

INFRASTRUCTURE TASK FORCE FUNDING OPTIONS

CITY OF ENCINITAS

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Harris & Associates



PROJECT TEAM

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PRESENTATION AGENDA

- Background & Task
- Funding Options Overview & Matrix
- Ballot Initiatives Overview
- Funding Options Details
- Questions



TASK

IDENTIFY FUNDING SOURCES

- Matrix of potential funding sources to fund City Infrastructure
- Not Municipal Financial Advisors
- City Staff identified needed projects:
 - Engineering – Capital Improvements
 - Engineering – Traffic/Mobility
 - Utilities – SDWD/Water/Sewer
 - Information Technology
 - Public Works
 - Development Services – Climate Action
 - Development Services – Coastal Management
 - Public Safety – Fire/Marine
 - Parks, Recreation, and Cultural Arts



ENCINITAS:
\$948 MIL
IN CAPITAL
PROJECT NEEDS

FUNDING OPTIONS

- **Requires 2/3 Voter Approval**
 - Special District Parcel Tax
 - Community Facility Districts (a.k.a Mello-Roos)
 - Public Bond Measure
- **Requires 1/2 Voter Approval**
 - Assessment District
 - General Sales Tax Increase
 - Transient Occupancy Tax Increase
- **Requires Studies and Fee Calculations**
 - Development Impact Fee Update/New Fees
 - Transportation Utility Fee
- **Requires Special Conditions/Agreements**
 - Enhanced Infrastructure Financing District
 - Private Loans/Borrowing
 - Grants
 - Public Private Partnerships

FUNDING MATRIX – REQUIRES 2/3 VOTER APPROVAL

	Special District	Community Facility District (CFD)	Public Bond Measure
Description	Parcel tax for a specific purpose	Special tax district to fund public improvements and services	Long-term borrowing that governments frequently use to raise money - the loan repayment comes from a tax on all taxable property within that jurisdiction's boundaries
Authority	Laws passed by the State Legislature, Principal Acts	Mello-Roos Community Facilities Act of 1982 (Government Code Section 53311 et. seq.)	Laws passed by the State Legislature
Eligible for Funding	Specific or particular purpose only	Public services and capital projects, including maintenance	Primarily used for long-lived infrastructure assets, Bond will identify eligible projects
Rate & Methodology	Apportioned out to each parcel within the special district	Not subject to strict principles of benefit assessment, tax formula must be reasonable, allows for defined tax exemptions	Bond amount is set - duration of loan established (usually 30 years) and is repaid by taxpayers over the length of the bond
Assessment	Fixed rate per property parcel based on either square footage or flat charge for a specified length of time	Maximum Annual Special Tax Rate, may run in perpetuity	Payback of loan is dispersed through collection of taxes
Concerns	Requires ballot measure, costly, requires 2/3 registered voter approval	Higher taxes and can be complex to administer when funding public improvements through bonding, requires 2/3 registered voter approval If less than 12 registered voters, may be a landowner vote, requires 2/3 of all acreage within district boundary in favor for approval	Requires ballot measure, costly, requires 2/3 registered voter approval
Why use this?	Can be used for specific or particular purpose, not subject to Prop 13 limitations	Broadest range of eligible funding, may fund 100% of costs, allows for expedited future annexations – best used in developing areas	Can be used for specific or particular purpose, not subject to Prop 13 limitations
Primary Steps to Complete	<ol style="list-style-type: none"> 1. Public outreach 2. Proposal filed with attorney general for ballot title 3. Signature gathering 4. Legislative hearings on proposal 5. Submission of signatures 6. Ballot Measure (2/3 supermajority vote for approval) 	<ol style="list-style-type: none"> 1. Public outreach 2. Initiation of CFD 3. Adoption of Local Goals and Policies, Proposal of Resolution of Intention 4. Public Hearing, Adoption of Resolution of Formation 5. Election (2/3 supermajority vote when >12 voters) 	<ol style="list-style-type: none"> 1. Public outreach 2. Proposal filed with attorney general for ballot title 3. Signature gathering 4. Legislative hearings on proposal 5. Submission of signatures 6. Ballot Measure (2/3 supermajority vote for approval)
Timeframe	Estimate 12 to 24 months	Estimate 9 to 12 months	Estimate 18 to 24 months
Potential Funding	Requires additional information to determine Sample Range: \$9/parcel to \$1500/parcel County PRD	Requires additional information to determine Sample Range: Encinitas Ranch = \$541/parcel to \$2,770/parcel	Varies – No limit Currently maxed out on bond capacity

