Appendix G: Funding Sources and Financing Mechanisms

Following is a description of potential funding sources, including an indication of revenue potential where possible.

Land and/or Property-Secured Funding and Financing Mechanisms

General Obligation Bonds

A general obligation (GO) bond is a type of municipal bond that is secured by a state or local government's pledge to use legally available resources, most typically including property tax revenues, to repay bond holders. As a special district, the Los Osos CSD could issue a GO Bond if approved by voters. General obligation bonds are restricted to defined capital improvements. Credit rating agencies often consider a general obligation pledge to have very strong credit quality and frequently assign them investment grade ratings. In California, jurisdictions must secure a two-thirds voter approval to issue general obligation bonds.

Establishment

Creation of general obligation bonds requires two-thirds voter approval if the issuance is for non-educational purposes.

Cost Burden

The incidence of burden of general obligation bonds is upon all property owners in the issuing jurisdiction proportional to the value of their property. It is this very broad base of funding that provides excellent security for general obligation bonds, thus typically garnering the lowest interest rate of any municipal debt instrument.

Economic Considerations

General obligation bonds allow public entities to finance at a low fixed rate over the useful life of the asset. However, general obligation bonds are limited to capital improvement expenditures and also are limited in their use to the precise purposes outlined in the authorizing ballot measure. General obligation bonds are commonly restricted to particular capital uses (e.g., street improvements, drainage improvements, parks and recreation).

Mello-Roos CFD Special Tax and Bonds

(authorized by Section 53311 et. seq. of the Government Code)

The Mello-Roos Community Facilities Act of 1982 enables the formation of Community Facilities Districts (CFDs) by local agencies, with two-thirds voter approval (or landowner approval in certain cases), for the purpose of imposing special taxes on property owners. Special tax revenue can be used to fund capital or operations and maintenance expenses, or they may be used to secure a bond issuance and pay the debt service. As taxes increase to 50 percent or more of the basic 1 percent, there is a risk of adverse impacts on land and home prices which would offset any financing benefit associated with the additional special taxes. The actual amount of the special tax would be refined in implementation through the preparation of a Rate and Method of Apportionment (RMA). There are currently two Mello-Roos CFDs levying special taxes for services being administered by the cities of Atascadero and Paso Robles.

Establishment

With CFDs, a two-thirds voter approval is needed in areas that have more than 12 residents (landowners can approve special taxes in areas with 12 or fewer residents). Because of the two-thirds voter approval requirement, establishing a CFD in an infill setting can be challenging; however, there may be some types of improvements required in the Community, such as storm water and drainage improvements, that benefit all property owners, and for which property owners would vote to establish the District.

Cost Burden

Property owners pay special taxes. By adding to the cost of ownership, the tax may affect the price a buyer is willing to pay for a home or commercial property, in which case the cost incidence is shared with the builder, land developer, or landowner. Experience suggests that less than 100 percent of the financing burden is recognized by buyers.

Economic Considerations

Land-secured financing provides a well-established method of securing relatively low-cost tax exempt, long-term, fixed rate, fully-assumable debt financing. However, there can be challenges associated with establishing measurable and specific benefits to particular properties. In addition, land-secured financing adds financing costs (e.g., cost of issuance and program administration). Further, the financing capacity of a district may be limited in early phases of development and it may be necessary to rely on other sources of infrastructure funding during initial years. Finally, while land-secured financing has been widely used in greenfield development where landowner approval is the norm, achieving a two-thirds voter approval in infill areas typically can be a barrier to use of the tool.

Communitywide Parcel Tax

Parcel taxes can be imposed with voter approval to fund municipal services and infrastructure. In practice, they typically are used to provide a broad-based source of funding for jurisdiction-wide-serving services. Due to the voter approval requirements and similar to general obligation bonds, jurisdiction-wide parcel taxes or special taxes typically are only successful if they fund highly-desirable public services and improvements, such as improved public safety services. Parcel taxes differ from general obligation bonds in that they can be used for maintenance and operations and they are not levied “ad valorem” (i.e., they typically have a flat or escalating rate structure applied to particular classes of properties).

Establishment

Parcel taxes, if used for general purposes including infrastructure investments, can be imposed with majority voter approval. If used for special purposes, parcel taxes will require two-thirds voter approval. They may be used for funding ongoing services or pledged to debt service.

