

APPENDIX C
POTENTIAL FUNDING RESOURCES



Potential Funding Resources

1 Introduction

The following discussion outlines potential funding sources for improvements and programs proposed in the City of Santa Paula Downtown Improvement Plan Update, including any pertinent issues and constraints related to each.

The City of Santa Paula will need to use a variety of funding sources to implement the Downtown Improvement Plan. These include funding provided directly by private property owners, usually in conjunction with new development projects; Redevelopment Agency tax increment funding; state and federal funding, such as Community Development Block Grants (CDBG); Transportation Efficiency Act for the 21st Century (TEA21) funds; special assessment districts; developer contributions; and potential grant funding (as available).

2 Private Funding

Private individuals and businesses rightly risk their capital to generate profits via increased sales, rents and other income. In doing so they generate employment and new taxes in a community. Private funding can take the form of a range of personal capital expenditures, exactions, dedications, and contributions made by property owners and developers to pay for specific new projects that serve their properties. As an alternative to providing required funding up-front, property owners and developers are often willing to participate in assessment districts or other special taxing arrangements that provide a long-term financing mechanism for costly projects. On particularly risky projects they also often seek to share their risk with local jurisdictions who will benefit by increased tax revenues, reduced unemployment, elimination of blight, and other public purposes. If structured well, such public-private partnerships can be financially beneficial to the private and public sectors. Many of the tools available to the City of Santa Paula are discussed below.

3 Redevelopment Tax Increment Revenues

The State of California originally approved the concept of redevelopment in 1945 in order to give cities and counties the authority to create redevelopment agencies and to give these agencies the authority and power necessary to attack and solve problems of urban decay and blight. Redevelopment agencies were (and are) able to apply for grants and loans from the federal government.

The economic base for redevelopment is tax increment financing (TIF). TIF allows the governing body of a city or county to adopt a redevelopment plan that provides for the redevelopment of a designated area and to use tax increment financing to fund the costs of redevelopment projects in the designated area. The method of financing involves the issuance of bonds or other obligations that are secured by a pledge of all or part of the funds raised by the redevelopment agency. The agency raises funds because of the increase in assessed valuation of taxable real property within its designated redevelopment area. The assumption being that the assessed value of real property within a redevelopment area will increase due to redevelopment improvements.

Briefly, the redevelopment "tax increment," mechanism works as follows. When a redevelopment project area is adopted, the existing assessed valuation of property within that area is established as the "base year" assessed value. Any increases in assessed value within the project area over and above the "base year" are referred to as property "tax increment" which accrues to the redevelopment agency and other eligible "pass



through” civic entities to carry out the programs envisioned in the adopted redevelopment plan. This “tax increment” revenue is the primary source of revenue available to undertake redevelopment programs in California.

The underlying premise of tax increment financing is that property tax revenues are not likely to increase as much or as rapidly in blighted areas as in other portions of a community. Therefore, any increase in revenues from such areas after a redevelopment plan is adopted is largely attributable to the effects of the redevelopment program in eliminating blighting conditions and stimulating private investment and should accrue to the redevelopment agency. (However, other taxing entities such as schools, counties, and special districts may also continue to receive a share of tax revenues either through negotiated or statutory agreements.)

California Redevelopment Law (CRL) requires that at least 20 percent of tax increment revenues collected by a redevelopment agency be placed in a housing “set-aside” fund, to be used for increasing, improving, and preserving the community’s supply of low and moderate income housing. The remaining tax increment may be used for activities and projects which help to eliminate blight and encourage private investment within the redevelopment area, such as land assembly and write down of land costs for development projects, demolition assistance, and construction of site improvements. Tax increment may also be used to construct streets, utilities, parks, and other public improvements necessary for carrying out the redevelopment plan. Redevelopment funds can be used to fund existing development’s share of improvements that are not necessary to serve new development exclusively.

In addition to providing assistance with public improvements to facilitate redevelopment, a redevelopment agency can provide assistance to a variety of private development interests if the specific projects are in conformance with the agency’s plan:

1. Development of new industrial and commercial uses in the project area.
2. Commercial building and property renovation and improvement projects.
3. Rehabilitation and expansion of the community’s existing private housing stock.
4. “Writing Down” the cost of land when it is sold to a developer or owner participant (in accordance with an approved development agreement providing adequate assurances that the project would be completed).
5. Provide low-interest loans or tax exempt financing to reduce financing costs through certificates of participation, lease revenue bonds, industrial development bonds or various forms of tax-exempt notes.
6. Leverage its funds by using them as cash match for grants and loans from EDA, CDBG, USDA and others.
7. Offer a percentage of expected fiscal revenues for proposed development projects as a location or expansion incentive.

