# 10.0 Project Financing Plan

## 10.1 OVERVIEW

This chapter identifies the financing obligations of the West Landing Specific Plan (WLSP or Project). The chapter provides a set of principles and policies regarding how these financing obligations should be met. In addition, this chapter identifies available financing mechanisms and describes how a more detailed Financing Plan will implement the preferred financing approach.

## 10.2 PROJECT LAND USES AND PHASING

The phasing plan for the WLSP provides for a comprehensively planned infrastructure system that coordinates the construction of new facilities so that each phase of development provides the infrastructure necessary to meet the demands of new development. The phasing plan will establish an orderly pattern of development and will minimize construction impacts on the community.

At buildout, the WLSP proposes development of approximately 960 acres of residential, nonresidential, and public uses, resulting in approximately:

- 3,659 residential units,
- 2 elementary schools,
- 161 acres of new commercial, office, and light industrial development area,
- 128.5 acres of existing and expansion G3 development area for General Industrial and retail commercial uses, and
- 175.5 acres of existing and expansion area for various County facility uses.

For a more detailed breakdown of these land uses please refer to Chapter 4, Land Use.

The WLSP land uses will be developed using a phased approach. **Figure 10.1** shows a possible sequencing of the West Landing Specific Plan buildout approach for both residential and non-residential land use parcels. It should be noted that this sequencing scheme is very conceptual and preliminary in nature and represents only today's "best estimates" as to how the community will actually be phased or sequenced. Since the site is currently occupied and/or owned by a multitude of residents, businesses, jurisdictions and other interests, the accurate timing and sequence as to when many of those parcels will become available for new development is unknown at this time; therefore, this section is meant to depict a reasonable and logical approach to phasing implementation of the project. Also, in conjunction with the phasing map is a description of the accompanying infrastructure phasing concept. While it is unknown at this time as to when a full buildout of the project may occur, for the purposes of this section, a 12-15-year time frame may be assumed as a preliminary estimate.