Cost Burden

The incidence of burden of parcel taxes (and special taxes) falls upon property owners. Typically such taxes are a “flat rate” charged per parcel, sometimes with use-related variation and exemptions.

Economic Considerations

Parcel taxes (and special taxes) create an opportunity for voters to decide to pay for municipal services or facilities that they deem important. With a broad funding base and strict allocation rules, the taxpayers can assure that funding will be used as intended. However, parcel taxes (and special taxes) are limited to the purposes for which they were approved. They also are commonly subject to a “sunset” date, and must be re-authorized periodically to maintain funding.

Business Improvement District

Parking and Business Improvement Area Law of 1989 (Sts. & High. Code, Sec. 36500 et seq.) and Property and Business Improvement District Law of 1994 (Sts. & High. Code, Sec. 36600 et seq.)

A Business Improvement District is a public/private sector partnership that performs a variety of services to improve the image of a jurisdiction and to promote individual business districts. BIDs carry out economic development services by working to attract, retain and expand businesses. Allowed improvements include streets/parking, parks, trash receptacles, street lighting, decorations, and security facilities and equipment. Services may include marketing, economic development, security, sanitation, and promotion of tourism. A BID is typically operated by a non-profit entity.

Establishment

A BID can be established with majority approval of affected businesses (if under the Parking and Business Improvement Area Law of 1989); otherwise, establishment is subject to Prop. 218 requirements to establish benefit, or to require 2/3 approval. An Engineer's Report is required.

Cost Burden

The annual assessments are paid by businesses within the District. Normally these will be assessed annually on County property tax bills.

Economic Considerations

Business Improvement District assessments must be directly proportional to the estimated benefit being received by the businesses upon which they are levied. A BID may assess property according to zones of benefit, in relation to the benefit being received by businesses within each zone. No assessments under this law can be levied on residential properties or on land zoned for agricultural use.

Enhanced Infrastructure Financing Districts
(authorized by the Infrastructure Financing District Act, Government Code §53395, et seq.; expanded by SB 628.)

The County or individual communities could consider establishing an Infrastructure Financing District (IFD), or an Enhanced Infrastructure Financing District (EIFD) as permitted under SB 628.[1] EIFDs are forms of Tax Increment Financing (TIF) that currently are available to local public entities in California. Local agencies may establish an EIFD for a given project or geographic area in order to capture incremental increases in property tax revenue from increased assessed value (due to new development and generalized appreciation). In the absence of the EIFD, this revenue would accrue to the County’s General Fund (or other property-taxing entity revenue fund). EIFD funds can be used for project-related infrastructure, including roads and utilities, as well as parks and housing. EIFDs cannot be used to finance operations and maintenance expenses. Unlike prior TIF/Redevelopment law in California, EIFDs require separate approval from all participating jurisdictions (e.g., Board of Supervisors, CSDs).

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1 In September 2014, Governor Brown signed SB 628, a bill that expands the authority of Infrastructure Financing Districts.

Senate Bill 628 established the EIFD as a similar, but more flexible version of Infrastructure Financing Districts (IFDs), where the scope of eligible projects is more expansive. In 2019, Assembly Bill 116 eliminated the voting requirement to issue bonds but does require three public hearings on the topic of the District's financing plan.

While any tax increment, no matter how small, will generate revenue that can be reinvested in infrastructure, it is important that in most cases the local property tax available is very limited. The Community of Los Osos would be permitted to retain the County's portion of property tax revenue (approximately 23 percent of the basic 1 percent property tax generated[2]). Moreover, the use of local property tax to support infrastructure financing has fiscal implications for California jurisdictions in that dedicating tax revenue to infrastructure limits funding for new public services costs associated with development.

Table G-6a provides an illustrative example of the level of tax increment that could be generated in Los Osos and the associated bonding capacity. The estimate is calculated using just the County's increment.

