

...City of Fort Bragg...

**PROPOSED ECONOMIC DEVELOPMENT &
HOUSING DEVELOPMENT INCENTIVES MANUAL**

GUIDE TO ECONOMIC DEVELOPMENT FINANCING TOOLS

JANUARY 29, 2020

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INTRODUCTION

The City of Fort Bragg welcomes new business investment and supports businesses which have already chosen to invest in our community. The City recognizes that investment decisions may be competitive and that high quality development and infrastructure benefits improve the quality of life for our residents and visitors. Effective economic development incentives support economic growth and job opportunities, as well as foster the preservation of residential neighborhoods and the revitalization of commercial districts. The City acknowledges that incentives are an effective way to meeting economic development goals.

Economic Development strategies, when used strategically, can promote employment opportunities and build the City's tax base. This document provides a standard approach and guidelines to ensure that economic development incentives support the goals of Fort Bragg community revitalization, attract new businesses, encourage investment of local businesses, and are applied consistently.

COMMUNITY FACILITIES DISTRICT

In 1978, Proposition 13 was enacted by Californians, which limited the ability of many public agencies to finance new projects. In 1982, Senator Henry Mello and Assemblyman Mike Roos affected the passage of the “Mello-Roos Community Facilities Act of 1982” (the Act) authorizing local governments and developers to create Community Facilities Districts (CFDs) for the purpose of selling tax-exempt bonds to fund public improvements that will benefit the district.

ELIGIBLE ACTIVITIES

The range of public facilities that may be financed with a Community Facilities District (CFD) is very broad and there is an extensive description of authorized facilities in the Mello-Roos Act. Generally, a CFD may be used to finance the purchase, construction, expansion, improvement or rehabilitation of real or other tangible property with an expected useful life of five years or longer, which the local agency is authorized by law to construct, own, operate, or to which it may contribute revenue. The following list are common improvements financed through CFDs:

- Streets
- Utility mains
- Parks and playgrounds
- Sidewalks
- Street lights
- Storm water facilities

FINANCING

Financing is accomplished through the issuance of tax-exempt bonds. The issuance of bonds provides up-front funds for capital projects. The bonds are repaid with a special tax levied on the properties within the district boundaries and therefore the City has no payment obligation. The property owners in the district agree to put a lien on their properties in order to provide collateral for the bonds. CFDs provide non-recourse financing for developers often at attractive rates.

APPROVAL PROCESS

Before the City may undertake a Mello-Roos proceeding, it is required to adopt its own “Local Goals and Policies” concerning its use of the Mello-Roos Act. These must include statements of:

- The priority to be given, in the use of the Act, to the various types of public improvements that might be financed, including facilities of other public agencies;
- The credit quality to be required of any bonds issued, and the means of measuring that quality – the focus here usually being the ratio between the value of the property that is the security for the tax, and the amount of bonds permitted to be sold;
- The steps to be taken to ensure that prospective purchasers of property will be informed of the special tax before they enter into a contract to purchase;
- Criteria for evaluating the equity of proposed special tax formulas, and desirable and maximum limits on the special tax;
- Definitions, standards and assumptions to be used for appraisals of the taxable property that will be the security for the bonds.

An Engineer's Report is also required for an assessment district including a Rate and Method of Special Tax Apportionment (RMA) for the CFD. This report specifies the allocation of special taxes or assessments among parcels. Finally, to establish the district the City must hold a public hearing and a vote must be held to include the property owners within the district boundaries which must pass with 2/3 of the vote.

SCENARIO

As an example of implementation of this type of financing, one might envisage a group of adjacent property owners wishing to install infrastructure such as streets, street lights, sidewalks, water mains and sewer mains in order to facilitate development of the properties. The group of property owners approach the City and request sponsorship of a Community Facilities District. In collaboration with the City they form the CFD upon a vote of 2/3 of the property owners within the district and impose a 1% special assessment tax on their properties. They bond for the cost of installing the desired infrastructure at a cost of \$30 million. With an appraised value of \$90 million within the CFD, the annual payments for the project will be \$900,000. At this rate, the infrastructure improvements will be paid off in 30 years.

INFRASTRUCTURE FINANCING DISTRICT

The traditional redevelopment economic development tool in California is gone but several new tools are now in place and allow tax increment to be used for various purposes. They differ significantly from “old school” redevelopment, but offer potential to help cities solve problems. Compared with redevelopment, the new tools have reduced financial capacity, thus requiring innovative thinking and new partnerships to maximize their potential.

