



DATE: April 20, 2015

AGENDA ITEM # 2

TO: Financial Commission

FROM: Christopher Lamm, Engineering Services Manager
Kim Juran-Karageorgiou, Administrative Services Director

SUBJECT: Stormwater Master Plan Funding Strategies

BACKGROUND

An important element of the Los Altos infrastructure is the network of stormwater conveyance facilities that deliver storm water runoff to the four creeks in Los Altos which terminate at San Francisco Bay. These facilities include curbs and gutters, drainage swales, drain inlets and catch basins, underground pipes ranging from 12 inches to 66 inches in diameter, manholes, and outfalls at the creeks. Over the past several years, Schaaf & Wheeler Consulting Civil Engineers have performed field investigation and records research to prepare a document that would be useful to prioritize needed improvements to infrastructure and operational and maintenance practices

There is a long-term need for a financial solution to meet the requirements for operation, maintenance, and capital investment in this critical infrastructure element for Los Altos. The ongoing maintenance of stormwater infrastructure is funded entirely by the General Fund. General Fund transfers into the Stormwater Fund have averaged \$240,000 annually. This transfer funds 50% of a Maintenance Worker position, 50% of the Engineering Services Manager position, participation in the Santa Clara Valley Urban Runoff Pollution Prevention Program (SCVURPPP), an association of 13 jurisdictions within Santa Clara County which combine resources to meet the requirements of regional storm water permitting, and state stormwater permit fees. Other costs not captured in the transfer to the Stormwater Fund are paid for directly from the General Fund, including plan review, responses to storms by maintenance crews, and capital projects.

It should be noted that there have been no storm water-related capital projects in recent years except for installation of a grant-funded trash interceptor on View Street in 2012. Storm drain pipes were installed on First Street to support new development and paid for by developers as a condition of project approval. These were minor modifications to the storm drain infrastructure.

At the study session with City Council on November 25, 2014, a presentation of the consultants' recommendations was offered to begin consideration of funding alternatives that will address future program needs and reduce dependence on the General Fund. City Council directed staff to present information to the Financial Commission for review and recommendation.



AGENDA REPORT

DISCUSSION

The draft Chapter 6 of the Stormwater Master Plan, provided as Attachment 1, presents an analysis of the financial requirements of the Stormwater Fund and mechanisms to provide funding. It further contemplates several significant issues for the City to consider:

1. Program funding requirements of \$1.2 million per year in the first year of implementation increasing to \$1.9 million per year in year 10
2. Use of debt to smooth the capital project cash flow and establish an operating reserve
3. Property owner acceptance of a fee to be levied on a per-parcel basis of approximately \$100 annually beginning in year 1 and increasing to \$155 annually in year 10 which would serve as the revenue source for the Stormwater Fund
4. Other revenue sources such as development impact fees or regulatory fees that would offset a city-wide levy

There are several different funding mechanisms to consider for Stormwater activities, which are summarized on Attachment 2 provided by Scott Ferguson, attorney with Jones Hall Law Firm. Mr. Ferguson has extensive experience with assessment district formation and utility revenue financing and will be present to further discuss the available funding options at the April 20 commission meeting. It is important to consider a fee that is levied city wide as existing infrastructure is located throughout the city requiring regular maintenance and repairs and is subject to federal and state permit compliance. Additionally, per the master plan capital improvement recommendations, new infrastructure is needed throughout the city to ensure the City remains compliant with NPDES requirements.

It is not known if residents will support a stormwater fee, however, experience in other cities that have successfully implemented such fees since Proposition 218 was passed indicate that extensive outreach was needed to obtain community understanding and support before fees were approved by voters. For Los Altos, this undertaking will require resources that have not yet been budgeted. The consultant has recommended a follow-on task for a consultant to conduct a feasibility analysis of the likelihood of gaining the necessary support. This engagement and cost is expected to be the subject of a future funding request.

Implementation of the draft Stormwater Master Plan is dependent on identifying one or more funding sources for the recommended actions.

Attachments:

1. Stormwater Master Plan – Chapter 6 Financial Analysis
2. Stormwater Master Plan Financing Options – prepared by Scott Ferguson, Jones Hall

CHAPTER 6

FINANCIAL ANALYSIS AND FUNDING STRATEGIES

This chapter analyzes the financial implications of and funding strategies associated with the recommendations presented in previous chapters of this Storm Drain Master Plan for the City of Los Altos.

The findings presented in this chapter represent a high-level overview of the financial condition of the City's Storm Drain Program and potential impacts to the General Fund and/or property owners to fund it. Financial plans and levy/fee options should not be implemented without the specific analysis and justification required by statutory obligations for the revenue mechanism the City selects.

