



**LOCAL GOVERNMENT IMPACTS
OF THE
PLACER COUNTY CONSERVATION PLAN**

A Draft Report to

THE COUNTY OF PLACER

Prepared by

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LOCAL GOVERNMENT IMPACTS OF THE PLACER COUNTY CONSERVATION PLAN

INTRODUCTION

This report examines the impacts of the proposed Placer County Conservation Plan (PCCP) on local government, focusing on how changes in the permitting process for new development would affect local government roles and responsibilities, local government costs and revenues, and local economic development and housing affordability objectives. The report evaluates direct impacts on Placer County's General Fund—the primary source of discretionary county government spending—as well as indirect impacts that would follow as a consequence of any implications of the PCCP for economic development, housing development, and population and employment growth. The report includes discussion of how the proposed PCCP would affect the feasibility of new development and the amount and pace of development in the County. The report concludes by evaluating the proposed PCCP in the context of other infrastructure investments to accommodate growth, the value of projected new development, and the local land market.

In all of these evaluations, the conclusions depend on the underlying comparison. The impact of the proposed PCCP is defined by comparison to a baseline condition—referred to as “*status quo*” or the existing regulatory environment. The impact of the PCCP is **not** the impact of requirements that land development and related public projects consider threatened or endangered species and their habitats in project planning and compensate for potential losses sustained by species and habitats. Those requirements are already enforced in Placer County through local, state, and federal planning, environmental review, and permitting processes. The PCCP would replace these multiple processes with a simplified, comprehensive permitting process, centralized at the local government level. The PCCP would also designate a public agency implementing entity to acquire and manage reserve lands. Under the existing regulatory environment, mitigation land would be required, but no central authority would control long-term trusteeship and management of that land. The impact of the PCCP, therefore, is the **difference** in local government costs and revenues attributable to:

- ♦ replacing existing planning and permitting processes related to species and habitat and
- ♦ establishing a public agency implementing entity to oversee reserve acquisition, management, and monitoring, as well as overall PCCP compliance.

The next section of this report outlines the basis for 1) the difference between the PCCP and the existing regulatory environment and 2) the difference between proposed PCCP implementation and the case-by-case mitigation that would continue if the PCCP were not adopted. Evaluation of impacts for local government follows the description of the framework for the analysis.

FRAMEWORK FOR ANALYSIS

Understanding what the PCCP would mean for the development process

Identifying the impacts of the PCCP requires a baseline against which to make the comparison. As noted above, the comparison is **not** between habitat conservation planning and associated

requirements and the **absence** of such planning, but between the existing regulatory environment in Placer County and what would be expected after implementation of the PCCP.

Figure 1 compares planning and permitting under the *status quo* without the PCCP to planning and permitting under the PCCP and also identifies responsibilities for mitigation obligations. For each permitting scenario, the check marks indicate what would be required of land development proponents under each regulatory regime, from pre-submittal local planning requirements through environmental review, state and federal requirements, local entitlement processing, and construction and post-construction activities.

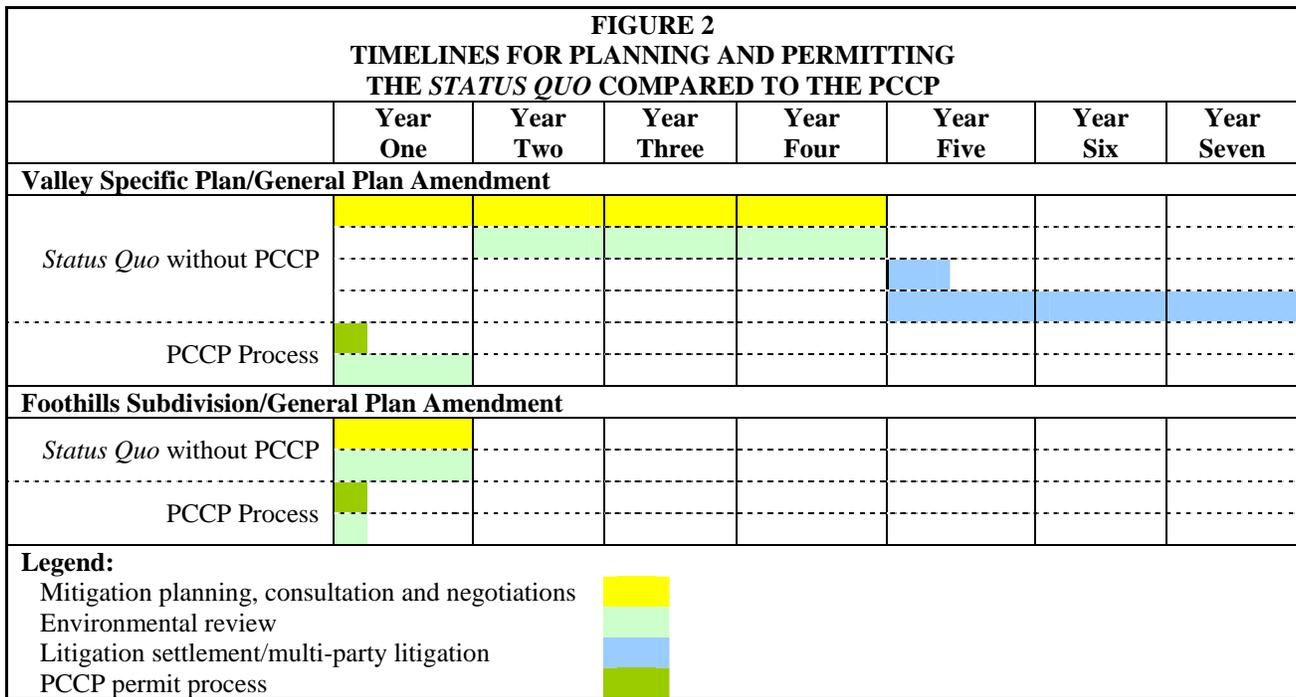
Many of the steps in the process would be required in either case. The local planning process for pre-submittal documentation for general plan amendments or tentative map subdivisions would not change under the PCCP. Planning surveys for environmental resources, wetlands assessments, and CEQA environmental review would be required for general plan amendments and tentative map subdivisions. Where significant biological resources were identified, pre-construction surveys, plans for take minimization, and construction monitoring would be required under the PCCP as under the existing regulatory environment. Similarly, incidental take avoidance measures would be required in any case to protect site-specific resources.

The differences would be in the process to obtain state and federal permits. The *status quo* imposes substantial costs (both financial resources and time) on project proponents to mitigate impacts to endangered species and their habitats. Under the PCCP, one locally-issued permit and the aquatic resources letter of permission (CARP permit) would replace five separate state and federal permits. Under the PCCP, after evaluation of existing resources, mitigation obligations would be satisfied by land dedication and/or payment of fees. There would be no need for negotiations and review by multiple local, state, and federal agencies. Compliance with the PCCP would also reduce the effort and time required for environmental review, since mitigation for impacts to species and habitats would be satisfied through PCCP compliance, rather than case-by-case review, comment, and negotiation.

Another significant difference between the *status quo* and the proposed PCCP revolves around the cost to project proponents associated with litigation, liability, and uncertainty. Because of the complex set of existing state and federal laws and regulations, litigation over impacts to species and habitat has become a well-used and often successful tool in efforts to shape the amount, location, and configuration of new development in the Sacramento region. Implementation of the PCCP would reduce the threat of litigation because the inclusive planning process has incorporated potential litigants as stakeholders. Fulfilling PCCP requirements through land dedication and fees would also absolve individual project proponents of responsibility for post-construction monitoring and remediation, liability for meeting biological goals and objectives over the long term, and mitigation for future new listings or habitat designations. PCCP compliance would transfer those liabilities and responsibilities to the PCCP implementing entity, along with funding to discharge those obligations.

FIGURE 1 CHECKLIST FOR ILLUSTRATIVE LAND DEVELOPMENT PROPOSAL THE STATUS QUO COMPARED TO THE PCCP		
	STATUS QUO NO PCCP	PROPOSED PCCP
PLANNING & PERMITTING PROCESS		
Pre-Submittal		
Predevelopment	√	√
Tentative Map	√	√
Specific Plan	√	√
General Plan Re-zone	√	√
Environmental Review		
CEQA - Environmental Review	√	√
NEPA - FONSI (for CWA Section 401/4 related impacts)	√	
Planning surveys for biological resources	√	√
State/Federal Requirements		
Wetlands assessment	√	√
California Endangered Species Act (CDFG)	√	
Section 1600-1616 Streambed Alteration Agreement (CDFG)	√	
Federal Endangered Species Act Section 7 (USFWS and NOAA Fisheries)	√	
Federal Clean Water Act (Section 404) - Individual Permit or Nationwide Permit for Wetland Fill (USACE)	√	
Regional Water Quality Control Board for Federal Clean Water Act (Section 401) - Water Quality Waiver/Certification	√	
PCCP Permit		√
CARP Permit/Letter of Permission		√
Entitlement Processing		
Placer County Tree Permit	√	
Grading Permit	√	√
Construction/Post Construction		
Pre-construction surveys	√	√
Plan for take minimization	√	√
Construction monitoring	√	√
Exposure to litigation	√	
Post construction monitoring & remediation	√	
MITIGATION OBLIGATIONS		
Incidental take avoidance (take minimization)	√	√
Land dedication / in-lieu fee	√	√
Purchase of mitigation credits	√	Obligations of the PCCP
Restoration, creation, and enhancement and performance monitoring	√	
Monitoring (biological monitoring of reserve system)	√	
Mitigation required for new listings or subsequent critical habitat designations (no surprises)	√	
Liability for meeting conservation goals and objectives	√	

Figure 2 provides a graphic illustration of the potential differences in time required for the planning and permitting process under the *status quo* and under the proposed PCCP. Timelines are illustrated for major Valley development projects that normally require a multi-year planning and environmental review process due to numerous issues in addition to species and habitat concerns, as well as for more simple residential subdivisions in the Foothills. In both cases, replacing the *status quo* with a predictable, consistent, equitable, and streamlined permitting process would significantly reduce the time required to obtain state and federal permits; would reduce the scope of environmental review, comment, and response related to species and habitat issues; and would potentially eliminate time-consuming litigation. These time savings translate to cost savings: lower holding costs, planning costs, and legal costs. Moreover, development financing would likely be more readily secured if the uncertainty surrounding interpretation and imposition of state and federal endangered species requirements could be resolved early on through a PCCP permit.



