- aid in the prevention or elimination of blight or slums
- meet an urgent development need (a direct threat to the health or welfare of the community within 18 months)

Low and moderate income households are defined as at or below 80% of the median income for the county according to the U.S. Department of Housing and Urban Development (HUD). The income guidelines are adjusted annually.

In addition, CDBG projects must benefit all residents of the community and should improve the living environment and/or expand local economic opportunities.

Funding is distributed by federal agencies to city and county governments that then administer the grants on a project-level in approved communities. City and county governments request proposals for projects that meet the criteria, and amounts are awarded based on the size and potential impact a project would have on the community.

### Targeted Uses

CDBG funds may be used for a variety of projects, including code enforcement, acquisition of property, demolition, infrastructure improvements, public facility improvements, social services, and economic development.

### Setting (Place Type)

CDBG grants are generally awarded in urbanized areas, particularly those with a large number of low income residents.





## Community Development Block Grants (CDBG)



*CDBG funds can be used to support communities and local economies by building infrastructure such as storm drains.*

### Infrastructure Supported

An estimated one-third of all CDBG grantees spend funds on public improvement and community facility projects. CDBG fund can rehabilitate existing housing, as well as build infrastructure that helps support communities and grow local economies such as:

- Sewer systems
- Sanitary water systems
- Safe streets
- Transit-ways
- Improved drainage systems
- Community centers
- Public parks

Funds may not be used for new home construction, equipment purchases, political purposes, local government operation and maintenance costs, or improvements of buildings used by government.

### Market Conditions

The CDBG program provides annual grants on a formula basis to qualifying local and state agencies. When greater numbers of eligible low income communities are identified, less money becomes available per community recipient.

### Capacity and Scale

The capacity and scale of projects vary significantly among funded projects.

### Ease of Use

Completing CDBG-funded projects in a timely manner is an important requirement, as HUD can cut funding if project progress is delayed. Accordingly, CDBG funds are most easily applied at the end of a project to bring it completion, rather than at the beginning of a project where the timeline can fluctuate. In some cases, unused funds can be transferred to another eligible project, but CDBG-funded projects must be completed, even if non-CDBG funds have to be utilized.

### Timing and Lifecycle

Grants are awarded annually and for projects lasting between one and three years.

## CASE STUDY

### Del Rey Oaks and Gonzales

The County of Monterey received a CDBG grant for the 2014-2015 fiscal year for its “Urban County” unincorporated regions of Del Rey Oaks and Gonzales. The county sought proposals and qualifying projects that could be funded using the \$850,000 awarded for these areas. The projects sought include public services (limited to 15% of the grant amount), program administration (limited to 20% of the grant amount), affordable housing, code enforcement, public facilities, and economic development. In 2014, CDBG funds financed 16 ADA ramps, a new roof for the Early Learning Center, and replacement Heating,



## Community Development Block Grants (CDBG)



*Costs of Youth Sports programs in the City of Gonzales were reduced through a CDBG.*

Ventilation, and Air Conditioning (HVAC) units at the Gonzales Medical Building and Gonzales Early Learning Center. In addition a total of \$15,800 was awarded to the City of Gonzales Recreation Department to help reduce the cost of Youth Sports programs so that more low and moderate income families could participate in sports programs.

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## Low Income Housing Tax Credits (LIHTC)

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
Public Utilities	Urban, Suburban	T, L, WW, SW	Strong, Moderate	All	Moderate to Difficult	Tynan Village Apartments, Salinas, CA

### DESCRIPTION

The Low Income Housing Tax Credit (LIHTC) program was created through the Tax Reform Act of 1986 to promote private investment in affordable rental housing for low income households. The program, which became permanent in 1993, makes it easier for low income housing sponsors and developers to raise project equity through the sale of tax benefits to investors. Administered by the Internal Revenue Service, the LIHTC program allows housing developers to deduct a percentage of the project cost from their federal tax liability over a ten-year period. LIHTC funded projects must remain affordable for at least 30 years through one of two types of occupancy restrictions:

- At least 20% of units occupied by households with income at or below 50% of Area Median Income (AMI), or
- At least 40% of units occupied by households with income at or below 60% of AMI

The State of California offers a parallel LIHTC program that subsidizes 30 percent or 70 percent of the low income unit costs in a project. The 30 percent subsidy, or 4 percent tax credit, applies either to new construction projects that are supported by additional sources of federal subsidy, or to the cost of acquiring existing buildings for rehabilitation. The 70 percent subsidy, or 9 percent tax credit, supports new construction without any additional federal subsidies.

