

## **PRELIMINARY ASSESSMENT OF THE PROPOSED METHOD OF FINANCING THE REDEVELOPMENT PLAN, CONTINUED ECONOMIC FEASIBILITY, AND REASONS FOR CONTINUING TO INCLUDE TAX INCREMENT FINANCING**

Section 33344.5 (d) of the CRL requires that a Preliminary Report include information on the proposed method of financing the redevelopment plan, including information on the economic feasibility of the Project Area and the reasons for including tax increment financing. This Part 4 includes information on the estimated costs of the program of redevelopment; describes the various financing sources that may be used; demonstrates the continued economic feasibility of the Project Area; and describes the reasons for continuing to include tax increment financing in the Redevelopment Plan.

### **A. REDEVELOPMENT PROGRAM COSTS**

Part 3 of this Report provides information on the Agency's program of redevelopment and its relationship to alleviate blight. The costs to implement the future redevelopment projects are summarized on Table 5. The costs on Table 5 are shown in current (2002) dollars. Offsets to estimated costs shown on Table 5 reflect public and private sources of funding other than tax increment.

The costs for the Agency's revitalization effort are estimated at \$60.0 million in 2002 dollars. In addition to the project costs shown on Table 5, the Agency will need to incur expenses for administration of the Project Area. Such costs will include staff time, legal and technical assistance, and the preparation of planning studies and reports. The costs do not include the impacts of inflation or the interest costs associated with borrowing funds to continue to implement the Amendment. It also does not include negotiated or mandatory payments to the taxing entities. The mandatory payments are required due to the Amendment. Finally, Table 5 does not include costs related to outstanding obligations, including repayment of bonds and the required deposit to the Educational Revenue Augmentation Fund required for 2002-03 under State Law. Each of these items has been included on Table 10, which reflects the overall analysis of the economic feasibility of the Amendment.

### **B. FINANCING METHODS AND ALTERNATIVES AVAILABLE TO FUND REDEVELOPMENT**

The Amendment will increase the tax increment and bonded indebtedness limit of the Project Area. The amendment does not affect the Agency's authority to fund activities from a variety of sources, including: financial assistance from the City, the state and the federal government, tax increment funds, Agency bonds, donations, special assessment districts, interest income, loans from private financial institutions, the lease or sale of Agency owned property, and any other legally available public or private sources of funding.

The Agency is also authorized to obtain advances, borrow funds and create indebtedness in various forms, including the issuance of bonds. The indebtedness and bonds can be repaid from tax increment revenues or other funds available to the Agency. The City may also provide assistance to the Agency to fund the Project Area, as it is able to.

*Sources other than Tax Increment*

Financial assistance from the City, state and federal government may be used by the Agency to fund redevelopment program expenses. The Agency will also actively solicit financial assistance in the form of grants and loans from state and federal programs.

As part of the continuing implementation of redevelopment, the Agency may acquire property. The sale of such property will create a resource that can be used to fund redevelopment activities. In most instances, land sale proceeds only offset a portion of the costs for a specific development project, and do not create a resource that is available for a general revitalization effort. Specific information on land acquisition or sale proceeds is not known at this time.

The Agency intends to continue to provide assistance to rehabilitate commercial and residential property. Some portion of the funds used for rehabilitation will likely be in the form of loans, which will be repaid over time.

The Agency may also consider the creation of assessment and community facilities districts to fund redevelopment activities. These districts will require voter approval from persons that live within the boundaries of such district.

1. Tax Increment Revenues, Bonds and Limitations

Table 6 provides an estimate of the tax increment revenues that could be generated through 2030-31, when the proposed new tax increment limit of \$350 million is estimated to be reached. The tax increment revenue projection is based on the following assumptions:

- New development activity shown on Table 7 that is assumed to occur based on Agency activities.
- Proposition 13 allowable inflationary adjustment of up to 2% annually.
- An additional 2% adjustment to taxable values to reflect changes of ownership and other new development activity not identified on Table 7.

Total gross tax increment shown on Table 6 is estimated at \$318.6 million. This amount has been reduced for property tax administrative fees that will be collected by the County of Yolo (“County”). Negotiated and mandatory tax sharing payments to the taxing entities per the provisions of the CRL have also been deducted. The Agency will also be required to deposit 20% of tax increment into its Low and Moderate Income Housing Fund. The deposit to the Housing Fund is estimated at \$63.7 million. Net tax increment is estimated at \$126.4 million.

The new limit on the principle amount of bonds that can be outstanding at one time has been calculated on Table 8. The limitation is based on the total program costs shown on Table 5. In order to take into account higher than expected costs, we have added a contingency factor of 20%. The Agency will also incur various costs when issuing bonds. Therefore, a 15% factor has been applied for finance costs. The Agency has approximately \$20.2 million in principal outstanding on tax allocation bonds previously issued. Based on these factors, the total bonded indebtedness limit for the Project Area has been established at \$103 million. The Agency is also proposing a new tax increment limit of \$350 million.

### **C. PROPOSED FINANCING METHOD AND ECONOMIC FEASIBILITY**

The proposed method of financing redevelopment and the economic feasibility of the Project Area have been demonstrated under two different approaches. First, a cash flow analysis was prepared for the next ten years of implementation, as shown on Table 9. Second, aggregate costs were compared to aggregate revenues to determine the overall economic feasibility of the Amendment, as shown on Table 10. Both of these analyses have been prepared based on discretionary (non-housing) activities. Housing programs in a total amount of \$63.7 million have been assumed to be fully funded through housing set-aside revenues.