Understanding what the PCCP would mean for local government roles and responsibilities

The PCCP would designate a public agency or joint powers authority of participating agencies to take responsibility for creating the PCCP reserve system, implementing mitigation and conservation strategies, and undertaking long-term stewardship of PCCP reserve lands. From the perspective of local government, this would represent a substantially greater role in implementing the intent of state and federal species and habitat laws and regulations than is the case under baseline conditions. The PCCP implementing entity would be directly involved in administration and oversight of the PCCP permitting process, reserve acquisition and management, and biological monitoring. The implementing entity would have significant financial management responsibilities as well.

The PCCP would allow for partnerships with entities that are already in the business of acquiring and managing land for habitat and open space resources, albeit in an *ad hoc* way. State and

federal agencies, private nonprofit land trusts, and individual local governments or public agencies could own and manage land that was part of the PCCP reserve system. Private mitigation banks could offer mitigation credits for sale that would meet the terms of PCCP compliance requirements. Owners of agricultural lands that were part of the PCCP reserve system could manage their properties in a manner consistent with PCCP biological goals and objectives.

Compared to the baseline situation for meeting the terms of local, state, and federal regulations affecting species and habitat, the PCCP would likely result in a larger reserve system, a new administrative structure, decision-making authority, increased staffing, and new revenue sources for carrying out this comprehensive program. This report assesses the implications of these differences for local government costs and revenues.

FISCAL IMPLICATIONS OF THE PCCP

Fiscal impact analysis evaluates the effects of the PCCP on the Placer County operating budget—on the costs of providing County services and on the revenues available to fund those services. As noted above, the framework for the fiscal impact analysis is that mitigation for impacts to endangered species and habitats is required under both baseline conditions as well as under the PCCP. The difference is how mitigation is accomplished, the scope of the conservation effort, and the local government role in managing mitigation and conservation activities. In addition, conditions under the PCCP would include state and federal support for public conservation efforts—primarily acquisition of reserve lands beyond what would be expected on the basis of mitigation from private development and public projects alone.

Impacts are categorized as direct and indirect. Direct impacts are specific costs and revenues associated with implementation of the PCCP and changes in the revenue base associated with the PCCP reserve acquisition program. Indirect impacts are secondary effects associated with differences in property values over the long term and economic development impacts of the PCCP.

Implementation costs are estimated and are a reasonable reflection of the scale of the land management effort

The annual costs to implement the PCCP include costs to administer the program, manage reserve lands, and monitor progress toward biological goals and objectives. The cost estimates that have been prepared are based on assumptions about staffing and/or contracting needed to accomplish the following: identifying and executing land acquisitions; collecting and managing impact fee and other revenue; preparing applications for state and federal funding; developing annual budgets and financing strategies; preparing reports to wildlife agencies; managing public participation; implementing land management, restoration, and biological monitoring programs; tracking program compliance; and maintaining required records. These tasks would be the responsibility of the implementing entity—a joint powers authority of the Permittees, including Placer County, or, by default, the individual jurisdictions acting separately.

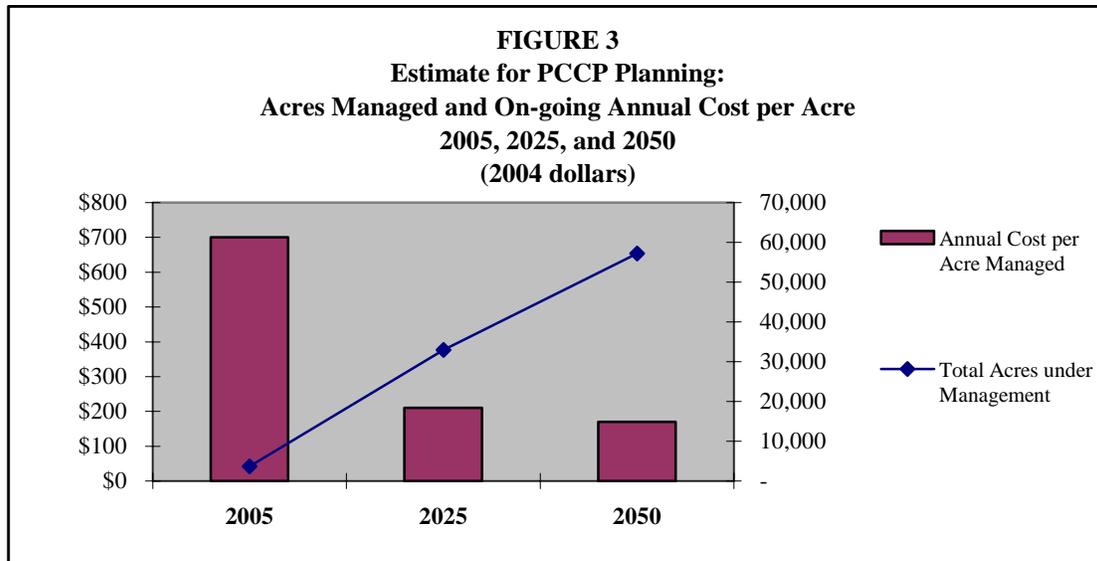
The annual costs are a function of the types of activities required and the amount of land managed. **Table 1** summarizes current estimates of on-going costs in 2005, 2025, and 2050. To begin, at start-up, total costs of about \$2.5 million per year average about \$700 per acre managed. By 2025, the mid-point of PCCP implementation, it would cost about \$200 per acre to

manage PCCP lands. This would amount to about \$6.8 million per year when 33,000 acres would be under management. By 2050, per-acre land management costs would be lower (about \$170 per acre) and the on-going annual costs to implement the program, including managing 57,000 acres of reserve lands, would be about \$9.6 million.

TABLE 1
ESTIMATES OF PCCP ANNUAL ON-GOING COSTS IN 2005, 2025, AND 2050 (2004 dollars)

<u>Annual On-going Costs</u>	<u>2005</u>	<u>2025</u>	<u>2050</u>
Management of Local Mitigation Land	\$1,117,000	\$3,504,000	\$6,865,000
Management of State/Federal Conservation Land	<u>1,407,000</u>	<u>3,273,000</u>	<u>2,702,000</u>
Total Annual PCCP Costs	\$2,524,000	\$6,777,000	\$9,567,000
<u>Acres Under Management</u>			
Local Mitigation Land	1,635	17,511	41,734
State and Federal Conservation Land	<u>2,015</u>	<u>15,450</u>	<u>15,450</u>
Total Acres Under Management	3,650	32,961	57,184
Total Annual Cost per Acre Managed	\$700	\$210	\$170

As illustrated in **Figure 3**, costs increase over time as more reserve land is acquired and more staffing is required to manage program implementation and manage the growing reserve land base. Costs per acre decline over time, however, as the level of activity decreases after initial start-up, acquisition, and restoration are completed and the managing entity gains experience and begins to realize efficiencies and economies of scale.



The annual costs are the responsibility of the local government implementing entity and cover the costs of staff, contractors, equipment, and overhead. The cost estimates provide for an administrative staff of four to five full time employees and a field and technical staff ranging from 7-10 full time employees in the first ten years of the program to 18 full time employees by the time all reserves are acquired and under management. Costs also cover contractors providing some land management services as well required legal, financial, real estate, and biological

monitoring services. Costs for public safety services provided to reserve lands (law enforcement and fire protection costs) are also included in PCCP budget.

Although a financing plan has not been determined, these costs are expected to be funded by covered activities and other new funding sources. The details of the PCCP financing plan will determine the extent to which PCCP costs might ultimately require some commitment from the Placer County General Fund.

Long-term costs are uncertain but appear appropriate when compared to costs incurred by other land management entities

Estimating the costs of a complex program such as the PCCP involves numerous assumptions and the use of average cost estimating factors for a variety of administrative, land management, and monitoring activities. The costs estimates for such a long-term planning program are by nature not precise; adding a significant contingency factor provides a hedge against underestimates. The estimates are nevertheless subject to evaluation to indicate their utility and validity for the purposes of program and financial planning.