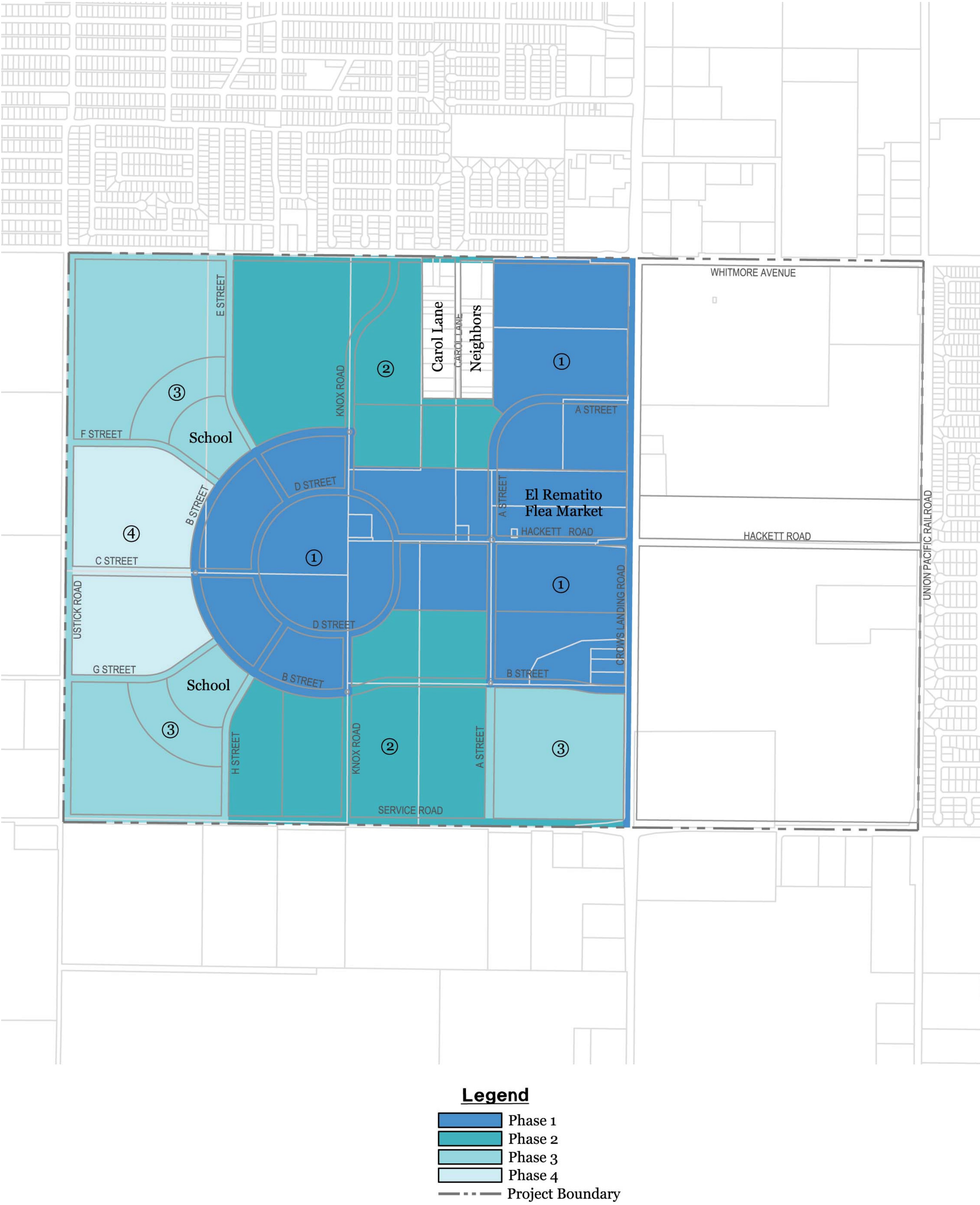


**Figure 10.1: Phasing Plan**

Date: August 2010

West Landing Specific Plan
Ceres, California

NOT TO SCALE

N

WOOD RODGERS
DEVELOPING INNOVATIVE DESIGN SOLUTIONS

J:\Jobs\8353 West Ceres\8353 West Ceres OA\Planning\Exhibits\SPA\Draft_2010\exhibits\Fig-10.1_Phasing.dwg 8/06/10 2:50pm kboyle

## 10.3 FINANCING STRATEGY

### 10.3.1 Backbone Infrastructure and Other Public Facilities

The infrastructure requirements for the WLSP are composed of a variety of backbone infrastructure projects including grading for major roads, on-site and off-site roads, sewer, storm drainage, water, recycled water, and various other public facilities. **Table 10.1** provides a summary of the backbone infrastructure and other public facilities that the Project will require. Costs estimates for these items have been developed by a licensed civil engineer for inclusion in the detailed Financing Plan.

**Table 10.1: Preliminary List of WLSP Infrastructure and Public Facilities**

| Backbone Infrastructure | Public Facilities |
|---|---|
| On-site and off-site roadways | Parks |
| Drainage | Police facilities |
| On-site and off-site sewer | Fire facilities |
| Water | Schools |
| Recycled water | Transit facilities |

### 10.3.2 Financing Principles and Policies

The following principles and related policies will govern funding for backbone infrastructure and other public facilities for the WLSP. The principles will guide future decisions on forming financing entities, adopting financing mechanisms, and approving the Project.

1. A financing analysis should be prepared that identifies infrastructure required for the WLSP, the allocation of these costs, and proposed methods for funding.

   **Policy 1.1**: Financial analysis should be conducted that encompasses all proposed development, all identified infrastructure costs, and financing mechanisms proposed. Such financial analysis should account for Project-specific circumstances, changing market conditions, and more refined facility and cost data that will become available over time.

2. Development in the WLSP should pay the full costs of backbone infrastructure and other public facilities needed to serve the Project, except where other funding sources are appropriate and available.

   **Policy 2.1**: Existing residents should not be burdened with assessments or taxes to pay for new public facilities if no benefit is received by existing residents.