Tax increment is much different under the new tools. Agreement by any affected agency is now required. A taxing jurisdiction is entitled only to the increment generated on its own share of the property tax unless other local agencies also agree to contribute their shares. For example, if a city forms a new entity, the city can direct only the increment derived from its own share to this purpose, unless the county and/or special districts also agree to have growth of their respective shares dedicated. As a result, when local governments agree to partner on infrastructure and economic development they can maximize the tool’s financial capacity.

School districts, however, are prohibited from agreeing to allocate growth from their shares of property tax to these purposes, reflecting the state’s concern about the need to backfill any losses. This is a major reduction in financial capacity, because approximately 50 percent of property taxes are allocated to schools.

Three new tools are briefly described below with more detailed descriptions provided as attachments.

ELIGIBLE ACTIVITIES

Typical eligible activities include:

- Infrastructure, such as roads, bridges and wastewater and groundwater facilities;
- Affordable housing, mixed-use development and sustainable development;
- Transit-oriented development;
- Light rail;
- Industrial structures;
- Parks and open space;
- Libraries;
- Child care facilities;
- Military base reuse; and
- Brownfields remediation.

FINANCING

Enhanced Infrastructure Financing District

The Enhanced Infrastructure Financing District (EIFD) law (beginning with Section 53398.50 of the California Gov’t. Code) provides broad authority for local agencies to use tax increment to finance a wide variety of projects. No public vote is required to establish an authority, and though a 55 percent vote is required to issue bonds, other financing alternatives exist. Unlike former redevelopment, this tool imposes no geographic limitations on where it can be used, and no blight

findings are required. An EIFD can be used on a single street, in a neighborhood or throughout an entire city. It can also cross jurisdictional boundaries and involve multiple cities and a county. While an individual city can form an EIFD without participation from other local governments, the flexibility of this tool and the enhanced financial capacity created by partnerships would likely call for creative discussions between the City and other local agencies on how the tool can be used to fund common priorities.

Community Revitalization and Investment Authority

The Community Revitalization and Investment Authorities (CRIAs) law (beginning with Section 62000 of Gov't. Code) authorizes tax increment to be used in combination with the powers of former redevelopment agencies. A CRIA focuses on assisting with the revitalization of poorer neighborhoods and former military bases. While similar to redevelopment, a CRIA is more streamlined. Accountability measures are included to ensure that the use of the CRIA remains consistent with community priorities, and a 25 percent set-aside is included for affordable housing. Although an initial protest opportunity exists, no public vote is required to establish an authority, and bonds and other debt can be issued after a CRIA is established.

Annexation Development Plan

The Annexation Development Plan (ADP) law (Section 99.3 of Revenue and Tax Code) authorizes tax-increment financing to be adopted by consenting local agencies (city and/or a county or special district) to improve or upgrade structures, roads, sewer or water facilities or other infrastructure as part of annexing a disadvantaged unincorporated community. An ADP can be implemented by a special district either formed for this purpose or incorporated into the duties of an existing special district. After the Local Agency Formation Commission (LAFCO) approves the annexation, the special district can issue debt without an additional vote.

APPROVAL PROCESS

Enhanced Infrastructure Financing District

Established by Resolution of the City Council (subject to certain prequalification). Once the District is established a governing body known as a Public Financing Authority (PFA) is appointed and consists of three members of the City Council plus two members of the public. Once appointed, the PFA directs the preparation of an Infrastructure Financing Plan (IFP) that includes the details of the public facilities and other forms of development that is proposed within the area of the district and how those facilities and development will be funded.

Community Revitalization and Investment Authority

A CRIA is a public agency separate from the city, county, or city and county that created it; and deemed to be an "agency" for purposes of receiving property tax increment. Any taxing entity within the Area (except for a school district) may choose to allocate some or all its share of tax increment funds to the CRIA. For a CRIA created by a city, county, or city and county, the governing body consists of three members of the city council plus two members of the public who live or work within the community revitalization and investment area. For a CRIA created through a joint powers agreement the governing body consists of a majority of the members from the legislative bodies of the public agencies that created the authority and a minimum of two public

members who live or work within the area. A CRIA must adopt a Plan that guides its revitalization programs and authorizes receipt and expenditure property tax increment revenues. The Plan must be adopted over a series of three public hearings, held at least 30 days apart. The final version of the plan is subject to written and oral protests. Proceedings to adopt the plan must terminate if there is a majority protest (over 50% of the combined number of property owners and residents in the area). An election on whether to adopt the plan must be called if between 25% and 50% of the combined number of property owners and residents file a protest.