Research conducted for the PCCP cost analysis indicates that the resultant estimated average annual costs per acre managed are valid estimates for planning purposes. Operating costs for agencies that manage open space lands are sensitive to the number of acres managed and the degree of public access and recreational use as well as the degree of habitat management obligations. For five Bay Area open space and/or park districts that own and manage from 3,100 to 94,500 acres, annual operating costs ranged from \$1,500 per acre to \$168 per acre. Documentation reports for two other multi-species habitat conservation and natural communities conservation planning efforts in California estimate on-going management costs at \$157 per acre (for 56,000 acres in Riverside County) and \$123 per acre (for 31,000 acres in Contra Costa County).

[**Note to reviewers:** Some time ago (January 2005), I discussed management cost factors with Mary Dietrich at Facility Services and provided her with cost factors and cost model documentation to review, as well as County park inventory sheets for organizing actual cost data. I did not receive a response. It would be good to include some comments from Facility Services in this report.]

Costs for some implementation activities could escalate, and other implementation strategies could serve to reduce costs or generate offsetting revenues

The detailed cost estimating exercise conducted for the PCCP provides up-front insights into aspects of program implementation that might require more resources than estimated. The process of acquiring reserve lands is one area in particular where there might be extraordinary costs associated with any protracted negotiations or complicated real estate transactions. Other areas of concern regarding potential sources of on-going cost escalation are financial management and providing adequate financial reserves to cover remedial measures indicated by adaptive management findings or changed circumstances.

By contrast to the *ad hoc*, case-by-case mitigation program currently in place, however, the PCCP provides the additional capacity to generate offsetting revenues and implement generalized land management policies to minimize on-going public agency cost exposure.

Income-generating agricultural operations could continue on much PCCP reserve land, either through leaseholds or by re-selling easement-encumbered land back to the private sector. Hunting clubs might also be compatible with some PCCP reserves. These management options available to the PCCP implementing entity would provide a cushion against General Fund exposure. Furthermore, one-time fees or annual assessments on covered activities to fund PCCP management costs could be set to cover costs of public safety services to PCCP reserves, thereby reducing what would otherwise be a General Fund obligation.

A balanced financing plan will limit exposure of the Placer County General Fund

The PCCP permit holders will be responsible for ensuring that mitigation is accomplished for private development activity and public projects, and that funding sources are adequate to manage and monitor conservation lands and conservation activities in perpetuity. The PCCP financing plan must identify funding sources and financing mechanisms that will cover the one-time costs associated with local mitigation and public conservation, as well as on-going costs for land management and plan administration. The financing plan will identify and estimate revenues new revenue specific to the PCCP, such as habitat mitigation or development impact fees, special taxes, or benefit assessments, in addition to state and federal funds and plan-generated revenues such as lease revenue. The intent throughout the planning process has been to design a financing plan that does **not** rely on existing County General Fund revenues.

This can be accomplished by adhering to the following principles:

- ◆ Allocate local mitigation costs to private and public development in proportion to impacts
- ◆ Adjust mitigation or impact fee amounts to keep pace with changes in costs
- ◆ Accept appropriate dedication of reserve land
- ◆ Assess on-going costs to covered activities using a combination of impact fees for an endowment, annual assessments, or special taxes
- ◆ Include mitigation cost obligations in project budgets for County-sponsored covered activities and seek to cover these costs through new revenue sources (e.g., include PCCP compliance costs in facility cost estimates used to derive countywide capital facilities fees and traffic impact fees, and earmark funds from a proposed transportation sales tax to cover habitat mitigation costs)
- ◆ Pursue new broad-based special revenue sources to fill funding gaps
- ◆ Maximize private management of conservation lands through grazing and other agricultural leases, re-sale of easement-encumbered conservation land, and partnership with conservation banks, mitigation banks, and other potential land management partners such as the Placer Land Trust
- ◆ Encourage state and federal acquisition and management of public conservation lands

The PCCP offers advantages in cost sharing and cost allocation

One of the significant benefits of the PCCP over *status quo* conditions for mitigating impacts to species and habitat would be the ability of the public agency implementing entity to tap diverse sources of public funding. This is evident in state and federal agency commitments to the public conservation component of the PCCP. Placer County has been successful to date in competitive funding for both land acquisition and planning funds offered by state and federal sources,

attracting over \$5.2 million in state and federal grant funds. Accounting for 40 percent of total costs to date, this outside funding has leveraged local sources to achieve natural resource goals and objectives that might otherwise languish for lack of funding. State and federal dollars have funded planning and acquisition for both Placer Legacy and the PCCP. Because a comprehensive approach to habitat planning and protection has broadly recognized benefits to species, natural communities, and the general public, allocations of state and federal taxpayers dollars are available. This type of cost sharing is not possible with individual players acting in isolation.

Furthermore, the PCCP has the potential to be a vehicle for allocating the costs of habitat conservation more broadly, both over time and over a more diverse local funding base. The public financing mechanisms outlined in the financing options memorandum could have several cost benefits. Public debt financing would allow up-front land acquisition, limiting the impact of land value escalation over time on overall costs. Other forms of public financing would allow costs to be spread over time and over a broader funding base, thereby reducing the up-front obligations of land developers. In some plans, a portion of local mitigation cost is explicitly assigned to taxpayers more generally. The rationale for a broader cost allocation can be compelling:

- ◆ Existing development has contributed to the decline in habitat values and the need for species listings and should bear some of the cost associated with species conservation and recovery efforts.
- ◆ Many of the quality of life and economic benefits associated with large-scale habitat conservation accrue generally to all residents, businesses, and visitors.
- ◆ Spreading some of the costs beyond new development benefits the consumers of new development: newcomers (both residents and businesses), as well as those moving within the county—especially the new households formed by children of existing residents and older households seeking more manageable housing options.

The PCCP and baseline conditions would result in similar outcomes for the property tax revenue base

Acquiring existing and potential future development rights in land to preserve its natural resource values results in result in changes to otherwise expected local government revenues derived from the property tax and real property transfer tax (documentary transfer tax). The mechanisms for these changes are the same under both the PCCP and baseline conditions for protecting the natural resource values of land in perpetuity. The PCCP, however, would most likely result in a larger reserve system and more reserve land transactions. In the following description of consequences for the property tax revenue base, the PCCP is presumed. Similar changes in land status and in the tax base would occur under baseline conditions.

The characteristics of source lands for reserves and the management and use options for reserve lands influence the outcome for the property tax revenue base

The PCCP reserve system would be built by transferring land or some of the rights associated with land to the PCCP implementing entity or appropriate partner. The magnitude of the impact on local public revenue would depend on the specific conditions of the land transferred, as well as on the subsequent disposition and use of that reserve land.

Figure 4 outlines the changes in land status occurring over the course of PCCP implementation that would influence local public revenues derived from property tax and property transfer tax. The source of PCCP reserve land is expected to be privately-owned land designated for agricultural use in the *Placer County General Plan* and zoned for agricultural use. Much of the PCCP reserve land is currently used for agricultural purposes—as cropland or grazing land. PCCP reserve land would be acquired by a public agency (the PCCP implementing entity or any one of its constituent agencies, state government, or federal government) or designated private nonprofit partner. Acquisition of fee title interest in the land (all of the rights of land ownership) or an easement interest (a portion of the bundle of rights of land ownership) would occur as the public agency or private, nonprofit partner accepted dedications from private landowners of fee title interest or easements or purchased those interests.