**Policy 2.2**: As part of the Financing Plan, evaluate existing City development impact fees to determine their relation with backbone infrastructure and other public facilities required for the WLSP.

**Policy 2.3**: Properties outside the WLSP that benefit from backbone infrastructure and other public facilities provided by the WLSP should contribute to infrastructure financing to the extent possible.

3. Backbone infrastructure and other public facility costs should be allocated among WLSP properties and surrounding properties based on the principle of benefit received.

   **Policy 3.1**: If necessary, adopt an area-specific development impact fee ordinance that establishes a fair-share cost allocation for required backbone infrastructure to be borne by all benefiting new development in and adjoining the WLSP area. These costs either can be paid "in kind" as per-unit impact fees or can be included in a land-secured financing district.

4. Total infrastructure and financing costs in the WLSP should be minimized, and total costs should not exceed industry standards of financial feasibility.

   **Policy 4.1**: Encourage measures that minimize the infrastructure costs borne by new development in the WLSP area. Such measures could include construction and reimbursement agreements with developers, which can lower costs generally associated with public construction projects.

   **Policy 4.2**: Actively pursue outside funding for infrastructure improvements in the WLSP area (e.g., regional, state, and federal funding sources).

   **Policy 4.3:** Develop an infrastructure phasing schedule that links the timing of backbone infrastructure and other public facility construction to the timing of new WLSP residential, commercial, and other development to the extent possible.

   **Policy 4.4**: Use pay-as-you-go financing to the extent possible. Consider specifically targeting debt financing to circumstances where other methods are unavailable or inappropriate for infrastructure financing.

5. The City should facilitate WLSP infrastructure financing by allocating City funding sources (where appropriate and available) and establishing necessary financing entities and arrangements (e.g., one or more land-secured financing districts).

**Policy 5.1:** The City should assume responsibility for coordinating landowners and developers in establishing the appropriate financing mechanisms. This policy should be interpreted broadly to include such actions as establishing joint-exercise-of-powers entities with other jurisdictions (e.g., Joint Powers Agreements with special district[s], the state, or any other appropriate government agency that will facilitate financing of necessary infrastructure improvements).

**Policy 5.2:** To ensure timely funding of infrastructure development, the City reserves the option to establish standardized Development Agreements, consistent with existing City ordinances, to confer development entitlements. The agreements should enable establishment of needed infrastructure financing mechanisms.

**Policy 5.3:** Facilitate discussions with school districts regarding school facility requirements and planning, and seek outcomes that facilitate timely development of the WLSP.

**Policy 5.4**: Establish a financing district or districts (e.g., Mello-Roos Community Facilities Districts [CFDs] or Assessment Districts [ADs]) when appropriate to provide necessary land-secured debt financing.

6. If a landowner is required to dedicate land or make improvements (e.g., oversizing infrastructure) with a higher value than the benefits that landowner receives, the excess value should be reimbursed from other benefiting properties, the City, or other appropriate funding sources.

**Policy 6.1**: Require dedication of land for road improvements and construction of public improvements consistent with City policies.

**Policy 6.2**: Require development projects in the WLSP to fund or support financing for oversizing of facilities if required by the City.

**Policy 6.3**: Establish mechanisms for future development to reimburse developers who oversize infrastructure or dedicate excess land, possibly as part of a development impact fee ordinance.

**Policy 6.4**: The City should provide credits against City fees to the extent that WLSP properties build infrastructure of broader citywide benefit or build public facilities that would otherwise be funded by City fees.

a. For improvements that are part of the City PFF Program and which are required to be developer-constructed to enable development, the City will allow a credit against the applicable segment of the PFF Program up to the lesser of the actual cost of the improvement or the amount of the applicable fee segment.

b. Where the developer has remaining costs not covered by fee credit, reimbursement will occur as subsequent projects develop with the WLSP which provide an excess of fees versus credits.

c. Reimbursements will be granted on a first-in first-out basis.

d. For projects participating in the proposed WLSP Fee Program, credits and reimbursements will be subject to the same policies described in Policy 6.4 a through c.