FUNDING MATRIX – REQUIRES 1/2 VOTER APPROVAL

	Assessment District (AD)	General Sales Tax Increase	Transient Occupancy Tax Increase
Description	Benefit assessment to fund certain public improvements and services	General Local Sales Tax (percentage increase range 0.125%-2%)	TOTs are imposed on rooms or living spaces at hotels, inns, rental houses, homes, motels, or campsites
Authority	Improvement Act of 1911 Municipal Improvement Act of 1913	Laws passed by the State Legislature	Revenue & Taxation Code Sec. 7280
Eligible for Funding	Public services and capital projects	General Services (goes to General Fund) - measure could be overseen by advisory committee directing funds to be earmarked to specific programs	General Services (goes to General Fund)
Rate & Methodology	Mathematical formula based on how much each property will benefit, if a property benefits it must be assessed	Sales Tax revenue generated from increased sales tax apportioned to the City from County	In CA, the TOT rate varies by locality, but it typically ranges from 8% to 15.5% of the room rate
Assessment	Fixed percentage of total district debt assigned to each parcel, requires annual public hearing process	Fixed rate increase on sales of goods and services	The TOT is collected by the lodging establishment and then remitted to the local government
Concerns	Cannot assess for general benefit (defined as benefit to the public at large or benefits that are not property related, for example, through traffic on arterial roadway, traffic signals, protection of life). 5-year limitation on funding capital improvements for streets, roads or highways. Unless narrowly crafted, unable to fund 100% of a program due to general benefits	Requires ballot measure, costly to campaign for, requires 1/2 registered voter approval	Requires ballot measure, requires 1/2 registered voter approval
Why use this?	Can be used in undeveloped areas and/or established areas to fund public infrastructure and services	Can be used for specific or particular purpose, not subject to Prop 13 limitations	Does not typically produce financial hardship on residents. No cap.
Primary Steps to Complete	<ol style="list-style-type: none"> 1. Public outreach 2. Resolution of Intention 3. Prop 218 ballots mailed to each property owner in the district 4. Public Hearing 5. Adoption of Resolution of Formation 6. Election (majority protest, weighted, of ballots returned) 	<ol style="list-style-type: none"> 1. Public outreach 2. Proposal filed with attorney general for ballot title 3. Signature gathering 4. Legislative hearings on proposal 5. Submission of signatures 6. Ballot Measure (1/2 majority vote for approval) 	<ol style="list-style-type: none"> 1. Proposal filed with attorney general for ballot title 2. Signature gathering 3. Legislative hearings on proposal 4. Submission of signatures 5. Ballot Measure (1/2 majority vote for approval)
Timeframe	Estimate 6 to 12 months	Estimate 18 to 24 months	Estimate 6-12 months
Potential Funding	Requires additional information to determine Sample Encinitas tax rate = 1.09437 Sample Oceanside tax rate = 1.11051	Current Sales Tax = 7.75% 0.5% increase = ~ \$8.5 Million 1.0% increase = ~\$17 Million	Current TOT = 10% 1% increase in TOT = ~\$44,000 annually (based on FY 21-22) (Data from ITF Q& A Matrix)

FUNDING MATRIX –REQUIRES STUDIES & FEE CALCS

	Development Impact Fee Update / Additional DIFs	Transportation Utility Fee
Description	One-time charges applied to new developments for facilities	Fee to fund transportation services.
Authority	Assembly Bill 1600 (Mitigation Fee Act)	Laws passed by the State Legislature
Eligible for Funding	Capital Costs for new improvements only	In CA, TUFs can only be levied as a fee for a service—i.e., to fund transit service. It cannot be linked to larger health and safety purposes
Rate & Methodology	Fair share based on a rational nexus test	Typically assess the fee using a per trip methodology
Assessment	One-time fee on new development to mitigate impacts	TUF is usually paid monthly as part of the utility bill or along with the property tax payments
Concerns	Cannot fund existing deficiencies, ongoing maintenance, or salaries	CA cities have not implemented TUFs yet – may have liability issues or face extreme backlash
Why use this?	Tried and true method of funding new development’s share of capital facility costs. Does not impact property taxes	Jurisdictions have typically tried to levy TUF as a fee rather than as a tax to avoid voting
Primary Steps to Complete	<ol style="list-style-type: none"> 1. Public outreach 2. Public Hearing 3. Adoption of ordinance & resolution 	<ol style="list-style-type: none"> 1. Identify Fee Type (Fee, Special Fee, Assessment, general tax, or special tax) 2. TUF as a special tax is likely the most defensible option legally. 3. (See Special District Parcel Tax)
Timeframe	Estimate 4 to 5 months	Estimate 18 to 24 months
Potential Funding	Varies – depends on new development and fee update FY 22/23 Traffic Fees were \$276K 20% Traffic Fee increase = +\$56K FY 22/23 Flood Control was \$81K 20% Flood Control Fee increase = +\$16K	Varies