SUMMARY

This chapter finds:

- The City of Los Altos, like many California cities, faces increasing expenditures to fulfill mandated obligations and community expectations associated with its Storm Drain Program.
- The Storm Drain Program has historically been supported by General Fund resources; however, the projected cost of these expenditures in a time of increasing demands on the City's General Fund necessitates pursuit of a dedicated revenue stream.
- Over the next 10-years, the Storm Drain Program is projected to expend more than \$9 million (or an average of \$900,000 annually) to operate and maintain the system and satisfy associated programmatic and regulatory obligations.
- Over this 10-year period, the Storm Drain program is also projected to invest as much as \$7.7 million to improve or construct capital infrastructure. These investments, while scheduled in a prioritized manner, occur in an uneven pattern from year to year.
- To minimize the financial burden on the community and smooth out these capital expenditures, debt financing is recommended for most of the capital program.
- Because of the necessary costs of the Storm Drain Program, the City needs it to be a self-sustained enterprise that maintains separate reserves for operating, capital projects (including repair and replacements), and restricted debt service reserves as required.
- Fully funding the amount and pacing of the capital improvement program recommended by this Storm Drain Master Plan for the next ten years with a smooth, property-based revenue stream will require as much as \$4.5 million in debt-financing and the accumulation and use of up to \$3.2 million in cash reserves.

- To fund the annual operating and maintenance costs, cash reserves, capital program needs, and annual debt service payments requires an annual revenue stream ranging from \$1.2 million in Year One to \$1.9 million by Year 10.
- This annual revenue stream can be generated through an annual levy on properties ranging from an estimated \$100 per equivalent dwelling unit¹ in Year One to \$155 by Year 10.
- While multiple levy/fee mechanisms are available to create a dedicated revenue stream from properties in the City, some form of direct property owner or voter approval of the fee will be required. The City will need to determine the political feasibility of this new funding source, in addition to preparing the formal justification and documentation of the selected levy/fee mechanism.
- Other minor revenue streams may also be developed which would reduce the annual levy on property owners. These revenue streams might include fees for specific operational or regulatory tasks, and/or mitigation fees from new development or redevelopment that impacts the Storm Drain infrastructure.

INTRODUCTION

This chapter has been prepared following a “revenue requirements” analytical methodology common to financial analyses underlying most utility rates and charges imposed by traditional utilities, such as the City’s sewer system. While California law does not enable municipalities to impose “utility rates” for storm drain/stormwater management services, the Storm Drain Program shares similarities to traditional utilities and will likely require a primary, dedicated revenue source akin to rates.

The Storm Drain Program includes long-term capital financing requirements to fund equipment, infrastructure, ongoing operations, maintenance, administration, and regulatory obligations. Properly managing the Program also requires establishing reserves and using debt financing. Therefore, the following analyses have been prepared:

- Projected operating revenue requirements.
- Evaluation of financing strategies for the capital improvement program.
- Projected debt proceeds and debt service payments.
- Analysis of cash and reserve requirements.
- Determination of net annual revenue requirements for the program.

Please note all figures are presented in future dollars (i.e., including inflation). Various inflation factors have been applied to cost estimates presented in earlier chapters or derived from City

¹ An equivalent dwelling unit is equal to a typical single family residential parcel.

data. Therefore, revenue streams also represent actual dollar amounts needed in future years.

Finally, the financial analysis examined revenue requirements over a 10-year period (Year One through Year 10) which corresponds to fiscal years 2015/16 through 2024/25. The full financial analysis is documented in more detail in the appendix to this Plan.

REVENUE SOURCES AND RESERVE FUNDS

Though historically supported by other City funds, the City has maintained a Storm Drain Enterprise Fund. This analysis presumes the City will use and manage a dedicated enterprise fund for the Storm Drain Program. In addition to ongoing operations and maintenance, implementing the Storm Drain Master Plan will require more capital expenditures and, in the future, funds to repair, rehabilitate, or replace new and existing capital assets.

This analysis also assumes the Storm Drainage Enterprise fund will establish and maintain operating and capital reserves. These reserves should be reviewed and adopted by the City (if they have not already adopted).

Revenue Sufficiency

The Storm Drain Program will provide its own revenues sufficient to meet the projected revenue requirements of the Program, including annual expenses needed for (1) operating and maintaining the system, (2) meeting regulatory and other programmatic obligations, (3) infrastructure-related capital costs, (4) repayment of debt, including meeting debt-related legal covenants, and (5) meeting other financial metrics required by law and/or set by City policy.

As an enterprise fund, the Program will not be funded by the City's General Fund or revenues from another utility.²

Operating Reserve

The Storm Drain Program should target a year-end Operating Reserve equal to 50% of annual operating requirements, or 6-months of normal operations. This reserve is intended to maintain financial viability in the event of any short-term fluctuation in revenues and/or expenditures and because the recommended parcel fee or tax would only be collected twice per year on the property tax roll. The minimum 50% for the Operating Reserve should be reevaluated annually.

Debt Reserve

When required by debt-financing, the Storm Drain Program will maintain a Debt Reserve consistent with the covenants established by each issuance. The financial analysis assumed that the City would maintain a debt reserve equal to the annual debt service payment for each debt

² This doesn't include the use of promissory notes or other forms of financing from other sources that are intended to be fully repaid.

issue.

Capital Reserve

The Storm Drain Program will treat the balance of its Enterprise Fund as its Capital Reserve. A Capital Reserve simply provides a distinct pool of resources purposely accumulated and spent on ongoing or anticipated capital projects which expand, improve, rehabilitate, or replace the Program's infrastructure.