7. The Financing Plan should create incentives for properties in the WLSP to develop at the designated uses and densities.

**Policy 7.1**: Fee burdens and assessments could be calculated on maximum or near-maximum permitted densities to promote consistency with the plan and a disincentive to underutilization. Per-unit burdens would increase to the extent that density fell below a preferred target.

8. Future development in the Project should pay the costs of mitigating impacts on existing facilities and infrastructure in the City.

**Policy 8.1**: WLSP development will be subject to existing City development impact fees and additional off-site mitigation requirements as specified in the WLSP Final Environmental Impact Report (EIR).

**Policy 8.2:** WLSP development would be subject to mitigating a potential net loss of revenue to the Westport Fire Protection District (WFPD), should reorganization occur in which the WFPD is detached from the Plan Area. As part of the Local Area Formation Commission (LAFCO) annexation process, a Plan for Public Services will be prepared that evaluates the potential impacts resulting from the potential reorganization of the WFPD.

9. Financing mechanisms should be identified or established to ensure ongoing maintenance of public facilities.

**Policy 9.1**: Developers should participate in duly established financing mechanisms to assure adequate funding for maintaining backbone infrastructure and other public facilities or otherwise be required to provide a comparable funding source.

### 10.3.3 Financing Mechanisms and Resources

Several financing mechanisms will be used to fund the backbone infrastructure and other public facilities associated with the WLSP. **Table 10.2** provides a conceptual summary of costs and possible funding sources and mechanisms. The ultimate mix of financing mechanisms will be determined in the implementation process, based on final technical analyses of costs, benefits and burdens, and negotiations between City staff, property owners, developers, elected officials, bond counsel, underwriters, and public finance experts.

This section describes the key features of the funding mechanisms available to finance WLSP backbone infrastructure and other public facilities. The mechanisms presented fall into three distinct categories:

1. Area-specific impact fees, dedications, and exactions;
2. Assessment and special tax–secured financing; and
3. Citywide and other sources.

Fee proceeds may be used to reimburse property owners who pay up-front costs for facilities benefiting other properties. Benefiting properties may be given the option to finance the fees by entering into an AD or CFD.

### Table 10.2: Proposed Capital Facility Financing Sources and Uses

| | **Proposed Funding Sources** | | | |
|---|---|---|---|---|
| Item | Ceres Public Facility Fee Program [1] | Other Agency Fees [2] | WLSP Fee Program [3] | Other (e.g. Private) [4] |
| **Backbone Infrastructure** | | | | |
| Roadways | **X** | **X** | **X** | |
| Drainage | **X** | | | |
| Sewer | **X** | | **X** | |
| Water | **X** | | **X** | |
| Recycled Water | | | **X** | |
| | | | | |
| **Public Facilities** | | | | |
| Parks | **X** | | **X** | |
| Police Facilities | **X** | | | |
| Fire Facilities | **X** | | | |
| Schools | | **X** | | **X** |
| Transit Facilities | | | **X** | |
| WLSP Entitlement Cost Reimb. | | | **X** | |
| WLSP Fee Program Admin. | | | **X** | |

[1] Certain facilities may be funded, reimbursed, or credited through City development impact fees.
[2] Existing School District Fee Program.
[3] Developer may propose the use of Mello-Roos CFD or AD for certain public facilities.
[4] Other financing could include state funding for school facilities. In addition, other financing may be available/required depending on final capital improvement programs.

### 10.3.4 Area Specific Impact Fees, Dedications and Exactions

Area-specific impact fees or "connection charges" may be adopted by local legislative bodies (city or county) and levied against new development at the permit stage to offset the costs for a wide variety of backbone infrastructure and other public facilities. The conditions for imposing impact fees were formalized by the passage of Assembly Bill 1600 (Government Code Section 66000), which institutionalized prior case law on the subject (e.g., Nollan). Although not limited to the stricter definition of benefit applied to ADs, the impact fees must be shown to have a rational nexus, or relationship, between costs and the impact or demand caused by the new development.

