Chapter 8: Public Facilities Financing Plan

8.1 Executive Summary

What is the purpose of the PFFP?

The Public Facilities Financing Plan (PFFP) evaluates the ability of the expected development in Shandon to fund public facilities that would be needed to support the community as it grows over the next 25 years and beyond according to the Shandon Community Plan. It also provides guidance to property owners, developers, and public agencies regarding the most suitable method to fund each public facility component and the timing for initiating actions to implement those funding methods.

What is included in the PFFP?

The PFFP Identifies the total costs of the key public facilities that would be needed to support the community through plan buildout. In addition, the PFFP distributes those costs by type of use and by Master Plan Area or community group, according to one's "fair share" of the costs. The PFFP also evaluates a number of strategies to finance the costs of the needed public facilities.

The public facilities analyzed by this PFFP consist of:

- Circulation: road, highway and related improvements
- A new sewer system
- Water system improvements
- Storm drainage facilities

How will the needed public facilities be paid for?

The total cost (in 2010 dollars) of the needed public facilities would be about $54 million. About 59% of that cost would be for road, highway and related improvements.

In general, the strategy for funding needed facilities is for new development to pay for certain facilities up-front as a condition of the project's approval. In some cases, the developer would actually construct the infrastructure item. In other cases, the developer would pay impact fees based on the project's actual fair share of the costs. In other words, the fees would depend on how much effect the development would have on the needed facilities. For example, development that results in a greater need for sewer services would pay a greater share of the costs for needed sewer system improvements.

Since a portion of the up-front costs for needed facilities would be greater than the developers' actual fair share, those developers would need to be reimbursed for that portion of their costs. The reimbursement would come from subsequent development that would benefit from the new facilities. The PFFP also assumes that a significant portion of the initial costs of building the public facilities would be financed by a Community Facilities District (CFD), a special financing district that would issue bonds. Development impact fees could then be used to pay the bond debt or reimburse the original developers. Alternatively, development impact fees might be waived for properties within a CFD as long as the CFD special tax remains in place to make annual payments on the bonds.

The amount that someone would need to pay to fund the needed public facilities would vary, depending on the situation and the Master Plan Area or community group within which the property is located. For example:

1. **If you own a home (in 2012):**
   a. You may be able to use your septic system indefinitely and only contribute to sewer costs if and when you connect to the community sewer system.
   b. You would not contribute directly for circulation improvements, unless a special tax was passed by the voters.
   c. You could benefit from cost-savings for currently-needed water system improvements.

2. **If you make additions to or remodel an existing home**:
   a. If the remodel does not increase density or generate additional wastewater, then the costs would be the same as number 1 above.
   b. If the remodel does increase density or generate additional wastewater, then fees would be charged for the additional use.

3. **If you own existing vacant property:**
   a. If it is a single lot, then you would pay development impact fees at the time you obtain a building permit.
   b. If you subdivide a residential or commercial property or develop a commercial project, then you would pay impact fees up-front before selling lots or constructing the project.

4. **If you buy a home in a new subdivision approved under the Shandon Community Plan Update**, then your fair share was paid for up-front. However, those costs could be reflected in the home price or in a special assessment on your property tax bill.

What costs for needed public facilities cannot be fully covered by new development, and how would those costs be paid for?

One of the challenges in paying for Shandon's needed public facilities is that approximately 24 million of the 54 million dollar total cost (about 44%) cannot be charged to new development (through development impact fees, for example). This share of the costs is a gap that will need to be funded by other means. The funding gap results from two factors. First of all, there are *existing* needs for highway and road improvements, such as the intersection of West Centre Street and SR 46. Second, much of the future traffic that will contribute to these needs does not result from new development in Shandon. In other words, that is traffic on SR 46 that does not come from or go to Shandon. These costs cannot be paid for by new development.

Although this chapter outlines several funding methods, it has not yet been determined how to pay over time for the 24 million dollar-share of Shandon's needed public facilities. Some examples of financing strategies that could be used in Shandon are forming a redevelopment agency, issuing revenue bonds, and obtaining grant funding. Funding all of the needed public facilities would allow future development to move ahead in Shandon. As a result of this PFFP, a Capital Improvement Plan will be prepared that will provide greater detail about the costs and funding options for each infrastructure component and how it will be phased with the development identified in the Shandon Community Plan.

8.2 Introduction

This chapter evaluates the ability of the anticipated land uses in the Shandon urban area to fund key public facilities that would be necessary to accommodate development as envisioned in the Community Plan. This chapter also identifies--but does not analyze--additional public facilities that could potentially be funded in a manner similar to the key public facilities.

This chapter summarizes a detailed financial and funding analysis, performed by The Natelson Dale Group, Inc. (TNDG). Their analysis included:

- Identification of the necessary key public facilities that will be required to serve Shandon as it approaches buildout, based on the range of land uses described in Chapter;

- Probable costs for the key public facilities in the following categories (please refer to Tables 8.3 a, b, c and d for a complete list of these items):

    - Circulation,
    - Water,
    - Wastewater, and
    - Drainage;

- An allocation of costs by land use and for the following Master Plan Areas (see Figure 3.2) or community group:

    - Fallingstar,
    - Halpin,
    - Peck Ranch,
    - Existing Town (the existing developed areas of Shandon in 2012), and
    - Other new Development (new developable areas other than Fallingstar, Halpin or Peck Ranch) and vacant lots;

- Evaluation of a potential financing strategy whereby the up-front costs of needed public facilities would be funded by initial development and later be reimbursed by subsequent development that would utilize the new public facilities;

- A determination of potential funding "gaps".

> **I am an existing property owner. How does this affect me?**
> It depends if your property is built upon, vacant or to be redeveloped. If built upon (or to be redeveloped), please refer to Section 8.8. If vacant, please refer to Section 8.9.

> **Key public facilities needed up front**
> - Improvements to State Route 46 and West Centre Street
> - Pedestrian bridge over San Juan Creek
> - New water tank
> - First phase of a sewer system

As described in Chapters 5 and 7 of the Shandon Community Plan or as identified in the Shandon Community Plan Update EIR, several public facility items are needed up-front with initial development. These items include: improvements to the intersection of State Route 46 and West Centre Street, a pedestrian bridge over San Juan Creek, a new water tank, water lines, and the first phase of a wastewater treatment system. Therefore, the analysis considered a funding approach in which the costs of the "up-front" public facility improvements would initially be borne by the developers of the first projects, which could be a Master Plan Area or a combination of various development projects. Since the cost of these improvements would exceed the initial developments' "fair share," the initial developer would then be reimbursed for the portion of the public facilities cost that was over and above their "fair share."

A significant challenge related to this funding arrangement is that a large portion of Shandon's public facility needs are attributed to two sources that cannot easily be "charged" (via impact fees, etc.) for their fair share of the facility costs: (a) public facility deficiencies existing prior to adoption of the Community Plan, and (b) regional traffic impacts not specifically generated by the Shandon Community Plan. As such, there will be gaps between the amount of funding that can be collected from new development and the total cost of the needed public facilities. Although the analysis calculated the potential magnitude of these gaps, it was beyond the scope of the study to determine each of the specific methods that will be used to meet the various funding needs. However, prior to approval of major development, a Capital Improvement Plan must be prepared and any supplemental funding sources must be identified at that time. Section 8.7 describes, in general terms, a range of funding methods that could be applied.

