

CALIFORNIA RURAL INFRASTRUCTURE Finance Guidebook

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CALIFORNIA ASSOCIATION FOR
LOCAL ECONOMIC DEVELOPMENT

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About CALED

The California Association for Local Economic Development (CALED) is California's premier economic development association. With more than 700 members, it is one of the largest economic development associations in the country, which is why CALED refers to their membership as California's Economic Development Network. Since 1980, when it was created, CALED has led the way in teaching economic developers, local elected officials, and state representatives the value of economic development and how it is used to grow businesses, generate revenue to support community development programs, and retain and create quality jobs.

About USDA Rural Development

This report was made possible in part by USDA Rural Development's Rural Business Development Grant program. For more information on USDA programs, please see the USDA Rural Development Program Matrix provided in the appendix.

The United States Department of Agriculture has a vision to provide economic opportunity through innovation, helping rural America to thrive; to promote agriculture production that better nourishes Americans while also helping feed others throughout the world; and to preserve our Nation's natural resources through conservation, restored forests, improved watersheds, and healthy private working lands. With 29 agencies and offices with nearly 100,000 employees, USDA serves the American people at more than 4,500 locations across the country and abroad.

About CDFA

The Council of Development Finance Agencies (CDFA) is a national association dedicated to the advancement of development finance concerns and interests. CDFA is comprised of the nation's leading and most knowledgeable members of the development finance community representing hundreds of public, private and non-profit development entities. The Council was formed in 1982 with the mission to strengthen the efforts of state and local development finance agencies fostering job creation and economic growth through the use of tax-exempt and other public-private partnership finance programs.

About Wahlstrom & Associates

Wahlstrom & Associates was established in 2007 to assist local governments, landowners, and private developers with the economics of land planning and community development initiatives. The firm delivers expertise throughout the different phases of each engagement so that clients can sustain the consistency and momentum that is crucial to meet their project implementation timeline. Their partners are planning firms, landscape architects, or other consultants with the specialized expertise needed to complete specific assignments. Areas of expertise include strategic economic development plans and studies, market research, project feasibility analysis, and economic and fiscal impact studies.

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Please note: Economic development financing tools change as new needs are identified and others are met. Every effort has been made to include accurate tools as of September 2019, but we encourage readers to do your own research and look for resources beyond those included in this Guidebook.

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Introduction to Rural Economic Development Finance



Foreword from CALED CEO Gurbax Sahota and USDA RD State Director Kim Vann

Financing infrastructure is a significant focus for communities across the United States. Not only do we need to maintain the infrastructure that has already been built, we have to find ways to finance new projects in order to keep up with the pace of commerce, as well as create economic opportunity for residents. Nowhere is this need more critical than in rural areas where distances between people, services, and employment are significantly longer than those of their urban counterparts. And, in California, where over 50% of the land mass is considered rural and more than four million people live in rural areas, funding infrastructure is essential for the economic success of these communities and improving quality of life for their residents.

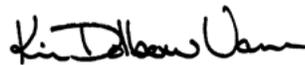
At the same time, facilitating rural prosperity and economic development is a strategic priority for the United States Department of Agriculture (USDA). It is with this in mind that USDA Rural Development California (USDA RD California) provided funding support to the California Association for Local Economic Development (CALED) to create this Rural Infrastructure Financing Guidebook. As the state's largest economic development organization and host of California's Rural Economic Development Exchange – a learning-network consisting of rural economic developers – CALED is honored to work with USDA RD California in identifying solutions for rural infrastructure finance, and in doing so, creating a guidebook with the added purpose of increasing capacity in rural communities to continue to fund infrastructure into the future.

It is our hope this guidebook empowers California's rural leaders and economic development practitioners to continue the thoughtful and important work they are doing to make a difference on behalf of our rural communities and residents.

Your rural economic development partners,



Gurbax Sahota
President & CEO
California Association for Local
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What is Economic Development Finance?

Economic development finance is an effort of local communities to support, encourage and catalyze economic growth, often referred to as development finance. It is a tool to help make a project or deal successful, and in turn, to create a benefit for the long-term health of a community. This benefit is the economic growth that can take place through public and private investment in infrastructure, business, and industry.

Economic development finance offers a potential solution to the challenges of the local business, economic, and industrial environment. To use development finance tools effectively, practitioners must possess an understanding of the myriad programs, resources, and terminology that exist in this field.

Development professionals play an important role as the bridge between government and business. They direct the use of precious public resources, inform policy decisions about how resources are allocated, and act as catalysts for important projects.

Development finance is a proactive approach to assist in development projects. It leverages valuable public resources to support significant private sector investment. Development finance also involves capturing capacity and advantages throughout the community and beyond geographic boundaries. It is a dedication to building partnerships and establishing collaborative approaches to solving complex development challenges. In doing so, development finance helps to solve the needs of business, industry, developers, and investors, while also contributing to a community's long-term health and goals.¹

What Does Development Finance Include?

Economic development finance tools come in a variety of forms. These tools include loans, equity, tax abatements, and tax credits. They also include the offer of a guarantee, collateral or some other form of credit enhancement within the context of a complex financing package. Development finance may include gap financing, which often makes the difference between a project that is considered and one that is pursued. Development finance tools may also include the remediation of environmental concerns, as well as incentives, grants or other resources for businesses and entrepreneurs.¹

What Does Development Finance Not Include?

Development finance comes with accountability measures, and it is not a “free ride” for businesses in need of assistance. The use of public resources should be tied to performance measures and project achievements. Development finance programs should not compete with programs offered by private financial institutions, because this could create conflict, an uneven playing field and a lack of cooperation among stakeholders. Rather, public financing should complement and enhance the offerings of the private sector.

Public contributions to development finance should bring commensurate public rewards. Unabashed subsidies that provide a public contribution while requiring too little private commitment are not considered good practice by economic development professionals.

Balancing public risk against public reward is perhaps the most difficult component of this process. However, economic development professionals have established methodologies to determine the appropriate amount of public financing that should be contributed to a project or a business. Such methodologies help the public to achieve a maximum return on its investment.

Development finance requires a rational, thoughtful and strategic response to economic needs and challenges. Many communities struggle with sudden economic adjustments due to plant/facility closings, corporate relocations, or business expansions. Community leaders are placed under considerable pressure to address these challenges quickly. To present a thoughtful response to such challenges, development finance must include long-term, strategic thinking.¹

Why is Development Finance Important?

Development finance is critical to economic development because it has the potential to make or break a project. Businesses need access to financial resources to be successful. Whether the funds are used for site acquisition or start-up capital, many projects hinge on the borrower's ability to leverage appropriate and convenient sources of financing. Development finance may offer a type of financing that is less expensive than conventional, private financing.

Development finance can help businesses generate working capital and invest in their ideas. It can help developers achieve an acceptable return on investment (ROI) for a given project, and it can help communities to develop infrastructure, jobs, and amenities. In pursuing a development finance strategy, financing entities must balance the needs of industry with the needs of the community.

A proposal to use development finance tools may act as a catalyst for development led by the private sector, regardless of whether or not public financing is actually utilized. For instance, the creation of a tax increment financing district (TIF) can cause an increase in investment based on the speculation that real estate values will increase in this area – even if the municipality never issues a bond or finances a deal. Such increased investment may cause real estate values to rise, thus bringing in additional tax revenues in areas targeted for redevelopment. Additionally, the increase in investment spurred by the use or perceived use of development finance tools may ultimately help to foster community buy-in.¹

Building the Development Finance Toolbox

Hundreds of economic development finance programs exist at the federal, state and local level. These programs have been created over the past two centuries to address the financing needs of business, industry, real estate, housing, environmental and community development entities. Individually, none of these programs are a “silver bullet” solution to development challenges that such entities face. More often, practitioners have to layer several tools.

The toolbox approach to development finance brings together the best of these financing concepts and techniques to provide a comprehensive response to capital and resource needs. The toolbox approach offers programs and resources that harness the full spectrum of financing options. This approach also requires a commitment to public-private partnerships (P3s) and the creation of niche programs to assist different types of industries and enterprises. Whether assisting large-scale industrial development projects or small, micro-enterprise business developments, the toolbox approach is designed to help numerous types of users maximize opportunities for growth in the local economy.

Understanding the development finance spectrum is critical to maximizing the resources available in a community. The toolbox approach addresses this spectrum by breaking down dozens of financing options into five core areas:

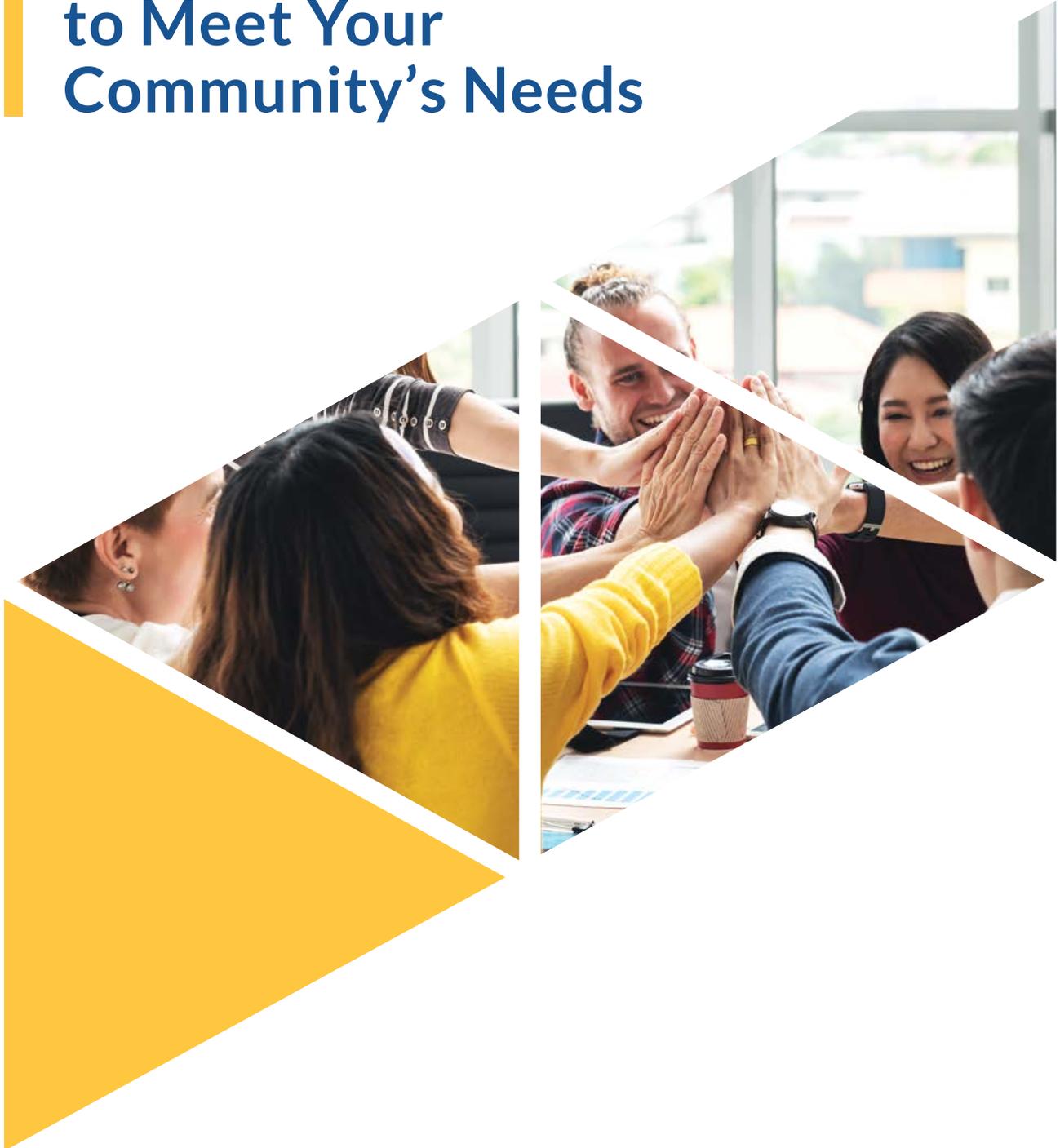
1. **Bedrock Tools** – Bonds and the Basics of Public Finance
2. **Targeted Tools** – Tax Increment Finance, Special Assessment Districts, Government Districts, Project Specific Districts, and Tax Abatements
3. **Investment Tools** – Federal and State Tax Credits, Opportunity Zones
4. **Access to Capital Lending Tools** – Revolving Loan Funds, Mezzanine Funds, Loan Guarantees, Microenterprise Programs, Seed & Venture Capital and Angel Funds
5. **Federal Support Tools** – Federal Economic Development Programs

Though not all financing programs fall neatly within these five practice areas, the toolbox approach is designed to provide a more efficient and effective process for addressing financing needs. Development finance tools are deployed by entities with various names, but for the purposes of this guidebook, these entities will be referred to as Economic Development Organizations (EDOs).

The toolbox approach also allows economic development professionals the opportunity to test a variety of strategies on a given project and to combine programs in order to address financing needs. This guidebook will address how California's rural communities can utilize various tools from the development finance toolbox.¹

¹ Practitioner's Guide to Economic Development Finance, 2nd Edition by Toby Rittner <https://www.cdfa.net/cdfa/store2.nsf/browse.html?open&so=popularity>

Models for Financing Staff and Capacity to Meet Your Community's Needs



Models for Financing Staff and Capacity to Meet Your Community's Needs

Considering the costs and capacity needed for operating the programs described in this Guidebook is an important initial step in the deployment of the toolbox approach. Most EDOs and communities do not have the resources to manage all of these tools, and it is unrealistic to expect that a single agency can operate them all effectively. However, understanding the natural partners within the community, region, and state while creating a unique development finance network can allow for many of these programs to be deployed at one level or another.

It is important for an EDO to think carefully about what it is trying to achieve and create an organization that is suitable for those activities. Many EDOs examine organizational structure as well as tax-code designations to find the right fit for their community, funding sources, and activities. The legal structure should allow for a diversity of funding sources in order to provide some insurance against changing politics or priorities at the local government level.

In this same vein, it may make sense to partner regionally to identify opportunities that are not bound by political jurisdictions. While some EDO goals are aligned with one community, often there are activities and initiatives that can benefit the larger region and by collaborating, communities can identify more potential funding streams, as well as increase eligibility for grants that prioritize regionalism.²

In addition, economic development finance should be considered a self-sustaining endeavor. California's rural regions that lack technical know-how also experience difficulty attracting and facilitating growth, so these areas must better prepare themselves to access federal and state funding sources. Rural communities and the EDOs that serve them often struggle with ways to fund their activities; nevertheless, affordable funding sources are available to support rural EDO efforts. These funding sources include:

- **Federal/State Government** – Dozens of federal and state programs exist to capitalize revolving loan funds and other lending structures.
- **Banks and Financial Institutions** – These entities have both legal and mission-related requirements for assisting with community development, financial literacy and access to capital. Hundreds of unique community-banking partnerships exist throughout the country demonstrating the willingness of lending institutions to support development finance. In addition, the federal Community Reinvestment Act (CRA) requires depository institutions to invest in underserved markets. Tools, such as CRA, are available to build community-banking partnerships and access capital for program funding.
- **Foundations** – Philanthropic groups, such as foundations, are playing an increasingly important role in capitalizing development finance programs. These vital partners are active in nearly every state and are willing to support ideas that make a difference. Economic development is a key mission for many of these groups.
- **Industry Associations** – Industry associations, such as manufacturing and service alliances, are stepping in to support targeted financing programs. These groups wield a strong amount of influence and resources for helping EDOs build programming.

² <https://edacademy.org/wp-content/uploads/2012/11/55025421-USDA-Report-2010.pdf>

- **Higher Education** – Some of the most powerful bonding authorities in the country are universities and colleges. These entities have significant resources for supporting redevelopment, small business creation, expansion, commercialization, and housing. Communities should tap into their institutions of higher education to help leverage public resources.
- **Alternative Lenders** – Businesses can look to alternative lenders like CDFI's, community lending funds, and USDA and EDA capitalized revolving loan funds.
- **Special Assessments** – Communities, special districts, and project-specific entities are turning to special assessments to raise capital for development. Special assessments allow business, industry, and other taxpayers to opt-into specific projects and programs that cause economic transformation.
- **Crowdfunding** – Many EDOs, non-profits, small businesses, and entrepreneurs are turning to individual fundraising sources to support capacity building and business development. Crowdfunding is the practice of funding a project or venture by raising monetary contributions from a large number of people.
- **Bond Issuance Fees** – An often-overlooked source of funding for operations and capacity building is bond proceeds. While highly regulated, bond issuers are afforded the authority to apply fees on bond issuances. These can be upfront fees, ongoing annual fees or a combination of both. The best EDOs effectively use proceeds from bond transactions to fund their operations.

In the pages that follow, this guidebook will outline ways in which rural communities can utilize the aforementioned funding mechanisms to grow their capacity, finance economic development, and make use of the existing industrial clusters and resources.³

Policy Solutions to Achieve Economic Development Goals

In the field of economic development, the financing of economic development projects can ultimately impact public policy and vice versa. When public resources are used to finance projects, the success of these projects is likely to drive future public financing and policy considerations. This is perhaps most critical in rural communities seeking the financial capacity to support development. By bringing together a variety of parties – including banks, thrifts, educational providers, investors, and developers – the toolbox approach may help to expand a community's capacity to take on new development projects.

It is important that a rural community or EDO chooses programs in the toolbox that adhere to broader public policy goals, and that they allocate precious public resources efficiently. By tailoring policies to local businesses and projects, a municipality or EDO is indicating that these tools have been fully vetted, developed, prepared for usage, and that they comply with community guidelines and goals.

Regions with fewer economic clusters and stagnant growth must create policies that encourage development. These regions can start by looking internally and examining their own policies to see whether they are hindering development or if they have policies that are unfavorable to development. If rural communities can reduce costs from the start, a project is more likely to move from the planning phase to the construction phase.

For example, a rural community could allow accessory dwelling units, which would require the construction of fewer stand-alone units. Allowing accessory dwelling units to be built would reduce costs for developers. Rural municipalities may also consider updating their modular home and mobile home policies as a means to reduce cost and expand the availability of affordable housing.

³ Practitioner's Guide to Economic Development Finance, 2nd Edition by Toby Rittner <https://www.cdfa.net/cdfa/store2.nsf/browse.html?open&so=popularity>

Onerous permitting processes slow the pace of development and make the location less attractive to prospective developers. Streamlining permitting processes at the local level creates a climate for commercial, residential, and industrial development. Struggling rural communities can make themselves ripe for economic development by adopting the right policies. These are just a few examples of policies that rural regions can examine to catalyze economic development.

Streamlining Permitting Processes

To ensure a good business climate, local governments can establish and maintain efficient, timely, transparent, and objective entitlement and permitting processes. Jurisdictions without these practices are less competitive than their neighbors and are reducing the jurisdiction's overall investment potential. According to CALED, hallmarks of an effective process include:

1. **Have pre-application 'early consultation' meetings.** Have all relevant reviewers in the room to discuss a project. Do not worry that the applicant is not paying for this staff time, the common understandings achieved at the meeting will pay off by better submittals and much less confusion;
2. **Create 'Red Teams' for interdepartmental and interagency reviews.** The project team approach streamlines reviews, creates common understandings, keeps small issues from becoming insurmountable hurdles, and expedites concurrent (not sequential) department/agency processing. Include the AQMD, Fire, Police/Sheriff, Environmental Health, etc. as needed. Depending on volume, Red Teams can meet on regularly scheduled dates, or as needed;
3. **Train permit staff on customer service.** Many building and permit officials only review through the lens of the codebook. Make sure the staff understands the person across the counter is pouring his/her heart, soul, and family fortune into their project. There is always some flexibility in the codes and good coaching and negotiating opportunities;
4. **Name a designated permit ombudsperson and expeditor.** Small applicants especially need lots of handholding through the permit process. Having someone explain who, what, when, where, why, and how much is a critical service. That person should be able to expedite when needed;
5. **Draft and publish your permit processes, application forms, timelines, and review criteria.** This will provide certainty and clarity to applicants, staff and elected, and improve review consistency;
6. **Publish fee schedules.** Fees are an important source of stress to applicants and often stop projects, particularly those by small do-it-yourself applicants. Even though fees can be complex and vary a lot depending on the project, provide as much certainty as possible;
7. **Review and improve your permit and entitlement processes.** Jurisdictions tend to add steps (and lots of time) to their review process. Make sure yours are lean and mean, and only include those steps that are necessary and add value to the process;
8. **Clean up Zoning codes and permit matrices.** Too many jurisdictions still require Use Permits for minor projects that do not affect the environment or the character of the existing community. Many are outdated and too complex. Simplify and streamline;
9. **Make sure CEQA and NEPA are used as intended – for transparency and public understanding.** Do not let anyone use them as a club to stop a good project or pile on new costs and delays. Jobs and prosperity are on the line. Follow the law, but draw rational significance thresholds and require prudent studies;

10. **Track permits from pre-application through approval and final occupancy.** Ensure reviews are proceeding as planned. Flag stalled projects, meet to discuss why, and collaborate to remove roadblocks.⁴

Adopting the right policies can prime the area for expansion without placing the burden on the municipality's limited number of staff-people. A robust public participation process can help shape a funding plan while building community consensus around a project. Seeking technical assistance to overcome challenges, and offering technical assistance to local developers when possible, is also an option. This guidebook will emphasize local capacity building techniques and programs that may yield benefits for rural communities.

How to Leverage Technology to Achieve Development Goals

The financing process for rural communities is generally more costly and time-consuming than it is in urban areas. Each step of the process of obtaining financing uses valuable staff time. Technology offers a way to make the financing process more efficient and less costly, while also enabling communities to better track and target investments. Unfortunately, there are sometimes barriers to these tools that can make them inaccessible for rural communities. Some of these tools have costs to access and rural communities often lack the necessary funds. Financial technology can require knowledge that may not be present in rural communities. Setting up online tools can be time-consuming, and in some cases, the community must devote staff to manage them. However, financial technology can open the door for economic development when rural communities can overcome these barriers to accessibility. Below are some of the critical new tools that have the flexibility and adaptability which is important to rural communities and, in particular, rural economic development.

The Future of the Financial Industry: FinTech

New technologies are revolutionizing public and private financing. Financial technologies are colloquially referred to as "FinTech." Technological improvements and innovations in the financial sector have provided more avenues for communities to increase capacity. Online financial marketplaces can reduce the time and effort needed for transactions.⁵ New technologies like Blockchain, an online transaction record-keeping system that cuts out expensive intermediaries by hosting the data simultaneously on several linked computers, are revolutionizing the capital markets. Blockchain can also provide cost-saving measures for smaller communities and reduce staff time associated with transactions.⁶ There are a number of innovative entities in the FinTech space and blockchain space which could be beneficial for communities to examine as they build out their economic development finance strategy.

There are several FinTech firms working to improve rural access to the capital markets. One organization working in the municipal markets is Neighborly. Neighborly is the first community investment marketplace where individual investors can access the \$3.6 trillion municipal bond market and invest in projects that make an impact in communities that they care about or in projects that they are passionate about.

Another prominent FinTech entity is the Clarity BidRate Alternative Trading System (Clarity), which is an online trading platform for variable-rate debt obligations (bonds that have a floating interest rate). Issues placed on Clarity are traded exclusively on the platform and are priced through a competitive bidding process. Issuers, investors, broker-dealers, and banks use the Clarity system. Organizations like Neighborly and Clarity are redefining the way that communities and investors are interacting with one another.

⁴ Economic Development Top 10: Local Permit Streamlining. CALED Quarterly Journal, Volume III/Issue 1, Fall 2016.

⁵ <https://www.mckinsey.com/industries/financial-services/our-insights/fintech-decoded-the-capital-markets-infrastructure-opportunity>

⁶ <https://medium.com/predict/what-is-blockchain-and-why-it-is-important-b341e3424893>

Additional tools like Portfol can enhance rural regions' ability to handle the complexities of economic development finance. Portfol is an online portfolio management software that helps manage transactions during every phase of a project, including disclosure obligations, loan portfolio tracking, accounting for multiple funding sources, and more. With the advent of FinTech tools rural communities can connect with investors and other stakeholders interested in supporting their projects more readily than ever before.

Geographic Information Systems (GIS) and Intelligent Development

Geographic Information Systems, or GIS, is a mapping technology that allows users to overlay geospatial data points on maps. The flexibility of this tool is extraordinary but its use as a community and economic development tool is just beginning to be critically examined. Economic developers from all types of communities look to make effective, informed and impactful decisions with the use of their often-limited resources. GIS gives these practitioners the ability to conduct visualization, modeling, and analysis on development projects and goals.

In rural development particularly, GIS has the potential to provide hyper-specific locational information on investment and economic development outcomes which can then be used for providing key economic viability statistics for financing projects. Through GIS tracking, the aggregated data can provide more targeted and specific information about economic development programs and their efficacy in communities. Another potential use for this information would be grant development and reporting. Grant management can often be challenging for smaller communities because of their lack of capacity. GIS technology allows for a new method of identifying parts of the community that are not being served by grants or economic development strategies, as well as tracking the outcomes of such initiatives. Through all of these uses, GIS can stem inefficiency and reduce the workload of rural economic developers while increasing capacity and efficacy.

In order to effectively leverage this new GIS technology, it is important for the community to first understand what it needs as well as identify its targeted goals. GIS is dependent on significant data aggregation, so it is important for the community to engage with a GIS firm to overcome the challenges associated with using a comprehensive GIS mapping tool for economic development.

There have been several innovative uses of GIS in communities across the U.S. One such community is Pueblo County, Colorado. Pueblo County made use of GIS software developed by a prominent firm called Esri to plan economic development, assist with site selection, and conduct analysis. Specifically, Pueblo County utilized Esri's GIS technology to locate sites for small business growth through data analytics. It also shares this data with local small businesses to help them identify potential local markets for expansion. This tactic helped Pueblo meet two of its economic development goals: further developing their small business ecosystem and encouraging slow, yet stable, economic growth.⁷ Rural counties such as Pueblo can make use of GIS software tools to enhance their economic development capability without having to significantly expand their staff.

EDOs do not always have the budget to pay for a GIS subscription. In these cases, planning or public works departments may have a system that they use. Building relationships with these departments and sharing these systems can be a less-expensive alternative to each organization or department subscribing to a GIS service.

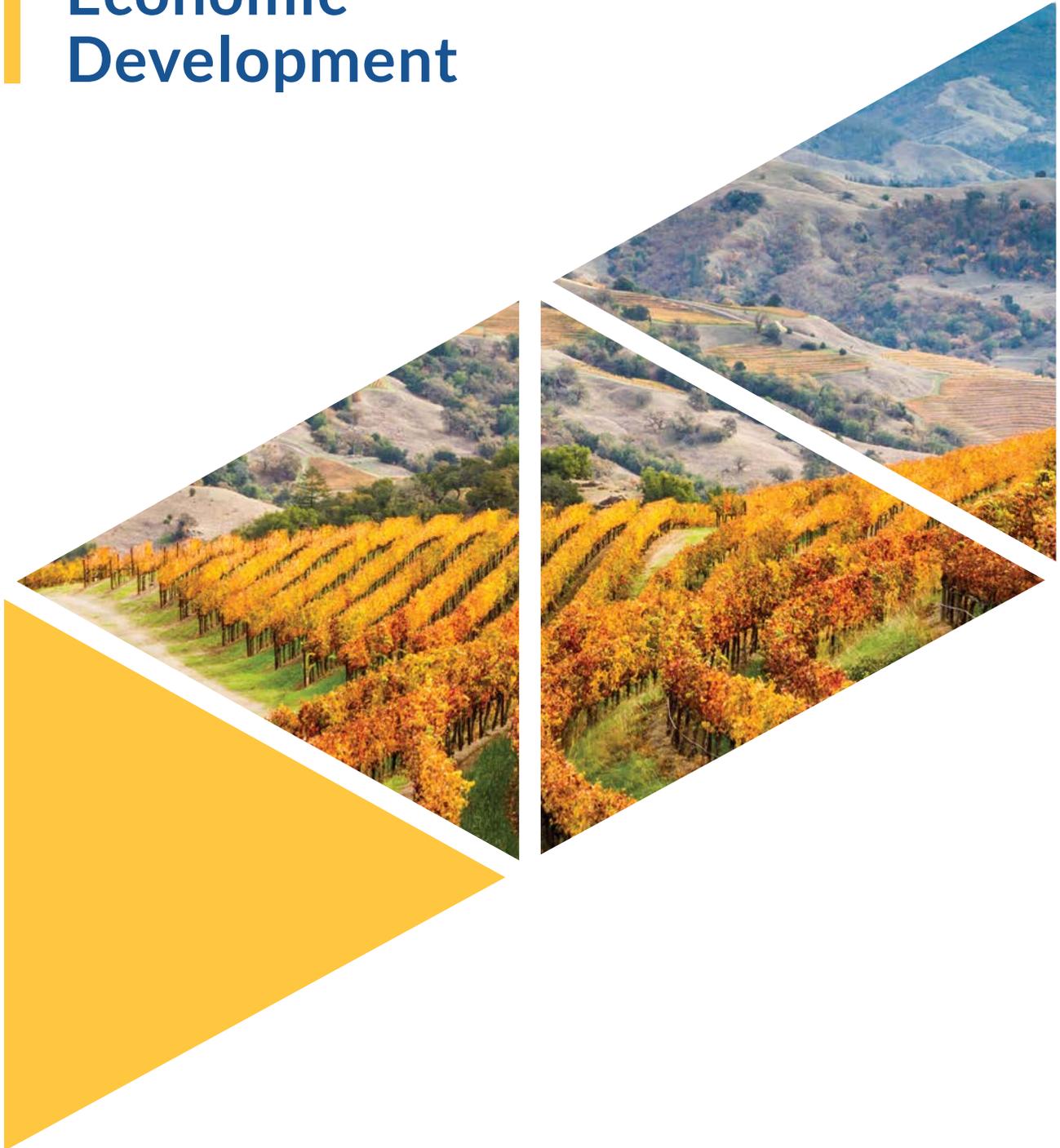
⁷ <https://www.esri.com/library/bestpractices/economic-development.pdf>

Employing Online Tools to Accelerate Economic Development in Rural Areas

Communities big and small can make use of internet-based tools to accelerate the economic development process. San Diego operates an online business portal, which speeds up the permitting processes for business, residential, and zoning permits. Yet rural communities that lack the capacity of a major metropolitan area can still benefit from such tools. Petaluma, CA has an online permitting tool that makes the permitting procedure more efficient. The tool provides information on cost, searches for the zoning of all addresses in the area, answers questions based on responses from users, and creates helpful step-by-step instructions based on data gathered from users.⁸ Online tools like those used in Petaluma can help rural communities overcome capacity issues by using the internet to streamline processes, thereby reducing the amount of leg-work that must be performed by community staff.

8 <https://cbig.ca.gov/Government-Partners/City-of-Petaluma/Incentives/Online-Permit-Cost-Identification-Tool>

Funding Rural Economic Development



FUNDING RURAL ECONOMIC DEVELOPMENT

Strong rural economies are at the heart of American prosperity. With 46 million residents living in 72 percent of the country's land, Rural America is a land of immense promise and opportunity. California itself is over 50 percent rural. Rural regions have many assets to take advantage of, such as scenic landscapes, cultural amenities, natural resources, tourist attractions, and so much more. However, capitalizing on these inherent strengths requires overcoming unique rural challenges. Communities with an abundance of natural resources have, in many cases, become dependent on tourism to drive their local economies. Tourist-dependent regions undergo seasonal boom-bust cycles, while areas relying on a particular sector are susceptible to economic shocks. Economic cycles can cause wages to drop, unemployment to rise, and lead to an increase in homelessness. Financing the development of industrial sectors that are less susceptible to boom-bust cycles in rural regions is imperative to ensuring their economic well-being.

Although urban areas often receive more attention in public discourse than do rural regions, development in rural towns is often slower and more difficult than in metropolitan areas.⁹ Small communities often lack the broadband, transportation, water, and wastewater infrastructure that prospective developers desire. Urban areas, generally speaking, have more capacity to finance infrastructure, housing, and commerce. Despite having abundant natural resources, rural regions often have limited assets in terms of staff capacity and capital. Small rural communities must contend with the inability to achieve economies of scale, limited technical and/or EDO staff capacity, little revenue and in some cases, disinterest in development.

This section of the Guidebook will focus on five key topics of rural economic development finance:

1. **Water & Wastewater Infrastructure**
2. **Commercial Speed Broadband**
3. **Transportation**
4. **Housing**
5. **Commercial & Industrial Site Development**

Each community is complex and requires a different approach to economic development finance; a one-size-fits-all approach will not work. Jurisdictions must be effective and efficient with their limited resources. Understanding the context of the situation, the scope of community goals, the project's ambitions, the sources of capital, and the various players involved is critical in selecting where to allocate resources and ultimately, whether the project is successful.

⁹ <https://www.brookings.edu/research/why-rural-america-needs-cities/>

■ Each key topic will be divided into the following sub-sections:

- **Introduction** – an introduction to the section’s topic
- **National Landscape** – context of the topic at the national level
- **State Landscape** – context of the topic at the California level
- **Financing Solutions** – economic development financing solutions using the toolbox approach
 - **Federal** – financing tools available from the federal government
 - **State** – financing tools available in California
 - **Local Capacity Building** – capacity building strategies for rural communities
- **Financing Matrix** – a guide to using the toolbox approach to complete the capital stack
- **Case Studies** – examples of successful economic development projects from around the country

Using this layout, the guidebook will explore the spectrum of rural economic development finance for each of the five selected topics so communities can maximize the financing resources available to them. Ultimately, development finance is about removing barriers to capital by being proactive, recognizing the tools available, and using them effectively to meet a community’s economic development goals. This guidebook will empower rural communities and organizations with the knowledge necessary to use economic development finance tools to grow and thrive.



Water & Wastewater Infrastructure

Water and wastewater infrastructure systems are critical to the health and wellbeing of rural communities, and the agricultural sector in particular. Without sufficient irrigation, agricultural regions would be unable to grow crops, and the lack of adequate waste and sanitary systems can result in public health concerns. Groundwater wells are critical sources of drinking water for small communities, especially those in California’s Central Valley. Recent droughts have caused groundwater wells to dry up, forcing residents to purchase bottled water for daily uses. These challenges can be devastating to rural communities with low financial capacity, so communities must invest in resilient water and wastewater infrastructure.

Financing water and wastewater infrastructure in rural communities can be challenging. According to the American Society of Civil Engineers, around half of the wastewater sector’s total annual expenditures go towards operation and maintenance (O&M) alone, and these O&M costs are expected to rise in the coming years.¹⁰ Federal funding cannot be used for O&M costs, shifting the burden to low-income communities, and necessitating increased rates and fees. Moreover, it can be difficult to gain public support for increasing rates, because the convenience of water and wastewater infrastructure can be taken for granted. To further compound the issue, rural communities with small water systems face the daunting challenge of funding this vital infrastructure with a smaller tax base, and difficulty attracting investment due to potential low returns.

This section will further explore the landscape of these challenges at the national and state level, as well as some of the economic development tools that are available to help finance water and wastewater infrastructure. For the purposes of this section, water and wastewater infrastructure will include drinking water systems, irrigation systems, sewage and sanitary systems, and water treatment systems.

National Landscape

Across the country, water and wastewater infrastructure suffer from critical deficiencies. The American Society of Civil Engineers (ASCE) ranked America’s drinking water infrastructure a “D,”¹¹ and its wastewater infrastructure the grade of “D+.”¹² A vast majority of water and wastewater systems constructed in the late 19th century and after World War II will be reaching the end of their operational lives within the next few decades.