A major disadvantage of impact fees and connection charges is that they are typically collected over time as development occurs. To the extent that funding is needed "up front" for a particular facility, fee funding is not sufficient. In addition, when programmed or expected development does not occur as expected, or never occurs, this problem is exacerbated.

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

### 10.3.5 Assessment and Special Tax-Secured Financing

***Special ADs (1911, 1913, 1915 Acts)***

California law provides procedures to levy assessments against benefiting properties and to issue tax-exempt bonds to finance backbone infrastructure improvements and other public facilities. ADs, also known as improvement districts, are initiated by the legislative body (e.g., city council) subject to a majority protest of property owners. Assessments are distributed in proportion to the benefits received by each property as determined by an engineering analysis and act as a lien against the property. Special assessments are fixed dollar amounts and may be prepaid, although they are typically paid back with interest over time by the assessed property owner.

### *CFDs*

California's Mello-Roos Community Facilities Act of 1982 allows for the creation of a special district authorized to levy a special tax and issue tax exempt bonds to finance public facilities and services. A CFD may be initiated by the legislative body or by property owner petition and must be approved by a two-thirds majority of either property owners or registered voters (if there are more than 12 registered voters living in the area).

Special taxes are collected annually with property taxes and may be prepaid if prepayment provisions are specified in the tax formula. The special tax acts as a lien against the property. CFD special taxes are not required to be apportioned on the basis of direct benefit. As a result, Mello-Roos levies may be used to fund improvements of general benefit, such as schools, fire and police facilities, libraries and parks, as well as improvements that benefit specific properties. The provisions under Mello-Roos also allow for levies to be set and infrastructure costs to be allocated in a manner that alleviates the cost burden for specific classes of development.

### *Infrastructure Financing Districts*

An Infrastructure Financing District (IFD) allocates a portion of new property taxes to pay for capital improvements. It is similar to "tax-increment financing," which is used by redevelopment agencies. Essentially, when tax-increment financing is developed, subsequent increases in tax revenues are set aside for the use of the financing district. IFDs are only allowed in areas that are substantially underdeveloped. Formation of an IFD and issuance of bonds are contingent on receiving two-thirds approval from the registered voters or property owners in the area.

The following facilities are eligible for financing through an IFD according to Government Code section 53395.3:

- Highway interchanges, bridges, arterial streets, parking facilities, and transit facilities;
- Sewage treatment and water reclamation plants and interceptor lines;
- Water collection and treatment facilities for urban use;
- Flood control structures;
- Child care facilities;
- Libraries;

- Parks, recreational facilities, and open space; and
- Solid waste transfer and disposal facilities.

***Landscape and Lighting Maintenance Districts***

Landscaping and lighting maintenance districts (LLMDs) may be used for installation, maintenance, and servicing of landscaping and lighting through annual assessments on benefiting properties. LLMDs also may provide for construction and maintenance of appurtenant features, including curbs, gutters, walls, sidewalks or paving, and irrigation or drainage facilities. They also may be used to fund and maintain parks above normal park standards maintained from General Fund revenues.

### 10.3.6 Citywide Sources

The City has existing impact fees that it collects for itself. Further investigation will be needed to determine the amount of citywide funds that may be committed to WLSP infrastructure costs. In addition, it may be appropriate for the City to provide fee credits to WLSP developers to the extent that WLSP developer-constructed improvements and public facilities provide citywide benefits.

### 10.3.7 Other Funding Sources

Other funding sources include a combination of public and private funding sources that may be used to fund a variety of backbone infrastructure and other public facilities.

***Federal and State Grants***

In the past, the City has received funding for public facilities from other levels of government, including the state and federal government. Currently, these funding sources are less available. However, several sources of grant funding still remain, and several new programs recently have been established. Further investigation of potential grant funding sources will be appropriate. However, because the availability of funding from these sources is unknown, it has not been assumed that these sources would be available for development financing.

