Attachment D

Alternative Infrastructure Financing Mechanisms

BACKGROUND AND PURPOSE

At the Board's request, staff reviewed financing mechanisms that may be available to support public infrastructure investment outside of an Enhanced Infrastructure Financing District (EIFD). This document is a high-level informational overview of financing tools authorized under California law and commonly used by local governments to fund public infrastructure, facilities, and services. The document does not evaluate, rank, or recommend any financing mechanism for a specific project. Selection of a financing approach depends on project characteristics, revenue availability, legal requirements, geographic considerations, voter approval requirements, and long-term fiscal impacts and must be analyzed on a case-by-case basis.

Financing Districts

<u>Assessment Districts</u>

Assessment districts are a long-standing financing mechanism used to fund public improvements or services that provide a special benefit to identified properties. Assessments are levied only on parcels receiving the benefit and must be supported by an analysis demonstrating the relationship between the improvement and the benefit received. Assessment districts are commonly used for roads, drainage, landscaping, lighting, flood protection, and similar localized infrastructure improvements. Because assessments are tied to special benefit, they are generally most effective when beneficiaries can be clearly identified. Assessments must comply with Proposition 218 and are subject to protest proceedings.[1, 2, 3]

<u>Community Facilities Districts (Mello-Roos Districts)</u>

Community Facilities Districts (CFDs), authorized under the Mello-Roos Community Facilities Act of 1982, allow local agencies to finance public facilities and certain services through the levy of a special tax. CFDs may fund transportation facilities, water and wastewater infrastructure, flood control facilities, public safety facilities, parks, libraries, and other public improvements. Following required formation proceedings and voter approval, CFDs may support pay-as-you-go financing or the issuance of bonds secured by special tax revenues. CFDs are often used in areas experiencing growth because they can establish a dedicated revenue source to support infrastructure needs. Unlike assessment districts, CFDs rely on a special tax rather than a benefit assessment and therefore require voter approval.[4]

<u>Community Services Districts</u>

Community Services Districts (CSDs) are independent special districts that require LAFCO approval and authorized to provide a broad range of services and facilities. Depending on local needs, a CSD may provide water, wastewater, parks, recreation, street maintenance, emergency services, and other community facilities. CSDs may access multiple revenue sources, including assessments, special taxes, service charges, user fees, and in some cases property tax revenues. Their flexibility makes them useful where both capital investment and ongoing service delivery are required.[5]

<u>County Service Areas</u>

County Service Areas (CSAs) are dependent special districts that require LAFCO approval and provide counties with a mechanism to deliver specific services within designated unincorporated areas. Services may include road maintenance, drainage, street lighting, parks, and other localized public services. If existing revenues are insufficient, CSAs may utilize assessments, fees, charges, special taxes, or bond financing, subject to applicable legal requirements. CSAs allow costs to be more closely aligned with the communities receiving the services.[6]

Special Road Maintenance Districts

Special Road Maintenance Districts are specialized districts established to support the maintenance and improvement of existing road infrastructure. These districts may provide a dedicated funding source for transportation maintenance within a defined area. Revenue generation generally requires approval of a special tax by district voters. Their focused purpose distinguishes them from broader financing districts.[7]

Debt Financing Mechanisms

Local governments may also utilize debt financing tools to provide capital for infrastructure projects. These mechanisms typically require an identified repayment source and involve long-term financial obligations. Common tools include Certificates of Participation (COPs), lease-revenue bonds, California Infrastructure and Economic Development Bank (IBank) financing, and financing supported by dedicated revenue sources such as sales taxes.[9]

General Obligation Bonds

General obligation (GO) bonds are voter-approved, long-term debt used to finance public capital improvements. The bonds are generally repaid through an additional property tax levied within the jurisdiction at the rate needed to pay principal and interest. County GO bonds generally require approval by two-thirds of voters and may be issued only for authorized public purposes. Because repayment is secured by the agency's taxing authority, GO bonds typically provide relatively low-cost financing but create a long-term obligation for property owners.[9]

Certificates of Participation and Lease-Revenue Financing

Certificates of Participation and lease-revenue financing are commonly used to finance public facilities without issuing traditional voter-approved general obligation bonds. These structures are frequently used for government facilities, transportation assets, water and wastewater infrastructure, flood control projects, parks, libraries, and similar public investments. Repayment is typically made through annual lease payments appropriated from the General Fund or another identified revenue source, with a County asset or facility generally pledged as collateral.[9]

California IBank Financing

The California Infrastructure and Economic Development Bank (IBank) provides financing programs for public infrastructure projects, including transportation, water systems, wastewater facilities, public buildings, and climate resilience improvements. IBank financing may provide an alternative to public bond issuance and can be particularly useful for projects that are sufficiently developed and ready for implementation and capable of supporting required security or repayment commitments.[8]

