COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL

(1) DEPARTMENT Planning and Building	(2) MEETING DATE November 8, 2005	(3) CONTACT/PHONE Dana Lilley, Supervising Planner (805) 781-5715

(4) SUBJECT
RECOMMENDATIONS FOR INFRASTRUCTURE PLANNING AND FINANCING

(5) SUMMARY OF REQUEST
As requested by members of the Board of Supervisors, this report is describes a variety of infrastructure financing options and recommendations for implementing them.

(6) RECOMMENDED ACTION
We recommend that the Board authorize the Directors' of Planning and Public Works to initiate the following actions:

1. Prepare a recommendation and cost proposal to contract for specialized assistance in preparing an Interim Infrastructure Financing and Implementation plan as soon a possible.
2. Prepare a detailed implementation plan for the Willow Road extension and highway interchange improvements and submit that implementation plan to the Board of Supervisors on or about February 7, 2006
3. Prepare an Interim Infrastructure Financing Plan (IIFP) for the eleven likely critical infrastructure projects and submit the IIFP to the Board of Supervisors on or about March 31, 2006.
4. Prepare budget proposals addressing the necessary staffing required for maintaining, updating and implementing infrastructure financing plans for fiscal year 2006-2007.

(7) FUNDING SOURCE(S)	(8) CURRENT YEAR COST	(9) ANNUAL COST	(10) BUDGETED?
Bonds, taxes, fees,General Fund	NA	$200,000 (staffing)	☐ YES ☐ N/A ☑ NO

(11) OTHER AGENCY/ADVISORY GROUP INVOLVEMENT (LIST): County Auditor-Controller, SLO Council of Governments

(12) WILL REQUEST REQUIRE ADDITIONAL STAFF? ☑ No ☐ Yes, How Many? _______
☐ Permanent _____ ☐ Limited Term ____ ☐ Contract _____ ☐ Temporary Help _____

(13) SUPERVISOR DISTRICT(S) ☐1st, ☐2nd, ☐3rd, ☐4th, ☐5th, ☑All	(14) LOCATION MAP ☐ Attached ☑ N/A
(15) AGENDA PLACEMENT ☐ Consent ☐ Hearing (Time Est. 60 min) ☐ Presentation ☑ Board Business (Time Est.________)	(16) EXECUTED DOCUMENTS ☐ Resolutions (Orig + 4 copies) ☐ Contracts (Orig + 4 copies) ☐ Ordinances (Orig + 4 copies) ☑ N/A
(17) NEED EXTRA EXECUTED COPIES? ☐ Number: __________ ☐ Attached ☑ N/A	(18) APPROPRIATION TRANSFER REQUIRED? ☐ Submitted ☐ 4/5th's Vote Required ☑ N/A

(19) ADMINISTRATIVE OFFICE REVIEW
OK Leslie Brown

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11-8-05

TO: BOARD OF SUPERVISORS

FROM: VIC HOLANDA, AICP, DIRECTOR OF PLANNING AND BUILDING Victor Holanda
NOEL KING, DIRECTOR OF PUBLIC WORKS NK

DATE: NOVEMBER 8, 2005

SUBJECT: RECOMMENDATIONS FOR INFRASTRUCTURE PLANNING AND FINANCING

Recommendation:

We recommend that the Board authorize the Directors' of Planning and Public Works to initiate the following actions:

1. Prepare a recommendation and cost proposal to contract for specialized assistance in preparing an Interim Infrastructure Financing and Implementation plan as soon a possible.
2. Prepare a detailed implementation plan for the Willow Road extension and highway interchange improvements and submit that implementation plan to the Board of Supervisors on or about February 7, 2006;
3. Prepare an Interim Infrastructure Financing Plan (IIFP) for the eleven likely critical infrastructure projects and submit the IIFP to the Board of Supervisors on or about March 31, 2006;
4. Prepare budget proposals addressing the necessary staffing required for maintaining, updating and implementing infrastructure financing plans for fiscal year 2006-2007.

