

SECTION 12 - FINANCING

I. INTRODUCTION

This section of the Service Area Plan discusses various financing mechanisms available to the City of Calexico. It also describes how each existing facility is currently financed and how future financial demands for these facilities can be ensured. Recommended finance plans and available financing options are also discussed.

In 1996, Proposition 218, a Constitutional amendment was enacted. Prop 218 clearly defined general taxes and special taxes and set guidelines on the issuance, use, and implementation of taxes. General taxes must be approved by a majority of voters before they can be imposed, extended, or increased. Special taxes require approval by a 2/3 vote. Most financing options discussed in this section are subject to the guidelines of Prop 218.

II. FINANCING OPPORTUNITIES AND CONSTRAINTS

There are many opportunities available to the City of Calexico to finance its present and future facility needs. The following section briefly describes some of the most widely used financing mechanisms.

A. General Taxes

General taxes generate revenue that is deposited in a city's General Fund and can be used to support various improvements and services including general government operations, development services, public safety, and community services. These revenues can also be used to construct public facilities. The City of Calexico can levy various types of general taxes, which include property tax, franchise tax, sales tax, and business license tax. Property taxes generally comprise the largest revenue source for a city, but sales tax revenue can be significant as well, depending on the amount and types of business within a city. However, the budget shows almost all general revenue the City generates is utilized for the day-to-day operations of city government, making it necessary to find other ways to finance facilities.

B. Gas Tax

A portion of the revenue derived from the state taxes on gasoline is allocated to cities to be used specifically for the construction, improvement, and maintenance of streets and roads.

C. Local Bond Issues

Local governments can issue general obligation (GO) bonds to finance the acquisition and construction of public capital facilities and real property. These bonds cannot be used for operations and maintenance or to purchase equipment.

GO bond measures must be approved by 2/3 of the jurisdiction's voters. In order to pay back GO bonds, City's are authorized to impose a property tax levy at the rate needed for repayment of the principal and interest of the bonds.

D. Development Impact Fees

Development Impact Fees can be a significant funding source to finance large scale public facilities. These fees are intended to ensure that new development pays its proportional share of public facilities based on the impacts created by this new development. In concept, the City charges the development community a series of fees which provide the source of income to pay for capital projects. When enough cash has been assembled, the City constructs capital facility projects in order of priority. Development Impact Fees can be used for the following public facilities:

- Law Enforcement
- Fire Protection
- Streets
- Traffic Signals
- Storm Drainage
- Water Treatment and Distribution
- Wastewater Treatment and Conveyance
- General Facilities
- Open Space Acquisition
- Park Land & Facilities
- Public Library

E. Developer/Builder Contribution

Many of the drainage, sewer, water, and circulation improvements required as a result of new development can be directly funded and constructed by the developer and/or builder(s) through private funding sources. Facilities earmarked for developer/builder funding are typically those which normally would have been imposed as a condition of approval of a tentative map under the City's existing development review process. These required improvements are in addition to Developer Impact Fees and User Fees.

F. User Fees

User fees are usually authorized by statute for specific uses and are typically required for monthly service. The fees are used as a revenue source to maintain the systems in proper operating condition and for the construction of facilities needed to meet demand.

G. Special Assessment Districts

Special districts can be formed for the purpose of financing specific improvements for the benefit of a specific area. People within a special district must pay an additional property tax levy or user fees to help repay the bonds

issued by the district and finance the district's ongoing operations. A detailed report prepared by a qualified engineer is required, which must demonstrate that the assessment amount is of special benefit to the parcel upon which the assessment is levied. There are many assessment acts that govern the formation of assessment districts such as the Improvement Act of 1911, Municipal Improvement Act of 1913, Improvement Bond Act of 1915, Benefit Assessment Act of 1982, Integrated Financing District Act as well as other specific facility improvement acts. The provisions of Proposition 218 have altered the procedures and facilities that can be financed through some of these acts. Any assessment district formed must follow all applicable state laws including the provisions set forth in Proposition 218.