Table G-6a Illustrative EIFD Calculation

Item	Amount
Estimated Assessed Value (AV) in Los Osos [1]	$2,220,274,186
Proposition 13 Basic 1% Property Tax Rate	*$22,202,742*
General Fund Property Tax Allocation [2]	
County Allocation	23.12%
Annual EIFD Tax Increment Projection in Year 1	
@ 4% Avg. annual increase in AV (County Only)	$205,359
Annual EIFD Tax Increment Projection in Year 5	
@ 4% Avg. annual increase in AV (County Only)	$1,112,290
Estimated Net TI Bond Proceeds [3]	
@ 4% Avg. annual increase in AV (County Only)	$12,037,433

[1] Assessed Value of land and improvements in Los Osos as of FY 2019/20.
[2] Allocations to the County may vary by TRA.
[3] Using Year 5 tax increment revenue, bond proceeds estimate assumes a 5% interest rate, 30 year term, 1.25 debt coverage factor, and issuance cost equal to 12% of gross bond proceeds.

In its fifth year, an EIFD could generate more than $1 million per year of revenue. This Financing Plan does not assume EIFD use due to the need in the County for property tax revenue to pay for ongoing services and the opportunity cost of diverting incremental revenue.

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2 San Luis Obispo County Property Tax Estimates and Delinquencies, FY 2019/20. County General Fund allocation is 23.12315 percent, post-ERAF shift.

Establishment

The establishment of an EIFD requires approval by every local taxing entity that will contribute its property tax increment. In 2019, Assembly Bill 116 eliminated the voting requirement to issue bonds but does require three public hearings on the topic of the District's financing plan.

Cost Burden

The incidence of burden of an infrastructure financing district is local taxing jurisdiction that foregoes property tax revenue for services and dedicates these funds to infrastructure or other eligible investments.

Economic Considerations

EIFDs redirect property taxes otherwise accruing to the General Fund. The value created by the project is captured and invested in the District. However, only specific types of public investments of community-wide significance may be financed through an EIFDs. EIFDs cannot be used to finance operations and maintenance expenses.

Development-Based Financing Mechanisms

Development Impact Fees
(authorized by Section 66000 et. seq. of the Government Code)

A development impact fee is an ordinance-based, one-time charge on new development designed to cover a "proportional-share" of the total capital cost of necessary public infrastructure and facilities. The creation and collection of impact fees are allowed under AB-1600 as codified in California Government Code Section 66000, known as the Mitigation Fee Act. This law allows a levy of one-time fees to be charged on new development to cover the cost of constructing the infrastructure needed to serve the demands created by the new development.

To the extent that required improvements are needed to address both "existing deficiencies" as well as the projected impacts from growth, only the portion of costs attributable to new development can be included in the fee. Consequently, impact fees commonly are only one of many sources used to finance needed infrastructure improvements. Fees can be charged on a jurisdiction-wide basis or for a particular sub-area of the jurisdiction (such as a specific plan area).

Establishment

Development impact fees can be imposed through adoption of a local enabling ordinance supported by a technical analysis showing the "nexus" between the fee and the infrastructure demands generated by new development. Fees may be charged for a particular improvement (e.g., the County's Road Improvement Fees) or include multiple infrastructure improvement categories in a comprehensive program (e.g., the County's Public Facilities Fees). Impact fee programs must be reviewed annually and updated periodically to assure adequate funding and proper allocation of fee revenues to the infrastructure for which the fees are collected.

Cost Burden

The burden incidence of development impact fees is upon the project developers and builders who pay the fees. Fees are a cost of development and are "internalized" into project costs in the same manner as all other development- and construction-related costs. There is no direct effect of fees on development pricing, because the markets set pricing independent of costs. However, when costs are too high for the market to bear, development may be deterred until such time as prices justify costs. All costs will influence land value, so it is often the case that landowners bear a portion of the cost of fees through lower land values (prices paid by developers or builders). So long as total development costs fall within a reasonable level, potential negative effects on development feasibility effects are manageable.

Economic Considerations

There are a number of specific economic considerations of development impact fees including:

- The effects of fees on the financial feasibility of new development and potential to deter otherwise desirable development (due to excessive costs); and

- The competitiveness effects of higher development costs (compared to neighboring jurisdictions) leading to dislocation of desired development.

A benefit of impact fees is that they provide a comprehensive and programmatic framework for identifying and allocating infrastructure costs to new development based on a demonstrated nexus between the new development and infrastructure need. In addition, there is no discretion on the part of developers subject to the fees nor is voter approval required.