Discussion:

Background

This past February and March during strategic planning discussions, the Board of Supervisors identified financing of infrastructure projects throughout the county as an important strategic issue. Because of existing and projected traffic problems, the Willow Road extension and Highway 101 interchange was recognized and characterized, by the Board, as a priority concern. Recognizing that time is of the

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essence, the Board inquired and requested that staff evaluate alternative financing options in order to enable the Willow Road extension and the Highway 101 interchange project construction to commence before sufficient Road Impact Fees were collected to pay for the entire project. Furthermore, in anticipation of population growth and traffic escalation throughout the county, the Board also directed staff to consider and evaluate any financing options available that would allow infrastructure construction before build out of particular areas of the county occurs.

The Planning and Building Department, the Public Works Department, County Counsel and the Administrative Office collaborated to prepare this report. Staff also obtained input from an expert in infrastructure financing regarding potential funding strategies for the Willow Road project. The specific staff members who participated were:

1. **Dana Lilley,** Planning and Building Department
2. **Dale Ramey,** Public Works Department
3. **Chuck Stevenson**, Planning and Building Department
4. **Tim McNulty,** County Counsel
5. **Leslie Brown,** Administrative Office
6. **Paavo Ogren,** Public Works Department

This report describes a variety of financing options and the advantages and limitations of each. In addition to identifying financing schemes, we have proposed likely policies for consideration by the Board that should be applied with any of these financing options if they are implemented to fund infrastructure projects. Finally, we are suggesting that the Board select the Willow Road project as a pilot project to test the implementation of one or more of these financing options.

Infrastructure Financing Challenges

San Luis Obispo County has traditionally relied on federal or state grants, developer contributions and impact fees to facilitate construction of infrastructure needed to support new development. However, this approach has sometimes resulted in needed improvements being constructed after existing infrastructure capacity was exceeded. Resulting traffic congestion, flooding or other problems then increased local opposition to new development. In some cases, a single developer could not afford to finance infrastructure improvements needed to support development of a number of other properties, and as a result, that developer could not proceed. Also, some communities are now faced with existing infrastructure deficiencies that the County cannot require new development to resolve.

San Luis Obispo County is not unique in facing these problems. Other counties and cities have found that Mello-Roos Community Facility District Bond Financing and other less traditional methods of financing public infrastructure have become necessary in order to accommodate new development envisioned in their general plans. Mello-Roos Community Facility Districts were authorized by state law as a flexible method for the public and private sectors to finance public infrastructure needed for new development.

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The Recommended Approach

Staff conducted research into a wide variety of financing strategies. A summary of the information obtained is presented in the attached Exhibit A, including pros and cons for each strategy. In general, large infrastructure projects costing several million dollars will require more than a single source of financing. Most of the strategies described in Exhibit A require a repayment source to facilitate the borrowing of funds to construct needed infrastructure. Some financing strategies are suitable for only certain types of infrastructure projects. Revenue sources often consist of development impact fees, assessments, and taxes. Developer contributions are limited to the share of facilities needed to support the specific developments. Federal and state grants may be obtained to cover portions of some projects, but grants are unlikely to fund large portions of the cost of needed infrastructure projects under current circumstances.

The County should prepare an "Infrastructure Financing Plan" (IFP) for each planning area of the unincorporated county, with special attention to the designated urban areas. The urban areas are where most infrastructure projects will be constructed. Each IFP should identify the full range of essential public facilities needed to serve existing and new development envisioned in the General Plan. Funding for infrastructure costs would be identified and recommended through a combination of fee revenues, bond financing, grants and developer contributions. According to the infrastructure plans reviewed by staff, the following five steps will be necessary in order to prepare and implement the IFP:

1. Identify needed public facilities, their costs and scheduled phasing.
2. Develop a set of general financing policies and criteria for selecting financing tools.
3. Allocate facility costs to each land use based on an agreed-upon benefit formula.
4. Estimate and include the ongoing net cost to the County to provide services and to maintain facilities created.
5. Determine the optimal mix of long-term bond funding and impact fee revenues.