***General Obligation Bonds***

In 1986, with the passage of Proposition 46, cities, counties, and school districts were empowered with the right to issue general obligation bonds. General obligation bonds, which are repaid with revenues from increased property taxes, may be used to finance land acquisition and construction of capital improvements. A general obligation bond requires a two-thirds voter approval.

### *Revenue Bonds*

Cities, counties, and some special districts can issue bonds to finance facilities for revenue-producing enterprises, such as water and sewer improvements, golf courses, or harbors. The bonds are repaid solely from the revenues generated by the financed facility. Revenue bond issuance may require voter authorization.

### *Sales Tax Overrides*

Local jurisdictions may elect to submit a sales tax override measure to the electorate for approval. Sales tax override measures, which require a two-thirds voter approval, generate a sales tax increment above the current maximum collected by the agency. The local agency can issue bonds to fund infrastructure that would be secured by the future sales tax revenues.

### *School Funding Sources*

Senate Bill 50 authorizes school districts to collect development impact fees (Level 1, 2, or 3) to fund a portion of school facilities costs. In addition to development impact fees, school districts also are eligible to receive state grants from the State School Facilities Program. School districts also may seek funding through general obligation bond issuances. Finally, school districts and property owners/developers may voluntarily enter into school mitigation fee agreements for purposes of funding school facilities required to serve new development.

The Project includes 16 acres for two elementary school sites to be constructed following the Initial Phase. On March 23, 2011 the Stanislaus County Committee on School District Organization approved a boundary change to move the area of the WLSP lying west of Crows Landing Road from the Modesto City School District (MCSD) to the Ceres Unified School District (CUSD). The area east of Crows Landing is already in the CUSD. The boundary adjustment will be complete for the 2012-2013 school year, and all new facilities will be constructed and operated by the CUSD. To fund school facilities for the students generated from the Project, the CUSD currently charges Level 2 fees and also qualifies for financial hardship grants from the State.

### *Private Funding*

Developer advances may be required to finance infrastructure improvements needed in Phase 1 of the WLSP before fees or other revenue sources are available. The main sources of private financing for the Project are anticipated to be private equity or debt financing and pay-as-you-go funding advances.

***Development Agreements***

A Development Agreement is a contract between a public agency and a developer that provides developers with assurances that the land use entitlements for a project will not be changed in the future and that specifies public sector commitments to financing, phasing, and other elements of project implementation. In return for these public considerations and assurances, the developer may be asked to make financial commitments beyond those that could be justified through typical subdivision ordinance dedications and exactions or impact fees, which are both limited by the "rational nexus" criteria.

Development Agreements need not be complicated documents. They can be drafted as standard agreements that can be modified to meet project-specific problems or objectives.

## 10.4 FINANCING PLAN

### 10.4.1 Backbone Infrastructure and Other Public Facilities

A detailed Financing Plan has been prepared that provides a framework for subsequent detailed financing planning and implementation for the WLSP. The financing strategy described in the Financing Plan was devised to meet the following criteria:

- The Financing Plan is consistent with the policies and principles of the Specific Plan document;
- Backbone infrastructure and other public facilities have been phased to ensure that they are constructed when necessary for new development and when funding is available to construct such improvements;
- There are assurances that necessary funding will be available at the time specific infrastructure items are required;
- Financial burdens on development have been primarily kept within industry standards and market constraints; and
- The Financing Plan and financing mechanisms are flexible and responsive to expected variations in timing, location, and type of development.

### 10.4.2 Implementation of Financing Mechanisms

The following section outlines the steps to be followed by the City, in cooperation with development interests in the WLSP area, to establish the preferred financing mechanisms. The implementation actions have been designed to respond to varying circumstances, including variations in the infrastructure financed under the WLSP and the intensity of WLSP development. The action items have also been designed to work in the overall WLSP adoption and implementation effort. The recommended action items are presented according to their sequence and relative importance.

## 1. Finalize Cost and Phasing Assumptions

### Action 1.1: Identify Final Set of Facilities

Before a Financing Plan can be implemented, the City must provide direction concerning the backbone infrastructure and facilities to be financed as part of the WLSP. A decision regarding the inclusion of one facility or another may have significant consequences for the financial feasibility of development in the WLSP area as a whole and for the potential to provide other needed facilities in the WLSP area.

