A-7:
Public-Private Improvement Financing Summary

PUBLIC AND PRIVATE IMPROVEMENT FINANCING

Financing Responsibilities and Sources by Type

Financing the public and private improvements required to transform Auburn Boulevard will involve the strategic and creative use of numerous funding sources. The five sources most likely to be utilized include the following:

1. A combination of federal, state, and local funding.
2. Tax increment financing through the Redevelopment Agency.
3. Formation of one or more land-secured financing districts.
4. Formation of a Property-Based Business Improvement District.
5. Developer equity, conventional financing, and other forms of private financing.

The following describes the five types of funding sources. Table xx which appears later in this section, identifies which types of funding sources are available and/or are appropriate for the various types of improvements required for Auburn Boulevard revitalization.

Federal, State, and Local Funding

These sources of funding include grants, loans, and other financing from federal, state, and local agencies. Some of these potential funding sources have been utilized in Citrus Heights already, and may become available for Auburn Boulevard improvements especially if other forms of matching funds can be raised. A brief description of these types of funding is provided below:

<u>Federal Funding</u>

Housing and Urban Development (HUD) Economic Development Initiative (EDI): A source of gap financing that is being used for portions of the utility undergrounding project on Auburn Boulevard.

Hazard Elimination and Safety (HES): Grants distributed to local agencies for projects designed to enhance traffic safety.

Community Development Block Grants (CDBG): Funds allocated to local agencies for anything from production of affordable housing to revitalization of blighted areas.

<u>State Funding</u>

State Transportation Improvement Program (STIP): Funds are generally awarded to local agencies with projects showing regional benefits.

Transportation Equity Act for the 21st Century (TEA-21): Provides a source of transportation improvement project and maintenance funding, often in conjunction with STIP funds.

<u>Local Funding</u>

Measure A: The half cent sales tax imposed in Sacramento County, which may be used for a variety of transportation- and maintenance-related construction projects such as bike and pedestrian paths, neighborhood traffic control, and traffic signal improvements.

Gas Tax: Gas tax revenue allocated to Citrus Heights may be used to plan, construct, improve, maintain, and operate public streets and mass transit.

Redevelopment Agency Financing

Most of the properties that front Auburn Boulevard fall within the Redevelopment Agency's project boundaries. The City's Redevelopment Plan outlines a series of activities to be implemented, including the following:

1. Reconstruct, replace, or install needed infrastructure and related improvements.
2. Selectively assemble parcels of land, including acquisition, demolition, environmental remediation, and other site preparation activities.
3. Strengthen and expand existing land uses, and participate in funding new developments, through an owner participation program.
4. Conduct business attraction, retention, and expansion through business improvement districts, special zone designations, public-private partnerships, advertising, joint marketing programs, and other business development efforts.
5. Establish a commercial rehabilitation loan and grant program.
6. Provide new affordable housing units, loans and grants for rehabilitation of existing units, and a first-time home buyers assistance program, all for very low-, low-, and moderate-income households.
7. Provide technical assistance to landowners using City and Redevelopment Agency staff.

The source of funding for these activities is tax increment revenue, which is equal to annual property tax revenue generated inside the project area above the amount generated in 1997-98 when the redevelopment plan was adopted. The annual incremental assessed valuation inside the project may increase due to property ownership transfers, new construction activities, and statutory maximum allowable inflationary increases of two percent per year. Property tax levies are equal to one percent of the assessed valuation.

The one percent property tax revenues are allocated to 18 taxing agencies within the redevelopment project area. Each agency retains 100 percent of the property tax revenue it received in fiscal year 1997-98. However, incremental property tax payments (i.e., tax increment revenues) to the taxing entities are based on statutory pass-through formulas pursuant to community redevelopment law. Initially, 20 percent of the tax increment is allocated to the taxing agencies; the amount allocated to the affected districts graduates in 11 years and then again in 31 years. In addition, 20 percent of the tax increment must be deposited into a Low and Moderate Income Housing Fund (the LMI Set Aside) to assist lower income households directly or projects that provide housing to meet the affordable housing needs of lower income households. Therefore, the redevelopment pass-through formulas apply to the net tax increment after deducting the LMI Set Aside. Note, though, that the Auburn Boulevard Specific Plan calls for the creation of housing that may qualify as affordable, which means that LMI Set Aside monies may be used to fund housing initiatives in the specific plan area.