¹⁰ <https://www.infrastructurereportcard.org/wp-content/uploads/2017/01/Wastewater-Final.pdf>

¹¹ https://www.infrastructurereportcard.org/cat-item/drinking_water/

¹² <https://www.infrastructurereportcard.org/wp-content/uploads/2017/01/Wastewater-Final.pdf>

The ASCE expects that the need for capital investment in water and wastewater infrastructure will grow from \$105 billion in 2020 to \$152 billion in 2040. The need for investment will be especially visible in systems that serve rural communities. In 2017, the Bipartisan Policy Center estimated that water systems serving communities of less than 3,000 residents will need roughly \$64.5 billion in capital investment over the next 20 years.¹³

Governments at every level have attempted to solve the challenge of funding water and wastewater infrastructure. Investments in wastewater treatment systems by federal, state, and local actors have increased by 43 percent from 1996 to 2008, and investments in water delivery infrastructure increased by 64 percent from 1995 to 2007.¹⁴ The annual investment gap for water and wastewater is projected to decrease from \$11.3 billion to \$10.5 billion by 2025, largely due to funding from the American Recovery and Reinvestment Act.¹⁵

These investments, however, have not kept up with the aging infrastructure; the funding needs for wastewater treatment rose a staggering 115 percent from 1996 to 2008 and for drinking water delivery by 94 percent from 1995 to 2007. Estimates based on current funding trends and technologies find that only 33 cents on every dollar needed will be funded by 2020 and by 2040, only 26 cents on the dollar will be funded.¹⁶

Attracting capital to finance water and wastewater systems in rural regions is even more difficult than in urban areas, yet rural systems represent the majority of systems in disrepair. There are approximately 155,000 public drinking-water systems in the United States, and of these more than 103,000 are “non-community” systems, meaning they supply at least 25 people for short periods of time on an irregular basis. Non-community systems make up two-thirds of all public drinking water systems, and serve entities such as farms, schools, and campgrounds.¹⁷ Due to the relatively low population-density of rural areas, there is a higher per-capita cost of maintaining and replacing rural water systems. Rural communities often lack the staff capacity to maintain their water systems; small water systems serving between 25 and 500 people have the most regulatory violations per 1,000 people served.¹⁸

State Landscape

California is in the midst of an unprecedented water crisis, with over a million Californians lacking access to clean drinking water¹⁹ and more than 320 water systems out of regulatory compliance.²⁰ Only recently did the state break free from the grips of a seven-year drought.²¹ State leaders have made tackling the water crisis a priority, but as with many other initiatives, higher population centers often receive more attention than rural areas where fewer people reside. The Mountain Counties Water Resources Association aims to unite water authorities, agencies, and additional stakeholders to protect water resources in the mountainous regions of California.²²

13 <https://bipartisanpolicy.org/wp-content/uploads/2019/03/BPC-Putting-Capital-to-Work-in-Rural-Infrastructure.pdf>

14 https://www.asce.org/uploadedFiles/Issues_and_Advocacy/Our_Initiatives/Infrastructure/Content_Pieces/failure-to-act-water-wastewater-report.pdf

15 <https://www.infrastructurereportcard.org/wp-content/uploads/2016/10/ASCE-Failure-to-Act-2016-FINAL.pdf>

16 https://www.asce.org/uploadedFiles/Issues_and_Advocacy/Our_Initiatives/Infrastructure/Content_Pieces/failure-to-act-water-wastewater-report.pdf

17 <https://www.cdc.gov/healthywater/drinking/public/index.html>

18 <https://awwa.onlinelibrary.wiley.com/doi/abs/10.1002/j.1551-8833.2006.tb07757.x>

19 <https://www.politifact.com/california/statements/2019/feb/14/gavin-newsom/true-more-million-californians-dont-have-clean-dri/>

20 https://www.waterboards.ca.gov/water_issues/programs/hr2w/docs/images/hr2w_040319.jpeg

21 <https://www.nbcnews.com/storyline/california-drought/california-drought-officially-over-after-more-seven-years-n983461>

22 <https://mountaincountieswater.com/>

Financing Solutions

Water and wastewater infrastructure projects can be logistically and financially challenging, especially in rural areas that cover vast distances. The enormous challenges associated with rural water and wastewater infrastructure projects, alongside the lack of available funds at the local level, have led to significant underinvestment in rural California's water and wastewater infrastructure. Fortunately, the federal government offers several programs aimed at dealing with the crisis of underinvestment and in recent years, California has authorized more funding for water and wastewater infrastructure. Rural communities should consider pairing federal and state resources with financing from revolving loan funds and other sources to complete the capital stack for water and wastewater projects. These additional sources often include tax credits, tax increment financing, and tax-exempt bonds.

Federal

Clean Water State Revolving Fund – California State Water Resources Control Board

Amendments to the Federal Clean Water Act in 1987 created revolving loan funds for clean water and drinking water in every state. These revolving loan funds can be useful financing tools for water and wastewater infrastructure projects. California's Clean Water State Revolving Fund (CWSRF) is operated by the California State Water Resources Control Board. Funds can be used for various treatment facilities, sewers, and more. Since its inception, the California CWSRF has invested over \$7 billion in clean water projects – an average of \$450 million per year.²³

Drinking Water State Revolving Fund – California State Water Resources Control Board

The Federal Drinking Water State Revolving Fund (DWSRF) finances public drinking water infrastructure projects so they can comply with regulations set forth by the Safe Water Drinking Act. Passed in 2014, California Proposition 1, authorized over \$7.5 billion in general obligation bonds for water projects. These funds are allocated toward various clean water and drinking water financing programs across the state. Eligible projects include distribution systems, water mains, connectors, meters, and more. Like the CWSRF, the DWSRF is also managed by the California State Water Resources Control Board.²⁴

Public Works Program – U.S. Economic Development Administration (EDA)

The EDA's Public Works program helps distressed communities revitalize, expand, and upgrade their physical infrastructure. EDA invests in traditional public works projects, including water and sewer systems improvements, industrial parks, business incubator facilities, expansion of port and harbor facilities, skill-training facilities, and brownfields redevelopment. In addition, program investments can be used to help develop key public infrastructures, such as technology-based facilities that utilize distance learning networks, smart rooms, and smart buildings; multi-tenant manufacturing and other facilities; business and industrial parks with fiber optic cable; and telecommunications and development facilities.²⁵ Award totals range from \$100,000 to \$3,000,000.

23 https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/

24 https://www.waterboards.ca.gov/drinking_water/services/funding/SRF.html

25 <https://www.eda.gov/pdf/about/Public-Works-Program-1-Pager.pdf>

Water Infrastructure Finance and Innovation Act (WIFIA) – U.S. Environmental Protection Agency (EPA)

The U.S. Environmental Protection Agency's (EPA) WIFIA program accelerates investment in our nation's water infrastructure by providing long-term, low-cost supplemental loans for regionally and nationally significant projects. Local, state, tribal, and federal government entities; partnerships and joint ventures; corporations and trusts; and Clean Water and Drinking Water State Revolving Fund (SRF) programs are all eligible to apply for this program. The minimum project for communities with under 25,000 residents is \$5 million.²⁶

Water & Waste Disposal Loan & Grant Program – U.S. Department of Agriculture – Rural Development

Through this program, which is limited to communities with less than 10,000 people, USDA Rural Development provides funding in the form of long-term, low-interest loans and grants. Funds can be used for clean and reliable drinking water systems, sanitary sewage disposal, sanitary solid waste disposal, and stormwater drainage to households and businesses in eligible rural areas. The program assists qualified applicants who are not otherwise able to obtain commercial credit on reasonable terms, including most state and local governmental entities, private nonprofits, and federally-recognized tribes.²⁷ Recently, USDA Rural Development invested \$192 million in 71 water and wastewater projects across 29 states.²⁸

State

California State Water Resources Control Board (State Water Board)

Several programs are available to assist in the financing of water and wastewater infrastructure through the California State Water Resources Control Board. The State Water Board is one of the two primary agencies that manage the state's financing programs for water and wastewater, the other being the California Department of Water Resources.

■ Water Recycling Funding Program

The goal of the Water Recycling Funding Program is to promote the treatment of municipal wastewater so the state's freshwater supplies can be sustainably replenished. Low-interest loans are made to eligible projects, and grants are periodically made available. Loans are funded through state bonds or through the CWSRF. This program provides much-needed expertise through technical assistance for stakeholders and agencies with their water recycling and research projects.²⁹

■ Site Cleanup Subaccount Program

Established by California Senate Bill 445, the Site Cleanup Subaccount Program (SCAP) is a funding program that allows the State Water Resources Control Board to provide grants for projects that remediate the harm or threat of harm to human health, safety, or the environment caused by existing or threatened surface water or groundwater contamination.³⁰

26 <https://www.epa.gov/wifia>

27 <https://www.rd.usda.gov/programs-services/water-waste-disposal-loan-grant-program>

28 <https://www.usda.gov/media/press-releases/2019/06/26/usda-invests-rural-water-and-wastewater-infrastructure-29-states>

29 https://www.waterboards.ca.gov/water_issues/programs/grants_loans/water_recycling/

30 https://www.waterboards.ca.gov/water_issues/programs/grants_loans/scap/

■ **California Proposition 68 Groundwater Treatment and Remediation Grant Program**

The State Water Board administers \$74 million in grants for remediation and treatment activities, which must aim to prevent or reduce contamination of drinking water sources in order to be eligible for program funds. Funds for this program come from Proposition 68, which California voters approved in 2018.³¹

■ **California Proposition 1 Small Community Wastewater Program**

Proposition 1 (passed in 2018) makes available \$260 million to finance publicly-owned treatment facilities or the implementation of non-point source (NPS) projects that address pollution resulting from sources such as agricultural lands or marinas. The loan terms are up to 30 years, or the useful length of the project, and there are no maximum disbursement limits. Most public bodies created under state law, including municipalities and state agencies, are eligible to apply.³²

■ **Storm Water Grant Program**

The Storm Water Grant Program (SWGP) provides financial assistance to projects that promote the beneficial use of dry weather runoff and stormwater. This program was established in 2006 and provided \$82 million in matching grants for the State Water Resources Control Board to distribute to various water infrastructure programs.³³

■ **Agricultural Drainage Program**

The Agricultural Drainage Program offers loans to projects that address storage, treatment, conveyance, or disposal of agricultural drainage that threaten the state's waters. The program was authorized by the California Water Conservation and Water Quality Bond Act of 1986. Loans are repaid over 20 years and \$6.66 million is currently available.³⁴

■ **Nonpoint Source Pollution (NPS) Control Program**

These grant funds can be used to implement projects or programs that will help to reduce NPS pollution within the state's NPS priority watersheds. Proposals that address Total Maximum Daily Load implementation as well as those that address problems in impaired waters are favored in the selection process. The NPS Grant Program supports projects that implement forest management measures on forest lands to improve water quality. There is also a focus on implementing management activities that lead to reduction and/or prevention of pollutants that threaten or impair surface and ground waters.³⁵

California Department of Water Resources (DWR)

The California DWR is one of the two agencies tasked with managing the state's water resources, systems, and infrastructures (the other being the State Water Resources Control Board). DWR offers a wide variety of financing programs, so it should be noted that only a few are listed here.

■ **Sustainable Groundwater Management Grant Program**

Funding for planning and implementation of sustainable groundwater projects is offered through this grant program. Awards can be used for the development of sustainability plans; initiatives that prevent

31 https://www.waterboards.ca.gov/water_issues/programs/grants_loans/propositions/prop68.html

32 <https://caled.org/check-out-this-grant-loan-opportunity-from-the-state-water-resources-control-board/>

33 https://www.waterboards.ca.gov/water_issues/programs/grants_loans/swgp/

34 https://www.waterboards.ca.gov/water_issues/programs/grants_loans/agdrain/agdrain_loan.shtml

35 https://www.waterboards.ca.gov/water_issues/programs/nps/319grants.html

groundwater contamination; and for projects that invest in groundwater recharge with stormwater, recycled water, and surface water.³⁶

- **California Proposition 204 Drainage Reuse Grant Program**

Proposition 204 (passed in 1996) authorized a \$995 million bond issuance to provide local public agencies with funds for projects that resolve issues with agricultural subsurface drainage water. This program is designed to encourage initiatives that seek to clean and reuse subsurface drainage water. These include research on reducing the toxins in drainage water, methods to optimize irrigation methods, development of salt separation technologies, and the analysis of opportunities available for salt re-use.³⁷

- **CalConserve Water Use Efficiency Loan Program**

The CalConserve Water Use Efficiency Revolving Fund received \$10 million to establish a loan program that supports local agencies in creating specific types of water conservation and water use efficiency projects and programs aiming to achieve urban water use goals. It received proposals requesting a total of \$3.25 million from the \$10 million program funds for its initial application deadline in 2016. The CalConserve Revolving Fund Loan Program will remain open on a first-come, first-served basis so long as capital continues to revolve into the fund.³⁸

California Infrastructure and Economic Development Bank (IBank)

IBank is the California's general-purpose infrastructure financing authority. IBank is authorized to issue taxable and tax-exempt revenue bonds, provide credit enhancements, leverage state and federal funds, and provide various forms of financing to public agencies in the state. The Infrastructure State Revolving Fund Loan Program, the Bond Financing Program, the Small Business Finance Center, and the California Lending for Energy and Environmental Needs (CLEEN) Center are all operated by IBank.

- **Infrastructure State Revolving Fund Loan Program (ISRF)**

Through the ISRF Program, loans ranging from \$50,000 to \$25 million of up to 30 years are available for a wide range of economic development and infrastructure projects. Public agencies and non-profits are eligible to receive funds for solid waste or sewage projects, environmental remediation, water projects, and more.³⁹

- **Bond Financing Program**

The California IBank serves as one of many conduit issuers for tax-exempt and taxable bond financing in California. IBank issues 501(c)(3) Bonds to nonprofit entities that benefit the public, Industrial Development Bonds of up to \$10 million for manufacturing or processing companies, and Public Agency Revenue Bonds (PARBs) for state programs and entities. IBank also can issue Exempt Facility Bonds for public projects or private projects within public facilities.⁴⁰

36 <https://water.ca.gov/Work-With-Us/Grants-And-Loans/Sustainable-Groundwater>

37 <https://water.ca.gov/Work-With-Us/Grants-And-Loans/AgDrainage-204>

38 <https://water.ca.gov/Work-With-Us/Grants-And-Loans/CalConserve-Water-Use-Efficiency-Loan-Program>

39 <http://www.ibank.ca.gov/about-us/ibank-faqs/>

40 <http://www.ibank.ca.gov/bond-financing/>

Tax-Exempt Bond Financing – California Pollution Control Financing Authority

The California Pollution Control Financing Authority (CPCFA) is one of California's many conduit issuers of tax-exempt and taxable private activity and industrial development bonds. In addition to qualified waste and recycling projects, CPCFA finances projects that aim to control pollution and improve water supply.

Allowed uses of funds include the installation, construction, or acquisition of certain pollution control, water furnishing, desalination, waste disposal, waste recovery facilities, and equipment. CPCFA actively issues green bonds for pollution control and other environmental projects meeting the commonly accepted standards for climate investments. Through a collaborative effort between CPCFA and the California Debt Limit Allocation Committee (CDLAC), exempt facility borrowers can obtain approval and allocation at the same CPCFA Board Meeting.⁴¹

Water & Wastewater Bonds – California Statewide Communities Development Authority (CSCDA)

The California Statewide Communities Development Authority (CSCDA) offers a newly updated Water and Wastewater Bond Program (WWBP). As with CSCDA Public Agency programs, local agencies can benefit from lower costs and ease of execution in funding water and sewer projects through WWBP. This program can finance a variety of projects, such as plant upgrades, expanded collector systems, new pump stations, deferred maintenance, equipment replacement, and refunding of outstanding debt.⁴²

Local Capacity Building

Local water and wastewater capacity are expensive to build, but there are a few strategies communities can employ. These include offering reduced or deferred fees, educational outreach to consumers, and seeking financing from local Community Development Financial Institutions (CDFIs).

Impact Fee Deferral programs

Impact Fee Deferral programs can slightly alleviate the pre-development capital burden of infrastructure improvements. Cities of all sizes have adopted programs allowing for the deferral of fees. An example of one such initiative is the City of Visalia's Wastewater Impact Fee Deferral program, which allows the impact assessment fee to be paid in installments over a 10-year period. Visalia balances the fee deferral with its other bills by requiring the first 10 percent of the fee to be paid prior to occupancy, and the remaining 9 payments are collected as part of the site's property tax roll.⁴³ By offering reduced or deferred fees, a community can decrease initial capital requirements as well as the time necessary to complete a project.

Educational Outreach and Regular Fee Assessment

The importance of educational outreach on fees assessed to water and wastewater rates, as well as incrementally increasing rates, cannot be overstated. There have been cases where local water districts have not maintained accurate assessment rates for years. When rates remain the same for 10 years and then suddenly jump to much higher levels, the financial and political backlash can be significant. Rural communities can educate the public on the reasoning behind regular rate increases. Frequent, small rate increases may be more acceptable to ratepayers, especially if they are well-informed on why the regular rate increases and additional fees are necessary.

41 https://www.treasurer.ca.gov/cpcf/tax_exempt.asp

42 <http://cscda.org/Public-Agency-Programs/Water-Wastewater-Bond-Program>

43 <https://cbig.ca.gov/Government-Partners/City-of-Visalia/Incentives/Wastewater-Impact-Fee-Deferral>

Community Development Financial Institutions

Seeking assistance from Community Development Financial Institutions is another strategy that communities with low financial capacity can use. Some CDFIs operate loan funds that lend to water and wastewater projects, providing rural communities with the financing they need to construct this critical infrastructure. There are many CDFIs which operate in California.⁴⁴

Financing Matrix

Bonds

Bonds are the bedrock of public economic development finance. Simply put, a bond is a debt or loan incurred by a governmental entity. Bonds are issued and sold to the investing public and the proceeds are typically made available to finance the costs of a capital project. According to the federal tax code, there are two types of tax-exempt bonds: Government Bonds and Qualified Private Activity Bonds (PABs).⁴⁵

- **Government Bonds** may be used for many public purposes including highways, schools, bridges, sewers, jails, parks, government equipment, and buildings. The issuing municipality pledges its full faith and credit to meet debt service requirements. They can be used to finance smaller sewer and water projects at the local level because such projects have a purpose that serves the general public.
- **Qualified Private Activity Bonds (PABs)** permit a larger degree of private sector involvement, and are used to address numerous development finance needs identified by Congress and state and local governments. PABs drive projects involving both the public and private sector by passing along the low-cost interest benefit, generated by the tax-exempt status of PABs, to private borrowers. The Internal Revenue Code permits the financing of several types of projects using qualified PABs.
 - **Exempt Facility Bonds** are a type of Qualified PAB that have a wide scope of use and implementation varies by state or local government. Exempt Facility Bonds finance a wide variety of projects, including water and sewage facilities, solid waste disposal facilities, and more. Exempt Facility Bonds can be useful for financing water and wastewater infrastructure that have some private involvement.

Public-Private Partnerships (P3s)

P3s are an innovative approach to financing water, wastewater, and stormwater infrastructure in rural communities. Generally speaking, a public-private partnership is a contractual arrangement where a government agency contracts with a private partner to renovate, construct, operate, maintain, and/or manage a facility or system that provides a public service. The government agency may retain ownership of the public facility or system but the private party generally invests its own capital to design and develop the facility or system. Typically, each partner shares in income resulting from the partnership.⁴⁶

Recently, there has been a growing trend of a single public-private partnership bundling several projects together. This makes soliciting financing easier because each additional project brings more stakeholders to the table, thereby widening the pool of potential sources of funding. The underlying strength of the P3 model is that the private sector has sufficient capacity (expertise and availability) to successfully deliver project objectives.

⁴⁴ <https://ofn.org/cdfi-coverage-map>

⁴⁵ <https://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/bond.html>

⁴⁶ <https://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/p3.html>

When paired with the power of bond financing, this tool shows great promise for U.S. infrastructure, services, and development.

Targeted Tools – EIFD, CRIA, Special Assessment

Targeted tools are special districts that can be used for attracting investment in water and wastewater infrastructure. Targeted financing tools differ from other tools because they target specific geographic areas or difficult to finance sectors in a community, offering incentives, tax rebates, credits, and unique financing structures that drive investment and development within that geographic footprint. A recent study found that rural water districts are most effective at engaging in sustainability partnerships.⁴⁷ Most of these targeted tools fall into a category called special district financing, and they all provide a slightly different approach to a similar concept.

■ **Enhanced Infrastructure Financing Districts (EIFD) and Community Revitalization and Investment Authorities (CRIA)**

EIFDs and CRIsAs are mechanisms for capturing the future tax benefits of improvements in order to pay for the present cost of those improvements. In other states, this financing structure is known as tax increment financing (TIF). TIF had historically been used in California by redevelopment agencies until their dissolution in 2012 rendered the traditional form of TIF unavailable in the state. New financing mechanisms such as EIFDs and CRIsAs are generating a lot of interest as replacement tools for TIF. EIFDs and CRIsAs are opportunities for entities to finance upgrades to sewer expansion, repair, storm drainage, water supply, and more.⁴⁸

■ **Special Assessment Districts**

Special assessment district financing mechanisms are common but under-utilized tools. Special Assessment Districts work by adding (“assessing”) an additional tax on top of the existing property or sales taxes for property owners and/or businesses within the district. This additional pool of tax revenue is then used to finance whatever improvement(s) the district was designed to do. These tools are known by a variety of names and can be structured in a variety of ways, but there are two predominant methods. Business and neighborhood-focused districts are typically run by property owners in the district. These owners impose self-assessed taxes on themselves in order to generate funds for agreed-upon physical improvements or other amenities. Government districts work in the same manner as business and neighborhood types, but are initiated by the local government. These types of districts usually focus on improving infrastructure such as water, wastewater, and sewer.⁴⁹

47 <https://nrwa.org/wp-content/uploads/2018/08/SPECIAL-REPORT-Rural-Water-Leads-Partnerships-2018-13-08-v.2.pdf>

48 <https://caled.org/wp-content/uploads/2016/02/TIF-Booklet-10-161.pdf>

49 Practitioner's Guide to Economic Development Finance, 2nd Edition by Toby Rittner. <https://www.cdfa.net/cdfa/store2.nsf/browse.html?open&so=popularity>

Revolving Loan Funds (RLFs)

RLF programs are diverse tools that communities can use to support water and wastewater infrastructure. Revolving Loan Funds are designed to be evergreen as they are maintained by the repayment of principal and grow through interest payments. RLFs must be able to generate enough of an interest rate return to replenish the fund for future loan allocations. Quality RLFs issue loans at market rate or otherwise competitive and attractive rates. Many RLF studies have shown that access to capital and flexibility in collateral and terms are more important to borrowers over lower than market interest rates.⁵⁰ With competitive rates and flexible terms, an RLF provides access to new financing sources for the borrower, while lowering overall risk for participating institutional lenders.⁵¹ Each state has its own Revolving Loan Funds for Clean Water and Drinking Water.

Case Studies

Water System in Ransom, IL – Full Transfer of Control to a Private Company

The Village of Ransom, Illinois has a population of 370 and is located 70 miles west of Chicago in central Illinois. Ransom's water system was placed under a consent decree by the EPA for exceeding the Safe Water Drinking Act's allowable levels of radium and after taking the system offline, the local government began providing bottled water to residents. The village did not have the resources necessary to remedy the radium issue; the system was operated by village trustees rather than by a dedicated, full-time staff. With a population of only 370, financing the estimated \$1 million improvements would have meant unacceptably steep rate increases. Ransom was also unable to secure any grant funding that would enable compliance with the timing of the EPA's consent decree. For these reasons, the Village of Ransom Board voted to sell its water system to a private entity in September of 2015. The company had experience operating water systems in 100 towns across Illinois. After the Illinois Commerce Commission approved the \$175,000 sale in February of 2016, the private firm took over control of the system two months later.⁵²

Ransom was a particularly unique challenge for the company because the village had no wastewater system to allow for the discharge of the treatment components used in radium removal. The firm decided to connect Ransom's residents to the company's pre-existing Streator District water system. This involved an approximately \$2 million investment to construct a new pumping station and install 10 miles worth of new water main. After developing a compliance schedule with the EPA, the consent decree was eliminated after nine months of private ownership. Customers in Ransom initially saw their monthly water bills decrease around \$8 (around 15 percent), from \$53 to \$45 per month.⁵³ In this instance, Ransom's full transfer of control of its water system to a private firm resulted in the elimination of contamination, EPA compliance, and reduction of costs to the payers.

50 Revolving Loan Fund Reference Guide, by CDFA. <https://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open=open&id=rlfguide.html>

51 <https://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/rlf.html>

52 <https://bipartisanpolicy.org/blog/stretching-water-dollars-further/>

53 https://dnnh3qht4.blob.core.windows.net/portals/5/About%20Us/Doing%20Business%20With%20Us/case_studies/IL_Ransom_Case_Study.pdf?sr=b&si=DNNFileManagerPolicy&sig=%2BenQjU3O4Mb6sTpKh7Uzvo1jYjM%2BnoROh9%2BfruVbMWo%3D

Wastewater Treatment Plant in Keystone, SD – Public-Private Partnership, Private Bonds, Revolving Loan Funds

Another example of financing waste and wastewater treatment infrastructure can be found in Keystone, South Dakota. Home to the Mount Rushmore National Memorial, the small tourist town is only home to approximately 370 year-round residents, but during the tourist season, Keystone's population swells to thousands and presents many challenges for the municipality. In 1994, the local wastewater treatment facility was deemed to be out of compliance by a new South Dakota law and there was a restriction on how much the town could borrow, but the town was unwilling to use its entire debt capacity to finance the project.

Instead, Keystone selected a private partner to design, build, operate, and maintain a new wastewater treatment facility. This partner issued corporate bonds to finance the construction of the plant, and once completed, the town received a \$30,000 rebate. The facility brought Keystone back into compliance with government standards, and the public-partnership continued for 10 of the originally-planned 20 years until the firm operating the plant was acquired by a larger company with a focus other than wastewater. At that point, the town decided to retake control of the plant and operate it on its own.⁵⁴

In 2016, Keystone received a \$431,000 loan from the South Dakota Clean Water State Revolving Fund. The 20-year loan will finance upgrades at the facility including new ultraviolet disinfection equipment, installation of a new influent fine screen, and additional necessary quality improvements.⁵⁵

Wastewater Treatment Facility in Clarkdale, AZ – Water Infrastructure Finance Authority of Arizona Loan

The Water Infrastructure Finance Authority of Arizona (WIFA) financed the Town of Clarkdale's Broadway Reclamation Facility project to replace an outdated lagoon treatment system with a recycled and refurbished mechanical wastewater treatment facility. The lagoon system posed significant water quality threats to the neighboring Verde River, designated by Congress as a Wild and Scenic River. The original plans to construct a new plant were cost-prohibitive, so Clarkdale officials developed a more innovative and sustainable solution to improve water infrastructure and protect water quality.

After obtaining a WIFA loan, Clarkdale officials decided to refurbish a decommissioned wastewater treatment plant from a subdivision in Surprise, AZ to improve water infrastructure and protect water quality for the community. This saved the community nearly \$9 million, and WIFA's low interest rates and forgivable principal allowed Clarkdale to implement the project in a cost-effective manner that benefits both the community and the ratepayers. In order to meet fiscal realities, the design had a target price cap of \$5 million, and an agreement between the Town and Pulte Homes allowed Clarkdale to purchase the entire plant.

⁵⁴ <https://bipartisanpolicy.org/wp-content/uploads/2019/03/BPC-Putting-Capital-to-Work-in-Rural-Infrastructure.pdf>

⁵⁵ <https://sdlegislature.gov/docs/referencematerials/requiredreports/RR3802062017.pdf>

This project is an innovative solution to improve water infrastructure and protect water quality for Clarkdale. The City of Clarkdale received WIFA's 2013 Clean Water Project of the Year in recognition of exemplary project management and commitment to public health protection through the improvement of drinking water and wastewater infrastructure. The new wastewater treatment plant is enclosed and eliminates any potential discharge to the Verde River. The upgraded wastewater treatment plant resulted in the discharge of A+ effluent wastewater, the grade that qualifies for aquifer recharging in the State of Arizona. This grade signifies a 30 percent increase in water without drawing any more from the ground or damaging the quality of the Verde River. The project has made significant improvements through sustainable infrastructure to protect water quality in the area.⁵⁶

Helix Water District in La Mesa, CA – Special District Financing, Bonds, Fee Assessments

The Helix Water District encompasses several small suburban areas to the east of San Diego. Originally the district was formed over 100 years ago to provide clean and safe water service to El Cajon, Lemon Grove, Spring Valley, La Mesa, and portions of Lakeside.⁵⁷ The District's Capital Improvement Master Plan shows the tremendous amount of work completed on the area's water systems. From 1995 to 2014, the District upgraded pump stations, storage tanks, interconnects, and replaced pipes, valves, treatment filters, and more. Helix Water District also completed a solar energy project at its Operations Center in 2011. Through a partnership with the San Diego County Water Authority, Helix was able to modernize a regional water treatment plant for \$9.4 million. Thanks to Helix's ability to finance annual capital improvements and its diligent maintenance, the District's assets are estimated to be worth \$1.6 billion.⁵⁸

56 https://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=122015_RuralFinancingBestPractices.html

57 <https://hwd.com/small-government-the-5-benefits-of-having-your-water-provided-by-a-special-district/>

58 https://hwd.com/wp-content/uploads/2015/08/CIP_MP-FINAL-digital.pdf



Commercial Speed Broadband

Commercial entities need access to high-speed broadband in order to maintain competitiveness in today's global economy. The Federal Communications Commission (FCC) defines "fixed high-speed broadband" as having 25 megabits per second (mbps) download speeds and 3 megabits per second upload speeds. "Mobile LTE broadband" is defined as 10 megabits per second download speed and 3 mbps upload speed.⁵⁹ In California, the threshold for "fixed high-speed broadband" is 6 megabits per second download speed and 1 mbps upload speed. It is important to note that businesses often require much faster speeds, as well as equal download and upload rates, especially as such entities increasingly depend on internet connectivity for commerce.

Rural communities are often deficient in this crucial area of economic infrastructure. The Organization for Economic Cooperation and Development (OECD) recognized it as early as 2006: "Broadband stands out as a new, necessary public good which can bring significant opportunities to rural areas, because it effectively levels the playing field by allowing rural communities historically unprecedented access to information, as well as the ability to provide services that until now were largely thought to be urban."⁶⁰ Only recently has broadband risen to prominence as an important piece of rural infrastructure. This section will examine how rural communities can finance high-speed broadband networks in order to attain access.

National Landscape

In rural communities across America, for-profit and non-profit entities alike are seeking commercial-speed broadband access. Unfortunately, broadband deployment in rural areas has lagged behind their urban counterparts. According to the FCC, rural and tribal areas experienced mobile LTE deployment rate increases of only 70 percent and 64 percent respectively in 2016, compared with a 90 percent increase in the urban deployment rate. Fixed high-speed broadband services were also deployed faster in urban areas than in rural areas. This unbalanced rate of deployment has resulted in rural connectivity being far behind. Only 61 percent of rural areas, approximately 14 million Americans, had access to fixed high-speed broadband and high-speed mobile LTE service, whereas 89 percent of urban areas had the same access. These data show that rural communities consistently lack both fixed and mobile commercial-speed broadband.

The federal government is attempting to close the gap in rural connectivity. The FCC's Connect America Fund provides funding for rural broadband, as does its Rural Health Care Program. The USDA also offers several

⁵⁹ <https://docs.fcc.gov/public/attachments/DOC-349016A1.pdf>

⁶⁰ OECD, 2006.

programs for the financing of rural broadband, totaling to over \$700 million per year for rural broadband connectivity. The USDA, through the Rural Utilities Service, offers Community Connect Grants, Loans and Loan Guarantees for Rural Broadband Access, Distance Learning and Telemedicine Grants, and Telecommunications Infrastructure Loans and Guarantees. Perhaps most notably, the Consolidated Appropriations Act of 2018 created the ReConnect Loan and Grant Program. This new program offers up to \$600 million in total funding alone, which will nearly double the total amount of funding offered by USDA for broadband connectivity.

State Landscape

Data from California's Broadband Mapping Program confirm that the state's rural counties have lower broadband adoption rates and slower speeds than urban areas.⁶¹ The data show that roughly 8 percent of the population is underserved in their internet access and only 25 percent of Californians have access to fiber-optic service. The California Public Utilities Commission (CPUC) is charged with bridging the connectivity gap through the regulation and implementation of telecommunications policies. While CPUC has received nearly \$8 million in federal grants since 2010, around 1.7 million residents still do not have access to a broadband connection capable of 25 mbps download speeds.⁶² The CPUC also funds Rural Broadband Consortia throughout the state. Some of these include Central Sierra Connect Consortium and Gold Country Broadband Consortium.⁶³

Financing Solutions

Incentivizing private investment in rural broadband networks can be difficult because of limited demand and low return on investments. To overcome this challenge, the federal government offers several programs to finance broadband infrastructure. The CPUC also offers several funding opportunities for this critical infrastructure.

Federal

Connect America Fund – Federal Communications Commission (FCC)

The FCC reformed its Universal Service Fund (USF) and Intercarrier Compensation (ICC) systems to extend more high-speed broadband to rural areas. ICC and USF were transformed into the Connect America Fund, with an objective of driving economic growth in rural areas, as well as expanding the online marketplace nationwide to create jobs and business opportunities.⁶⁴ The FCC provided an additional \$500 million for the Connect America Fund in 2018.⁶⁵

Rural Health Care Program – Federal Communications Commission (FCC)

The Rural Health Care Program, which includes the new Healthcare Connect Fund, provides funding to eligible health care providers (HCPs) for telecommunications and broadband services necessary for the provision of health care. The goal of the program is to improve the quality of health care available to patients in rural communities by ensuring that eligible HCPs have access to telecommunications and broadband services. Eligible HCPs may apply for financial support to use for broadband services, network equipment, and HCP-constructed and owned network facilities.⁶⁶ In 2018, the annual program budget cap was raised to \$571 million.⁶⁷

61 <http://www.broadbandmap.ca.gov/>

62 <https://broadbandnow.com/California>

63 <https://www.cpuc.ca.gov/General.aspx?id=870>

64 <https://www.fcc.gov/document/connect-america-auction-expand-broadband-713176-rural-locations>

65 <https://www.fcc.gov/document/fcc-provides-additional-500-million-funding-rural-broadband>

66 <https://www.fcc.gov/general/rural-health-care-program>

67 <https://www.fcc.gov/document/fcc-boosts-funding-rural-health-care-program>

U.S. Department of Agriculture – Rural Development

The USDA Rural Development has several programs designed to finance rural broadband infrastructure. Telecommunications services are one of the three main focus areas of Rural Development’s Rural Utilities Service.

Loans and Loan Guarantees for Telecommunications Infrastructure

USDA’s Rural Utilities Service offers Loans and Loan Guarantees for Telecommunications Infrastructure. Loan guarantees of up to 80 percent and direct loans are available to eligible entities, which include rural jurisdictions with a population under 5,000 and areas without sufficient telecommunications infrastructure.⁶⁸

Rural Broadband Access Loan and Loan Guarantees

Rural Broadband Access Loan and Loan Guarantees are available through the Rural Utilities Service. Areas in which at least 15 percent of households do not have sufficient broadband connectivity are also eligible, meaning a broader set of rural communities may be eligible for this program.⁶⁹

Community Connect Grant Program

The Community Connect Grant Program is designed to bridge the funding gap for communities that would be unable to attract private sector investment in broadband infrastructure due to a lack of economic viability. Rural regions that lack internet capability of 10 megabits per second download and 1 megabit per second upload are eligible. At least 15 percent matching funds from non-federal sources is required.⁷⁰

Community Facilities Loan and Grant Program

This program provides low-interest direct loans, grants, and loan guarantees to develop essential community facilities in rural areas. Public entities, community-based non-profit corporations, and federally-recognized tribes in rural places with under 20,000 residents are eligible to apply. Funds can be used to purchase, construct, and/or improve essential facilities such as distance learning or telemedicine, purchase equipment, and pay related project expenses.⁷¹

Distance Learning and Telemedicine (DLT) Grant Program

The Rural Utilities Service has two funding notices available for its Distance Learning and Telemedicine (DLT) Grant Program. The Traditional DLT Funding Opportunity provides grants to telemedicine and e-learning initiatives and the Opioid DLT Funding Opportunity is awarded to projects that have a primary aim of addressing the opioid epidemic in rural areas. Interested practitioners can apply for the DLT Grant Program under either of these funding opportunities.

