CHAPTER V: IMPLEMENTING THE PLAN

A range of resources is available to fund the improvements included in the Action Plan. These resources include existing commitments of County funding, redevelopment-related sources (tax increment financing), new local sources (assessments and special taxes), and various grants-in-aid. Additionally, the public improvements included in the Action Plan are intended to leverage available public funds to attract additional private investment in the neighborhood.

Over the years, Sonoma County has demonstrated a commitment to improve and revitalize the Sonoma Valley area by allocating redevelopment resources for planning, services and physical improvements, as well as providing other funding for projects included in the Capital Improvement Program (roads, parks, etc.). Achieving the improvements included in the Action Plan, however, will require a substantial increase in the funding that has historically been available.

As a part of implementing the Action Plan it will be necessary to **identify and obtain the appropriate funding sources for the desired improvements**. Therefore, innovative funding mechanisms will need to be explored and careful prioritization of the actions will be critical.

Potential funding resources are described on the following pages.

Redevelopment Tax Increment Financing

The primary financial engine for redevelopment is its tax increment revenues (TIR), the dedication of part of the property taxes routinely collected within the Project Area for re-investment in the Project Area. TIR can be used in two ways: (1) to provide direct payments for "fund-as-you-go" projects and programs, and/or (2) using TIR to make debt service payments on bonds or other forms of debt.

The second use of TIR allows redevelopment agencies to borrow larger capital amounts for immediate or near term improvements in Redevelopment Areas in exchange for repayment over time from future TIR. Such a debt-financing approach can result in capital improvements that will result in increased assessed values of taxable real property within the redevelopment project area and correspondingly increased TIR. The TIR can also be used to repay expenses incurred by the redevelopment agencies for operation, administration and overhead (such as expenses incurred for the Redevelopment Area planning purposes).

The County's Redevelopment Plan specifies a $20 million cap on the cumulative TIR that the Redevelopment Agency may collect. Once that cap has been reached, no more TIR can be collected or used for any purpose and all tax increment revenues will be distributed to the taxing entities according to their prescribed ratios from that date. As of the end of FY05/06, approximately $15.5 million has been distributed to the Sonoma Valley Redevelopment Project.

The remaining $4.5 million allowed under the current cap is projected to be received during FY08/09. Unless the Redevelopment Plan has been amended to raise the cap by that time, the Sonoma Valley Redevelopment Project must end as soon as those last revenues are expended. It is clear that more than $4.5 million will be needed to complete the numerous projects identified in this Strategic Plan. Correspondingly, it is recommended that the Redevelopment Plan be amended to raise the cap.

Sonoma County Capital Improvement Program

Sonoma County funds various capital improvement projects through various departments such as Regional Parks and Transportation and Public Works. Some of the public improvements envisioned for the Sonoma Valley Redevelopment Area are already included in the County's Capital Improvement Program (CIP), in which case funding would be available through the County. Assuming these action items that are already included in the CIP are funded through the County's resources, at least $4 million of funding would be available through this source.

Capital Improvement Program dollars could be used for infrastructure upgrades along Highway 12.

County Fund for Housing (CFH)

The Sonoma County Community Development Commission administers a locally-funded housing trust fund that provides assistance to developers of rental and ownership housing for very low- and low-income households. CFH funds can be used for pre-development, acquisition, and construction costs to support development and preservation of affordable housing units in the unincorporated areas of the County.

Mello-Roos Community Facilities Districts can help to pay for a variety of public services, including police.

Mello-Roos Community Facilities Districts

The Mello-Roos Community Facilities District (CFD) is one of the most common financing mechanisms to fund both capital and maintenance costs of a new development. California's Mello-Roos Community Facilities Act of 1982 allows for the creation of a special district authorized to levy a special non-ad valorem tax and issue tax-exempt bonds to finance public facilities and services. A CFD may be initiated by the legislative body or by a property-owner petition, then it 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 along with property taxes, and the special tax amount is based upon a tax lien against the property. Because there is no requirement to show direct benefit, Mello-Roos levies may be used to fund improvements that provide general benefit to the area.