Tax increment financing generally comes in two forms. The tax increment may be used on a pay-as-you-go basis, which would provide funding for the activities outlined in the redevelopment plan as money becomes available. In addition, the Agency may issue tax allocation bonds, which would be secured by actual or projected tax increment. Each year bonds are outstanding, tax increment revenues would be utilized to pay debt service on the bonds. Issuing tax allocation bonds would allow the Agency to fund significant upfront costs and to repay the debt with future streams of tax increment.

Land-Secured Financing

Land-secured financing for capital improvements generally involves either Assessment Districts or Community Facilities Districts. Given the flexibility that would be required to meet the unique needs within the specific plan area, a Community Facilities District would likely be the selected form of land-secured financing. The Mello-Roos Community Facilities Act (the "Act") [Section 53311 et. seq. of the Government Code] was enacted by the California State Legislature in 1982 to provide an alternate means of financing public infrastructure and services subsequent to the passage of Proposition 13 in 1978. The Act complies with Proposition 13, which permits cities, counties, and special districts to create defined areas within their jurisdiction and, by a two-thirds vote within the defined area, impose special taxes to pay for the public improvements and services needed to serve that area. The Act defines the area subject to a special tax as a Community Facilities District (CFD).

A CFD may provide for the purchase, construction, expansion, or rehabilitation of any real or other tangible property with an estimated useful life of at least five years. A CFD may also finance the costs of planning, design, engineering, and consultants involved in the construction of improvements or formation of the CFD. The facilities financed by the CFD do not have to be physically located within the CFD.

Formation of a CFD authorizes a public agency to levy a special tax on all taxable property within the CFD in the manner prescribed in the formation documents. Property owned or irrevocably offered to a public agency may be exempted from the special tax. Mello-Roos special taxes are collected at the same time and in the same manner as property taxes, unless otherwise specified by the agency. Special tax revenues may be used to pay dept service on bonds sold to provide funding for the construction or acquisition of public capital facilities; special taxes may also be used to pay directly for facilities and public services.

The Mello-Roos law provides two alternatives relative to the election to authorize the levy of taxes within a CFD. If there are less than twelve registered voters within the boundaries of a CFD, the qualified electors are the landowners within the CFD. Under these circumstances, each landowner gets one vote per acre or portion of acre they own within the CFD. Two-thirds of the votes cast by the landowners at the election must be in favor of the proposal to authorize the levy of special taxes within the CFD. If the new CFD were to include only those properties in Subareas 4 and 5 that are designated for substantial development, there would need to be less than twelve registered voters for the landowners to have the authority to approve the levy of special taxes within the new CFD. A separate CFD for other subareas, or a larger CFD that encompasses more than Subareas 4 and 5, could be formed, but approval from the registered voters in those areas would be needed to establish a CFD.

Property-Based Business Improvement District (PBID)

The Property and Business Improvement District Law of 1994 [Section 36600 et. seq. of the Streets and Highways Code] allows a city or county to adopt a resolution of intention to form a property-based business improvement district (PBID). Signed petitions from property owners who would pay more than 50 percent of the proposed assessments must be received by the public agency to initiate PBID formation proceedings. Within 15 days of receiving the petitions, the public agency must appoint an advisory board that will make recommendations about the proposed assessments.

The petition must include a management district plan that delineates a number of items, including: 1) the name of the proposed district; 2) a description of the boundaries, and a map, of the district; 3) the improvements and/or activities to be funded, and the estimated cost, on an annual basis and over the life of the district; 4) the method, timing, and manner of collecting the annual assessment; 5) how long the assessment will be levied, up to a maximum of five years. No assessments under this law can be levied on residential property. A PBID is implemented and administered by those who pay the assessment.

Various capital improvements and annual services may be financed using a PBID, including all those enumerated under the Parking and Business Improvement Area Law of 1989. Capital improvements that may be funded through this district include parking facilities, parks, fountains, benches, trash receptacles, street lighting and decorations, the closing, opening, widening, or narrowing of existing streets, rehabilitation or removal of existing structures, and facilities and equipment to enhance security. Promoting public events that benefit the area within the district, playing music in public places within the district, developing tourism, marketing and economic development, security, sanitation, graffiti removal, street and sidewalk cleaning, other municipal services to supplement services normally provided by the public agency within which the district is located, and any other activities that benefit businesses located within the district are some of the annual services that may be funded through a PBID.