Rural eConnectivity Pilot Program (“ReConnect Program”)

The Rural eConnectivity Pilot Program (also called ReConnect) is the newest of Rural Development’s suite of programs. The ReConnect Program offers loans and grants to rural areas where at least 90 percent of households do not have access to high-speed broadband. The program awards 50 percent loan/grant combinations, 100 percent loan, or 100 percent grant funding through a competitive application process.⁷²

68 <https://www.rd.usda.gov/programs-services/telecommunications-infrastructure-loans-loan-guarantees>

69 <https://www.rd.usda.gov/programs-services/rural-broadband-access-loan-and-loan-guarantee>

70 <https://www.rd.usda.gov/programs-services/community-connect-grants>

71 <https://www.rd.usda.gov/programs-services/community-facilities-direct-loan-grant-program>

72 <https://www.usda.gov/reconnect>

State

California Public Utilities Commission (CPUC)

The California Public Utilities Commission (CPUC) offers four universal service programs to finance broadband in rural areas. The most versatile program administered by CPUC is the California Advanced Services Fund (CASF). CASF dollars are allocated to five accounts: the Broadband Adoption Account, the Broadband Infrastructure Grant Account, the Broadband Public Housing Account, the Rural and Urban Regional Broadband Consortia Grant Account, and the Line Extension Pilot Program. The CPUC also operates additional programs for financing broadband.

■ **Broadband Adoption Account**

Grants are offered to increase public digital inclusion through CPUC's Broadband Adoption Account, which itself is part of the CASF. Initiatives that make broadband publicly available, digital literacy training programs, after-school broadband access programs, and educational outreach to communities with limited broadband are eligible. Low-income, senior citizen, or socioeconomically challenged communities that can demonstrate low broadband access are given preference by the CPUC.⁷³

■ **Broadband Infrastructure Grant Account**

The Broadband Infrastructure Grant Account was established in 2017 as part of the CASF. Funding from this account is intended for last-mile broadband access projects in communities that are under-served by existing providers. Applicants from regions that only have dial-up internet are given preference, as are areas that do not have any form of wired internet infrastructure.⁷⁴

■ **Rural and Urban Regional Broadband Consortia Account**

The Rural and Urban Regional Broadband Consortia Account was first established in 2010 as an account of the CASF. Primary aims of this initiative are to increase the sustainability of the state's broadband infrastructure, promote the deployment of broadband networks, and promote the adoption of newly-created networks. In 2017, the California Assembly re-authorized the program by allocating \$10 million in additional funding.⁷⁵

■ **California Teleconnect Fund**

Established in 1996, the California Teleconnect Fund is available to schools, non-profit organizations, libraries, and hospitals. It offers a 50 percent discount for broadband-based communication services to eligible entities. Institutions in rural communities may be able to use the Fund to finance their connection to a high-speed network.⁷⁶

73 <https://www.cpuc.ca.gov/General.aspx?id=6442457502>

74 <https://www.cpuc.ca.gov/General.aspx?id=8246>

75 <https://www.cpuc.ca.gov/General.aspx?id=870>

76 <https://www.cpuc.ca.gov/ctf/>

■ California High Cost Fund-A (CHCF-A)

Operated by CPUC, the California High Cost Fund-A is designed to promote customer access to telephone and broadband networks in rural areas. It achieves this by assisting small, independent telephone companies with deploying broadband in rural areas that is comparable to urban broadband. Telecommunications carriers collect an all-end-user surcharge which funds the CHCF-A. These carrier are then directed by the CPUC to remit the surcharge monies to financial institutions.⁷⁷ It can be used to build private sector capacity in rural communities that do not have the capability to otherwise finance broadband infrastructure.

Local Capacity Building

Lower aggregate demand for broadband in rural areas makes financing broadband infrastructure exceedingly difficult. Fortunately, there are several strategies that can be employed by rural communities to encourage broadband deployment.

Implement a Dig Once Policy

Building broadband at the local level in rural areas is difficult because there are so few users spread over such a wide area. The small number of users makes digging trenches for the sole purpose of laying fiber-optic lines economically inefficient. As such, rural communities can craft policy improvements such as a Dig Once policy to notify stakeholders when other underground infrastructure trenching is being conducted. A Dig Once policy would alert utilities of the opportunity to bury fiber-optic lines while another entity is already digging a trench, thereby aiding in broadband deployment and adoption. FCC policy directs (but does not mandate) states to create framework Dig Once policies⁷⁸ and CalTrans has a set of Dig Once guidelines to facilitate fiber deployment.⁷⁹ Furthermore, policies that incentivize burying broadband wires decrease risk of wildfires by eliminating the chance of a spark from an overhead line starting a fire. Accordingly, cities and counties can encourage utility providers to bury fiber optic cables by offering to lay the pipe for little to no cost while working on other undergrounding projects for municipal purposes.

Minimum Speed Policy

Cities and counties can implement a minimum upstream and downstream policy to ensure that the community is in the drivers seat. In order for rural areas to promote themselves as potential spot for successful home business and remote work places, the broadband levels must be beyond the bare minimum. While these policies are an opportunity for a community to shape its future, the minimum requirement can hinder progress if the providers are unwilling to meet that level and therefore communities should carefully balance needs with available provider levels.

Include a Telecom Element in Your General Plan

As the guiding resource for a community, the General Plan provides a framework for local government and helps to ensure that goals and projects move forward. By including a Telecom element with specific goals, policies, and actions that local governments can implement at once or gradually, they are able to promote broadband at all levels in their municipal processes. A Telecom Element can include items such as Dig Once policies, Public

⁷⁷ <https://www.cpuc.ca.gov/General.aspx?id=991>

⁷⁸ <https://www.tellusventure.com/blog/dig-once-broadband-spectrum-added-to-federal-budget-bill/>

⁷⁹ https://www.tellusventure.com/downloads/caltrans/caltrans_user_guide_wired_broadband_facility_on_row_25may2018.pdf

Broadband-Related Asset maps, and Master Lease development for use of Public Broadband assets, among others. There are best practices for elements that can be found but a truly successful one is unique to the community and is not a one-size-fits-all option.⁸⁰

Offering Connection to a Municipal Broadband Network

Communities with municipal-owned broadband networks may consider offering discounted connection rates to potential users to incentivize relocation. Leasing the excess capacity on the municipal broadband network for a discounted rate to targeted businesses or institutions can incentivize them to locate in the area. For instance, the City of Vallejo offers broadband access to educational institutions, public agencies, businesses, and medical facilities for a 75 percent discount through a public-private partnership. Vallejo's commercial-speed fiber network is capable of downloading and uploading 1 gigabit (1,000 megabits) per second. The discount for its commercial-speed network serves as a powerful motivator for entities to locate in Vallejo.⁸¹

Providing Loans or Matching Funds for Connection Costs

Providing matching funds or loans to connect a building to the network can also ease the initial capital burden. However, the ability to match funds or loans is contingent on the rural community having the funds available to offer such an incentive. The City of San Leandro, with a population of 90,000, offers up to \$10,000 in matching funds for connecting an industrial or commercial building to an existing broadband network. The matching funds are in the form of a forgivable loan (like a grant) and up to 50 percent of installation costs are covered.⁸² Provided that the municipality can afford the cost, matching programs can increase network connectivity in rural communities.

Financing Matrix

Utility-Lease Model Public-Private Partnership

Public-private partnerships serve as a useful tool for financing broadband. The utility-lease model is a prominent type of public-private partnership unique to broadband infrastructure. In this model, the municipality finances the construction of its own broadband network for municipal utility usage. The excess capacity on the network (sometimes referred to as "dark fiber") is then leased out to private broadband operators. A notable example of this deal structure can be found in Huntsville, Alabama. The fastest-growing region in Alabama is home to a high concentration of engineers, so Huntsville needed a high-speed fiber network to meet its internal utility communication needs.⁸³ Upon completion of the network, the excess dark fiber capacity was made available for lease, and Google Fiber became the first tenant in 2016. The city is promoting competition by leasing the infrastructure to other providers while lease payments are being used to repay construction costs.⁸⁴ The deal gave residents access to ultra-high-speed fiber-optic internet at a competitive market rate in 2017. This emerging deal structure gives rural communities the opportunity to finance fiber networks while partnering with service providers.

80 https://gicwebsrv.csuchico.edu/websites/files/neccc_uccc_files/policies/02_SAMPLE%20COUNTY%20GENERAL%20PLAN%20-%20TELECOM%20OR%20BROADBAND%20ELEMENT/Sample%20Telecom%20Element%20for%20County%20General%20Plan.pdf

81 <http://www.choosevallejo.com/vallejoNet.html>

82 <https://cbig.ca.gov/Government-Partners/City-of-San-Leandro/Incentives/Broadband-Assistance-Program>

83 https://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open=open&id=2017NDFS-Phil_Dotts.html

84 https://www.al.com/news/huntsville/2016/02/google_fiber_is_coming_to_hunt.html

U.S. Rural Infrastructure Opportunity Fund

The U.S. Rural Infrastructure Opportunity Fund is another example of a public-private partnership that targets investments in broadband networks. The investment fund is a partnership between the USDA, CoBank, and Capitol Peak Asset Management and is meant to complement existing grants and loans. The fund also prioritizes investment in rural water and wastewater systems, agribusiness, rural energy, and rural community facility projects.⁸⁵

First Responder Network Authority (FirstNet Authority)

The First Responder Network Authority (FirstNet Authority) is tasked with designing, building, and operating a nationwide broadband network for first responders. FirstNet is an independent authority within the U.S. Department of Commerce.⁸⁶ In late 2018, the State of California entered into a public-private partnership with AT&T to allow California public safety agencies to subscribe to FirstNet. AT&T will serve as the procurement vehicle for the network in the state. Through this arrangement, California first responders can get connected and be better prepared.⁸⁷

Revenue Bonds

Revenue bonds are backed by a specific source of income rather than an issuer's full faith and credit. Revenue bonds have been used to finance broadband networks, though it can be difficult to attract investment in rural projects. A smaller revenue stream from a network with fewer users may not be sufficient to finance the network alone, so revenue bonds often are not the sole capital source for rural broadband projects.

Grants

As noted earlier, federal grant programs can also help complete the capital stack for broadband infrastructure projects. Government agencies that provide grants for high-speed broadband include the USDA Rural Development, the Federal Communications Commission, and until recently, the National Telecommunications and Information Administration.

⁸⁵ <https://www.cobank.com/corporate/services/us-rural-infrastructure-opportunity-fund>

⁸⁶ <https://www.firstnet.gov/about>

⁸⁷ <https://www.prnewswire.com/news-releases/california-and-att-sign-contract-allowing-state-public-safety-entities-to-purchase-firstnet-services-300742737.html>

Case Studies

Fiber-Optic Network in Trinity County and the Redwood Coast, CA – State Grant, Private Investment, Community Support

According to California Public Utilities Commission (CPUC) data, Northwestern California - especially the region along the Redwood Coast near Trinity County - is significantly lacking high-speed broadband.⁸⁸ Several community stakeholders came together to devise a solution to the region's deficiency, including the Redwood Coast Connect Consortium, the CPUC, local and state leaders, the Center for Rural Policy at Humboldt State University, and Inyo Networks.

The solution was "Digital 299," an underground fiber-optic network that will connect Eureka to the Redding area. The 170-mile corridor will roughly follow the path of State Route 299. Digital 299 will also construct cellular towers in areas with limited coverage along the corridor to improve mobile LTE service. Approximately two-thirds of the capital stack was filled by a \$47 million CASF Grant from the CPUC and the rest by \$25 million in private investment.⁸⁹ Inyo Networks is scheduled to begin construction in 2019 and complete the network in 2020. Upon launch, the network will be capable of transporting 250 gigabits of data every second and will connect upwards of 100 community institutions to the network.⁹⁰

High-Speed Broadband in Urbana-Champaign, IL – Public-Private Partnership, Federal Grant

Many of the 42,000 residents of Urbana-Champaign, Illinois did not have access to high-speed broadband until 2009 when the University of Illinois received a grant from the Department of Commerce's National Telecommunications and Information Administration. The \$22 million award from the Broadband Technologies Opportunity Program led to the creation of Urbana-Champaign Big Broadband (UC2B). UC2B was originally created as a partnership between the City of Urbana, the City of Champaign, and the University of Illinois. The non-profit was tasked with providing a fiber-optic network to the region and building institutional support. During the initial phase of the grant, UC2B achieved its goal of providing broadband to the region by connecting 1,058 households to 187 miles of high-speed fiber-optic cable capable of handling gigabits of data every second. UC2B was also able to build local institutional support by connecting 294 anchor institutions to the network.⁹¹ Today, UC2B operates the physical fiber-optic broadband and also serves as an internet service provider for customers.

88 <http://www.broadbandmap.ca.gov/>

89 <https://lostcoastoutpost.com/2017/mar/27/new-fiber-optic-line-go-state-pledges-47-million-d/>

90 <https://www.digital299.com/>

91 <http://www.uc2b.net/uc2b2016/about/history/>

Fiber-Optic Network in Western and North Central MA – Public-Private Partnership, Bonds, Federal Grant, State Grant

In 2008, then-Governor Deval Patrick signed an act to establish the Massachusetts Broadband Institute (MBI). The original funding for MBI used \$40 million in state bonds to support a public-private partnership. One of MBI's primary missions was to build fiber-optic infrastructure to the western and north-central portions of the state. In 2014, MBI accomplished this goal by connecting 123 communities to its newly-built MassBroadband 123 network. The 1,200-mile network cost approximately \$89.7 million, half of which was funded by a federal grant from the Broadband Technology Opportunity Program. To complete the capital stack, the Commonwealth provided \$44.3 million in matching funds. Today the network serves over 400,000 businesses and households and over 1,100 public facilities with commercial-speed broadband.⁹²

Fiber-to-Home in Wilson, NC – Bonds, Private Loan, Community Support

Recognizing the importance of broadband in the modern economy, the City Council of Wilson, North Carolina voted in 2006 to issue \$28 million in bonds to build a fiber-to-home network. Construction was completed by the community-based firm Greenlight in mid-2008. Early the next year, Greenlight expanded its portfolio by offering television and phone services in addition to the internet. Greenlight's "triple play" service caused increased competition in the industry, keeping rates so low that Greenlight customers may have cumulatively saved over \$1 million compared to nearby residents with service through competitors.⁹³ Wilson took a \$4.5 million loan from a bank to improve the network in 2010, resulting in further private competition that benefitted residents. This is an example of a rural community using a bedrock tool (bonds) and partnering with a local firm to build infrastructure, fuel competition, and generate economic activity.

⁹² <https://broadband.masstech.org/about-mbi/past-programs/massbroadband-123-network>

⁹³ <https://files.eric.ed.gov/fulltext/ED584128.pdf>



Transportation

Within the United States, governments face budgetary limits in the context of addressing infrastructure in need of improvement. In 2017, the American Society of Civil Engineers graded the state of US infrastructure as a D+ and estimated around \$4.5 trillion will be necessary by 2025 to improve national transportation and additional infrastructure projects. Similarly, many rural bridges are structurally deficient but are not a priority to fix, as urban bridges with higher traffic levels have taken priority. Regional airports also have seen less investment while air carriers have curtailed their service.

Investing in transportation infrastructure is a potential solution to the issues that rural communities face. Rural road expenditure, per dollar spent, is one of the most effective ways of reducing rural poverty.⁹⁴ The World Bank noted in its 2013-2015 Agriculture Action Plan that developing rural transportation infrastructure improves productivity and connectivity, lowers transaction costs, raises earnings, promotes value-addition, and incentivizes private-sector investment.⁹⁵ This section of the guidebook will delve into financing infrastructure vital to rural areas such as roads, bridges, and airports.

National Landscape

Many rural communities in America lack adequate transportation infrastructure. Around 71 percent of all public access roads are in rural areas; these roads account for 30 percent of national annual vehicle miles traveled. Yet between fiscal years 2009 and 2015, these rural roads only received 37 percent of federal highway funds.⁹⁶ Given the fact that rural areas contribute less to GDP than do urban regions, it is unsurprising that capital often flows toward urban areas.⁹⁷

However, the issue is much larger than just a lack of new capital investments. The longstanding neglect of rural transport infrastructure has rendered pre-existing systems across the country deficient. According to the Bipartisan Policy Center, 15 percent of major rural roads are in poor condition, and one-fifth of rural bridges are either structurally deficient or functionally obsolete.⁹⁸ The Congressional Research Service estimates that nearly 1 in 4 major rural collector roads have a poor ride quality and roughly 82 percent of all structurally deficient bridges in the United States are located in rural regions.⁹⁹

94 http://www.slocat.net/sites/default/files/rural_transport_factsheet.pdf

95 <http://documents.worldbank.org/curated/en/639551468163485999/World-Bank-Group-agriculture-action-plan-2013-2015>

96 <https://crsreports.congress.gov/product/pdf/R/R45250>

97 <https://www.oecd.org/regional/regional-policy/Investment-Priorities-for-Rural-Development.pdf>

98 <https://bipartisanpolicy.org/wp-content/uploads/2019/03/BPC-Putting-Capital-to-Work-in-Rural-Infrastructure.pdf>

99 <https://crsreports.congress.gov/product/pdf/R/R45250>

Residents of large rural regions that cover vast areas often face longer distances between destinations and longer commutes. Public transportation service in these regions is usually weak, if it exists at all. Bureau of Transportation Statistics data confirms that in 2017, rural households spent more on transportation (\$10,293) than did urban households (\$9,511).¹⁰⁰ Furthermore, rural residents drove a staggering 45 percent more miles per capita than did urban dwellers. This puts the onus on rural governments to ensure that roads, bridges, tunnels, and airports are maintained and expanded when necessary.

The federal government has attempted to address the problem. In 2015, the Fixing America's Surface Transportation (FAST) Act was signed into law. For fiscal years 2016 – 2020, the FAST Act authorized \$305 billion for surface transportation infrastructure. These funds were disbursed among several agencies operating under the Department of Transportation, such as the Federal Highway Administration, the Federal Railroad Administration, the Federal Transit Administration, and others. The FAST Act also reformed some existing financing programs.

Importantly, these initiatives have yielded some positive results. The American Society of Civil Engineers noted that recent federal, state, and local investments are mitigating the potential economic decline by stabilizing the funding gap. Moreover, the overall conditions of American highways and bridges are slowly but gradually improving.¹⁰¹ These findings are corroborated by the Congressional Research Service, whose analysis indicates that since 2000, the number of structurally deficient rural bridges has declined by 41 percent.¹⁰²

State Landscape

Much like rural transportation infrastructure across the country, California's rural roads, bridges, and airports have suffered neglect. While the state's urban transportation infrastructure is undergoing modernization, its rural roads, bridges, and airports are in need of investment. State leaders have made a significant effort to reduce vehicle miles traveled (VMT). Despite initiatives like CA Senate Bill 375, which created a framework for addressing sustainable transportation-oriented projects, rural transportation networks still need assistance with modernization.

Rural roads in California are falling into disrepair. A 2018 study by the national transportation research group TRIP estimated that 68 percent of locally and state-maintained roads are in mediocre or poor condition. As a consequence of poor road quality, there is a greater need for additional road repairs, vehicle repairs, and increased fuel consumption which cost each driver an average of \$843 every year – about \$22.1 billion for all California motorists.¹⁰³

Similarly, of the 25,657 bridges in California, 1,603 are structurally deficient, and over half were built before 1968. When a bridge is structurally deficient, a weight restriction may be posted. Alarming, county and state governments may not always close unsafe bridges immediately. Local officials in Mississippi failed to close unsafe bridges until federal officials threatened to withhold funds from the state in 2018.¹⁰⁴ The desire to leave a bridge open for as long as possible is perhaps a side effect of the financial challenges of repairing deficient bridges.

100 <https://www.bts.gov/browse-statistical-products-and-data/transportation-economic-trends/tet-2018-chapter-6-household>

101 <https://www.infrastructurereportcard.org/wp-content/uploads/2016/10/ASCE-Failure-to-Act-2016-FINAL.pdf>

102 <https://crsreports.congress.gov/product/pdf/R/R45250>

103 http://www.tripnet.org/docs/CA_Statewide_Transportation_by_the_Numbers_TRIP_Release_08-15-2018.pdf

104 <https://www.wsj.com/articles/mississippi-gov-bryant-orders-more-than-100-bridges-closed-1523541600>

Rural communities are also facing challenges retaining their regional airports. Regional airports in sparsely populated areas have been falling out of favor with air carriers. As fuel and labor costs increase, airlines are focusing more service on large metropolitan hubs. Rural regions are disadvantaged in this regard as large airports are much more profitable for carriers when compared to small rural airports.¹⁰⁵ Analysis from Airports Council International (ACI) found that 66 percent of airports worldwide operate at a net fiscal loss and of these loss-making airports, 92 percent handle fewer than 1 million passengers per year. This suggests that small airports are most likely to be economically non-viable.¹⁰⁶ For these reasons, air carriers naturally tend to focus their service toward major metropolitan hubs. As a 2015 publication in the Review of Regional Studies noted that between 2007 and 2012, domestic air carrier service at the largest 29 airports in America declined by 8.2 percent, while service at smaller rural airports declined by 21.7 percent.¹⁰⁷ Although many airports have rebounded from the recession, small rural airports must contend with having fewer departures and fewer seats available than major hub airports. Reduced air service compounds the financing challenges and forces residents to rely on ground transportation, thereby placing more strain on rural roads and bridges.

Over the next decade, the California Road Repair and Accountability Act of 2017 (also known as Senate Bill 1 or SB1) will invest \$54 billion in California's roads, bridges, freeways, and transit agencies. Cities and counties, as well as the state's highway system, will receive equal disbursements of \$26 billion. Over 4,000 local transportation infrastructure projects are receiving \$5 billion in funds, and \$200 million in matching funds are being provided to entities with existing transportation investments.¹⁰⁸ The state is also in the midst of constructing a high-speed rail network. The California High-Speed Rail Authority is planning on building a line between Bakersfield and Merced. When completed, this passenger rail network will provide service to the surrounding rural areas of the state's Central Valley.

Financing Solutions

It is important to note that only about 23 percent of the nation's rural roads are eligible for funding from the Federal Highway Administration (FHWA). More than three-quarters of rural road mileage comprises minor collectors and local roads, which are generally not eligible for federal funds.¹⁰⁹ Moreover, the 2016 National Bridge Inventory indicates that of the 443,610 bridges over 20 feet long on rural roads, 57 percent are not considered part of the federal-aid highway system, even though all bridges in the inventory are eligible for FHWA funding. Rural communities must be cognizant of capital sources that may or may not be available for projects.

Federal

U.S. Department of Transportation – Build America Bureau

The Department of Transportation's Build America Bureau is charged with financing the development of transportation infrastructure projects. Grants, credit enhancements, and technical assistance are offered to project stakeholders. The Build America Bureau can also act as a facilitator during the project planning, delivery, and monitoring processes.

¹⁰⁵ <https://www.nap.edu/catalog/14041/innovative-finance-and-alternative-sources-of-revenue-for-airports>

¹⁰⁶ <https://store.aci.aero/product/policy-brief-airport-networks-and-the-sustainability-of-small-airports/>

¹⁰⁷ <https://journal.srsa.org/ojs/index.php/RRS/article/view/45.1.4/651>

¹⁰⁸ <http://rebuildingca.ca.gov/>

¹⁰⁹ <https://www.fhwa.dot.gov/policyinformation/statistics/2016/hm18.cfm>

■ **Transportation Infrastructure Finance and Innovation Act (TIFIA)**

TIFIA is one of the U.S. Department of Transportation's primary financing vehicles. The program provides direct loans, loan guarantees, and credit assistance to transportation infrastructure projects. A wide range of surface transportation projects such as highway, railroad, port access, intermodal freight, and public transit are often eligible. Interest rates for TIFIA loans are fixed. Credit lines accessed through TIFIA can finance up to 33 percent of project costs, while TIFIA loans or TIFIA loans combined with TIFIA credit lines can finance up to 49 percent of project costs. TIFIA is aimed at leveraging private co-investment through federal dollars, credit enhancement, and loan guarantees.

■ **TIFIA Rural Project Initiative (RPI)**

The Build America Bureau also recently launched the TIFIA Rural Project Initiative (RPI). This initiative is designed to make TIFIA funds more accessible to rural communities. Qualified rural areas that have eligible projects may be eligible for loans of up to 49 percent of the project cost, loans well below the market interest rate, and loans with a fixed interest rate for 35 years or more. Roads, bridges, tunnels, intermodal connectors, freight transfer facilities, inland and seaports, transit systems, and even airports are eligible for the TIFIA Rural Project Initiative.¹¹⁰

■ **Private Activity Bonds (PABs) Service**

The Department of Transportation's Build America Bureau operates a private activity bond (PAB) program. The Secretary of Transportation is authorized to allocate \$15 billion in exempt facility bonds, which are not subject to the state volume caps. Tax-exempt private activity bonds may be issued for highway, tunnel, bridge, and freight transfer facilities. Any surface transportation project receiving federal assistance under Title 23 of the United States Code may also be qualified as an eligible facility. As of July 2019, the Build America Bureau has issued approximately \$11.34 billion in PABs.¹¹¹

■ **Railroad Rehabilitation and Improvement Financing (RRIF)**

The RRIF program offers up to \$35 billion for direct loans and loan guarantees to railroad infrastructure projects. RRIF funding may be used for the acquisition, improvement, or rehabilitation of intermodal or rail equipment facilities; the development or establishment of new intermodal or railroad facilities; the reimbursement of planning and design expenses; the refinancing of outstanding debt incurred as a result of the project, and the financing of transit-oriented development. Direct loans can finance up to 100 percent of eligible railroad projects with repayment periods of up to 35 years.

■ **Infrastructure for Rebuilding America (INFRA) Grants**

The INFRA grant program, established by the FAST Act of 2015, is designed to support projects that leverage federal and non-federal sources of infrastructure investment, as well as incentivize the usage of innovative technologies and financing techniques. Eligible projects include highway freight and/or bridge projects, as well as projects that add capacity to the National Highway System. Roughly \$855 – \$902.5 million in funds are authorized for the grant program; at least 25 percent of which is set aside for rural projects. Small projects are awarded a minimum of \$5 million and large projects at least \$25 million. Nearly \$1.5 billion was awarded to 26 projects in the fiscal year 2018 through the INFRA grant program.¹¹²

¹¹⁰ https://www.transportation.gov/buildamerica/programs-services/tifa/tifa-rural-project-initiative-rpi#_ftn1

¹¹¹ <https://www.transportation.gov/buildamerica/programs-services/pab>

¹¹² <https://www.transportation.gov/buildamerica/infragrants>

Better Utilizing Investments to Leverage Development (BUILD) Grants

BUILD Grants are for investments in rail, road, port, and transit projects that meet certain objectives. This grant program originated in 2009 as the Transportation Investment Generating Economic Recovery (TIGER) Grant program until it was renamed BUILD by the 2015 FAST Act. Since its inception, Congress has allotted \$7.1 billion for ten rounds of the program, with an estimated \$2.4 billion awarded to 233 rural projects.¹¹³

Surface Transportation Block Grant Program (STBG)

STBG provides flexible funding that can be used at the state and local level for projects to preserve and improve the conditions and performance for Federal-aid highways, bridges, or tunnels; public roads or pedestrian/bicycle infrastructure; and transit capital projects, including intercity bus terminals.¹¹⁴

Airport Improvement Program (AIP) - Federal Aviation Administration (FAA)

Through this program, the FAA provides grants to public agencies – and in some cases to private owners and entities – for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems. For large and medium primary hub airports, the grant covers 75 percent of eligible costs or 80 percent for noise program implementation. For small primary, reliever, and general aviation airports, AIP grants cover a range of 90-95 percent of eligible costs, based on statutory requirements. Eligible projects for the AIP include improvements related to enhancing airport safety, capacity, security, and environmental concerns, as well as other projects depending on the type of airport.¹¹⁵

Essential Air Service Program

The Essential Air Service (EAS) program was envisioned as a way to guarantee that small communities served by certificated air carriers before airline deregulation could maintain a minimal level of scheduled air service. The U.S. Department of Transportation is mandated to provide eligible EAS communities with access to the National Air Transportation System, subsidizing daily roundtrips from the rural locations. The Department of Transportation subsidizes commuter and certificated air carriers to serve approximately 60 communities in Alaska and 115 communities in the lower 48 contiguous states that otherwise would not receive any scheduled air service.¹¹⁶ One such example is the airport in Merced, California, which offers 17 flights to Los Angeles every week thanks to the EAS program.

Small Community Air Service Development Program (SCASDP)

SCASDP is a grant program that is designed to help small communities address air service and airfare issues. SCASDP can provide revenue guarantees, financial assistance for marketing programs, start-up costs and studies, among other things. SCASDP's eligibility criteria are broad and provide a grant applicant the opportunity to self-identify its air service deficiencies and propose an appropriate solution.¹¹⁷

¹¹³ <https://www.transportation.gov/BUILDgrants/about>

¹¹⁴ <https://www.fhwa.dot.gov/specialfunding/stp/>

¹¹⁵ <https://www.faa.gov/airports/aip/overview/>

¹¹⁶ <https://www.transportation.gov/policy/aviation-policy/small-community-rural-air-service/essential-air-service>

¹¹⁷ <https://www.transportation.gov/policy/aviation-policy/small-community-rural-air-service/SCASDP>

State

California Senate Bill 375 Sustainable Communities Strategy

Passed in 2008, SB 375 directs the California Air Resources Board (CARB) to identify regional targets for reducing greenhouse gas emissions. Though CARB sets the targets, it is up to local and regional governments to create sustainable community strategies to achieve these goals. Transportation funding allocations must be consistent with the Sustainable Communities Strategies, and when that consistency is achieved, projects are eligible to receive California Environmental Quality Act (CEQA) streamlining. While this does not provide money for a project, the cost savings are seen in the time and money saved by CEQA streamlining.¹¹⁸

California Infrastructure and Economic Development Bank (IBank)

IBank is California's general-purpose infrastructure financing authority. IBank is authorized to issue taxable and tax-exempt revenue bonds, provide credit enhancements, leverage state and federal funds, and provide various forms of financing to public agencies in the state. The Infrastructure State Revolving Fund Loan Program, the Bond Financing Program, the Small Business Finance Center, and the California Lending for Energy and Environmental Needs (CLEEN) Center are all operated by IBank.

■ Infrastructure State Revolving Fund Loan Program (ISRF)

Through the ISRF Program, loans ranging from \$50,000 to \$25 million of up to 30 years are available for a wide range of economic development and infrastructure projects. Public agencies and non-profits are eligible to receive funds for streets, highways, ports, transit facilities, goods movement-related infrastructure, and more.¹¹⁹

■ Bond Financing Program

The California IBank serves as one of many conduit issuers for tax-exempt and taxable bond financing in California. IBank issues 501(c)(3) Bonds to nonprofit entities that benefit the public, Industrial Development Bonds of up to \$10 million for manufacturing or processing companies, and Public Agency Revenue Bonds (PARBs) for state programs and entities. IBank also can issue Exempt Facility Bonds for public projects or private projects within public facilities.¹²⁰

State Transportation Improvement Program (STIP)

STIP is a 5-year plan that allocates state transportation funds for state highway improvements, intercity rail, and regional highway and transit improvements. The plan is updated every two years by the California Transportation Commission and with each new STIP plan, those two new years are added to the previous programming commitments.¹²¹

¹¹⁸ <https://www.ca-ilg.org/post/basics-sb-375>

¹¹⁹ <http://www.ibank.ca.gov/about-us/ibank-faqs/>

¹²⁰ <http://www.ibank.ca.gov/bond-financing/>

¹²¹ <https://catc.ca.gov/programs/state-transportation-improvement-program>

Federal Grant Anticipating Revenue Vehicle (GARVEE) Bonds

GARVEE bonds are issued as advance funding when a project anticipates receiving future federal grant money, allowing for the financing of a project to be spread out over a longer period of time. In the case of these eligible transportation projects, the anticipated revenue is usually federal grant money.¹²² The California Transportation Commission approves the issuance of GARVEE bonds in the state.

Total Road Improvement Programs (TRIP)

Communities can finance street repairs upfront through this program by borrowing against their future local transportation sales tax revenues for up to 30 years at low-interest rates. The county must have a voter-approved local transportation tax for TRIP to be an option. TRIP is administered by the California Statewide Communities Development Authority (CSCDA).¹²³

Local Streets and Roads Program (LSRP)

With the passage of California Senate Bill 1 (SB1), \$1.5 billion per year will be apportioned by the California State Controller to the LSRP. LSRP will use new formula revenues to fund county and city road maintenance, rehabilitation, and safety projects. Cities and counties must submit their projects to the California Transportation Commission for review, and if accepted, the project is forwarded to the Controller for apportionment of funds.¹²⁴

Local Capacity Building

Establish a Transportation Advisory Committee, Coordinate Ride-Sharing Services, or Operate a Demand-Based Shuttle Service

A study of Transit Feasibility in Park County, Wyoming shed light on the reality faced by residents of rural counties. Many residents of Park County commute to Cody County, a 50-mile roundtrip journey, which translated into an \$8,250 cost for 1 full-time employee every year. Traditional ride-sharing services were generally unavailable (as with most rural areas), so 1,200 households in Park County were in need of alternative forms of transportation. It was noted that residents were averse to raising taxes and were opposed to using sales taxes for a transit system, so alternative means of mobility needed to be devised. Recommendations included establishing a Transportation Advisory Committee on a permanent basis, expanding the existing demand-response based transit shuttles, and working with private ride-sharing stakeholders to establish service in the area. In California, the Counties of Yuba and Sutter operate shuttles that transport workers to and from Sacramento. Rural counties can take advantage of these strategies.

122 https://www.fhwa.dot.gov/ipd/finance/tools_programs/federal_debt_financing/garvees/

123 [http://cscda.org/Public-Agency-Programs/Total-Road-Improvement-Programs-\(TRIP\)](http://cscda.org/Public-Agency-Programs/Total-Road-Improvement-Programs-(TRIP))

124 <https://catc.ca.gov/programs/sb1/local-streets-roads-program>

Transportation Improvement Districts / Transit Oriented Developments

Transportation Improvement Districts can be used to address the challenge of financing public transportation networks that need to cover long distances while serving a few people. These districts are zones in which additional taxes, known as a special assessment, are captured from property owners in order to fund public transportation projects. These transportation projects often raise the value of nearby properties, thereby incentivizing property owners to pay the special assessment to fund the beneficial public transit improvements. Planners can combine transportation improvement districts with transit-oriented developments to finance the necessary infrastructure at the local level and focus the network around a smaller regional transit hub.

Financing Matrix

Bonds

Bonds are the bedrock of public economic development finance. Simply put, a bond is a debt or loan incurred by a governmental entity. Bonds are issued and sold to the investing public and the proceeds are typically made available to finance the costs of a capital project. According to the federal tax code, there are two types of tax-exempt bonds: Government Bonds and Qualified Private Activity Bonds (PABs).¹²⁵

- **Government Bonds** may be used for many public purposes including highways, schools, bridges, sewers, jails, parks, government equipment, and buildings. The issuing municipality pledges its full faith and credit to meet debt service requirements. They can be used to finance smaller sewer and water projects at the local level because such projects have a purpose that serves the general public.
- **Qualified Private Activity Bonds (PABs)** permit a larger degree of private sector involvement and are used to address numerous development finance needs identified by Congress and state and local governments. PABs drive projects involving both the public and private sector by passing along the low-cost interest benefit, generated by the tax-exempt status of PABs, to private borrowers. The Internal Revenue Code permits the financing of several types of projects using qualified PABs.
 - **Exempt Facility Bonds** are a type of Qualified PAB that have a wide scope of use and implementation varies by state or local government. Exempt Facility Bonds finance a wide variety of projects, including airports, docks, mass-commuting facilities (such as high-speed rail), qualified highway or surface freight transfer facilities, and more.

Public-Private Partnership (P3)

Public-Private Partnership (P3) as a financing tool is a complex yet useful agreement between a public agency and a private-sector entity. A jurisdiction (i.e. municipality, state, or authority) is able to transfer some of the inherent risks of project development by collaborating with private developers, construction and engineering firms, or infrastructure investors who have the private resources and expertise which the entity lacks.