A CFD can provide a stable and predictable revenue source as well as increased bonding capacity for capital improvements and a source of revenue for ongoing services. For example, if the housing units in the Redevelopment Area were levied an annual CFD tax of $150, this would generate a total annual income of $225,000. This annual revenue stream would be able to support roughly $2.7 million 30-year bond. If the fee can be doubled, the bonding capacity would increase to $5.4 million.

This financing mechanism allows a highly flexible use of funds to pay for a variety of services that go beyond capital improvements. Public services that can be funded through this special tax include:

- Police;
- Fire;
- Ambulance and paramedic;
- Flood and storm protection;
- Environmental hazard clean-up;
- Recreation programs;
- Library services; and
- Parks and open space maintenance.

CFDs also offer a high degree of flexibility with regard to the apportionment of the tax and may be apportioned in any reasonable manner and can vary by land use, area, etc. The levy of special taxes is flexible and can vary from year to year up to the maximum special tax rate. It may also be structured to decline and expire as the tax base grows and can fund service costs.

Special Assessment Districts

Special assessment districts, also known as benefit assessment districts, are historically popular techniques for financing construction and maintenance of physical improvements that benefit distinct areas, such as:

- Sidewalks;
- Sewers;
- Streets;
- Storm drains;
- Lighting; and
- Flood control.

Special assessment districts must be based on a determination that the assessment for each parcel is proportional to the benefit received by that parcel and are subject to majority vote of property owners. Votes are weighted according to the amount of the proposed assessment on the parcel to which the ballot pertains. Assessments are levied on real property or a business within a predetermined district and distributed in proportion to the benefits received by each property as determined by engineering analysis and form a lien against 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.

A common example of special assessment districts is a Landscape and Lighting District (LLD). LLDs may be used for installation, maintenance, and servicing of landscaping and lighting through annual assessments on benefiting properties. LLDs may also provide for construction and maintenance of appurtenant features, including curbs, gutters, walls, sidewalks or paving, and irrigation or drainage facilities.


A BID or PBID could help to finance public art installations, such as this mural in San Jose.

Business Improvement Districts

The Area currently lacks either a business improvement district (BID), or a property-based business improvement district (PBID). Accordingly, the creation of a BID or a PBID would offer another local financing option.The BID or PBID is a self-help organization that property owners and businesses can create to fund physical and organizational improvements. A BID or PBID typically funds or augments established improvement programs such as security, maintenance, and marketing. Allowed under California law since 1994, BIDs and PBIDs have become an established tool to fund commercial revitalization improvements. Funds to support BIDs and PBIDs are raised in the form of additional taxes and/or fees that are reinvested back into a commercial area.

The assessments generated for BIDs and PBIDs are reinvested into commercial areas for beautification efforts, increased maintenance, additional security, local promotion, special events, and other improvement efforts. The differences between a BID and PBID are described below.

A BID is a self-help, self-taxing, merchant-based entity organized with the cooperation of local government. Typically, BID funds are used for smaller, more retail-oriented revitalization and economic development programs in downtowns and commercial corridors, including farmers' markets. Funds are often limited to approximately $10,000 per year. In most communities, the BIDs are renewed on an annual basis and merchants typically see their money go to work for them quickly.

A PBID is a property-based assessment district with sufficient resources to supplement the services provided by municipal government. PBIDs can raise funds by directly assessing property owners who have a long-term stake in the area. Advantages of a PBID rather than a standard BID are listed below.

- A PBID allows a wide range of service options, including security, maintenance, marketing, economic development, and special events among others.
- The PBID is designed and created by those who will pay the assessment.

- The PBID is governed and implemented by those who pay through a property and business owner advisory board that supervises operations and submits a yearly service plan. PBIDs are established for a set term by those who pay the assessment and must be reestablished by petition on a periodic basis.

A PBID is usually established for up to five years and is often used for larger districts with higher budget requirements. PBIDs are relatively easy to establish, especially when compared to the process of creating a new Redevelopment Area. The process of forming a PBID takes from 9-12 months. In most cities, organizers just need to prove they have contacted every property owner within the proposed district. If a majority agrees, then each owner pays a special assessment on their property tax.

Low income housing tax credits were used to finance this townhome project in Sacramento.