Private Financing

Revitalization of the Boulevard Gateway and Rusch Park District of the Auburn Boulevard Specific Plan will involve significant amounts of new development, which means participation by sophisticated private developers is likely. Private developers may construct many of the public facilities that are required to serve these areas, using cash, funds from private investors, lines of credit, conventional lending sources, and other sources of private financing.

Funding Sources for Capital Improvements

Generally the most productive application of funding sources involves a combination of public and private sources that represents one of many components of a public-private partnership to complete a development or redevelopment project. Both the City and landowners stand to benefit from successful projects of this nature, and private dollars invested in a project can be leveraged with matching funds or other types of public financing. In addition, with future development in the specific plan area possibly occurring over decades rather than years, developers may be unwilling or unable to front the entire cost of public facilities, especially improvements that serve areas other than their own developments. A financing program that incorporates a public-private partnership approach may alleviate developer cash flow problems, allowing developers to front a portion of the public facilities and be reimbursed quickly through bond issues or other means. In some cases, it may be appropriate to simply have public financing mechanisms fund a portion of the public facilities directly so that a reimbursement is not required.

Table A.7.1 below identifies which types of funding sources are available and/or are appropriate for the various types of improvements required for Auburn Boulevard revitalization. The improvements are organized into two categories, those that relate to private property and those associated with public rights-of-way. The improvements are also listed in order, from top to bottom in the table, from those that would be required at the back of a private lot, to the sidewalk where private property generally meets public property, to the middle of a public street. The financing sources are listed from left to right, from the least local to the most local (project-specific) public financing source, with private financing listed at the end.

Table A.7.1: Potential Funding Sources For Public And Private Improvements

Item to be financed	Federal, state, and local funding	Redevelop-ment agency	Land-secured financing	Property-based business improve-ment district	Private financing
Private Property					
Soundwalls/screenwalls/trees between commercial property in specific plan and residences		X			X
Property Acquisition		X			X
New buildings/remodeling buildings (including affordable housing)	X	X			X
Facade improvements				X	X
Walkways/paseos (common areas)				X	X
New internal streets/driveways		X			X
Onsite water, sewer, electrical, gas, communications		X			X
Parking lot					
Grading/paving/striping		X		X	X
Landscaping		X		X	X
Lights		X		X	X
Public Right-of-Way					
Sidewalk	X	X			X
Driveways/driveway consolidation	X	X			X
Street furniture		X		X	
Street lights	X			X	
Bus turnouts	X				X
Bus shelters	X				X
Landscaping/street trees	X		X	X	
Dry utilities under sidewalk: electric cable, phone, fiber optics, etc.	X				X
Curb/gutter	X	X	X		
Right-of-way acquisition	X	X	X		
Travel lanes	X	X			
Bike lanes	X	X			
Street signage	X	X			
District Identification signs		X		X	
Street paving enhancements	X	X			
Medians/turn pockets	X	X			
Median lights	X	X	X		
Median landscaping		X	X		
Crosswalks (enhancements)	X	X			
Traffic signals (relocation)	X	X			
Public (wet) utilities in street: water, sewer, drainage	X	X	X		

As Table A.7.1 indicates, private improvements may generally involve more private financing; in fact, all of the private improvements could be and often are financed privately. Public improvements may generally involve less private financing, and are often financed publicly. To ensure flexibility in the future, there are at least two sources of financing listed for each improvement. Federal, state, and local funding is applied where possible and most likely, and would not be used to fund private improvements.

Since a CFD involves a cost to the landowner in the form of an annual special tax, land-secured financing may be limited in its application. The table always includes another source of financing in addition to a CFD; likewise, a CFD is sometimes listed as a source in order to include a secondary, back-up financing mechanism. Also, a CFD would only be used to fund public improvements. A PBID also represents an extra landowner cost, so its use is limited as well. While a PBID may be used for various private improvements of limited scope, it could be used to fund certain public improvements that constitute beautification or revitalization efforts rather than items of necessity. If formed, the focus of a PBID would likely be more on ongoing services than capital improvements, so its application in the table is assumed to be limited for that reason as well.

Similar to private financing, Redevelopment Agency financing could fund virtually every item in the table, both private and public improvements. However, Agency financing will be constrained by the amount of tax increment that the project area can produce. Agency financing is listed in the table where it's required to provide a second source of funding or where it's most likely to be utilized.