The County already has two fee programs in place as described below and could consider others if warranted. For example, a stormwater infrastructure development impact fee could help fund drainage improvements; the Road Improvement Fee program could be expanded to include multimodal and transit improvements; and/or the parks component of the Public Facilities Fee Program could be expanded to include trails:

- ***County Public Facility Fees***
  (authorized under Title 18 of SLO County Code)

  New private development in unincorporated San Luis Obispo County is charged a public facility impact fee that is used to fund government, sheriff, park and recreation, library, and fire facilities. County Public Facility Fees may be used anywhere in the County as long as funds are spent on projects that are identified as part of the fee program; they are not required to be used in the community from which they are generated. The fees were last updated and adopted in November 2019.

- ***Road Improvement Fees (or Transportation Impact Fees)***
  (authorized by Title 13 of SLO County Code, 13.01.020)

  Several communities in San Luis Obispo County, including Los Osos, charge road improvement fees to new residential and commercial development to fund improvements that mitigate the future effects of new development. Currently, the fee is assessed per Peak Hour Trip, and it varies by community (and sometimes within a community) and by land use type (e.g., residential, retail and other). Los Osos is in Subarea A of the North Coast Fee Area.

  The funds collected are used to fund capital road improvement projects as identified in each community's Circulation Study and in the impact fee update report. Revenues collected from the Los Osos Improvement Fee Program must be spent on projects identified as part of the fee program in the Community from which they are collected. Though the funds may not be used for standard annual road maintenance, major rehabilitation may be an appropriate use of road improvement fees in the future.[3]

[3] California Gov't Code Sec. 66001(g) states: "A fee… may include the costs attributable to the increased demand for public facilities reasonably related to the development project to

(1) refurbish existing facilities to maintain the existing level of service…" The code includes streets as a public facility.

To qualify as an appropriate use of impact fees, the improvement(s) would need to be included in a fee program update and the action would need to be consistent with the County's road improvement fee ordinance. The County's ordinance does not appear to specifically exclude major road reconstruction projects, although revisions to the ordinance to include such projects would provide another layer of policy and legislative support.

G-7 Funding Sources and Financing Mechanisms

Parkland (Quimby) Fees
(authorized by the Subdivision Map Act and Title 21 of SLO County Code)

In addition to the parks component of the Public Facility Fees, park and recreation improvements are funded through the Quimby Act requirements (for parkland acquisition) through the subdivision process. Within the County's Public Facility fee program, park impact fees are based on both land acquisition and development costs at an established service standard of three acres per 1,000 residents. New development that pays a Quimby Fee is exempt from the land portion of the park impact fee.

Establishment

A Quimby in-lieu fee is a fee that may be paid in lieu of dedicating parkland as part of a residential subdivision. In-lieu fee programs must be updated periodically to make sure the fee is based on current land values.

Cost Burden

As with development impact fees, the burden incidence of Quimby in-lieu fees is upon the project developers and builders who pay the fees.

Economic Considerations

The economic considerations of Quimby in-lieu fees are similar to those of development impact fees. A benefit of Quimby in-lieu fees is that the revenue can be used to acquire parkland and/or improve the parkland. In addition, there is no discretion on the part of developers subject to the fees nor is voter approval required.

Utility Fees and Connection Charges
(authorized by Section 66013 et. seq. of the Government Code)

Utility connection charges from new development can fund utility infrastructure improvements. Revenue bonds may be issued and secured by a utility rate charge base and may be used for expansion to serve future development. The Los Osos CSD charges water connection fees for new development according to the schedule shown below on **Table G-6b**. Connection fee revenues are to be used for water-related capital improvements that benefit new development.

Table G-6b Los Osos Community Services District Water Utility Impact Fee Schedule

Land Use Category and/or Meter Size	Water
Residential	
Single Family	$2,485 per unit
Multifamily	$1,938 per unit
Mobile Home	$1,292 per unit
Nonresidential Meter Size	
1" or less	$2,584 each
1 ½"	$8,605 each
2"	$13,773 each
3"	$30,155 each
4"	$51,680 each
6"	$107,675 each

Source: Los Osos CSD, 2011 schedule.