FUNDING MATRIX – REQUIRES SPECIAL CONDITIONS/AGREEMENTS

	Enhanced Infrastructure Financing District	Loans / Borrowing	Public Private Partnerships	Grants
Description	Special financing district that utilizes a portion of tax increment revenue to finance projects within the EIFD	Private loans (private placements) /borrowing from accredited banking institutions	Collaboration between a government agency and a private-sector company that can be used to finance, build, and operate projects	Funding given by a government or other organization for a particular purpose
Authority	Laws passed by the State Legislature	General Police Power (California Constitution Article XI, Section 7)	City and Private Entity	Grantee organization
Eligible for Funding	Public infrastructure projects, infrastructure maintenance, affordable housing development, economic development, etc.	Generally, anything the entity would like to spend funds on, as long as they can pay back the loan to bank	Depends on partnership agreement terms, common projects: public transportation networks, parks, and convention centers	Depends on grant terms
Rate & Methodology	Increment increase in property tax is diverted into a separate pool of money, which can be used to pay for improvements or pay back bonds	Lump Sum	Could be lump sum, earmarked for specific use, matching funds, reimbursement	Could be lump sum, earmarked for specific use, matching funds, reimbursement
Assessment	Tax increment over the base amount; uses the growth from existing tax revenues	Likely general fund will pay back loan	Varies	Grantee may require phased delivery of funds
Concerns	Cumbersome administrative process and increase public engagement requirements; need to form Public Financing Authority for oversight	Financial Risk – Poor terms (higher interest rates), potential for accelerated/immediate repayments	Few big businesses within City Limits that would be viable partners	Unpredictable, Competitive pool of applicants, many grants are for lower income communities
Why use this?	No voter requirement for formation or bond issuance (Assembly Bill 116 - 2019)	Lower issuance costs, fewer disclosure requirements, faster execution process	Often times free money	Often times free money, typically requires a 20% match.
Primary Steps to Complete	<ol style="list-style-type: none"> 1. Form team 2. Evaluate EIFD feasibility 3. Conduct outreach 4. Initiate formal process 5. Prepare Infrastructure Financing Plan 6. Pre-adoption / Public Hearings 7. Approval and Formation 	<ol style="list-style-type: none"> 1. Request private placement terms from multiple accredited banking institutions 2. Identify which has best terms for City's interest 3. Execute agreement between bank and City 	<ol style="list-style-type: none"> 1. Coordinate with Economic Development Team 2. Identify viable private partnership opportunities 3. Secure agreement 	<ol style="list-style-type: none"> 1. Identify grant opportunities 2. Submit grant application (typically involves heavy staff involvement)
Timeframe	Estimate 12-18 months	Estimate 3-6 months	Varies	Varies
Potential Funding	Dependent upon tax revenue growth	Varies Currently maxed out on loan capacity	Varies	Varies



