The Price of Progress: Infrastructure Payment Plans You Can Live With

By Angelique Lucero

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Relentless development and population growth continue to fuel the need for infrastructure improvements or additions. Since the old ways of raising revenue often do not cut it with taxpayers, local officials have adopted financing methods that target the principal beneficiaries of improvements.

In cities and counties across the United States, building and improving public infrastructure- whether it is rebuilding a bridge, repairing a run-down street, updating a sewer system, or resurrecting a recreation facility- is necessary to maintain a good quality of life.

But when it comes to financing these new projects and improvements, the argument often arises about who will pay for them and how much they will pay. A community may need to refurbish its local senior facility, for instance, but residents may not want to reach into their own pockets to fund the improvement. Further, the reasons for the improvement may not be clear to them. In using any of the funding mechanisms discussed below, garnering public support is imperative. The parties responsible for paying the bills need to have input into what is funded and how much should be funded.

DEVELOPER IMPACT FEES

Developer impact fees, if allowed through a state's enabling legislation, have become one important tool for funding public facilities and improvements necessary to support new growth. City management has come to accept the concept that developers who prosper from this growth should be responsible for the cost of providing facilities necessary to accommodate it.

Today, many developers are required to pay impact fees and a portion of assessments or special taxes for the construction costs associated with new growth. However, depending on the financing mechanism used to fund construction, homeowners may pay a good portion of the construction costs in the form of annual debt service on assessment district or community facilities district bonds.

Over time**,** the majority of charges for operation and maintenance are paid by the homeowners**.** Consequently, developers' requests for city-assisted funding should be considered carefully to balance the financial burdens of present and future homeowners.

Developers may also be charged fees through the map acts used in each state to govern developer subdivisions. Map acts commonly establish areas of benefit to fund construction of drainage and sewage facilities, major thoroughfares and bridges. Local ordinances can be adopted that would require fees to be paid as a condition of map approval or building permit issuance for any parcel located within the area benefited by the proposed project.

THE DISADVANTAGES

Developer impact fees and subdivision fees have two significant disadvantages. First, fees are not due until development occurs. As a result, cities cannot use the fees to construct capital improvements prior to or in conjuncton with the development.

Second, pre-existing development may not be charged, and new development can only be charged for future impact to infrastructure. Therefore, only a portion of a city’s improvements can be funded through the fee program.

It can be difficult to gauge when, or even if, the money will become available to construct a proposed facility within the time frame in which it will be needed.

Therefore, assessment districts and community facilities districts providing the capability for bonding are often used in conjunction with fee programs. This allows the city council to bond for the set amount of the developer impact fee and receive all funding up front for a proposed project - even when all the developer fees have not yet been paid.

SPECIAL ASSESSMENT DISTRICTS

Special assessment districts, as provided through most states' enabling legislation, allow a public agency to construct and maintain improvements such as street landscaping, street lighting, traffic signals and parks and recreation. Project costs are assessed within the boundaries of the designated benefit area of the county or city. Then, the overall cost of the project is weighed against the individual properties within the benefit area to determine the benefit each area or parcel will receive from the public improvement.

With this traditional financing tool, a property owner can eitherr pay the assessment amount in cash or allow a lien to be placed on his property in the amount of the benefit assessment. Then, he can submit payments over a predetermined 10- to 20-year period to pay for the bonds issued to finance the improvement. Since these are municipal bonds and payable over a period of many years, financing the lien is usually an advantage for property owners.

Most states allow property owners to initiate these proceedings via a petition within the boundaries of the proposed assessment district, or else the city council can begin the proceedings. Either way, districts are formed through a process that usually involves mailing notices to all affected property owners, holding public meetings and hearings conducted by the city council and considering the percentage of those in opposition to the district.

In addition to using assessment districts to fund capital improvement, cities have relied on this method to finance ongoing maintenance and operation of improvements through the annual tax of a benefit assessment amount. In some states, this assessment is paid at the same time and in the same fashion as property taxes. In others, the public agency that authorized the assessment bills it separately.

COMMUNITY FACILITIES DISTRICTS

Similarly, legislation on community facilities districts allows some states to form districts to finance various facilities through special taxes against the area where the proposed services or facilities are to be provided.

Community facilities districts cover a broader range of public improvements and facilities than do assessment districts. Projects may include the purchase, construction, expansion or rehabilitation of governmental facilities the city is authorized to construct, own or operate. Community facilities districts can even be used to fund private improvements in some cases, such as when seismic, fire safety, or hazardous waste standards must be met.