### Action 1.2: Complete Final Cost Estimates

The City and other interested parties also must establish a final set of infrastructure costs that will be financed in the WLSP. The cost estimates included in this report must be considered preliminary and for planning purposes only. The City should assemble a Capital Improvement Program (CIP) as a part of the adoption of financing mechanisms, such as a development impact fee or AD. This CIP would be based on the specific improvements listed in the Financing Plan but would reflect more detailed cost estimates that become available over time.

### Action 1.3: Establish Infrastructure Phasing Based on Development Priorities

This task serves to ensure that a financially feasible and acceptable Financing Plan can be created to support development in the WLSP area.

## 2. Approve a Financing Strategy

### Action 2.1: Establish Extent of City and Other Agency Funding Commitments

The City should determine to what extent it will be able to contribute citywide funds to finance new infrastructure in the WLSP. In particular, the City and other parties should determine which funds are available, including state and federal grants and City impact fee funds.

### Action 2.2: Consider and Assemble Financing Mechanisms

The overall logic and premise of the financing strategy should be considered and tested to ensure that it is sound and feasible, given the perspective of the involved parties, including the City, landowners, developers, and other agencies.

**Action 2.3: Determine the Magnitude and Timing of Funding Needed**

The timing and magnitude of costs will determine to what extent land-secured financing is required and the degree to which it will be possible to fund improvements on a pay-as-you-go basis.

**Action 2.4: Adopt Preferred Financing Plan**

Based on the outcomes of the previous steps, the City should select a preferred financing strategy. Selection of the preferred strategy should be based on additional financial feasibility analyses and should include input from WLSP developers who will be affected by the strategy.

## 3. Establish Financing Mechanisms

Implementing the Financing Plan within the context of overall WLSP implementation may require that the City establish financing districts. Depending on the strategy developed in concert with the WLSP property owners, one or more of the following actions may be necessary.

**Action 3.1**: Prepare and adopt an ordinance for a specific plan development impact fee;

**Action 3.2**: Prepare and establish one or more CFDs or ADs;

**Action 3.3**: Prepare and establish maintenance and services funding mechanisms; or

**Action 3.4**: Prepare Development Agreements with all developers in the WLSP.

A Development Agreement may be offered to all developers in the WLSP area and modified to meet each developer's particular circumstances. The Development Agreement is viewed to be necessary to convey development program entitlements commensurate with the WLSP in trade for the financial commitments that will be asked of the developers (including participation in the AD and acceptance of the area development impact fees).

Establishment of new financing mechanisms typically is required to be completed before approval of the first final small lot subdivision map in a specific plan.

## 4. Updates to the Financing Plan

Updates to the Financing Plan may occur if significant new information becomes available regarding backbone infrastructure and other public facilities cost estimates, land uses, funding mechanisms, or funding strategies. In many cases, any necessary updates to the Financing Plan are accomplished through updates and revisions to documents that are required as part of Financing Plan implementation. An ongoing administration and monitoring process should be established to provide for implementation and updating, if necessary, the Financing Plan and implementing documents.

## 10.5 MUNICIPAL SERVICES

In addition to the capital cost of backbone infrastructure and other public facility costs, the City will seek to ensure that new WLSP development will fully fund the ongoing operation and maintenance costs associated with WLSP development. The Financing Plan identifies potential financing mechanisms that will be used to fund the WLSP's ongoing operations and maintenance costs for backbone infrastructure and other public facilities. The Financing Plan also includes an implementation section to identify steps that will be required to use existing or to form new operations and maintenance funding mechanisms.

A Fiscal Impact Analysis will be prepared that provides a framework for subsequent detailed financial planning and implementation for the cost of ongoing operation and maintenance and public services. The Fiscal Impact Analysis will identify the types and estimated costs of ongoing operations and maintenance costs for General Fund and Street Fund-supported municipal services.