BALLOT INITIATIVES STEPS

1

Public Outreach

2

Proposal filed with Attorney General for
Ballot Title

3

Signature Gathering

4

Legislative hearings on proposal

5

Submission of signatures

6

Ballot Measure

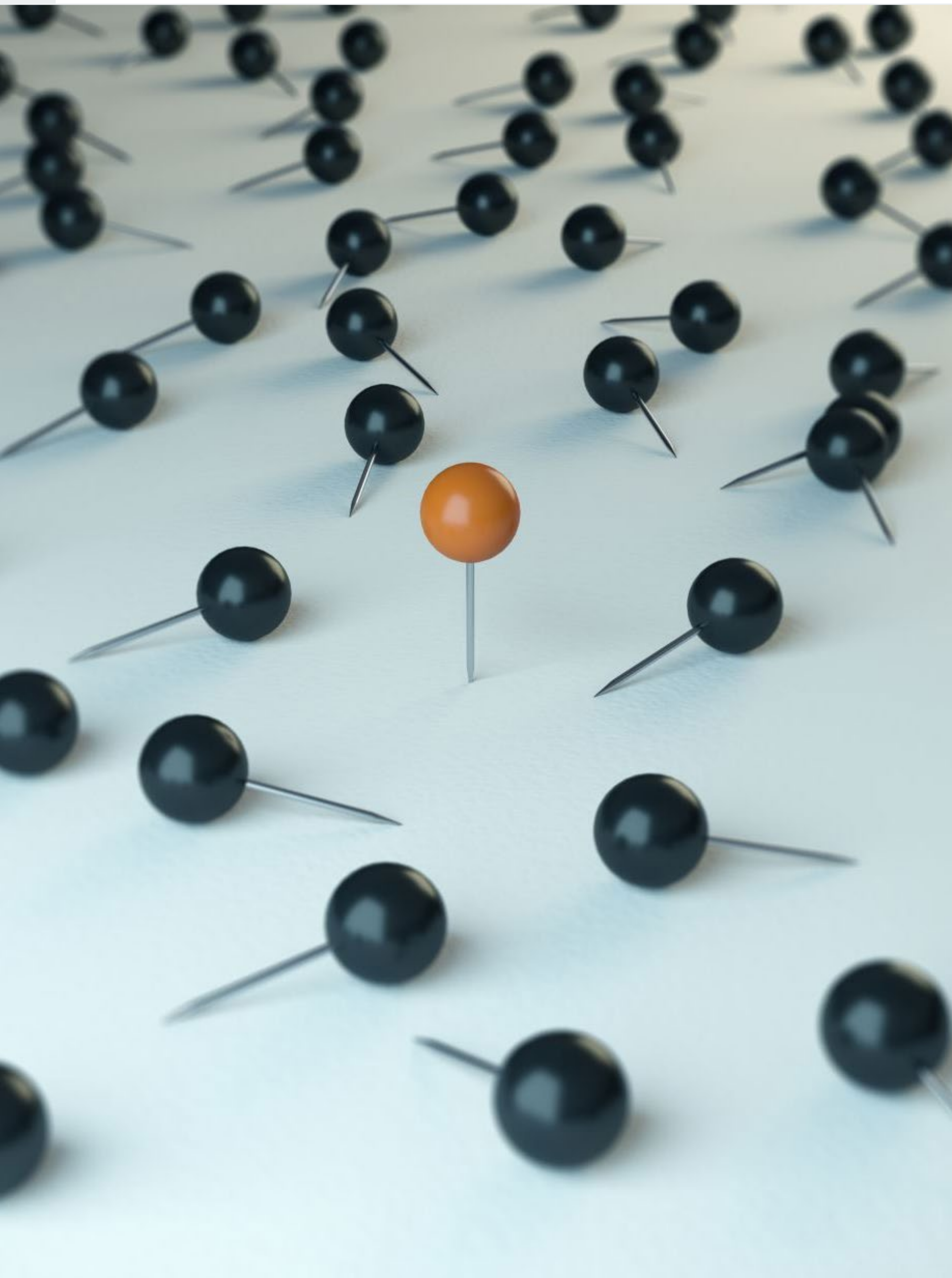
BALLOT INITIATIVES REQUIRED VOTES

2/3 VOTES

- Special District
- Community Facility District
- Public Bonds

1/2 VOTES

- General Sales Tax Increase (Special 2/3)
- Transient Occupancy Tax Increase (Special 2/3)
- Assessment District