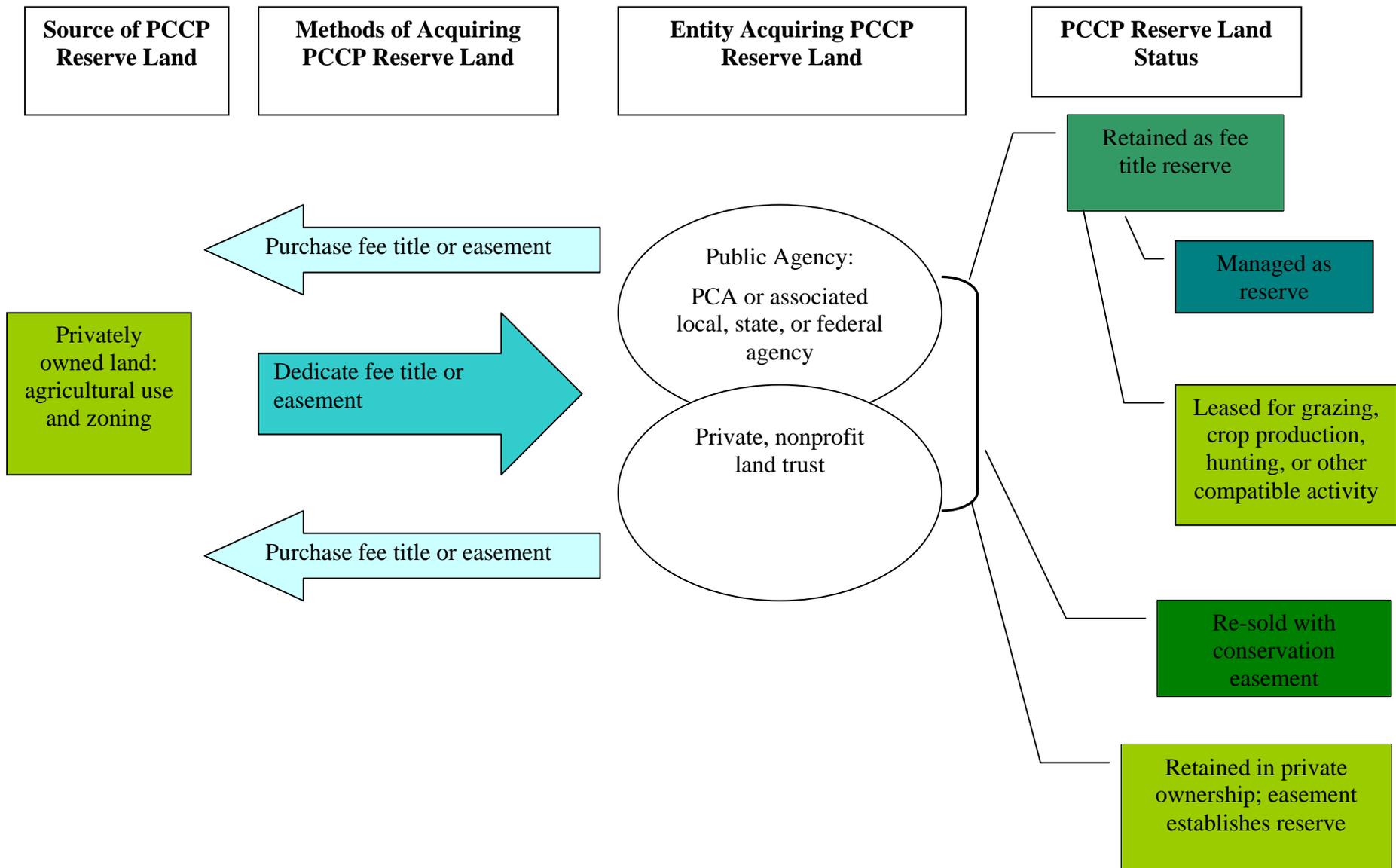
Subsequently, as illustrated in **Figure 4**, there would be a number of options for reserve land. Reserves owned in fee title could be retained in public agency or private nonprofit ownership and managed as reserve land without any revenue-generating activity. Alternatively, those lands could be leased to private operators for grazing, crop production, hunting, or other business enterprise compatible with the reserve. Lands acquired in fee title could also be sold back to the private sector for agricultural or other compatible use, after a PCCP reserve easement were placed on the title. Lands from which PCCP reserve easements were acquired would remain in private ownership, with use restricted by the terms of the easement.

Such transactions would change the status of the reserve land for the purposes of property tax assessment. Interests in property—fee title or less-than-fee title—that are transferred from private ownership to public or private nonprofit ownership become exempt from property taxes. (Property held by a private nonprofit entity registered as a 501(c)(3) organization qualifies for tax-exempt status under the welfare provisions on the Revenue and Taxation Code, assuming the entity maintains its qualifying mission and the property is used in a manner consistent with that mission.) On the other hand, income-producing activity, such as crop production, grazing, or hunting, conducted by leaseholders on publicly-owned or otherwise tax-exempt land, would be taxable as a possessory interest and assessed on the basis the income generated by the activity.

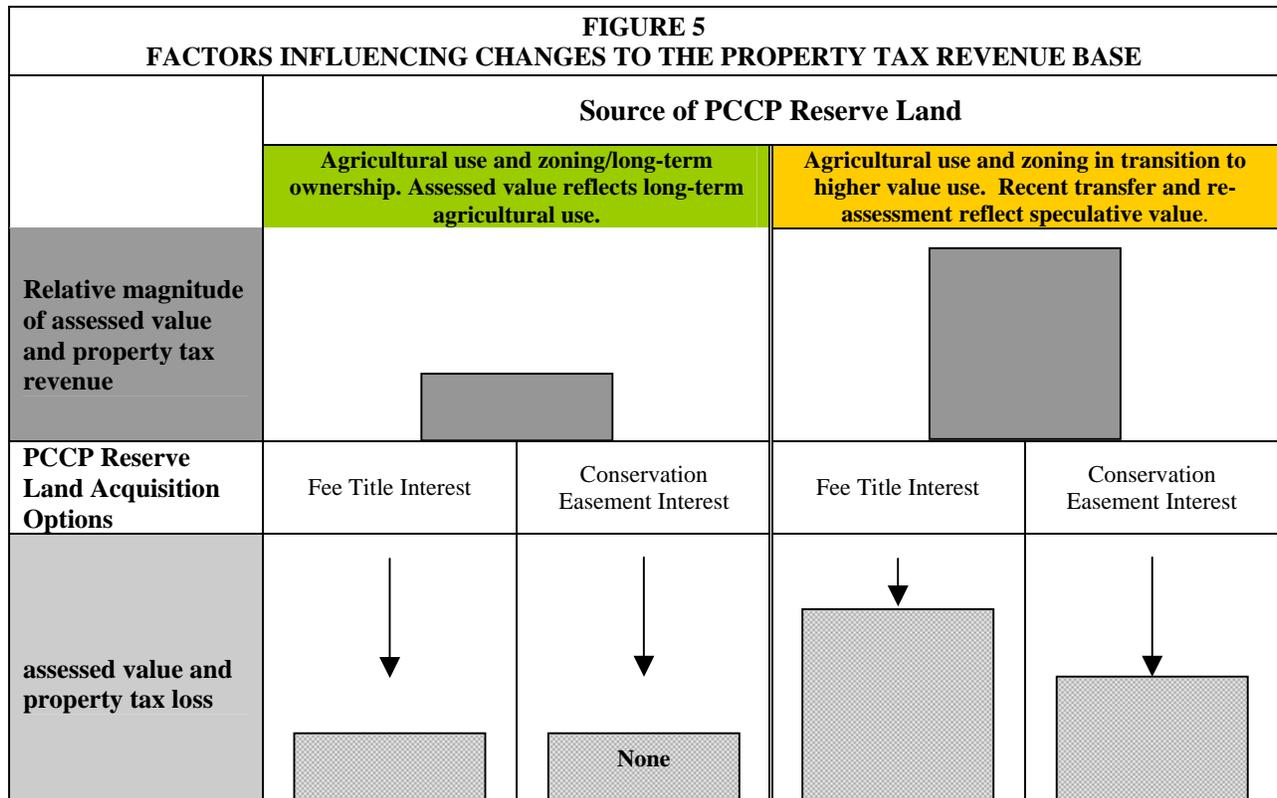
The magnitude of the difference in property tax revenue otherwise expected would therefore depend on both pre-reserve characteristics of the property and the status of the property as part of the PCCP reserve system. **Figure 5** illustrates the important considerations.

For likely sources of PCCP reserve land, there would be two primary pre-reserve distinctions. In the first instance, the potential reserve land would be agriculturally-zoned land in long-term agricultural use and ownership. The assessed value of this land would be relatively low, reflecting its long term agricultural use and the absence of recent sales transactions that would trigger re-assessment. The second case of potential reserve land would be agriculturally-zoned land in transition to a higher value use, evidenced by a recent sales transaction at a value substantially higher than justified by agricultural income. The assessed value of this property would be higher than that of the first property; re-assessment at the time of the recent sales transaction would account for the speculative value evident in the sales price.

**FIGURE 4
CHANGES IN LAND STATUS TO CREATE PERMANENT CONSERVATION RESERVES**



Transfer of fee title interest in either of these properties (by dedication or by purchase) to the PCCP reserve system (public agency or private nonprofit ownership) would result in the full loss of the property tax revenue otherwise flowing from the property. The revenue loss would be greatest for the property already in transition, where recent private transactions reflected some speculative value. The initial revenue loss might not be very great for property that had been in long-term agricultural use and ownership. That loss would be magnified over the longer-term, however. An opportunity cost of the transfer to the PCCP reserve system would be the loss of potential revenue increases attributable to property turn-over and speculative land acquisitions that might otherwise be expected sometime in the future in areas that have long-term strong growth potential.



These revenue losses would be offset by introducing leasehold interests or other compatible revenue-generating rights on properties that remained in public agency or private nonprofit ownership. Leasing reserve property for agricultural operations (crop production or grazing) or hunting or other compatible activity would result in assessment of those possessory interests. In these cases, the loss of property tax revenue would be limited to the loss associated with speculative value, either already evident in recent transactions, or potential in the absence of a resource protection program such as the proposed PCCP.

Transfer of a conservation easement for either of these properties would reduce the loss of property tax revenue. Fee title interest would remain private and, therefore, taxable. For the property in long-term ownership, restricting the property to agricultural use in perpetuity by means of some form of easement would not make any difference in the basis of the property for the purposes of property tax assessment. Initially, there would be no change in property tax

revenue flowing from this property. The longer-term opportunity cost of removing the potential for future turnover and speculation would remain, however. Attaching a reserve easement to the higher-value speculative property would result in some initial loss of property tax revenue, as the fee title interest remaining in private ownership would be reassessed at the lower agricultural production value.