The analysis estimates the following costs:

- ***The total costs that developers would be obligated to pay in order for development to proceed.*** These costs are referred to as ***"obligated costs"*** and represent the up-front funding that the project developers would be required to pay (several options for financing these payments are described in Section 8.7).

- ***The total costs associated with each Master Plan Area or community group.*** These costs are referred to as ***"associated costs"*** and are each group's fair share for the cost of the public facilities based on their impact to the public facilities.

- ***The associated costs per unit within each Master Plan Areas or community group.*** Each group's fair share is illustrated per development unit, which also represent potential impact fees.

- ***Reimbursement.*** Money to be paid back to the developers who initially paid more (obligated costs) than their fair shares (associated costs) of public facility costs.

- ***The funding gaps.*** There are funding gaps inherent in a reimbursement-based financing arrangement. These funds must be produced from sources other than an impact fee program. See Section 8.6.

- ***Potential cost to existing development.*** Costs for a portion of the existing community's fair share that may be collected directly from owners of property that was developed prior to the adoption of the Shandon Community Plan. See Section 8.8.

Although the preceding kinds of costs were structured to illustrate actual dollar amounts, they do not necessarily reflect the implications of long-term financing. In order to evaluate the capability to debt-finance needed facilities, Community Facilities District (CFD) bonding scenarios are illustrated in Section 8.7. The intent of the scenarios is to evaluate the extent to which the likely level of necessary debt could be serviced by a CFD property tax assessment, given the County's adopted policy on CFD financing.

Because the analysis focused on total costs associated with buildout of the Community Plan Area, it therefore did not reflect year-by-year impacts associated with the potential phasing of future development. Buildout was defined as the level of development anticipated 25-years after development commences

Notes on Data Sources
The calculations summarized in the financial and funding analysis and in this chapter are based on a detailed financing model developed by TNDG. The model was provided to the County of San Luis Obispo electronically (in Microsoft Excel). The model relied on various data and assumptions supplied to TNDG by the County of San Luis Obispo, including:

- Assumed land uses for the analysis for each Master Plan Area or community group;

- Itemized list of key public facility improvement items required in Shandon. Please refer to Section 8.4; the corresponding plans for water, wastewater, and drainage systems; (Figures 7.1 through 7.3) and the December 23, 2010 Technical Memorandum prepared by Wood Rogers for circulation items (Appendix E);

- Itemized opinions of probable costs estimated for the key public facility items. Please refer to Section 8.4 *[Note: Opinions of probable costs are preliminary, approximate, and are meant to give the reader a general idea of the costs. A detailed Capital Improvement Plan must be prepared to determine actual costs and finalize an impact fee program.]*;

- The obligated costs; and

- Each Master Plan Area or community group's fair-share impact costs (or "associated costs").

8.3 Land Use Assumptions
The land uses assumed in the financial and funding analysis are shown in Table 8.1. The commercial land uses have been generalized into three basic categories: retail, office and industrial; the categories are not intended to be exclusive. Civic and assembly uses may be considered part of the office category. The industrial category includes service uses as well as light industrial uses, and the retail category includes a wide range of businesses.

Table 8.1: Land Use Assumptions

	Fallingstar	Halpin	Peck Ranch	Other New Development
New Residential Units				
Res. Suburban				14
Res. Single Family	263	13	300	156
Res. Multi-Family	106		82	66
Res. in Mixed Use	21		40	
Total New Residential*	390	13	422	236
Existing Residences* = 351				
Non-Residential Floor Area (1,000 square feet)				
Retail	12.5	0	64.3 (20.0)**	54.6
Office	10.9	9.6	54.9	6.0
Industrial	6.6	44.0	44.8 (3.7)**	8.8
Total Non-Res. Floor Area	30.0	53.6	164.0 (23.7)**	69.4

* Does not include residential units in the Agriculture Land Use Category.
** (23.7) represents the assumed land uses on the detached portion of the Peck Ranch.

Although Table 3.1 shows 359 existing residences and 1,078 potential new units in the Urban Reserve Line, the eight existing and 17 potential units in the Agriculture land use category will not contribute to the wastewater, water and drainage systems. Those units will contribute impacts to the circulation system only. Likewise, the detached commercial service site on the Peck Ranch Master Plan site at West Centre Street and SR 46 will not contribute to the wastewater, water and drainage systems, but will contribute to the need for circulation improvements.

8.4 Public Facility Costs

The total cost of required public facilities in the Plan area is projected at $54.2 million (in 2011 dollars). The breakdown of this total by major facility category is as follows:

Table 8.2: Total Cost

Facility Category	Total Cost
Circulation	$32,031,825
Water	$ 7,141,000
Wastewater	$13,734,000
Drainage	$ 1,273,000
	$54,179,825

The following tables (Tables 8.3.a, b, c and d) identify each of the required public facility items for the four major facility categories, the opinions of their probable cost, and what entity is obligated to pay for these items up-front. Items A-2 and A-6 are for a grade-separated interchange at West Centre Street and SR 46. This interchange is not a required mitigation measure for Community Plan buildout. However, the estimates of circulation impact fees in Section 8.5 include the West Centre Street/SR 46 interchange in order to begin funding the long-term need for grade separation in a timely manner and allow a traffic signal (item A-4) as an interim solution.

Note: In the following tables, "First Developer(s)" means the first project or combination of projects that will prompt, under the provisions of the Shandon Community Planning Standards found in Sections 22.110.040 and 22.110.060 of the Land Use Ordinance, development of the listed public facility items. The "First Developer(s)" could be one or more of the Master Plan Areas or a combination of Master Plan Areas and other new development. "Other Entity" is identified as the obligated payer for required improvements for which no individual developer or developers are obligated to construct. The State of California is identified as the obligated payer for the widening of SR 46. In some tables, "Subsequent Developer(s)" is identified as an obligated payer for certain public facilities that would be needed after the first developments. In some cases, a project developer would be obligated to pay for a certain improvement, depending on the project's location (for example: east or west of San Juan Creek).

Table 8.3.a: Opinion of Probable Costs for Circulation Items (see Appendix E)			
	Circulation Improvements	**Opinion of Probable Cost**	**Obligated Payer[1]**
	West Centre Street / SR46		
A-1	Construct a north-to-west left-turn lane	$106,714	First Developer(s)
A-2	Grade-separated interchange[2]	$16,945,500	Other Entity
A-3	Widen SR 46 (from Whitley Gardens to east of West Centre St.)[3]	—	State of California
A-4	Install a traffic signal[4]	$320,000	Other Entity
A-5	Intersection modifications (dual northbound left-turns, a single shared northbound/right turn lane, and southbound left turn)	$471,438	Other Entity
A-6	Dedicate right-of-way for a future grade-separated interchange[2]	$5,000,000	Other Entity
	East Centre Street / SR46		
A-7	Construct a north-to-west left-turn lane	$208,828	First Developer(s)
A-8	Widen SR 46[5] (from east of Centre St. to the rest area)	—	State of California
A-9	Install a traffic signal[6]	$240,000	Other Entity
A-10	Construct a northbound right turn lane	$401,766	Other Entity
	Centre Street		
A-11	Construct a Two-way left turn lane between First Street and Toby Way	$6,287,973	Other Entity
A-12	Construction of San Juan pedestrian bridge	$1,512,000	First Developer(s)
A-13	Install a traffic signal at SR 41	$537,606	Other Entity
	Total of all items	$32,031,825	

Source: Opinion of Probable Cost by Wood Rodgers, Inc., Technical Memorandum, December 23, 2010 and recommendations by the County Department of Public Works.