In order to prepare IFPs, the County would need to obtain the services of one or more firms that specialize in bond financing, financial feasibility studies and fiscal impacts studies before preparing and implementing each IFP. This is because firms that specialize in these areas can enable the County to avoid potentially costly mistakes or delays in financing and constructing the needed facilities.

The following policies should guide preparation and implementation of each IFP in order to finance necessary infrastructure projects, enable orderly development consistent with the General Plan, and maximize fairness in allocation of costs and benefits to all affected parties:

1. The IFP will be designed to implement the existing County General Plan.
2. Future amendments to the General Plan shall be approved only if policies in the IFP are met and necessary financing mechanisms are set up to build

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necessary public improvements.

3. Construction of infrastructure shall be consistent with the schedule in the IFP.
4. New development shall finance the full costs of infrastructure needed to serve the new development.
5. Debt financing shall be limited to circumstances where other methods are unavailable or inappropriate.
6. Infrastructure costs shall be allocated among properties based on the amount of benefit received.
7. Where possible, infrastructure costs will be allocated among properties on a regional basis.
8. Existing landowners and residents shall only be subject to assessments or taxes to finance new infrastructure to the extent that they will benefit.
9. The County will provide for subsequent reimbursement to private parties who paid for more than their fair share of needed infrastructure.

As an interim measure, since it will take years to prepare IFP's for each planning area, an Interim Infrastructure Financing Plan (IIFP) should be prepared to address a limited number of immediate and critical infrastructure deficiencies. The IIFP could also identify a first pilot project to be implemented. The following two criteria should be used to determine whether a specific project should be included in the IIFP:

1. Public improvements needed to address a serious existing or imminent threat to public health and safety. (Examples: Level Of Service F at an important intersection)
2. Public improvements needed to address a serious existing obstacle to commercial or residential development critical for achieving County goals. (Example: Drainage improvements in an urban area preventing development)

A provisional list of contending major projects for the IIFP follows:

Roads Projects

1 Willow Road Project – Nipomo
2 Tefft Street – Hwy 101 Operational Improvements
3 El Campo Road Interchange – Arroyo Grande (County has a component)
4 Main Street / Hwy 101 Interchange - Templeton

Utility Projects

1 CSA 7A Wastewater Expansion (Oak Shores)

Flood Control Projects

1 Haystack Creek Nipomo
2 Deleissigues & Hermrick Creeks Nipomo
3 Cambria – Multiple components
4 Cayucos – Multiple components
5 Oceano – Several Large to Moderately Sized Projects
6 San Miguel – Complete Infrastructure
7 Santa Margarita – Complete Infrastructure and Detention System

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The projects listed above are among many identified in a comprehensive drainage study of six communities conducted by the Department of County Public Works and completed in 2004.

Pilot Project

The Willow Road extension and interchange project appears to be a good candidate for the pilot project, based on the criteria listed on page 4 of this report. The Willow Road project consists of extension of Willow Road to Thompson Road, including an interchange at Highway 101 and a frontage road from Sandydale to Willow. Until the Willow Road project is constructed, Tefft Street will continue to be the only road crossing Highway 101 within Nipomo. Already, traffic congestion along Tefft Street and South Frontage Road during morning and evening peak hours is severely constrained due to high traffic volumes and operational limitations at the Tefft Street/Highway 101 interchange and may represent a threat to public health and safety. For example, response times for emergency vehicles significantly increase during the peak traffic periods. Road Improvement Fees are being collected to fund the Willow Road project and other needed road system improvements in the area, but the fees are not accumulating fast enough to fully finance the project until more than twenty years in the future.

The financing approach for the Willow Road project will need to include an innovative combination of accumulated impact fees plus one or more of the following: bonds supported by a special parcel tax, tax increment bonds and Mello Ross bonds. This was the conclusion of the staff team after reviewing the estimated project cost of $40 million, accumulating Road Impact Fees, and the resulting funding shortfall or gap. The final package of financing techniques will not be determined until required voter approval(s), development agreement(s) and other forms of agreement between public and private parties are approved, and more certainty as to availability of supplemental water from Santa Maria. It will be necessary for the County to obtain the services of a firm that specializes in bond financing, financial feasibility studies and fiscal impacts studies before preparing and implementing the pilot project and the IIFP.