Mitigation banking is another option for meeting reserve needs that does not reduce the property tax revenue base

Mitigation banks could be established in Placer County to satisfy some of the PCCP reserve needs. One of the first mitigation banks in the state was established in Placer County; all of the credits created at that bank have been sold to satisfy project compliance requirements for impacts to wetlands and oak woodlands. The newer Orchard Creek conservation bank continues to offer vernal pool preservation credits. Such privately-owned or privately-operated mitigation banks generate property tax revenue. Creating reserves for the purpose of selling mitigation credits results in property tax assessment as new construction. The assessed value declines as the mitigation credits are sold; technically, that value is transferred to the developing property that benefited from the purchase of the credits. Until all mitigation credits are sold, this treatment of mitigation banks can result in a substantial increase in assessed values and property tax revenues compared to a property's pre-bank status.

The PCCP would have an indirect impact on local public revenue

The implications of the PCCP for economic development are described in the following section. Generally, compared to the *status quo*, the PCCP would enhance opportunities for sustainable economic growth. There would be indirect fiscal benefits as a result.

Over the long term, the benefits of an enhanced development climate and a regional preserve system resulting in higher environmental quality would be likely to translate to higher property values and property tax revenues as well as more public revenues associated with visitor spending than would be the case under baseline conditions. A more efficient permitting process would reduce delays in the development process so that public revenues associated with new development would be realized sooner than would otherwise be the case. The multiplier effect of higher levels of state and federal spending in Placer County would also contribute to higher levels of local public revenue.

IMPLICATIONS OF THE PCCP FOR ECONOMIC DEVELOPMENT IN PLACER COUNTY

The PCCP would generate economic development benefits for Placer County

The species and habitat issues facing new development in Placer County are not unique to the County. These same regulatory requirements are faced by land development activities throughout the market area. In fact, recent analyses of proposed critical habitat designations for vernal pool species identified costs in Sacramento County far exceeding those identified in Placer County. In this complex regulatory environment, the PCCP would represent a comprehensive solution to thorny issues, thereby enhancing the competitive position of Western Placer locations.

There are a number of other factors--labor force, transportation, and proximity to production inputs and markets that businesses evaluate when comparing location options. Similarly, households evaluate neighborhood factors, commute options, and job opportunities in their housing choice decision, in addition to housing cost and environmental factors. Any advantages attributable to the PCCP would not be significant enough to outweigh advantages of locations offering lower labor costs, a better trained workforce, better transportation systems, proximity to important markets or production inputs, or still lower land, non-residential space, or housing costs. Under the PCCP, however, firms or households facing relatively equal location options on all other factors might choose Western Placer County over other locations that had not resolved regional habitat planning issues in a comprehensive way.

Furthermore, quality-of-life and scenic rural character continue to define Placer County's appeal to many segments of the housing market and to some employers. Because the PCCP would require mitigation for cumulative impacts and the scope of PCCP conservation efforts would extend beyond development-related mitigation, a more extensive and varied reserve system is anticipated than would be achieved under baseline conditions. More of the natural assets that are the basis for attracting population and economic growth to Placer County would be protected, and there would be benefits to environmental quality. In addition, as the regulatory component of the acclaimed Placer Legacy program, the PCCP would extend the economic development impacts of Placer Legacy to the land development process by providing a more consistent and predictable development environment and a streamlined process.

While many other market factors are more significant to the overall pace of development than is planning for species and habitat conservation, it is likely that the development process would become increasingly protracted without the PCCP. Under a continuation of the existing regulatory regime and planning process, land developers would be less able to respond to market opportunities and to adapt projects to changes in market conditions.

The total amount of growth and development activity in the unincorporated Western Placer County and the City of Lincoln would continue to be guided by existing and future general plan documents of the local jurisdictions. The PCCP would not make a difference in the **total** amount of growth and development allowed by those documents, only in the pace of that growth, and, potentially, in its configuration.

Finally, higher levels of state and federal spending in Placer County are likely following implementation of the PCCP. The flow of state and federal dollars into the local economy would have direct and indirect economic impacts—stimulating business activity, jobs, income, and consumer spending. An article in the August 2004 issue of *California Coast and Ocean*, a quarterly publication of the California Coastal Conservancy, described the “restoration economy” generating jobs for scientists, engineers, heavy equipment operators, and laborers. Much of the business of the restoration economy is conducted by small businesses. This economic sector is expanding based on state and federal funding of both large and small projects. The economic impact extends to employment and income benefits in both the private and public sectors.

IMPLICATIONS OF THE PCCP FOR HOUSING AFFORDABILITY IN PLACER COUNTY

Demand is the primary determinant of housing price. Demand is a function of population growth (migration is particularly important in Placer County), employment growth, and increases in

income. The elasticity of demand—the ability and willingness of households to choose substitute housing elsewhere in the market area—is also a key determinant of how the housing market will adjust to changes in any of the factors of production.

The PCCP would not directly affect the supply of land for housing. Local general plans designate land for residential development, and existing state and federal regulations (the *status quo* permitting process) determine the availability of land with respect to species and habitats. Because the PCCP would not supplant either of these determinants of land supply, it would not make a difference in the cost of land for housing relative to demand.

The impact of the PCCP on the critical habitat designation for vernal pool species has not yet been resolved but could prove an exception to this general statement. If the PCCP were to result in lifting the critical habitat designation, the PCCP would increase the potential supply of land for housing in Placer County. However, since much of this land is not designated in local General Plans for housing and since lifting the critical habitat designation would be predicated on assurances that the PCCP would provide comparable mitigation for impacts to vernal pool species and habitats, then the overall effect of a “potential” increase in supply might be difficult to detect in the market.

The PCCP would reduce some housing production costs and could indirectly improve housing affordability in Placer County. The PCCP would reduce the time and costs of the planning and permitting process for new development and would reduce the amount and cost of litigation faced by most major new development proposals. In a competitive market, assuming housing producers are charging what the market will bear, these cost reductions would not necessarily translate to lower housing prices, however. They might result in changes in the housing products offered and the pace at which products were brought to the market. More lower-priced units than otherwise expected might be the result. The potential for the amenity and quality of life benefits of the PCCP compared to baseline regulatory conditions to result in stronger demand and higher property values over the long term would offset some of these affordability impacts in some segments of the market.

The most important way for local government to influence affordable housing is to plan for an adequate supply of land for dwellings of many types. Affordable housing can be provided despite supply constraints imposed by local land use plans or environmental regulations if there are complementary local policies and programs to expand the supply of higher density, lower cost housing. This means zoning for higher density housing, multi-family housing, mixed use development, and housing near places of work. It also means implementing inclusionary housing and workforce housing policies, combining requirements with incentives such as density bonuses and alternatives to on-site mitigation. More generally, local governments can periodically review policies and programs with an eye to reducing regulatory barriers to increasing housing supply in areas appropriate for urban development.

PERSPECTIVE ON PCCP COSTS

Investment in the PCCP is comparable to investment in other backbone infrastructure

The PCCP, with potential one-time costs on the order of \$1.3 billion over 50 years, represents an investment in the “green infrastructure” required to accommodate new development and population and economic growth in Placer County. As such, the level of investment in the PCCP

is best evaluated in the context of other infrastructure investments that will be required of public and private interests to meet the needs of growth. These infrastructure investments include:

- ◆ Transportation facilities such as highways, interchanges, regional roads, and transit
- ◆ Schools
- ◆ Libraries
- ◆ Courts and detention facilities
- ◆ Government office buildings
- ◆ Park and recreation facilities
- ◆ Water, wastewater, solid waste, and flood control facilities

Table 2 lists the costs of some of these infrastructure investments required to serve growth in Western Placer County. Placer County's recently adopted *Regional Transportation Plan* identifies almost \$1.7 billion in costs for regional roads, transit capital projects, and bicycle and pedestrian improvements in Lincoln and West Placer County. This includes the costs of such high priority projects as the Lincoln Bypass, SR 65 widening, Placer Parkway, and I-80 capacity improvements. Placer County's capital improvement plan shows an investment of almost \$620 million in local government facilities, many of which will be developed in Western Placer to better serve the centers of population growth in the County. [**Note to reviewers:** It would be great to be able to add City of Lincoln Capital Facilities costs, including cost estimates for the proposed water treatment plant. I was not able to track these down.] Other investments in backbone infrastructure to serve this area include expansion of water supply, distribution, and treatment facilities; expansion of wastewater and solid waste facilities; as well as flood control improvements to support the provision of land to accommodate growth. Costs for some of these projects total about \$650 million. A more complete accounting of costs would include longer-term regional water supply and wastewater solutions likely to be required, adding significantly to total costs. The addition of estimated PCCP expenditure of \$1.3 billion brings the total investment to over \$4.2 billion.

Figure 6 shows the contribution of each element to the total infrastructure investment. The PCCP is one element of a comprehensive package of infrastructure improvements that would enable population growth and economic development to proceed in western Placer County.