1) "First Developer(s)" could be one or more of the Master Plan Areas or a combination of Master Plan Areas and other new development. "Other Entity" is identified as the obligated payer for required improvements for which no individual developer or developers are obligated to construct.
2) Items A-2 and A-6 are not required mitigation measures for Community Plan buildout, however, traffic from new development will contribute to the ultimate need for an interchange. Therefore, Transportation Impact Fees will be collected from new development for these items.
3) Item A-3 is a State project that is funded with construction to commence in August 2012.
4) Item A-4 is an interim measure that would ultimately be replaced by Item A-2. Caltrans may authorize an alternative improvement to a traffic signal.
5) Item A-8 is a State project with funding pending. Construction would commence after Item A-3.
6) Item A-9 is a mitigation measure needed at Community Plan buildout. Caltrans may authorize an alternative improvement to a traffic signal.

Table 8.3.b: Opinion of Probable Costs for Water System Items (See Figure 7.1 - Water System Plan)

	Water System Improvements	Opinion of Probable Cost	Obligated Payer[1]
For Initial Development(s)			
B-1	Construction of storage tank (1.5 MGD)	$1,800,000	First Developer(s)
B-2	Tank land costs	$20,000	First Developer(s)
B-3	Tank access road improvements	$115,000	First Developer(s)
B-4	12" main from storage tank to the junction with 10" mains near Toby Way and 8th St.	$426,000	First Developer(s)
B-5	If needed, construct additional public well[2]	$350,000	First Developer(s)
Items B-1 through B-5 plus any of Items B-6 through B-10 that are necessary for development			
B-6	10" mains east of San Juan Creek	$354,000	First Developer(s) east of San Juan Creek
B-7	8" mains west of 1st St. (Truesdale Rd.)	$293,000	First Developer(s) west of San Juan Creek
B-8a	10" main in Centre St. between the 12" main and the14" main	$625,000 (total for B-8)	First Developer(s) west of San Juan Creek
B-8b	10" main in 1st St. (Truesdale Rd.);		First Developer(s) west of San Juan Creek
B-8c	10" mains through the Peck Ranch Master Plan site		First Developer(s) west of San Juan Creek
B-9	12" main crossing San Juan Creek	$210,000	First Developer(s) west of San Juan Creek
B-10	14" main in Centre St.	$300,000	First Developer(s) west of San Juan Creek
For Subsequent Development(s) when the capacity of Items B-1 and B-5 will be exceeded			
B-11	Construct additional storage tank (1.5 MGD)	$1,800,000	Subsequent Developer(s)
B-12	Construct additional public well[2]	$350,000	Subsequent Developer(s)
Items B-11 and B-12 plus any of Items B-6 through B-10 that are necessary for development			
System-wide Improvements			
B-13	Acquire easements to make system upgrades	$28,000	Other Entity
B-14	Update CSA-16 Master Water Plan	$25,000	Other Entity
B-15	Improvements to deliver State Water	$445,000	Other Entity
	Total of all items	$7,141,000	

Source: Opinion of Probable Cost provided by the County of San Luis Obispo in consultation with North Coast Engineering, Inc.

1) "First Developer(s)" could be one or more of the Master Plan Areas or a combination of Master Plan Areas and other new development. "Other Entity" is identified as the obligated payer for required improvements for which no individual developer or developers are obligated to construct. *"Subsequent Developer(s)" is identified as an obligated payer for certain public facilities that would be needed after the first developments.*
2) Construction of a public well is contingent on the developer(s) off-setting new water use consistent with Natural Resource Policy NRP-8 and applicable conditions of approval for the project's land use or land division approval.

Table 8.3.c: Opinion of Probable Costs for Wastewater System Items, (See Figure 7.2 - Wastewater System Plan)			
	Wastewater Improvements	**Opinion of Probable Cost**	**Obligated Payer**[1]
For Initial Development(s)			
C-1	First phase of a treatment plant	$2,985,000	First Developer(s)
C-2	Force main - FM-A	$77,000	First Developer(s)
C-3	Lift station #1	$ 300,000	First Developer(s)
C-4	Sewer main #2	$651,000	First Developer(s)
Items C-1 through C-4 plus any of Items C-5 through C-14 that are necessary for development			
C-5	Force main – FM-E	$291,000	First Developer(s) east of San Juan Creek
C-6	Force main – FM-C	$13,000	First Developer(s) east of San Juan Creek
C-7	Lift station #3	$300,000	First Developer(s) east of San Juan Creek
C-8	Force main – FM-D	$84,000	First Developer(s) east of San Juan Creek
C-9	Lift station #4	$300,000	First Developer(s) east of San Juan Creek
C-10	Sewer main #6	$92,000	First Developer(s) east of San Juan Creek
C-11	Sewer main #7	$63,000	First Developer(s) east of San Juan Creek
C-12	Sewer main #8	$90,000	First Developer(s) east of San Juan Creek
C-13	Sewer main #1	$102,000	First Developer(s) west of San Juan Creek
C-14	Sewer main #3	$102,000	First Developer(s) west of San Juan Creek
For Subsequent Development when the capacity of Item C-1 will be exceeded			
C-15	Second phase of a treatment plant	$3,006,000	Subsequent Developer(s)
Item C-15 plus any of Items C-5 through C-14 that are necessary for development			
Improvements for Existing Development			
C-16	Sewer main #4	$600,000	Other Entity
C-17	Force main – FM-B	$250,000	Other Entity
C-18	Lift station #2	$300,000	Other Entity
C-19	Install collector systems within existing ROW to serve existing neighborhoods	$4,128,000	Other Entity
	Total of all items	$13,734,000	

Source: Opinion of Probable Cost provided by the County of San Luis Obispo in consultation with North Coast Engineering, Inc.

1) “First Developer(s)” could be one or more of the Master Plan Areas or a combination of Master Plan Areas and other new development. “Subsequent Developer(s)” is identified as an obligated payer for certain public facilities that would be needed after the first developments. “Other Entity” is identified as the obligated payer for required improvements for which no individual developer or developers are obligated to construct.

	Table 8.3.d: Opinion of Probable Costs for Storm Water System Items (See Figure 7.5 – Storm Water System Plan)		
	Drainage Improvements	**Opinion of Probable Cost**	**Obligated Payer[1]**
D-1	Install a 60" storm drain along Centre Street from San Juan Road to San Juan Creek	$387,000	First Developer(s) to require this item
D-2	Install a 48" storm drain 450' south of Toby Way from San Juan Road to San Juan Creek	$442,000	First Developer(s) to require this item
D-3	Install a 48" storm drain from 8th Street to San Juan Creek	$344,000	First Developer(s) to require this item
D-4	Prepare a master drainage plan for the community	$100,000	Other Entity
	Total of all items	$1,273,000	

Source: Opinion of Probable Cost provided by the County of San Luis Obispo in consultation with North Coast Engineering, Inc.