Estimated Tax Increment and Sales Tax Impacts

Cursory analyses were conducted to estimate the change in property tax increment and sales tax revenue based on planned development in each of the four districts within the Auburn Boulevard Specific Plan area. Many assumptions are incorporated into the analyses, but the primary concepts include the following:

1. Small infill developments, such as those expected to occur in the Lincoln 40 district, will produce the same assessed values and retail sales per square foot that are currently being produced.

2. Larger pockets of more intense new development, such as the residential development in the Rusch Park district and the hotel development in the Boulevard Gateway district, will produce higher assessed values and retail sales per square foot than are currently being produced.

3. New development in Rusch Park and Boulevard Gateway involves the displacement of large amounts of existing commercial land uses. The assessed values and retail sales associated with displaced land uses are deducted from the assessed values and retail sales associated with new development.

4. A portion of existing land uses not assumed to be displaced is anticipated to be renovated. Renovated property is assumed to generate approximately 25% more assessed value and retail sales per square foot than existing land uses.

As noted above, a portion of the tax increment must be deposited into the agency's Low/Moderate Income Fund, while the majority of it will be deposited into the agency's discretionary Redevelopment Fund. Since the Auburn Boulevard Specific Plan incorporates residential development that could meet the needs of lower income households, the LMI Set Aside funds are included as a potential funding source. In addition, the Stock Ranch development is located within the larger redevelopment project area that includes the Auburn

Boulevard Specific Plan area, and tax increment generated by Stock Ranch may be applied to the funding needs along Auburn Boulevard. Finally, because of the project's high priority, the City intends to earmark all other available Redevelopment Agency resources toward Auburn Boulevard.

Table A.7.2 presents the results of the tax increment and sales tax analyses. The four districts are projected to create an annual stream of $948,000 in tax increment when fully developed. Coupled with an estimated $409,000 per year from Stock Ranch upon its completion and $248,000 in other available Redevelopment Agency revenues (other tax increment less Agency costs), annual tax increment revenues available to address Auburn Boulevard Specific Plan funding needs amount to $1,605,000. A total of $48,000 in additional sales tax revenue is estimated to be collected by the City annually when the Auburn Boulevard Specific Plan area builds out. Note that Sylvan Corners and Lincoln 40 produce a positive sales tax impact with additional retail development and nominal amounts of displaced land uses, while Rusch Park and Boulevard Gateway generate a negative sales tax impact as new residential and hotel development displace existing sales tax-producing land uses.

Table A.7.2
Estimated Annual Tax Increment and Change in Annual Sales Tax Revenue

	Tax Increment			**Change in**
District	**Redevelopment Fund**	**Low/Moderate Income Fund**	**Total**	**Sales Tax Revenue**
Sylvan Corners	$105,000	$35,000	$140,000	$231,000
Lincoln 40	$77,000	$26,000	$103,000	$144,000
Rusch Park	$316,000	$105,000	$421,000	-$108,000
Gateway District	$213,000	$71,000	$284,000	-$219,000
Subtotal	*$711,000*	*$237,000*	*$948,000*	*$48,000*
Stock Ranch*	$305,000	$104,000	$409,000	
Other RDA Funds*	$186,000	$62,000	$248,000	
Total	**$1,202,000**	**$403,000**	**$1,605,000**	

Tax increment generated by the Stock Ranch development, and other available Redevelopment Agency revenues, may be applied against funding needs for the Auburn Boulevard Specific Plan area.

Source: HdL Coren & Cone; City of Citrus Heights; Goodwin Consulting Group, Inc.

Tax Increment Funding and Infrastructure Costs at Buildout

Infrastructure cost estimates have been prepared for each district by applying street segment engineering estimates to applicable street lengths along Auburn Boulevard. All roadway, signal, utility undergrounding, lighting, street furniture, and on-site parking lot costs are included in the cost estimates. In fact, every cost item delineated in the public right-of-way section of Table A.7.1 is included in the cost estimates. The costs for each district are shown in Table Table A.7.3, and total $19.4 million for all four districts.

Tax increment financing, as discussed above, could be used to fund essentially every type of improvement listed in Table A.7.1, both public and private. The bus-related and dry utility costs will likely be financed with a funding source other than tax increment revenue and, while district signage could be funded with tax increment revenue, it will more likely be funded through a PBID. Also, many of the public improvements included in the cost estimates may be financed with funding sources other than redevelopment agency funding.