The economic capability of a redevelopment agency is of utmost importance in deciding whether or not redevelopment is the “lead” or primary tool for accomplishing major physical changes in a local community. If tax increment income projections are lower than the communities wants or expectations, redevelopment needs to be considered as one of the fiscal arrows in a community’s financial quiver.

a. Redevelopment Capital Projects Fund

Based on information provided by the Santa Paula Redevelopment Agency, it is estimated that after debt, approximately \$820,000 is available annually in the Agency’s capital projects fund for all projects in the Redevelopment Project Area, including housing projects. It is up to the Redevelopment Agency to allocate those funds to projects throughout the redevelopment project area, which includes most of the city’s industrial and commercial areas, in accordance with the established project priorities in its 5-year plan.



b. Redevelopment Housing Set-Aside Fund

Based on Agency financial projections, it is expected that the Housing Set Aside Fund will collect \$250,000 in new revenues in 2004/2005. The Housing Set-Aside Fund represents a significant source of annual revenue that can be used for preservation and development of housing for low-and moderate-income households. Potential uses of these funds include assisting with on- and off-site improvements, providing assistance for the development of new housing anywhere in the Plan Area that would be targeted for low- and moderate-income households, and providing funds to assist with rehabilitation of housing occupied by low- and moderate-income households.

4 TEA21 Funds

One potential federal funding source might come from Transportation Efficiency Act for the 21st Century (TEA21). The Act was initially passed in 1990, and ISTEA funds were made available for two three-year funding cycles. Available funds under both cycles have been committed, and the Act has recently been reauthorized for additional funding cycles.

TEA21 funds can be used to construct a wide variety of transportation improvements, including transit and intermodal facilities; highways, streets and roads; park-and-ride lots; bicycle and pedestrian projects; and transportation control measures. TEA21 will generally fund up to 80 percent of a project's total cost, with the remaining 20 percent funded through a local matching grant.

The City could apply for TEA21 funding through the VCTC to pay for some of the transit, streetscape, traffic calming, and trailway improvements.

5 TDA Funds

The Transportation Development Act enacted a one-quarter cent sales tax statewide to fund various transportation activities. The state appropriates funds annually to local agencies using a population-based formula. The City programs the allocation of these funds several years in advance.

While this funding source is primarily intended to finance transit system capital projects and operations, the City can apply to spend a portion of its TDA allocations on different types of roadway, pedestrian, and bike improvements. To do so, the City must make findings that other transit needs have already been met.

6 Grant Funding Sources

Other state and federal grant funding sources may be available to fund a portion of the various improvements proposed in the Plan area. While specific funding sources and dollar amounts have not been researched as part of this report, it is anticipated that potential additional funding sources could be pursued by appropriate departmental staff within the City of Santa Paula or other local agencies, as opportunities to do so arise during the course of implementing the Strategic Plan.

7 Special Assessment Districts

A special assessment is a charge imposed on real property for a public improvement (or service) directly benefiting that property. The rationale for a special assessment is that the assessed property has received a special benefit over and above that received by the general public.



Special assessments are distinguished from real property taxes by a number of factors. Unlike taxes (including special taxes, such as Mello Roos taxes), the sum of a special assessment cannot exceed the cost of the improvement or service it is financing. Furthermore, special assessments cannot be levied against those properties that do not benefit from the improvements being financed. Conversely, property within an assessment district that benefits from the improvements being financed must pay a portion of the assessment.

California statutes give local governments the authority to levy a number of special assessments for specific public improvements such as streets, storm drains, sewers, streetlights, curbs and gutters, and landscaping. Some of the most commonly used statutes include the Municipal Improvement Act of 1913 (authorizing assessments, with bonds issued under the Improvement Bond Act of 1915) and the Landscaping and Lighting Act of 1972, as summarized below.

It should be noted that passage of Proposition 218 in November 1996 has imposed additional requirements and limitations on the use of special assessment districts, raising various legal issues that will likely require future court rulings for resolution. The changes brought about by Proposition 218 are also summarized below.

Assessment districts can be useful financing mechanisms to pay for improvement costs attributable to both new development and to existing development, as long as a strong nexus exists between benefits that taxpayers receive and the assessment they are asked to pay. Assessment districts are one of the mechanisms available for the City's use that will allow up-front construction of costly improvements using bond proceeds, to be secured by property within the district and repaid by property owners over time.

For all assessment districts, but particularly when bonds are to be issued, there is a need for the City to consider whether the proposed assessment district will be of a sufficient size to justify the costs for district administration and costs associated with bond issuance. Where funds from existing sources are not available to pay existing development's share of necessary improvements, including all benefiting properties in an assessment district may be one of the few feasible ways to fund an improvement; however, this will require existing development to take on a greater tax burden.

a. Municipal Improvement Act of 1913/Improvement Bond Act of 1915

The 1913 Act authorizes cities and counties to levy assessments against properties within a district to fund acquisition, engineering, and construction costs for the following types of improvements: transportation systems; street paving and grading; sidewalks, parks, parkways and landscaping; recreation areas; sanitary sewers and drainage systems; street lighting; fire protection and flood protection; water supply systems; facilities for providing water service, electrical power, and gas service; and seismic safety and fire code upgrade requirements.