1) "First Developer(s)" could be one or more of the Master Plan Areas or a combination of Master Plan Areas and other new development.` "Other Entity" is identified as the obligated payer for required improvements for which no individual developer or developers are obligated to construct.

8.5 Funding Strategy

The strategy for funding the key public facilities for the Shandon Community Plan is based the following key points:

- New development, including the three Master Plan Areas—Fallingstar, Halpin and Peck Ranch—would be obligated to fund certain public facilities, such as improvements at SR 46 and West Centre Street, a pedestrian bridge over San Juan Creek, water system improvements, and portions of a wastewater treatment system, before their respective development projects could proceed. This is required primarily because of the existing deficiencies in the public facilities. These "obligated cost" payments for new development would total approximately $18.1 million or approximately 33% of the total projected public facility costs addressed in this plan.

- The balance of the obligated costs ($36.1 million) would be funded by other sources as determined by the County.

- Where a project's obligated costs will exceed its associated costs (i.e., the project's actual fair share of costs based on the project's impact to the public facilities), the obligated payer will be reimbursed for the portion of their initial costs that exceed their associated costs. The reimbursement payments would come from subsequent private development as it occurs, from the County as funds from impact fees accumulate, or other sources as available. Prior to commencement of construction of obligated public facilities, the developer must enter into a reimbursement agreement with the County, consistent with Ordinance 3129, which will describe how the reimbursement will occur.

- Prior to approval of major development, a Capital Improvement Plan will be prepared to determine actual costs of the public facility items, to finalize the impact fee program, and identify any supplemental funding sources to be used and determine the timing for obtaining the supplemental funding.

- The cost analysis assumes that both the private developers and the County would utilize debt (bond) financing to fund their obligated costs. For purposes of the analysis, it was assumed that these initial costs would be funded primarily by a series of Community Facilities District (CFD) bonds.

- Where a developer's obligated costs do not exceed their associated costs or where a developer does not have any obligated costs, then that development would be subject to development impact fees based on their fair share of the costs.

- Collected development impact fees would be used to reimburse obligated payers or pay down the CFD debt (or other types of bonds).

The following factors will influence long-term financing capabilities for obligated payers:

  - The degree to which it is financially feasible for each development project to pay impact fees at the levels indicated in this plan, given market constraints on property values in the Shandon area.

  - The CFD bonding capacity during the initial years of development in the Community Plan Area (when debt would be highest since it would be incurred before the flow of revenues from development impact fees). Section 8.7 provides a preliminary analysis of this issue.

  - The ability of the County to identify and obtain funding for required improvements that no individual developer or developers are obligated to develop or that are related to "regional" cost impacts. A general discussion of potential funding sources is provided in Section 8.7.

  - The numbers presented here reflect total costs at full buildout of the Community Plan plus transportation impact fees for one interchange at West Centre Street and SR 46. More detailed analysis reflecting the anticipated *phasing* of development and related infrastructure could yield more favorable conclusions (if, for example, there are efficiencies to be gained in planning the timing of facilities expenditures to match anticipated development/revenue flows).

<u>Obligated Costs and Associated Costs</u>

The following table shows the initial obligated costs for various entities listed by the type of major facility. These are the costs that are needed to pay for the public facilities listed in Tables 8.3 a, b, c and d. The table also shows the associated costs for the various community groups, i.e., the "existing town" and "other new development." The associated costs for the existing town represent the fair share for impacts to the infrastructure from properties that were developed at the time the Community Plan was adopted. However, only a portion of the fair share may be collected directly from the existing town. Please refer to Section 8.8 that describes the costs to the existing town. "Other Entity" is shown to have associated costs. These figures represent the fair share portions for circulation impacts that cannot be attributed to the Shandon community.

Table 8.4: Public Facility Costs Breakdown: Obligated Cost and Associated Cost for Payer/Entity, Master Plan Area, or Community Group

Payer/Entity	"Obligated" Cost[1] (Up-Front)	"Associated" Cost[2] (Fair Share)
A) "First Developer(s)"	$8,551,542	The associated costs for this entity will be allocated from within groups C, D, E, and F depending on who participates as the "First Developers."
Circulation	$1,827,542	
Water	$2,711,000	
Wastewater	$4,013,000	
Drainage		
B) "Subsequent Developer(s)"	$5,156,000	The associated costs for this entity will be allocated from within groups C, D, E, and F depending on who participates as "Subsequent Developers."
Circulation		
Water	$2,150,000	
Wastewater	$3,006,000	
Drainage		
C) Fallingstar Master Plan Area	$2,526,720	$11,568,164
Circulation		$6,249,438
Water	$354,000	$1,694,910
Wastewater	$1,170,000	$3,283,600
Drainage	$1,002,720	$340,216
D) Halpin Master Plan Area	$233,280	$1,157,548
Circulation		$444,596
Water		$276,750
Wastewater	$63,000	$275,210
Drainage	$170,280	$160,992
E) Peck Ranch Master Plan Area	$1,632,000	$10,371,963
Circulation		$5,894,573
Water	$1,428,000	$2,624,450
Wastewater	$204,000	$1,852,940
Drainage		
F) Other New Development	Other New Development may incur obligated costs if property owners join with First Developers or Subsequent Developers.	$7,039,518
Circulation		$2,836,566
Water		$1,675,390
Wastewater		$1,805,770
Drainage		$721,792
G) Existing Town		$8,653,307
Circulation		$1,217,327
Water		$869,500
Wastewater		$6,516,480
Drainage		$50,000
H) Other Entity	$36,080,283	$15,389,325
Circulation	$30,204,283	$15,389,325
Water	$498,000	
Wastewater	$5,278,000	
Drainage	$100,000	
Total	$54,179,825	$54,179,825

Notes: Please see the notes for Table 8.4 on the following page.

Notes for Table 8.4:

1)	These are the total costs of the public facility items that an entity is obligated to install in order to initiate development.
2)	Associated costs represent each group's "fair share" for impacts on the respective public facilities.
A)	"First Developer(s)" could be one or more of the Master Plan Areas or a combination of Master Plan Areas and other new development.
B)	"Subsequent Developer(s)" is identified as an obligated payer for certain public facilities that would be needed after the first developments.
C,D,E)	Each of the Master Plan Areas have public facility items that they are obligated to install, in addition to their share as "First Developer(s)" or "Subsequent Developer(s)."
F)	"Other New Development" means new developable areas other than the Master Plan Areas and vacant lots.
G)	Most of the associated costs for the existing town will not result in direct costs to existing residents. Either these costs cannot be charged to existing development because the cost is due to existing deficiencies in the circulation system, or the costs will likely be covered by another entity to cover the costs for communitywide improvements, such as items C-16 through C-19 in Table 8.3.c. Table 8.9 shows the estimated funding impacts to existing development.
H)	"Other Entity" is identified as the obligated payer for required improvements for which no individual developer or developers are obligated to construct. The associated costs for "Other Entity" represent the fair share for impacts to the circulation system that cannot be attributed to the Shandon community.