SPECIAL DISTRICTS

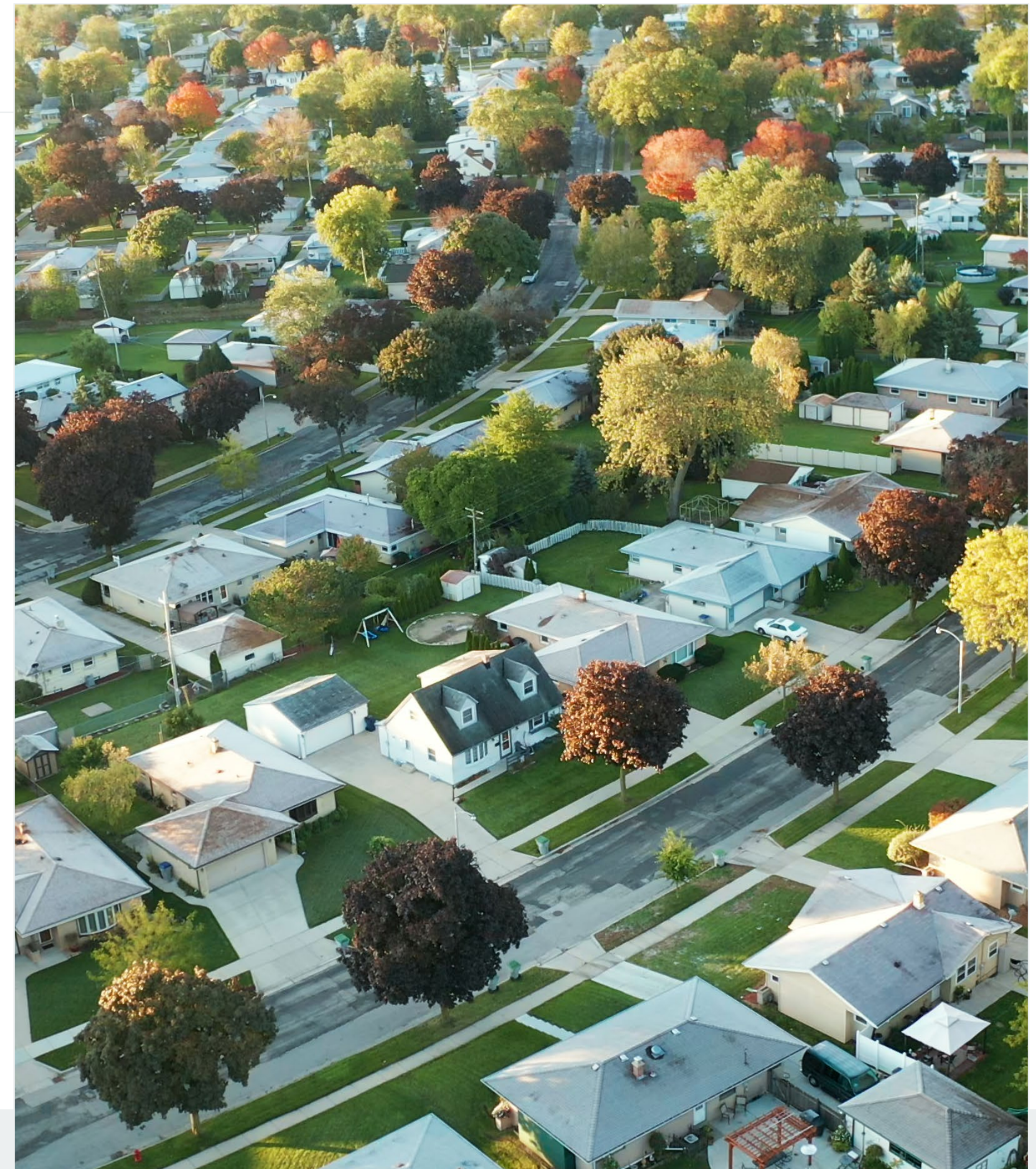
PARCEL TAX FOR A SPECIFIC PURPOSE

- District Boundary established based on funding benefits
- 2/3 Voter Requirement
- Can be used for specific or particular purpose
- Not Subject to Prop 13 limitations
- Can take up to 2 years to form
- City Sample Range: \$9/parcel to \$1500/parcel County PRD

COMMUNITY FACILITY DISTRICTS (CFD)

SPECIAL TAX DISTRICT TO FUND PUBLIC IMPROVEMENTS AND SERVICES

- a.k.a. Mello Roos
- Often used for new developments
 - Master planned communities
 - Allows for expedited future annexations
- 2/3 Voter Requirement
- Broadest range of eligible funding
 - Can be used for maintenance funding
- Can sunset or be in perpetuity
- Can take up to 1 year to form
- City Sample Range: Encinitas Ranch = \$541/parcel to \$2,770/parcel





PUBLIC BOND MEASURE

LONG-TERM BORROWING USED TO RAISE MONEY

- Primarily used for long-lived infrastructure assets
- Bond will identify eligible projects
- Bond amount is set - duration of loan established (~ 30 years) and repaid by taxable property within the jurisdiction over length of the bond
- 2/3 Voter Requirement
- City: Currently maxed out on bond capacity

ASSESSMENT DISTRICT

BENEFIT ASSESSMENT TO FUND PUBLIC IMPROVEMENTS AND SERVICES

- Cannot assess for general benefits (benefit to the public at large – ex. through traffic on arterial roadway)
- Examples of potential funding (improvements with a direct and special benefit)
 - Lighting
 - Drainage
 - Flood control facilities
 - Sidewalks, curbs and gutters
- Maintenance can only be funded on projects completed with AD funds
- Can take 6-12 months to form
- Sample Encinitas tax rate = 1.09437
- Sample Oceanside tax rate = 1.11051