¹²⁵ <https://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/bond.html>

P3's can be structured in many ways. There are two common types of P3 involving asset monetization: the first occurs when a public asset is transferred to a private entity for a one-time fee or future revenue; the other is an infrastructure asset constructed by a public entity then given to a private business for operation. Another approach, known as the “bundled” P3, is essentially where multiple project assets are combined into a single financing structure. The “bundled” approach allows for a single staff to monitor the progress of every project, allowing for better coordination.¹²⁶ The “Design-Build-Operate-Maintain” is another common structure for P3s. In California, the predominant model for P3s is the traditional “design-bid-build” project delivery method.¹²⁷

By leveraging private expertise, P3s are primed to assist local governments with infrastructure improvements that they alone would otherwise be unable to complete. As of 2018, P3 enabling legislation exists in over 39 states, including California. Most legislation relates to transportation, and are under the authority of a state's transportation department. CalTrans is California's P3 authority and in 2009, it was authorized to enter into an unlimited amount of P3 agreements.¹²⁸

Targeted Tools – EIFD, CRIA, Special Assessment

Targeted tools are special districts that can be used for attracting investment in transportation. Targeted financing tools differ from other tools because they target specific geographic areas or difficult to finance sectors in a community, offering incentives, tax rebates, credits, and unique financing structures that drive investment and development within that geographic footprint. Most of these targeted tools fall into a category called special district financing and they all provide a slightly different approach to a similar concept.

■ Enhanced Infrastructure Financing Districts (EIFD) and Community Revitalization and Investment Authorities (CRIA)

EIFDs and CRIAs are mechanisms for capturing the future tax benefits of improvements in order to pay for the present cost of those improvements. In other states, this financing structure is known as tax increment financing (TIF). TIF had historically been used in California by redevelopment agencies until their dissolution in 2012 rendered the traditional form of TIF unavailable in the state. New financing mechanisms such as EIFDs and CRIAs are generating a lot of interest as replacement tools for TIF. EIFDs and CRIAs are opportunities for entities to finance upgrades to curb and gutter, roads, and more.¹²⁹

■ Special Assessment Districts

Special assessment district financing mechanisms are common but under-utilized tools. Special Assessment Districts work by adding (“assessing”) an additional tax on top of the existing property or sales taxes for property owners and/or businesses within the district. This additional pool of tax revenue is then used to finance whatever improvement(s) the district was designed to do. These tools are known by a variety of names and can be structured in a variety of ways, but there are two predominant methods. Business and neighborhood-focused districts are typically run by property owners in the district. These owners impose self-assessed taxes on themselves in order to generate funds for agreed-upon physical improvements or other amenities. Government districts work in the same manner as business and neighborhood types, but are initiated by the local government.¹³⁰

126 https://www.spratings.com/documents/20184/1634005/Bundling_A+Growing+Trend_Infrastructure/0db75088-9305-494b-9c53-c9255bc5401f

127 <https://sgf.senate.ca.gov/sites/sgf.senate.ca.gov/files/DBbriefingmemopublic%20%281%29.pdf>

128 <https://reason.org/backgrounders/report-on-p3-projects-and-legislative/>

129 <https://caled.org/wp-content/uploads/2016/02/TIF-Booklet-10-161.pdf>

130 Practitioner's Guide to Economic Development Finance, 2nd Edition by Toby Rittner <https://www.cdfa.net/cdfa/store2.nsf/browse.html?open&so=popularity>

Grants

Various federal grants and loans for transportation infrastructure are offered by several agencies. The Department of Transportation offers grants for many modes of transportation infrastructure. The Federal Aviation Administration (FAA) offers grants for airport improvement, Federal Highway Administration (FHWA) also administers grants for highway construction, and the Federal Rail Administration (FRA) has a grant program for railroad projects. These funding opportunities can be advantageous to rural communities seeking capital to finance their projects.

Federal grants for bridges are available to any road or bridge project that is part of the Federal-Highway Aid System. Unfortunately, most structurally deficient rural bridges are on minor roads and therefore are not part of the Federal-Aid Highway System. These bridges are also mostly concentrated in counties with low tax revenues and sparse populations.¹³¹ Bridges not part of the Federal-Aid Highway System may be eligible for assistance from federal programs that distribute funds to states based on a formula, such as the Surface Transportation Block Grant Program.¹³² In these cases, grant funding from the state and private sources may be required.

¹³¹ <https://crsreports.congress.gov/product/pdf/R/R45250>

¹³² <https://www.fhwa.dot.gov/specialfunding/stp/>

Case Studies

Solar Microgrid at the Redwood Coast Airport in Humboldt County, CA – State Grant, Matching Funds, Community Support

Humboldt County is located in the dense forests and mountains of the Northern California coast. Despite its population of over 130,000, Humboldt is geographically rural. Six airports serve the area, but only one – the Redwood Coast Airport (ACV) – is a commercial service airport. The Humboldt community is home to a strong environment of partners, including Humboldt State University.¹³³ Humboldt State University has an energy research center and has successfully completed numerous projects in the county through partnerships with local and state entities.

The Redwood Coast Airport offers around 50,000 flights per year. These include commercial and private flights, and a Coast Guard Air Station sits adjacent to ACV. Due to the prevalence of natural disasters in the area, a need for safe and reliable energy was identified. Humboldt State University contacted the County of Humboldt with an idea to host a solar microgrid at the Redwood Coast Airport. This Renewable Energy Microgrid will provide critical energy security for the airport and by extension, the region.

Financing the \$11 million project was made possible by the partnerships in the community. Humboldt State University had worked with the California Energy Commission (CEC) in the past. For this project, roughly \$5 million was provided by the CEC's Electric Program Investment Charge (EPIC) Program. These funds were matched by \$6 million from another community partner – the Redwood Coast Energy Authority. ACV will be reimbursed for providing space for the grid through an annual rebate on energy costs.¹³⁴

Phase one of construction is scheduled to begin in 2019. Upon completion, the grid will be tied into two on-site batteries. Local utility power distribution control centers will interface with the microgrid control system. During operation, the grid will supply both the airport's consumption and 400 homes in the community. If an emergency occurs, the power can be switched to feed critical infrastructures like runway lights and the local coast guard station. Completion and commissioning are set for early 2021.¹³⁵

133 <https://humboldt.gov/1396/Airports>

134 <http://schatzcenter.org/acv/>

135 <http://schatzcenter.org/docs/RCAREM-factsheet-20190213.pdf>

Rapid Bridge Replacement in PA – Public-Private Partnership, Bonds, Private Equity

The Pennsylvania Rapid Bridge Replacement Program is a prominent example of a public-private partnership financing an expensive infrastructure project. The state had 4,350 bridges that were structurally deficient and in need of repairs. Pennsylvania's Department of Transportation (PennDOT) developed criteria to screen all these bridges and prioritize those that needed replacement most urgently. This rigorous screening process ultimately deemed 558 bridges as priorities.¹³⁶ These bridges were predominantly in rural areas on smaller state highways.

In 2015, PennDOT entered into a contract with a consortium of firms specializing in large-scale infrastructure called Plenary Walsh Keystone Partners (PWKP). The agreement stipulated that PWKP had 42 months to replace the 558 bridges. The total cost penciled out to \$1.1 billion. In order to fill this capital gap, \$721.5 million worth of private activity bonds were issued by PennDOT, PWKP provided \$59.4 million in private equity, and PennDOT paid \$224.7 million in mobilization and milestone payments.¹³⁷ PWKP will maintain the bridges for 25 years and then PennDOT will again become responsible for maintenance.

The 558 principal replacement projects were completed in 42 months; had the resource-constrained PennDOT undertaken the replacements on its own, they may have taken 10-15 years and cost 30 percent more to taxpayers.¹³⁸ The agreement specifies that the bridges must meet a predetermined good condition when PennDOT retakes control of maintenance in 25 years, so PWKP is not incentivized to merely design bridges that will only last 25 years.

East End Crossing Bridge in Louisville, KY and Southern IN – Public-Private Partnership, TIFIA, Bonds, State Grants, Private Equity

The region around Louisville, Kentucky is experiencing considerable growth. Louisville and Southern Indiana are separated by the Ohio River. Officials identified the need to improve the cross-river transportation infrastructure to the northeast of Louisville. Plans were drawn up to connect two existing highways on each side of the river via a new section of highway, a tunnel, and a bridge. Costs for this project were significant, so it was important for communities on both sides of the river to build a consensus around the importance of the project.

The Indiana Finance Authority entered into a 35-year design-build-finance-operate-maintain public-private partnership with WVB and East End Partners. Ultimately, capital from eight sources financed the \$1.3 billion project. These included a \$162 million TIFIA loan, \$78 million worth of developer risk capital, \$45 million from Relief Events Reserves. The Indiana Finance Authority issued \$488 million in Milestone PABs and \$19 million in Long-Term PABs. The State of Kentucky contributed \$94 million in state funding, and the State of Indiana also contributed \$201 million. The bridge project was completed in 2016 and is projected to generate \$3.2 billion in travel time savings-related benefits.¹³⁹

136 <https://bipartisanpolicy.org/wp-content/uploads/2019/03/BPC-Putting-Capital-to-Work-in-Rural-Infrastructure.pdf>

137 <https://bipartisanpolicy.org/wp-content/uploads/2019/03/BPC-Infrastructure-Rapid-Bridge.pdf>

138 <https://bipartisanpolicy.org/wp-content/uploads/2019/03/BPC-Infrastructure-Rapid-Bridge.pdf>

139 <https://www.transportation.gov/tifia/financed-projects/ohio-river-bridges-east-end-crossing>



Housing For All Income Levels

In rural parts of California, financing housing that is affordable at every income level is especially difficult. Average prices in California's least expensive housing markets are still slightly more expensive than the comparable national averages.¹⁴⁰ Programs which finance the construction of new housing can help increase the supply or reduce the cost and often times programs must be paired together to complete the capital stack. Within the scope of housing in communities, it is important to note that diversity may be required to meet the needs of low- and moderate-income populations including senior housing, veteran housing, and housing for the mentally disabled.

Beyond financing, existing issues that rural housing developers face include the lack of technical and staffing capacity, limited incentives to build affordable units, difficulty in finding experienced partners, public resistance, and regulatory barriers. Preserving the affordability of housing over time represents another hurdle for rural communities. This section will examine the national and state landscape of affordable multifamily housing as well as single-family housing (which is more common in rural areas).

National Landscape

It is important to differentiate the landscape of multi-family housing and single-family housing. The national median rent rose 20 percent faster than overall inflation from 1990 to 2016, and the median home price rose 41 percent faster than inflation over the same period.¹⁴¹ Another study revealed that persons being paid minimum wage cannot afford a one-bedroom apartment anywhere in the nation without spending more than 30 percent of their income on housing.¹⁴² Single-family affordability can be gauged by the ratio of median home price to median household income. This ratio experienced a sharp rise from the low of 3.3 in 2011 to 4.1 in 2018, indicating that it is increasingly difficult for homebuyers to save for a down payment and qualify for a mortgage.¹⁴³ However, single-family homeownership conditions vary in different markets across the country. Overall homeownership rates have recovered slightly after falling for 12 years, while renters face heavier cost burdens.

140 <https://lao.ca.gov/reports/2015/finance/housing-costs/housing-costs.pdf>

141 https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_State_of_the_Nations_Housing_2018.pdf

142 <https://nlihc.org/resource/nlihc-releases-out-reach-2018>

143 https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_State_of_the_Nations_Housing_2019.pdf

Housing developers also face many other challenges innate to rural areas, including a limited market for large-scale rental housing. Making matters worse, small rural communities often do not have the technical know-how or staff capacity to operate their own housing authority. These communities must rely on a regional housing authority which is usually located in the nearest city – removed from the realities of the rural areas. Some community members may voice opposition to a housing project because of its proximity to their residence or because it would consume farmland, while others may clamor for the construction of more affordable housing to meet demand. For these reasons, traditional housing developers are sometimes unwilling to work in rural areas. Non-profit, mission-based housing developers may have to fill the void when traditional housing developers are unwilling to finance any type of rural housing.

State Landscape

California is experiencing a housing shortage unlike anywhere else in the country. Housing costs in the state are extraordinarily high, residents are struggling to afford rents and mortgages, and new construction cannot keep up with demand. Homelessness is also an acute issue in the state.

One factor contributing to the crisis is the inability for construction to keep pace with demand in California. The state had been meeting needs from 1954 – 1989 by building on average, over 200,000 new homes every year.¹⁴⁴ Since the 2007-2008 financial crisis, the state has only constructed 80,000 new homes on average every year, creating a gap that resulted in California ranking 49th among all states in housing units per 1,000 people. To close this housing gap, California will need to build somewhere between 2 million to 3.5 million housing units by 2025.¹⁴⁵

Moreover, costs for renters and homeowners are increasing dramatically. A 2015 report by the California Legislative Analyst's Office found that on average, monthly rent in California was about 50 percent higher than in the rest of the nation (\$1,240 compared to \$840), and the average cost of a single-family home in California in 2015 was nearly two-and-a-half times more than the national average (\$440,000 compared to \$180,000).¹⁴⁶ Homeownership has remained out of reach for many residents of the state as costs have continued to rise. In June of 2019, the seasonally adjusted annual rate of a California single-family home reached a staggering \$611,420 per year.¹⁴⁷ The National Low-Income Housing Coalition's *Out of Reach 2019* report highlights the lack of affordability. In order to afford a two-bedroom apartment at fair market rent, one would need to make \$34.69 per hour and work 116 hours per week.¹⁴⁸ Residents are often forced to make trade-offs to afford other costs of living.

Lack of housing stock and skyrocketing costs are exacerbating the incidence of homelessness, which has become a major problem in the state. The U.S. Interagency Council on Homelessness estimated as many as 130,000 Californians were experiencing homelessness on any single day as of January 2018, including veterans and disabled persons.¹⁴⁹ Other studies find that the problem has only been growing; the number of unsheltered homeless persons rose by 25 percent from 2014 to 2018, peaking at 89,500 in early 2018 according to Harvard's Joint Center for Housing Studies.¹⁵⁰

144 http://www.hcd.ca.gov/policy-research/plans-reports/docs/SHA_Final_Coombined.pdf

145 <https://www.mckinsey.com/~/media/McKinsey/Featured%20Insights/Urbanization/Closing%20Californias%20housing%20gap/Closing-Californias-housing-gap-Full-report.ashx>

146 <https://lao.ca.gov/reports/2015/finance/housing-costs/housing-costs.pdf>

147 <https://www.car.org/marketdata/data/countysalesactivity>

148 <https://reports.nlihc.org/sites/default/files/oor/files/reports/state/CA.pdf>

149 <https://www.usich.gov/homelessness-statistics/ca/>

150 https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_State_of_the_Nations_Housing_2019.pdf

In 2017, the state passed 15 pieces of legislation aimed at addressing the crisis. A \$75 real estate transaction fee is projected to raise \$250 million per year that will be used to finance affordable housing. One law allows cities to once again implement low-income requirements. Another proposition was the issuance of \$6 billion in bonds for affordable housing, which voters approved in November of that year. Several other laws were designed to facilitate the construction of more units, penalize cities that decline housing projects, and take action against developers whose projects do not meet affordability requirements. Furthermore, the state's 879 newly-designated Opportunity Zones may incentivize investment in housing projects.

Financing Solutions

Rural governments have a wide array of tools to help them develop affordable housing. The Departments of Agriculture, Treasury, and Housing & Urban Development offer equity and debt tools. California is also aggressively addressing its housing crisis by offering a variety of funding opportunities. There are also strategies which can be implemented at the local level to grow the capacity necessary to expand available affordable housing stock. It is important to note that financing and funding programs which support housing tend to fall into two categories: 1) programs which incentivize development that are used by developers and 2) programs that subsidize rent or mortgages that are used by renters or homeowners.

Federal

U.S. Department of Agriculture – Rural Development

The USDA's Rural Development division operates a wide variety of financing tools for affordable housing, including loans, grants, and loan guarantees. USDA Rural Development also provides technical assistance to communities seeking to increase housing stock and affordability.

- **Housing Preservation Grants**

Housing Preservation Grants are awarded to organizations sponsoring the rehabilitation or repair of rural housing. Units undergoing repair or rehabilitation must be owned or occupied by low- or very-low-income rural residents. Up to \$15.8 million is available.¹⁵¹

- **Housing Preservation & Revitalization Demonstration Loans & Grants**

This funding opportunity restructures loans for pre-existing Off-Farm Labor Housing as well as Rural Rental Housing. It is designed to preserve affordable and safe rental housing and improve its availability where possible.¹⁵²

- **Rural Community Development Initiative (RCDI) Grants**

The RCDI Grant program awards grants to non-profit housing organizations, community development organizations, public bodies, and federally-recognized tribes to support housing. More specifically, funds can be used in rural areas to improve community facilities, housing, and a broad array of economic development projects.¹⁵³

151 <https://www.rd.usda.gov/programs-services/housing-preservation-grants>

152 <https://www.rd.usda.gov/programs-services/housing-preservation-revitalization-demonstration-loans-grants>

153 <https://www.rd.usda.gov/programs-services/rural-community-development-initiative-grants>

■ **Rural Housing Site Loans**

Section 523 and Section 524 Loans are provided through this program. Section 523 Loans are only made for projects adhering to the self-help method of construction, where recipients supervise the construction of housing for low and very-low-income families. Section 524 Loans have no restriction on construction methods. These loans are made in areas below a certain percentage of the national average annual median income.¹⁵⁴

■ **Multi-Family Housing Direct Loans**

This loan program finances multi-family rental housing for several groups: low-income persons, persons with disabilities, elderly persons, or persons who would otherwise have difficulty obtaining a loan in rural areas.¹⁵⁵

Capital Magnet Fund – Department of the Treasury CDFI Fund

The Department of the Treasury's CDFI Fund awards grants to Community Development Financial Institutions (CDFIs) through the Capital Magnet Fund. These CDFIs, in turn, use the awarded funds to finance affordable housing in low-income areas. Since its inception, \$20 of additional investment has been generated for every \$1 the Capital Magnet Fund has awarded.¹⁵⁶

Low-Income Housing Tax Credit (LIHTC) – California Tax Credit Allocation Committee

The federally-authorized LIHTC program is administered in California by the state's Tax Credit Allocation Committee (CTCAC). LIHTC offers a 4 percent and a 9 percent tax credit for housing projects that meet income requirements below a certain percentage of annual median income. The credit is designed to make it feasible for property owners to offer affordable rents and incentivize investment in low-income housing. National banks can also make LIHTC investments by directly funding affordable housing projects. Unlike other federally implemented tax credit programs, LIHTC is permanently authorized by Congress which ensures their long-term availability for affordable housing projects.

U.S. Department of Housing and Urban Development (HUD)

HUD has a wide range of programs that relate to housing and development, many of which are oriented specifically around housing affordability.

■ **Community Development Block Grant (CDBG)**

CDBG makes funds available in four categories: Community Development (CD), Economic Development (ED), Community Services and Housing Activities, and Disaster Recovery Initiative (DRI). CDBG grants are made to entitled communities (qualified low and very-low-income areas) based on a formula and can be used broadly to provide a suitable living environment by expanding economic opportunities and providing decent housing to low-income households. Each state can also distribute CDBG funds to communities that do not receive CDBG funding directly from HUD - these are known as non-entitlement areas. In California, there is an annual competitive funding cycle for all categories of CDBG and CDBG Economic Development also has an over-the-counter Notice of Funding Availability process.¹⁵⁷ Loan guarantees for CDBG projects are available through HUD's Section 108 program.

¹⁵⁴ <https://www.rd.usda.gov/programs-services/rural-housing-site-loans>

¹⁵⁵ <https://www.rd.usda.gov/programs-services/multi-family-housing-direct-loans>

¹⁵⁶ <https://www.cdfifund.gov/programs-training/Programs/cmf/Pages/default.aspx>

¹⁵⁷ <http://www.hcd.ca.gov/grants-funding/active-funding/cdbg.shtml>

■ HOPE VI

Any Public Housing Authority which has eligible, severely distressed public housing units in its inventory can apply for grants in the HOPE VI program. HUD implemented these grants to support the development of mixed-income housing. Revitalization grants are available for covering the capital costs of major rehabilitation, new construction, or other physical improvements; the demolition of severely distressed public housing; acquisition of sites for off-site construction; and community and supportive service programs for residents, including those relocated as a result of revitalization efforts. HOPE VI Main Street grants provide assistance to smaller communities in the development of affordable housing connected to a “Main Street” revitalization effort.¹⁵⁸

■ Home Investment Partnerships Program (HOME)

HOME assists cities, counties, and non-profit community housing development organizations (CHDOs) to create and retain affordable housing for lower-income renters or owners. HOME loans are available for housing rehabilitation, new construction, and acquisition and rehabilitation of single and multifamily projects. They also provide grants for tenant-based rental assistance. At least 50 percent of the amount is awarded to rural applicants and 15 percent is set aside for CHDOs. Funds are available annually to California communities that do not receive HOME funding directly from HUD.

■ HUD Capital Fund

The Capital Fund provides funds to Public Housing Agencies (PHAs) for the development, financing, and modernization of public housing developments and management improvements on a yearly basis. The funds cannot be used for luxury improvements, direct social services, a cost funded by other HUD programs, or other ineligible activities determined by HUD on a case-by-case basis.¹⁵⁹

■ Section 811 Supportive Housing for Persons with Disabilities

Through the Section 811 program, HUD provides funding to develop and subsidize rental housing for very low- and extremely low-income adults with disabilities. This program allows persons with disabilities to live as independently as possible in the community by subsidizing rental housing opportunities which provide access to appropriate supportive services. Section 811 provides interest-free capital advances and operating subsidies for nonprofit developers of affordable housing for persons with disabilities, and project rental assistance contracts for state housing agencies.¹⁶⁰

■ Section 202 Supportive Housing for the Elderly

Similar to the Section 811 program, Section 202 makes capital available to housing acquisition, construction, or rehabilitation projects. The housing receiving financing must serve to support elderly, low-income residents.¹⁶¹ Project Rental Assistance Contracts are also available for Section 202 projects.

158 https://www.hud.gov/program_offices/public_indian_housing/programs/ph/hope6

159 https://www.hud.gov/program_offices/public_indian_housing/programs/ph/capfund

160 https://www.hud.gov/program_offices/housing/mfh/progdesc/disab811

161 https://www.hud.gov/program_offices/housing/mfh/progdesc/eld202

■ **Section 108 Loan Guarantee Program**

The Section 108 Loan Guarantee program offers CDBG recipients the ability to leverage their annual grant allocation to gain access to federally guaranteed loans. Loan guarantees offered through Section 108 generally range from between a few hundred thousand dollars to several million dollars, and the program offers sufficiently flexible terms to enable the layering of additional community and economic development finance tools. Section 108 can finance housing developments, public facilities, other physical infrastructure projects, support economic development, and disaster resiliency.¹⁶²

■ **Project-Based Vouchers (PBV)**

HUD's Housing Choice Voucher (Section 8) Program makes PBVs available through Local Public Housing Agencies. PBVs subsidize rents for qualifying tenants and remain with the property, unlike tenant-based vouchers which remain with the tenant. The PBV rent amount is based on comparable properties in the local market.¹⁶³

State

California Department of Housing and Community Development (HCD)

California's HCD is the state's main agency tasked with administering policies and programs for housing. HCD is charged with expanding housing opportunities, improving affordability, and building strong communities. HCD operates several programs to provide financing for various forms of rural housing projects.

■ **Multifamily Housing Program (MHP)**

Senate Bill 3 (Chapter 365, Statutes of 2017) authorized a \$1.5 billion bond issuance for the Multifamily Housing Program (MHP). Through MHP, 55-year deferred payment loans are made for new construction, rehabilitation, and/or acquisition of multifamily rental housing. Permanent and transitional rental housing structures are eligible, as are projects that convert non-residential structures into rental housing. Projects are not eligible if they are receiving 9 percent federal low-income housing tax credits.¹⁶⁴

■ **Predevelopment Loan Program (PDLP)**

This program offers loans to finance the predevelopment capital necessary for low-income housing projects. Loans are for short-term needs. Loans can be used to purchase a site, conduct planning and engineering studies, and other predevelopment activities.¹⁶⁵

■ **Affordable Housing and Sustainable Communities Program (AHSC)**

The AHSC Program aims to finance projects that will make disadvantaged communities more sustainable by reducing greenhouse gas emissions. It provides grants, loans, and grant/loan combinations to projects that will increase access to affordable housing, employment centers, and key destinations via low-carbon transportation. The goal is to reduce vehicle miles traveled by shortening the trip length. Funds can be used for housing construction, rehabilitation, preservation, or acquisition, housing-related infrastructure, and sustainable transportation infrastructure.¹⁶⁶

¹⁶² <https://www.hudexchange.info/programs/section-108/>

¹⁶³ https://www.hud.gov/sites/dfiles/PIH/documents/HCV_Guidebook_Payment_Standards.pdf

¹⁶⁴ <http://www.hcd.ca.gov/grants-funding/active-funding/mhp.shtml>

¹⁶⁵ <http://www.hcd.ca.gov/grants-funding/active-funding/pdlp.shtml>

¹⁶⁶ <http://www.hcd.ca.gov/grants-funding/active-funding/ahsc.shtml#purpose>

- **Mobile-Home Park Rehabilitation and Resident Ownership Program (MPRROP)**

Short-term and long-term low-interest loans are made through this program to preserve affordable mobile-home parks. Specifically, MPRROP aims to ensure that resident organizations, nonprofit housing sponsors, or local public agencies retain ownership or control of mobile-home parks. Long-term loans are also made to individuals to ensure continued affordability through the program.¹⁶⁷

- **National Housing Trust Fund**

The National Housing Trust Fund is a permanent federal program that provides funds to each state. Funds are used to preserve and increase affordable rental housing stock. Emphasis is placed on housing for extremely low-income households with 30 percent or less of area median incomes.¹⁶⁸

- **Veterans Housing and Homeless Prevention Program (VHHP)**

VHHP is a funding source available to projects occupied by veterans. Projects are required to have at least 45 percent of assisted units available to extremely low-income veterans with rents not exceeding 30 percent of the Area Median Income (AMI). Veterans living with disabilities or who recently experienced homelessness are eligible. Supportive services are provided for issues like drug addiction and mental illness.

California Housing Finance Agency (CalHFA)

CalHFA offers long-term financing for multifamily rental housing projects. CalHFA administers flexible programs that can finance newly-built, newly-acquired, or rehabilitated developments.

- **Conduit Issuer Program**

CalHFA can serve as a conduit issuer for taxable and tax-exempt bonds. Projects that may be eligible include rehabilitation, acquisition, or new construction of affordable multifamily rental units. Developers seeking the issuance of bonds for affordable multifamily housing projects can contact the agency for more information.

- **Permanent Loan Program – Tax-Exempt and Taxable Financing**

The Permanent Loan Program offers taxable and tax-exempt financing for the long-term needs of affordable multifamily housing developers. Multifamily rental housing for low-income seniors, veterans, families, and special needs tenants can be financed through permanent loans.

- **Mental Health Services Act (MHSA)**

CalHFA administers the MHSA special needs housing loan program, providing underwriting, construction monitoring, and asset management services. Developments must serve (a) homeless or chronically homeless individuals with a mental illness or (b) homeless or chronically homeless individuals with a mental illness and their families. Developments may not discriminate against or exclude individuals who have barriers to housing including a history of poor credit, limited housing history, evictions, substance use, and criminal backgrounds. Developments must serve eligible consumers with incomes lower than 30 percent of the area median income.

167 <http://www.hcd.ca.gov/grants-funding/active-funding/index.shtml>

168 <http://www.hcd.ca.gov/grants-funding/active-funding/nhtf.shtml>

Golden State Acquisition Fund (GSAF)

Thanks to \$23 million in seed capital from California's HCD, the GSAF is able to support affordable housing. GSAF is a flexible \$93 million fund aimed at the creation and preservation of affordable housing in rural and urban areas. Funds received are matched with capital from originating lenders – seven partnering Community Development Financial Institutions.

Additional Housing Bonds

Tax-exempt bonds are issued by a number of other statewide issuers, including the California Statewide Communities Development Authority (CSCDA),¹⁶⁹ the California Municipal Finance Authority (CMFA),¹⁷⁰ California Enterprise Development Authority (CEDA),¹⁷¹ and others. Non-profit and for-profit developers alike can use bond financing for senior housing and low-income multifamily housing projects. As long as the developer agrees to reserve units for low- or extremely-low income tenants, the funds can be used for acquisition, rehabilitation, or construction of new developments.

Local Capacity Building

Fee Deferral Programs

Fee Deferral Programs can decrease the pre-development capital needs for housing projects. Dublin, California with a population of 60,000, offers a fee deferral program for multifamily residential projects. This deferral program allows the developers to defer the Fire Facilities Fee, the Public Facilities Fee, and the Traffic Impact Fee until just prior to the development being occupied.¹⁷² Reedley, a city home to 23,000, offers a deferral of the development impact fee for new residential, commercial, or industrial lots. These types of fee deferral programs can help rural governments overcome pre-development capital challenges.

Land Use Policies

Policies on land use can have a positive impact on the landscape of affordable housing in a community. By allowing Accessory Dwelling Units (an additional small dwelling on the premises of, or attached to, an existing property), local governments can make it less costly for developers to create more housing units. Offering density bonuses can increase housing stock by promoting the construction of more units. Density Bonuses and Accessory Dwelling Units help communities retain their rural identity by limiting urban sprawl.

Expedited Permit Processes

Expedited Permit Processes are another option that could help solve shortages of rural housing units in a timely fashion. One example can be found in the City of Emeryville. With its population of 11,000 residents, the City offers an Expedited Building Permit Issuance program. Another example is the City of Santa Rosa's Online Permitting System. After the devastating fire in 2017, the city hired a contractor to develop an online permitting system to accelerate the process of rebuilding. The portal is capable of searching for permits, scheduling inspections, looking up general property information, and applying for permits.¹⁷³ These streamlined processes can aid in building housing units quicker.

169 <http://cscda.org/Apply-Online/Affordable-Housing>

170 <http://www.cmfa-ca.com/>

171 <https://ceda.caed.org/>

172 <https://cbig.ca.gov/Government-Partners/City-of-Dublin/Incentives/Fee-Deferral-Program>

173 <https://www.srcity.org/275/Online-Permitting-System>

Pre-Application Review and Technical Assistance

Rural communities can also offer a pre-application review and technical assistance to make themselves more attractive to developers. Pre-application review and technical assistance programs such as the ones offered by Emeryville, Bakersfield, and other municipalities can eliminate red tape by clarifying the application process for developers.

Senate Bill 2 (SB2) Planning Grants

Local governments in California are eligible for SB 2 Planning Grants, which provide one-time funding and technical assistance. The technical assistance helps local governments devise, adopt, and implement plans to streamline approvals and accelerate the production of housing. Activities can include improving general plans, zoning ordinances, updating planning documents, process enhancements that expedite local planning, permitting, and conducting environmental analyses. Funds for SB2 grants are provided by the 2017 Building Homes and Jobs Act Trust Fund.¹⁷⁴

Permanent Local Housing Allocation Program (PLHA)

The PLHA program provides financial assistance to local governments for housing development projects and housing-related programs to assist in addressing the unmet housing needs for local communities. It is funded by real estate document recording fees enacted by SB2. HCD issued the first Notice of Funding Availability for this program in the fall of 2019.

Financing Matrix

Public-Private Partnerships (P3s)

A public-private partnership is generally a contractual arrangement between a government agency and a private partner to design, renovate, construct, operate, maintain, and/or manage a facility or system that provides a public service. The government agency may retain ownership of the public facility or system but the private party generally invests its own capital to design and develop the facility or system. There are many ways to structure a P3 deal.

P3s can finance affordable housing while generating community consensus, which is advantageous to any project. Private entities are sometimes more willing to invest in a rural region if they have connections to that area. This willingness to invest can outweigh the economy-of-scale issue innate to rural communities. The underlying strength of the P3 model is that the private sector has sufficient P3 capacity (expertise and availability) to successfully deliver project objectives. When paired with the power of bond financing, this tool shows great promise for U.S. infrastructure, services, and development.¹⁷⁵

Bonds

Bonds are the bedrock of economic development finance. Simply put, a bond is a debt or loan incurred by a governmental entity. Bonds are issued and sold to the investing public and the proceeds are typically made available to finance the costs of a capital project. There are a few different types of bonds that can be issued for financing housing.¹⁷⁶

174 <http://www.hcd.ca.gov/grants-funding/active-funding/planning-grants.shtml>

175 <https://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/p3.html>

176 <https://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/bond.html>

■ Multifamily Housing Bonds

Multifamily Housing Bonds are issued on behalf of non-profit and for-profit housing developers to finance the construction of multifamily housing. Housing bonds require that a minimum of 20 percent of the units be reserved for tenants earning under 50 percent of area median income, or 40 percent of the units reserved for tenants making under 60 percent of area median income.¹⁷⁷

■ Mortgage Revenue Bonds

Mortgages for low-income homebuyers can be financed by the proceeds of Mortgage Revenue Bonds. To be eligible, the homebuyers must be below the area's annual median income, and it must be their first time buying a home. These bonds can also be issued in tandem with low-income housing tax credit transactions.

Opportunity Zones

Opportunity Zones are a federal economic development tool aiming to improve the outcomes of distressed communities around the country. Opportunity Zones are low-income census tracts that offer tax incentives to groups who invest and hold their capital gains in Zone assets or property. By investing in Opportunity Zones, investors stand to gain a temporary deferral on their capital gains taxes if they hold their investments for at least 5 years and permanent exclusion from a tax on capital gains of the Opportunity Zone investments if the investments are held for 10 years. Affordable Housing projects located in Opportunity Zones stand to benefit from this incentive.

For an investor to realize the tax benefits of investing in Opportunity Zones, an investor's capital gains must be invested in a Qualified Opportunity Fund within 180 days of the sale or exchange that generated the gains. Investors are then eligible to defer the tax on their capital gains until the date the Opportunity Fund investment is sold or December 31, 2026, whichever is earlier.¹⁷⁸

Tax Credits

Tax Credits at the Federal and State levels can be advantageous for developers of housing. The Low-Income Housing Tax Credit (LIHTC) is a competitive 9 percent and a non-competitive 4 percent tax credit allocation for housing projects affordable to tenants earning below a certain annual median income. New Markets Tax Credits (NMTC) offer investors a credit against their federal income taxes if they make an equity investment in a qualified Community Development Entity. Historic Tax Credits offer a 20 percent tax credit to projects that are rehabilitating certified historic structures and can be combined with other tax credits to complete a capital stack. California also offers state tax credits for housing projects that are receiving federal tax credits.

Targeted Tools – EIFD, CRIA, Special Assessment, PACE, Tax Abatements

Targeted financing tools differ from other tools because they target specific geographic areas or difficult to finance sectors in a community, offering incentives, tax rebates, credits and unique financing structures that drive investment and development within that geographic footprint. Most of these targeted tools fall into a category called special district financing and they all provide a slightly different approach to a similar concept. In addition, the use of tax abatements (i.e. relief from tax liability) is another form of targeted financing.

¹⁷⁷ <https://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=201611-finn.html>

¹⁷⁸ <https://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/OZ.html>

■ **Enhanced Infrastructure Financing Districts (EIFD) and Community Revitalization and Investment Authorities (CRIA)**

EIFDs and CRIsAs are mechanisms for capturing the future tax benefits of improvements in order to pay for the present cost of those improvements. EIFDs and CRIsAs are closely related to tax increment financing (TIF). TIF had historically been used in California by redevelopment agencies until their dissolution in 2012 rendered the traditional form of TIF unavailable in the state. New financing mechanisms such as EIFDs and CRIsAs are generating a lot of interest as replacement tools for TIF. Both CRIA and EIFD can be used to finance affordable housing.¹⁷⁹

■ **Special Assessment Districts**

Special assessment district financing mechanisms are common but under-utilized tools. Special assessment districts work by adding (“assessing”) an additional tax on top of the existing property or sales taxes for property owners and/or businesses within the district. This additional pool of tax revenue is then used to finance whatever improvement(s) the district was designed to do. These tools are known by a variety of names and can be structured in a variety of ways, but there are two predominant methods. Business and neighborhood-focused districts are typically run by property owners in the district. These owners impose self-assessed taxes on themselves in order to generate funds for agreed-upon physical improvements or other amenities. Neighborhood districts can be used for housing developments. Government districts work in the same manner as business and neighborhood types, but are initiated by the local government. These types of districts usually focus on improving infrastructure.¹⁸⁰

■ **Property Assessed Clean Energy (PACE)**

PACE financing is a mechanism for achieving energy retrofit or energy generation of existing privately-owned buildings by levying additional assessments on property tax bills to finance private loans for energy efficiency upgrades, retrofit and/or generation projects. Over time, the loan is paid off and the property sees measurable energy savings creating a more sustainable energy solution and community. PACE was made accessible to California communities by the 2007 passage of AB811. Since then, over \$2 billion in energy improvements have been financed through the state’s commercial and residential PACE programs. As of 2019, there are 12 active PACE providers in California.¹⁸¹ A PACE project can provide equity and reduce the cost of the project.

