

Appendix E ~ Potential Funding Resources

1 Introduction

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

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

2 Private Funding

Private funding can take the form of a range of personal capital expenditures, exactions, dedications, and contributions made by property owners and developers to pay for specific new projects that serve their properties. As an alternative to providing required funding up-front, property owners and developers are often willing to participate in assessment districts or other special taxing arrangements that provide a long-term financing mechanism for costly projects.

3 Redevelopment Tax Increment Revenues

Briefly, the redevelopment “tax increment,” mechanism works as follows. When a redevelopment project area is adopted, the existing assessed valuation of property within that area is established as the “base year” assessed value. Any increases in assessed value within the project area over and above the “base year” are referred to as property “tax increment” which accrues to the redevelopment agency and other eligible “pass through” civic entities to carry out the programs envisioned in the adopted redevelopment plan. This “tax increment” revenue is the primary source of revenue available to undertake redevelopment programs in California.

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

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

1. Redevelopment Capital Projects Fund

Based on information provided by the Grass Valley Redevelopment Agency, it is estimated that approximately \$ 600,000 is available annually in the Agency's capital projects fund for all projects in the Redevelopment Project Area.

2. Redevelopment Housing Set-Aside Fund

Based on Agency financial projections, it is expected that this fund will collect \$150,000 in new revenues in 2003/2004. The Housing Set-Aside Fund represents a significant source of annual revenue that can be used for preservation and development of housing for low-and moderate-income households. Potential uses of these funds could include assisting with on- and off-site improvements, providing assistance for the development of new housing anywhere in the Plan Area that would be targeted for low- and moderate-income households, and providing funds to assist with rehabilitation of housing occupied by low- and moderate-income households.

4 TEA21 Funds

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

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

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

5 TDA Funds

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

While this funding source is primarily intended to finance transit system capital projects and operations, the City can apply to spend a portion of its TDA allocations on different types of roadway, pedestrian, and bike improvements, if the City first makes findings that other transit needs which can reasonably be addressed have been met.

6 Grant Funding Sources

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

7 Special Assessment Districts

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

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

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

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

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

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

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

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

The Improvement Bond Act of 1915 does not authorize assessments, but instead provides a vehicle for issuing bonds (including variable interest bonds) to be repaid through assessments levied under the 1913 Act (as well as a number of other benefit assessment statutes). Assessment bonds are not a direct obligation of the issuing agency, and are not considered a personal or corporate indebtedness of the respective property owners paying the assessments. The bonds are secured by a public lien on the

individual parcels (i.e., property benefiting from the improvements). Under the 1915 legislation, the local legislative body may also issue “bond anticipation” notes prior to actual bond sale - in effect borrowing money against the assessment bonds being proposed for sale.

2. Landscaping and Lighting Act of 1972

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

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

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

8 Community Development Block Grant Program

The City of Grass Valley is a Community Development Block Grant (CDBG) “small city” community, meaning that the City must compete for Federal funds from the U.S. Department of Housing and Urban Development to use for various community development purposes. Eligible uses can include certain public improvements/facilities, social services, economic development, and housing rehabilitation and development activities primarily benefiting low- and moderate-income households.

The Housing Investments Partnership Program (HOME) was created through the Crantson-Gonzalez National Affordable Housing Act of 1990. The objectives of HOME are to provide decent affordable housing to lower-income households, to expand the capacity of nonprofit housing providers, to strengthen the ability of state and local governments to provide housing, and to leverage private sector participation. Eligible activities under HOME include first-time homebuyer assistance, homeowner rehabilitation, new home construction, acquisition and rehabilitation of housing, and tenant-based rental assistance. The City of Grass Valley has successfully competed for HOME funding since 1998 through the State and is eligible for up to \$3,500,000 on an annual basis.

9 General Revenues

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