SALES TAX INCREASE

GENERAL LOCAL SALES TAX INCREASE (RANGE 0.125%-2%)

**ENCINITAS
SALES TAX
7.75%**



**CALIFORNIA
STATE SALES TAX**

**SAN DIEGO
COUNTY SALES TAX**

**TransNet
REGIONAL TAX**

**LOCAL SALES
TAX**

- 8.75%
 - Del Mar
 - Solana Beach
 - Chula Vista
 - Imperial Beach
 - National City

- 8.5%
 - La Mesa

- 8.25%
 - Oceanside
 - Vista
 - El Cajon

0.5% TAX INCREASE = ~\$8.5 MILLION

- 1/2 voter requirement for General
- 2/3 voter requirement for Special

TRANSIENT OCCUPANCY TAX INCREASE

TAXES IMPOSED ON ROOMS AT HOTELS, INNS, RENTAL HOMES, MOTELS, CAMPSITES, ETC.

<p style="text-align: center;">ENCINITAS TOT TAX 10%</p>	<p style="text-align: center;">8 % = GENERAL 2 % = SAND REPLENISHMENT & STABILIZATION</p>
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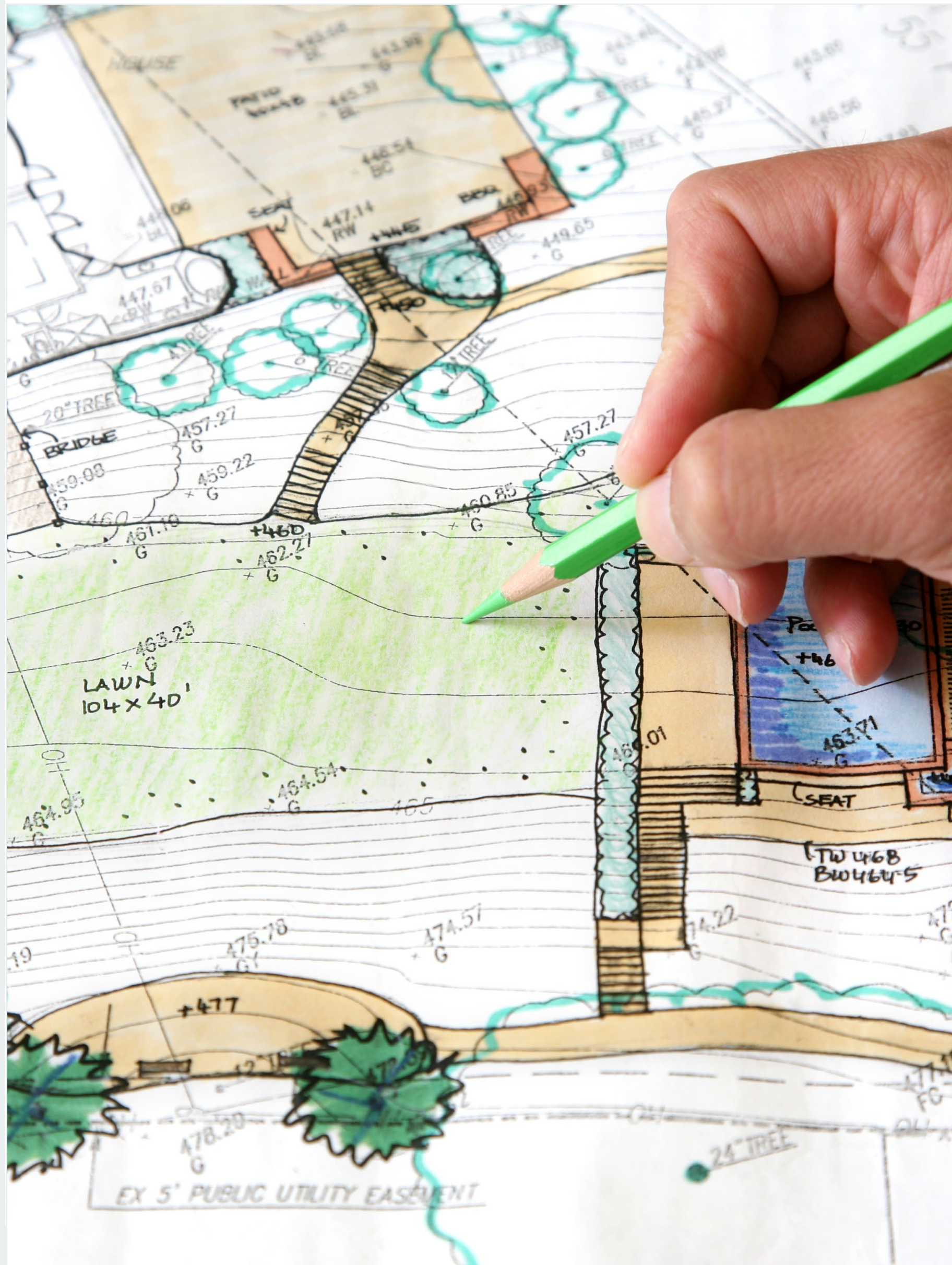
- 1/2 voter requirement for General
- 2/3 voter requirement for Special