It should be noted that the analyses shown on Tables 5 and 6 are based on one set of assumptions for continued implementation of redevelopment. It should not be considered the only means to continue to finance redevelopment of the Project Area. The analysis does indicate that the Project Area will continue to be financially feasible given the set of assumptions that underlie the projections and the Amendment to the financial limits. The primary assumptions in this regard are that the costs for redevelopment activities are as projected and that new development activity will occur in the Project Area as the Agency continues to remove impediments to development.

The cash flow analysis (Table 9) assumes that the Agency will fund activities through a combination of bond financing and pay as you go approaches. All existing obligations of the Project Area can be met, including the repayment of loans to the City. The Agency will have the resources to fund the highest priority capital projects, which are assumed to be completed within the next seven years. Economic incentive programs designed to alleviate major blighting conditions will also continue to be implemented. Near the end of the ten-year period, the Agency will also begin to implement the medium priority capital projects.

The overall economic feasibility of the Project Area is shown on Table 10. The analysis shows that the Agency will be able to fund the program of redevelopment discussed in this Part 5. At the end of the term when the Agency can receive tax increment, it is estimated that the Agency would have a small cash balance of \$286,000. This balance is the Project Area's hedge against higher than expected costs or revenues that fall short of projections. Given this, the Project Area will continue to be economically feasible. Table 10 also shows that the Agency will be able to implement \$84.5 million in new discretionary projects. When added to housing programs in the total amount of \$63.7 million, it is estimated that the Agency will fund a total of \$148.2 million in new activities from this Amendment.

### **D. REASONS FOR CONTINUING TO INCLUDE TAX INCREMENT FINANCING**

The Agency intends to implement a pro-active program of redevelopment in order to alleviate blight and create and improve affordable housing in the Project Area. The cost of that program, as described in this part of the Report, will exceed \$84 million. When combined with existing obligations, the total costs for the Agency's discretionary program of redevelopment will exceed \$278 million, as shown on Table 10. Given the remaining needs of the Project Area, and the lack of other ongoing funding sources, the Agency will need to look to tax increment financing as a major source of funding. Neither the City nor the private sector has historically been able to finance a redevelopment effort of this type.

As required by the CRL, the Agency will continue to look to other funding sources to assist in the redevelopment effort. However, tax increment is needed to fill funding gaps between the costs identified and these other funding sources. In addition, most of the elements of the program of redevelopment have little or no alternative funding sources.

Other funding sources also have serious limitations. Grants from other levels of government are sporadic and difficult to obtain. Assessment districts can increase the costs for private development and further discourage blight remediation. Development impact fees can only be set at a level to cover the impacts that are created by the development and cannot be used to raise additional funds to remove existing deficiencies in the Project Area.

Tax increment revenues will also be generated in part by the activities proposed by the Agency. Tax increment provides a stable source of revenue that will grow as the Agency's redevelopment efforts begin to have an impact. In addition, such revenues can be leveraged in the form of tax allocation bonds and provide a large source of capital financing. For each of these reasons, tax increment financing continues to be included in this Amendment.

**E. RELATIONSHIP BETWEEN SIGNIFICANT REMAINING BLIGHT, THE NEED TO AMEND THE FINANCIAL LIMITS AND THE COST OF THE CONTINUING PROGRAM OF REDEVELOPMENT**

The provisions of the CRL require that when an Agency proposes to increase the financial limitations of an existing redevelopment plan, it must identify the remaining blight within the project area, identify the portion, if any, that is no longer blighted, and identify the projects that are needed to eradicate the remaining blight. In addition, the relationship between the costs of those projects, the amount of increase in the limitation on the number of dollars proposed to be allocated to the Agency and the Agency's ability to eliminate remaining blight must be identified. Both the Agency and the City Council must also make a finding that (1) significant blight remains within the project area and (2) the blight cannot be eliminated without the establishment of additional debt and the increase in the limitations on the number of dollars to be allocated to the Agency.

The Agency's Amendment includes an increase in the number of dollars to be allocated to the Agency (tax increment limit). This amendment is needed in order to continue to fund the Agency's redevelopment activities and eliminate remaining blight. Without the Amendment, the Agency will have limited financial capacity to fund additional redevelopment activities. As provided for in the existing Redevelopment Plan, the total amount of tax increment the Agency is eligible to receive is \$133 million. The Agency has received cumulative tax increment of approximately \$31.9 million through fiscal year 2001-02. Approximately \$76.6 million of the remaining amount is committed to existing obligations, and another \$19.2 million must be used for affordable housing programs. This leaves only \$4.7 million for new projects. This is too small of an amount to be able to leverage in the form of tax allocation bonds, leaving the Agency without the ability to generate sufficient capital to finance major improvements. The total estimated cost of the Agency's program of redevelopment is \$84.5 million, as shown on Table 10. Without this Amendment s, the Agency will be unable to continue to implement a program of redevelopment designed to alleviate blight.

Despite the efforts of the Agency, the Project Area continues to suffer from physical and economic blighting conditions that cannot reasonably be expected to be removed by the private sector acting alone. These remaining blighting conditions are discussed in earlier sections of this Report. In light of the extensive role the Agency needs to take in implementing the continuing redevelopment programs, redevelopment efforts will need to extend well into the new century. The amendment of the financial limits of the existing Redevelopment Plan is necessary to fund the continued redevelopment program as proposed in this Report

In summary, the Agency's current financial limits restrict its ability to issue new debt or to finance ongoing programs. By increasing the tax increment and bond debt limits, the Agency will have the financial resources to complete an effective redevelopment program aimed at eliminating remaining blight and constraints to development throughout the Project Area. The Agency's ability to assist in the elimination of remaining blight will be seriously restricted unless the existing financial limits are increased by adoption of this Amendment.