

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: March 16, 2007

IBA Report Number: 07-31

City Council Docket Date: March 20, 2007

Item Number: 353

Subject: Statewide Community Infrastructure Program (SCIP)

OVERVIEW

The Statewide Community Infrastructure Program (SCIP) is a program offered to member agencies by the California Statewide Development Authority (CSCDA), a joint powers authority to which the City belongs. If adopted, SCIP would provide impacted property owners with the option of accessing tax-exempt financing to pay development impact fees over time. The City Council is being asked to adopt a resolution that consents to the City's participation in CSCDA's SCIP. This report provides additional information about SCIP and discusses benefits/considerations related to the City's participation in the program.

FISCAL/POLICY DISCUSSION

Statewide Community Infrastructure Program (SCIP)

As mentioned in the Report to the City Council, SCIP was developed by CSCDA in 2002 to allow property owners in participating cities and counties to finance development impact fees required of property owners when building permits are pulled. City development impact fees that would be eligible for this program include the Facilities Benefit Assessment (FBA) and the Development Impact Fee (DIF). If a property owner elects to participate in SCIP, CSCDA will include the amount of the property owner's FBA or DIF in a larger bond issue that will be secured by an assessment lien on the associated property. CSCDA issues bonds once or twice a year to accommodate property owners in participating member agencies.

Depending on when bonds are issued for SCIP and when development impact fees are due to the City, property owners can either rely on SCIP to make payment from available

bond proceeds or opt to make direct payment to the City and subsequently be reimbursed by SCIP. Similar to the City's issuance of 1913/1915 Act or Community Facilities District bonds to finance public infrastructure, SCIP enables property owners (typically developers) to: 1) access tax-exempt, long-term financing (bonds typically have a 30-year term); 2) transfer debt service payment responsibility to subsequent owners of the property and 3) elect to pay off the assessment and remove the associated property lien at any time. SCIP differs from the City's issuance of 1913/1915 Act or Community Facilities District bonds to finance public infrastructure in that property owners have the sole discretion as to whether or not they participate and because the bonds are issued/administered by CSCDA as opposed to the City.

When CSCDA issues bonds for SCIP, they are issuing the same 1913/1915 Act bonds that the City has directly issued in the past at the request of property owners. The City has historically allowed property owners to utilize 1913/1915 Act or Community Facilities District bonds to finance public infrastructure, but not development impact fees. The SCIP program would handle all aspects of 1913/1915 Act bond issuance and administration on behalf of participating property owners with the City's consent. The resolution before the Council on March 20, 2007 will enable CSCDA to utilize SCIP on behalf of interested property owners by authorizing them to conduct special assessment proceedings and levy assessments within the City.

Benefits to the City and Related Considerations

The Report to the City Council states that "the availability of financing will encourage developers to pull permits and pay fees in larger blocks, giving the participating cities and counties immediate access to revenues for public infrastructure, rather than receiving a trickle of revenues stretched out over time." The IBA believes that this benefit is overstated as developers understand that they are paying to borrow and are therefore unlikely to pay sooner than they would normally be compelled to pay, when they pull their permits. It is our understanding that CSCDA will establish a sub-account for the City on behalf of participating property owners when bonds are issued and that they will remit proceeds from that account to the City upon request. Despite CSCDA's willingness to forward bond proceeds at the City's request, the IBA recommends that the City Attorney review whether the City can or should be allowed to access/utilize SCIP bond proceeds before a property owner would otherwise be required to pay. This is relevant when a property owner elects to pull permits for some, but not all, of the property for which developer impact fees have been financed through SCIP.

The IBA believes that the primary benefit of SCIP is that it allows the City to provide property owners and developers with access to tax-exempt, long-term financing without the City having to bear any of the responsibility or costs for issuing or administering debt. An equally attractive benefit to developers is that this mechanism allows them to transfer the debt service responsibility to the buyers of their property once developed. Although future buyers of these properties will be apprised of the SCIP assessments at the time of purchase, they occasionally will have subsequent questions about the assessment lien on

their property. CSCDA contact information is provided to the County assessor, rather than the City being listed as a contact, to answer any questions that subsequent property owners may have.

There are fees that property owners must pay to participate in the SCIP program. Initially, interested property owners pay a \$1,500 application fee to CSCDA and will typically be required to pay for an appraisal of their property. They will also pay a pro-rata share of bond issuance and debt service reserve fund costs for the bonds (roughly 13% of the development impact fees being financed). Finally, they will pay for annual debt and assessment administration provided by a firm hired by CSCDA. Property owners are apprised of these fees prior to SCIP participation.

CONCLUSION

Given the represented discretionary financing benefits to property owners without associated costs or responsibilities to the City, the IBA supports participation in this program provided that there is full disclosure to current and subsequent property owners about all related fees and comprehensive assessment administration by CSCDA. We believe that the primary benefit of this program accrues to property owners without significantly enhancing the City's receipt of developer impact fees. The principle benefit of SCIP to property owners is access to tax-exempt, long-term financing and the ability to transfer the debt service associated with this financing to subsequent buyers.

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