Annexation Development Plan (ADP)

An annexation proposal for a change of organization or reorganization is submitted to LAFCO. To include an ADP, the applicant is required to submit a plan for providing services within the affected territory. The plan for providing services must include a description of the services to be provided; an indication of when those services will be provided; and information about how those services will be financed. A plan for providing services to an unincorporated disadvantaged community is adopted by the local agency that files the application with LAFCO and one or more other consenting local agencies that wish to see services to an unincorporated disadvantaged community improved or upgraded. If an ADP is included with a local agency's application to LAFCO, then the county LAFCO may include in its approval of the application the formation of a special district or reorganization of a special district with the special district's consent, to provide services to the disadvantaged unincorporated community. The property tax increment from those local agencies that consented to the ADP will be allocated to the special district formed or reorganized by LAFCO to fund the identified services through pay as you go or the issuance of bonds

SCENARIO

As an example of implementation of this type of financing, one might envisage the City joining with the County of Mendocino, The Harbor District, The Parks District and the Hospital District to create a multi-entity CRIA for the purpose of meeting the City Council goal of providing 200 units of affordable housing in the next 5 years. The multi-entity Authority is created by way of a joint powers agreement. All of the agencies joining the Authority pledge future tax increment and the newly formed CRIA issues \$3.2 million in tax allocation bonds to purchase a 20 acre lot and construct \$1 million of infrastructure upgrades. The acreage is donated to a housing developer who constructs 100 units of moderate-income housing and 100 units of low-income housing. All rental units are stipulated to remain affordable for 55 years and all owner-occupied units are stipulated to remain affordable for 45 years. The bonds are repaid over a period of 40 years using the tax increment created in the Authority area.

BUSINESS IMPROVEMENT DISTRICT

A Business Improvement District (BID) is a program under which the city levies an assessment against businesses or property to fund services or improvements that benefit the assessed business or property. BIDs are increasingly common in downtowns and other commercial areas to provide localized marketing, sanitation, security and other services. Cities find BIDs attractive because they can help bolster an aging commercial area, ideally leading to increased tax revenue for the City, with minimal investment of general fund tax dollars. A city council can only establish a BID after the owners of the businesses or property have indicated their support for the BID via a petition, a ballot, or both. Assessments may be against businesses (tenants) or property (owners). Assessments against businesses are usually collected by cities along with their business license taxes, and against property are usually collected as part of the property tax.

BIDs also require a “management district plan” containing specific information about the proposed BID, be prepared for each BID at the beginning of the establishment process. Additionally, if assessments are to be levied against property, it is required that the assessment be supported by a “detailed engineers report” that typically includes analysis describing how the proposed assessment complies with the requirements of Proposition 218. These two documents are sometimes combined into a single document, and with the resolutions adopted by the city council during the establishment process serve as the “constitution” for the BID.

While BID programs can be designed in-house or by the business or property owners who propose the BID, it is typical for these programs to be created by a specialized BID consultant. Fees for the consultant are sometimes paid by the city and are sometimes paid by the BID proponents. These costs are sometimes reimbursed from the first BID assessments, but if the BID is not successfully established, there will be no assessments from which to make reimbursements.

Cities can structure BIDs so that the services and/or improvements are provided directly by the city. However, it is much more common for services and improvements to be provided either by an existing nonprofit organization (such as a chamber of commerce) or by a nonprofit organization formed by BID proponents specifically to serve the BID. Such a nonprofit is often called an “owners’ association” and are usually governed by a board of directors that is elected by the business or property owners subject to the assessment. The relationship between the owners’ association and city is contractual in that the city agrees to pay the owners’ association the proceeds of the assessment (sometimes with a deduction for administrative and collection costs incurred by the city), and the owners’ association agrees to use those proceeds to fund BID services and/or improvements as set forth in the management district plan.

ELIGIBLE ACTIVITIES

BIDs most commonly fund services, such as security services, sanitation services, and marketing services. So long as the services properly benefit assessed businesses or property, the scope of services that can be provided is essentially unrestricted.

BIDs can also acquire, construct, install and maintain improvements. Examples include bus benches, trash receptacles or other street furniture. It is also common for BIDs to install banners

on street lights. The scope of permissible improvements is very broad, essentially encompassing any tangible property with an estimated useful life of at least five years.

There must be a direct tie between the assessment and the benefit provided, and the benefit needs to be over and above general benefits available to the public at large.

APPROVAL PROCESS

There are two laws that authorize the establishment of BIDs—the Parking and Business Improvement Area Law of 1989 and the Property and Business Improvement District Law of 1994. The '89 Law levies assessments against businesses, and the '94 Law allows BIDs be funded by assessments against businesses, property or a combination of the two.