Accumulation of the Capital Reserve occurs when current revenue received exceeds current expenditures and other reserve requirements, including the Operating Reserve. Use of Capital Reserve funds will occur only as needed to meet planned expenditures in the adopted capital improvement plan.

The minimum targeted balance in the Capital Reserve is assumed to be equal to 3% of net assets. This reserve target is based on an assumed 33-year infrastructure replacement cycle typical of similar utilities. However, this is normally considered the starting point for addressing long-term capital needs, and the City should review this reserve policy and adjust as needed in future years.

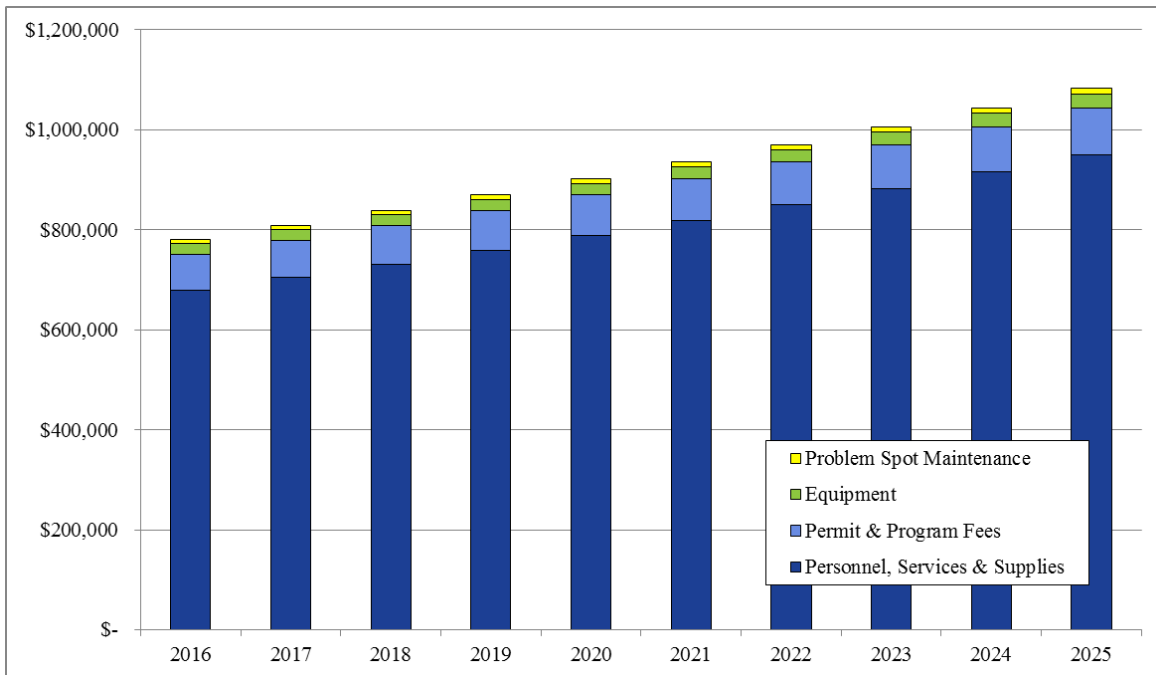
OPERATING REVENUE REQUIREMENTS

Operating revenue is used to fund recurring/annual expenses associated with operating and maintaining the Storm Drain system and meeting the City's other regulatory and programmatic obligations. Operating expenses include the costs of personnel, services, supplies, and minor equipment.

In a self-sufficient program, annual operating requirements should be fully satisfied by the annual, recurring revenue sources of the program to avoid a "structural deficit." A structural deficit means that the program's cash reserves typically used for capital investments are progressively drawn down to meet annual expenses. While short-term draw-downs are acceptable, regular and progressively increasing draw-downs are not sustainable and need to be corrected.

Figure 6-1 illustrates the projected operating expenditures for the Storm Drain Program, and are estimated to be approximately \$780,000 in Year One. Over the 10-year period, the average total operating expense for the Program is roughly \$920,000 per year.

Figure 6-1: Annual Operating Expenditures



Specific expenditures included in the operating revenue requirements for the Storm Drain Program are detailed in Exhibit 1 of the Appendix to this chapter.

CAPITAL REQUIREMENTS AND PROJECTED FINANCING

Capital Expenditures

Figure 6-2 illustrates the projected capital improvement program expenditures. Figure 6-3 summarizes total forecasted capital investments in years 1-5 and 6-10. The specific capital projects are detailed in Exhibit 2 of the Appendix to this chapter.

