Unincorporated Communities and Infrastructure Financing

CALAFCO Annual Conference
10.08.10 – 9:00 am Breakout Session
Overview

- Causes and characteristics
- Obstacles to annexation of inhabited islands
- Infrastructure Financing Options
- Case Studies
- LAFCO as Part of the Solution
Great diversity of inhabited island size and circumstance (will influence solutions).

Largely the result of lax development regulations during the early post World War II development boom (50s & 60s).

Islands commonly have infrastructure and services below that of surrounding municipal area.

Resident resistance through petition power has also been a factor (resistance to higher taxes).

Economically disadvantaged socio-economics a common factor (Modesto case).
Obstacles to Annexation of Inhabited Unincorporated Islands

- Cost to address inadequate or lack of utility infrastructure (sewer, water, storm drains).
- Cost to upgrade inadequate and poorly maintained roads, parks, and other infrastructure.
- Cost of deferred maintenance of infrastructure.
- Largely “built-out” character of most islands limiting growth in tax base.
- Voter-approval requirements for most financing mechanisms.
- Inadequate revenues to fund post-annexation municipal services.
Obstacles to Annexation of Inhabited Unincorporated Islands

- Complex and difficult tax exchange procedures (City and County property tax exchange)
- Limited or no financial incentives from State
- Existing local government financing regime (Proposition 13, situs-based sales tax allocation, etc.)
- Ongoing effects of Great Recession and California Fiscal Crisis further reduce incentives and resources.
Infrastructure Financing Options

- Tax exchange provisions tapping special district and County TAF (property tax)
- Extension of existing City general taxes (e.g. utility user taxes) to island areas
- New voter-approved taxes or assessments
- Sewer and water rates and rate surcharges
- Municipal redevelopment powers
- State and Federal grant funding and economic development
Tax Exchange Provisions

- Revenue and Tax Code Section 99 defined.
- Negotiation with County in the defining role.
- “Revenue follows service responsibilities” is normal logic of exchange.
- Property tax exchange agreements can cover a wide range of topics and revenue sharing options.
- Agreements can be “master” agreements or negotiated “ad hoc”.

Pros & Cons – Tax Exchange

**Pros**
- Existing source of funding
- Special district allocation can be significant (e.g. fire district).
- No increases in local taxes

**Cons**
- State has undermined property tax revenues, reducing its ability to cover regional or municipal service costs
- Underlying weakness and limitation of property taxes
- Often limited tax increment (new assessed value) in inhabited islands
Cities often have general tax provisions that exceed those in unincorporated county areas (e.g. utility users taxes, sales tax overrides, etc.)

These general taxes are generally extended to annexing areas without voter approval.

Taxes normally required to cover cost for service improvements.

Fees can contribute to capital projects.
Pros & Cons—Gen’l Tax Extension

**Pros**
- Existing source of revenue to offset additional service costs
- Fee programs, including utility service connections do not require voter approval

**Cons**
- Tax revenues are usually necessary to fund services—not infrastructure deficiencies
- Limited development potential of inhabited islands reduces fee revenue potential
Voter-Approved Taxes/Assessments

- Full range of authorized special taxes and assessments can be levied in island areas (1913/15 Act Assessment Bonds, Community Facility District special taxes, etc.)
- Funding for a wide range of municipal infrastructure and services can be provided.
- Often combined with other funding programs (fees, State loans, etc.).
**Pros & Cons - Taxes/Assessments**

**Pros**
- Wide range of mechanisms available to fit particular circumstances
- Cost-effective and secure public financing
- Extensive use and experience by cities in developing areas

**Cons**
- Generally requires two-thirds voter approval
- Voter approval difficult in inhabited area
- Economic disadvantaged character of area may limit additional tax burdens imposed
Utility Rates & Charges

- Sewer and water utility infrastructure commonly funded with a portion of rates and charges.
- A surcharge can be applied to utility rates to fund improvements through revenue bond.
- Connection charges are privately funded by property owners.
Pros & Cons - Rates & Charges

**Pros**
- Demand-based source of funding
- Rates and charges normal part of home or business ownership
- No voter approval for rates or rate surcharges

**Cons**
- Limited funding may be available given feasible rates and charges
- Prop. 218 requirements
- Voter opposition to rate increases affects municipal politics
Redevelopment

- Cities & counties have authority to create Redevelopment Agency and Project Areas that can address blighted conditions
- Powers of the Agency include financing with property tax increments
- Commonly used technique with hundreds of active project areas in the State
- Project area and strategy can and has been be targeted at islands
Redevelopment Basics