In 1998, San Luis Obispo County adopted an ordinance allowing the creation of Road Improvement Fees (RIF). There are several existing areas across the County today subject to RIF. When a developer pays the RIF, the developer has satisfied his/her obligation toward mitigation of traffic-related impacts of growth. The problem with this method of collecting fees is that the traffic impacts of growth occur well before sufficient funds are collected to construct mitigating projects costing more than a few million dollars. In addition, over the past several years the cost of construction has escalated substantially and thus value of the funds already collected have been reduced to an insignificant amount.

As stated earlier, the Willow Road project will cost an estimated $40 million. Currently, the Nipomo Area 1 Road Improvement Fee program collects approximately $1 million annually. The County is negotiating an agreement with the Woodlands LLC to advance their $14 million (+/-) in RIFs over the next five (5) years. This $14 million will help move the Willow Road Project forward; but it will not cover the entire cost of the Willow Road

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project

Attached Exhibit B is a spreadsheet depicting one possible scenario for generating the funds needed to complete the Willow Road project in a timely manner. This scenario utilizes a process of collecting the RIFs in advance for large development projects in the area, Area 1 RIFs, County Bonding, a Parcel Tax, and Mellow Roos funding. A column is shown for State Transportation Improvement Program funds (STIP) but has not utilized any funding as it appears the State will not provide any significant funding for any local projects in the foreseeable future. This scenario (see Exhibit B) shows the County bonding for $10 million. These funds would be repaid by future Nipomo Area 1 Road Improvement Fees and Mello Roos Fees. By 2015, the RIF program could support $500,000 to $750,000 in annual funding to make bond payments and repay the County for previous payments.

Other Agency Involvement:

The staff team (see page 2) consulted with the Auditor-Controller, staff from the San Luis Obispo Council of Governments and an infrastructure financing expert to explore financing options and formulate a recommendation to the Board.

Financial Considerations:

Staff has not yet determined the cost for services of a firm specializing in financing infrastructure to assist in implementing the Willow Road project. Once a firm estimate is obtained, a request may be presented to your Board to approve budget adjustments necessary to cover the cost.

The costs of staffing required for maintaining, updating and implementing infrastructure financing plans could be as much as $200,000 per year. However, neither Public Works Department nor the Planning and Building Department have yet determined the level of additional staffing needed for these functions.

Results:

Implementing the proposed funding strategies of combining accumulated Road Impact Fees with multiple types of bond financing for completion of the Willow Road / Highway 101 interchange could result in completion of the improvements by 2010/11. If constructing these improvements must wait until Road Impact Fees accumulate as result of incremental building permit activity, the construction will occur in 2040.

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Exhibit A

Infrastructure Financing Strategies

Financing Options:

Each project will most likely be funded through multiple sources. Most potential financing techniques are summarized below. Those involving direct sources of revenue and/or private investments may not require local government to incur debt, but that is not always possible. Many developers and/or development are not able to finance major public improvements needed to support their developments. Therefore, local governments must sometimes incur debt that requires revenue to repay over a specified period of time. Thus, some of the following sources of revenue might be matched with one or more sources of debt to finance improvements. Also, developers might make up-front financial contributions to reduce the amount government must borrow.

Impact Fees

Fees are generally collected at the time a building permit is issued or occupancy allowed, so they rarely provide enough funds for facility costs that occur prior to development. Deficits in funding due to the delayed receipt of fee revenues must be addressed through public financing or developer equity. New development can be asked to pay impact fees to mitigate the proportion of future impacts on infrastructure systems as documented in a "nexus" study. It is possible to establish regional impact fees to collect fees from development in a wide area as long as the impact of the development can be shown to contribute toward the need for infrastructure improvements. Impact fees can also be used in conjunction with assessment districts, Mello-Roos districts or certificates of participation to enable projects to be built before impact fees have accumulated sufficiently to pay for the projects.