Sales Tax Revenue Bonds

Where a legally available and dedicated sales tax revenue source exists, the revenue may be used directly for infrastructure or pledged to repay debt issued for that purpose. Depending on the statutory authority and voter-approved use of the tax, eligible projects may include transportation improvements, parks, libraries, open space, bridges, and other public facilities. The availability of this approach depends on the legal restrictions governing the tax and whether the revenue is sufficient and stable enough to support the proposed investment.[9]

Sales tax revenue bonds provide upfront funding and are repaid from a specifically pledged share of local sales and use tax or transactions and use tax revenues. Because these revenues fluctuate with economic conditions, bond capacity depends on projected collections and the extent to which they exceed annual debt-service requirements. Establishing the underlying tax generally requires voter approval: a majority for a general tax and two-thirds for a tax restricted to a specific purpose.[9]

Short-Term Financing Tools

Short-term financing mechanisms are generally used to address timing differences between expenditures and anticipated revenues. Tax and Revenue Anticipation Notes (TRANs) are short-term, tax-exempt municipal notes that can smooth out predictable cash-flow deficits before receiving seasonal property taxes and other non-tax revenues. Grant Anticipation Notes (GANs) are short-term debt instruments issued by public agencies that are secured by expected future grant funds from federal, state, or local governments. They provide immediate cash flow for projects before the committed grant money arrives. Bank revolving credit agreements (or "revolvers") are flexible loan facilities that allow borrowers to withdraw funds up to a set limit, repay them, and re-borrow the money repeatedly. These agreements function as open-ended lines of credit rather than fixed installment loans and provide working capital flexibility, but may require collateral, carry variable interest rates, and include commitment costs.[9]

Grants

Grant funding remains an important component of public infrastructure finance because grants do not generally require repayment. State and federal programs support transportation, bridges, public facilities, emergency preparedness, water and wastewater infrastructure, broadband deployment, climate resilience, environmental remediation, and other public investments.[10, 11, 12, 13, 14]

FACTORS INFLUENCING SELECTION OF FINANCING MECHANISMS

Selection of a financing mechanism depends on numerous factors, including project type, anticipated beneficiaries, geographic scope, available revenues, voter approval requirements, administrative complexity, timing considerations, debt affordability, and long-term maintenance obligations. No single financing mechanism is appropriate for all projects. In practice, infrastructure projects often rely on multiple funding and financing sources.

<u>County Fiscal and Debt Capacity Considerations</u>

Financing mechanisms that involve borrowing or the pledge of future revenues may affect the County's future borrowing capacity and financial flexibility. If multiple financing programs are pursued at scale, cumulative debt service obligations and revenue commitments could influence future financing options. Any project-specific proposal would require detailed review by the Auditor-Controller-Treasurer-Tax Collector, County Administrator's Office, County Counsel, and other relevant departments to evaluate affordability, repayment sources, debt capacity, and long-term fiscal impacts. Specialty outside counsel may also be required due to the complexities involved.[9]

CONCLUSION

A variety of financing mechanisms exist outside of an Enhanced Infrastructure Financing District. These tools differ in their revenue sources, governance structures, voter approval requirements, financing capacities, and applicability to specific project types. Assessment districts, Community Facilities Districts, Community Services Districts, County Service Areas, Special Road Maintenance Districts, debt financing tools, short-term financing mechanisms, and grant funding programs each provide distinct opportunities and constraints. Future consideration of any financing approach would require project-specific analysis, legal review, fiscal evaluation, and policy direction from the Board of Supervisors.

Source Notes and Authorities

1. California Streets and Highways Code §5000 et seq., Improvement Act of 1911.
2. California Streets and Highways Code §10000 et seq., Municipal Improvement Act of 1913.
3. California Government Code §54703 et seq., Benefit Assessment Act of 1982.
4. California Government Code §53311 et seq., Mello-Roos Community Facilities Act of 1982.
5. California Government Code §61000 et seq., Community Services District Law.
6. California Government Code §25210 et seq., County Service Area Law.
7. California Streets and Highways Code §1550 et seq., Special Road Maintenance Districts.
8. California Infrastructure and Economic Development Bank (IBank), Infrastructure State Revolving Fund and related financing programs.
9. California Debt and Investment Advisory Commission (CDIAC), public finance guidance resources.
10. U.S. Department of Transportation BUILD Program guidance.
11. U.S. Department of Housing and Urban Development Community Development Block Grant Program guidance.
12. California Transportation Commission Active Transportation Program guidance.
13. California State Library grant program materials.
14. California Natural Resources Agency grant program materials.