Developer Dedications, Contributions, and Exactions

Developers are often asked to contribute to the funding of infrastructure through project-specific improvements, whether as part of individual project approval or as part of a broader set of area-wide design guidelines or other regulatory requirements. Typical examples might include improvements to the sidewalks in front of the new development and the planting of street trees consistent with the County's or community's direction. Developer contributions can be formalized through Development Agreements (DA). When applicable, Development Agreements can ensure timely funding of infrastructure development.

Dedication Requirements

Under the Subdivision Map Act, developers may be required to dedicate land or make cash payments for public facilities and infrastructure improvements required or affected by their project. Dedications are typically made for road and utility rights-of-way fronting individual properties, parkland, and land for other public facilities directly required by their projects (e.g., payments for a traffic signal).

Development Agreements

A development agreement (DA) is a legally binding agreement between a local government and developer authorized by State statute (Government Code Section 65864 et seq.). A DA is a means for a developer to secure a development entitlement for a particular development project for an agreed upon period (often long-term approvals) in exchange for special considerations by the city (or county), generally including infrastructure improvements, amenities, or other community benefits that cannot be obtained through the normal conditions applicable to the project. DAs are entirely discretionary on the part of local government (there is no nexus requirement) and must be individually adopted by local ordinance. Development agreements vary widely and cities often establish their own policies and procedures for considering development agreements.

Project-Specific Conditions and Exactions

Before the advent of ordinance-based development impact fees, it was common for infrastructure to be funded by the developer through project-specific exactions imposed by the local jurisdiction, including direct payments for or construction of infrastructure required as a condition of subdivision or project approval. While development impact fees have reduced the use of exactions, exactions remain an important part of development-based infrastructure financing as there are often infrastructure requirements of a new project that are not included in the applicable fee programs. Determination of the need for such additional infrastructure is based on "rough proportionality" (i.e., nexus) with the development itself and is often derived from CEQA-based mitigation measures.

Grants

Grants provide external funding from regional, state, and federal sources. Many grants require local matches. Apart from local match requirements, there are significant staff costs associated with grant funding, including staff time during the application process and during the project. Grant funding is often limited to capital improvements with maintenance responsibilities falling to the local jurisdiction, or perhaps the CSD.

Regional, State, Federal Transportation Funding

Transportation authorities may fund portions of certain regional-serving transportation facilities and improvements through the administration of state and regional funding sources. In San Luis Obispo County, the San Luis Obispo Council of Governments (SLOCOG) administers myriad funding sources for circulation-related improvements. A current description of available funding sources is made available by the San Luis Obispo Council of Governments.[4] Among the funding sources that may be the most appropriate for the circulation improvements needed in Los Osos, the following stand out:

- **Federal Surface Transportation Block Grant Program (STBGP)/State Highway Account (SHA).** Typical projects funded in this program include: roadways, bridges, transit capital, bike, and pedestrian projects. As part of the State Highway Account, the Safe Routes to School program is a grant program administered by SLOCOG and could be used to fund sidewalk improvements. The Program is designed to encourage more children to walk or ride bikes to school by reducing the barriers to doing so, such as a lack of infrastructure or unsafe infrastructure. Through the passage of AB 57, the Program was extended indefinitely with funding provided from the State Highway Account.
- **Federal Congestion Mitigation and Air Quality (CMAQ), as amended by the FAST Act.** In San Luis Obispo County, these funds have been used for: rideshare, vanpools, and new buses; intersection, roundabout and channelization projects; and bike and pedestrian improvements. In Los Osos, bike and pedestrian projects may be competitive for the funding. No match is required.
- **State Active Transportation Program (ATP).** The ATP was created to encourage walking and biking. Increasing the use of active transportation as a mode of travel can have several benefits, such as: improving health and relieving congestion. ATP is used to build more bike paths, crosswalks, and sidewalks.
- **State/Regional Transportation Improvement Program (STIP/RTIP).** The STIP is the State's ongoing 5-year program of projects to enhance and expand highways, but can also fund local

[4] San Luis Obispo Council of Governments Funding & Programming: https://www.slocog.org/programs/funding-programming

road improvements and certain transit projects. Related is the RTIP; RTIP funds are the region’s primary source of funding highway improvements. Allowable uses also include capital improvement projects including local roads, public transit (including buses), intercity rail, pedestrian and bike facilities, grade separations, transportation system management, transportation demand management, sound walls, intermodal facilities and safety. In Los Osos, for example, Los Osos Valley Road is a regional-serving road, and as such, statewide transportation funding may be available to fund these improvements.