A BID established under the '89 Law (i.e. the BID is limited to assessments against businesses) requires the following steps:

1. The city council adopts a “resolution of intention” setting forth the details of the BID program, a date and time for a public hearing, and other information required by statute.
2. Within seven days of adopting the resolution of intention, a complete copy of that resolution must be mailed to each business owner in the territory of the proposed BID.
3. The city must mail to each business a “joint notice of public meeting and public hearing.” This “joint notice” is typically mailed along with the copy of the resolution of intention.
4. No earlier than ten days after mailing the “joint notice,” the city council must hold “at least one public meeting at which [the city council] shall allow public testimony regarding the proposed...new...assessment.”
5. No earlier than forty-five days after mailing the joint notice, and no earlier than seven days after the public meeting, the city council must hold a public hearing.
6. At the public hearing, the city council must consider oral and written protests. If written protests meeting the requirements of Section 36524 of the Streets & Highways Code are received (and not withdrawn) from “the owners of businesses in the proposed area which will pay 50 percent or more of the assessments proposed to be levied”, then proceedings must be abandoned for no less than one year. Otherwise, the city council may (but is not required to) adopt an ordinance establishing the BID.

A BID established under the '94 Law (i.e. the BID may include assessments against businesses, property or both) requires the following steps:

1. Proponents circulate a petition, and obtain signatures from “property or business owners in the proposed district who will pay more than 50 percent of the assessments proposed to be levied.” If any proposed assessment will pay more than 40 percent of the assessment, that assessee’s obligations in excess of 40 percent do not count towards this calculation. The '94 Law requires that the petition include a summary of the management district plan, which must include:
 - a. “a map showing the boundaries of the district;”
 - b. “information specifying where the complete management district plan can be obtained;” and
 - c. “information specifying that the complete management district plan shall be furnished upon request.”

2. The city council adopts a “resolution of intention.”
3. If the BID includes assessments against property, the city must conduct a property-owner assessment ballot proceeding pursuant to Proposition 218.40 This involves mailing a notice and ballot to each affected property owner at least forty-five days prior to the public hearing. For more information about conducting assessment ballot proceedings, refer to the League of California City’s Proposition 26 & 218 Handbook.
4. If the BID includes assessments against businesses, the city must notice and conduct a public meeting and public hearing pursuant to Section 54954.6 of the Government Code, as outlined in the discussion of the ’89 Law.
5. The city council holds a public hearing.
6. After conducting the public hearing, the city council must abandon proceedings in connection with an assessment against property if the ballots submitted (and not withdrawn) in opposition to the assessment against property exceed the ballots submitted (and not withdrawn) in support of that assessment. For purposes of this calculation, ballots are weighted by the amount of the assessment obligation of the parcel.
7. After conducting the public hearing, the city council must abandon proceedings for at least one year in connection with an assessment against businesses, if written protests meeting the requirements of Section 36623(b) of the Streets & Highways Code are received (and not withdrawn) from “the owners or authorized representatives of businesses in the proposed district that will pay 50 percent or more of the assessments proposed to be levied.”
8. Except to the extent it is required to abandon proceedings by virtue of protests or the assessment ballot proceedings, the city council may (but is not required to) adopt a resolution of formation that establishes the BID.

It is not unusual for cities to create additional procedural steps, such as a petition requirement for BIDs established under the ’89 Law. One reason for imposing additional requirements can be to gauge stakeholder interest before using municipal resources to develop a BID program.

ELIGIBLE ACTIVITIES

- Development and construction of new hotels or motels within City limits with at least ten rooms to be rented on a short term basis (30 days or less) only.
- Construction of additional hotel rooms at an existing hotel or motel to be rented on a short term basis (30 days or less) only.
- Renovation projects for existing hotels or motels rented on a short term basis (30 days or less) within City limits in which no less than \$5,000 per room is invested within a 12-month period.

REBATE

- Up to fifty percent (50%) of new TOT for up to 20 years for new construction
- Up to fifty percent (50%) of incremental TOT increase for up to 10 years for renovations/remodels
- Up to fifty percent (50%) of incremental TOT increase for up to 5 years for construction of additional rooms at existing hotel/motel

APPROVAL PROCESS

City Council approves a Tax Sharing Agreement with a Hotel/Motel owner or developer which sets forth the terms of the full agreement in compliance with the program requirements. Staff will evaluate and estimate the incremental TOT revenue anticipated from the project and determine if and how much of a gap exists to make the project financially feasible and determine a reasonable repayment period. The TOT rebate percentage and time period will be based on those factors with consideration for project specific circumstances or benefits.