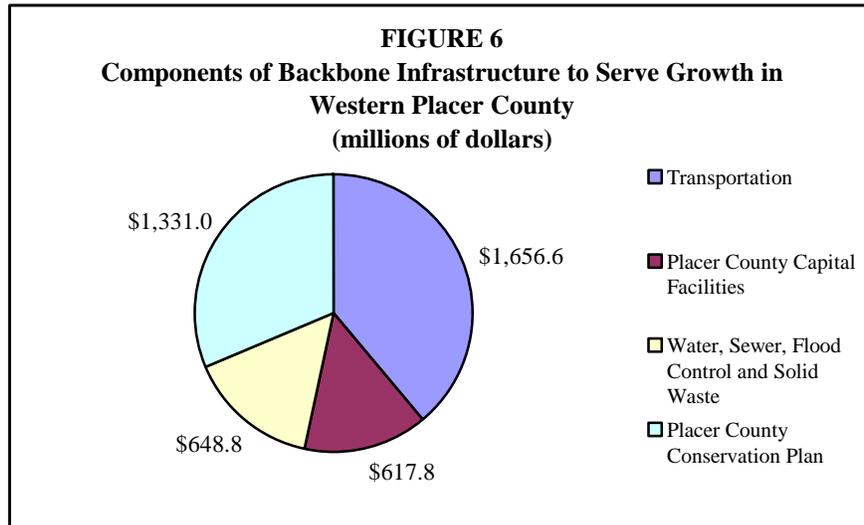
[**Note to reviewers:** Another approach would show the total "burden" of all impact fees and infrastructure assessments for representative residential and non-residential projects in Placer County and Lincoln and discuss a hypothetical PCCP fee in this context. In a 2002 Economic Analysis of the Natomas Basin Habitat Conservation Plan, the proposed habitat mitigation fees represented very small components of the overall backbone infrastructure costs represented by fees, assessments, and taxes. The work to develop the accounting of fees, assessments, and taxes faced by representative projects should be coordinated with the work of the Western Placer Financing study and perhaps with the help of participants in the proposed PCCP Finance Committee.]

TABLE 2	
COST ESTIMATES FOR REPRESENTATIVE INFRASTRUCTURE TO SERVE GROWTH IN WEST PLACER COUNTY	
Transportation	(Millions of dollars)
Developer Funded Projects (Lincoln and Placer County)	189.5
Other Funded (non-transit)	351.2
Transit Funded projects	1.1
Unfunded projects	1,114.8
	\$ 1,656.6
Placer County Capital Facilities	
Under Construction or Planned	563.5
Completed	54.3
	\$ 617.8
Water, Sewer, Flood Control, and Solid Waste	
Pleasant Grove Wastewater Treatment Plant	179.8
Lincoln Wastewater Treatment and Reclamation Facility	85.0
Super-Sewer (Dept. of Facility Services)	220.0
American River Pump Project	34.0
Foothill Phase II Water Treatment Plant	100.0
Lincoln Area Water Treatment Plant	-
Miners Ravine Detention Basin	4.0
Materials Recovery Facility Expansion	26.0
	\$ 648.8
Estimated One-Time Costs for PCCP	
Local Mitigation	976.0
Public Conservation	355.0
	\$ 1,331.0
TOTAL	\$ 4,254.2
<p>NOTE: These costs represent only a portion of the infrastructure investment required to serve growth in Western Placer County. Other costs would include schools, parks and recreation facilities, City of Lincoln capital facilities, and in-tract infrastructure for specific plans (typically paid for by developer funding).</p> <p>¹ For comparability to the PCCP, this accounting of transportation projects from the <i>Placer County Regional Transportation Plan</i> does not include projects in non-participating cities (Auburn, Loomis, Rocklin, and Roseville).</p> <p>SOURCES: Placer County Transportation Planning Agency, <i>Placer County Regional Transportation Plan, May 2005</i>; Placer County Department of Facility Services, <i>Capital Improvements Plan, April 2005</i>; Placer County Water Agency; Nevada Irrigation District; Western Placer Waste Management Authority.</p>	

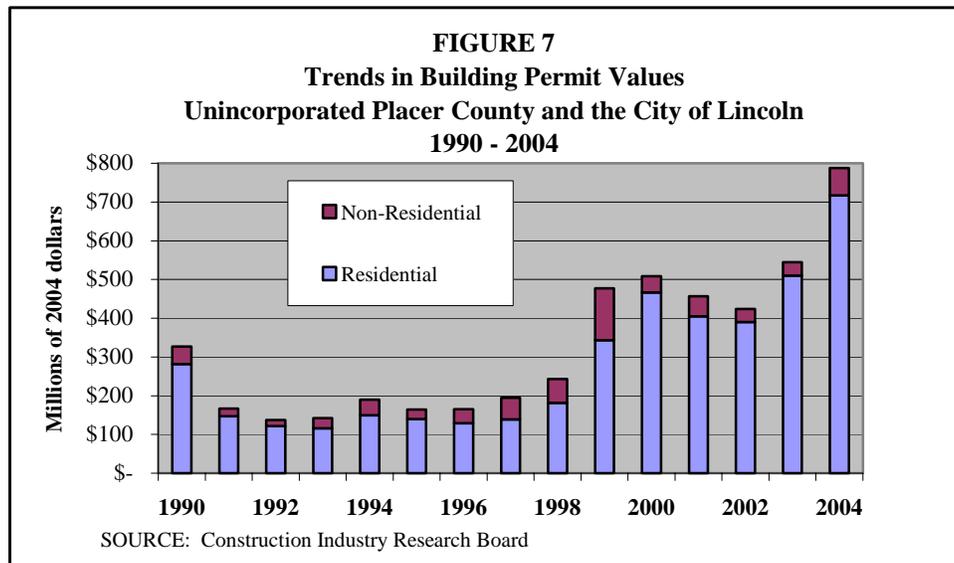
The projected value of new development supports investment in species and habitat conservation at the level indicated by estimates for the PCCP

The dollar investment associated with the PCCP is not large in the context of the investment in new residential and non-residential construction to accommodate growth in Western Placer County through 2050. **Figure 7** illustrates trends in building permit values for unincorporated Placer County and the City of Lincoln between 1990 and 2004. The dollar values are adjusted for inflation and therefore reflect real increases in both the **amount** of new development and the **value** of development. Residential permit value are for new single-family and multi-family housing; non-residential permit values cover new private commercial and industrial buildings as

well as private hospitals, schools, other institutional, and miscellaneous non-residential structures. Permits for alterations, additions, and conversions are not included in either case.



The dramatic increases in recent years reflect the surge of new development in these parts of Western Placer County. (Note that building permit data for non-participating cities is not included in this summary and the total for the unincorporated area includes development in the Tahoe Basin and other parts of unincorporated Placer County outside Western Placer. The majority of the unincorporated area permit value most likely represents development activity in Western Placer.)



Over the 15-year period, building permit values for new construction averaged about \$330 million per year. During the most recent five-year period, building permit values averaged over \$540 million per year. Assuming future development maintained this pace and consistency, the total value of development expected could range from \$15 billion to almost \$25 billion from 2005 to 2050. (The range reflects calculations using the lower longer-term annual average and

the higher annual average based on the most recent period.) The local mitigation component of the PCCP (cost estimate at \$976 million) is four – seven percent of this potential permit value.

The PCCP will not have a negative impact on the feasibility of new development

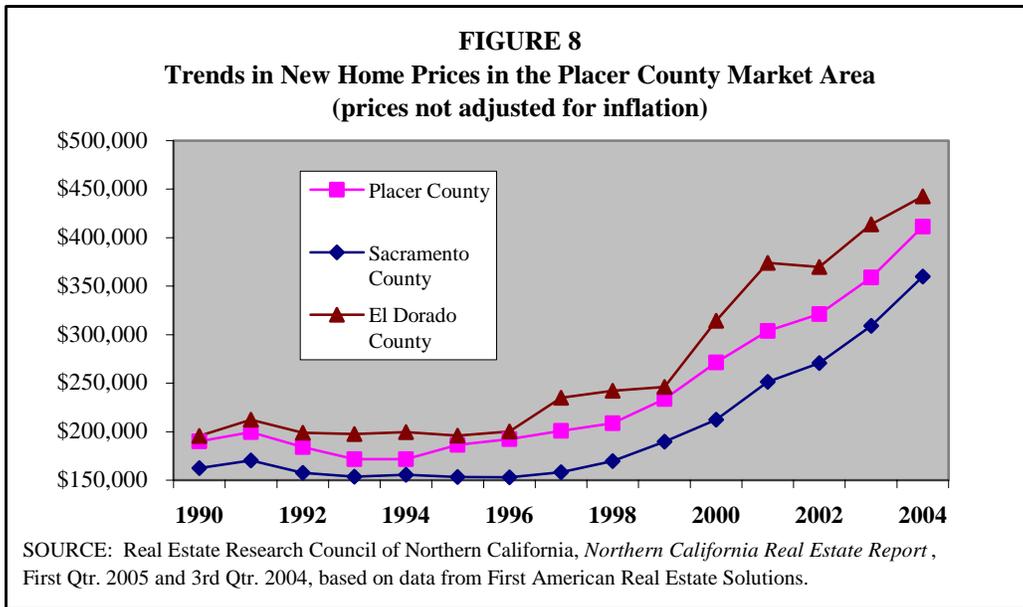
For potential new development projects that could accommodate the largest mounts of future growth in unincorporated Western Placer County and the City of Lincoln, the PCCP would represent an improvement over the state and federal regulatory requirements that would otherwise affect land development activities. As described in the beginning of this report, the PCCP would replace a generally protracted project planning process, involving negotiations with multiple regulatory agencies, substantial uncertainty, and the prospect of litigation, with a simplified, uniform, planning process at the end of which obligations associated with mitigating impacts to species and conserving habitat would be met by land dedication and/or payment of mitigation/development impact fees. While the direct costs to provide on-site and/or off-site mitigation might not be that different under the PCCP and *status quo* regulatory environment, the difference in time and costs associated with negotiations, uncertainty, and liability could be significant. By reducing these real costs, the PCCP would enhance the feasibility calculation for land developers.