H. **Fire Suppression Assessment Act (Government Code Section 500078 et seq.)**

Under this act, a city is allowed to levy assessments on specific parcels or zones for the provision of fire suppression services. A fire suppression assessment does not require the formation of an assessment district, but requires the adoption of an ordinance or resolution in which the parcels or zones subject to the assessment must be identified. In addition, all requirements of Proposition 218 must be met when imposing a fire suppression assessment.

I. **Community Services District**

A Community Services District (CSD) can serve as a source of funding for a wide variety of facilities in both unincorporated and incorporated area. CSDs can levy a range of taxes including ad valorem property tax, general taxes, and special taxes, in addition to creating rates and other charges for services. Any fee assessed within a CSD must directly relate to the benefit being received. As a result, a CSD may be broken into zones which only pay for those facilities and services that provide a benefit to that zone.

J. **Community Facilities District**

A Community Facilities District (CFD), not to be confused with a Community Services District, falls under the 1982 Mello-Roos Community Facilities Act. This Act allows a CFD to be established by cities, counties, special districts, and school districts to fund a variety of facilities and services. Note that the boundaries of a CFD are not required to be contiguous as they are for a CSD. In order for a CFD to be formed, a public hearing must occur and an election held to authorize the specified tax levy. The special tax levy (Mello-Roos tax) is used to either provide direct funding or pay off bonds. The facilities being funded are not required to be physically located within the boundaries of the CFD.

K. **State and Federal Funding**

Various government programs are available at the state and federal levels to assist local jurisdictions in financing public facilities and services. Most funding sources at the state level require an application requesting assistance and specify the projects or purposes for which the funds can be used. Financial assistance from

the state can include grants, low interest loans, and matching funds. At the federal level financial assistance includes grants and federal matching funds for state run assistance programs. State and federal funding sources include, but are not limited to, the following:

Community Development Block Grants (CDBG)

CDBG funds must be used within a broad functional area, such as community development. These federal funds are distributed to local governments through a local clearinghouse. The allocation amount is based on a formula.

Congestion Mitigation and Air Quality Improvement Program (CMAQ)

CMAQ is another federal program that provides funding to cities. CMAQ funds are available for the specific purpose of developing and implementing transportation programs that reduce traffic congestion and air pollution.

Intermodal Surface Transportation Efficiency Act (ISTEA)

Under this act, federal funding is available for street and road improvements and repairs.

Economic Development - Grants for Public Works and Infrastructure Development

The objective of this grant is to promote economic development and assist in the construction of facilities needed to encourage the creation and retention of permanent jobs in area experiencing severe economic distress. The facilities can include water and sewer systems, industrial access roads to industrial parks, rail road siding and spurs, tourism facilities, vocational schools, business incubator facilities and infrastructure improvements for industrial parks. The basic grant may fund up to 50% of the cost of the facilities. For communities that are severely depressed, the grant may fund up to 80% of the cost of the facilities.

Environmental Protection Agency

The Environmental Protection Agency makes low interest loans to communities to assist in the construction of new or upgraded sewage treatment facilities.

Quimby Act – Park Dedication and Financing

Through the Quimby Act (Gov't Code Section 66477) cities and counties may pass ordinances requiring developers to set aside land, donate conservation easements, and/or pay fees for park improvements. Once an ordinance is in place, cities and counties may exact parkland and or development of recreational facilities from a developer as land, cash-in-lieu of land and/or impact fee as a condition of subdivision map approval. There must be a strong direct relationship

or nexus between the park fee exactions and the proposed project. The land must be conveyed and the fees must be paid directly to the city or county.

L. Lease Financing

Instead of purchasing or issuing bonds, agencies can enter into a lease agreement to acquire and dispose of property. Generally, one of two types of lease agreements is entered. The first type is a lease-purchase agreement, where an agency leases a facility while purchasing it. The second type is a sale-leaseback agreement, where a facility is sold to a lessor by an agency, which immediately leases the facility back to the agency. Leases are designed to be tax-exempt investments and a properly constructed lease is not considered a public debt. Lease financing requires finding an investor or group of investors to invest in the return from the agency's lease payments.