- Formation of a redevelopment project area in urbanized communities
- +/-12 month process to determine eligibility and adopt redevelopment plan/project area
- Startup costs includes consultants, legal and noticing
  - $225,000 and up, depending on size
- Redirects future increases in tax increment revenue for:
  - Infrastructure and other redevelopment uses (50%)
  - Affordable housing (20%)
  - Statutory payments to taxing agencies (30%)
Pros & Cons - Redevelopment

Pros
- No increase in tax rates
- Attractive, sustainable income stream
- Local control over use of funds
- Can be more comprehensive
  - Economic development
  - Affordable housing

Cons
- Eminent domain fears sometimes unavoidable
- Urbanization requirements limits applicability in rural or underdeveloped areas
- County sacrifices future growth in property taxes
- Blight requirements & potential legal challenge
- State raids on local redevelopment funds
- Limits operating revenues
Redevelopment Recommendations

- Evaluate applicability in developed areas
  - Community support
  - Collaboration between County & City
  - Legal & financial feasibility

- Can be an effective tool for areas with potential for growth

- Not a panacea for areas with little potential and complex problems
State and Federal Grant Programs

- Various grant funding and other programs exist
- Can be used in combination with other funding efforts
- Description of Federal, State and other programs
  - See Handout
  - Additional Information available at www.webrsg.com
Pros & Cons—Fed/State Funding

**Pros**
- State and federal funding is “free” to the local jurisdictions
- Diversity of programs exist
- Stimulus funding continues to be available

**Cons**
- Uncertainty and competitiveness of programs
- Funding often limited or restricted to particular projects
- One-time funding only
Case Studies

- Oroville
- Placerville (city-county partnership)
- Roseland, Santa Rosa
- Los Trancos Sewer Project, San Mateo County
Oroville (South Oroville)

- Community of 13,000 residents
  - Massive SOI (nearly 4x City limits)
  - Significant social and service issues in unincorporated area
- Proliferating development, little plan for meeting service needs by County
South Oroville

Figure 1 Annexation Study Area

Figure 4 Redevelopment Sub Area

- Existing Oroville City Limit
- Annexation Study Area
- South Oroville Redevelopment Sub Area
South Oroville - Solutions

- Modify SOI to Realistic Boundaries
- Annex Areas Incrementally
  - Fiscally Neutral initially
  - Establish Better Collaboration on Future Development
- Amend City’s Existing Redevelopment Area to Include Eligible County Territory
- Extend/Contract Municipal Services
Placerville

- Smith Flat/Motor City
- City & County Partnering on Redevelopment before Annexation
- Annexation may take Several Years
Los Trancos Sewer Extension Project
(60 non-contiguous homes)

- Los Trancos Unincorporated Neighborhood
  (149 total homes)
- Served by septic with documented failure and chronic problems.
- District’s position to not take role in funding new infrastructure
- County takes lead with CSAC SCIP bond program.
- Nine year process to “find” funding
Figure 3
Proposed Sewer Lines

Source: West Bay Sanitary District and San Mateo County
Expensive form of financing

8,500 feet of sewer main

Estimated construction (mains, permits, road restoration, bond costs,) $3,9mm or an average of approximately $65,000 per household based 60 non-contiguous parcels but $4,890 per year on tax bill

County as member of CSAC participated California Statewide Communities Development Authority Assessment District
Roseland (Southwest Santa Rosa)

- "Poster child" inhabited island with a population of 6,000 people
- Surrounded by newer developed lands the City has annexed around the area.
- Concentration of socioeconomically disadvantaged households
- Existing RDA Project Area limits property tax available for municipal services
- Lack of successful tax exchange negotiations has stalled annexation for decades
Roseland Infrastructure
Requirements

- Road section improvements
- Curbs, gutters, sidewalks
- Some sewer/water connections
- Parks and recreation facilities
- Public safety facilities and equipment
Roseland Island Financing Options

- Economic development to improve property values and tax base
- Imposition of City fees, charges, and rates
- Phased improvement of infrastructure
- Special district reorganization
- Extension of existing City general taxes
- Use of redevelopment powers and financing
- Targeted State and Federal grant funding
- Investments in area from surrounding developing area sources (where justified)
LAFCO as Part of the Solution

- Municipal Sphere Reviews & Sphere Updates
- Conditioning annexation proposals (linking island annexations to undeveloped territory annexations)
- Comment on City/County Capital Improvement Plans/General Plan Updates
- OSA’s versus on ad hoc basis versus establishing program for planned infrastructure extension
Thank You

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