Appendix C
Potential Funding Sources

Introduction

The following discussion outlines potential funding sources for improvements and programs proposed in the Revitalization Plan, including any pertinent issues and constraints related to each.

The City of Redding and the Redding Redevelopment Agency will need to use a variety of funding sources to successfully implement the MLK Neighborhood Revitalization Plan. These include funding provided directly by private property owners, usually in conjunction with new development projects; Redevelopment Agency tax increment funding; state and federal funding, such as Community Development Block Grants (CDBG) and HOME funding; local, state, and federal transportation funding; developer contributions; and possible grant funding (as available).

Private Funding

Private funding can include a range of personal capital expenditures, exactions, dedications, and contributions made by property owners and developers to pay for specific projects that serve their properties. As an alternative to providing required funding up-front, property owners and developers are often willing to participate in assessment districts or other special taxing arrangements that provide a long-term financing mechanism for costly projects. In addition, private grants and loans are available on a competitive basis from a variety of sources interested in the revitalization of low-income neighborhoods; low-income resident empowerment; and children's issues, among others. Depending on the particular activity, one or more of these grant sources may be interested in participation.

Redevelopment Tax Increment Revenues

In 1990, the City of Redding adopted a redevelopment project area, the Market Street Project, that incorporates all but the Mercy Hospital portion of the neighborhood.

Briefly, the redevelopment "tax increment" mechanism works as follows. When a redevelopment project area is adopted, the existing assessed valuation of property within that area is established as the "base year" assessed value. Any increases in assessed value within the project area over and above the "base year" are referred to as property "tax increment" which accrues to the redevelopment agency and other eligible "pass through" civic entities to carry out the programs envisioned in the adopted redevelopment plan. This "tax increment" revenue is the primary source of revenue available to undertake redevelopment programs in California.

The underlying premise of tax increment financing is that property tax revenues are not likely to increase as much or as rapidly in blighted areas as in other portions of a community. Therefore, any increase in revenues from such areas after a redevelopment plan is adopted is largely attributable to the effects of the redevelopment program in eliminating blighting conditions and stimulating private investment and should accrue to the redevelopment agency. (However, other taxing entities such as schools, counties, and special districts may also continue to receive a share of tax revenues either through negotiated or statutory agreements.)

California Redevelopment Law (CRL) requires that at least 20 percent of tax increment revenues collected by a redevelopment agency be placed in a housing "set-aside" fund, to be used for increasing, improving, and preserving the community's supply of low and moderate income housing. The remaining tax increment may be used for activities and projects which help to eliminate blight and encourage private investment within the redevelopment area, such as land assembly and write down of land costs for development projects, demolition assistance, and construction of site improvements. Tax increment may also be used to construct streets, utilities, parks, and other public improvements necessary for carrying out the redevelopment plan. Redevelopment funds can be used to fund existing development's share of improvements that are not necessary to serve new development exclusively.

It is estimated that approximately $684,000 in non-housing tax increment revenue will be available during FY 2002-03 for use by the Agency on capital projects in the Market Street Redevelopment Project Area. It is also anticipated that over the next 3 to 5 years, the majority of capital funds will be used for priority improvements to the Downtown portion of the Market Street Project Area and will not be available for needed improvements in other Market Street Project Area neighborhoods.

Approximately $1.3 million in new housing set-aside revenues is anticipated to be received in fiscal year 2002-2003. Combined with a recent $9.5 million Housing Bond Issue, total redevelopment housing resources available for eligible activities City-wide is approximately $11.7 million. The fiscal year 2002-03 budget adopted by the Agency in June 2002 contains $1.625 million specifically earmarked for MLK neighborhood activities. The Housing Set-Aside Fund represents a significant source of annual revenue that can be used for preservation and development of housing for low- and moderate-income households. Within the MLK neighborhood, potential uses of these funds could include assisting with on- and off-site improvements, providing assistance for the development of new housing units that would be targeted for low- and moderate-income households, providing funds to assist with rehabilitation of existing housing occupied by low- and moderate-income households, and providing funds to assist first-time homebuyers purchase homes in the neighborhood.

Transportation Development Act Funds

The Transportation Development Act (TDA) is a one-quarter cent sales tax enacted statewide to fund various transportation activities. The state appropriates funds annually to local agencies using a population-based formula. The City programs the allocation of these funds several years in advance.

While this funding source is primarily intended to finance transit system capital projects and operations, the City can apply to spend a portion of its TDA allocations on different types of roadway, pedestrian, and bike improvements, if the City first makes findings that other transit needs which can reasonably be addressed have been met.

Special Assessment Districts

A special assessment is a charge imposed on real property for a public improvement (or service) directly benefitting that property. The rationale for a special assessment is that the assessed property has received a special benefit over and above that received by the general public.

Special assessment are distinguished from real property taxes by a number of factors. Unlike taxes (including special taxes, such as Mello Roos taxes), the sum of a special assessment cannot exceed the cost of the improvement or service it is financing. Furthermore, special assessment cannot be levied against those properties that do not benefit from the improvements being financed. Conversely, property within an assessment district that benefits from the improvements being financed must pay a portion of the assessment.

California statues give local governments the authority to levy a number of special assessments for specific public improvements, such as streets, storm drains, sewers, streetlights, curbs and gutters, and landscaping. Assessment districts can be useful financing mechanisms to pay for improvement costs attributable to both new development and to existing development, as long as a strong nexus exists between benefits that taxpayers receive and the assessment they are asked to pay. Assessment districts are one of the mechanisms available for the City's use that will allow up-front construction of costly improvements using bond proceeds, to be secured by property within the district and repaid by property owners over time.

For all assessment districts, but particularly when bonds are to be issued, there is a need for the City to consider whether the proposed assessment district will be of a sufficient size to justify the costs for district administration and costs associated with bond issuance. Where funds from existing sources are not available to pay existing development's share of necessary improvements, including all benefitting properties in an assessment district may be one of the few feasible ways to fund an improvement; however, this will require existing development to take on a greater tax burden.

Community Development Block Grant Program/HOME Program

The City of Redding is a Community Development Block Grant (CDBG) "entitlement" community, meaning that the City need not compete for an annual award of CDBG funds from the U.S. Department of Housing and Urban Development to use for various community development purposes. The City receives approximately $1 million annually and conducts an assessment of applications from February through March. Recommendations are considered for approval by the City Council in May. Eligible uses can include certain public improvements/facilities, social services, economic development, and housing rehabilitation and other development activities primarily benefitting low- and moderate-income households.

The Housing Investments Partnership Program (HOME) was created through the Cranston-Gonzales National Affordable Housing Act of 1990. The objectives of HOME are to provide decent affordable housing to lower-income households, to expand the capacity of nonprofit housing providers, to strengthen the ability of state and local governments to provide housing, and to leverage private sector participation. Eligible activities under HOME include first-time homebuyer assistance, homeowner rehabilitation, new home construction, acquisition and rehabilitation of housing, and tenant-based rental assistance. The City of Redding has successfully competed for HOME funding since 1992 through the State and is eligible for up to $1 million on an annual basis.

General Revenues

The likelihood of securing General Fund contributions for project implementation in the MLK neighborhood in coming years is small, due to budgetary constraints. Based on this, it is assumed that the General Funds will not provide significant financing for improvements related to the MLK Neighborhood Revitalization Plan.