Figure 6-2: Annual Capital Improvement Program Expenditures (Future Values)

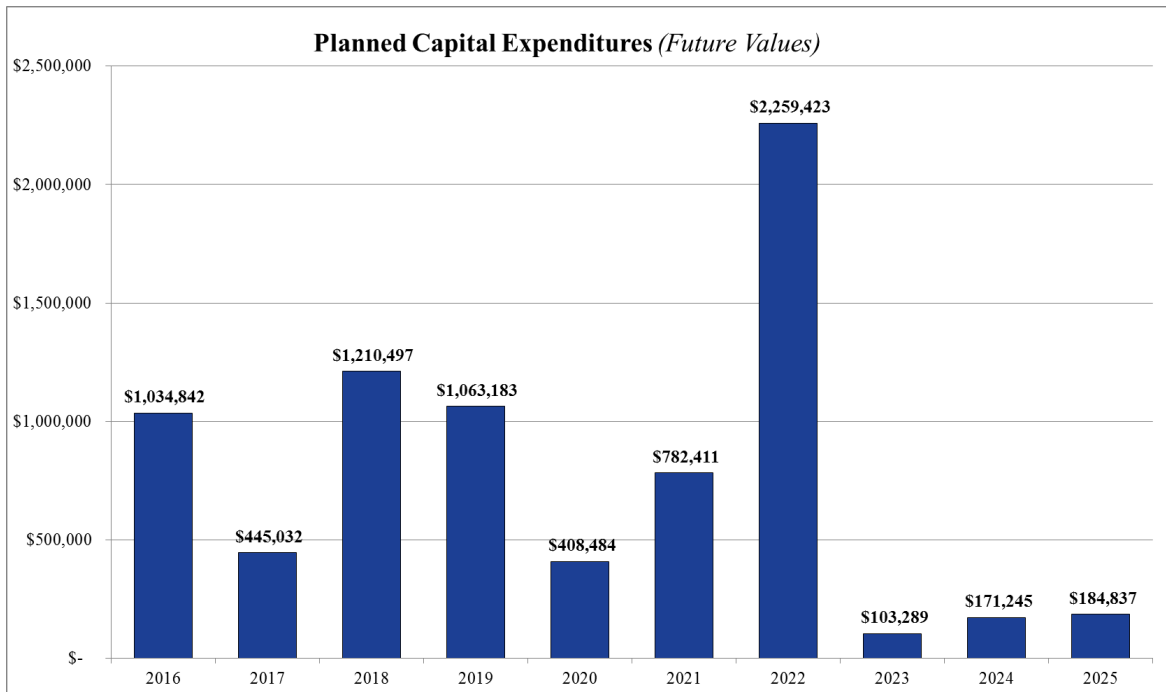
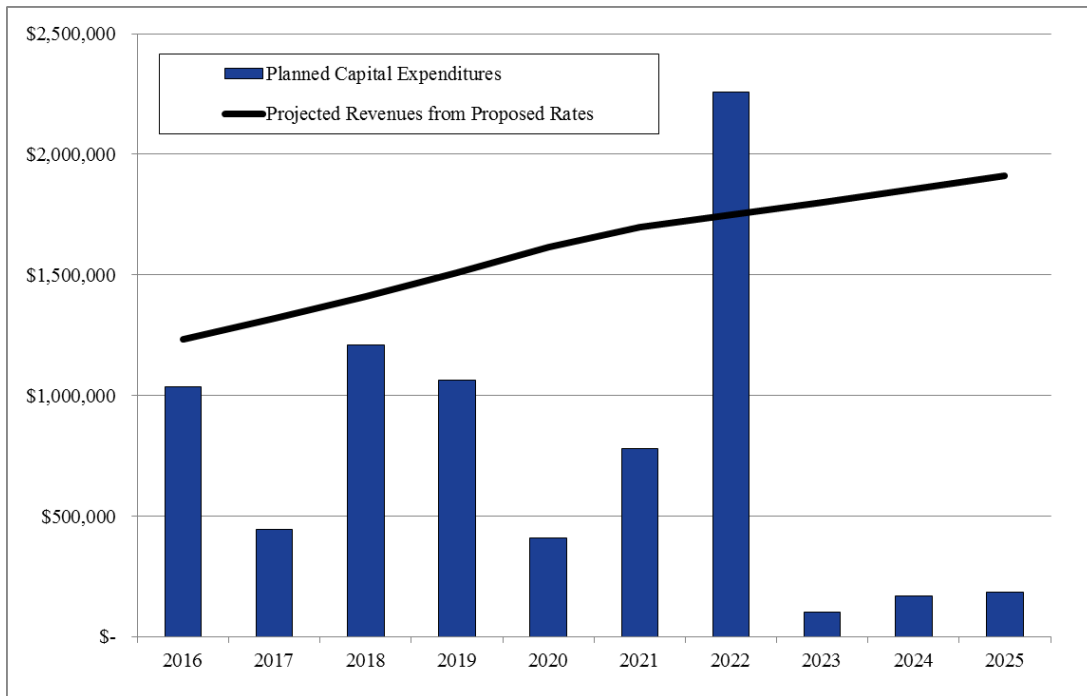


Figure 6-3: Total Capital Improvement Program Expenditures

Time Frame	Capital Improvement Program Expenditures
Years 1 - 5	\$4.16 MM
Years 6 - 10	\$7.66 MM

Capital investments in infrastructure are the single most significant variable influencing the Storm Drain Program’s revenue strategy. Cities facing intense capital investment programs are often forced to balance infrastructure needs against levels of affordability. Smoothing out the annual revenue requirements requires the use of debt-financing, which also enables the City to accumulate sufficient cash reserves to meet future peaks in capital spending. Figure 6-4 illustrates the typically desired *smooth* revenue pattern against the actual *uneven* pattern of capital spending.