SCENARIO

Hotel developer or owner who is interested in constructing a new hotel or motel develops the concept and applies for a planning permit with the City of Fort Bragg. At the same time the developer/owner may request that the City consider a TOT Sharing Agreement. City staff will evaluate the project, the potential incremental revenue, existing or projected gaps in in financial feasibility and provide Council with a proposed Agreement based on the project's alignment with City Council goals and the program criteria.

MILLS ACT

The Mills Act is a California state law and important economic incentive program for the restoration and preservation of historic buildings by private property owners. Mills Act contracts are unusual among preservation incentives in that the tax benefits are available for both income property and owner-occupied property, as well as all types of taxable properties: single-family, multi-family, commercial and industrial. Enacted in 1972, this legislation allows local governments to administer property tax relief to qualified properties who actively participate in restoration and maintenance activities.

NOTE: Owners of properties with comparatively low property taxes may not benefit financially because the assessed value under the Mills Act will likely be higher than the existing Base Year Value of the property under Proposition 13. Generally, this program is beneficial to recent buyers and current owners who have made major improvements to their properties.

ELIGIBLE ACTIVITIES

Eligible activities can include the entire property:

- Interior of buildings, such as flooring, windows, doors, fireplace, decorative features
- Exterior of buildings, such as foundation, roof, cladding, porches, balconies
- Site amenities, such as landscape, hardscape, retaining walls, sheds
- Systems, such as mechanical, electrical and plumbing

These activities are based on the Secretary of Interior's Standard's for the Treatment of Historic Properties, which offer four distinct approaches:

- Preservation – focuses on the maintenance and repair of existing historic materials and retention of a property's form as it has evolved overtime.
- Rehabilitation – acknowledges the need to alter or add to a historic property to meet continuing or changing uses while retaining the property's historic character.
- Restoration – depicts a property at a particular period of time in its history, while removing evidence of the other periods.
- Reconstruction – recreates missing portions of a property for interpretive purposes.

FINANCING

The Mills Act allow qualifying property owners to receive a property tax reduction in order to utilize the savings to help rehabilitate, restore and maintain their buildings. Contracts are administered by the City and renew automatically each year for a ten-year period. The contract is attached to the land, transferring to new owners when a property is sold.

Property valuation is determined by the Assessor as set out in Revenue and Taxation Code, Section 439.21.

NOTE: Failure to rehabilitate the property may cause cancellation of Contract and penalty equaling 12.5% of the fair market value.

APPROVAL PROCESS

Interested property owners of historic structures must complete a Mills Act Program Application Packet. Following review by City staff, eligible applicants will meet to discuss specifics, establish expectations and schedule a pre-contract inspection of the property. City Council considers and approves a Mills Act Contract with property owner. Periodic inspections of the property will be conducted to ensure compliance.

SCENARIO

A property owner interested in applying for tax relief to restore and maintain their qualifying property completes a Mills Act Program Application Package. City staff evaluates the proposal, identifies priority consideration criteria, establishes expectations of applicants and develops contract for City Council consideration. Approved contract is signed by both parties and automatically renews for a 10-year period. Periodic inspections are made to ensure compliance with agreement.

CAPACITY FEE DEFERRAL PROGRAM

Currently the owner/s or developer/s of lands within the service area of the City and/or the Municipal Improvement District No. 1 are required to pay a capacity charge, prior to the issuance of a permit, to connect any portion of the property to the sanitary sewer works or water system. The purpose of the capacity charge is to assure that there will be sufficient funding for improvements to the District sanitary sewer works or City water system as necessitated by increased flows of water and/or wastewater resulting from new connections.

However, in order to stimulate economic development within the city, the City Council wishes to instate a temporary Capacity Fee Deferral Program. Rather than paying capacity fees at the time a building permit is issued, developers may elect to defer a portion of those fees. It is proposed that the Deferral Program be instated for an initial period of two years and renewed for additional two year periods at the discretion of Council.

ELIGIBLE FEES

The following capacity fees are eligible for deferral:

- Water system capacity fees
- Wastewater system capacity fees

FINANCING

Two-year program – to be eligible for this program, the total qualified capacity fees must be over \$15,000 but less than \$100,000.

- Down payment – 20% of qualifying fees, plus all other fees due at time of permit issuance.
- Payment schedule – two equal annual installments, plus interest calculated on the unpaid principal.

Three-year program – to be eligible for this program, the total qualified capacity fees must be \$100,000 or greater.

- Down payment – 20% of qualifying fees, plus all other fees due at time of permit issuance.
- Payment schedule – three equal annual installments, plus interest calculated on the unpaid principal.