- 14%
 - Imperial Beach
 - National City
- 13%
 - Solana Beach
- 12.5%
 - Del Mar
 - San Diego

(12.5% >70 rooms, 10.5% if <70 rooms)
- 10%
 - Carlsbad (+2% in 2 tourism districts)
 - Coronado
 - El Cajon
 - Escondido
 - Oceanside
 - Poway
 - San Marcos
 - Vista



**1% TOT
INCREASE =
~\$44,000**



DEVELOPMENT IMPACT FEE UPDATE

ONE-TIME CHARGES ASSESSED ON NEW DEVELOPMENT FOR PUBLIC FACILITIES NEEDED TO SERVE NEW DEVELOPMENT

- City of Encinitas last updated 2015
 - Fees do not have automatic adjustments to CCI
- Requires Nexus Study Update to determine fair share of improvements to new development (~6-12 months)
- Current DIFs collected: Park Development, Park Acquisition, Traffic Mitigation, Open Space Acquisition, Recreational Trails, Community Facilities, Fire Mitigation, Flood Control
 - Comprehensive list compared to surrounding jurisdictions
- Beneficial to jurisdictions with heavy growth projections to accumulate enough funding to fund public infrastructure
- FY 22/23 Traffic Fees = \$276K (20% Traffic Fee increase = +\$56K)
- FY 22/23 Flood Control = \$81K (20% Flood Control Fee increase = +\$16K)

TRANSPORTATION UTILITY FEE

FEE TO FUND TRANSPORTATION SERVICES

- Very specific to transportation
 - Mineta Transportation Institute (MTI) Study for TUF to fund transit in California
- Fee to fund a transportation service
 - Cannot be linked to larger health and safety purposes
- CA cities have not implemented TUFs yet
 - No real good case samples to understand risks/public sentiment





ENHANCED INFRASTRUCTURE FINANCING DISTRICT

TAX INCREMENT FINANCING

- Funds generated from the growth in property taxes collected from within a designated district boundary - diverts revenue to a separate fund
- EIFDs were recently updated to serve as a financing tool for both large scale community-wide benefit projects and urban/rural in-fill projects
- New funding opportunity after redevelopment dissolved
- Does not increase property taxes
- Mainly used for Economic Development projects
- Can be used to fund infrastructure maintenance and housing development, economic development, transportation infrastructure, sewage treatment, and climate adaptation projects
- Potential funding dependent upon tax revenue growth

PRIVATE LOANS / BORROWING

WITH ACCREDITED BANKING & LENDING INSTITUTIONS

- Positives:
 - Access to funding quickly (lump sum)
 - Lower issuance cost (as compared to public outreach and campaigning for ballot measures)
- Concerns:
 - Potential high interest rates (as compared to public bonds)
 - Potential for accelerate/immediate repayments
- Clean Water State Revolving Funds – Water and Wastewater Infrastructure loans
 - Generally priced at much lower rates than bonds or other debts
- City: Currently maxed out on loan capacity