Table A.7.3 also illustrates the net proceeds for infrastructure that could be generated from a tax allocation bond issue based on the tax increment revenue expected when development is completed. A bond issue will include costs of issuance and a debt service reserve fund, so the net proceeds will be less than the total amount of bonds sold. Bonds are assumed to be sold at 6.5 percent for 30 years based on 125 percent debt service coverage. Total net bond proceeds for infrastructure are estimated to be $14.6 million including Stock Ranch and other available Redevelopment Agency resources, which is approximately $4.8 million less than the total cost of $19.4 million. Clearly, applying Stock Ranch tax increment revenues and other available Redevelopment Agency revenues to Auburn Boulevard will facilitate the area's ability to achieve its public improvement objectives. If taxing entities were to agree to allow statutory pass-throughs to be subordinated to bond debt service, net proceeds would be approximately 25 percent higher.

Table A.7.3
Estimated Net Bond Proceeds and Estimated Infrastructure Costs

District	Net Bond Proceeds Redevelopment Fund	Low/Moderate Income Fund	Total	Estimated Costs	Net Proceeds Less Costs
Sylvan Corners	$958,000	$319,000	$1,277,000	$926,000	$351,000
Lincoln 40	$703,000	$237,000	$940,000	$6,495,000	-$5,555,000
Rusch Park	$2,883,000	$958,000	$3,841,000	$6,828,000	-$2,987,000
Gateway District	$1,944,000	$648,000	$2,592,000	$5,183,000	-$2,591,000
Subtotal	*$6,488,000*	*$2,162,000*	*$8,650,000*	*$19,432,000*	*-$10,782,000*
Stock Ranch*	$2,783,000	$949,000	$3,732,000		$3,732,000
Other RDA Funds*	$1,697,000	$566,000	$2,263,000		$2,263,000
Total	**$10,968,000**	**$3,677,000**	**$14,645,000**	**$19,432,000**	**-$4,787,000**

Net bond proceeds generated by the Stock Ranch development, and other available Redevelopment Agency revenues, may be applied against funding needs for the Auburn Boulevard Specific Plan area.

Source: Mark Thomas and Company, Goodwin Consulting Group, Inc.

Note that net bond proceeds generated from tax increment in one district (Sylvan Corners) exceed estimated costs, while in the other three (Lincoln 40, Rusch Park, and Boulevard Gateway) they do not. This is the nature of many redevelopment project areas, which is that some areas "contribute" to other areas so that the entire project area will be improved. Directly or indirectly, each district stands to benefit from a more improved neighboring district. However, should it be determined that insufficient revenues exist to fund desired improvements, the funding/cost discrepancies in each district may be used as a starting point to identify improvements that may need to be postponed or eliminated.

Initial Tax Increment Funding

Total tax increment revenues and net bond proceeds discussed above reflect all future development having occurred. However, tax increment will be generated, and public improvements will need to be installed, as development occurs. Therefore, it may be necessary to apply tax increment revenues on a "pay-as-you-go" basis to fund infrastructure directly, and it may be more efficient to issue a series of bonds over time to take advantage of growing tax increment at various intervals leading up to project completion. In addition, tax increment revenue collected prior to it being needed to secure bonds could be utilized for other agency needs such as commercial rehabilitation loans, affordable housing loans, and other purposes.

The tax increment revenues shown in Table A.7.2 and the bonding capacity shown in Table A.7.3 for Stock Ranch and other available Redevelopment Agency resources is based on projections for fiscal year 2005-06 and assumes Stock Ranch is completed. These two sources could be combined to generate approximately $6.0 million dollars for project-related costs. Note that debt service coverage equals 20 percent of the $657,000 total tax increment from Stock Ranch and other available Redevelopment Agency resources, or approximately $130,000. This amount is estimated to cover annual Auburn Boulevard administrative expenses for an Agency coordinator ($50,000), architectural assistance ($25,000), legal assistance ($25,000), and PBID assistance ($30,000). However, there would be no other funding available to facilitate development projects or repay the City's loan to the Redevelopment Agency until additional tax increment is generated in later years.

Therefore, fiscal year 2004-05 net available increment could be utilized on a pay-as-you-go basis to fund smaller project-related costs in that year, and bonds issued in late 2005 based on fiscal year 2005-06 tax increment could be used to generate lump sum funding for significant project-related costs. The 2005 bond sale would be the first in a series of bond issues that could occur as development along Auburn Boulevard proceeds, and pumping $6.0 million into Auburn Boulevard may help stimulate that development.