Reimbursement

As noted previously, when an entity's obligated costs exceeds its associated costs, it will need to be reimbursed for the difference over time. This will occur through the collection and disbursement of development impact fees that are based on the community groups' associated costs.

Associated Costs per Unit

The following table illustrates the approximate associated costs per unit of development for each of the four major community groups. Associated costs for existing developed property (existing town) are not shown in this table--please refer to Section 8.8 that describes the costs for the existing town. These figures give an indication of potential development impact fees that could be collected from each project in order to cover its fair share for impacts to the public facilities. The Shandon Capital Improvement Plan will be required in order to finalize a development impact fee program. The water and wastewater costs are distributed per dwelling unit or per 1,000 square feet (KSF) of commercial floor area by community group. Drainage costs are per acre, regardless of the land use. Circulation fees are presented as a flat fee per dwelling unit or per KSF of commercial floor area, regardless of the community group.

Table 8.5 – Associated Costs per Unit (potential development impact fee)						
Fallingstar	**RSF/unit**	**RS/Unit**	**MFR/unit**	**Retail/KSF[1]**	**Office/KSF**	**Ind/KSF**
Water	$5,000		$2,500	$2,000	$2,000	$2,000
Wastewater	$9,200		$6,900	$3,700	$3,700	$3,700
Drainage (54 acres)	$6,300 per acre					
Halpin	**RSF/unit**	**RS/Unit**	**MFR/unit**	**Retail/KSF**	**Office/KSF**	**Ind/KSF**
Water	$8,000			$3,200	$3,200	$3,200
Wastewater	$8,000			$3,200	$3,200	$3,200
Drainage (17 acres)	$9,500 per acre					
Peck Ranch	**RSF/unit**	**RS/Unit**	**MFR/unit**	**Retail/KSF**	**Office/KSF**	**Ind/KSF**
Water	$6,300		$3,100	$2,500	$2,500	$2,500
Wastewater	$4,100		$3,100	$1,700	$1,700	$1,700
Drainage	n/a[2]					
Other New Development	**RSF/unit**	**RS/Unit**	**MFR/unit**	**Retail/KSF**	**Office/KSF**	**Ind/KSF**
Water	$7,100	$10,600	$3,500	$2,800	$2,800	$2,800
Wastewater	$7,300	$7,300	$5,500	$2,900	$2,900	$2,900
Drainage (82 acres)	$8,800 per acre					
Circulation Impact Fees for New Development	**Per Residential Unit**			**Retail/KSF**	**Office/KSF**	**Ind/KSF**
	$9,000			$61,800	$10,100	$6,900

1) KSF = 1,000 square feet of floor area
2) Drainage on the Peck Ranch Master Plan Area can be handled on-site without shared facilities.

8.6 Funding Gap

After adjusting for reimbursements, a total of $30.1 million (or 56% of the total $54.2 million cost of future public facilities in the Plan area) would be paid by new development. The balance of the total costs--$24.1 million (44%)--cannot be tied to new development on a fair-share basis. These costs that cannot be “charged” to new development stem from two major sources: (a) existing infrastructure deficiencies within the community, and (b) regional traffic impacts not specifically generated by new development in Shandon. Approximately $709,000 for water system improvements would be contributed by the existing town (see Section 8.8 - Public facility costs for existing developed property), but $23.4 million would need to be borne by another source as identified by the County. The table below illustrates this funding gap that will need to be filled in order to fund improvements that address the impacts to key public facilities associated with Community Plan buildout.

Table 8.6: Funding Gap			
	Associated Costs	**Amount to be Funded**	**Funding Gap**
New Development	$30.1 M	$30.1 M	$0
Existing Town	$8.7 M	$0.7 M	$8.0 M
Other Entity	$15.4 M	$0	$15.4 M
Total	$54.2 M	$30.8 M	$23.4 M

8.7 Funding Methods

On September 7, 2010, the County Board of Supervisors adopted an Infrastructure Planning and Funding Policy based on the recommendations of the "Infrastructure Planning and Financing Team" (comprised of staff from the Administrative Office, Auditor/Controller, General Services, Planning and Building, Public Works, San Luis Obispo Council of Governments, and the Local Agency Formation Commission). Several funding and financing methods that were discussed in the Team's summary document[1] are presented in this section. Key narrative from the document is included in the *italicized* sections. Each potential funding and financing method is then followed by a determination (in **bold type**) on the potential applicability of each method to the Shandon Community Plan.

A significant challenge to funding future public facility improvements in Shandon is that a substantial portion of the projected costs cannot be charged to new development on a fair-share basis (since approximately 44% of the costs relate to existing public facility deficiencies and regional traffic impacts). A number of the funding methods described below are theoretically applicable to existing development (and therefore could potentially be used to address costs related to existing deficiencies). However, many of the funding methods require voter support in order to be implemented. The probability of obtaining the necessary voter support must be given strong consideration before they are pursued.

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 Community Facilities Districts or Certificates of Participation (COP) 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.*

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*

[1] Source: memorandum entitled "Status Report from Infrastructure Planning and Financing Team," dated February 16, 2010.

- *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*
- *Revenue available from impact fees is not predictable enough to support dept financing, so other techniques (such as COP or CFD) may be necessary until fee revenue can pay off dept.*

Potential applicability to Shandon:

Development impact fees can be used as a primary reimbursement tool for costs initially funded by developers and/or CFD bonds. The rate fees are collected would be less of a disadvantage for Shandon, because the impact fees would be used for reimbursement rather than payment for initial construction. Fees for larger projects requiring subdivision approval or Conditional Use Permit can be collected prior to recordation of final maps or issuance of building permits. Fees on individual undeveloped lots can be collected at the time of building permit issuance.

<u>Developer Contributions</u>
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 a local government agency may enable the developer(s) to finance the facilities through creation of 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.*

Potential applicability to Shandon:

The "obligated cost" mechanism described in this chapter is a variation of the developer contribution concept.

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 because 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.*

Potential applicability to Shandon:

The County, at the time the Community Plan was adopted, did not utilize development agreements.

Mello-Roos Community Facilities Act of 1982

A special tax can be authorized to finance public facilities and services through a 2/3's vote of the residents or property owners in a defined geographic district, enabling the issuance of Mello-Roos bonds. If there are twelve or more registered voters in that district, then the vote is by the registered voters. If there are fewer than twelve registered voters, then the vote is by the property owners in that district. If the tax is approved, it would then be assessed to the properties in that district, only.

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- 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 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 homeowner*
- *The special tax may affect the marketability of properties if similar properties are available that do not have the special tax.*

Potential applicability to Shandon:

As demonstrated in the example below, Mello-Roos / CFD financing would not have been viable for a single developer in Shandon at the time the Community Plan was adopted. As the economic climate changes, this form of financing could be a major component of the Shandon PFFP in future years. CFD financing could be more feasible for communitywide facilities that would be funded by a greater number of properties. However, given the requirement of two-thirds voter support, it may not be possible to apply this mechanism to existing development. The PFFP therefore assumes that this type of financing would apply only to new development. Any CFD financing used in Shandon must be consistent with the CFD goals and policies adopted by the Board of Supervisors on September 7, 2010.