Also, funds can be used for police and fire protection, ambulances, recreation, library services, parkways maintenance, flood control and storm drain maintenance.

Usually, formation of a community facilities district requires a public hearing and a favorable two-thirds vote of registered voters who live within the proposed district. However, these districts are most often used by developers who are single owners of large sites that require a substantial investment in infrastructure. After the district is formed, the city council typically is required to hold an annual public hearing to authorize the special tax to be levied on the properties. This type of hearing is not required for assessment districts.

TAX INCREMENT FINANCING

On another level, if a city has a built-out area in need of reconstruction, it can use tax increment financing (either by itself or in conjunction with a private partnership), often through a redevelopment agency process.

With this approach, the redevelopment agency can collect the tax increment that results when property values increase. Then, funds are taken from the tax increase and put toward specific improvements or one designated project- street improvements, for example.

Cities have long been faced with meeting the needs of current residents as well as needs arising from the construction of new developments. Growth in cities requires an approach to managing these changes.

Planning for and financing public infrastructure and services related to new development, as well as the general upkeep of built-out developments, remain high priorities for most communities as they focus on maintaining and improving quality of life.

In planning for future development, communities should consider the following measures:

- Identify in the city's General Plan the improvements and facilities required to support future development through build-out;
- Determine the costs;
- As development occurs, identify when the improvements and facilities will be needed to preserve the community's quality of life standards; and
- Identify how the improvements and facilities will be paid for.

Whatever the method for improving public infrastructure, a Public Facilities Financing Plan (PFFP) is key to ensuring that quality of life standards are maintained as new development proceeds. When these standards are not being met, the plan may provide for the postponement of new development until improvements are made.

GARNERING SUPPORT

Hand-in-hand with financing public infrastructure comes the challenge of generating support from city and county residents. And whether it's sewage, street lighting, parks and recreation facilities or simply ensuring safe and clean neighborhoods, open communication between city management and the community is the driving force behind making positive change a reality.

Esther Feldman**,** director of the Los Angeles field office for the Trust for Public Land, a California-based nonprofit land conservation organization, is responsible for encouraging the development of local funding sources for creating new parks and recreation opportunities in L.A. County.

"In Los Angeles County, there is a strong need for parks, recreation, the protection of natural land and at-risk youth and senior facilities," says Feldman. "Because we have never kept up these facilities, it is not just an unmet need for our population, but there’s a real backlog of these needs."

Feldman was involved in pushing for the 1996 Safe Parks Initiative last November, as well as an earlier initiative approved by voters in 1992. The two measures provide $839 million in funding for specific projects.

To garner county-wide support for the initiative, meetings were held in 75 cities. Every mayor, city manager and parks director was contacted. Meanwhile, a citizens' advisory committee was established with members representing civic organizations, seniors, at-risk youth and conservation groups.

This group would oversee development of the measure, review all specific project proposals, approve the final list of projects and authorize the funding breakdown.

Throughout this process, Feldman and her team worked closely with the board of supervisors in each city and communicated with community members regularly through materials, letters, meetings, and phone calls.

COMPONENT FUNDING

"The greatest challenge was to address all the needs, " says Feldman. "Determining who would get the money and who wouldn't was the job of the citizens' advisory committee. Beyond that, we tried to break down the projects into fundable parts so someone who submitted a request for $10 million in phases might only receive funding for the first phase."

This flexible approach translated into 140 funded projects, ranging from the purchase of land and construction of facilities for gang prevention efforts to construction of new playgrounds and softball diamonds to the purchase of natural lands for mountain and canyon conservation.

Communication was also key for officials in La Canada Flintridge, Calif., after residential septic tanks began to fail in certain areas. Installing a new sewer system was clearly the most cost-effective option, but the challenge was to solicit community support despite the many residents whose septic tanks were still working fine.

City leaders first reviewed petitions that had been signed by 70 percent of the residents on 21 city streets. A sewer boundary had to be identified to develop a sensible project. Next, the city determined why residents would want to update their sewer systems and communicated their responses through newsletters, 12 community meetings, a toll-free telephone number, an Internet address, and a help line that provided project updates.

Polls show that of those responding, 75 percent of residents in the affected area favor the sewer project. Thus, the city is proceeding with formulation of the final engineering design and assessment district. If the majority of property owners approve the assessment district, construction is set to begin this fall.

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