Eligible Types of Facilities: Impact fees can be charged for nearly any type of public facility including utilities, transportation improvements, parks, open space, fire and police stations, libraries, and others.

Advantages:

- Ease of collection
- Equitable allocation of costs based on impact
- Can be adjusted as needed to reflect new cost estimates, additional facilities, improved levels of service, and other changes

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Disadvantages:

- Limited to fund new development share of needs, so impact fees cannot fund facilities needed to address existing deficiencies
- Fees accumulate slowly, whereas facilities may be needed earlier
- Agreement of cities needed to establish regional impact fees
- Cannot be used for ongoing operating costs
- Fees cannot be adjusted to reflect ability to pay, so they have a negative impact on lower cost housing
- High cost to developers since fees may be financed with construction loans until development is completed and sold or refinanced
- Security is not as certain as with some other financing techniques, therefore the cost of borrowing (interest) will be higher and bonds may be difficult to sell

Developer Contributions:

Large subdivisions and developments are commonly conditioned to require provision of public facilities or major financial contributions toward their provision by a public agency. Impact fees are a form of contribution. In other cases, a developer is asked to build the facilities and dedicate them to a public agency. The needed facilities can be identified through the process of preparing an environmental impact report (EIR). Sometimes the developer(s) may be able to finance the facilities through assessment districts, Mello-Roos districts or certificates of participation.

Eligible Types of Facilities: Contributions can be required for nearly any type of public facility including utilities, transportation improvements, parks, open space, fire and police stations, libraries, and others.

Advantages:

- No voter approval required
- Not affected by GANN limit
- Consistent with public desire for developers to mitigate impacts they create
- Privately financed and constructed facilities not usually affected by prevailing wage requirements

Disadvantages:

- Facilities not provided until developer obtains approval, design, finances and builds them, which adds delay to completion of developer's project
- Many developments are not large enough to be able to finance major public facilities improvements, if large enough to trigger exaction requirements
- Developers cannot be required to make contributions to cure existing deficiencies

Development Agreements:

Under development agreements, essentially, a local government agrees to "freeze" development regulations applicable to a development for a defined period of time, and the developer agrees to provide certain improvements, dedications or other contributions benefiting the public. Each development agreement is tailored to the particular development and developer, but all development agreements must have a comprehensive project description and phasing schedule. Local government incurs some level of risk when entering a development agreement that it may have incomplete information regarding potential environmental impacts and public facility improvement needs. Thus, it may have committed itself to a set of development regulations and developer-provided improvements that will not address problems identified later. The risks and benefits of this method of financing public improvements must be carefully evaluated before signing the development agreement.

Eligible Types of Facilities: Development agreements can address nearly any type of public facility including utilities, transportation improvements, parks, open space, fire and police stations, libraries, and others.

Advantages:

- Flexibility to address specific needs of public and developer in each instance
- No voter approval required
- Not affected by annual limit on County appropriations (GANN limit)
- Consistent with public desire for developers to mitigate impacts they create
- Privately financed and constructed facilities not affected by prevailed wage requirements

Disadvantages:

- Incomplete or inaccurate information about facilities needed could result in inadequate facilities with little recourse of local government
- Public may not support complex negotiated development agreements due to fear that their interests may not be protected
- An implementing ordinance may be required

Mello-Roos Community Facilities Act of 1982:

Special taxes can be authorized to finance public facilities and services through a 2/3's vote of the residents or property owners (if there are fewer than twelve registered voters) in a defined area, enabling the issuance of Mello-Roos bonds. This is a flexible financing technique for various facilities, allowing either long- or short-term financing. Its capacity is limited by two factors: (1) the revenue stream that can be supported by new development and (2) the value-to-public-lien ratio. Mello-Roos Community Facility Districts (CFDs) can also finance public services. Facilities financed through a CFD can be located outside of the CFD boundaries. A CFD may finance the planning, design, engineering, consultants, purchase, construction, expansion or rehabilitation of property

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with a useful life of at least five years. CFD bonds are non-recourse, meaning that the County General Fund and taxing authority are not at risk.