CFD Bonding Example

The following table illustrates four CFD bonding examples—each with a different mix of participants (the participants in each example would also be "districts" subject to a vote). In the examples, the bond amounts vary depending on the public facilities needed. The bond amounts approximate the obligated costs for these projects. The percent of debt service to be carried by residential uses is based on the assumption that nonresidential uses would account for about 6% of initial development. According to adopted County policy, the maximum special tax submitted to the qualified voters of the district is not to exceed one percent of the projected assessed value of the developed properties at the time of full buildout of district formation. Furthermore, the total of the following shall not exceed 1.85 percent of the projected assessed value of the subject properties:

a. Ad valorem property taxes levied by the County.
b. Voter approved ad valorem taxes levied by the County in excess of one percent (1%) of the assessed value.
c. Special taxes levied by any existing CFD for the payment of bonded indebtedness or on-going services.
d. Assessments levied for any assessment district or maintenance district for the payment of bonded indebtedness or services.
e. The maximum special tax for the proposed CFD.

Therefore, this example assumes a maximum of 0.85 percent of the projected assessed value of the subject properties for CFD bonding capabilities.

The County will require that the credit quality of a CFD or assessment bond issue be such that the requirements of Section 53345.8 of the Government Code are met. All CFD bond issues should have value-to-lien ratio of at least 4:1 or greater for the entire district, including any overlapping special assessment or special tax liens. A CFD with a value-to-lien ratio of less than 4:1 but greater than 3:1 may be approved at the sole discretion of the Board of Supervisors upon recommendation of the County Administrative Officer based upon the specific merits of the project. This example illustrates both 4:1 and 3:1 ratios for comparison.

Table 8.7: CFD Bonding Examples				
	Fallingstar	Fallingstar + 80 units east of San Juan Creek	Fallingstar and Peck Ranch	Fallingstar, Peck Ranch + 80 units east of San Juan Creek
Total Bond Amount	$11,100,000	$11,700,000	$17,888,000	$18,488,000
Bond Term (Years)	30	30	30	30
Bond Interest Rate	7%	7%	7%	7%
Annual Bond Debt Service	$894,509	$942,861	$1,441,530	$1,489,881
% of Bond Debt Service borne by residential	94%	94%	94%	94%
Number of residential units	395	475	817	897
Maximum special tax[1] and home values				
County-defined maximum tax and special assessments, as percentage of total assessed value (ie., the CFD maximum would be 0.85%)	1.85%	1.85%	1.85%	1.85%
Annual debt service per residential unit	$2,129	$1,866	$1,659	$1,561
Approximate minimum assessed new-home value (average of all units, including single-family and multi-family) necessary to meet the annual debt service per residential unit	$250,436	$219,514	$195,124	$183,683
Value-to-lien ratio requirements				
County-defined minimum value-to-lien ratio (factor by which property value should exceed lien)	4:1	4:1	4:1	4:1
Acreage of Fallingstar (gross acreage including open space, etc.)	86	166	184	264
Approx. required minimum per/acre value (as entitled and with CFD-funded improvements in place, but undeveloped) to meet County target factor of 4:1	$516,279	$281,928	$388,447	$280,121
Minimum per/acre value to meet alternative County target ratio of 3:1	$387,209	$211,446	$291,336	$210,091

1) Assumes no other special assessments

In order to stay within the County's target limit of 1.85% (base rate plus the 0.85% for special assessments), the average assessed value of a new home would have to be in the $200,000 to $250,000 range. This is somewhat higher than the assessed values in 2011, which were typically less than $200,000. In 2011, a new-home price of $200,000 in Shandon would have been higher than the median sales price.

The value-to-lien analysis is conducted on a land-development basis, taking the land as entitled and with CFD-funded improvements (water, sewer, streets and utilities) in place, but otherwise undeveloped. The analysis indicates that required land values to meet the County's preferred ratio target of 4:1, or even 3:1 if allowed, would appear to exceed a realistic appraised value by a considerable margin (for all four examples).

This example is potentially a "worst case" scenario, since by phasing the improvements, and hence the CFD amounts, the feasibility of the CFD could potentially be enhanced. Also, the County could in theory modify its own policies if it determines that the public purpose and other conditions so warrants. In the case of Fallingstar, reimbursements by other development could significantly reduce the burden of a CFD on the community in future years.

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.*

Potential applicability to Shandon:

This type of assessment district is potentially viable for funding existing deficiencies. The assessment district may include existing development, undeveloped land or both.

Although a lower level of voter support is required (a simple majority) than CFD financing (which requires a two-thirds vote), this method may not be feasible to implement.

Sales Tax Override

With a two-thirds vote of County voters, a special Countywide 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 of County voters, 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. However, general obligation bonds could be authorized by the voters based on assurance that the special sales tax revenue will pay off the bonds.

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 unless voters approve issuance of general obligation bonds.*

Potential applicability to Shandon:

If a sales tax override were approved to fund needed facilities rather than a general tax, the ballot measure would identify the type(s) of public facilities that could be funded. If, for example, the tax were for libraries, then a new library in Shandon would be considered along with other County libraries. A sales tax override cannot be based on collecting taxes just in Shandon solely for facilities in Shandon. Though, theoretically, a countywide tax could be approved specifically for a facility in Shandon. This is method is not likely to be successful during times of fiscal constraint.

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 in local opposition*
- *Public perception that redevelopment accelerate development and associated growth impacts (traffic, loss of open space, etc)*

Potential applicability to Shandon:

At the time of the adoption of the Shandon Community Plan, the County of San Luis Obispo did not have a redevelopment agency, but was exploring the possibility of establishing one. If a redevelopment agency is established, the existing Shandon community would be an appropriate candidate for a redevelopment project area. Redevelopment is commonly used in California to address <u>existing deficiencies</u> in a community's infrastructure, which is one of the fundamental challenges facing Shandon.

<u>Infrastructure Financing Districts</u>

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 little is known about their feasibility.*

Potential applicability to Shandon:

This method is not likely to be successful during times of fiscal constraint since the County and other taxing entities will be reluctant to forego tax revenue in order to facilitate the financing of infrastructure.

<u>Revenue Bonds</u>

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 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 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.*

Potential applicability to Shandon:

Revenue bonds are a potential source of capital funding for water and sewer systems, including improvements to the existing water system. Debt service for revenue bonds could be applicable to both new development and the existing community in the form of increased water (or sewer) rates. It may not be possible to implement this method if the resulting utility rates become excessive for local residents.

<u>**General Obligation Bonds**</u>

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, and 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. Alternatively, voters could approve issuance of General Obligation Bonds without increasing property taxes. However, this approach would further burden the County general fund and therefore is inadvisable.

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.*

Potential applicability to Shandon:

It may be politically challenging to implement this method, especially in times of fiscal constraint. An ad valorem property tax may also impact potential CFD financing.