■ **Tax Abatements**

Tax abatements are an indirect financing tool that removes a particular tax liability from a business or individual’s balance sheet. All businesses pay taxes at the local, state and federal level. Taxes include income, property, payroll, corporate, wage, sales, and other forms of both real and personal property taxation. Each of these taxes is an expense incurred by a business or individual and it must be accounted for each year. Tax abatement programs exist to provide an incentive for businesses to expand, invest or relocate in local communities.¹⁸²

179 <https://caled.org/wp-content/uploads/2016/02/TIF-Booklet-10-161.pdf>

180 Practitioner’s Guide to Economic Development Finance, 2nd Edition by Toby Rittner <https://www.cdfa.net/cdfa/store2.nsf/browse.html?open&so=popularity>

181 <https://pacenation.us/pace-in-california/>

182 Practitioner’s Guide to Economic Development Finance, 2nd Edition by Toby Rittner <https://www.cdfa.net/cdfa/store2.nsf/browse.html?open&so=popularity>

Grants

Grants for housing are available from both federal and state governmental agencies. Programs offering grants for multi-family and single-family housing projects are highly sought after because grants do not have to be repaid. Two of HUD's biggest grant programs – the Community Development Block Grant (CDBG) and the HOME Investment Partnerships Program – are specifically designed to finance affordable housing projects. Some Community Development Financial Institutions (CDFIs) also operate grant programs, as do some local foundations and other philanthropic groups. Foundations with deep social ties to the community are sometimes the most willing partners.

Loans

Loans are a valuable and often necessary debt financing tool for housing projects. Long-term, low-interest loans for housing projects are available from several government agencies at the federal and state levels. The California State Housing Trust fund makes loans for permanent housing projects for low-income residents. Loans are also offered by CDFIs.

Community Development Financial Institutions (CDFIs)

The purpose of the Department of the Treasury's CDFI Program is to use federal resources to invest in CDFIs and to build their capacity to serve low-income people and communities that lack access to affordable financial products and services. Through the CDFI Program, CDFIs can access two types of monetary awards: Financial Assistance (FA) awards and Technical Assistance (TA) awards. Certified CDFIs often lend to housing projects.

Case Studies

New Construction in Sonoma, CA – Bonds, USDA Loan, LIHTC, State Tax Credits

Sonoma is a small city of 10,000 in the heart of California’s wine country. Sonoma was suffering from a lack of housing for farmworker families, especially for low-income families. Several community partners came together to address the need for housing in the area. A limited partnership was formed to act as a developer which included three partners. The managing partner was the California Human Development Corporation (CHDC), a non-profit public benefit corporation. Because a for-profit entity partnered with a non-profit entity, tax-exempt bonds and tax credits were available while fulfilling the social mission of the project.¹⁸³

In 2016, CalHFA issued \$7 million in Multifamily Housing Revenue Bonds to construct a 30-unit apartment complex. The bonds were secured by a letter of credit from a community bank based in California. That letter of credit was in turn supported by a standby letter of credit from the Federal Home Loan Bank of San Francisco. These two letters of credit resulted in the bonds receiving an excellent “AA+/A-1+” rating from Standard & Poor’s, which identified them as a secure investment in the market for bond investors.¹⁸⁴ Federal Low-Income Housing Tax Credits worth \$2.6 million were awarded, as were State Low-Income Housing Tax Credits. California-based non-profits contributed, and both the USDA and Sonoma County loaned money to the project.

The completed project, Ortiz Plaza Family Apartments, includes 30 units within 4 buildings and a community building. Each unit is a 2-bedroom, 1-bathroom apartment with approximately 900 square feet of space. Each unit has air conditioning, a full kitchen, carpeting, wood plank vinyl flooring, washer and dryer, patio or balcony and storage spaces.¹⁸⁵ Most of the units are reserved for low-income

SOURCES OF FUNDS	
Bonds	\$7,060,000
USDA Loan	\$3,000,000
Deferred Developer Fee	\$635,044
Managing General Partner Contribution	\$250,000
Federal Tax Credit Equity	\$2,652,952
State Tax Credit Equity	\$678,061
Non-Profit Deferred Loan	\$340,000
CHDC Contribution	\$100,000
Sonoma County Loan	\$510,000
Total	\$15,226,057

USES OF FUNDS	
Repay	\$4,535,000
Land costs	\$1,652,271
Construction costs	\$6,439,895
Construction related professional fees	\$460,945
Construction-related financing costs	\$240,148
Permanent financing costs	\$65,850
Soft costs	\$131,415
Bond costs of issuance	\$206,245
Development Costs	\$1,105,467
Legal	\$175,500
Reserves	\$202,921
Sales and Marketing	\$10,400
Total	\$15,226,057

183 <https://www.pressdemocrat.com/news/5703283-181/santa-rosa-area-farmworker-housing>

184 <https://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=201611-finn.html>

185 Terrence Finn, President, Stern Brothers & Co.

families making below 50 percent of the area median income, and a few were set aside for extremely low-income residents earning below 40 percent and even 30 percent of the area median income every year.

Single-Family New Construction and Rehabilitation in KY – Revolving Loan Fund, CDBG, HOME, Community Support

In 1990, two counties in Kentucky were struggling with a housing crisis. At that time Clay County’s median household income was only \$12,732, and 36 percent of the population was below the poverty line. In nearby Jackson County, the median household income was \$11,885 and 35 percent of residents lived below the poverty line. In each respective county, 15.6 percent and 14.8 percent of single-family residential structures were out-of-code. Mobile homeownership at the time was 63 percent, but 72 percent of all mobile homes were built before the HUD’s improved quality control regulations went into effect in 1976. Both Clay and Jackson Counties also had a high percentage of residents on Social Security Income (SSI). USDA Farmers Home Administration (FmHA) loans were then inaccessible to those with an annual income below \$10,000, so homeownership was out of reach for many residents.¹⁸⁶

The Kentucky Mountain Housing Development Corporation (KMHDC) was founded in 1973 with an initial objective of addressing the housing crisis in Clay and Jackson Counties. KMHDC started a revolving loan fund (RLF) for mortgage lending to families that didn’t qualify for a Farmers Home Loan. Two benevolent religious organizations seeded the RLF during its first year of operation and the Kentucky Housing Corporation began capitalizing the RLF in its second year. Eventually, the RLF diversified its capital sources with CDBG and HOME funding. KMHDC used the influx of investment to expand its operation beyond mortgage lending. KMHDC has now financed new construction and repairs for over 1,300 low-income households.¹⁸⁷

New Construction in Mexia, TX – LIHTC, FHA Loans

Mexia Gardens is an 80-unit garden-style apartment complex in Limestone County, Texas. Mexia Gardens was allocated 9 percent Low Income Housing Tax Credits in 2010 by the Texas Department of Housing and Community Affairs. All of the 80 units are restricted to residents with incomes at or below 60 percent of area median income. Mexia Gardens resides in a census tract designated as “Distressed or Underserved.”¹⁸⁸

The criteria for “distressed” geographies under the Community Reinvestment Act (CRA) enable careful targeting of rural middle-income tracts that are most in need of revitalization or stabilization. An activity “revitalizes” or “stabilizes” if it helps to attract new, or retain existing, residents or businesses within qualified distressed geography. Regulations also permit examiners to consider activities undertaken in geographically remote and underpopulated areas, where basic needs are unmet. Some rural communities – although middle income and not necessarily distressed – have such small and sparse populations that they have difficulty financing the fixed costs of essential community needs, including infrastructure and community facilities.¹⁸⁹ This was the case in Mexia.

¹⁸⁶ <https://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=201507-Best+Practices+in+Revolving+Loan+Funds+for+Rural+Affordable+Housing>

¹⁸⁷ <https://kentuckymountainhousing.org/>

¹⁸⁸ <https://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=lp-casestudy-mexia.html>

¹⁸⁹ <https://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=201506-The+Community+Capital+Management%2C+Inc.+Bank+Newsletter+Spring+2015>

In order to complete the capital stack for the project, the developer utilized the FHA Section 221(d)(4) loan program to fund construction. The developer requested and was granted an extension of the tax credits as the loan application was processed. Mexia Gardens was ultimately approved for a 40-year, low-interest loan while still making use of its low-income housing tax credit allocation. The housing complex today serves as a bright spot in the community.

Preservation of Section 515 Properties in La Porte City, IA – USDA Loan, LIHTC, HOME, Iowa Finance Authority Loan

La Porte City, with a population of just over 2,000, had an extremely limited affordable housing stock. Located just 15 miles south of Waterloo, La Porte had few vacancies and little new construction taking place. Prairie Village was a Rural Development Section 515 project that was completed in 1980. All 32 units are for residents over the age of 62, and 28 of Prairie Village's 32 units are reserved for tenants making 60 percent of the area median income. In 2011, Prairie Village came under Rural Development's Preservation Demonstration – updates were needed throughout the 30-year old site.¹⁹⁰

A new developer acquired the property intending to rehabilitate the units. The developer applied Low-Income Housing Tax Credits (LIHTC) under a Request for Proposals and subsequently received \$2.7 million in LIHTC equity, as well as \$442,000 in Iowa HOME funds and a \$115,000 loan from the Iowa Finance Authority. Asbestos was discovered with rehabilitation partially complete, requiring some changes to what parts of the properties were kept in service and what was replaced. After receiving a \$160,000 loan from Rural Development, the project was completed and passed its most recent compliance review. After rehabilitation, Prairie Village reached an occupancy rate of 92 percent.

Preservation of Affordable Housing in Monticello, NY – USDA Section 515, FHL Bank Grant, Project-Based Vouchers

Section 515 funds from USDA Rural Development originally financed the construction of West Broadway Villas in the late 1980s. Since that time, the complex suffered from neglect; little effort was put into extending the life of the complex, and necessary capital improvements were never made. Rural Development took foreclosure action against the prior owner and a new developer – Pathstone - acquired the property. To preserve the 42 units of affordable housing, Pathstone applied for and received a \$609,000 Affordable Housing Program Grant from the Federal Home Loan Bank of New York in 2015.¹⁹¹ Redevelopment of the Section 515 project was completed in 2016, with 30 units being subsidized by USDA Rural Development, and 12 units eligible for Project-Based Vouchers through New York State's Homes and Community Renewal.¹⁹²

190 Tim Morlan, Underwriter, Iowa Finance Authority

191 <http://www.fhlbny.com/community/housing-programs/ahp/grant-recipients/january-2015/monticello.aspx>

192 <http://ruralhousingcoalition.org/section-515/>



Commercial & Industrial Site Development

Rural communities need engines of economic growth to create opportunities for residents and businesses to thrive. Industrial clusters such as agriculture, manufacturing, forestry, and mining are the economic foundations of many rural regions across the nation. In areas without the economic support provided by these industrial clusters, poverty is higher and average incomes are lower than in areas with industrial clusters.¹⁹³ Unemployment is also more extensive in rural areas. While employment in urban areas has grown 120 percent since 1970, employment in rural areas has grown by only 60 percent.¹⁹⁴ This is in part because many rural regions were dependent on a single industrial cluster, making the area susceptible to economic boom and bust cycles. For example, if the local economy is dependent on steel mills and demand for steel suddenly evaporates, the community will suffer dire effects. Economies with several diverse commercial and industrial sectors are better able to withstand economic shocks than those with fewer and/or less diverse sectors. It is therefore essential that rural leaders recognize the shifting economic trends and adapt by diversifying their economies.

Rural communities have also been losing their identities. Sometimes, the major employer in a rural town is a large corporation with headquarters located elsewhere, leaving the community at the mercy of that firm. Profits from these large entities often do not stay local and the firm can choose to relocate or close its location without public input or consideration of local impacts. Examples include fossil fuel industries, chain restaurants, big-box retailers, and hotel chains. Small communities can benefit from commerce based on locally-owned enterprises. These owners usually keep their profits local and are more committed to the area. Supporting small business development in a rural community is crucial to maintaining a diverse and healthy rural economy.¹⁹⁵

Economic development finance tools can be used to support industrial site development. This section will focus on the national and state landscape of industrial site development.

National Landscape

There is an unfortunate tale told in thousands of rural communities across the nation: the town used to thrive based on steel/agriculture/mining industries, but when the steel/agriculture/mining jobs dried up or went elsewhere, there was nothing left. During the 20th century, socioeconomic forces dramatically altered rural communities. The American economy transitioned away from a basis in agriculture as the population shifted

¹⁹³ <https://www.ers.usda.gov/topics/rural-economy-population/employment-education/rural-employment-and-unemployment/>

¹⁹⁴ Bureau of Economic Analysis

¹⁹⁵ https://wrdc.usu.edu/files-ou/publications/pub_5763729.pdf

from rural to urban areas. The share of the workforce employed in agriculture fell from 41 percent in 1900 to just 1.9 percent in 2000.¹⁹⁶ Other industries also have suffered similar declines. This trend of job loss, steady economic decline, and lack of site development have been exhibited by rural communities across America.

The prolonged economic transition has left rural communities in a tenuous position. When the foundation of the local economy falters, the community becomes vulnerable to economic shocks like the 2007-2008 financial crisis, from which many are still struggling to recover. For example, Oregon's rural Douglas and Lincoln counties once shared an average of \$134 million per year in royalties from timber. In 2015 that number was down to just \$11 million, causing Douglas County to lose one-third of its workforce.¹⁹⁷ Analysis from the Economic Innovation Group found that from 2007-2016, the number of rural Americans living in distressed zip codes increased by 1 million while urban zip codes became more prosperous. Rural zip codes also exhibited the most economic volatility and downward mobility over the same period.¹⁹⁸

Significantly, data from the USDA's Economic Research Service shows that during the recession, average employment fell by only 1.3 percent in the rural counties with the lowest population density, whereas employment in medium- and high-density non-metro counties dropped between 5-6 percent.¹⁹⁹ This suggests that smaller rural communities with locally-owned commercial and industrial firms are better insulated against economic shocks than medium-sized rural areas with employers that are not locally owned. To attempt to mitigate these vulnerabilities, USDA Rural Development and the Economic Development Administration (EDA) offer a wide variety of programs financing site development and protecting rural employment.

State Landscape

The Governor's Office of Business and Economic Development (GO-Biz) is the primary driver of the state's economic development and job growth initiatives. GO-Biz oversees sub-entities with the goal of generating sustainable economic expansion. GO-Biz operates a Business Navigator for beginning entrepreneurs and a Business Service Desk that serves as a help center. CalGold is a statewide permit, license, form, and fee assistance portal operated by GO-Biz. GO-Biz also has quick start guides for many major business sectors. All of these resources have information about site development. The California Treasurer's Office also provides an inventory of resources at all levels of government that businesses can use through their California Business Incentives Gateway (CBIG) website.²⁰⁰

Financing Solutions

For developing commercial and industrial sites, rural communities have many tools available in the toolbox. Many federal programs are designed to drive economic growth at the start-up level. California also offers a suite of programs for site development and start-up capital requirements. Innovative local capacity building strategies also exist.

196 https://www.ers.usda.gov/webdocs/publications/44197/13566_eib3_1_.pdf

197 <https://www.governing.com/topics/mgmt/gov-rural-america-recession-oregon.html>

198 <https://eig.org/dci>

199 <https://www.ers.usda.gov/publications/pub-details/?pubid=45261>

200 <https://cbig.ca.gov/>

Federal

U.S. Department of Commerce – Economic Development Administration (EDA)

The Economic Development Administration (EDA) prioritizes investing in sustainable job growth. The EDA promotes competition and innovation in the economy through regional collaboration, fostering resiliency, and creative approaches to old economic challenges.

■ **Public Works Program**

The Public Works Program funds projects that expand, revitalize, and upgrade physical infrastructure in distressed communities. Traditional public facilities such as sewer and water systems, port and harbor facilities, business incubators, and industrial parks are eligible. Infrastructure to support new development such as fiber-optic cable, skill-training facilities, smart buildings, and distance-learning technology are also eligible for funding.²⁰¹

■ **Research and Evaluation Program**

Through this program, EDA uses its resources to build the local knowledge base for economic development. Technical assistance is provided for practitioners to evaluate the potential economic impacts of a proposal and determine which projects are worth pursuing. Assistance in the form of grants or cooperative agreements is also available.²⁰²

U.S. Department of Agriculture – Rural Development

The U.S. Department of Agriculture’s Rural Development division operates a variety of programs in order to help improve the economy and quality of life in rural America. Among other things, they offer loans, grants and loan guarantees to help create jobs and support economic development and essential services such as housing, health care, first responder services and equipment, and water, electric and communications infrastructure.

Unless otherwise indicated below, rural areas are defined as being any area other than a city or town with a population of greater than 50,000 inhabitants in the urbanized area of that city or town. To be eligible for programs, the borrower’s headquarters and the lender may be based within a larger city as long as the project is located in an eligible rural area.

■ **Business & Industry Loan Guarantees**

This loan guarantee program increases the accessibility of capital for rural businesses. An exception is made to the rural eligibility for projects under the Local and Regional Food System Initiative, which may be funded in both rural and urban areas. Loans can be guaranteed for up to 80 percent on loans of \$5 million or less, 70 percent for loans between \$5 and \$10 million, and 60 percent for loans between \$10 million and \$25 million maximum. Possible loan uses include, but are not limited to, business conversion, enlargement, repair, modernization or development; purchase and development of land, easements, rights-of-way, buildings or facilities; and purchase of equipment, leasehold improvements, machinery, supplies or inventory.²⁰³

201 <https://www.eda.gov/pdf/about/Public-Works-Program-1-Pager.pdf>

202 <https://www.eda.gov/pdf/about/Research-and-Evaluation-Program-1-Pager.pdf>

203 <https://www.rd.usda.gov/programs-services/business-industry-loan-guarantees>

■ Rural Business Investment Program

This program provides a Rural Business Investment Company (RBIC) license to newly formed venture capital organizations to help meet the equity capital investment needs in rural communities. There is no restriction on where eligible applicants for RBIC licenses must be located. All applicants must have relevant experience in venture capital or community development financing and have to raise a minimum of \$10 million in private equity capital to participate. Applicants may be structured as limited partnerships, limited liability companies or corporations.²⁰⁴

State

CALED State Revolving Loan Fund

If included as part of a larger project, the State Revolving Loan Fund (SRLF) can be used to fund infrastructure improvements. The SRLF, administered through guidelines set by the U.S. Department of Commerce, Economic Development Administration, secures small business loans that generally range between \$100,000 and \$500,000. The SRLF was created to focus on job creation and retention in response to areas affected by unfavorable economic conditions driven by natural disasters, base closures, and high unemployment. Funding businesses within such areas is the preferred objective of the SRLF; however, other areas are also eligible for funding. Additionally, this financing tool furthers other objectives, such as supporting local development plans, partnering with other programs and commercial lenders to leverage resources, and increasing skill levels and wages of area residents. Lending for the SRLF is done by two partner organizations that partner with CALED to cover California: California Finance Consortium and Pacific Coast Regional.^{205, 206}

California Recycle Underutilized Sites (CALReUSE) Program

The CALReUSE Program funds site assessment, remedial action plans, and site access for brownfields with the intention that these sites be productively reused. Forgivable loans generally up to \$300,000 are offered through the California Pollution Control Financing Authority, the managing authority for the program.²⁰⁷

Pollution Control Industrial Development Bond (IDB) Financing Program

This IDB program is tailored specifically for the development of pollution control sites with manufacturing components. Bond proceeds can be used to finance land acquisition, costs of architects, engineers, attorneys, permits, construction of facilities, and more. Facilities can include new water, sewage, solid waste disposal sites, electric energy or gas sites, environmental enhancements, and other sustainably-designed pollution control enhancements.²⁰⁸

204 <https://www.rd.usda.gov/programs-services/rural-business-investment-program>

205 <https://www.californiafinance.org/>

206 <https://www.pccorp.org/>

207 <https://www.treasurer.ca.gov/cpcf/calreuse.asp>

208 <https://www.treasurer.ca.gov/cpcf/cpcfadb.asp>

California Lease Finance Program (CaLease) – California Statewide Communities Development Authority (CSCDA)

CaLease is a unique program that enables local agencies to finance real estate and equipment. Master Lease Agreements are established with a local agency. Then, CSCDA provides local agencies with access to multiple funding institutions who competitively bid on their project.²⁰⁹ This structure allows for communities to bid and manage leases without devoting valuable resources and staff time to the process. Since the inception of CaLease, CSCDA has issued over \$125 million for 161 projects.

Statewide Community Infrastructure Program (SCIP) - CSCDA

SCIP empowers developers because proceeds can be used to prepay impact fees and/or permits prior to acquiring a site through an acquisition agreement. Minimal involvement of community and local agency staff is necessary because CSCDA has a team dedicated to administering the SCIP program. The flexible program can also act as a reimbursement vehicle to developers who pay the site impact and permitting fees upfront. It could also eliminate the need for a fee deferral program, as a local agency can be provided with the funds needed to mitigate the risk of developer nonpayment. SCIP has assisted with \$500 million in site development-related fees since 2003.²¹⁰

Local Capacity Building

Fast Track Permit Processes

Site selection, acquisition, and development can be hindered by an abundance of regulations and permits necessary. This is especially true in rural communities that have too few staff to review permit applications and do their due diligence on applicable regulations. Lengthy permit approval processes slow the pace of site development, so rural communities can mitigate this by offering fast track permit processes. Orland, a small town of 7,500 Californians, offers a fast-track permit process. Orland's streamlined process facilitated a \$9 million travel center project by completing a full Environmental Impact Review, amending the town's General Plan, annexing the land, issuing building permits, and even helping the developer recruit employees in only 12 months.²¹¹

Fee Deferral Programs

Fees associated with developing a site and starting up a business can quickly add up, and in extreme cases can dissuade developers from selecting that location. Fee deferral programs can make a community more attractive to prospective developers by reducing the amount of necessary start-up capital. Morgan Hill, California (population 45,000) allows for new and expanding businesses to defer up to 80 percent of their utility undergrounding fee for up to 5 years.²¹² These types of programs can be beneficial for communities that need to make an investment in their future by allowing a business to defer fees in exchange for that business becoming a part of the tax base.

209 <http://cscda.org/Public-Agency-Programs/CaLEASE>

210 [http://cscda.org/Infrastructure-Finance-Programs/Statewide-Community-Infrastructure-Program-\(SCIP\)](http://cscda.org/Infrastructure-Finance-Programs/Statewide-Community-Infrastructure-Program-(SCIP))

211 <https://cbig.ca.gov/Government-Partners/City-of-Orland/Incentives/Fast-Development-Permitting>

212 <https://cbig.ca.gov/Government-Partners/City-of-Morgan-Hill/Incentives/Utility-Undergrounding-Fee-Deferral-Program>

Site Selection Assistance Programs

By offering site selection assistance programs, small local governments can improve their chances of attracting small businesses and industrial firms. Programs such as the City of Temecula's Site Selection Assistance Portal provide prospective commercial and industrial entities with a list of sites available. For each site it includes pictures, zoning information, required permitting, and contact information. By hosting the portal online, Temecula can retain a relatively small economic development staff without losing the ability to attract commercial and industrial developers. The community of Corona also offers a similar site selection program, where a team will assist with the searching process, advise on zoning codes, and conduct impact studies. The Kern County Economic Development Corporation operates an award-winning site selection website.²¹³ Many small localities across California are adopting comparable initiatives.

Financial Incentives

Rural communities that have the capacity to do so, sometimes provide financial incentives to prospective site developers. The California Business Incentives Gateway (CBIG) is an online financial incentives portal. Operated by the State Treasurer's Office, CBIG is an online repository for state and local development incentives across California. Communities are able to upload and update the tools they offer by creating an account, meaning the community retains control over the programs they offer.²¹⁴ Eligible costs include fees, utility connections, permitting, office supplies, and training workshop costs. These types of financial incentives to site developers can make the difference between a firm choosing to locate in the community.

Property Sale Discounts

The discounted sale of a property can be used as an incentive to entice businesses to create jobs. If the site is owned by a municipality, that municipality can offer the site to a prospective buyer for a reduced rate, or even for free. The City of Redding (population 90,000) offers to sell a site at a local business park at a reduced rate or for free to any company that meets certain requirements. To be eligible for Redding's incentive, businesses must create an agreed-upon level of jobs making fair wage rates, they must utilize local contractors and local suppliers, and the majority of the workforce must be hired locally.²¹⁵ This type of incentive could be used by rural communities that own an abundance of vacant lots.

EDA Local Technical Assistance

EDA offers technical assistance services to small communities in distressed regions, governments at the township, city, county or state level, nonprofits, and other institutions engaged in economic development.²¹⁶ These include technical assistance with economic decision making, planning, impact analyses, feasibility studies, and capacity building.

Financing Matrix

Opportunity Zones

Opportunity Zones are low-income census tracts which offer tax incentives to groups who invest and hold their capital gains in assets or property within the zone. Investors stand to gain a temporary deferral on their

213 <http://kedc.com/site-selection/>

214 <https://cbig.ca.gov/en/About>

215 <https://cbig.ca.gov/Government-Partners/City-of-Redding/Incentives/STILLWATER-BUSINESS-PARK-LAND-INCENTIVE>

216 <https://www.eda.gov/funding-opportunities/>

capital gains taxes if they hold their investments for at least five years, and permanent exclusion from a federal tax on capital gains from the Opportunity Zones investments if the investments are held for 10 years or more. California has designated 879 Opportunity Zones spanning 57 counties and over three million residents.

For an investor to realize the tax benefits of investing in Opportunity Zones, an investor's capital gains must be invested in a Qualified Opportunity Fund within 180 days of the sale or exchange that generated the gains. Investors are then eligible to defer the tax on their capital gains until the date the Opportunity Fund investment is sold or December 31, 2026, whichever is earlier.²¹⁷

Revolving Loan Funds (RLFs)

RLFs are financing tools which can be used to help grow small and midsized businesses. An RLF is a funding pool that replenishes itself. As existing loan holders make payments, the payments are recycled to fund new loans. While the majority of RLFs support local businesses, some target specific areas such as healthcare, minority or women business development, and environmental remediation.

Revolving loan funds provide businesses with a flexible source of capital that can be combined with conventional sources. RLFs can be used to fill the gap between the loan amount a borrower obtains from a private lender and the amount needed to sustain a business. Revolving loan funds issue loans at competitive rates, making them attractive to borrowers. Yet many studies show borrowers often find access to capital, as well as flexibility in collateral and terms, to be more important than favorable interest rates.²¹⁸ Because RLFs must replenish the fund to make future loans, such programs must maintain a balance between charging attractive rates and earning a reasonable rate of return.

RLFs are typically used for operating capital, acquisition of land and buildings, new construction, facade and building renovation, landscape and property improvements, and machinery and equipment. Loan duration varies according to the use of funds.²¹⁹

Bonds

Bonds are the bedrock of public economic development finance. Simply put, a bond is a debt or loan incurred by a governmental entity. Bonds are issued and sold to the investing public and the proceeds are typically made available to finance the costs of a capital project.²²⁰

■ Industrial Development Bonds (IDBs)

IDBs are a type of Private Activity Bond and are often referred to as Small Issue Manufacturing Bonds. These bonds are the single most actively used bond tool for financing the manufacturing industry. IDBs are issued for qualified manufacturing projects, with a total bond issuance limit of \$10 million. These bonds can support expansion and investment in existing manufacturing facilities, as well as the development of new facilities and the purchase of new machinery and equipment.²²¹

217 <https://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/OZ.html>

218 Revolving Loan Fund Reference Guide, by CDFA. <https://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open=open&id=rlfguide.html>

219 Practitioner's Guide to Economic Development Finance, 2nd Edition by Toby Rittner <https://www.cdfa.net/cdfa/store2.nsf/browse.html?open&so=popularity>

220 <https://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/bond.html>

221 <https://www.cdfa.net/cdfa/cdfaweb.nsf/pages/bond-finance.html>

Targeted Tools – EIFD, CRIA, Special Assessment, PACE, Tax Abatements

Targeted financing tools differ from other tools because they target specific geographic areas or difficult to finance sectors in a community, offering incentives, tax rebates, credits and unique financing structures that drive investment and development within that geographic footprint. Most of these targeted tools fall into a category called special district financing, and they all provide a slightly different approach to a similar concept. In addition, the use of tax abatements (i.e. relief from tax liability) is another form of targeted financing.

■ **Enhanced Infrastructure Financing Districts (EIFD) and Community Revitalization and Investment Authorities (CRIA)**

EIFDs and CRIs are mechanisms for capturing the future tax benefits of improvements in order to pay for the present cost of those improvements. EIFDs and CRIs are closely related to tax increment financing (TIF). TIF had historically been used in California by redevelopment agencies until their dissolution in 2012 rendered the traditional form of TIF unavailable in the state. New financing mechanisms such as EIFDs and CRIs are generating a lot of interest as replacement tools for TIF. Both CRIA and EIFD can be used to finance site development.²²²

■ **Special Assessment Districts**

Special assessment district financing mechanisms are common but under-utilized tools. Special Assessment Districts work by adding (“assessing”) an additional tax on top of the existing property or sales taxes for property owners and/or businesses within the district. This additional pool of tax revenue is then used to finance whatever improvement(s) the district was designed to do. These tools are known by a variety of names and can be structured in a variety of ways, but there are two predominant methods. Business and neighborhood-focused districts are typically run by property owners in the district. These owners impose self-assessed taxes on themselves in order to generate funds for agreed-upon physical improvements or other amenities. Neighborhood districts can be used for housing developments. Government districts work in the same manner as business and neighborhood types, but are initiated by the local government. These types of districts usually focus on improving infrastructure.²²³

■ **Property Assessed Clean Energy (PACE)**

PACE is a financing mechanism for achieving energy retrofit or energy generation of existing privately-owned buildings. This is achieved by levying additional assessments on property tax bills to finance private loans for energy efficiency upgrades, retrofit and/or generation projects. Over time, the loan is paid off and the property sees measurable energy savings creating a more sustainable energy solution and community. PACE was made accessible to California communities by the 2007 passage of AB811. Since then, over \$2 billion in energy improvements have been financed through the state’s commercial and residential PACE programs. As of 2019, there are 12 active PACE providers in California.²²⁴

222 <https://caled.org/wp-content/uploads/2016/02/TIF-Booklet-10-161.pdf>

223 Practitioner’s Guide to Economic Development Finance, 2nd Edition by Toby Rittner <https://www.cdfa.net/cdfa/store2.nsf/browse.html?open&so=popularity>

224 <https://pacenation.us/pace-in-california/>

■ Tax Abatements

Tax abatements are an indirect financing tool that removes a particular tax liability from a business or individual's balance sheet. All businesses pay taxes at the local, state and federal level. Taxes include income, property, payroll, corporate, wage, sales, and other forms of both real and personal property taxation. Each of these taxes is an expense incurred by a business or individual and it must be accounted for each year. Tax abatement programs exist to provide an incentive for businesses to expand, invest or relocate in local communities.²²⁵

■ Payment in Lieu of Taxes (PILT)

A PILT (also called a PILOT) is another form of abatement typically used to fund demolition or infrastructure improvements. Under a PILT, the title of the property is transferred to a government agency or EDO for a set period of time. This action exempts the land from property taxes. The business then pays a fee to the agency that holds the land title. A part of this fee is used to fund development efforts while the rest is distributed to the affected taxing jurisdictions.²²⁶ California authorized PILTs in 1949.

²²⁵ Practitioner's Guide to Economic Development Finance, 2nd Edition by Toby Rittner <https://www.cdfa.net/cdfa/store2.nsf/browse.html?open&so=popularity>

²²⁶ Unlocking Capital: A Handbook for Becoming a High Performing Development Finance Agency, by Toby Rittner and Harry Allen <https://www.cdfa.net/cdfa/store2.nsf/browse.html?open&so=popularity>

Case Studies

Wonderful Industrial Park in Shafter, CA – Construction of a Fiber Network, Railway Site Preparedness Program, Foreign Trade Zone Designation, Construction of an Inland Port

The City of Shafter, California is an example of a small community with under 20,000 residents leveraging its assets to generate economic development. Historically, the local economy was based on agriculture, but Shafter recognized the need to diversify its economy. Shafter is located at the junction of two of the state's major north-south trucking arteries (Interstate 5 and Highway 99), as well as Highway 58 (the primary east-west trucking corridor). This means the major metropolitan areas of San Diego, San Francisco, Oakland, and Los Angeles are all within a four-hour drive.²²⁷ Its close proximity to Bakersfield meant that the community could draw from a larger labor pool of 688,000 residents within a 25-mile commute. Seizing the opportunity, Shafter master-planned and zoned 1,625 acres of land for an industrial park. In order to attract manufacturing and logistics firms to the site, Shafter launched several initiatives.

In 2006, Shafter began construction of a 30-mile fiber-optic network. The network links the city core, the local airport, a main residential neighborhood, and the industrial park site with 10-gigabit, commercial-speed fiber. Two service providers currently operate on the network, and additional extensions and upgrades are planned. The network was completed in 2007 and since then has served as a major incentive for new firms to locate at the industrial park site.²²⁸

BNSF Railway operates a site certification program for communities in which Shafter was interested. To become a BNSF Certified Site, a community must meet 10 economic development criteria to determine whether the site is shovel-ready for railway logistics. Facilities built on BNSF Certified Sites are designed around rail accessibility and are therefore more attractive sites for industrial developments. A community that receives a BNSF Certified Site designation can then use that for marketing the site as a rail-accessible, shovel-ready location. Shafter's Industrial Park received this designation in 2016 with its on-site connectivity to 17,500 feet of track. The designation has lured more firms to locate at the industrial park, with over 3.3 million square feet under construction.²²⁹

An inland port adjacent to the rail terminal began operations in 2017. It allows for easy access to the Ports of Los Angeles, Long Beach, and Oakland, thereby reducing total drayage costs.²³⁰ One year later, Foreign Trade Zone 276 was re-established, further accelerating the growth of Shafter's Wonderful Industrial Park.²³¹ Shafter's capitalization on its existing assets and developing a site to spur industrial growth has resulted in new jobs, an increase in median income, and overall economic growth.²³²

227 <http://kedc.com/site-selection/opportunity-sites/paramount-logistics-park-2/>

228 <http://www.shafterconnect.com/>

229 <https://www.bnsf.com/ship-with-bnsf/rail-development/pdf/bnsf-premier-one-sheet-shafter-ca.pdf>

230 http://www.wonderfulindustrialpark.com/content/dam/websites/wip/advantages/Shafter_Dray_Exchange.pdf

231 <https://www.federalregister.gov/documents/2018/02/06/2018-02317/re-establishment-and-expansion-of-site-foreign-trade-zone-276-kern-county-california>

232 http://www.wonderfulindustrialpark.com/content/dam/websites/wip/downloads/WIP_Q12017_Newsletter.pdf

Incubator Spaces and Site Development in Plattsburgh, NY – State Grants, Tax Credits, Leveraging Existing Economic Clusters, Community Support

Located in the North Country region of New York just an hour from Montreal, the City of Plattsburgh is home to around 20,000 residents. Plattsburgh has made a concerted effort to capitalize on its major strategic advantage: its close proximity to Montreal. An estimated 350,000 people cross the border in either direction every day, and several pre-existing economic clusters exist as a result of the cross-border ties.²³³ Several major manufacturing firms such as Bombardier, Nova Bus, Norsk Titanium, MTL COOL, Plastitel Products, Schluter Systems, Fujitsu, and more are located in the Greater Plattsburgh Micropolitan Statistical Area– itself home to around 82,000 residents in 2010. The Development Corporation of Plattsburgh, the North Country Chamber of Commerce, the County of Clinton Industrial Development Agency (IDA), the North Country Small Business Development Center, and the County Legislature have had tremendous success leveraging the existing economic clusters to incentivize further site development.

The Clinton County Legislature and the Clinton IDA partnered to take ownership of a vacant 386,000 square foot site. After \$1.2 million in assistance from the state, the facility was revitalized and became the Northstar Technology Center, a state-of-the-art manufacturing and technology site.²³⁴ In 2016, Plastitel Products became the first tenant at the tech center. Plastitel was awarded \$100,000 in tax credits through New York’s Excelsior Jobs Program, which encouraged the firm to invest an additional \$750,000 to expand at the site.²³⁵ More firms soon followed, both at the tech center and elsewhere in Plattsburgh.