Eligible Types of Facilities: Mello-Roos CFDs can finance any type of public facility that a local agency is authorized to construct and own, including utilities, transportation improvements, parks, open space, fire and police stations, libraries, and others.

Advantages:
- Flexibility in types and locations of facilities financed
- Provides secure source of revenue
- Can finance facilities earlier than impact fees
- Assessments can be adjusted to reflect ability to pay
- Non-contiguous boundaries are allowable

Disadvantages:
- Two-thirds vote required of landowners or voters
- Large district may be administratively cumbersome
- Taxes approved by developer/property owners may be misunderstood by subsequent homeowners

1913/1915 Act Assessment Districts:

The majority of property owners vote to authorize assessment district formation that is somewhat simpler than Mello-Roos districts. Once an assessment district is formed, the County can issue tax-exempt bonds to finance needed infrastructure and make payments on the bonds with revenues obtained through assessments paid with tax bills. Properties are assessed according to special benefit, so this type of financing tool is less flexible than Mello-Roos CFDs. Each parcel of property is assessed a portion of the costs of public improvements based on the proportion of benefit received by that parcel. Proposition 218 provided that formation of an assessment district is subject to a majority ballot protest enabling a majority of property owners to vote against the district and postpone its formation for at least one year. Items of general benefit to a community and items of regional benefit are not normally financed through assessment districts. Similar to CFD bonds, assessment district bonds are non-recourse.

Eligible Types of Facilities: Assessment districts can finance public facilities that directly benefit specific properties, including water and sewer systems, transportation and flood control facilities.

Advantages:
- Secure, reliable source of revenue
- Recovers annual administrative costs
- Can finance facilities earlier than impact fees
- Can be used to fund existing deficiencies

Disadvantages:

- Not suitable for regional facilities due to requirement of direct rather than general benefit
- Potential for protest by existing property owners

Sales Tax Override:

With a two-third's vote, a special sales tax could be created to provide revenue to repay debt or accumulate funds to finance needed improvements. The sales tax could be pledged to repay revenue bonds for needed public improvements. Alternatively, with just a majority vote, the sales tax could be increased as a general tax subject to the annual county budget process. Since such a general tax increase would not be dedicated to repayment of bonds, it would not be possible to issue revenue bonds with this source of repayment.

Eligible Types of Facilities: Sales taxes could be used to finance nearly any type of public facility including utilities, transportation improvements, parks, open space, fire and police stations, libraries, and others.

Advantages:

- Large amounts of funds could be generated each year to repay debt or accumulate for pay-as-you go financing of projects
- Some of the revenue would be paid by residents from other regions

Disadvantages:

- Local governments may prefer to use any potential increase in sales tax revenue to cover annual operating costs instead of financing public facilities
- If not dedicated to repay debt for public facilities, sales tax revenue probably cannot support long-term debt for public facilities projects

Redevelopment Tax Increment Financing:

Formation of a redevelopment agency enables a local government to capture and use a portion of increases in property tax revenues over a 40-year period to repay debt needed to finance a wide variety of public facilities. A redevelopment plan must be prepared to identify an area with conditions of physical and economic blight that can be eliminated through redevelopment financing. At least twenty percent of redevelopment tax increment must be used for low and moderate income housing.

Eligible Types of Facilities: Redevelopment tax increment financing can be used to finance most public facilities needed to eliminate documented conditions of blight in the project area.

Advantages:

- Tax increment financing allows long-term borrowing to solve existing deficiencies and provide facilities needed to support new development
- Careful use of redevelopment financing may stimulate private investment in redevelopment areas, resulting in additional tax increment

Disadvantages:

- Redevelopment tax increments represent future lost revenue for existing County and special districts that have already been cut back by the state
- Public fear of redevelopment agencies potential use of the power of eminent domain
- A determination of physical and economic blight within the project area is required, which can result on local opposition
- Public perception that redevelopment accelerate development and associated growth impacts (traffic, loss of open space, etc)

Infrastructure Financing Districts:

Similar to Redevelopment, IFD's authorize tax increment financing to repay debt without assessment districts or elections. An IFD may finance the purchase or construction of any facility with a useful life of at least fifteen years, including roads, sewage treatment, water supply, and flood control systems, and other public facilities. All facilities financed through an IFD must be of community-wide importance and benefit an area larger than the IFD itself.