Furthermore, while the PCCP would remove species and habitat issues from the list of potentially contentious land planning questions that can delay the project approval process, there are a number of other significant issues that most major development proposals in Western Placer County have to resolve. These include planning for transportation improvements, water supply, and wastewater treatment, in addition to the overarching questions of development financing and infrastructure financing. The PCCP is only one of a number of substantial planning issues that influence the timing and feasibility of greenfield development.

The land cost basis and market values for new development influence feasibility more than species and habitat conservation requirements

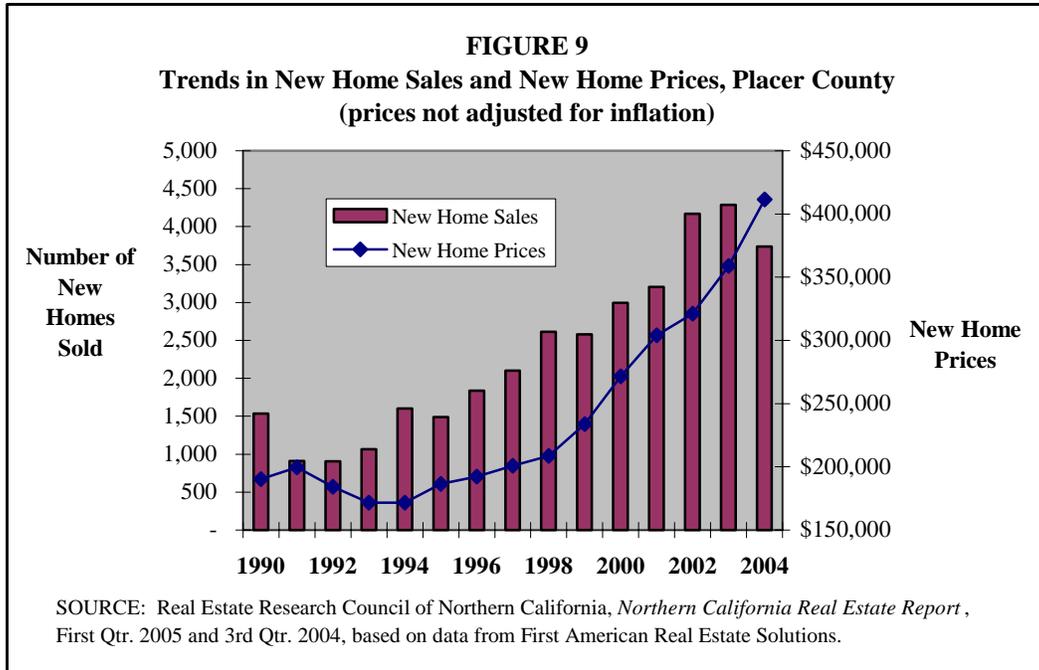
Among the key ingredients of the development equation in the Sacramento region in 2005 are land prices and high and increasing values for new development (particularly housing). The history of development patterns in the region has supported speculation in agricultural land at the fringe of the metropolitan area; as a result, long-time landowners have a very low cost basis in land that may eventually be urbanized. The rapid increase in housing market values over the last several years has significantly enhanced potential profits from new development, even after accounting for costs required to gain entitlements for development. This calculation applies as well to long-time owners of rural residential or suburban infill properties.

Figure 8 illustrates trends in new home sales prices in selected counties in the regional market area between 1990 and 2004. On average, the market price of new housing more than doubled over the 14-year period, increasing at an annual rate of six percent per year. The average compound rate of increase has been double the rate of inflation for this period. Data for the 2000 through 2004 period show an annual rate of increase from nine percent per year in El Dorado County to 14 percent per year in Sacramento County. New house prices increased at the rate of 11 percent per year in Placer County between 2000 and 2004.



A recent proposal in Sacramento County would have tapped this large profit margin. According to news reports, landowners in unincorporated North Natomas would donate **20 percent** of their net proceeds from selling entitled land (after parcel maps were approved) to provide funding for a sports arena and other community benefits. This donation would be in return for a **faster** entitlement process. For these North Natomas landowners, there was substantial room in the feasibility equation after considering the difference between their cost basis in what is currently farm and ranch land, the costs of entitlement (including costs for mitigating impacts to habitat), and that land's value as entitled property—enough room to forego one-fifth of land sales profits. This example also illustrates the value large landowner-developers place on an **expedited** process, where the typical timeline for converting land on the urban edge could be a decade or more. Similar calculations underlie community development proposals in Western Placer County that include donation of substantial acreage for college and university campuses.

The vigor of the housing market in Placer County is illustrated in **Figure 9**. The number of new homes sold each year increased steadily from the mid-1990s through 2003, at the same time that prices maintained record year-over-year increases. Analysts project continued population and economic growth in Placer County, although growth rates are likely to slow over the long-term and price increases will tend to moderate. Such expectations, however, fuel the substantial increase in values for entitled land and land that might have the potential for urbanization.



PCCP one-time costs represent an investment in natural resource land and a transfer from the owners of development land to the owners of reserve land

Regional economic analysis categorizes the \$1.3 billion to acquire interests in PCCP reserves as a transfer from land developer to landowner. In this analytical framework, there would be no “cost” or diminution of overall land value as a consequence of PCCP implementation. The \$1.3 billion estimate to acquire PCCP reserves represents an estimate of the natural resource value of that land. Under the PCCP, the owners of potential reserve lands are provided a market from which to extract that resource value as they transfer property interests to the PCCP in return for monetary value, tax benefits, and/or mitigation credit. Under an aggressive conservation strategy, the resource value for scarce reserve lands is likely to be substantially higher than the underlying agricultural value.

Memorandum

To: Loren Clark
From: Sal Van Etten and Robert Spencer
Date: *Revised* July 11, 2005
Re: Preliminary PCCP Financing Plan Discussion

INTRODUCTION

The Placer County Conservation Plan (PCCP) for Western Placer County is nearing completion. The Agency Review Draft of the PCCP was completed in late February (February 22, 2005) and distributed to participating agencies for review and comment. Cost estimates for PCCP implementation, including cost estimates for land acquisition and restoration as well as estimates of ongoing costs such as program administration, land management, and biological monitoring, were also recently updated. A memorandum summarizing the PCCP progress and including the revised cost estimates was prepared by the Placer County Planning Department and presented to the Board of Supervisors on March 8 2005.

At the same time, several major development groups with significant holdings in West Placer have begun meeting with Placer County staff regarding their proposed future development projects. The participation of these projects in the PCCP is crucial to the Plan's success.

If the PCCP is adopted, the next important task will be preparation of a Financing Plan for implementation. There are a wide variety of funding sources and financing mechanisms available to local governments. But their applicability to the PCCP Financing Plan varies substantially because of statutory constraints. Political challenges include the need for voter approval in some cases. Additionally, based on our research to date there appear to be a variety of legal interpretations regarding the use of several funding mechanisms for habitat mitigation. Please note that no legal review by County Counsel or outside counsel of the potential funding mechanisms has been requested or conducted at this point. Such review may be needed if certain funding sources are to be pursued.

PURPOSE

The purpose of this memorandum is to identify strategic issues and corresponding policy decisions that need to be made regarding the PCCP Financing Plan. Several of these policy issues require action as quickly as possible if the County is to preserve the ability to take advantage of certain funding mechanisms in the future. Furthermore

direction from the County on these issues is needed before MuniFinancial can proceed with a recommended Financing Plan.

OUTLINE

This memorandum is organized under the following sections:

- ◆ Overview of PCCP Financing Plan;
- ◆ Potential Funding Sources;
- ◆ Debt Financing Mechanisms; and
- ◆ Strategic and Policy Issues.

OVERVIEW OF PCCP FINANCING PLAN

An overview of the sources and uses of funds for the PCCP Financing Plan is critical to understanding the funding needs and challenges of the Plan. Key concepts include:

- ◆ **Local** versus **state and federal** funding sources;
- ◆ Costs directly attributable to **new development** versus costs that provide more **general benefits**; and
- ◆ **One-time** funding sources and costs versus **ongoing** funding sources and costs.