The City was able to leverage the tech center location and its ensuing expansion into additional grant money, when later in 2016 the North Country Regional Economic Development Council awarded the City of Plattsburgh a \$10 million Downtown Revitalization Initiative grant. Plattsburgh subsequently allocated the funds to 10 projects, three of which were site development initiatives. \$4.3 million was devoted to redeveloping a former parking lot to attract a private residential or commercial developer, \$30,000 went toward creating a small food incubator “pop-up” site, and \$175,000 for a shared commercial kitchen space.²³⁶ These sites attracted additional tenants and more private investment followed.

In 2017, the Development Corporation of Plattsburgh received a \$38 million commitment from the state to enhance the Plattsburgh International Airport. The City’s Development Corporation utilized \$8.9 million of the award to construct a 60,000 square foot industrial incubator space as the first structure of an industrial park at the airport. Norsk Titanium later moved into the air industrial park and more aerospace industries followed suit, resulting in lucrative contracts and additional job creation for the community.²³⁷ Another portion of the funds improved the airport’s parking lots and paved new access roads with the aims of attracting developers to build a hotel and retail space on available sites at the airport.²³⁸ Plattsburgh’s thriving manufacturing and commercial incubators, its initiatives to prepare sites for development, its capitalization on existing economic clusters, and its proximity to Montreal have resulted in the area continuing to draw in additional investment.

233 <https://thedevelopcorp.com/>

234 <https://thedevelopcorp.com/northstar-tech-center-welcomes-first-tenant/>

235 <https://thedevelopcorp.com/plastitel-to-expand-in-chazy/>

236 <https://www.ny.gov/sites/ny.gov/files/atoms/files/NCDRIAwards.pdf>

237 <https://thedevelopcorp.com/norsks-investment-plattsburgh-facility-leads-contract-boeing/>

238 https://www.pressrepublican.com/news/local_news/funding-targets-projects-at-airport/article_560cc975-d8b0-5651-90bd-ed798c9869f.html

Job Development Center in Akron, OH – Bonds

The Job Center was originally envisioned in 2005 as a career center and business hub, but financing the \$6.83 million project proved to be a challenge for the Akron/Summit County, Ohio region. In 2005, the Summit County Development Finance Authority (DFA) sold two series of Development Revenue Bonds worth \$4.83 million. The bonds had a favorable interest rate due to their BBB+ rating, and the debt was to be serviced by tenant leases. Summit County loaned \$2 million to the project and the County also pledged non-tax revenues to guarantee the debt on the bonds. Along with additional support and consensus-building by the Greater Akron Chamber of Commerce, the project was completed in 2007. A non-profit independent 501(c)(3) called the Summit County Workforce Policy Board originally administered the facility. In 2015, the outstanding bonds were refinanced to take advantage of more favorable rates, allowing the borrower to save over \$320,000 over the life of the bonds. The Summit County DFA then issued an additional \$1.365 million to finance new building improvements, allowing for an expansion of available sites at the Center.

The Job Center is a 100,000 square-foot facility that serves as a one-stop-shop for career services. The former warehouse provides 55,000 square feet to the Job Center's partners and 45,000 square feet for lease to commercial and business tenants. The Center serves as a state-of-the-art regional hub for commerce, labor market information, employment screening, workforce training, education, business resources, and job matching. Today, the Job Center continues to benefit the region as the premier job development site under its new branding, ConexusNEO.

**Disaster Relief
Funding**



Disaster Relief Funding

Over California's history and certainly more recently, the state has experienced several disasters usually related to flooding, fire, and earthquakes. With a plethora of programs, entities, and resources aimed at assisting communities during and after the event, it is hard to know who to reach out to first and what resource fits your community's needs.

This section is intended to provide an overview of disaster-specific infrastructure financing resources, process and items to keep in mind when preparing to apply for financing. For context, it begins with an overview of the likely role an EDO may be called to fill before, during and after a natural disaster or other event.

Regardless of whether you represent a municipality, public or private EDO, chamber, etc., it is highly likely that governmental entities (such as a County Executive's office, City Manager's office, public works department, planning department, and/or office of emergency services) will assume the lead role(s) in identifying resources, coordinating damage assessments, and processing grant or reimbursement requests with state and federal infrastructure financing sources. Though economic developers will likely be serving their core business constituencies during and after the event, they can provide valuable support to the above agencies in the following capacities:

1. **As a convener** – The economic developer's relationship with local agencies, utilities, non-profit organizations and key business contacts make practitioners well suited to provide assistance in communicating with and convening a broad cross-section of stakeholders when needed. This can be helpful in understanding the scope and severity of infrastructure needs, as well as setting priorities.
2. **Data** – Economic developers (especially those with research capacities) can provide a wealth of data to help with successful applications for funding, guide decisions about how to position resources and ultimately, where additional resources may be needed.
3. **Short-, mid-, and long-term business needs** – Local businesses are vital to a region's recovery efforts, as they drive a significant share of tax base, work directly in recovery to rebuild and replace, and provide income for residents during critical times. Economic developers should continue to engage with businesses during all phases of a disaster to understand needs and communicate those needs to local policymakers and officials, to ensure the local economy can support rebuild efforts and grow sustainably under these circumstances.

Working closely with community partners in the public sector is important to ensure continuity of economic development services to the community served, as well as to maintain awareness of the critical role the economic developer plays in the community. In order to serve as a valued contributor to recovery, economic developers must have an understanding of the resources that may become available during a local-, state-, or federally-declared emergency.



■ Preparing for and Recovering from a Disaster

An adage of those who have worked in disaster response states, “If you’ve worked in one emergency, you’ve worked in one emergency.” Meaning, while the instigating events may repeat (wildfires, earthquakes, floods, etc.), how jurisdictions respond and their pathway to recovery can vary dramatically. That said, the recovery process and decision points, and the state and federal resources available to aid in recovery, are likely to be similar for all communities. Using experience from both an urban federally declared disaster, the 2017 wildfires that devastated Sonoma County (5 percent of the housing stock and huge swaths of water and other infrastructure was lost overnight within the city limits of Santa Rosa alone), as well as a declared disaster in rural unincorporated county areas, the floods of 2019 that dramatically impacted census-designated places, this overview strives to impart some commonly applicable lessons.

First, it is important to state and restate that the key tenets to a successful recovery hinge on diligent, detailed, and inclusive data collection, an openness to creative and communicative partnerships, and collaboratively proactive internal and external communication. As economic development professionals it is important to note that while you will likely lead specific elements of a recovery effort, it is helpful when economic development is included in broader conversations as a consideration among all other recovery factors, regardless of the issue.

To this end, it will take all parties at the table to ensure the community receives disaster-related benefits from all levels of government, local, state, and federal. Benefits and funds for federally-declared disasters (which may require multiple reaffirmations of the local declaration for as long as the jurisdiction needs access to these benefits) are more expansive, may be dependent on or subject to the type of emergency, often seem arbitrary, change over the recovery lifespan, and are necessarily bureaucratic, among many other things. Seeking federal funds in particular requires diligence and data, and is worth the necessary resources if a federal disaster has been declared.

Primary Federal and State Disaster Resources

Federal Emergency Management Agency (FEMA) Public Assistance (PA)

Federal Emergency Management Agency (FEMA) Public Assistance (PA) provides assistance for and/or can fund emergency work and the repair, reconstruction, or replacement of disaster-damaged or destroyed facilities or infrastructure. With FEMA PA, the target cost reimbursement/contribution percentages are 75 percent Federal, 18.75 percent State, and 6.25 percent local.

FEMA Individual Assistance (IA)

FEMA Individual Assistance (IA) is provided to individuals and families who have sustained losses due to disaster. This may include funds to help pay for temporary housing, emergency home repairs, uninsured and underinsured personal property losses and other serious disaster-related expenses.

The timeline to access these funds is usually 24 months, which is why two years toward substantial recovery/rebuild is a difficult yet laudable goal in an effort to retain a community's human resources.

FEMA Hazard Mitigation Grant Program (HMGP)

FEMA Hazard Mitigation Grant Program (HMGP) provides assistance for actions taken to prevent or reduce long-term risk to life and property from natural hazards. With FEMA HMGP, the target cost reimbursement/contribution percentages are 75 percent Federal, 18.75 percent State, and 6.25 percent local.

Community Development Block Grant-Disaster Recovery (CDBG-DR)

Community Development Block Grant-Disaster Recovery (CDBG-DR) funds are U.S. Department of Housing and Urban Development (HUD) grants to support long-term disaster recovery primarily associated with housing recovery, unmet disaster recovery needs funding, preparedness and mitigation funding, and possibly other areas such as addressing qualifying unfunded FEMA PA requests. The receiving agency develops an Action Plan that details the proposed use of all funds.

The U. S. Department of Commerce, Economic Development Administration (EDA)

The U. S. Department of Commerce, Economic Development Administration (EDA) can provide economic development disaster recovery grants. EDA grants support disaster recovery planning strategies, as well as the implementation of disaster recovery projects that have a nexus to applicable disaster recovery and resilience efforts and are consistent with at least one of the five Department of Commerce Disaster Recovery Investment Priorities.

The U.S. Small Business Administration (SBA)

The U.S. Small Business Administration (SBA) also provides disaster recovery loans and support businesses, private nonprofits, homeowners, and renters. For the most up-to-date information on how they can help, it is best to know your local/regional SBA contact.

Most disaster relief funding will come via the federal government. That said, state level resources in the form of funding or policy can affect a community's economic health and long-term recovery. Working closely with your state legislators is critical for such considerations as property tax backfill funds for destroyed properties (*see note below*), and for help navigating state and federal agencies in overcoming barriers and developing creative solutions. Furthermore, economic development professionals are in a good position to craft and/or lobby for policy shifts or legislation that can affect long-term sustainable recovery and opportunities.

I What Happens to Your Property Taxes?

After a disaster, properties are reassessed and the improved values can drop to zero. Property tax backfill is needed to continue basic government services that are paid for out of general fund revenues. Property tax backfill is a request to the state to enact legislation that would provide for state allocations with respect to property tax revenue reductions resulting from reassessments for damages incurred within the disaster. The basic information that is needed to make the case for property tax backfill is the before and after assessed values and corresponding taxes, as well as future year rebuild completion estimates from permit data.



■ Creating a Recovery Blueprint

By modeling a disastrous event into immediate-, mid-, and long-term needs and actions, a local agency can develop a recovery blueprint with resource options identified. Below is a template to help with the planning process:

- **Immediate needs/actions: what to anticipate in the first few weeks beyond setting up an emergency operations center (EOC).**
 - Assess business and workforce needs.
 - Initial data collection.
 - Local declarations, policy resolutions, and emergency ordinances – anticipating what policies need to be in place for an aggressive recovery should be done early. An example is a zoning overlay for impacted areas that streamlines the recovery/rebuild permitting process and can be refined over time.
 - Documentation of pre-existing condition of infrastructure including quality of roads and sidewalks (damage may occur during recovery efforts that are directly related to the disaster; proving pre-existing conditions and road damage, for example, becomes more difficult over time), and underground utilities.
- **Mid-term needs/actions: what to anticipate when transitioning from response to recovery for several months to a year-and-a-half.**
 - Detailed data collection and identification of unmet needs.
 - Continued documentation of infrastructure conditions, if changing (again, road conditions are most obvious).
 - Additional and/or refined recovery policy measures, such as,
 - Address fee schedule for recovery/rebuild.
 - Streamline permit processes.
 - Creation of a community-wide recovery plan.
 - Seek reimbursement from state and federal agencies.
 - Backfill of revenue losses.
 - State and federal grants (first round grants such as EDA , FEMA PA, and FEMA HMGP).
 - Local match funds for grants.
- **Long-term needs/actions: what to anticipate at the end of the first year and through the second year.**
 - Continued assessment of impacts to businesses and workforce.
 - Continue seeking reimbursement from State and Federal agencies.
 - State and Federal grants (grants such as CDBG-DR and additional FEMA PA and HMGP).
 - Local match for grants.
 - Partner interdepartmentally and/or interjurisdictionally and with private sector for EDA grant opportunities that could include such projects as workforce development programs related to the recovery, broadband infrastructure and more.

Relationships, Resiliency and Infrastructure: Modeling for Success

Communities face many types of emergencies. In terms of scale, when an emergency overwhelms a local jurisdiction's resources, it can be considered a disaster. Therefore, relying on others for assistance is the primary strategy for success, and relationships are the key to success during and after a disaster.

Post-disaster, one of the greatest opportunities for the community may be for public, private, and nonprofit sectors to share the same vision and work in concert to achieve shared goals. This does not happen by chance or overnight. Instead, it is by the efforts of many working together with consistency over time that the goal will be achieved. Forging these relationships amongst multiple agencies, non-profits, and stakeholders is a key role for the local EDO.

Pre- and post-disaster planning offers opportunities to reduce risk and contribute to a more resilient community through thoughtful infrastructure investment. Opportunities exist during rebuilding to promote resiliency such as improving economic competitiveness, expanding housing choices, and enhancing healthy, safe, and walkable neighborhoods. Through pre-planning and relationship building communities can, for example, smooth the way for a city-county agreement for a tax increment financing district, or opportunistically enhance the capital stack of a project by pulling in resources from private foundations or corporations with a desire to affect recovery.

From an infrastructure standpoint, depending on the level of damage, a disaster may force larger discussions such as an all-electric rebuild (eliminating undergrounding of natural gas lines). These types of rebuild and recovery concepts can be pre-conceived through planning discussions with utility and building industry stakeholders. Leveraging whatever resources are available is not an option without first building trust and a shared vision.

Pitfalls and Things to Remember

When preparing for or recovering from a disaster, knowing what some of the common pitfalls may be is helpful. Matches and reimbursement for grants as well as data management and reporting are two areas that can help make your community's recovery be more successful.

- Matches and reimbursements for grants are typically required for a community to receive FEMA Public Assistance, Hazard Mitigation and other grants. Typical match/reimbursement percentages are 75 percent Federal, 18.75 percent State, and 6.25 percent local.
- Federal matches can often be cash and donated or in-kind resources (land, materials, labor, and services). For HMGP, there can be a "global match," which allows overmatching to be combined rather than at the individual project scale.
- Federal reimbursement funding is disbursed through the California Governor's Office of Emergency Services (Cal OES) to the local jurisdiction. It is common that funds cannot be disbursed to an applicant until projects have received FEMA approval and funds have been obligated. Funding for large projects is disbursed to applicants and requires supporting documentation such as receipts and invoices for the completed work. The documentation must be able to stand the test of audit.
- Typically, local governments must comply with the federal procurement standards to ensure their procurements are eligible for federal grant funding. Be careful with pre-awarded (standby) contracts and "time and materials contracts." Cost Plus Percentage of Cost contracts are explicitly prohibited by federal procurement standards.

- Documentation should begin during the initial response to the disaster, including labor and materials for debris removal and emergency protective measures. It is helpful to establish a separate record for each emergency work project. Payroll records must be highly detailed and specific to each employee, day, and project.
- Data is critical. It is imperative to collect and organize data immediately as this will be helpful short-, mid-, and long-term when seeking funding, reimbursements, and resources.
- Social Equity: as disasters are indiscriminate, do not let recovery be elitist.
- Disasters affect individuals and households within every socioeconomic status, yet access to recovery resources can differ due to individual or household characteristics. The August/September 2019 issue of Planning states, “After a disaster’s initial impact has passed, wealthy, well-connected residents are able to rebuild their lives, while poorer, more marginalized communities are often left worse off than before. Studies show that white households and those with more wealth receive more federal disaster funds than people of color and households without resources to fall back on.”
- Identifying and quantifying the impacts to individuals and households who may be marginalized or otherwise uncounted can be a challenge that a partnership coalition can help address. Working with nonprofit and faith-based organizations, and local and state relief agencies to coordinate data that may not be collected in the traditional FEMA and SBA processes is a critical step to take. Establishing resources early, including having a data sharing agreement with local relief agencies, can help identify and detail additional unmet need.
- Trauma, both individual and collective, can be felt throughout the lifecycle of a disaster. This creates significant stress for those seeking to meet the needs of the community. Staff burnout is a major issue with long-term recovery efforts. To meet established FEMA and typical insurance deadlines, local jurisdiction staff will be asked to fully sprint a marathon – especially if the intent of the community is to not only recover or rebuild what was lost in the disaster, but to continue to advance any pre-disaster business. Caregiver care is needed, and it must be met daily, not later, when the perception persists that recovery is over. Know and prepare for the fact that when recovery and workloads begin to normalize to a tolerable pace is when repressed or ignored mental and emotional stress can find space again.

As California works hard to address a “new normal” of dealing with more natural disasters and experiencing them year-round, disaster planning and resiliency efforts have become a critical effort for all communities. It is important that economic developers, as the first responders for business assistance, know what tools and resources are available to impact employers and employees, and that you have a plan in place that can be enacted quickly in the event of an emergency.

Identifying Priority Projects



IDENTIFYING PRIORITY PROJECTS

Rural communities face significant challenges in building and sustaining the technical capacity of local EDOs. Resources and capacity in rural communities are so valuable that extreme care must be taken when deciding which goals and projects should be pursued.

The most successful, and often smallest, EDOs are able to earn program income from their financing efforts. Take for instance a development authority that issues bonds for manufacturers, nonprofits, and other public purposes. This hypothetical agency can earn a fee for each transaction up-front as well as an ongoing fee through the life of the outstanding bond. These fees typically fund the staffing and compliance aspects needed to manage the program and often allow for greater capacity to serve.

Conversely, take a small non-profit that manages a revolving loan fund. CDFA estimates that it takes a fund balance of \$1.5 million to support one full-time staff person to administer the program.²³⁹ This funding is earned on the entire portfolio of outstanding loans that are making regular interest and principal payments. Again in this example, the portfolio is earning program revenue to support the capacity needed to offer the program.

Approach

When intriguing project proposals arise, it can be tempting to jump in and get started right away. However, it is wise for small/rural communities to carefully consider their approach.

“Can we do this?”

A good starting point for any project is to define realistic and attainable goals within the context of that region. If a local EDO devotes a significant percentage of its resources toward an ambitious project, it risks wasting those precious resources if the project fails. Local stakeholders should first ask whether the community even has the capacity to undertake such an endeavor.

“Should we do this?”

Ensuring the alignment of community objectives and project goals is essential for the development of good projects. Will the project fit neatly into the context and atmosphere of the community? Do the programs that the community employs match the master plan? Will it be difficult to build public consensus around the project? Can this project conform to the current public and policy environment? These are all important questions to ask while determining the right approach to the project.

“How will we do this?”

Rural communities can lay out their approach in a detailed manner by creating a Strategic Financing Plan. Strategic Financing Plans are beneficial for several reasons. They encourage investment by engaging public and private stakeholders in the process. They clearly define the project objectives, funding sources and uses, and sometimes a timeline. For these reasons, Strategic Financing Plans help attract investment and help develop partnerships.

Partnerships

As we have mentioned throughout this guidebook, building community consensus around a project is critical for ensuring project success. Cultivating partnerships at every level should be a comprehensive effort by the community. Agencies and communities that fail to build partnerships typically fail to implement the development finance toolbox approach. It is inadvisable for a small town to try and operate all financing programs and every aspect of a project on its own. It would be unwise for a rural community to devote all of its limited capacity, without partners, to a single project. Partnerships should exist on the local, county, regional, state and federal level through the public, private, and non-profit communities.

Project success may be contingent upon a community’s acceptance of private sector engagement. Developers must embrace a larger view of potential investors, and the community must consider all potential partners. Potential partners for communities include issuers (of which there are many in California), CDFIs, EDOs, banks, community activists, and more. Earnest efforts to bring all stakeholders to the table, whether they can help or if they are just interested in seeing the project completed, is an essential part of the planning process.

Understanding Risk and Credit

Communities must thoroughly evaluate project risk prior to proceeding with a development. Stakeholders should determine what the community’s risk profile is and whether the community is willing to invest and take chances. Very few agencies are able or willing to accept all of the risks involved in financing a project, and even fewer have the resources or capacity to operate all of these programs.

Knowing the basics of credit and risk lending is also beneficial. The private sector should be considered a risk and credit sharing partner. Local private sector partners will be more eager to participate due to the opportunity of mutual benefits, so they may be willing to take a greater risk than other non-local partners; private entities in a small economic ecosystem stand to benefit greatly from a sudden infusion of investment and a catalyzed local economy. Factoring in the credit quality of the municipality, knowing its credit history, and building strong credit are all important. The private sector also has the resources and capacity to absorb the expenses of running programs that small rural governments often simply lack.

Structure

Once a community has identified the right approach, fostered partnerships, and understands the risk it is about to take, it is ready to move forward with the project. Sources of funding should already be *at the table*, so now the community can put the financing tools *on the table*. Financing organizations come in all shapes and sizes. Some exist for single-purpose financings such as housing, healthcare, utilities, water or economic development while others provide financing resources to the entire toolbox. Typically, the law limits how much public agencies can invest – usually less than public-private agencies (like bond issuers in California) can.

Using the development finance toolbox is a comprehensive effort by all entities involved in the project. Agencies that fail to put a sound structure and partner environment in place often fail to implement key programs in the toolbox. Structuring requires forward-thinking, innovative planning, considerable strategizing, and a fully cooperative effort. Communities that develop a strategic approach, get support from partners and understand the risks are more likely to structure their development tools to successfully finance rural infrastructure.

Does Your Project Pencil?



DOES YOUR PROJECT PENCIL?

An important element of economic development finance is understanding the project costs and where there may be gaps in the funding sources. In order to do that, economic development practitioners need to understand the basics of project pro formas. The National Development Council (NDC) Case Study below will help clarify the variety of costs and funding sources in a sample project. In addition to the worksheet below, there are blank forms in the appendices.

 **These activities will not make an economic development practitioner into an expert on project finance.** To learn more about the process, NDC offers in-depth financing courses on economic development finance and housing finance among others.²⁴⁰

Case Study - THE TATNALL BUILDING

The Community and Project

Archibald is a good-sized, small town that served as the state capitol until it (the capitol) was moved “up-state” in the 1920s. The Archibald Downtown Development Authority (DDA), Main Street Archibald Inc. (MSA) and developer Camelot Properties, led by Art Pendragon, are seeking gap financing assistance from the State’s Desirable Downtown Development Revolving Loan Fund (DDD RLF) to help finance renovations to the historic Tatnall Building.

The Tatnall Building, a prominent four-story property in the historic core of downtown Archibald, was constructed in 1883 as the area’s finest hotel, serving legislators and others doing business with the state government. The building was remodeled to serve as the flagship McCray’s Department store from 1951 through 1973, then housed several discount retailers and finally an antique store. The building was damaged by a tornado in 2008 and has been vacant and deteriorating ever since.

Art Pendragon purchased the building in 2009 and has been consulting with community leaders and the state for the last several years seeking redevelopment assistance for the Tatnall. He pursued plans to develop the building into a boutique hotel, restaurant, and conference center, but the lingering effects of the last recession, a weak market study, and a lack of committed financing scuttled this plan.

Pendragon shelved plans for the Tatnall and moved on to projects in other towns. Meanwhile, the DDA organized a Saturday Farmers Market to try to breath some life into downtown. While the market’s pop-up tents helped to hide the continuing decline of the Tatnall – a portion of the building’s cornice came lose one Saturday and completely squashed four pecks of tomatoes and a basket of kohlrabi. Luckily, no one was hurt – but the farmer’s market was forced to move out to the highway until the building could be stabilized or demolished.

²⁴⁰ <https://ndconline.org/training/>

The DDA and MSA threatened Pendragon with court action to cover the cost of an emergency demolition if he didn't move fast to get the Tatnall redeveloped. As a carrot, they also offered a \$50,000 grant to the project, and advocacy for state support, if the historic building was rehabilitated for retail/office and residential uses – and for the return of the weekly market.

Pendragon went back to the drawing board and redesigned the project to include:

- 12,000 square feet of street-level commercial space; and
- 22 large, two bedroom apartments.

The DDA offered to lease 3,000 square feet of the retail space for a co-operative store to provide farmers and crafters with an outlet for the goods throughout the week and to provide downtown residents with better access to fresh produce, milk and other essentials.

Development Budget

Acquisition Land	\$85,000
Acquisition Building	100,000
Rehabilitation	3,400,000
Contingency	340,000
Architectural and Engineering Fees	250,000
Developer Fee	400,000
Construction Interest	100,000
Permanent Loan Fees	50,000
Total Development Costs	\$4,725,000

The Operating Project

The first floor commercial/retail spaces will rent for \$14.00 per square foot on a gross lease basis. The upper three floors would be used for the residential apartments that are projected to rent for an average of \$800 per month. Operating expenses on the commercial/retail space are estimated at \$5.00 per square foot and \$3,000 per unit per year for the residential space. Pendragon has projected his vacancy rates as follows:

Space Description	Year 1	Year 2	Years 3-10
Commercial/Retail	25%	15%	10%
Residential	15%	5%	5%

Financing Sources

Pendragon has been working with his friends at Hydrangea Bank, and they're willing to provide permanent financing of up to \$2.5 million as long as the projections (as validated by an appraiser of their choice) provide for:

- a minimum Debt Coverage Ratio (DCR) of 1.25:1.
- a Loan To Value (LTV) ratio that doesn't exceed 75%.

The bank is offering a 5.25% interest rate at a 25-year amortization with a 10-year term. The bank shared that the capitalization rate for downtown Archibald buildings has been running at 8.25%.

In addition to the \$50,000 grant offered by the DDA/MSA, Pendragon and his partners are willing to invest \$370,000 in equity. They're asking the state's DDD RLF to provide financing of \$500,000 in the form of a 3% interest-only loan with a 30-year term.

Assignment One



- 1** Complete the developer pro forma through net operating income (NOI) for three years. Rents will escalate by 2% per year and expenses will increase by 3%. Due to the fact that there are higher vacancy rates projected for years one and two, identify the stabilized net operating income (NOI) for valuation and debt capacity calculations. To get to Stabilized NOI, use the first year rent and operating expense estimates and stabilized vacancy rates.

- 2** Calculate the maximum loan amount given the bank's minimum DCR and maximum LTV. Will the project attract the full \$2.5 million in financing offered by the bank?

- 3** If the State offers the requested interest-only loan, how much cash flow is available to provide a return to Pendragon and his partners? What is their Cash-on-Cash Return-On-Investment for each year given their proposed equity investment?

- 4** Is there a financing gap? If your answer is yes, how much additional financing is needed?

Assignment Two



Pendragon meets with the Archibald's DDA and MSA and confides that financing challenges might drive him to pay for the demolition and build a gas station/convenience store on the prime lot. Hydrangea Bank President Beau Bleu is also the DDA's chair and asks if the rapidly improving pricing on federal and state historic credits can't help to get the project under construction? Pendragon confides that he's somewhat averse to the paperwork associated with Rehabilitation Tax Credits (RTC) - but with the right investor, he'll make a go of it.

Beau offers that the bank, being a strong civic partner (and a little behind on their CRA compliance), will invest \$0.90 for every federal credit and \$0.75 for each state credit that the project will generate. He'll also cover the legal costs of the necessary syndication out of the permanent loan fees. Since the building is already listed as a contributing structure in Archibald's Downtown Historic District, the project can qualify for the 20% credit on qualified rehabilitation expenses. The State's historic credit covers up to 25% to a maximum credit of \$1,000,000.

- 1 Calculate the project's RTC basis and the amount of equity that Hydrangea Bank will invest given the price per credit that it's offering. Identify the equity for the Federal and State credits separately.

- 2 Is there still a financing gap, and if so - how large is it?

- 3 How would you restructure the project or its financing?

(Project Charts begin on page 99. Answer Keys begin on page 101)

Project Sources & Uses of Funds

USE OF FUNDS		SOURCES OF FUNDS					
Use	Amount	Lender	Term	Estimated Rate	Collateral	Amount	Annual Debt Service
Land	85,000	Bank	25	5.25%	1st	\$2,053,091	\$147,823
Building Construction/ Renovation	3,500,000	State	30	3%	2nd	\$500,000	\$15,000
Soft Costs	400,000	DDA				\$50,000	
Furniture and Fixtures		Developer Equity				\$370,000	
Developer Fee	400,000	Federal Residential Tax Credits*				\$808,200	
Contingencies	340,000	State Residential Tax Credits*				\$750,000	
Working Capital		Gap				\$193,709	
Total Uses of Funds	\$4,725,000	Total Sources of Funds				\$4,725,000	\$162,823

* Residential Tax Credit calculations are found in the Assignment 2 Answer Key.

Developer Spread Sheet - Pre-tax Cash Flow Analysis

	YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	YR10	Stabilized NOI
REVENUES											
Gross Residential Rent	211,200	215,424	219,732								211,200
+ Gross Commercial Rent	168,000	171,360	174,787								168,000
+ Commercial Tenant Contributions	0	0	0								0
+ Other Income	0	0	0								
= GROSS INCOME	379,200	386,784	394,520								379,200
- Vacancy Residential (15,5,5)	31,680	10,771	10,987								10,560
- Vacancy Commercial (25,15,10)	42,000	25,704	17,479								16,800
=EFFECTIVE Gross Rent (EGR)	305,520	350,309	366,054								351,840
- OPERATING EXPENSES											0
Residential @ \$3,000/unit/year	66,000	67,980	70,019								66,000
Commercial @ \$5/sf/year	60,000	61,800	63,654								60,000
Expenses and Management Fees	0	0	0								0
- RESERVE DEPOSITS											
= NET OPERATING Income (NOI)	179,520	220,529	232,381								225,840
- DEBT SERVICE											
(Annual Interest and Principal Payments)											
Loan #1											
Loan #2 (if applicable)											
- TOTAL DEBT SERVICE (D/S)											
= CASH FLOW (CF)											
(Available For Distribution)											
CASH-ON-CASH ROI											
Cash Flow Available for Distribution (CF)											
Original Equity Investment (EQ)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Project Cost

RENTAL HOUSING DEVELOPMENT BUDGET

white space indicates data entry

PROJECT: **Tatnall Building**
 NUMBER OF UNITS: TOTAL COST PER UNIT:

ITEM	COST	% TOTAL	Depreciable	Amortize	Non-Depr.	Historic RTC	LIHTC 4%	LIHTC 9%
ACQUISITION								
Build Acquisition	100,000	2.12%	100,000				100,000	
Land Acquisition	85,000	1.80%			85,000			
SITE IMPROVEMENTS								
Demolition	0	0.00%	0			0	0	0
On-Site Imp.	0	0.00%	0				0	0
Off-Site Imp.	0	0.00%			0			
CONSTRUCTION								
Rehabilitation	3,400,000	71.96%	3,400,000			3,400,000	3,400,000	3,400,000
New Construction	0	0.00%	0				0	0
Contingency	340,000	7.20%	340,000			340,000	340,000	340,000
Tap & Impact Fees	0	0.00%	0			0	0	0
Permits	0	0.00%	0			0	0	0
Furnishings	0	0.00%	0				0	0
Other	0	0.00%	0			0	0	0
PROFESSIONAL FEES								
Survey	0	0.00%	0			0	0	0
Architect & Engineer	250,000	5.29%	250,000			250,000	250,000	250,000
Real Estate Attorney	0	0.00%	0			0	0	0
Consultant	0	0.00%	0			0	0	0
Tax Opinion	0	0.00%			0			
Developer Fee	400,000	8.47%	400,000			400,000	400,000	400,000
Market Study	0	0.00%	0			0	0	0
Environmental	0	0.00%	0			0	0	0
Cost Certification	0	0.00%	0			0	0	0
Other	0	0.00%	0			0	0	0
CONSTRUCTION FINANCE								
Constr. Loan Interest	100,000	2.12%	100,000			100,000	100,000	100,000
Constr. Loan Fee	0	0.00%	0			0	0	0
Constr. Origination	0	0.00%	0			0	0	0
Appraisal	0	0.00%	0			0	0	0
Title and Recording	0	0.00%	0			0	0	0
Other	0	0.00%	0			0	0	0
PERMANENT FINANCE								
Perm. Loan Fee	50,000	1.06%		50,000				
Perm. Origination	0	0.00%		0				
Title and Recording	0	0.00%		0				
Other	0	0.00%		0				
SOFT COSTS								
Tax Credit Appl. Fee	0	0.00%			0			
Tax Credit Mon. Fee	0	0.00%			0			
Marketing Expense	0	0.00%		0				
Organizational Exp.	0	0.00%		0				
Constr. Insurance	0	0.00%	0			0	0	0
Property Taxes	0	0.00%	0			0	0	0
Syndication Expense	0	0.00%			0			
Rentup Expense	0	0.00%			0			
Relocation	0	0.00%			0			
Other	0	0.00%						
RESERVES								
Rentup Reserve	0	0.00%			0			
Operating Reserve	0	0.00%			0			
Other	0	0.00%			0			
DEVELOPMENT COST	4,725,000	100.00%	4,590,000	50,000	85,000	4,490,000	4,590,000	4,490,000

- RTC 898,000 5,000 Avail 808,200 Federal @ \$0.95
 Dep. Basis 3,692,000 Taken 750,000 State @ \$0.75 to \$1,000,000
 27.5 years
 39 year 94,667



NDC Case Study Answers - Assignment 1

		UNROUNDED		ROUNDED		STUDENT	
1	Stab NOI	225,840		226		226	Enter

2	Loan by DCR							
	1. D/S =	Stab NOI	\$225,840		\$226		\$226 Calc'd	
		DCR	1.25		1.25		1.25 Enter	
		D/S =	<u>\$180,672</u>		<u>181.00</u>		<u>181.00</u> Calc'd	
	2. Loan =	D/S	\$180,672		\$181		\$181	
		"C"	0.0720		0.0720		0.0720 Enter	
		Loan =	\$2,509,333		\$2,514		\$2,514 Calc'd	
	Loan by LTV	Stab NOI	<u>\$225,840</u>		<u>\$226</u>		<u>\$226</u> Calc'd	
		Cap Rate	8.25%		8.25%		8.25% Enter	
		FMV =	\$2,737,455		\$2,739		\$2,739 Calc'd	
		FMV	\$2,737,455		\$2,739		\$2,739 Calc'd	
		x LTV	75.00%		75.00%		75.00% Enter	
		Loan =	\$2,053,091		\$2,055		\$2,055 Calc'd	
	Max Loan	Lesser of two	\$2,053,091		\$2,055		\$2,055 Calc'd	
	D/S		\$147,823		\$148		\$148 Calc'd	
	No - max loan (by LTV) is \$446,909 less than \$2.5M							

3	CF After Senior & State D/S	Loan Amount	\$500,000		\$500		\$500 Enter
	(See COC ROI tab)	x Int Rate	3.00%		3.00%		3.00% Enter
		State D/S =	\$15,000		15		15 Calc'd
		Equity Invested	\$370,000	CoC ROI	\$370	CoC ROI	See CoC ROI Tab
		CF Yr 1	\$16,697	4.51%	\$17	4.59%	
		CF Yr 2	<u>\$57,706</u>	15.60%	\$58	15.68%	
		CF Yr 3	\$69,558	18.80%	\$70	18.92%	
		CF Yr 4	\$72,869	19.69%	\$73	19.73%	
		CF Yr 5	\$76,206	20.60%	\$76	20.54%	

4	Is there a gap?	TPC	\$4,725,000		\$4,725		Enter
		- Bank Loan	\$2,053,091		\$2,055		Calc'd
		- State Loan	\$500,000		\$500		Calc'd
		- DDA Grant	\$50,000		\$50		Enter
		- Devo Equity	<u>\$370,000</u>		<u>\$370</u>		Calc'd
		= Gap	\$1,751,909		\$1,750		

NDC Case Study Answers - Assignment 2

		UNROUNDED	ROUNDED	STUDENT	
1	Calculate RTCs and Equity				
	Basis - from Proj Cost Summ	\$4,490,000	\$4,490	\$4,490	Enter
	Fed RTC - 20%	\$898,000	\$898	\$898	Calc'd
	State HTC - 25% up to \$1M	\$1,000,000	\$1,000	\$1,000	Calc'd
	Equity Attracted				
	Fed Pricing	\$0.90	\$0.90	\$0.90	Enter
	Fed Equity	\$808,200	\$808		Calc'd
	State Pricing	\$0.75	\$0.75	\$0.75	Enter
	State Equity	\$750,000	\$750	\$750	Calc'd

2	Is there still a gap?	TPC	\$4,725,000	\$4,725		Enter
		- Bank Loan	\$2,053,091	\$2,055		Calc'd
		- State Loan	\$500,000	\$500		Calc'd
		- DDA Grant	\$50,000	\$50		Enter
		- Devo Equity	\$370,000	\$370		Calc'd
		- Fed RTC Equity	\$808,200	\$808		
		- State RTC Equity	\$750,000	\$750		
		= Gap	\$193,709	\$192		

3	Restructure ideas?	Defer approx. half of developer fee
		Invest more equity (CF is strong after year 1)
		Beg for better pricing on state credits

California Pilot County Examples



Project Criteria Matrix

For this guidebook, we worked closely with key economic development stakeholders in three rural counties to identify and document their priority economic development projects. When evaluating the projects, there are many factors that play a role in determining if a project is a priority for the community or not. Some of the items used to recommend an infrastructure project within each jurisdiction include estimated project costs, financing availability, status of land entitlement, revenue potential, political and community support, private sector investment interest, and other factors that are summarized below.