Low-Income Housing Tax Credits

The LIHTC is an indirect federal subsidy used to finance the construction and rehabilitation of low-income affordable rental housing. Typically, affordable rental housing projects do not generate sufficient profit to warrant private investment. Therefore, the LIHTC gives investors a dollar-for-dollar reduction in their federal tax liability in exchange for financing affordable rental housing. Investors' equity contributions subsidize low-income housing development, thus allowing some units to rent at below-market rates. In return, investors receive tax credits paid in annual allotments, generally over ten years.

The LIHTC is designed to subsidize either 30 percent or 70 percent of the low-income unit costs in a project. The 30 percent subsidy, which is known as the so-called automatic four percent tax credit, covers new construction that uses additional subsidies or the acquisition cost of existing buildings. The 70 percent subsidy, or nine percent tax credit, supports new construction without any additional federal subsidies. The LIHTC is a complex income tax area, which requires the selection of a developer experienced with the program. Developers may claim LIHTCs directly; however, most developers sell the tax credits for cash.

To benefit from economies of scale, syndicators pool several LIHTC projects into one equity fund, which spreads risk across multiple LIHTC projects. In order to build a LIHTC project, a developer must leverage multiple financial resources from both the public and private sector.

Rental properties that qualify for the LIHTC tend to have both lower debt service payments and lower vacancy rates than market rate housing. LIHTC properties typically experience a relatively quick lease-up, and offer strong potential economic returns, primarily due to the existence of the credit.

Multifamily Housing Program (MHP)

Using State of California Proposition 46 bond funds administered through the Dept of Housing and Community Development, this program provides financing for rental housing developments targeted to households with incomes at or below 60% of AMI. MHP funds are widely used by affordable housing developers in Sonoma County to augment four percent Low-Income Housing Tax Credits financing.

Community Development Block Grants (CDBG)

The Community Development Block Grant (CDBG) Program provides annual grants on a formula basis to entitled cities and counties for housing and economic development projects targeted for low and moderate income persons. CDBG funds received by the County of Sonoma are administered and distributed by the Sonoma County Community Development Commission (CDC). CDBG entitlement funds can be used for the following types of activities:

- Real property acquisition, relocation, or demolition;
- Residential or commercial building rehabilitation;
- Construction of public facilities and improvement systems such as water, sewer, and neighborhood centers;
- Public services delivery;
- Energy conservation; and
- Business assistance.

HOME Investment Partnerships Program (HOME)

The HOME funds granted by HUD are intended to create and preserve affordable housing by providing acquisition, development or rehabilitation financing targeted to assist very low- and low-income households. HOME funds received by the County of Sonoma are administered and distributed by the CDC.

In Sonoma County, HOME funding can be used to build or rehabilitate rental, or reduce the costs of site acquisition, demolition, or relocation expenses for rental housing developments. The County provides the assistance in the form of low interest, deferred-payment loans to developers, as a gap-financing tool for larger projects funded from several sources. The CDC also uses HOME funds to pay monthly rental subsidies to make market-rate units affordable to lower-income households.

Emergency Shelter Grants

This program provides funds to agencies that offer basic shelter and essential supportive services to homeless persons. The ESG funds can be used to remodel a building used as a shelter, or reduce the operational costs of the shelter facility, and assist with case management or other essential supportive services, homeless prevention, and grant administration. The ESG grants also provide short-term homeless prevention assistance to persons at imminent risk of losing their own housing due to eviction, foreclosure, or utility shutoffs.

Special Economic Development Initiative program (EDI)

The EDI grant funds allow for the funding of landscaping, lighting, pedestrian walk areas, and other streetscape improvements.

Other Grant and Funding Options

There are many other grant sources that can be accessed to help fund the revitalization effort. Lending programs through the Federal Housing Authority (FHA) and California Housing Finance Agency (CalHFA) are viable funding options for improvements. The FHA 203K loan program allows a prospective homeowner to apply for a single mortgage at long-term rates to finance both property acquisition and necessary improvements. This method protects the prospective owner from high interest rates typically associated with short-term property improvement loans. CalHFA finances below market-rate loans to fund the acquisition, rehabilitation, or construction of affordable rental units. The Agency also offers loan programs for low and moderate-income first-time homebuyers.