The rate of interest shall be equal to the Local Area Investment Fund (LAIF) published rate of interest at the time the Fee Deferral Agreement is signed.

APPROVAL PROCESS

Developers who wish to participate in the program must submit an application to the Community Development Department. If approved, the City will defer fees after the Developer has entered into a Fee Deferral Agreement. The City will not enter into a Fee Deferral Agreement until the developer has paid all non-city controlled fees due as well as the required down payment.

To participate in the fee-deferral program, a development project must satisfy the following requirements:

1. The property shall be located on property within the City of Fort Bragg.
2. The project shall have received the final discretionary approval by the City Council, Planning Commission, or staff as appropriate.
3. The project shall have undergone all required environmental review and shall be in compliance with all requirements established by the environmental document prepared for the project.
4. All conditions of approval, as applicable at the time of permit issuance shall have been met.
5. All payments of taxes and assessments on the property on which the project is located shall be current.
6. The applicant shall have no unpaid balances due to the City for the project or any other project or purpose.
7. The applicant and/or his, her or its partners and affiliates shall have been deemed by the City to present a low risk of non-payment of fees. The City may require the applicant to provide a risk assessment from a qualified and independent third party at the applicant's sole cost. Additionally the City may review criteria such as (but not limited to) applicant foreclosure history, bankruptcy filings, and civil judgements in making a determination of low risk.
8. All fees imposed by a government agency other than the City either shall have been paid or shall have been the subject of a fee deferral agreement between the applicant and the agency imposing the fees.
9. To ensure payment of deferred fees, the City will require, as security, a lien against the project property or another security instrument mutually agreed upon by both the City and Developer.

SCENARIO

As an example of implementation of this type of financing, one might envisage a new development of a retail/grocery store in the City. The Water system capacity fees for the project are calculated at \$66,000 and the Wastewater system capacity fees are calculated at \$90,000; total capacity fees equal \$156,000. The developer submits an application to the City and after meeting all of the requirements of the program the two parties enter into a fee deferral agreement. The developer makes an initial payment equal to 20% of the total capacity fees due which equals \$31,200 leaving a balance of \$124,800. The remaining fees are paid in three equal annual payments of \$41,600 each plus interest. The LAIF rate of interest at the time the agreement is completed is 2%. Using a rate of 2%, interest across the life of the deferral equals \$4,992.

CENTRAL BUSINESS DISTRICT CAPACITY FEE FORGIVENESS PROGRAM

The Public Works and Facilities Committee received a report on this program on January 8, 2020. The full Council will receive the committee's recommendation on the topic in a separate report.

COMMUNITY DEVELOPMENT BLOCK LOANS

CDBG offers Over-the-Counter loans and offers a Business Assistance Loan Program (BALP). They are distinctly different, but both offer access to capital for local businesses to stimulate economic development.

OVER-THE-COUNTER LOANS

The CDBG Over-the-Counter (OTC) program provides single-purpose grants from \$300,000 to \$6 million for eligible cities and counties to lend to businesses to accommodate the creation, expansion or retention of identified businesses. Loans are available in amounts of \$35,000 per job created or retained. At least 51% of the jobs must be filled by members who locally qualify as low-income. Loan terms depend on the use of the loan and security pledged, and typically range from 5 to 30 years. Oftentimes, applicants must demonstrate that they do not qualify or cannot obtain a traditional loan in order to qualify. These eligibility and application requirements are subject to change each year the program is offered.

The City can help businesses apply for OTC loans through its ongoing CDBG program; however, there are application windows that vary from year to year. Currently, CDBG is accepting applications for OTC loans until September 15, 2020, with the expectation that another application window would open next year.

The City assisted with an OTC loan to Sport Chrysler Jeep Dodge in 2014. For this loan, CDBG approved the “low-moderate income area of benefit” National Objective because the funded activity provides a unique service (new car sales) within Fort Bragg city limits that is “available to benefit all the residents of an area that is primarily residential...where at least 51% of the residents are LMI persons.” The City of Fort Bragg is an area that is primarily residential where 51.4% of the population was low-moderate income per HUD tables available for the 2014 application. The required Public Benefit was met through provision of an “area benefit” loan with a maximum funding amount equal to \$350 per low/moderate income resident, or \$1,295,125 (\$350 times 3,700 low-moderate income residents). The total grant application of \$846,151 included \$756,151 for the loan, Activity Delivery funding of up to \$40,000 and General Administration funding of up to \$50,000. The actual amount funded for the loan was \$720,397. Actual Activity Delivery expended was \$7,006, and General Administration expenses were \$50,000. General Administration expenses included \$19,563 in pre-application loan development fees that could not be charged as Activity Delivery before the grant was funded. Amounts that were awarded but not billed or received for the loan (\$24,274) and Activity Delivery (\$32,994) was disencumbered.