- The infrastructure constraints and the estimated costs to implement each local economic development project.
- Potential employment, revenues, fiscal impacts and the impacts on wages and salaries earned in the area.
- The implementation potential of each proposed project.
- High, medium, and low priority projects for the jurisdiction after incorporating project costs, funding availability, status of land entitlement, political and community support, private sector support, and other factors.

These questions can be incorporated into the matrix below to create a quick review of the projects being evaluated.

Economic Development Priority Projects	Infrastructure Constraints And Cost Estimates	Economic and Employment Impacts	Implementation Potential	High, Medium and Low Priority

This matrix is an example of how communities can evaluate, weigh, and determine which projects are priorities and what should be implemented first. The ranking allows different project attributes to be evaluated holistically to determine if the community should move forward. For instance, a county may find that a project has the potential to provide a great overall impact in the area but lacks the support of elected officials and the public and is therefore, not likely to move forward. There are many aspects to identifying a successful project that are unique to the community.

Through the pilot county process, we found that the importance of a financing plan with project details and costs cannot be overstated. While a “wish list” or a concept is great for communities to use as a starting point, the economic development practitioners need to quickly gather data to fully understand the scope of the project, key costs for development, and where funding gaps exist. Without these details, it is difficult to take a project from possibility to reality.

Pilot County Case Studies



■ Colusa County

Funding the extension of water and wastewater treatment services in the City of Colusa to the Colusa Industrial Park where a 10-acre cannabis production facility will be established is the recommended top priority economic development infrastructure financing project because:

- A business is ready and willing to locate in the industrial park, pending these improvements.
- The estimated \$1 million infrastructure improvement costs are fundable, but a good financing plan is needed.
- The proposed project will create jobs that may generate higher incomes for the local workforce.

The project has barriers to overcome as implementation will require the City of Colusa's cooperation with Colusa County, which is concerned about the number and location of cannabis production facilities. In addition, the project is not Colusa County's top priority even though the site is located in the county.

All of the Colusa County projects that were assessed during this grant are below:

Economic Development Priority Projects	Infrastructure Constraints and Cost Estimates	Economic and Employment Impacts	Implementation Potential	High, Medium and Low Priority
<p>Colusa County Project #1</p> <p>Extend water and wastewater lines to the Colusa Industrial Park</p>	<p>The city will need to extend water and wastewater treatment lines about one mile to an existing industrial park site at an estimated cost of \$1 million. The challenge is that public funding will require prevailing wages to be paid.</p>	<p>Job Creation The proposed project will create an unknown number of new jobs, not counting indirect and induced jobs generated by the economic multipliers.</p> <p>Estimated Revenue Significant annual sales of cannabis products will be sold to other wholesale and retail establishments outside of Colusa County. The new facility in Colusa will not engage in retail sales.</p> <p>Fiscal Impacts The annual sales will generate significant positive fiscal revenues for the city and county.</p> <p>Wages and Incomes Average wages paid are unknown given that this industry recently obtained legal status.</p>	<p>High Implementation Potential</p> <p>A combination of private financing and public funding are available to pay for the required improvements. The water and sewer extension costs could be funded by the city’s capital improvement fund, a community services district could be established, or development fees could be offset to pay for the improvements. A public/private partnership could be formed to reduce construction costs.</p> <p>Project implementation requires the city and county to agree on where and how much cannabis should be produced in Colusa County and where the production facilities should be located.</p>	<p>HIGH</p> <p>Implementing the proposed project is the City of Colusa’s top economic development priority due to the positive fiscal impacts.</p> <p>This is not a high priority project for Colusa County, which is cautious about cannabis production and is concerned about the social and cultural impacts of too much cannabis production, so negotiation between the city and county is needed.</p>

Economic Development Priority Projects	Infrastructure Constraints and Cost Estimates	Economic and Employment Impacts	Implementation Potential	High, Medium and Low Priority
<p>Colusa County Project #2</p> <p>Sacramento River Flood Control</p> <p>The City of Colusa proposes to rebuild or reinforce the 100-year old levees that protect the community from potential catastrophic floods.</p>	<p>The costs of rebuilding or reinforcing the levees will be many millions of dollars according to the City Manager.</p>	<p>Job Creation Rebuilding the levees will create certainty that private investment is protected from catastrophic flooding, which will help the city to attract additional new private investment.</p> <p>Estimated Revenues There are no specific revenue expansion estimates associated with rebuilding the 100+ year old levees that are basic infrastructure systems.</p> <p>Fiscal Impacts A catastrophic flood in Colusa would seriously damage the city's fiscal condition. Additionally, a potential Cease & Desist from FEMA would not allow any growth in the City.</p> <p>Wages and Incomes Rebuilding the levees will have no impact on wages and incomes earned by the residents of Colusa.</p>	<p>Low Implementation Potential</p> <p>The high costs of ongoing flood control are beyond the city's ability to fund. The effort will require significant federal and state financial assistance that is not currently available and may require federal appropriation. The effort also needs to be coordinated with Colusa County, neighboring counties with Sacramento River frontage, and the regional flood control district.</p>	<p>HIGH</p> <p>This is a very high priority project for the City of Colusa due to the catastrophic effects of potential flooding. However, funding the improvements is beyond the city's financial ability.</p>

Economic Development Priority Projects	Infrastructure Constraints and Cost Estimates	Economic and Employment Impacts	Implementation Potential	High, Medium and Low Priority
<p>Colusa County Project #3</p> <p>Make infrastructure improvements (curb & gutter) to a 10-acre site of undeveloped land located on an I-5 interchange in Arbuckle</p>	<p>Colusa County supports new commercial development at the Arbuckle interchange, but will require the property owner to make streetscape and landscape improvements as a condition of developing the site. Improvements to the interchange that was damaged by trucking activities are also needed. The county estimates \$1 million in costs to make the improvements needed to support the 10-acre site build out.</p>	<p>Job Creation It is anticipated that new development will create full and part time food service jobs for young people that live in the Arbuckle area.</p> <p>Estimated Revenues Will be dependent on the actual establishments attracted to the site and the market success of the new development.</p> <p>Fiscal Impacts New food service businesses attracted to the Arbuckle area will contribute positive fiscal impacts to the county's budget.</p> <p>Wages and Incomes Low wages paid by new food service establishments will not significantly improve incomes.</p>	<p>Medium Implementation Potential</p> <p>The property owner is reluctant to invest in up-front costs required for a new commercial development project. Colusa County would like to see a creative financing plan to incentivize site development.</p>	<p>HIGH</p> <p>Colusa County considers the development of the Arbuckle site to be their one and only economic development priority project. However, the initiative will only create low-wage jobs. In addition, the property owner and primary beneficiary is reluctant to incur upfront investment costs.</p>

Finance Plan to Extend Water and Wastewater Treatment Services

The City of Colusa is attempting to attract Irvine-based Cultivation Technologies that will establish a cannabis production facility on a 10-acre site located within the Colusa Industrial Park (CIP). The company has established a similar facility producing cannabis and manufacturing cannabis products in the City of Coachella, but the proposed Colusa facility would be one of the largest cannabis production operations in California. No retail sales activities will occur in the City or County of Colusa.

Infrastructure Constraints

The City of Colusa has an adequate water supply and sufficient wastewater treatment capacity to support the proposed project. However, the water and wastewater treatment lines must be extended about one mile to the Colusa Industrial Park site.

Implementation Constraints

Cultivation Technologies is working closely with the City of Colusa to implement the proposed project. The City Council and staff are very supportive. But, three constraints must be overcome before the project can be implemented.

The site must be annexed into the City of Colusa in advance of establishing the new cannabis business operations. The Colusa Industrial Park is located in unincorporated Colusa County but within the City of Colusa's Sphere of Influence (SOI). Under most circumstances, annexation is a procedural process that requires the city to demonstrate that public services can be delivered to the proposed project site. This will require evidence to be presented to the Local Agency Formation Committee (LAFCO) that sufficient financial capacity exists to extend water and sewer service lines to the project site.

The City of Colusa must establish an agreement with Colusa County on the size and location of cannabis production facilities prior to site annexation. Since the site must be annexed, both the city and county have a say in the approved land uses. This could constrain implementation because Colusa County is cautious and concerned about the social and cultural impacts of the cannabis industry. Therefore, the city must negotiate with the county and LAFCO on the amount of land that should be reserved for cannabis production, the location of cannabis production facilities, and the City's long-term land use plans for annexing unincorporated areas within the SOI.

Financing the extension of water and sewer lines to the project site is the third significant constraint that must be overcome prior to project implementation. The ability to raise funds for this initiative is significantly constrained because it involves cannabis production, which the federal government considers an illegal drug. Consequently, Cultivation Technologies or any other cannabis production business lacks access to traditional lenders such as banks, and the City cannot obtain any federal grants.

Project Costs

REQUIRED IMPROVEMENTS AND SERVICES	COST ESTIMATES
Extend Water and Sewer Lines to CIP	\$1,000,000
Planning and Engineering Services	\$200,000
Fees to Establish and Manage Community Facilities District (CFD)	\$150,000
Interest on the Bond	\$1,250,00
Total Improvement Costs	\$2,600,000

Funding Sources

Colusa Industrial Park Community Facilities District Bond	\$2,600,000
-----------------------------------------------------------	-------------

Notes: 1) City of Colusa would issue a Revenue Bond Secured by Special Taxes Assessed to the CFD
2) Assume a 5% interest rate on the revenue bond

The City of Colusa estimates that extending water and wastewater treatment lines about one mile to the project site would cost \$1 million. The estimates are based on preliminary engineering costs, which could change when final engineering is completed. Project implementation would also require approximately \$200,000 of planning and engineering services and \$150,000 of other professional services needed to establish and manage a Community Facilities District (CFD) that could tax the property owners and guarantee that the bond payments could be made. The calculated interest on a \$1.35 million bond is \$1.25 million paid out over 30 years at 5 percent interest.

Anticipated Tax Revenues

The City of Colusa has adopted a cannabis taxation ordinance that imposes an annual tax of \$15 per square foot on marijuana cultivation and manufacturing facilities. Only wholesale marijuana activities are allowed, the sale of medical or recreational cannabis products are not allowed.

It is anticipated that 100,000 square feet of indoor grow and manufacturing facilities will eventually be constructed at the Colusa Industrial Park, but it is unknown if the company will build out the project upon approval, or if they would slowly phase the project. A phased project will generate fewer tax revenues during the initial development, but full build-out could generate up to \$1.5 million of tax revenues on an annual basis.

Financing Requirements

Extending water and sewer services to the Colusa Industrial Park in order to attract a cannabis production facility will generate significant positive fiscal impacts for the City of Colusa. If the project builds out as anticipated, it can generate more than \$1 million per year of tax revenue and be the city's most significant tax revenue-generating firm.

However, financing the water and sewer services to the Colusa Industrial Park must be completed in advance of business attraction, and it would be at least one year, perhaps two, before the project would generate any tax revenues. This would require the City of Colusa to issue a Bond secured by the CFD special taxes. The annual payment on these bonds will be just under \$100,000 per year with about 50 percent of the costs paying interest on the bond. The debt service can be significantly reduced as the project builds out and more tax revenue can be dedicated to early payments on the bond debt.

Recommended Funding Option: Establish a Community Facilities District

The City of Colusa and Colusa County could form a CFD to help fund backbone infrastructure improvements necessary to support the proposed project and other Colusa Industrial Park improvements. The Community Facilities Act (known as Mello-Roos) provides the legal framework for establishment a CFD. This 1982 law approved the creation of new special districts that can tax property owners in order to generate additional public funding to pay for public works and some public services. Counties, cities, joint powers authority, special districts and school districts all use CFDs to fund public works and some public services.

A CFD is created to finance public improvements and services when no other source of money is available, and they are normally formed in undeveloped areas in order to build roads and install water and sewer systems. In the case of the Colusa Industrial Park, a CFD can be formed through a vote of the current landowners since no residents live in this area. Once approved, the property owners pay a special tax each year to fund the improvements. Once established the CFD has the authority to sell municipal bonds that raise the large amounts of money initially needed to fund the proposed improvements. The special taxes that can be raised are based on mathematical formulas that take into account the use of the property, size of structures and lot size.

Once the CFD has been established as a special taxing district, a \$2.6 million bond can be issued to fund the improvements needed along with the planning, engineering, and professional financial management services to establish the CFD, issue the bond, and manage the new special district. The property owners included in the CFD would be obligated to pay back the bond as they will be the direct beneficiaries of increased property values. The City can pay down the debt service early as fiscal revenues are accrued by the cannabis production activities.

The special tax imposed on the CFD property owners cannot be directly based on the value of the property due to Prop 13 law. Special taxes instead will need to be calculated by an appraiser or other individual with expertise in forming CFDs, and the cost of this assistance can be folded into the bond issuance. The special taxes will be based on a mathematical formula that is defined when the CFD is formed, and the formula will include a maximum special tax amount and a percentage maximum annual increase. The amount of special tax applied to each CFD property owner will take into account the property characteristics, use of the property, lot size and square footage of any built structures.



Del Norte County

The priority economic development project is to replace the 300-foot sea wall at the Crescent City Harbor that protects the area’s commercial fishing fleet from sea level rise and future tsunamis. The initiative is supported by Federal Emergency Management Agency and California Division of Occupational Safety and Health who have invited the Harbor District to submit funding applications for \$2.4 million of the \$3.2 million estimated project cost. The State Coastal Conservancy and Coastal Commission also support the sea wall replacement project.

All of the Del Norte County projects that were assessed during this grant are below:

Economic Development Priority Projects	Infrastructure Constraints and Cost Estimates	Economic and Employment Impacts	Implementation Potential	High, Medium and Low Priority
<p>Del Norte County Project #1</p> <p>Replace a 300-foot sea wall at the Crescent City Harbor</p>	<p>The sea wall is critical infrastructure protecting the commercial fishing fleet that is an important component of Del Norte County’s business mix. The proposed project will cost \$3.2 million according to the Harbor District.</p>	<p>Job Retention and Expansion The proposed project will help protect local commercial fishing industry jobs.</p> <p>Estimated Revenues Ongoing commercial fishing industry revenues will be protected.</p> <p>Fiscal Impacts Unknown.</p> <p>Wages and Incomes Will protect small business revenues that could be lost without implementing the proposed project.</p>	<p>High Implementation potential</p> <p>The Harbor District will submit funding applications to FEMA and Cal OSHA for \$2.4 million, which leaves an \$800,000 funding gap. The Crescent City Harbor District is looking for gap financing on this project.</p>	<p>HIGH</p> <p>This is an important project that the Harbor District can pursue independent of local government partners. The State Coastal Commission supports the initiative.</p>

Economic Development Priority Projects	Infrastructure Constraints and Cost Estimates	Economic and Employment Impacts	Implementation Potential	High, Medium and Low Priority
<p>Del Norte County Project #2</p> <p>Revitalize the Bayside RV Park Within the Crescent City Harbor District</p> <p>The Bayside RV Park is currently a low-income residential area that would be converted into a visitor destination by improving the physical amenities, reducing the number of campsites to 30, and adding cabins, yurts, and tent camping spaces.</p>	<p>No specific infrastructure constraint prevents implementing the proposed initiative. The Harbor District anticipates it will cost \$6 million to make the proposed improvements including the development of cabins and yurts on the site.</p>	<p>Job Creation It is unlikely that revitalizing the RV Park will create many new jobs.</p> <p>Estimated Revenues The Harbor District anticipates that the revitalized Bayside RV Park will expand revenues.</p> <p>Fiscal Impacts Additional fiscal revenues should be collected by the Harbor District.</p> <p>Wages and Incomes Higher wages may not be generated by the proposed land uses.</p>	<p>High Implementation Potential</p> <p>The Harbor District has the support of Del Norte County and the State Coastal Commission to revitalize the Bayside RV Park consistent with the approved Master Plan.</p>	<p>HIGH</p> <p>Funding is in place to make the improvements and revitalize the Bayside RV Park.</p>

Economic Development Priority Projects	Infrastructure Constraints and Cost Estimates	Economic and Employment Impacts	Implementation Potential	High, Medium and Low Priority
<p>Del Norte County Project #3</p> <p>Construct an amphitheater and revitalize Crescent City's Beachfront Park.</p> <p>Crescent City has launched an effort to revitalize the Beachfront Park by scheduling regular music events and other civic activities that will attract residents and visitors to this large, strategically-located public park with acres of lawns, a playground, picnic tables, an indoor community swimming pool and a public library. The City recently hired a full-time events manager to program and manage events and activities at the park.</p> <p>A new amphitheater where the music and civic events could be hosted is the park's missing piece of infrastructure.</p>	<p>The city estimates that the amphitheater and other landscaping and design improvements would cost \$1.5 million.</p>	<p>Job Creation Proposed improvements will allow Beachfront Park to host more activities for residents and visitors. An unknown number of new jobs created will depend on the success of events to attract new visitors.</p> <p>Estimated Revenues Proposed improvements may encourage visitors to spend more time and money in Crescent City.</p> <p>Fiscal Impacts Positive fiscal impacts will be generated if new events at the park generate additional visitor spending.</p> <p>Wages and Incomes No anticipated impact on wages and incomes earned.</p>	<p>Medium Implementation Potential</p> <p>The city has applied for a Coastal Conservancy grant to update the Beachfront Park Master Plan but funding decisions have yet to be made. Alternative funding sources to build the amphitheater or implement the other park design improvements are yet to be identified.</p>	<p>HIGH</p> <p>This is the city's highest economic development priority project. Updating the Beachfront Park Master Plan will obtain input from the Coastal Commission that is likely to approve the proposed changes.</p>

Economic Development Priority Projects	Infrastructure Constraints and Cost Estimates	Economic and Employment Impacts	Implementation Potential	High, Medium and Low Priority
<p>Del Norte County Project #4</p> <p>Encourage new business establishments that add value to locally produced ranching and agricultural products.</p>	<p>Establishing new value-added manufacturing facilities to unincorporated Del Norte County is challenging due to the absence of wastewater treatment services north of Crescent City. Specific sites available for business uses and the costs of redeveloping the sites are uncertain. Old mill sites that may be available still need to be cleaned up in advance of redevelopment.</p>	<p>Job Creation New value-added dairy and cattle manufacturing establishments will create jobs, diversify the economy, and improve the financial conditions of the area's dairy farmers and cattle ranchers and workers.</p> <p>Estimated Revenues New value-added businesses will expand business revenues.</p> <p>Fiscal Impacts More value-added businesses will generate positive fiscal impacts.</p> <p>Wages and Incomes Value-added businesses will create jobs that may improve wages and incomes earned.</p>	<p>Low Implementation Potential</p> <p>Del Norte County's remote location makes it difficult and expensive to compete in the marketplace. This project is still premature and will need collaboration or a cooperative between the farmers, since no single operation can take the financial risk or provide enough product volume to keep a processor in business. The lack of wastewater treatment services on farms and other rural sites generates significant headwinds toward starting new value-added businesses in Del Norte County.</p>	<p>HIGH</p> <p>Establishing new value-added businesses such as meat packing or the production of powdered milk, cheese and yogurt is Del Norte County's top economic development priority. Success will require some private investors to overcome long distances to markets and the absence of adequate sites with infrastructure services.</p>

Economic Development Priority Projects	Infrastructure Constraints and Cost Estimates	Economic and Employment Impacts	Implementation Potential	High, Medium and Low Priority
<p>Del Norte County Project #5</p> <p>Develop and manage a Tsunami Evacuation Center</p> <p>The Harbor District proposes to develop and manage a five-story, multi-use facility that would function as an evacuation center the next time a tsunami hits Crescent City.</p>	<p>The Harbor District has submitted a grant application to fund getting the site shovel ready.</p> <p>The Harbor District estimates that the proposed facility would cost between \$9 and \$10 million.</p>	<p>Job Creation A few jobs would be created to manage and maintain the facility.</p> <p>Estimated Revenues Revenues would be generated from visitor user fees and rents for community events.</p> <p>Fiscal Impacts Unknown.</p> <p>Wages and Incomes Unknown.</p>	<p>Medium Implementation potential</p> <p>The Harbor District views this as a signature initiative and is trying to secure funding from the California Coastal Conservancy and other funding sources. Further feasibility analysis is needed to identify finance sources.</p>	<p>HIGH</p> <p>This is a high priority project for the Harbor District. The city and county would support the project but have alternative economic development priorities</p>
<p>Del Norte County Project #6</p> <p>Develop a dry storage facility for commercial fishing and other marine industries within the Crescent City Harbor District.</p> <p>The Harbor District supports the development of a new facility where the commercial fishing industry can store equipment and supplies sheltered from the weather. The proposed project would be located on a Harbor District owned site.</p>	<p>The basic infrastructure is in place to support the facility. The Harbor District estimates that the proposed facility would cost approximately \$2 million.</p>	<p>Job Retention and Expansion The proposed project will help protect and strengthen long-term commercial fishing industry jobs.</p> <p>Estimated Revenues Ongoing commercial fishing industry revenues will be protected and possibly expanded.</p> <p>Fiscal Impacts Unknown.</p> <p>Wages and Incomes Will protect small business commercial fishing revenues.</p>	<p>Low Implementation potential</p> <p>The Harbor District would need Coastal Commission approval that is likely, but not certain. No clear source of public or private funding is available to construct the proposed project.</p>	<p>LOW</p> <p>This is a relatively low priority project for the Harbor District, and it will be necessary to gain the State Coastal Commission's support, which is not certain.</p>

Economic Development Priority Projects	Infrastructure Constraints and Cost Estimates	Economic and Employment Impacts	Implementation Potential	High, Medium and Low Priority
<p>Del Norte County Project #7</p> <p>Revitalize the Shoreline RV Campground that is owned and managed by the City of Crescent City.</p> <p>Crescent City wants to improve the city owned RV Campground with 95 spaces and a low 45% annual occupancy rate. The RV Park is an under-used asset located near the ocean. It lacks amenities that can attract more overnight visitors seeking a diverse range of spaces such as cabins, yurts, and tent camping spaces.</p>	<p>The proposed design changes and improvement cost estimates are conceptual at this time.</p>	<p>Job Creation It is unlikely that a revitalized RV Park will create more than a few new jobs.</p> <p>Estimated Revenues Improved occupancy rates at the RV Park will generate more visitor spending, sales and revenues.</p> <p>Fiscal Impacts Higher occupancy rates should generate positive fiscal impacts.</p> <p>Wages and Incomes Proposed improvements will have no impact on wages and incomes earned.</p>	<p>Medium Implementation Potential</p> <p>Specific design improvements to be made are unclear as are sources of funding the improvements.</p>	<p>LOW</p> <p>Improving the Shoreline RV Campground is a lower priority that may be addressed after the funding for the Beachfront Park improvements are secured.</p>

Economic Development Priority Projects	Infrastructure Constraints and Cost Estimates	Economic and Employment Impacts	Implementation Potential	High, Medium and Low Priority
<p>Del Norte County Project #8</p> <p>Redevelop an Old Mill Site near downtown Crescent City.</p> <p>A strategically located 6.5-acre mill site near downtown Crescent City is available to be redeveloped for commercial and residential uses. The site is located within an Opportunity Zone that will allow private investors to defer capital gains taxes.</p>	<p>Total costs of clearing and redeveloping the site are unknown at this time. A Phase 3 environmental assessment is still needed to test the soils and other potential contaminations.</p>	<p>Job Creation Redeveloping the site could generate a significant number of new jobs and housing units.</p> <p>Estimated Revenues New business sales should be generated by site redevelopment</p> <p>Fiscal Impacts Significant positive fiscal impacts will be generated by site redevelopment and the possible payment of back taxes.</p> <p>Wages and Incomes It is possible that the new jobs will improve wages and incomes earned depending on the final development plan that is approved.</p>	<p>Low Implementation Potential</p> <p>Site redevelopment will require a development plan that currently does not exist. The effort will also require a significant financial commitment, close cooperation between the city and county, and a public-private partnership that attracts new private investment. Interviews with city staff indicated that site redevelopment may also be burdened with \$400,000 debt from back taxes owed, but the debt details are uncertain.</p>	<p>LOW</p> <p>Site redevelopment is a low priority given the city's fiscal constraints and emphasis on revitalizing the Beachfront Park.</p>

Finance Plan to Replace a 300-foot Sea Wall

The Crescent City Harbor sea wall is a critical piece of infrastructure protecting the vitally important commercial fishing industry. The harbor is comprised of 35 acres of land, piers, floating docks, and access roads adjacent to the Crescent City limits. Harbor tenants include approximately 80 commercial vessels engaged in salmon, shrimp, tuna, cod, and dungeness crab fishing, along with recreational watercraft boats, and a variety of non-fishing related businesses that includes two RV Parks, restaurants, and commercial service establishments. The entire complex is located in an area where offshore earthquakes are likely to cause tsunamis because of the bathymetry of the ocean floor. In these instances, great damage is done to the harbor and its tenants, and an improved sea wall would help mitigate that damage. A new sea wall is also needed to protect the commercial fishing tenants and other Harbor District real estate assets from the threat of rising sea levels.

The existing 300-foot sea wall is falling apart and needs to be replaced. The Harbor District hired a Seattle-based engineering company to analyze the structural improvements needed, which determined that a new wall should be constructed over the existing wall, and that the new wall should be built six feet higher than the current one.

Project Costs

The Harbor District and their project engineers estimate that replacing the sea wall will cost between \$2.5 and \$3.2 million. The preliminary cost estimates were prepared by the engineering company after they examined the existing sea wall and substructures in person. Consequently, the Harbor District anticipates that the actual costs will vary little from the current cost estimates.

Implementation Constraints

Fortunately, the proposed sea wall replacement project does not face any significant regulatory obstacles or community opposition. The California Coastal Commission must approve the project, but the Harbor District is in regular contact with Coastal Commission staff who support the project. The Del Norte County Planning Department will have a role with project design review and approval, but it is anticipated that the county will support the project. There is a small non-profit organization that represents the only likely community opposition, but the Harbor District has been reaching out to this group and have uncovered no objections to date.

The primary constraint to implementing the proposed sea wall replacement project is the lack of local funding. The Harbor District does not have the capacity to issue bonds to fund the proposed sea wall replacement project and must use a combination of rents and ongoing cash flow revenues to fund the improvements. Local revenues are constrained given that the Harbor District generates only \$1.6 million per year from leases to the commercial fishing boats and other enterprise activities. The Harbor District's share of Del Norte County's property tax revenues generates another \$340,000 of annual revenues.

Long Term Harbor District Financial Constraints

The Harbor District's capacity to fund a sea wall replacement or any other type of real estate improvement is constrained by significant debt that they accrued to repair \$47.5 million of damage caused by the 2006 tsunami and winter storms, the 2008 winter storms, and the 2011 tsunami. The four natural disasters severely damaged or completely destroyed many of the docks, pilings, and piers. In addition, the Harbor District lost significant revenue from leasing berths to commercial fishing vessels that had to find alternative locations for their fishing operations. It took until 2014 to complete the repairs and improvements and return to full operations.

The 2006 winter storm and the 2011 tsunami were declared federal disasters, but the 2006 tsunami and 2008 winter storms were only California state level disasters. The formulas used to determine the amount of disaster relief money the Harbor District would receive amounted to \$40.1 million of federal and state assistance, which left a \$7.4 million "local match" gap that the Harbor District had to cover in order to repair the damaged facilities and get the Harbor back into productive operation.

Del Norte County assembled the required local funding with a \$4.8 million CDBG grant and a \$5.4 million USDA Rural Development Loan to the Harbor District. The USDA loan provided the immediate funds needed for the local share of disaster repairs and additional funds to cover the operating losses that the Harbor District incurred during the three years it took to make repairs and resume operations. However, the USDA loan left the Harbor District with a \$180,000 annual interest payment for the next 30 years, which amounts to more than 10 percent of the Harbor District's \$1.6 million of annual revenues. In total, the Harbor District is obligated to pay \$260,000 per year in principal and interest payments for the USDA loans. This debt service is a significant fiscal constraint to funding the sea wall and any other Harbor District infrastructure improvements.

Governance

The current Harbor District was formed as a Del Norte County Special District in 1951. The Crescent City Harbor District is allowed to earn revenue from real estate leases and services provided to tenants along with an annual allocation of the county's property tax revenues. The entity is governed by a five-member Board of Commissioners that are elected by Del Norte County voters to manage the land site, take responsibility for the development and improvement of the Harbor, and maintain and manage the marina and related facilities.

Progress Made Obtaining Sea Wall Funding

The Harbor District has made significant progress toward implementing the proposed sea wall replacement project. A \$2.4 million application for funding was submitted to the Cal OES (California Governor's Office of Emergency Services) Hazard Mitigation Grant Program, which functions as a screening agency for the federal government. If approved, OES will forward the application to FEMA for formal approval.

Additional progress was made to expand Harbor District revenues through a Transit Occupancy Tax (TOT) increase. Del Norte County voters approved an increase in the TOT rate from 8 to 10 percent. Additionally, a 2 percent rate is to be collected by all RV parks for guest stays of 30 days or less will go to the Harbor District and they will also earn a share of the higher TOT revenues.

Funding Gap

Funding a Replacement Sea Wall at the Crescent City Harbor Costs and Funding Sources:

COST AND FUNDING SOURCE ESTIMATES	
Sea Wall Replacement Costs	\$3,200,000
Sea Wall Replacement Funding Sources	
Cal OES/FEMA Hazard Mitigation Grant Program	\$2,400,000
Crescent City Harbor District Reserves	\$800,000
TOTAL	\$3,200,000

An \$800,000 funding gap will remain assuming that FEMA funds the Harbor District's application that was submitted. The Harbor District reserves could be used to fund the local share but new funding should be raised to replenish the capital improvement funding.

Funding Sources to Replace Harbor District Reserves	
Harbor District Share of Voter Approved Transit Occupancy Tax Increase (2%) ¹	\$25,000
Enhanced Infrastructure Finance District	\$775,000

Notes: 1) The Harbor District's Share of TOT was approved by voters in 2019

Establish and Enhanced Infrastructure Finance District (EIFD) to Fund \$800,000 Local Share

State legislation approved in 2015 would allow Del Norte County, the City of Crescent City and the Crescent City Harbor District to establish an Enhanced Infrastructure Finance District (EIFD) that can use tax increment financing to generate revenues for the proposed sea wall or other infrastructure improvements. The formation of an EIFD does not require voter approval. EIFDs have the greatest potential for success in locations where multiple layers of taxing authorities (cities and counties) are highly motivated to implement infrastructure improvement projects, and there is strong community support to fund infrastructure improvements. The Harbor District, Crescent City, and Del Norte County fit this description.



Mono County

The priority economic development financing project is to expand the supply and provide access to affordable workforce housing in the Mammoth Lakes area. A consensus among stakeholders emerged that the lack of affordable housing is the region’s top economic development infrastructure constraint.

All of the Mono County projects that were assessed during this grant are below:

Economic Development Priority Projects	Infrastructure Constraints and Cost Estimates	Economic and Employment Impacts	Implementation Potential	High, Medium and Low Priority
<p>Mono County Project #1</p> <p>Support construction and access to affordable workforce housing .</p>	<p>In the case of Mono County and the Town of Mammoth Lakes, the lack of affordable housing is an infrastructure constraint that prevents the local economy’s ability to expand and add new jobs. Mammoth Lakes is a resort community with an employer mix that produces many low-wage service jobs. The average price for a single-family home is \$800,000 and the average price for a condominium is \$450,000. It is unclear how much funding will be needed to improve the supply of affordable housing in the area around Mammoth Lakes.</p>	<p>Job Creation No specific job creation estimates. Local economic expansion is constrained by the lack of housing access that low-income workers can afford.</p> <p>Estimated Revenues No specific revenue expansion estimates. The lack of affordable housing has constrained the expansion of sales to visitors</p> <p>Fiscal Impacts No specific fiscal benefit estimates.</p> <p>Wages and Incomes More affordable housing will reduce housing costs for tourism-serving workers and generate more disposable income.</p>	<p>Medium Implementation Potential</p> <p>Both Mono County and the Town of Mammoth Lakes express a strong political will to improve access to affordable housing. Funding the construction of new affordable housing will require creative financing techniques. Other policy changes could improve access for low wage workers to existing housing that is currently reserved for seasonal visitors.</p>	<p>HIGH</p> <p>A consensus has emerged among stakeholders that access to affordable housing is the top economic development priority for both Mono County and the Town of Mammoth Lakes. It is not possible to continue expanding the economy and workforce without a diversified mix of available housing units.</p>

Economic Development Priority Projects	Infrastructure Constraints and Cost Estimates	Economic and Employment Impacts	Implementation Potential	High, Medium and Low Priority
<p>Mono County Project #2</p> <p>Develop a covered parking structure in Mammoth Lakes to encourage village walkability and transit access to the ski slopes.</p> <p>In the case of Mammoth Lakes, a new parking structure is infrastructure that would encourage winter visitors to use transit to access the ski slopes. The proposed initiative will reduce traffic congestion and help transform the village into a more economically successful walkable community. Mammoth is competing with other western ski resorts including Aspen, Vail, and Whistler that have created walkable communities which enhance the area's attractiveness as a winter destination resort.</p>	<p>Mammoth Lakes anticipates that a three-story structured parking facility on one-acre of land would cost \$4.5 to \$5 million and between \$50K and \$65K per parking space.</p>	<p>Job Creation No specific job creation estimates. The lack of parking keeps drivers in their cars constraining the commercial success of the village.</p> <p>Estimated Revenues No specific revenue expansion estimates. Project will reduce the need to drive, create more foot traffic and entice more visitors to spend time in the village.</p> <p>Fiscal Impacts No specific fiscal benefit estimates.</p> <p>Wages and Incomes Unknown.</p>	<p>Medium Implementation Potential</p> <p>Attempts to transform the village into a walkable community desired by winter visitors have been a long-term effort dating back to the early 2000s. Accomplishments have been slow and incremental. It is not clear that the town has the financial capacity and political will to subsidize structured parking, which will require public subsidies and creative financing techniques.</p>	<p>MEDIUM</p> <p>A new parking structure will generate additional foot traffic for shops and restaurants and encourage visitors to ride the tram to the Mammoth Mountain ski area. Creating a pedestrian-friendly village environment is a critical element of Mammoth Lake's long-term success as a visitor destination.</p>

Economic Development Priority Projects	Infrastructure Constraints and Cost Estimates	Economic and Employment Impacts	Implementation Potential	High, Medium and Low Priority
<p>Mono County Project #3</p> <p>New ice rink in Mammoth Lakes.</p> <p>The Town of Mammoth Lakes supports the development of a new ice rink that would diversify the activities available for area visitors and residents.</p>	<p>No specific infrastructure constraints prevent the development of a new ice rink given the lack of a selected site.</p> <p>Cost estimates for developing a new ice rink have yet to be determined.</p>	<p>Job Creation No estimate available, but the project will probably create few new jobs.</p> <p>Estimated Revenues A new ice rink is not a significant revenue generating activity, but a new facility will diversify winter sports activities, encouraging visitors to stay longer and spend more money in the village.</p> <p>Fiscal Impacts No specific fiscal benefit estimates, although a new ice rink could improve fiscal revenues.</p> <p>Wages and Incomes A new ice rink will have no impact on wages and incomes earned.</p>	<p>Low Implementation Potential</p> <p>It is not clear that the Town of Mammoth Lakes has the financial capacity and political will to subsidize a new ice rink that will require public subsidies or a public-private partnership.</p>	<p>LOW</p> <p>A new ice rink is conceptual and a lower priority at this time. The level of public investment has yet to be decided and no specific site has been selected.</p>

Economic Development Priority Projects	Infrastructure Constraints and Cost Estimates	Economic and Employment Impacts	Implementation Potential	High, Medium and Low Priority
<p>Mono County Project #4</p> <p>New outdoor event center in Mammoth Lakes or unincorporated Mono County.</p> <p>The Town of Mammoth Lakes and Mono County supports the development of a new outdoor event center that would add to the area's desirability as a summer visitor destination.</p>	<p>No specific infrastructure constraint prevents the development of a new outdoor event center since a site has yet to be selected.</p> <p>Cost estimates for developing a new outdoor event space have yet to be determined.</p> <p>As the majority of Mono County is federally-owned, there was discussion of doing a land swap with one of the Federal entities. While it takes an act of Congress, this option is not impossible and can be investigated for rural counties where public land ownership is extensive, and a swap makes sense.</p>	<p>Job Creation No estimate available, but new jobs would be seasonal depending on the type of facility constructed.</p> <p>Estimated Revenues An outdoor event center may generate significant revenue depending on size, location, and programming expertise.</p> <p>Fiscal Impacts No specific fiscal benefit estimates.</p> <p>Wages and Incomes Unknown.</p>	<p>Low Implementation Potential</p> <p>It is not clear that the Town of Mammoth Lakes has the financial capacity and political will to subsidize an outdoor event center that will require public subsidies and private investment partners.</p>	<p>LOW</p> <p>A new outdoor event center is conceptual and a lower priority at this time. The level of public investment has yet to be decided and no specific site has been selected.</p>

Economic Development Priority Projects	Infrastructure Constraints and Cost Estimates	Economic and Employment Impacts	Implementation Potential	High, Medium and Low Priority
<p>Mono County Project #5</p> <p>Extend water and sewer services to an industrial park near the airport.</p> <p>An industrial park located in an area adjacent to the airport lacks water and wastewater treatment services.</p>	<p>The costs of extending services to the industrial park are unknown.</p>	<p>Job Creation No specific job creation estimates. The lack of industrial and business park space constrain efforts to diversify the economy.</p> <p>Estimated Revenues No specific revenue expansion estimates.</p> <p>Fiscal Impacts No specific fiscal benefit estimates.</p> <p>Wages and Incomes Attracting business that would locate in the industrial park could improve wages and incomes earned.</p>	<p>Low Implementation Potential</p> <p>Funding the extension of water and sewer services to an industrial business park requires some certainty that there is sufficient demand to support the costs.</p>	<p>LOW</p> <p>Funding the extension of water and sewer to undeveloped industrially zoned land is a lower priority at this time because it is not clear that demand is sufficient to support the costs of new services.</p>

Finance Plan to Expand the Supply of Affordable Workforce Housing

The Town of Mammoth Lakes (the Town) and the surrounding area is a resort community with an employer mix that produces many low-wage, visitor-serving jobs. The lack of affordable housing for low-wage workers constrains the ability to expand the local economy and add new jobs. The average price for a single-family home is \$800,000 and the average price for a condominium is \$450,000. The area is challenged by the need to expand the supply of housing for local residents in general, and for minimum and low-wage workers in the tourism and services industries.