Certificates of Participation

Certificates of participation (COP) refer to the undivided shares of the lease obligation, which are purchased by a group of investors. COPs attract investors because they are designed to be a source of tax-free interest income. They are usually available for purchase in denominations of \$5,000.

If projects are too small to attract investors or to be feasible for lease financing, local agencies can pool COPs. Pooling COPs allows agencies to minimize the costs of initiating and issuing a COP and may reduce the interest required to be paid on the lease. Entities involved with a pooled COP must form a Joint Powers Authority (JPA) to oversee the pooled COP.

III. FACILITY FINANCING

A. Administrative Facilities

1. Current Funding

Funding for administrative facilities is currently provided by the General Fund. Specific revenue sources include property and sales taxes, licenses and permits, fines and penalties, general taxes, service fees, assessments and grants. Additionally, there are Special Revenue Transfers to the General Fund that directly or indirectly funds administrative services.

2. Cost Avoidance Opportunities

In order to reduce administrative services costs, the City of Calexico may out source some of the administrative services such as city planners and special project managers.

3. Recommended Funding

In addition to the continued use of existing funding sources, development impact fees will soon be established to help fund future administrative facilities demand created by future development. If additional funding is needed, then General Obligation Bonds can be issued or a citywide community facilities district can be formed.

- B. Drainage Facilities

1. Current Funding

Maintenance of storm water drainage facilities is currently funded by the General Fund, including property and sales taxes, licenses and permits, charges for services and other miscellaneous sources. Future storm water drainage facilities will be installed at the developer/builder's expense at the time of construction and will be maintained using funds from the General Fund.

2. Cost Avoidance Opportunities

There are no cost avoidance opportunities known at this time. Some services may be outsourced such as those capital improvement projects requiring a special projects manager.

3. Recommended Funding

Funding for drainage facilities should continue as described above. Additional funding sources, if needed, should include the creation of a citywide community facilities district, special assessment district or a community services district.

- C. Fire Facilities

1. Current Funding

Costs to provide fire protection services to the City of Calexico are currently financed by property and sales taxes from the General Fund, Fire Mitigation fees, and various Fire Act Grants.

2. Cost Avoidance Opportunities

There are no cost avoidance opportunities known at this time; however, in order to reduce fire protection services costs, the City of Calexico and the Imperial County Fire Department could procure an agreement for fire

protection that would enable county or state funding when the Calexico Fire Department responds to fire emergencies throughout the Imperial Valley outside of Calexico Jurisdiction. The City of Calexico is a member of the Imperial Valley Firefighters Strike Force, which is responsible to respond to fire emergencies throughout California and is also a member of the Imperial Valley Hazardous Materials Response Team and is available to respond to hazardous materials emergencies throughout Imperial County. See *Section 6, Fire Facilities*, for further clarification.

3. Recommended Funding

Current funding sources for fire facilities should continue to be used. In addition, development impact fees and fire mitigation fees must be implemented to ensure costs of future demand created by future development. A special fire suppression assessment district or a special tax can also be implemented to assist in the financing of fire facilities costs.

D. Law Enforcement

1. Current Funding

A portion of financing for law enforcement is currently financed by property and sales taxes from the General Fund. Other funding sources include the State C.O.P.S. Grant and the Local Law Enforcement Block Grant (LLEBG), School Partnership Grant, Office of Emergency Services State FEMA Grant, and asset forfeitures.

2. Cost Avoidance Opportunities

There are no Cost Avoidance Opportunities at this time.

3. Recommended Funding

Current funding sources for law enforcement should continue to be used. In addition, development impact fees have been established to ensure future development contributes its proportional share to the future demand created.

E. Library Facilities

1. Current Funding

Library facilities are currently financed by property and sales taxes from the General Fund.

2. Cost Avoidance Opportunities

Although the amounts received are small, the library charges fees for miscellaneous services such as copies of documents or publications.

3. Recommended Funding

The City should continue using the current funding source for library facilities. In addition, development impact fees must be established to ensure that future development contributes its proportional share to the future demand created. Additional funding sources such as community facilities district, special assessment district, Community Block Development Grants, the California Literacy Campaign Fund, and the State Public Library Fund should be pursued.