Certificates of Participation

Certificates of Participation (COP) 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 COP's sale. The nonprofit then leases or sells the land and facilities back to the public agency. Investors who purchased the COP receive a portion of the public agency's payments to the non-profit corporation. COP 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 count toward the issuer's appropriations limit. The County used COP financing for the Vineyard Road interchange with Highway 101 in Templeton, since impact fees were expected to be sufficient to pay off the COP bonds and thereby relieve the annual burden on the County general fund.

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 COP to represent a Proposition 13 loophole.*

Potential applicability to Shandon:

Revenue bonds (as described above) are likely to be a better option for Shandon than Certificates of Participation, since repayment options for COP financing (other than a long-term general fund burden) appear insufficient.

California Infrastructure Bank (i-Bank)

The County can borrow at low interest rates for up to thirty years, or project's useful life, if less than 30 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*

Potential applicability to Shandon:

At the time of adoption of the Shandon Community Plan, the potential of using this funding method was unknown, since a repayment source is needed. Implementation Program PFFPIP-6 requires a feasibility study for this funding method. This method could potentially be used when CFD financing is not feasible or when alternative funding sources such as impact fees or developer contributions may be sufficient to repay the i-Bank loan in a relatively short period of time.

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.

Potential applicability to Shandon:

This is a possible funding source for the grade separations indicated in the Section 8.4 (Items A-4, A-8, A-13 and A-17). However, during times of fiscal constraint, this method may not be successful. Although the grade separations are required with the 2050 (40-year scenario), the Transportation Impact Fee program includes collecting fees for one interchange at West Centre Street (items A-4 and A-8). The impact fees could go toward a local match in funding that would most likely be required.

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.*

Potential applicability to Shandon:

CDBG funding is likely to be viable for some portion of the identified costs of correcting existing public facility deficiencies in Shandon, unless the proportion of low income households in Shandon decreases to where the community would no longer qualify. Implementation Program PFFPIP-3 requires investigation into other potential grants for Shandon.

Table 8.8: Funding and Financing Methods - Summary Comparison			
Method	**Applicability in Shandon - year 2012**	**Applicability in Shandon - future**	**Voter Approval Required**
Impact fees	high	high	no
Developer Contribution	high	high	no
Development Agreements	n/a	low	no
Mello-Roos CFDs	low	high	yes
1913/1915 Act Assessment Districts	low	low	yes
Sales Tax Override	low	low	yes
Redevelopment Tax Increment Financing	n/a	med	no
Infrastructure Financing Districts	low	med	no
Revenue Bonds	low	med	yes
General Obligation Bonds	low	low	yes
Certificates of Participation	low	low	no
California Infrastructure Bank	n/a	unknown	no
Cal Trans Road Funding Program (SLOCOG)	n/a	med	no
Community Development Block Grant (CDBG) Program	low	high	no
Rural Community Facilities Loan/Grants through USDA	med	med	no
Other Grant Programs	low	high	no

8.8 Public facility costs for existing developed property

This section provides information for properties that were developed prior to the adoption of the Shandon Community Plan. If the subject property is proposed for redevelopment that will either increase residential density or increase the land use intensity for non-residential uses, then please refer to Section 8.9.

<u>Circulation Improvements</u>

Costs associated with impacts to the circulation system from existing development cannot be collected through an impact fee program. For example, the fair share cost for traffic impacts at buildout from existing development (2009) at the intersection of West Centre Street and State Route 46 amount to $467,967 (including the costs for a grade separation but not for the widening of SR 46). The $467,967 would have to be funded through a County sales tax (or other) ballot measure, regional transportation funding programs, or State or Federal grants. Without a locally-approved ballot measure, existing, developed properties that are not redeveloped will not be required to contribute directly to circulation improvements. Likewise, residential properties that undergo remodeling or additions without an increase in residential density will not be required to pay traffic impact fees. Non-residential uses that are redeveloped will be responsible for paying traffic impact fees for the incremental increase in the intensity of the use.

<u>Water System Improvements</u>

The existing CSA-16 water system, in 2012 had 329 residential connections and 13, non-residential connections. The 5-year capital outlay schedule for CSA-16 identifies several system upgrades. Three of the upgrades, totaling $2,860,000 would be redundant with improvements required with the Shandon Community Plan (see Table 8.3.b, items B-1, 2, 3, 8, and 10). Existing developed properties within CSA-16 would be responsible for paying their fair share for these redundant water system improvements. Depending on when future development occurs, the required improvements could ultimately be installed by either an obligated payer or the

CSA. However, these projects are not in the CSA budget (2012) and are not expected to be budgeted in the near future. Regardless of who makes the improvements, the cost of the redundancies would be shared by a greater number of users. Therefore, if developer installed, the cost per unit would go down significantly from approximately $8,200 per existing unit to approximately $2,025 per existing unit.

One of the long-anticipated improvements to the water system is connection to the State Water Project, from which CSA-16 has a 100 acre-foot-per-year allocation. In 2012, the CSA had adequate reserves to construct the State Water Project turnout—item B-15, Table 8.3.b. Should future development obtain an additional allocation for State Water, it would need to reimburse the County for its fair share of these improvements.

Redeveloped properties that increase residential density or non-residential intensity will be responsible for their fair share for water system facilities. In such cases, please refer to the associated costs for "other new development".

<u>Wastewater System Improvements</u>
Existing developed properties may potentially continue to use existing on-site septic systems indefinitely and will not be required to contribute to wastewater system improvements until such time the following criteria are met:

> 1) The wastewater treatment plant is built with capacity to handle the existing developed properties, (this would most likely occur with the second of plant construction), and
>
> 2) Sewer mains and/or collectors are installed within the existing neighborhood right-of-way, and
>
> 3) The subject property is within 200 feet of a sewer main or collector, and
>
> 4) The septic system on the subject property fails <u>or</u> the property owner obtains a building permit that includes features that would increase potential wastewater generation (eg., adding a bathroom or bedroom).
>
> Or 5) the State Regional Water Quality Control Board (or other health authority) mandates connection to the sewer.

It is the priority of the Shandon Community Plan (Policy PFFPP-3) to fund the existing community's fair share for treatment plant construction, sewer mains, lift stations, and collector lines with State and/or Federal grants or sources other than direct impact fees. Please refer to Section 8.7 for other potential funding methods. Existing developed properties would be responsible for installation of their sewer laterals, any connection fees and monthly charges for plant operation and maintenance.

Redeveloped properties that increase residential density or non-residential intensity will be responsible for its fair share for wastewater treatment facilities. In such cases, please refer to the impacts fees for "other new development".

Drainage System Improvements
Existing developed properties will not be required to contribute to any of the drainage facilities installed by any of the planned developments. Implementation Program PFFPIP-2 requires the County to prepare a Master Drainage Plan, estimated at $100,000, for the community that would identify drainage improvements throughout the existing portions of Shandon. Funding for the Master Plan and the subsequent storm drainage improvements would be achieved in the same manner as the existing community's share for wastewater system improvements with State and/or Federal grants or sources other than direct impact fees. Please refer to Section 8.7 for other potential funding strategies.