Figure 6-4: Planned Capital Expenditures vs. Planned Levels of Revenue Collection



Projected Capital Financing Sources

The capital expenditures described above are assumed to be funded by the debt and cash-funding identified in Figure 6-5.

Figure 6-5: Projected Funding Sources for the Capital Improvement Program

Estimated Funding Sources	10-Year Total	% of Total
Debt-Financing	4,500,000	59%
Cash (Reserves and Pay-As-You-Go)	3,163,243	41%
Total Capital Program Expenditures	\$7,663,243	100%

As illustrated in Figure 6-5, funding capital improvements relies on both cash and debt funding. Ultimately, property-based fees are the only revenue sources to support the Storm Drainage Program.

Use of Debt Financing

The ultimate objective of debt financing is to yield a lower long-term cost to property owners than an entirely cash-funded program, particularly when the program requires an uneven pattern of expenditures. This point is a key driver of the financing strategy. Multiple alternatives were evaluated with regard to projected rate increases and debt financing scenarios for the purpose of developing the most palatable option for the residents and businesses in the City that will be paying the recommended fees.

Figure 6-6 summarizes the planned debt issuances (i.e., the net proceeds) and the corresponding debt service.

Figure 6-6: Planned Debt Financing – Net Proceeds and Annual Debt Service

Timeframe	Amount
Year One Issuance	\$2.5 MM
Year Five Issuance	\$2 MM
Annual Debt Service Starting in Year 2	\$177,746
Annual Debt Service Starting in Year 6	\$319,943
Percent of Program Financed	59%

It should be noted that this analysis assumes a conservative debt financing approach that uses revenue bonds with an interest rate of 5%, issuance costs of 2% of the proceeds, and a debt service reserve equal to one year’s principal and interest payment. These revenue bonds also require a “coverage requirement,” which is a financial test requiring that the agency demonstrate its annual revenues, net of operating expenses, equal to the annual debt-service payment plus an added cushion, typically 25% of the annual payment (i.e., a “1.25 coverage ratio”). As the City implements its capital program, alternative, lower-cost financing instruments may be available, such as state/federal loans, or perhaps a loan from other City funds if available. Details of planned debt obligations are provided in Exhibit 3 in the Appendix.

Annual Revenue Requirement

Figure 6-7 lists the annual revenue requirements that fully fund the capital financing strategy described earlier.

Figure 6-7: Annual Revenue Required to Fully Fund the Storm Drain Program

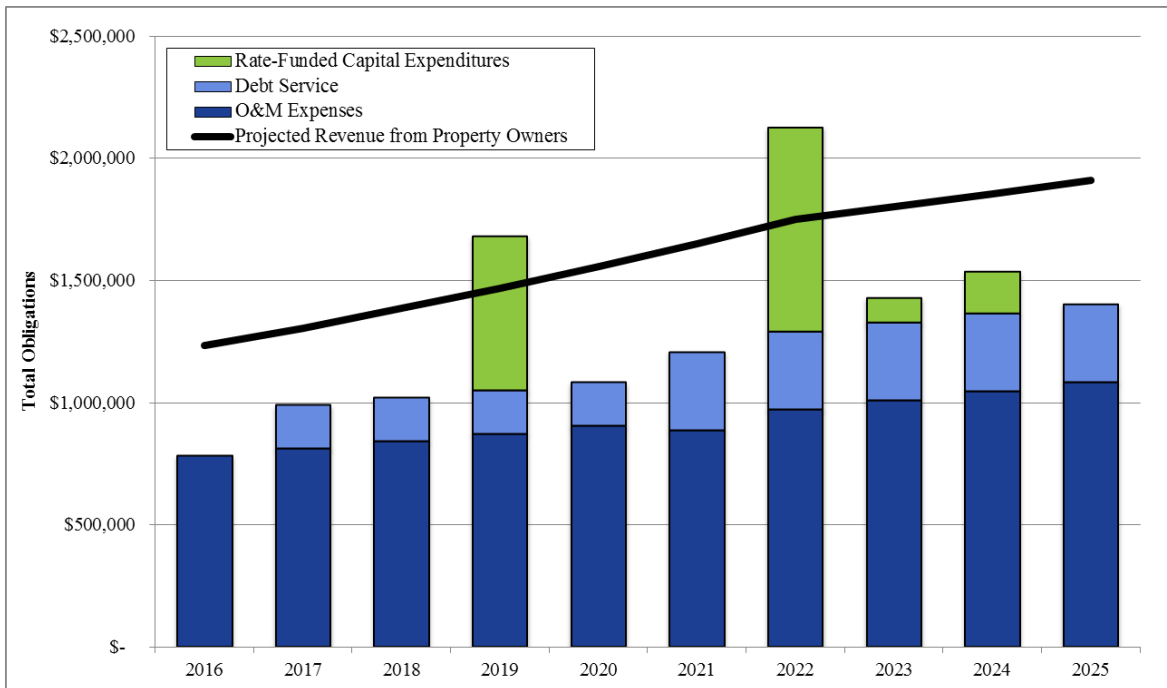
Timeframe	Revenue Required to Fully Fund Storm Drain Program
Year 1	\$1,233,360
Year 2	\$1,307,362
Year 3	\$1,385,803
Year 4	\$1,468,951
Year 5	\$1,557,089
Year 6	\$1,650,514
Year 7	\$1,749,545
Year 8	\$1,802,031
Year 9	\$1,856,092
Year 10	\$1,911,775