Regional, State, Federal Parks and Recreation Funding

- **Proposition 68.** In 2018, California voters approved a $4 billion Parks and Water Bond Act (Proposition 68) to finance a drought, water, parks, climate, coastal protection, and outdoor access for all program. Grants specifically related to projects along the California coast that are designed to increase the availability of and access to beaches, parks and trails for the public are administered through the California Coastal Conservancy. The coastal access improvements identified for Los Osos may be appropriate candidates for funding.

Regional, State, Federal Utility Funding

- **Community Development Block Grants.** CDBG funds are provided as grants to fund housing activities, public works, community facilities, and public service projects serving lower-income people, either through the "Community Development" or "Economic Development" programs. Through the "Community Development" component, public improvements such as water and wastewater systems may be funded. In Los Osos, CDBG grants may be appropriate for communitywide water and wastewater projects, as well as low-income housing lateral connections.

Regional, State, Federal Community Facilities Funding

- **USDA Rural Community Development Initiative Grants.** This program provides funding to help non-profit housing and community development organizations support housing, community facilities, and community and economic development projects in rural areas. Low-income communities with fewer than 50,000 residents may be eligible. Grants range from $50,000 to $250,000, and a local match is required.

Other Funding or Financing Sources

General Fund and CIP Funding

County General Fund Contributions to Capital Improvement Programs

The County's Capital Projects budget includes funding from the Capital Fund and other reserves, grants, departmental funding, bond financing and the General Fund.[5] Policies governing the development and selection of capital improvement projects are set forth in the Budget Policies and Goals approved by the Board of Supervisors each year.

One of the most important things to do to implement the Los Osos Community Plan is to advocate for inclusion of the identified public facilities and infrastructure needs in the County's Capital Improvement Program. Inclusion in the CIP is a signal to SLOCOG and other regional and state entities that the improvement is a community priority.

Sales or Transient Occupancy Tax Increase

With two-thirds voter approval, the County could adopt countywide special tax increases, such as a sales tax increase to fund infrastructure and facility improvements, or a transient occupancy tax increase to fund placemaking and beautification projects, for example. Depending on the level of tax increase, significant revenues can be generated, though there is often industry and community resistance to such increases. The current sales tax rate (in the Community of Los Osos) is 7.25 percent, and the current transient occupancy tax rate is 9.0 percent.

Establishment

Creation of new general or special revenues and any related issuance of bonds supported by such revenues are limited by State constitutional requirements and statutes that require voter approval of greater than 50 percent for general taxes and two-thirds approval for special taxes (i.e., those earmarked for particular uses).

Cost Burden

The incidence of burden falls to those paying the taxes or rates. For example, sales taxes are paid by residents, businesses, employees, and visitors, while transient occupancy taxes are paid by visitors. The rationale for this payer burden is that these residents, businesses, employees, and visitors will benefit from the investments made in infrastructure and development.

Economic Considerations

Use of various general fund sources to support infrastructure investments including repair and replacement of existing infrastructure, as well infrastructure that serves new development, requires little additional administrative effort and is typically secure given the broad range of revenue sources pledged to the financing. However, the use of existing General Fund revenue is limited by current demands to support ongoing operations.

Financing Mechanisms

Statewide Community Infrastructure Program

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[5] The Capital Fund is dedicated to funding improvements identified in the capital improvement program and typically includes allocations of one-time and/or periodic funds. The General Fund usually relies on ongoing revenue sources to fund ongoing operations, but may allocate some of these general revenues to the Capital Fund.

The Statewide Community Infrastructure Program (SCIP) is a program of the California Statewide Communities Development Authority that makes use of a local government's ability to create land secured financing districts. Because the obligations are "pooled" they typically can gain a comparatively lower interest rate, and issuance costs, particularly if the issue is small, will be reduced.