Table 8.9: Estimated Funding Impacts to Existing Development

	Associated Costs	Direct Cost Total	Per Unit Cost	Other Funding Sources[1]
Circulation	$1,217,327	--		SLOCOG, Grants, Sales Tax or other Ballot Measure
Water[2]	$869,500	$709,000	$2,025	
Wastewater[3]	$6,516,480	--	$2,800 to $6,150	Grants, special assessments, funding districts, bonds or loans
Drainage[4]	$50,000	--		

1) See Section 8.7 for greater detail.
2) Water system costs are only for system improvements that are redundant with CSA-16 capital improvement projects.
3) The per unit costs are for sewer lateral and septic tank abandonment only and do not include any payments for the existing town's associated costs for the wastewater treatment plant, sewer mains or lift stations. These costs are only applicable if and when connection to the sewer is required. The estimates are for an 80 foot long sewer lateral and septic tank abandonment. The cost range varies depending on the lateral location (front yard, rear yard or restricted access).
4) Estimated share for Master Drainage Plan. The associated costs for drainage facilities will increase with the completion of the Shandon Master Drainage Plan.

Table 8.10: Comparison of Single Family Residential Bi-Monthly Wastewater Bills (2010)

Atascadero	Oceano	Arroyo Grande	Heritage Ranch	Templeton	Grover Beach	Paso Robles
$40.36	$38.97	43.62	$45.21	$46.68	$46.88	$51.72
San Miguel	Morro Bay	Pismo Beach	Nipomo	Cambria	Avila Beach	San Luis Obispo
$61.80	$75.02	$79.91	$88.32	$101.89	$111.40	$114.18

Source: Draft Water and Wastewater Rate Study for Oceano Community Services District, Tuckfield and Associates, September 2010. Based on 2,000 cubic feet bi-monthly (approximately 249 gallons per day).

8.9 Public facility costs for existing undeveloped property (other new development)

This section provides information for properties that were undeveloped at the time the Shandon Community Plan was adopted, residential properties where redevelopment is proposed that will increase density, and non-residential properties where redevelopment will increase the land use intensity on the site. This section does not apply to land within the Fallingstar, Halpin or Peck Ranch Master Plan Areas.

Unless the proposed project participates as the First Developer or Subsequent Developer, the fair share for public facilities with projects in the “Other New Development” community group will be in the form of an impact fee. Impact fees with subdivisions will be paid prior to recording final subdivision maps or in a time frame as determined by Conditional Use Permit. Impact fees on individual vacant lots will be paid at the time building permits are issued. The impact fee will be used to reimburse the obligated payer who installed public facilities or contributed toward a future improvement. The following table illustrates the approximate associated costs per residential unit and per 1,000 square feet of non-residential development for Other New Development. It gives an indication of potential development impact fees.

Table 8.11 - Associated Costs (Potential Impact Fees) Per Unit for Other New Development

Other New Development	RSF per unit	RS per unit	MFR per unit	Retail per KSF[1]	Office per KSF	Ind per KSF
Circulation	$9,000	$9,000	$9,000	$61,800	$10,100	$6,900
Water	$7,100	$10,600	$3,500	$2,800	$2,800	$2,800
Wastewater	$7,300	$7,300	$5,500	$2,900	$2,900	$2,900
Drainage	$8,800 per acre (82 acres)					

1) KSF = 1,000 square feet of floor area

If the proposed project precedes development on Fallingstar, Halpin and Peck Ranch, then the proposed project would be responsible to assume the role of obligated payer and install the improvements necessary to mitigate the project’s impacts to the public facility.

8.10 Other Public Facilities

In addition to the key public facility items listed in Section 8.4, a variety of other public facilities listed below may be funded by many of the funding methods described in Section 8.7:

- Street lights
- Police and fire stations
- Police and fire services
- Parks
- Libraries
- Transit improvements
- Landscape and irrigation facilities
- Reclaimed water facilities
- Environmental mitigation
- Bicycle and pedestrian facilities
- Electrical conduits
- Public parking facilities

8.11 Other Public Facility Fees

Title 18 of the County Code provides for fees to be collected with new development projects to pay for their fair share for a variety of public facilities. Those fees contribute to facilities for: fire departments, government, libraries, parks, and sheriff.

Park fees or land dedication for parks are collected with subdivision applications (commonly known as Quimby fees). Quimby fees are implemented in Title 21 of the County Code. In cases where Quimby fees have been paid, the "land portion" of the Public Facility Fee is not charged.

School fees are collected at the time building permits are issued. School fees are subject to Government Code Section 65995.

8.12 Public Facilities Funding and Financing Policies

PFFPP-1 Fund core infrastructure and public facilities in an equitable manner based on an entity's fair share of its impacts to the infrastructure or facility.

PFFPP-2 Require new development to a) install necessary infrastructure with the initial phase of development or at the time prescribed in the Shandon Community Plan EIR or subsequent environmental determination, b) fund its fair share for public facilities prior to commencement of development.

PFFPP-3 As a priority, fund the existing community's fair share for new public facilities with sources other than direct impact fees.

PFFPP-4 Secure required funding for needed public facilities before major development is approved.

PFFPP-5 Fund and finance public facilities in a manner that is consistent with the County's adopted Infrastructure Planning and Funding Policy and Community Facilities Districts Local Goals and Policies

PFFPP-6 Avoid long-term financing plans that place too great of a burden on future property tax payers.

8.13 Public Facilities Funding and Financing Implementing Programs

PFFPIP-1 Prepare a Capital Improvement Plan for the public facility items described in this chapter.

PFFPIP-2 Prepare a Master Drainage Plan for the community.

PFFPIP-3 Investigate and apply for potential grants that would provide funding for key public facility items, especially to address the funding gaps described in this chapter. Investigate and apply for potential grants that would provide funding for other public facilities listed in Section 8.10.

PFFPIP-4 Conduct a feasibility study for applicable use of the California Public Infrastructure Bank for Shandon.

PFFPIP-5 In coordination with San Luis Obispo Council of Governments and Caltrans, seek funding in addition to the Traffic Impact Fee Program for grade separated access to State Route 46.

PFFPIP-6 Work with the City of Paso Robles, the San Luis Obispo Council of Governments and Caltrans to establish a fee program to construct and implement needed off-site traffic improvements located within the City of Paso Robles as identified in the February 2010 Wood Rodgers Transportation Impact Study [Appendix F, Environmental Impact Report for the Shandon Community Plan Update and San Juan Village (Fallingstar Phase I) Project], including widening of State Route 46 and improvements to the State Route 46/ US 101 interchange. See also EIR mitigation measure T-1(b) in Appendix D of this Plan.

Proposed projects using State Route 46 as their primary access to urban services shall contribute their fair share of fees. The fee program would consist of either 1) an areawide fee where projects that are located within the study area will be required to pay impact fees that would be provided to the City of Paso Robles, or 2) a requirement that applicants for future projects "front" the cost of the off-site improvements and be reimbursed as land uses are developed. A preliminary fair-share estimate for the planned future State Route 46 East grade-separated interchanges at Jardine Road, Union Road, and Golden Hill Road is included in Table 1 of Appendix F, *Transportation Impact Study,* Environmental Impact Report for the Shandon Community Plan Update and San Juan Village (Fallingstar Phase I) Project. Once, the fee mechanism is developed, amend ordinances as needed in order to implement it.