OTC grants also provided Activity Delivery funds to provide for loan development and loan servicing costs, as well as General Administration funding to provide for costs of administering and implementing the CDBG program.

BUSINESS ASSISTANCE LOAN PROGRAM

Loans from the Business Assistance Loan Program differ in that they are competitive, and they are available to a maximum amount of \$300,000. BALP loans may be used for operating capital, inventory, furniture, equipment, property improvements (prevailing wage rates apply), real

property, debt restructure or for the purchase of an existing business. These parameters are subject to change each year as the program evolves.

Similar to OTC loans, BALP loans have application windows but are often shorter—they need to be included with the City's comprehensive CDBG application. The City is eligible to pursue BALP loans through its ongoing CDBG program. Since BALP loans are competitive, they are reviewed on a case-by-case basis and award is not assured even if the eligibility guidelines are met.

The 2016 CDBG grant provided \$161,000 to provide BALP loans to eligible businesses located within city limits and to procure a highly experienced program operator to assist with the business loan process. Grant funds were used to provide a \$140,000 loan to Overtime Brewing, Inc. to assist with startup costs and \$21,000 was used to fund administrative costs associated with the loan development and loan activity closeout. Overtime Brewing, Inc. created 11 new jobs.

FAÇADE IMPROVEMENT PROGRAM

ELIGIBLE ACTIVITIES

- Painting the façade of an existing business
- Replacing or adding an exterior business sign
- Repair or replacing outdoor lighting, windows or outdoor landscaping
- The addition of finishes that improve the appearance of the façade (siding, stucco, tile, stone or brick)
- The removal of dated, deteriorating or unattractive finishes
- Awnings, canopies or sunshades
- Façade improvement must be visible from the public right of way

FINANCING

The program provides a fifty percent (50%) match of up to \$2,000 for exterior improvements to local businesses throughout Fort Bragg. Program recipients will be reimbursed for work performed up to 50% based on submittal of acceptable evidence of the work performed, such as copies of paid invoices, credit card receipts with accompanying statement or invoices identifying work performed and copies of cancelled checks.

APPROVAL/APPLICATION PROCESS

Completion of the application by eligible applicant. Eligible applicants are property owners or tenants of commercial properties within the City limits with valid City of Fort Bragg Business Licenses. Business owners who are tenants must provide documentation as to the right to make the proposed alternations to the property. Applications will be reviewed by a City appointed committee and annual awards will be limited to \$5,000 per year, subject to annual appropriation. Businesses who qualify for the program and successfully complete the façade improvement project are eligible to apply in future years, although priority will be given to businesses who have not already participated in the program.

Recipients will hire contractor and is responsible for obtaining all local permits and approvals.

SCENARIO

A qualifying business owner in the Central Business District (CBD) who is interested in replacing the siding and painting the façade of the businesses on the front entrance can apply for a fifty percent match of funds up to \$2,000 to make the repairs. The business owner is responsible for obtaining at least two quotes and contracting for the services, if not completed by the owner.

INDUSTRIAL DEVELOPMENT/INDUSTRIAL REVENUE BONDS

ELIGIBLE ACTIVITIES

Capital expenditures such as land, building and equipment and other depreciable property used for manufacturing, production or processing of tangible property. Projects must provide some public benefits, including job creation or retention.

At least 95% of the bond proceeds must be spent on qualifying costs and no more than 25% can be used to acquire the land.

FINANCING

Industrial Development Bonds (IDBs) are tax-exempt securities issued up to \$20 million by a government agency, including cities, to provide money for acquisitions, construction, rehabilitation and equipping of manufacturing and processing facilities for private companies.

APPROVAL PROCESS

Local governments may issue bonds to finance industrial development on behalf of a for profit private or non-profit organization. The local government issues the bonds backed by the revenues generated from a specific project or revenue source. Upon issuance, the ownership of the development site and/or equipment transfers to the local government. Property owned by the local government is not subject to property taxes. The proceeds are used to fund the acquisition, construction/reconstruction, expansion or improvement of the property that qualifies as a manufacturing facility or equipment. Once the bonds are repaid, the local government conveys title of the site and/or equipment back to the organization.

The local government must issue Approval from the California Industrial Development Financing Advisory Commission is necessary before a receiving a Qualified Private Activity Bond Allocation.