The Authority is a joint powers authority sponsored by the League of California Cities and the California State Association of Counties (CSAC). Membership in the Authority is open to every California city and county. SCIP financing is available for development projects situated within cities or counties (local agencies) which have elected to become SCIP participants. Eligibility to become a local agency requires only (a) membership in the League of Cities or CSAC, as the case may be, (b) membership in the Authority, and (c) adoption of a resolution making the election (the "SCIP Resolution").

Participation in SCIP entails the submission of an application by the property owner of the project for which development entitlements either have been obtained or are being obtained from a Local Agency. For Projects determined to be qualified, SCIP provides non-recourse financing of either (a) eligible development impact fees payable to the Local Agency (the "Fees") or (b) eligible public capital improvements (the "Improvements") or both. Under certain circumstances, to be determined on a case by case basis, development impact fees payable to local agencies other than the Local Agency can also be used as repayment for upfront SCIP funding.

Applicants benefit from SCIP because it allows them to obtain low-cost, long-term financing of fees and improvements, which can otherwise entail substantial cash outlays. The Local Agencies benefit from SCIP because it encourages developers to pay fees sooner and in larger blocks than they otherwise would. The availability of low-cost, long-term financing also softens the burden of rising Fee amounts and Improvement costs, benefiting both the Applicants and the Local Agencies.

Revenues to pay debt service on the Bonds are derived by the Authority in one of two ways: 1) through the levy of special assessments on the parcels which comprise the participating Projects by establishing one or more assessment districts pursuant to the Municipal Improvement Act of 1913; or 2) through the levy of special taxes on the Project parcels by establishing a CFD pursuant to the Mello-Roos Community Facilities Act of 1982.

California Infrastructure and Economic Development Bank (I-Bank)[6]
(authorized by Section 63000 et. seq. of the Government Code)

The California I-Bank is State-run financing authority that operates the Infrastructure State Revolving Fund (ISRF) Program. This ISRF Program is a statewide program that provides low-cost loans up to $10 million per project to local municipal governments for a wide variety of public infrastructure that provide local economic development benefits, such as:

- City streets
- County highways
- Drainage, water supply and flood control
- Educational facilities
- Environmental mitigation measures
- Parks and recreational facilities
- Port facilities
- Power and communications
- Public transit

[6] More information can be found at http://www.ibank.ca.gov.

- Sewage collection and treatment
- Solid waste collection and disposal
- Water treatment and distribution
- Defense conversion
- Public safety facilities
- State highways
- Military infrastructure

An application is required for these loans, and loans require a stable and reliable source of repayment. If approved, loan repayment could be funded through a special tax if approved by voters. The Los Osos CSD, for example, could eligible for I-Bank funding for infrastructure projects that benefit CSD customers; in this circumstance, the loan payments could be funded through CSD rate revenues.

Sources of Funds by Type of Improvement

In the following section, the potential funding sources described above are aligned with specific improvements. Additional detail is provided below.

Utility Infrastructure

Utility infrastructure improvements include water supply, water distribution, wastewater, stormwater, and solid waste improvements.

- **State Water Project.** The State Water tax rate is the result of a water supplement agreement between the SLO County Flood Control District and the California State Department of Water Resources (DWR), entered into in 1963, and is charged to every parcel within the County of San Luis Obispo. The revenue generated by this tax rate is used solely to make the contractual payments required by the DWR agreement, which is currently set to expire in 2035.
- **Water Rates and Connection Fees.** The CSD charges water connection fees for new development which can be used to fund water utility improvements identified in the supporting fee program nexus documentation. CSD Utility Connection Fees are estimated to total nearly $5 million during the development horizon of this PFFP. In addition, the CSD charges water rates which can be used to underwrite revenue bonds. CSD projects are not included in the County's CIP.
- **Community Facilities District.** A special tax to fund stormwater and drainage improvements could be considered. In the past, and for larger drainage projects in the County, assessment districts have been established, and the revenues have been used to leverage Federal FEMA funds and State Proposition 1E Funds.
- **Parcel Tax.** The existing parcel tax to fund wastewater improvements may need to be extended if there are still unfunded wastewater improvements needed in the Community.
- **Development Impact Fees.** A countywide development impact fee program focused on utility infrastructure, particularly stormwater and drainage improvements, could be established, though this would need to be evaluated in the context of the existing development impact fees to ensure a reasonable cost burden.