Advantages:

- IFD's can be used to finance improvements with regional benefit
- IFD's are not considered County debt
- Tax increment from taxing entities who do not wish to participate can be excluded from the IFD

Disadvantages:

- IFD's reduce tax revenues to the County and other districts choosing to participate
- Only two IFD's have been formed yet, so forming one now might result in litigation.

Revenue Bonds:

This financing technique requires a source of revenue to repay the bond debt, so it's not appropriate for highway improvements (unless they are toll roads). Revenue bonds can be used to finance revenue-generating improvements such as water and sewage collection, supply and treatment systems. A majority vote is required to authorize the

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size and purpose of the bond issue. Unlike land secured bond financing, no special district must be formed when issuing revenue bonds. Debt service can be paid with utility bills instead of tax bills. Revenues pledged for payments on revenue bonds would count against the County's appropriation limit.

Eligible Types of Facilities: Revenue bonds can finance of public facilities that generate revenue, such as water and sewer systems.

Advantages:

- No special district required
- Debt service paid with utility bills instead of tax bills

Disadvantages:

- Only appropriate for revenue generating facilities
- Counts against County's appropriation limit

General Obligation Bonds:

Subject to a two-thirds vote of registered voters countywide, the County can issue bonds to finance infrastructure and secure the bonds through an ad valorem property tax levied on properties countywide. In some cases, the election and tax increase can be limited to a specific area that will benefit from the project. The County would adopt a resolution to place the measure on the ballot, prepare a tax rate statement advising voters of the proposed tax rate, prepare ballot arguments for and against the measure and an independent analysis. The total amount of outstanding bonds may not exceed fifteen percent of the assessed valuation of taxable property within the affected area. As a result of Proposition 13, an ad valorem tax may be considered unfair because recently built or purchased properties will pay substantially higher taxes than other similar properties.

Advantages:

- Cost is spread over many properties, so cost to each property owner is minimized
- Improvements that benefit a wide region (the entire jurisdiction if possible) are most appropriate
- Very sure financing instrument, so interest rate is low

Disadvantages:

- Difficult to obtain two thirds vote jurisdiction-wide
- Under Proposition 13, tax increase based on assessed property value could be considered unfairly distributed

Certificates of Participation:

COP's allow long-term debt without an election for public improvements involving a lease or installment sales structure. The parties to COP include a public agency, a non-profit corporation and a trustee. The non-profit corporation may be formed specially to construct public improvements, the funds for which come from proceeds of the COPS sale. The non-profit then leases or sells the land and facilities back to the public agency. Investors who purchased the COPs receive a portion of the public agency's payments to the non-profit corporation. COPs are secured by the covenant of the public agency to make annual payments to holders of the certificates. The appropriations may come from the General Fund or from an enterprise fund for water or sewer services. Revenue allocations for COP's count toward the issuer's appropriations limit. A highway project (other than a toll road) may not be well suited to COPs because it has little value to investors in the case a public agency defaults on scheduled payments. Anti-tax groups might oppose use of COP's as a loophole around Proposition 13.

Advantages:
- No election and no special district is required
- Do not count against GANN limit
- Enable completion of improvements earlier than with pay-as-you-go financing

Disadvantages:
- Revenue allocated for COP payments count against jurisdiction's appropriations limit
- Anti-tax groups may consider COPs to represent a Proposition 13 loophole

California Infrastructure Bank:

The County can borrow at low interest rates for up to twenty years from the State to finance certain public projects with an economic development result. The revenue source could be from the General Fund, special districts, or development agreement/s.