PUBLIC PRIVATE PARTNERSHIP

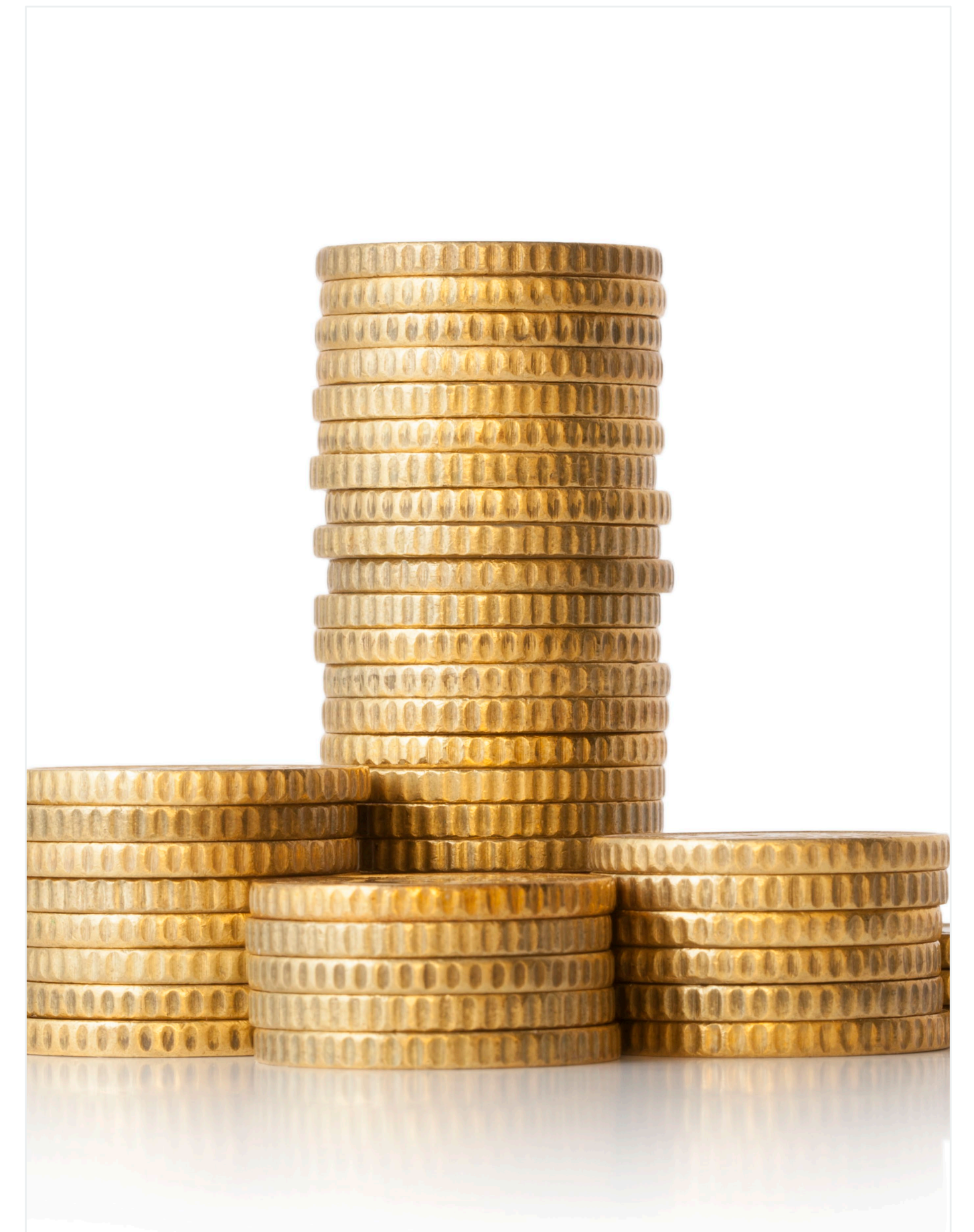
COLLABORATION BETWEEN A PUBLIC AGENCY AND A PRIVATE COMPANY TO PROVIDE A MUTUALLY BENEFICIAL ARRANGEMENT

- Mechanism for government to procure and implement public infrastructure and/or services using the resources and expertise of the private sector
- Consider big revenue generator businesses in Encinitas
- Consider mutually beneficial possibilities
 - Marketing/Branding
 - Use of public spaces for events
 - Sponsorship/naming of public infrastructure
 - Fundraisers
 - Charitable Donations
 - Tax incentives

GRANTS

FUNDING AWARDED BY AN ENTITY FOR A PARTICULAR PURPOSE

- Often times one time source of funding
- Requires effort to secure grant and once awarded, administration and reporting requirements
- Often targets lower income communities
- Typically includes funding contribution/matching requirements from the jurisdiction
- Potential Grant Opportunities:
 - Regional Climate Collaboratives Program
 - REAP 2.0 – Regional Utilities Supporting Housing
 - 2023 Public Works and Economic Adjustment Assistance (PWEAA)
 - 2022 State Transportation Improvement Program (STIP) / Interregional Transportation Improvement Program (ITIP)
 - CalTrans Grants – none available right now, but great opportunity to assist with transportation project needs
 - Bureau of Reclamation – potential funding for Watershed Master Plan and Roadside Drainage projects





QUESTIONS & THANK YOU

ENCINITAS ITF FUNDING OPTIONS

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