Transportation

Transportation, or circulation, improvements include road improvements, sidewalks, streetscapes, bicycle lanes and paths, and coastal access improvements.

- **Project Development Standards.** Those improvements that relate directly to the new development (e.g., sidewalks and some streetscape improvements) currently are funded by the developer as part of the new development.

- **Capital Improvement Plan.** Those projects specifically identified in the Capital Improvement Plan, can be funded through the County's Capital Projects. There are three transportation improvements planned for Los Osos identified in the CIP:

    - Turri Road Slipout
    - South Bay Boulevard Bridge Replacement
    - El Moro Avenue Pedestrian Enhancements
- **Road Improvement Fees.** Road improvement fees are collected in Los Osos to fund improvements that mitigate the effects of new development and new growth. Road Improvement Fees cannot be used for routine maintenance, although periodic and comprehensive rehabilitation or reconstruction projects may be an appropriate use of these fees.[7] The revenue must be invested in the area from which it was collected and on projects identified in the Community's circulation study and included in the fee program nexus study.
- **Transportation Grants.** Regional roadway improvements may be more competitive for grant funding than local roadway improvements. There are several grants that are appropriate for bike and pedestrian improvements. In some cases, sidewalk costs potentially could be funded through grants administered through SLOCOG, such as the Safe Routes to School program, which is designed to encourage more children to walk or ride bikes to school by reducing the barriers to doing so, such as a lack of infrastructure or unsafe infrastructure.
- **Parks and Recreation Grants.** Coastal access is an important part of life in Los Osos. State grant programs funded through the Parks and Water Bond Act of 2018 (Proposition 68) is administered through the Coastal Conservancy. The County has been successful at securing these grants in the past, and the coastal access improvement at Mitchell Drive/Doris Avenue and Bay Street/7th Street/Pecho Road in Los Osos could be appropriate candidates.

Public Facilities

Public facilities improvements include public parks and open space, trails, schools, libraries, community/civic facilities, public service facilities, and public safety buildings.

- **Development Impact Fees.** The County has already established Public Facility Development Impact Fees for Government, Administration, Sheriff, Parks, Library, and Fire. The fees collected cannot exceed new development's fair share allocation, and therefore, are not available to fund improvements that are required due to existing deficiencies. Based on development potential through 2040, Public Facility Development Impact Fees could total approximately $11.9 million. With an identified need of at least $23.4 million, public facility improvements will require the identification of additional funding sources.

  With respect to the park and recreation component of the Public Facility Development Impact Fee Program, it could be appropriate to update the fee program and to broaden its scope to include trails, in addition to parkland and park improvements.

  According to the County's Infrastructure and Facilities Capital Improvement Plan, Board policy states that library projects are expected to be funded with 50 percent of the cost coming from the community in which the library improvements are proposed. The Library expansion project in Los Osos is included in the current CIP with planned public expenditures of $6.8 million. Funding is expected from the library component of the Public Facility Fee revenue.[8]

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7 California Gov't Code Sec. 66001(g) states: "A fee… may include the costs attributable to the increased demand for public facilities reasonably related to the development project to (1) refurbish existing facilities to maintain the existing level of service…" The code includes streets as a public facility.

8 County of San Luis Obispo, Infrastructure and Facilities Capital Improvement Plan, FY2020-21 – FY2024-25, Appendix 3.

The remainder of the funding needed is expected to come from the Los Osos Friends of the Library organization.

- **Quimby Fees.** Quimby in-lieu fees can be used for the purchase of new parklands and/or the construction of new parks-related facilities or rehabilitation/restoration of existing park lands and facilities. Current fees are $705 per multifamily unit and $926 per single family unit. Quimby in lieu fees apply only to residential subdivisions.
- **Grants.** Other non-project funding may include grants, which may be available to fund a wide spectrum of public facilities, from trail improvements to transit-related improvements.

Facility Operations and Maintenance

While facility operations and maintenance costs are not specifically estimated in the Community Plan, each of the identified improvements will have annual maintenance costs associated with them. There are few funding sources available to fund maintenance activities; most funding sources are intended to fund the one-time construction of the improvements or facilities. As such, maintenance costs associated with the types of improvements identified in this report typically will be funded through County or CSD General Fund expenditures and utility rates and charges.

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