Advantages:
- Low interest loans for up to 30 years
- Wide variety of improvements and repayment sources allowable

Disadvantages:
- Applicants may need to show inability to borrow enough from other sources to be eligible
- Improvements must be ready to begin construction within 12 months of loan commitment
- Competitive process could result in denial or delay in loan commitment

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State and Federal Grants and Loans

Cal Trans Road Funding Program
The San Luis Obispo Council of Governments (SLOCOG) allocates state and federal transportation funds in the county. To be eligible for funding, projects must be identified in the State Transportation Improvement Program (STIP). Projects also must have local funds to cover some portion of the cost.

Community Development Block Grant (CDBG) Program
CDBG funds can be used for projects that primarily benefit persons with income below eighty percent of median income. Projects that primarily benefit low income communities such as Oceano, San Miguel, Shandon and eastern Nipomo might be eligible for CDBG funding. The amount of CDBG funds available each year is limited, but the County might be able to borrow approximately $4 million through the federal Department of Housing and Urban Development's Section 108 Program with repayment to come from a portion of future CDBG awards. Other state and federal grant and loan programs exist that may be suitable for specific types of public works projects in some communities:

- U.S. Department of Agriculture Water and Wastewater Grants and Loans;
- State Revolving Fund for Waste Water Facilities;
- State Water Reclamation Loan Program;
- Water Conservation Loan Program;
- Ground Water Recharge Program.

Exhibit B

Willow Road Project												
Woodlands Funding - Area 1 Funding - STIP Funding - County Funding Project Timeline												
Year	Woodlands Fee Advance	Crystal Oaks Fee Advance	Nipomo Oaks Fee Advance	Area 1 Funds	Bond Issue	Parcel Tax - $50	Mello Roos Funding	STIP Funding	Total Funds	Contract Phase	Expenditure	Surplus (Deficiency)
2005	$1,500,000			$0	$0	$0	$0	$0	$1,500,000	Willow & 101 Interchange Design	$1,450,000	$50,000
2006	$1,204,703			$500,000	$0	$0	$0	$0	$1,704,703	R/W Appraisal	$270,000	$1,484,703
2006					$0	$0	$0	$0	$0	Hwy 101 R/W Ramp Appraisals	$80,000	$1,404,703
2006	$0				$0	$0	$0	$0	$0	Willow Rd R/W Acquisition	$700,000	$704,703
2007	$2,000,000			$500,000	$0	$0	$0	$0	$2,500,000	Willow Rd R/W Acquisition	$1,750,000	$1,454,703
2007	$0				$0	$0	$0	$0	$0	Hwy 101 R/W Acquisition	$750,000	$704,703
2008	$2,500,000			$500,000	$4,000,000	$300,000	$0	$0	$7,300,000	Pomeroy to Hetrick Construction	$4,000,000	$4,004,703
2008						$0	$0	$0	$0	Hetrick to SR 101 Construction	$3,900,000	$104,703
2009	$2,000,000			$750,000	$0	$300,000	$0	$0	$3,050,000	Frontage Road	$3,100,000	$54,703
2010	$2,000,000	$6,000,000		$500,000		$300,000	$1,000,000	$0	$9,800,000	SB Ramps	$3,000,000	$6,854,703
2011	$2,652,687	$0		$500,000	$6,000,000	$300,000	$1,000,000		$10,452,687	Interchange	$17,000,000	$307,390
2012	$0	$0	$1,000,000	$500,000	$0	$300,000	$1,000,000		$2,800,000	Willow 101 to Thompson	$3,000,000	$107,390
2013	$0	$0	$0	$0	$0	$300,000	$1,000,000	$0	$1,300,000	Environmental Mitigation	$1,000,000	$407,390
Total	$13,857,390	$6,000,000	$1,000,000	$3,750,000	$10,000,000	$1,800,000	$4,000,000	$0	$40,407,390		$40,000,000	$407,390
Area 2 Reimburse	$3,464,348											

1 25% of the Woodlands fee goes to Area 2. Area 1 will need to reimburse Area 2 $3,30176.

2 The PA & ED work for Willow Road and the interchange is currently funded and work is to be completed during the first quarter of 2006

3 There are 6,125 Parcels in Nipomo RIF Area 1, Good to know for parcel tax determination.

4 I am working on reimbursement agreements and can only afford to put $500,000 per year toward the Willow Road Project.