These annual revenue requirements are comprised of three major components:

- Annual expenditures incurred to operate and maintain the system and the associated programmatic and regulatory obligations.
- Annual debt service associated with the capital financing strategy: annual principal and interest repayment and corresponding coverage obligations.
- Direct contributions to cash reserves to maintain minimum year-end targets, and more substantively, to fund future capital investments.

Figure 6-8 illustrates these components of the annual revenue requirement. By Year 10, approximately 17% of the annual revenue requirement is for annual debt service payments, 57% is associated with annual operating expenditures, and 27% is to fund capital reserves and/or pay directly for current-year capital projects.

Figure 6-8: Annual Revenue Requirement Components



Annual Cost to Property Owners

The annual Storm Drain Program costs are recovered from property owners as an amount per equivalent dwelling unit. For purposes of this analysis, equivalent units have been approximated by applying both parcel area and a runoff coefficient which, together measure the proportionate level of likely impact on the Storm Drain system³. Single family residential parcel data has been aggregated, creating the metric of one single-family residential parcel. Using equivalent units to link the individual parcels creates the nexus required by law for adopting the levy/fee mechanism.

Figure 6-9 lists the approximate annual levy amount associated with the total revenue requirement in each year of the analysis. In the initial year, an annual levy of \$100 per equivalent unit is recommended. With the periodic debt-financing planned, smooth annual adjustments to the levy amount are possible, resulting in 6% annual increases in Year 2 through Year 7, followed by 3% increases in Years 8-10. By Year 10, the annual cost per equivalent unit is projected to be \$155 per equivalent unit. Details of the annual revenue requirements are provided in the Financial Plan in the Appendix.

³ This runoff coefficient is the “Curve Number” discussed in Chapter 4 (see Table 4-1 and page 4-6 discussion).

Figure 6-9: Estimated Annual Charges to Property Owners

Timeframe	Annual Cost Per Equivalent Unit	Annual Change	
		%	\$
Year 1	\$100	--	--
Year 2	\$106	6.00%	\$6
Year 3	\$112	6.00%	\$6
Year 4	\$119	6.00%	\$7
Year 5	\$126	6.00%	\$7
Year 6	\$134	6.00%	\$8
Year 7	\$142	6.00%	\$8
Year 8	\$146	3.00%	\$4
Year 9	\$150	3.00%	\$4
Year 10	\$155	3.00%	\$5

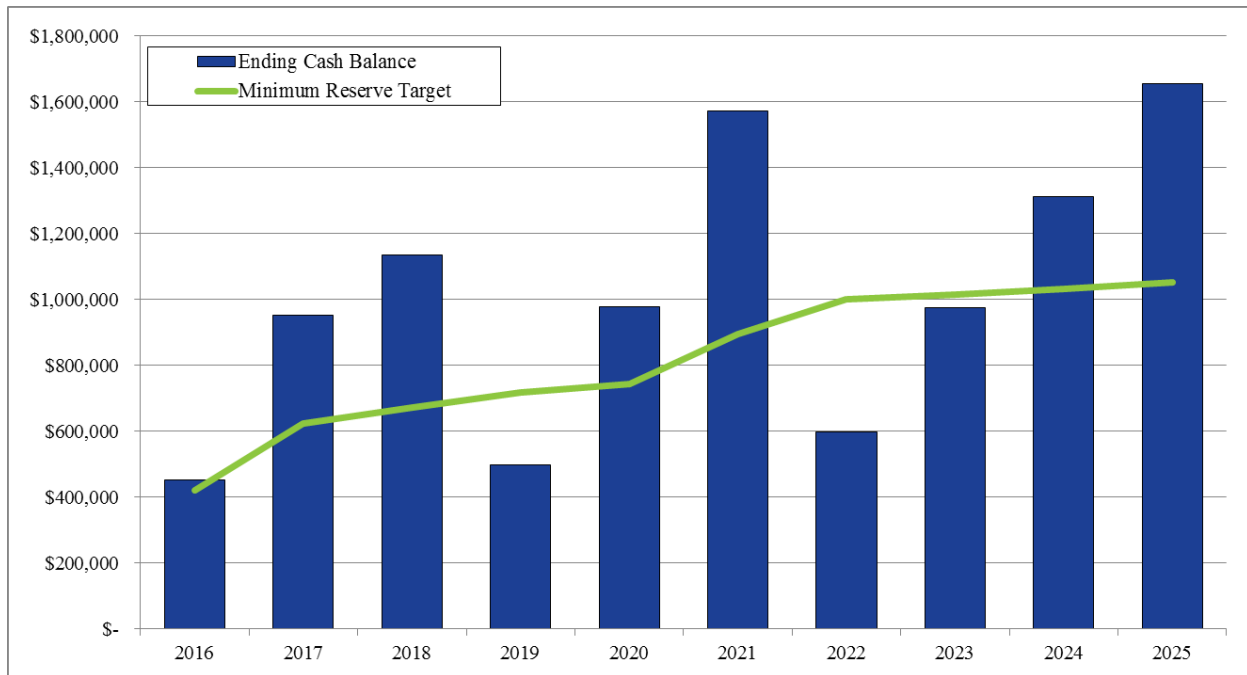
Annual cost per equivalent unit is the total revenue required divided by the number of equivalent units in the City of Los Altos of 12,333.