SCENARIO

An organization identifies land, building and/or equipment for manufacturing, production or processing. If the project meets the other criteria and provides sufficient public benefit, the organization can ask the City to partner in the venture. The City would work with Bond Counsel and Financial Advisors to issue the debt pledging the revenues from the new venture. The City would take ownership of the property until the bonds are paid off. The financing would be tax exempt and during the time the City owns the property it would be exempt from property taxes, thereby creating lower cost financing. The City benefits from the creation of new jobs and/or other public benefits.

PLANNING INCENTIVE PROGRAM FOR HIGH QUALITY JOBS

Planning Incentive Programs help guide development in the City and are created to be a “win-win” solution for both the community and developers. The core of these programs is an exchange of value given to a project for some kind of community benefit, in this case, high quality jobs. Created or retained jobs must meet the required wage threshold of ____ and must also provide a sufficient benefit package to all full-time employees.

ELIGIBLE ACTIVITIES

- Height, density and Floor Area Ratio (FAR) bonuses
- Reduction in parking requirements
- Fee waivers or reductions
- Tax Credits / Sharing / Exemptions
- Loans / Grant Assistance

FINANCING

Provisions granted to a business in exchange for creating or retaining high quality jobs reduce actual costs that might be associated with the relocation, modernization or expansion of a qualifying project in an effort to make such investments financially feasible.

APPROVAL PROCESS

A business interested in investing in Fort Bragg and benefiting from a High Quality Job Incentive Program would submit proposal to City. Through an iterative process, the project would be awarded bonus provisions to offset some of the costs incurred to relocate, expand or modernize a facility. This exchange would be fair and careful analysis is required through a project specific review. The guidelines and outcome of this exchange would be clearly agreed upon prior to project approval to ensure predictability for both parties.

SCENARIO

A local business that provides job opportunities for a skilled workforce and meets the wage threshold requirements for high quality jobs, desires to expand and modernize their facility. A project proposal is developed that includes company background, project description, number of jobs retained/created, wages and benefit summary and financial pro forma. City staff verifies eligibility and schedules a meeting to discuss potential assistance the City can offer based on the industry, quality and number of jobs generated.

For example, for each square foot of high quality jobs, the project could be granted an additional square foot of floor area. Or perhaps, there is an opportunity to refund sales tax, waive permit fees or reduce capacity fees.

HOUSING DENSITY BONUS

The California State Density Bonus Law, under Section 65915 of the California Government Code offers incentives of up to a 35-percent increase in densities, in exchange for including affordable housing units in a project. Residential or mixed use projects of five or more units could receive a density bonus by providing provisions such as, on-site affordable housing, senior housing, childcare facilities, and condominium conversions. The density bonus is based on the percentage of affordable units provided, and whether those units are considered moderate income, low income or very low income. In addition, waivers or reductions of local development standards such as height, parking, setbacks or open space could also be eligible.

ELIGIBLE ACTIVITIES

- Increased density up to 35%
- Waiver or reduction concessions of development standards

FINANCING

Housing density bonuses and concessions are granted to developers to reduce actual costs, which could significantly contribute to the economic feasibility of a project by reserving affordable units.

APPROVAL PROCESS

Projects eligible for Housing Density Bonus incentives are analyzed and entitled through the planning permit process. Pre-application meetings are encouraged prior to formal application submittal.

SCENARIO

A project has a maximum allowable residential density of 15 units. The developer reserves 2 units for rental to low income households. This would equal 13% of the project, the 10% minimum to be entitled to a 20% bonus would be met – an additional 3 bonus units. The remaining 3% over the minimum (10%) could mean the developer is also entitled to an additional bonus of 2.5% for each 1% over the minimum (2.5% multiplied by 3 = 7.5%). In this scenario, that would be an additional 2 units for a total of 4 bonus units, keeping in mind that the maximum increased density bonus any project could be granted is 35%.

In the same scenario, if the developer decided to reserve 2 units for rental to very low income households, this would still equal 13% of the project, however the minimum to be entitled to a 20% bonus is only 5%, allowing 3 bonus units. However, the remaining 8% could mean that the developer is entitled to an additional housing bonus of 3 units (2.5% multiplied by 8 = 20%), for a total increased density bonus of 6 units.

Furthermore, the developer may request concessions to development standards, such as setbacks, parking, private or open space. In the scenario above, reserving 2 units for low income households, the developer could be granted one concession. In the scenario providing 2 units to very low income households, two concessions could be granted. In order for a concession to be

approved, the developer is required to demonstrate that each requested incentive would result in identifiable, financially sufficient, and actual cost reductions that contribute significantly to the economic feasibility of reserved affordable units.