Affordable housing developers benefit from the program by using the tax credit to buy an ownership interest, or generate equity investment in the project, which can typically finance between 30 and 60 percent of construction costs, thereby reducing the amount of debt financing required. This reduction can significantly offset the cost of producing long-term affordable housing units.

### Targeted Uses

The tax credit can be used to support the rehabilitation of existing rental housing or the construction of new rental housing projects. Among other requirements, tax credits are allocated based on the degree to which the project aligns with federal and State housing policy objectives.

### Setting (Place Type)

The LIHTC program is appropriate in urban, suburban, town, or non-urban settings.





## Low Income Housing Tax Credits (LIHTC)

### Infrastructure Supported

The LIHTC program provides subsidies for the rehabilitation of existing rental housing or the construction of new rental housing projects.

### Market Conditions

Housing supported by the LIHTC program is most often located in areas with affordable land costs and where the subsidized affordable rent is comparable to the market-rate rent. Generally, housing developments supported by this program are less feasible in areas with higher land costs and market-rate rent. However, developers have used additional federal, State and local subsidies to make these projects financially feasible.

### Capacity and Scale

LIHTC can be applied at any scale; however, larger scale affordable housing projects generally cost less per unit than smaller ones. For example, a recent California Housing and Community Development study found for each 10 percent increase in the number of units, the cost per unit declines by 1.7 percent. As such, larger projects in areas with affordable land and construction costs may benefit more with the support of LIHTC.

### Ease of Use

Affordable housing developers who have the experience and qualifications to meet federal and State application and monitoring guidelines, and the ability to leverage public and private funds are most competitive for the LIHTC program. Individual projects that are successful often include location amenities such as proximity to public transit, service amenities for tenants such as after school computer classes, units that serve low and very-low income residents,



*Funding for development of Riverwalk Apartments in Santa Cruz included federal LIHTC. (Image source: Santa Cruz Sentinel)*

as well as a mix incomes, and contribute to neighborhood revitalization.

The CTCAC holds two application cycles per year, and the application review process consists of three stages which take about 60 days to complete. Projects that have been awarded tax credit allocation are then monitored for compliance with federal and State law. During the tax credit application review process, the CTCAC provides an opportunity for the City to comment on the proposed project. The City may be able to assist the applicant during the review process by presenting information related to the program evaluation criteria, such as determining the most suitable project type, location and characteristics, in alignment with local housing policy goals and objectives. For these reasons ease of use is moderate to difficult.

### Timing and Lifecycle

Federal LIHTC credits are claimed over a period of 10 years; State LITC credits are claimed over a period of 4 years. Credits are allocated on an annual basis, and monitored for compliance with either a 30 (federal) or 55 (state) year affordability requirement.



## Low Income Housing Tax Credits (LIHTC)



Tynan Village Apartments in Salinas was developed using combined federal and State LIHTC. (Image source: Monterey County Housing Authority Development Corporation)

### CASE STUDY

#### Tynan Village Apartments

Tynan Village Apartments, located in Salinas and built in 2008, includes 171 market-rate and affordable units. About 60 percent of the units are 3 or 4-bedroom, making it a popular place for families with children. Of the 171 units, 106 (62 percent) are affordable, with 34 available for households who earn at or below 35 percent of area median income. The project was developed by Monterey County Housing Development Corporation and received \$1.3 million in combined federal and State LIHTC credits. Based in Monterey, the organization has strong ties within the communities it serves, relying on a network of partners ranging from construction to lenders and local governments.