Building affordable housing units in resort settings like Mammoth Lakes is particularly challenging in California. Cities, counties, and towns have limited tools or sources of funding to assist in the development of affordable housing. However, there are new tools approved by the California Legislature that may be able to assist, as well as federal programs.

The Town has established a Housing Trust Fund, but it lacks sufficient money to make a real dent in the problem. Federal affordable housing tax credits are available, and the Town has an opportunity to use this funding source.

This finance plan is not site specific because the lack of affordable housing cuts across the entire region, and the public sector lacks adequate resources to significantly address the problem. Thus, this document emphasizes the creative use of zoning and land planning to incentivize private investment in more affordable housing without expending local government funds. For example, allowing for inclusionary zoning and density bonuses have the effect of allowing property owners and developers to earn more money from developing their sites in exchange for the private funding needed to expand the supply of affordable housing. Mammoth Lakes is currently experiencing a very hot real estate market, and this type of creative financing can occur without the expenditure of public funding.

Constraints to Expanding the Supply of Affordable Workforce Housing

Like similar mountain resort communities in other regions, Mammoth Lakes faces many distinct challenges when it comes to providing housing affordable for low- and moderate-income workers. The Town's leadership is increasingly concerned about the inability of low- and moderate-income workers to either purchase or rent moderately priced housing, which causes workers to engage in long and costly commutes. In addition, shortages of workforce housing are harming the ability of Mammoth Mountain, the local ski resort, and other efforts by local employers to attract and keep workers. The primary constraints to the Town's ability to offer more workforce housing are listed below:

- Approximately 52 percent of Mammoth's housing units are second home units used on occasion by the owner or placed on the visitor rental market. This means that half of the Town's housing units are off the market and unavailable to rent to full time residents or low- and moderate-income workers.
- Approximately 35 percent of Mono County's workforce are employed in the arts, recreation, and hospitality industry and earn less than \$25,000 per year. Many of these jobs are seasonal in nature and have fluctuating incomes dependent on the number of tourists, time of year, and snowfall.
- Despite the surrounding open space and beautiful natural areas, Mammoth Lakes has very limited land supply because it is surrounded by United States Forest Service land and maintains a relatively small four-square mile Urban Growth Boundary, which limits the potential for sprawl as well as the amount of land available for development.
- Although multifamily units comprise 70 percent of Mammoth's housing stock, zoning allows nightly rentals that may squeeze out local buyers since second homeowners typically purchase these units as income properties and rent out for occasional use.
- The proliferation of online rental services such as VRBO and Airbnb make it easy for owners to generate income off their property without finding long-term renters. This has resulted in the loss of both single family and multi-family units from the long-term rental inventory.
- Data monitoring ongoing changes to the housing market is very limited, which constrains the Town's ability to adjust policy.
- Lastly, Mammoth Lakes is burdened with higher construction costs than most other California communities. The high elevation and heavy snowfall add to the cost of construction by requiring structures to meet high snow and wind load requirements. In addition, even small developers have to use out of area construction crews and absorb the costs associated with imported labor.

Incentives Available to Expand the Supply of Affordable Housing in Mammoth Lakes and unincorporated Mono County

Both the Town of Mammoth Lakes and Mono County express a strong political will to improve access to affordable housing. The Town of Mammoth Lakes has adopted an In-Lieu Fee on new development that has placed about \$440,000 into a Housing Trust Fund to subsidize the construction of affordable housing. This is an excellent start but the amount of available funding can only make a small dent in the problem.

A strategic plan adopted by the Town Council clearly states that it is a high priority to pursue a sustainable funding source that can support affordable housing through higher in-lieu fees, inclusionary housing or dedicated tax measures, but these actions remain to be taken. Moreover, there is not a lot that can be done about more than 50 percent of the Town's housing units that were built as second homes. The owners can be encouraged, but they cannot be forced to rent the under-used units to local residents.

Consequently, the Town must rely on grants and creative land use policies to incentivize new affordable housing. However, strong political will is required to implement land use and other policy changes that could leverage new investment.

The State allows the formation of Community Revitalization Investment Authorities (CRIAs) to fund affordable housing but since none have been created, it is hard to consider it a viable option. See the Appendices for more detail on CRIAs.

Incentive #1: Access Federal Low-Income Housing Tax Credits (LIHTC)

The LIHTC is a dollar-for-dollar affordable housing tax credit that was created under the 1986 Tax Reform Act. The LIHTC's account for approximately 90 percent of all affordable rental housing developed in the United States today. This program that is administered by the Internal Revenue Service (IRS) has contributed to the development of two million affordable housing units throughout the U.S., and this number continues to grow by an estimated 100,000 low-income housing units each year.

The program offers affordable housing developers the option of applying for a 9 percent tax credit through a competitive application or a 4 percent tax credit that can be obtained on a non-competitive basis. It takes developer expertise to know the nuances of each tax credit option and its potential fit within Mammoth Lakes and Mono County. If accessed, the 9 percent federal tax credit will allow developers to reduce the costs of new affordable housing units by 70 percent. The 4 percent tax credit will reduce development costs by 30 percent. In return for the tax credits, developers agree to rent the new housing at a rate that follows the federal income means test guidelines.

■ Action Step

Mammoth Lakes should identify and attract affordable housing developers with expertise accessing federal low income housing tax credits. Accessing LIHTCs is a very complex process that requires expertise with Section 42 of the IRS code and the nuances of the 4 percent or 9 percent federal tax credits

Incentive #2: Increase the In-Lieu Fees on New Development Placed into the Town's Housing Trust Fund

The Town established a Housing Trust Fund by adopting In-Lieu Fees on new development. The Trust Fund has a current capital base of approximately \$440,000. In August 2019, the Town authorized the creation of a Revolving Loan Fund program from the Housing In-Lieu Fee Account to be used for the purchase of deed restricted homes.

■ Action Step

The Town should consider increasing the In-Lieu Fees that will be collected and placed into the Housing Trust Fund. Adopting In-Lieu Fees was a great start, but the available funding is too small to make a significant impact.

Incentive #3: Establish an Inclusionary Zoning Ordinance that Incentivizes Affordable Housing

The Town could adopt an inclusionary zoning ordinance that encourages or requires developers and homebuilders to include affordable units in any new approved multifamily housing projects.

■ Action Step

The Town should study the potential to adopt voluntary or mandatory inclusionary zoning and the requirements to set-aside affordable units in all new development proposals. The Town should also be prepared to offer non-monetary incentives such as density bonus, expedited approval, and fee waivers that will encourage developer participation in an inclusionary housing initiative.

Incentive #4: Modify Zoning to allow Single Family Home Owners to Develop Secondary Units or "Granny Units"

Allowing home owners to build secondary units on site could add to the supply of permanent rental units. In exchange for a permit to build a second unit on site, the Town could require the property owner to include a deed that restricts future occupants to be full-time renters and prohibit the owner from renting the unit to seasonal short-term visitors. This action does not guarantee the second unit will be affordable, but it will add to the supply of permanent rental housing and ease the pressure for low-income workers to find rental units because more market rate rental units will be added.

■ Action Step

The Town should study the potential to modify zoning and support second units to be developed on single family home sites. The zoning should be modified at the conclusion of the study.

Incentive #5: Negotiate Density Bonuses in Exchange for Developer Commitment to Build New Affordable Housing

Opportunities to add to the supply of new affordable units emerge from time to time as the Town reviews developer proposals to build new multi-family units. Existing zoning determines what every property owner and developer can build on any given site. The Town can allow current zoning to be modified in order to accomplish the objective of privately funding more affordable housing.

■ Action Step

The Town should negotiate with a developer that owns 2.5 acres of land that is currently zoned and entitled for 36-multifamily housing units. Developer negotiations would present the Town with an opportunity to incentivize the private financing of new affordable units on the site. A density bonus could be offered that allows the developer to increase the units from 36 to 75. In exchange, the developer could agree to include 25 affordable rental units in the mix of 75 units allowed.

Incentive #6: Allow Existing Commercial Centers to be Redeveloped with a Mix of Residential and Commercial Uses

The existing commercial centers in Mammoth Lakes could be revitalized with new development that allows a mix of residential and commercial uses. This would add to the supply of rental housing and ease the pressure for low income workers to find rental units in town.

■ Action Steps

The Town should study the potential to add residential into the mix of existing commercial areas. The study should seek input from property owners and identify implementation actions for any commercial area that might be converted to mixed uses.

Appendices



California Tax Increment Financing Tools Comparison Chart

POWERS

TOPIC	RDA	EIFD	CRIA	WHAT'S NEEDED
Infrastructure Financing	Yes — if no other reasonable means of financing available <input checked="" type="radio"/>	Yes — for public capital facilities and projects of community-wide significance <input checked="" type="radio"/>	Yes <input checked="" type="radio"/>	
Land Acquisition	Yes — may acquire itself or finance acquisition <input checked="" type="radio"/>	Yes — finance acquisition only <input checked="" type="radio"/>	Yes — may acquire itself or finance acquisition <input checked="" type="radio"/>	Permit EIFDs to acquire itself
Eminent Domain	Yes — 12 year limit <input checked="" type="radio"/>	Under Gatto only for environmental remediation <input checked="" type="radio"/>	Yes — 12 year limit <input checked="" type="radio"/>	Permit under EIFD
Land Conveyance	Yes <input checked="" type="radio"/>	No <input type="radio"/>	Yes — may convey surplus properties <input checked="" type="radio"/>	Permit under EIFD
Environmental Remediation	Yes <input checked="" type="radio"/>	Yes <input checked="" type="radio"/>	Yes <input checked="" type="radio"/>	
Affordable Housing	Yes — 20% set-aside <input checked="" type="radio"/>	Yes — no set-aside but any housing units assisted must be affordable <input checked="" type="radio"/>	Yes — 25% set-aside <input checked="" type="radio"/>	
Maintenance, Operations and Services	No <input type="radio"/>	Yes — maintenance of improvements financed by EIFD <input checked="" type="radio"/>	No <input type="radio"/>	Permit under CRIA

FINANCING

TOPIC	RDA	EIFD	CRIA	WHAT'S NEEDED
Property Tax Increment	Yes — mandatory for all taxing agencies <input checked="" type="radio"/>	Yes — Only for consenting taxing agencies based on shares designated in plan. Education districts may not consent <input checked="" type="radio"/>	Yes — Only for consenting taxing agencies based on shares designated in plan. Education districts may not consent <input checked="" type="radio"/>	Develop tools to encourage participation from other taxing agencies. Allow school districts to voluntarily participate.
Other Tax Revenues	No <input type="radio"/>	Yes — only for consenting agencies to fund housing and infrastructure <input checked="" type="radio"/>	No <input type="radio"/>	Permit under CRIA
Issuance of Tax Allocation Bonds	Yes — with Board approval <input checked="" type="radio"/>	Yes — with Board and 55% Voter approval <input checked="" type="radio"/>	Yes — no voter approval required <input checked="" type="radio"/>	Eliminate voter approval requirement under EIFD
Term	Up to 45 years of receipt of taxes to repay debt <input checked="" type="radio"/>	Up to 45 years from issuance of bonds <input checked="" type="radio"/>	Up to 45 years from district formation <input checked="" type="radio"/>	

Full Power Limited Power No Power

National Development Council Project Feasibility Forms

Project Sources and Uses of Funds

PROJECT SOURCES & USES OF FUNDS										
Uses of Funds					Sources of Funds					
Use	Amount	Lender	Term	Estimated Rate	Collateral	Amount	Annual Debt Service			
Land										
Building Construction/ Renovation										
Machinery and Equipment										
Furniture and Fixtures										
Leasehold Improvements										
Contingencies										
Working Capital										
Total Uses of Funds	\$ _____	Total Sources of Funds					\$ _____	\$ _____		

Total Uses = Total Sources

Comments:

Version: March 2016



Project Cost Summary Worksheet

PROJECT CATEGORIES	PROJECT COSTS	TAX CREDITS			DEPR.	AMORT. COST
		REHAB. TAX CREDIT	LOW-INCOME HOUSING TAX CREDIT (LIHTC)			
			ACQUIS. CREDIT (4%)	CONSTRUCT. CREDIT (4% OR 9%)		
PURCHASE LAND AND BUILDINGS						
Acquisition – Land Portion						
Acquisition – Building Portion						
SITE WORK						
On-Site Work						
Off-Site Work (i.e., streets, curbs, etc.)						
REHABILITATION / CONSTRUCTION						
New Construction Costs						
Rehabilitation Costs						
Construction Contingency (____%)						
Fees and Permits						
OTHER DEPRECIABLE						
Furniture, Fixtures & Equipment						
PROFESSIONAL FEES						
Architect Fee – Design / Supervision						
Impact Fees						
Engineering						
Accounting / Real Estate Attorney						
Appraisal, Market Study, Env. Report, Consulting, Cost Certification, etc.						
Other Contingency (____%)						
DEVELOPER'S FEES						
Developer's Fees						
General Partner Fees						
INTERIM COSTS						
Construction Interest						
Construction Loan Fee						
Insurance, Title, etc.						
Taxes, Performance Premium, etc.						
PERMANENT FINANCING FEES AND EXPENSES						
Permanent Loan Fees						
Tax Credit Fees						
START-UP EXPENSES						
Organizational Expense						
Marketing						
SYNDICATION COSTS						
Syndication Legal Fee						
Tax Opinions, Other fees						
PROJECT RESERVES						
Operating / Vacancy / Lease Up Reserves						
Maintenance / Replacement Reserves						
TOTAL						

Developer Pro Forma Spreadsheet

	YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	YR10	Stabilized NOI
REVENUES											
Gross Residential Rent											
+ Gross Commercial Rent											
+ Commercial Tenant Contributions											
+ Other Income											
= Gross Income											
- Vacancy Residential											
- Vacancy Commercial											
= EFFECTIVE GROSS RENT (EGR)											
- OPERATING EXPENSES Insurance, Maintenance, Property Taxes, Misc. Operating Expenses and Management Fees											
- RESERVE DEPOSITS											
= NET OPERATING INCOME (NOI)											
- DEBT SERVICE (Annual Interest and Principal Payments)											
Loan #1											
Loan #2 (if applicable)											
- TOTAL DEBT SERVICE (D/S)											
= CASH FLOW (CF) (Available For Distribution)											
CASH-ON-CASH ROI											
Cash Flow Available for Distribution (CF)											
Original Equity Investment (EO)											



USDA Rural Development Program Matrix



USDA Rural Development Summary of Major Programs

USDA Rural Development is committed to future of rural communities. Through our programs, we help to improve the economy and quality of life for rural Americans.

Rural Development contacts and funding notices are at www.rd.usda.gov. The **Contact Us** menu tab has office addresses and phone numbers, or use our toll-free number at 1 (800) 670-6553 to be connected.

Rural Housing and Community Facilities Programs

Program	Objective	Applicant	Uses	Population	Loan/Grant	Terms/Conditions
<u>Single-Family Housing Direct Loans (including Self-Help Loans)</u>	Safe, well-built, affordable homes for very-low- and low-income rural Americans.	Families and individuals.	Buy, build, improve, repair or rehabilitate a rural home as the applicant's permanent residence.	Rural areas with populations of up to 35,000.	Direct loan.	Up to 100% of market value or cost. Loan term of 33/38 years. Applicant may be eligible for payment assistance (subsidy) on the loan.
<u>Single-Family Housing Loan Guarantees</u>	To assist low- to moderate-income applicants/household buy their homes by guaranteeing loans made by private lenders.	Families and individuals.	Purchase new or existing homes and refinance existing Rural Development guaranteed or direct loans.	Rural areas with populations of up to 35,000.	Loan guarantee.	30-year fixed. The interest rate is negotiated between lender and borrower. Loans up to 100% of market value plus the amount of the up-front guarantee fee being financed.
<u>Single-Family Repair Loans and Grants</u>	To help very-low-income applicants remove health and safety hazards or repair their homes.	Families and individuals who currently own their home.	Repair/replace roof, winterize, purchase or repair heating system, structural repair, water/sewage connect fees, etc.	Rural areas with populations of up to 35,000.	Direct loan and grant.	Loans up to \$40,000 up to 20 years at 1%. Grants up to \$10,000 available to very-low-income applicants 62 years or older unable to pay a 1% loan.
<u>Self-Help Housing Technical Assistance Grants</u>	Helps lower-income families build their own homes.	Nonprofits and public bodies.	Technical assistance to help small groups of families build each other's homes.	Rural areas with populations of up to 35,000.	Grant.	Grant agreement.
<u>Rural Rental Housing Direct Loans</u>	Safe, well-built, affordable rental housing for very-low-income individuals and families.	Individuals, trusts, associations, limited partnerships, for-profit and nonprofit entities, tribes, public bodies.	Rental housing new construction or substantial rehabilitation.	Rural areas with populations of up to 35,000.	Direct loan.	Up to 100% of total development cost (nonprofits); 97% (for-profits); 95% (for-profits with Low-Income Housing Tax Credits). 30-year term with up to 50-year amortization.
<u>Rural Rental Housing Loan Guarantees</u>	Guarantees on loans to build or preserve affordable housing for very-low to moderate-income tenants.	For-profit and nonprofit lenders.	Build or rehabilitate affordable rental housing.	Rural areas with populations of up to 35,000.	Loan guarantee.	At least 25-year term with fixed interest rate. Loan guarantees on up to 90% of the principal.
<u>Housing Preservation Grants</u>	Repair and rehabilitate housing owned or occupied by very-low- and low-income rural families.	Public bodies and nonprofit organizations.	To operate a program that finances repair and rehabilitation activities for single-family and small rental properties.	Rural areas with populations of up to 35,000.	Grant.	Grant agreement.
<u>Farm Labor Housing Loans and Grants</u>	Safe, well-built affordable rental housing for farmworkers.	Individuals, public and private nonprofit organizations.	Rental housing new construction or substantial rehabilitation.	Not applicable.	Direct loan and grant.	Up to 102% of total development cost. Up to 33 years to repay at 1% interest.
<u>Community Facilities Loans and Grants</u>	Improve, develop, or finance essential community facilities for rural communities.	Public bodies, nonprofits, and Federally recognized Indian Tribes.	Construct, enlarge, or otherwise improve essential community facilities, such as public safety, fire and rescue, telecommunications, schools, libraries, hospitals, other healthcare facilities, etc. This may include furnishings, fixtures, and other required equipment.	City, town, or unincorporated area of not more than 20,000 in population. Facilities must primarily serve rural residents.	Direct loan, loan guarantee, or grant.	Up to 100% of market value. Term is for useful life of the facility or equipment, the State statute, or 40 years. Maximum grant 75% of project cost. Grant eligibility based on income, population, and need.
<u>Rural Community Development Initiative</u>	To facilitate housing, community facility, and community and economic development projects.	Private nonprofit or public organizations, philanthropic foundations, low-income communities.	Technical assistance grants of \$50,000 to \$300,000 to develop the capacity and ability of awardees to carry out needed projects.	City, town, or unincorporated area of not more than 50,000 in population.	Grant.	Matching funds required for grant.

For direct loans and grants, apply to Rural Development. For loan guarantees, apply to participating intermediaries such as approved banks, mortgage companies, etc.

Rural Business and Cooperative Programs

Program	Objective	Applicant	Uses	Population	Loan/Grant	Terms/Conditions
<u>Business and Industry Loan Guarantees</u>	Create jobs/stimulate rural economies by providing financial backing for rural businesses.	Lenders/businesses.	Real estate, buildings, equipment, supplies, working capital, and some debt refinancing.	All areas except cities over 50,000 and their contiguous urbanized areas.	Loan guarantee.	Lender and borrower negotiate terms. Up to 30 years for real estate, 15 years for machinery and equipment, and 7 years for working capital.
<u>Rural Business Development Grants</u>	Help small and emerging private businesses, and/or nonprofits in rural communities, startup or expand. Note: This program combines the former Rural Business Enterprise Grant and Rural Business Opportunity Grant programs and was created through the 2014 Farm Bill.	Public bodies, government entities, nonprofit entities, and Federally recognized tribes.	Acquire or develop land, buildings, plants and equipment; build or improve access roads, parking areas, utility extensions, and water and waste disposal facilities; provide technical assistance; establish revolving loan funds; and support rural distance learning programs that provide educational or job training.	All areas rural in character except cities over 50,000 and their contiguous urbanized areas.	Grant.	Grants are awarded on a competitive basis.
<u>Intermediary Relending Program Loans</u>	Establish revolving funds for business facilities and community development projects.	Public bodies, nonprofit corporations, Native American tribes, and cooperatives.	Community development projects, establish or expand businesses, create or save rural jobs.	Rural areas and incorporated places with populations of less than 50,000.	Direct loan.	The intermediary makes loans to businesses from its revolving loan fund on terms consistent with security offered. Intermediary pays 1% for 30 years.
<u>Rural Microentrepreneur Assistance Program</u>	Establish revolving funds to target assistance to small rural enterprises.	Microenterprise Development Organizations (MDOs).	Loans, technical, and capacity-building assistance to businesses with 10 or fewer employees and sole proprietorships.	All areas except cities over 50,000 and their contiguous urbanized areas.	Loans, grants.	Rural microenterprises apply directly to the intermediary.
<u>Rural Economic Development Loans and Grants</u>	Finance economic development and job creation in rural areas.	Rural Utilities Service-financed electric and telephone utilities.	Business startups or expansion projects that create rural jobs.	Rural areas with priority to places with populations of 2,500 or less.	Direct loan or grant to establish revolving loan fund.	Intermediary makes loans to for-profit or nonprofit businesses and public bodies. Loans are 0% for 10 years.
<u>Rural Cooperative Development Grants</u>	Establish/operate centers for cooperative development.	Nonprofits and institutions of higher education.	Establish centers to provide technical assistance, training, applied research, and data collection and interpretation, for the purpose of cooperative development.	All areas except cities over 50,000 and their contiguous urbanized areas.	Grant.	Minimum 25% fund match (5% for 1994 Institutions). Grants awarded competitively.
<u>Socially Disadvantaged Groups Grants</u>	Funds to eligible co-ops, co-op associations, or co-op development centers for technical assistance to small, socially disadvantaged groups in rural areas. Note: This program was formerly known as the Small, Socially Disadvantaged Producer Grants Program.	Cooperatives and co-op development centers that serve socially disadvantaged groups where a majority of the board of directors or governing board is comprised of individuals who are members of socially disadvantaged groups.	Technical assistance.	All areas except cities over 50,000 and their contiguous urbanized areas.	Grant.	Grants are awarded on a competitive basis. There is no matching requirement.
<u>Value-Added Producer Grants</u>	Help independent agricultural producers enter into activities that add value to their products.	Independent producers, farmer and rancher cooperatives, producer groups, majority-controlled producer-based business ventures.	Feasibility studies, business plans; working capital.	All areas.	Grant.	Grants are awarded on a competitive basis. Funds may not be used to build facilities or purchase equipment. Funds must be matched on a dollar-for-dollar basis.

Rural Business and Cooperative Programs (Continued)

Program	Objective	Applicant	Uses	Population	Loan/Grant	Terms/Conditions
<u>Rural Energy for America Program (REAP) Loan Guarantees and Grants</u>	Provide assistance for energy efficiency improvements or to purchase a renewable energy system for operations.	Rural small businesses and agricultural producers.	Energy efficiency improvements, renewable energy systems, land acquisition, and working capital.	Cities, towns, unincorporated areas with population less than 50,000. (Population limits do not apply to agricultural producers.)	Loan guarantee and/or grant.	Grants up to 25% of project costs not to exceed \$250,000 for energy efficiency projects and \$500,000 for renewable energy. Loan guarantees up to 75% of project cost not to exceed \$25 million.
<u>REAP Audit/Development Grants</u>	Grants for entities to pass through to small businesses or agricultural producers for 75% of the cost of an energy audit or renewable energy development assistance.	State, tribal, or local government institutions of higher education; rural electric cooperatives; or public power entities.	\$100,000 grant to entities; smaller ones to small businesses and agricultural producers for 75% of energy audit or renewable energy development assistance.	Cities, towns, unincorporated areas with population less than 50,000.	Grant.	\$100,000 to entities and up to 75% of the cost of energy audit for renewable energy development assistance.
<u>Biorefinery, Renewable Chemical, and Biobased Product Manufacturing Assistance Program Loan Guarantees</u>	Loan guarantees to develop and construct commercial-scale biorefineries or retrofit facilities using eligible technology for the development of advanced biofuels. Note: This program was formerly known as the Biorefinery Assistance Program.	Individuals, Indian Tribes, State or local governments, corporations, farm cooperatives, associations of agricultural producers, national laboratories, higher learning institutions, rural electric co-ops, public power entities, consortiums of any of the entities.	Loan guarantees to develop and construct commercial-scale biorefineries or retrofit facilities to use eligible technology for the development of advanced biofuels.	No restrictions.	Loan.	90% (maximum) guarantee on loans up to \$125 million; 80% (maximum) guarantee on loans less than \$150 million; 70% (maximum) guarantee on loans of \$150 million but less than \$200 million; 60% (maximum) guarantee on loans of \$200 million up to \$250 million.
<u>Repowering Assistance Program</u>	Payments to biorefineries to replace fossil fuels with biomass.	Biorefineries.	Grant to biorefineries, including ethanol and biodiesel plants that use electricity generated from natural gas and coal and require this for the fermentation process.	No restrictions.	Grant.	As funds are available. Complete applications submitted to National Office for review. Grant awards determined by National Office.
<u>Advanced Biofuel Payment Program</u>	Payments to producers of advanced biofuels.	Eligible producers of advanced biofuels.	Grant to producers of advanced biofuels (non-commercial-based).	No restrictions.	Grant.	As funds are available. Complete applications submitted to National Office for review. Grant awards determined by National Office.

For direct loans and grants, apply to Rural Development. For loan guarantees, apply to participating intermediaries such as eligible banks, etc. For revolving funds (IRP, REDLG, RMAP), intermediaries apply to Rural Development, others to the intermediaries.

Rural Utilities Programs

Program	Objective	Applicant	Uses	Population	Loan/Grant	Terms/Conditions
<u>Water and Waste Disposal Loans and Grants</u>	Provide infrastructure for rural areas.	Public entities, Indian Tribes, and nonprofit corporations.	Build, repair, and improve public water systems and waste collection and treatment systems.	Rural areas and towns with up to 10,000 population.	Direct loan and grant.	Repayment period is a maximum of 40 years. Grant funds may be available.
<u>Water and Waste Disposal Loan Guarantees</u>	Provide infrastructure for rural areas.	Public entities, Indian Tribes, and nonprofit corporations.	Construct, repair, and improve water supply and distribution systems and waste collection and treatment systems.	Rural areas and towns with up to 10,000 population.	Loan guarantee.	Eligible lenders obtain up to a 90% guarantee on loans they make and service.
<u>Solid Waste Management Grants</u>	Provide technical assistance and/or training to those who operate and maintain active landfills.	Public bodies, private nonprofit organizations, Indian Tribes, and academic institutions.	Technical assistance and training to improve landfill conditions and protect against threats to nearby water resources.	Rural areas and towns with up to 10,000 population.	Grant.	Applications accepted year-round. Complete applications submitted to National Office for review.
<u>Technical Assistance/ Training/Circuit Rider</u>	Provide technical assistance and training.	Public, private, and nonprofit organizations.	Technical assistance and training to assist with management of water and waste projects.	Rural areas and towns with up to 10,000 population.	Grant.	As funds are available. Complete applications submitted to National Office for review.
<u>Rural Broadband Direct Loans and Loan Guarantee</u>	Deployment of broadband service to eligible rural communities. Note: The 2014 Farm Bill revised program provisions. An interim rule was published in published in FY 2015.	Entities seeking to provide broadband services in rural areas.	Funds to construct, improve, and acquire facilities and equipment to provide broadband service in eligible rural communities.	Refer to the rule for specific definition and population limits.	Minimum and maximum loan amounts published annually in the <i>Federal Register</i> .	Refer to the rule for loan terms and conditions.
<u>Electric and Telecommunications Loans</u>	Help rural communities obtain affordable, high-quality electric and telecommunications services.	Nonprofit and cooperative associations, public bodies, and other utilities.	Generation, transmission facilities and distribution of electric power, including alternative, renewable, conservation and energy efficiency programs. Enhance 911 emergency service, digital switching equipment, and fiber optic cable, along with traditional main system telecommunications service.	Electric: areas served by an existing rural electric borrower, or rural areas other than a city or town of more than 20,000. Telecommunications: areas cities with population under 5,000.	Direct loan or loan guarantee.	Interest rates established in accordance with 7 CFR 1714. Contact RUS at www.rd.usda.gov or 1 (800) 670-6553.
<u>Energy Efficiency and Conservation Loan Program</u>	Finances energy efficiency and conservation projects for commercial, industrial, and residential consumers.	Existing electric loan borrowers (utilities) serving rural areas.	Improve energy efficiency for existing electric facilities; attract new business and create jobs; reduce fossil-fuel use; energy-efficiency measures for consumers; energy audits; and more.	Rural areas and towns up to 20,000 population. Eligible communities can be combined into larger service areas.	Loans.	Repayment period is 15 years unless ground-loop source investments or technology have a longer lifespan.
<u>Rural Energy Savings Program</u>	Helps rural families and small businesses achieve cost savings through loans to qualified consumers to implement durable cost-effective energy efficiency measures.	Current and former RUS borrowers or their subsidiaries, and entities that meet retail electric service needs in rural areas.	Implement energy efficiency measures to decrease energy use or costs for rural families and small business.	Contact RUS to determine whether a project is in an eligible rural area.	Loans.	Up to 20 years at 0% interest; up to 3% interest for relending to qualified end-users/ consumers for up to 10 years; up to 4% of the loan total may be used for startup costs.

Rural Utilities Programs (Continued)

Program	Objective	Applicant	Uses	Population	Loan/Grant	Terms/Conditions
<u>Distance Learning and Telemedicine</u>	Develop and deploy advanced telecommunication services throughout rural America to improve education and healthcare.	Incorporated entities, including municipalities, for-profit, and nonprofit corporations that operate rural schools, libraries, healthcare clinics, and other educational or healthcare facilities.	To provide end-user equipment and programming that delivers distance learning and telemedicine services into eligible areas.	Rural areas outside incorporated or unincorporated cities with populations up to 20,000.	Grant.	Awards range from \$50,000 to \$500,000. A minimum of 15% in matching funds is required.
<u>Community Connect Grants</u>	Provide public access to broadband in otherwise un-served communities.	Public bodies, tribes, cooperatives, nonprofits, limited dividend or mutual associations, corporations, and other legally organized entities	To build broadband infrastructure and establish a community center that offers free public access to broadband for 2 years.	A single community outside incorporated or unincorporated cities with a population over 20,000 and that does not have broadband.	Grant.	Minimum: \$50,000; Maximum: \$1 million. Amounts are published in Notices of Funding Availability and may vary.

Electric and Telecom programs: Contact the Rural Utilities Service Administrator; Water programs: Contact the Rural Development State Office. CFR refers to Code of Federal Regulations.

Rural Development Program Purposes

Rural Housing and Community Facilities Programs	Land & Buildings	Machinery & Equipment	Working Capital	Infrastructure	Technical Assistance/ Training
Single Family Housing Direct Loans (including Self-Help Loans)	◆				
Single Family Housing Loan Guarantees	◆				
Single Family Housing Repair Loans/Grants	◆				
Self-Help Housing Technical Assistance Grants					◆
Rural Rental Housing Direct Loans	◆			◆	
Rural Rental Housing Loan Guarantees	◆			◆	
Housing Preservation Grants	◆	◆	◆	◆	◆
Farm Labor Housing Loans/Grants	◆			◆	
Community Facilities Direct Loans, Loan Guarantees, Grants*	◆	◆	◆	◆	
Rural Community Development Initiative					◆
Rural Business and Cooperative Programs					
Business and Industry Loan Guarantees	◆	◆	◆	◆	
Rural Business Development Grants	◆	◆		◆	◆
Intermediary Relending Program Loans	◆	◆	◆		
Rural Microentrepreneur Assistance Program	◆	◆	◆	◆	◆
Rural Economic Development Loans and Grants	◆	◆	◆	◆	◆
Rural Cooperative Development Grants					◆
Socially Disadvantaged Groups Grants					◆
Value-Added Producer Grant			◆		◆
Rural Energy for America Program Loan Guarantees/Grants	◆	◆		◆	◆
Biorefinery, Renewable Chemical, and Biobased Product Manufacturing Assistance Program Loan Guarantees					
Repowering Assistance Program					
Advanced Biofuel Payment Program					
Rural Utilities Programs					
Water and Waste Disposal Direct Loans, Loan Guarantees, Grants	◆	◆		◆	
Solid Waste Management Grants					◆
Technical Assistance/Training/Circuit Rider					◆
Rural Broadband Direct Loans and Loan Guarantees	◆			◆	
Electric and Telecommunications Direct Loans/Loan Guarantees	◆	◆		◆	
Energy Efficiency and Conservation Loan Program	◆	◆		◆	
Rural Energy Savings Program	◆	◆		◆	
Distance Learning and Telemedicine Loans/Grants		◆		◆	
Community Connect Grants	◆	◆	◆	◆	

* Initial operating expenses are eligible in conjunction with financing an eligible Community Facility project. However, grant funds may not be used to fund initial operating expenses.

California Staff Contacts

USDA Rural Development has 18 offices across California, including the state office located in Davis, and a dedicated team of professionals ready to help answer your questions. Find us online at www.rd.usda.gov/ca or on Twitter at [@CaliforniaRD](https://twitter.com/CaliforniaRD).

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