PROJECTED FUND AND RESERVE PERFORMANCE

Based on the financing strategy described above, Figure 6-10 illustrates the projected annual ending cash balances associated with the Storm Drain Program compared to the minimum reserve levels required. As described in preceding sections, minimum reserves include an Operating Reserve and a Capital Reserve. A Debt Reserve is a restricted reserve required by bond covenants and is not available for operating or capital expenditures.

To review a summary of cash performance incorporating the entirety of the findings described in this chapter, refer to the Reserve Fund Summary in the Appendix.

Figure 6-10: Projected Total Cash Balance Compared to Minimum Reserve Levels



REVENUE SOURCES

In establishing a dedicated revenue stream for the Storm Drain Program, the City should pursue a property-related fee or a special tax. The political feasibility of these mechanisms will likely be critical factors in determining which one the City implements.

Property-Related Fee

A property-related fee is a fee for service attributable to the parcel being charged. A fee for storm drainage services is levied upon the County tax roll and is imposed as an incident of property ownership. As such, it would be subject to the substantive and procedural requirements of California Constitution Article XIII D (known commonly by its enacting ballot measure: Proposition 218). The fee must be submitted and approved by a majority vote of the property owners or by a two-thirds vote of the electorate. The amount charged to each parcel must be proportional to the cost of service attributable to that parcel. Due to this proportionality requirement, the costs attributable to public parcels should be paid by City revenues (e.g., General Fund appropriation) or budgeted for by individual City departments.

For a property owner election, each parcel generally receives one ballot, and each ballot has one vote regardless of the potential levy amount, although the City may also have the power to provide for weighted voting. In one-parcel-per-vote elections, a large commercial parcel with a calculated levy that is an order of magnitude greater than that of a smaller parcel would have the same, single vote as the smaller parcel.

The revenue stream from a property-related fee may be used for both capital and annual operating and maintenance costs. This revenue stream could also be pledged as credit support for a revenue bond issued to fund major capital improvements.

Special Tax

A Community Facilities District (CFD) can be formed pursuant to the Mello-Roos Community Facilities Act of 1982. A CFD can fund capital projects as well as ongoing maintenance. Bonds would be issued to pay for capital costs secured by a special tax levy. The same CFD can also fund ongoing maintenance costs through a special tax levy.

There is great flexibility in both the geographic area to be levied and the formula by which to levy when using a CFD. A CFD may include non-contiguous geographic areas. There is no requirement that the special tax be apportioned on the basis of benefit to any property. Property owned by a public entity is generally exempt from the CFD special tax, ensuring no lingering obligation of other City revenues.

Successful creation of a CFD requires approval of two-thirds of the registered voters voting in an election (or approval of the landowners if less than 12 persons are registered to vote within the CFD boundary). With a voter election, each voter has one vote, regardless of their weighted share of the proposed special tax levy. In a landowner election, the vote is one vote per acre or portion thereof.

OTHER REVENUE SOURCES

Although the revenue strategy introduced in this chapter has estimated the full cost to property owners of funding the entire Storm Drain Program, there are at least two other additional revenue sources that, if justifiable and collectible on a substantive scale, would reduce that final levy amount needed from the community. The chief benefit of examining the viability of these revenue sources is that both may be approved by consensus of the City Council alone after proper public noticing and public hearing processes. Another benefit is that implementation of specifically targeted revenues such as these refine the level of equity achieved in recovering the overall costs of the Program.

Development Impact Fees

A development impact fee is a one-time fee imposed as a condition of approval on new development, infill, or redevelopment that creates new, unmitigated impermeable surface area. Development impact fees are authorized by Government Code 66000 et seq., created by the Mitigation Fee Act and commonly referred to as “AB 1600” fees.

A development impact fee may be justifiable for the Storm Drain Program under one of two conditions:

- The City has previously invested in Storm Drainage infrastructure which has remaining value and is available and/or sized to meet impacts caused by future development/redevelopment.
- The capital projects documented in this Storm Drain Master Plan are sized to meet storm-drain related impacts caused by future development/redevelopment and not just the demands of existing development.