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## New Market Tax Credits (NMTC)

Targeted Land Uses	Setting	Infrastructure Supported	Market Conditions	Capacity and Scale	Ease of Use	Case Studies
Public Utilities	Urban, Suburban	T, L, WW, SW	Strong, Moderate	All	Moderate to Difficult	Desert Hot Springs Community Health & Wellness Center, Desert Hot Springs, CA

### DESCRIPTION

The New Markets Tax Credit (NMTC) program was created by federal legislation in 2000 to assist communities that have trouble securing capital from private investors for large-scale projects. These lower income areas typically seek financial support for manufacturing facilities, commercial development, and housing, as well as community services such as education and healthcare. The tax-credit provisions of the Community Renewal Tax Relief Act, which had been set to expire by 2020, were made permanent by Congress in 2015. The credits are overseen by the U.S Department of the Treasury through its Community Development Financial Institutions (CDFI) Fund program, which allocates authority to local financial intermediaries called Community Development Entities (CDEs) through a competitive process.

These CDEs, which include both traditional lenders and special-purpose corporations, offer tax credits to investors in exchange for equity in the CDE. The CDEs then use the equity capital to make loans and investments with lower interest rates and better terms than are available in the traditional lending market, such as lower origination fees, higher loan-to-value ratios, lower debt coverage ratios, and longer maturities.

NMTC investors receive tax credits equal to 39 percent of their original investment amount.

### Targeted Uses

The NMTC program has supported both residential and nonresidential construction, as well as development and operational support for a wide range of businesses including food, retail, housing, health, technology, energy, education, and childcare. Communities benefit from both new jobs and improved access to community facilities and commercial goods and services.

### Setting (Place Type)

NMTCs must be used within a low income community, generally defined as:

- a metropolitan location where at least 20 percent of the total population is below the poverty line, and the median family income is 80 percent or less than the higher of the area or state average, or
- a location outside a metropolitan area, where the median family income is 80 percent or less than the statewide average.





## New Market Tax Credits (NMTC)

While most NMTC investments in California have been made in the larger cities, some smaller and rural projects have also been successful.

### Infrastructure Supported

NMTCs can finance a range of public infrastructure projects, including but not limited to:

- Business operations
- Microenterprise
- New commercial, multifamily and single family residential construction
- Rehabilitation of single-family, multifamily and commercial structures



*Gilroy Sobrato Apartments were developed using NMTC.  
(Image source: Green Architecture and Building Report)*

### Market Conditions

NMTCs can be helpful in all market conditions, as multiple communities will qualify based on regional and statewide thresholds regardless of economic trends.

### Capacity and Scale

NMTC funds can be applied at any scale.

### Ease of Use

The main hurdle in the NMTC program is either establishing or accessing a CDE that can manage complex transactions. A CDE may apply to the Fund for a direct allocation of tax credits, or it may receive loans or investments from, and sell qualifying business loans to, other CDEs that have successfully competed for allocations of tax credits. Local municipalities are not responsible for the reporting requirements of the program. For these reasons ease of use is moderate to difficult.

### Timing and Lifecycle

NMTC credits are claimed over a period of seven years: five percent annually for the first three years and six percent in years four through seven. If an investor redeems an investment before the seven-year term has run its course, all credits taken to date are recaptured with interest.



## New Market Tax Credits (NMTC)



Desert Hot Springs Community Health and Wellness Center  
(Image source: Borrego Health)

### CASE STUDY

#### Desert Hot Springs Community Health and Wellness Center

In 2012 two CDEs combined to provide \$21 million to improve the health and welfare of a historically medically underserved community. The city had a 34% poverty rate, 13% unemployment Rate of 13.2%, and median family income 45% of the State average. The 36,000 square foot Center on 6.6 acres provides preventive and primary health care, as well as health and nutritional education.

Although there are no approved CDEs yet in the AMBAG Region, the CDFI program has awarded other funds locally, with a \$1 million revolving loan in 2010 to South County Housing Corporation of Gilroy, which provides services to Santa Clara, San Benito, Santa Cruz, and Monterey Counties.

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