- F. Park And Recreational Facilities

1. Current Funding

Park and recreational facilities are currently financed by property and sales taxes from the General Fund, and various Grants.

2. Cost Avoidance Opportunities

There are no cost avoidance opportunities at this time. The City should enter into an agreement with the Calexico Unified School District for joint use of their playground equipment and playing fields. Similar Joint Use Agreements are being drafted for other school sites within the County of Imperial.

3. Recommended Funding

Current funding sources should continue to be used as a source for financing park and recreational facilities. In addition, it is essential that the City requires developers of new subdivisions to dedicate parkland and pay development impact fees for the improvement of new parks and/or the expansion of existing park and recreational facilities in accordance with the Quimby Act (Government Code Sections 66477-66477.3). It would also be beneficial to develop and implement a five-year capital improvement plan for all park and recreational facilities within the City. CFD's and HOA fees are also potential instruments for park funding.

G. Circulation Facilities

1. Current Funding

Funding for circulation facilities is provided by Local Transportation Funds, Local Sales Taxes, State Highway Funds, Surface Transportation Funds (federal) and Federal Highway Funds described in the 1997 ICTP as well as developer funding. Additionally, federal grants have been and continue to be an important source of funding for the City of Calexico.⁷

2. Cost Avoidance Opportunities

There are no cost avoidance opportunities at this time.

3. Recommended Funding

Current funding sources for circulation facilities should continue to be used. Additional funding will be provided through the collection of development impact fees. Additionally, there are several funding sources for circulation facilities such as community facilities district, special assessment district, Certificate of Participation, Safe, Accountable, Flexible, and Efficient Transportation Equity Act (SAFETEA), Surface Transportation Program (STP), Transportation Enhancement Activities (TEA) as well as Community Development Block Grants and other state and federal grants which should be pursued, as suggested by the Circulation Element of the City's General Plan.

H. Wastewater Treatment And Sewer Facility Capacity

1. Current Funding

The primary sources of revenue for wastewater treatment and conveyance facilities are the sewer service charges, sewer capacity fees, and sewer connection fees. The sewer service charges function to subsidize off-site facilities such as sewer interceptors and sewer treatment plants. The sewer connection fee is dependent upon the size of the sewer line needed to serve the area and whether the street or alley is paved. The City will continue to utilize these funding sources in addition to searching for other sources to improve the existing system in order to meet future demand.

2. Cost Avoidance Opportunities

In order to reduce wastewater treatment facilities maintenance and capital improvements costs, the City of Calexico may outsource services

⁷ Service Area Plan City of Calexico, March 1999

requiring a special projects manager for some of the City's wastewater treatment and conveyance system capital improvement projects.

3. Recommended Funding

The current fee structure will need to be reviewed annually and during proposed annexations to ensure that there is sufficient funding to provide wastewater service to new development. Special assessment districts, community facilities districts, local bond issuance, and development impact fees should be considered as alternative funding sources for wastewater treatment and conveyance facilities. Also, state and federal grant and loan programs are available such as *Grants for Public Works and Infrastructure Development*. The City of Calexico should consider these programs for additional assistance in providing for adequate wastewater facilities to the residents of the City of Calexico.

I. Water Facilities

1. Current Funding

The primary sources of revenue for water treatment and distribution facilities are the water service charges, water connection fees and water turn on fees. Developer funding is used for individual internal project water improvements. The City will continue to utilize these funding sources in addition to searching for other sources to improve the existing system in order to meet future demand.

2. Cost Avoidance Opportunities

In order to reduce water facilities maintenance and capital improvements costs, the City of Calexico may outsource services requiring a special projects manager for some of the City's water treatment and water conveyance system capital improvement projects.

3. Recommended Funding

The current fee structure will need to be reviewed annually and during proposed annexations to ensure that there is sufficient funding to supply water service to new development. Special assessment districts, community facilities districts, local bond issuance, and development impact fees should be considered as alternative funding sources for water treatment and distribution facilities. Also, state and federal grant and loan programs are available such as *Grants for Public Works and Infrastructure Development*. The City of Calexico should consider these programs for additional assistance in providing for adequate potable water to the residents of the City of Calexico.