An impact fee may be based on (1) a “buy-in” to existing infrastructure, or (2) the “incremental” costs of new facilities necessary to serve new development that will create additional impermeable surface areas. A combination of these two impact fees may also be used to repay existing customers for historical capital investments. However, they cannot be used to fund operating or maintenance costs, which must be met through the Storm Drain Program’s annual fees.

Regulatory Fees

Regulatory fees are imposed to recover costs associated with the City’s constitutional and statutory power to govern activities, such as development and construction. For example, within the Storm Drain Program, the City provides services/activities which may be eligible for recovery in a regulatory fee. These services/activities may include:

- Plan review and site inspection of development/construction that must meet Storm Drain regulations. (A common area for storm drain activity is grading and drainage permitting/oversight.)
- Review of maintenance plans for, and periodic site inspection of onsite stormwater management/mitigation facilities.
- Inspection of properties documented under the municipal permit as high-pollution risk operations requiring onsite management and/or facilities to mitigate risk to the environment and public rights-of-way.

The statutory limit in imposing these fees is that they may not exceed the estimated reasonable cost of service. Most regulatory fees like these have historically been implemented by consensus of the City Council alone.⁴ Data used to justify fee amounts must be prepared and made available to the public in advance of the public hearing.

⁴ The November 2010 passage of Proposition 26 calling for voter approval of “regulatory fees” has raised some questions about the City Council’s authority to set some fees. While prevailing industry consensus is that the fee examples listed here are exempt from the requirements of Proposition 26 due to the direct link between individual action and resulting regulation, the City should be aware of, and seek legal counsel regarding the ongoing debate in this area before proceeding. In establishing any regulatory fee for the Storm Drain Program, the City should at least ensure that the broader costs of the Program – those with community benefit – are explicitly excluded from the cost of service calculation. Those costs must be borne by the Program’s primary revenue source.

NEXT STEPS

Implementing the financing plan and creating a new revenue stream for the Storm Drain Master Plan involves the following steps:

- The City should adopt the Storm Drain Master Plan and the related recommendations.
- The City should confirm and adopt a policy of self-sufficiency for the Storm Drain Program, including whether any continued funding from the City's General Fund is desired or viable.
- The City should confirm its willingness to use debt-financing for the prioritized capital improvement program.
- The City should consider working with a political consultant to conduct a political feasibility analysis related to establishing a levy/fee for its Storm Drain Program. Within this process, the political consultant will also be able to determine themes and issues useful in communications surrounding any subsequent ballot measure.
- Assuming the political feasibility analysis supports moving ahead with establishing a new Storm Drain Program levy/fee, the City will need to prepare a fee justification report for the formation of the proposed levy.
- Upon City Council approval to proceed to balloting or election, the City will initiate the public approval procedures. Subsequent procedures will depend upon the selected revenue mechanism and prevailing legal guidance related to that mechanism.

References:

City of Los Altos Storm Drain Master Plan, December 2013 Draft, prepared by Schaaf & Wheeler (referenced for Annual O&M Costs).

City of Los Altos Fiscal Year 2012/2013 Comprehensive Annual Financial Report

City of Los Altos, Draft 2015-2033 Housing Element

**CITY OF LOS ALTOS
STORMWATER MASTER PLAN
FINANCING OPTIONS**

475 Sansome Street
Suite 1700
San Francisco, CA 94111
t. 415.391.5780
f. 415.276.2088

April 20, 2015

RECOMMENDED OPTIONS

	Parcel Tax	Mello-Roos District	Stormwater Utility
Voter approval	2/3d vote of registered voters (one vote per voter) to approve parcel tax.	2/3d vote of registered voters (one vote per voter) to approve special tax and tax formula.	2/3d vote of registered voters (one vote per voter) to form utility and impose initial charges; future increases subject to majority protest
Revenue source	Special tax	Special tax	User rates
Method of Calculating Tax/Charge	Fixed charge per parcel; annual escalation possible	Voter-approved formula; levy on any reasonable basis; different classifications possible based on land use, acreage, etc.	Rates must have a reasonable basis and cannot exceed reasonable cost of providing the stormwater collection service.
Manner of collection	Annual property tax bill	Annual property tax bill or direct billing	Direct billing or annual property tax bill
Bonds Authorized?	No. Debt would need to be city general fund obligation that the parcel tax would reimburse.	Yes	Yes
Bond Security	City's general fund. There is no State law authority to pledge proceeds of parcel taxes to the payment of debt services.	Special taxes levied and secured by a lien on property; no City general fund obligation. City will covenant to foreclose on delinquent parcels.	User rates; no City general fund obligation.



OTHER OPTIONS (NOT RECOMMENDED)

Assessment District

- Requires special benefit finding: only special benefits can be assessed. General benefits must be separately identified and paid with separate funds
- Difficult to defend in the face of a legal challenge

General Obligation Bonds

- Only available to pay for capital improvements, not maintenance and other services
- Tax is based on assessed property value

Infrastructure Financing District

- Questionable whether there is authority to finance stormwater improvements
- Limited source of revenues during initial years
- Limited life
- Revenue source is property tax increment depending on growth in assessed valuation; designed for redevelopment, not infrastructure in existing communities