The Improvement Bond Act of 1915 does not authorize assessments, but instead provides a vehicle for issuing bonds (including variable interest bonds) to be repaid through assessments levied under the 1913 Act (as well as a number of other benefit assessment statutes). Assessment bonds are not a direct obligation of the issuing agency, and are not considered a personal or corporate indebtedness of the respective property owners paying the assessments. The bonds are secured by a public lien on the individual parcels (i.e., property benefiting from the improvements). Under the 1915 legislation, the local legislative body may also issue "bond anticipation" notes prior to actual bond sale - in effect borrowing money against the assessment bonds being proposed for sale.



b. Landscaping and Lighting Act of 1972

The 1972 Act enables assessments to be imposed to finance the following:

- Acquisition of land for parks, recreation and open space;
- Installation or construction of landscaping, street lighting, ornamental structures, and park and recreational improvements; and
- Maintenance of any of the above improvements.

Public facilities such as community centers or municipal auditoriums are specifically excluded from being financed through a landscaping and lighting district, unless approved by the property owners owning 50 percent of the area of assessable lands within the proposed district.

c. Business Improvement Districts

This is a general description of BID's. A PBID is recommended and described in more detail in the Appendix A - Economic Analysis.

Effective ongoing downtown promotion and development will need to be coordinated between business and property owners. Main Street is a nationwide program that promotes downtown revitalization through a successful formula, called the Main Street Principles. Santa Paula has the potential to become a Main Street participant, but would need to take some preliminary steps before applying or becoming part of the program. Creating a business improvement district (BID) or a property-based business improvement district (PBID) should be considered as either a step to joining Main Street, or for downtown revitalization

California cities now have a powerful tool for managing and developing urban and commercial districts. In 1994, California joined most states in the country and passed enabling legislation for property based business improvement districts (PBIDs). The limited scope and low funding capability of the current business based BIDs, coupled with the uncertainty and inconsistency of public services, were major catalysts for passage of the law. Downtown Resources was the primary author of this legislation, assisted in its passage and helped to create the first PBIDs in California. Downtown Resources specializes in the implementation and interpretation of California's PBID legislation. As the terms of the first PBIDs begin to expire, Downtown Resources has also assisted in the renewal campaigns of these PBIDs.

Main components of California's PBID Law include:

- Provides for an assessment on real property.
- Allows an expansive list of services and improvements.
- Requires a comprehensive Management District Plan.
- Requires a majority of property owner signatures on a petition to initiate the District.
- Includes a Sunset Provision-District may be established for up to five years.
- Includes a Baseline Services Contract-to ensure current levels of public services will be continued once District is in place.
- Creates a Public-Private Partnership-public sector approval and oversight with private sector funding and management.

Services and improvements permitted under California's PBID Law include:

- Security.
- Maintenance-street, alley, and sidewalk cleaning.
- Graffiti Removal.
- Promotions/Public Events/Expanding Tourism.
- Marketing.



- Economic Development.
- Retail Retention and Recruitment.
- Activities that benefit businesses and real property in the District.
- Development of parking facilities, pedestrian shelters, public amenities, fountains, parks, kiosks, lighting, benches, and trash receptacles.

8 Community Development Block Grant Program

While the City of Santa Paula is a Community Development Block Grant (CDBG) “small city” community because of its under 50,000 population, the City has joined Ventura County which, because of its large population, annually receives an “entitlement” allocation of Federal funds from the U.S. Department of Housing and Urban Development to use for various community development purposes. Santa Paula receives an annual share of those funds directly from the County based on an allocation formula. While this does not make Santa Paula eligible to compete with other small cities for as much as \$850,000 per year in grant funds, it does provide a more regular annual amount which allows the city to better plan future uses of its CDBG funds. Eligible uses can include certain public improvements/facilities, social services, economic development, and housing rehabilitation and development activities primarily benefiting low- and moderate-income households.

The Housing Investments Partnership Program (HOME) was created through the Crantson-Gonzales National Affordable Housing Act of 1990. The objectives of HOME are to provide decent affordable housing to lower-income households, to expand the capacity of nonprofit housing providers, to strengthen the ability of state and local governments to provide housing, and to leverage private sector participation. Eligible activities under HOME include first-time homebuyer assistance, homeowner rehabilitation, new home construction, acquisition and rehabilitation of housing, and tenant-based rental assistance. The City of Santa Paula is part of the County’s HOME Entitlement Program.

9 General Revenues

The likelihood of securing General Fund contributions for project implementation in the Downtown in coming years is small, due to budgetary constraints. Based on this, it is assumed that the General Funds will not provide significant financing toward the Improvement Plan. Other nondevelopment impact fee revenues, such as Redevelopment tax increment, assessment district proceeds, special grants, CDBG, and other revenues not collected from new development, may be the primary source relied upon to pay for the existing City’s share of new improvements.