SOURCES AND USES OF FUNDS

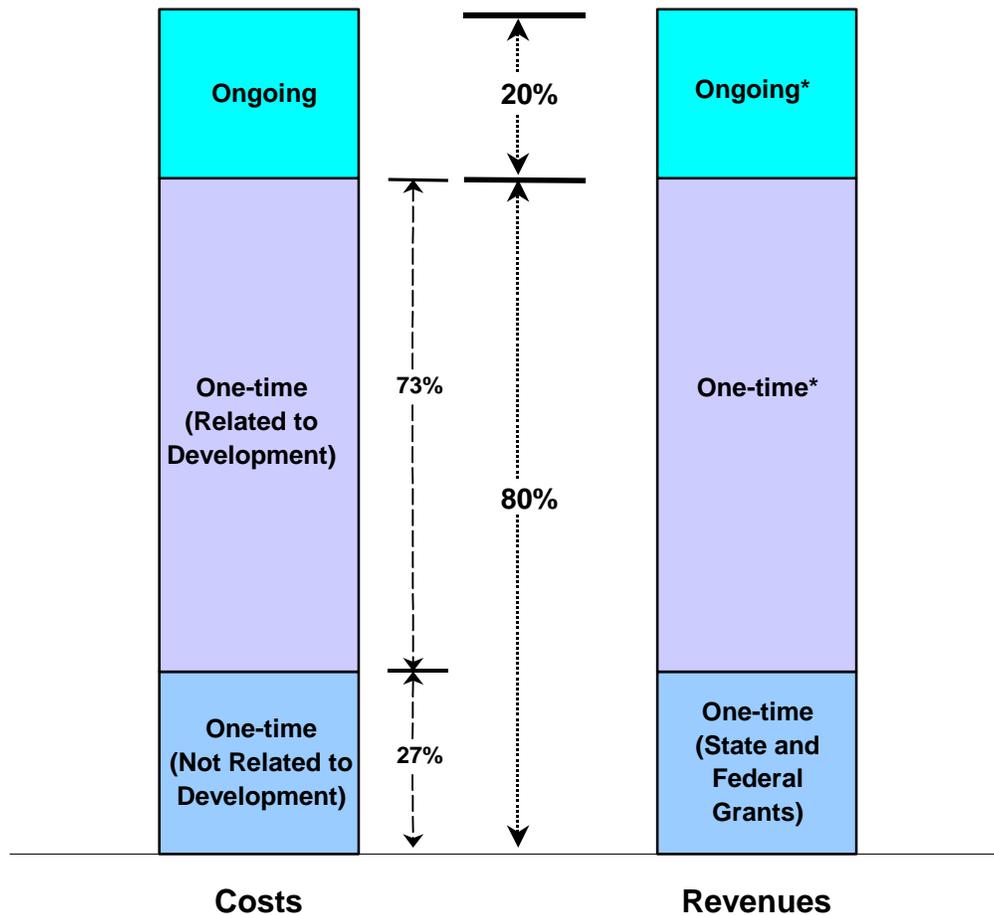
The latest costs estimates associated with the PCCP indicate that approximately 80 percent of total plan costs (during the first 50 years) will be for one-time costs. One-time costs primarily include land purchase, land restoration, and associated program administration. The remaining 20 percent of costs during the first 50 years are ongoing. These costs include land management, biological monitoring and adaptive management, and associated program administration. Ongoing costs will continue into perpetuity at an estimated \$10 million annually (2004 dollars) after the first 50 years. These estimates are preliminary and subject to revision.

Critical to funding of the PCCP is the participation of state and federal agencies. The most recent draft of the PCCP anticipates that state and federal agencies will receive authorization to fund 25 to 30 percent (current estimates assume 27 percent) of total one-time costs identified in the PCCP. State and federal agencies likely will direct their contributions towards the acquisition of specific acres of habitat unrelated to new development impacts. The objective of these agencies is to fulfill species recovery and natural communities conservation policy objectives by expanding the total amount of habitat protected, thereby supplementing local mitigation to provide for ecosystem

integrity. The remaining one-time costs (approximately 73 percent of total one-time costs) reflect mitigation for habitat reduction and other adverse impacts on species from new development.

This overview of sources and uses of funds is shown in the chart below.

PCCP FINANCING PLAN OVERVIEW (FIRST 50 YEARS)



* One-time revenues may be used to generate ongoing revenues through funding of an endowment.

FINANCING PLAN CONSIDERATIONS

This overview of sources and uses of funds suggests the preliminary approach for the PCCP Financing Plan:

- ♦ One-time sources, such as habitat mitigation fees on new development and federal and state grants, should be used to fund one-time costs.

- The bulk of one-time costs are associated with the habitat acquisition and restoration to mitigate the impacts of new development. Habitat mitigation fees paid by new development are a one-time source and therefore appropriate for this purpose, though other one-time or ongoing sources could be used as well.
- The remaining one-time costs are likely to be funded with state and federal contributions. These funds will **not be available to defray costs associated with the impact of new development.**
- ◆ Stable, continuing funding sources such as assessments and taxes should be used to fund ongoing costs in perpetuity.
 - One-time funding such as mitigation fees may indirectly fund ongoing costs by building an endowment that generates sufficient interest revenue in perpetuity (see additional discussion below).
 - The PCCP Financing Plan will need to identify local funding sources for ongoing management and monitoring costs associated with lands acquired with state and federal funds. These costs are not associated with the direct impact of new development and therefore funding cannot come from exactions (fees, assessments, etc.) imposed solely on new development.

In conclusion, although one-time costs are much larger in magnitude during the first 50 years of the PCCP, the more challenging task may be finding suitable funding sources for ongoing costs in perpetuity. The PCCP may not be able to rely solely on new development to fund these costs, and will need to spread funding more broadly among all property owners and/or taxpayers in the County. This approach is not inappropriate given the general benefits associated with species recovery and the preservation of open space.

POTENTIAL FUNDING SOURCES

A wide variety of potential mechanisms available for PCCP funding are presented in this section. Each funding mechanism is first briefly described. Next, potential opportunities and constraints are identified. The category of costs (one-time and/or ongoing) each funding mechanism might best address is discussed.

Generally speaking, almost all of the funding mechanisms presented would be suitable for funding one-time costs. Some funding mechanisms may be restricted or be less suitable for funding ongoing costs. The potential funding sources are presented in order of those most likely to be used for one-time costs and to be funded primarily by

new development through those which may be used for either one-time or ongoing costs but which require broader participation (new and existing development) and may be better used for ongoing costs.

A matrix summarizing the funding options follows the descriptions and discussion.

LAND DEDICATION / IN LIEU HABITAT MITIGATION FEE

This funding source is an *ad hoc* exaction imposed on new development by the local agency with land use regulatory power. The County has this authority in the unincorporated area and each city has this authority within their respective jurisdiction. A summary description of this funding source as it relates to the PCCP Financing Plan includes:

- ◆ Authority to impose this type of exaction may be derived from several sources including state and federal regulatory requirements to preserve threatened and endangered species, the Subdivision Map Act¹, and the mitigation of environmental impacts identified through the California Environmental Quality Act (CEQA).²
- ◆ Infill development on existing lots not requiring further discretionary approval for development would not be covered, though this represents a small share of total development projected by the PCCP.
- ◆ The conditions of approval for a development project would include dedication of adequate habitat land in perpetuity sufficient to mitigate the negative impacts of the project based on the requirements of the PCCP.
- ◆ As an alternative to or in addition to land dedication, the project could pay a habitat mitigation fee. The fee would be calculated to fund the one-time costs of acquiring and restoring the land that otherwise would have been dedicated.
- ◆ Mitigation requirements would depend on the type of habitat being developed (“taken”) by the project. There are different mitigation requirements (ratios of acres taken to acres required for mitigation) for different habitat categories (e.g., vernal pools, grass land, Oak woodlands, riparian corridors).

Imposing a mitigation requirement for land dedication and/or payment of fees for land purchase is probably the simplest and most practical funding option for the PCCP.

¹ *California Government Code* Section 65913.8.

² Exactions must conform to the “dual nexus” and “rough proportionality” constitutional tests described in case law.

Land dedications and/or fees are one of the most commonly used funding mechanisms for habitat conservation plans in California. Indeed, some large developers active in Placer County have purchased land for habitat mitigation in anticipation of a dedication requirement.

Land dedication has a distinct advantage over other funding sources. Future land price escalation is difficult to estimate, highly variable, and can be significant (over 10 percent annually) in areas subject to development pressure such as Placer County. Land dedication avoids the need to ensure that the habitat mitigation fee and any other funding sources for land acquisition will increase with land price escalation over time. The Board of Supervisors can increase habitat mitigation fees as land prices escalate. However, a lag in this process or any adjustment that does not keep up with land prices could jeopardize full funding of the PCCP.

USE OF FEE REVENUE FOR ONGOING COSTS

One-time fees could be justified to fund ongoing costs in perpetuity through contributions to an endowment, though the statutory authority is unclear. A clear justification exists to augment habitat mitigation fees sufficient to fund management of the habitat required to mitigate impacts of the development project paying the fee. Indeed some fees imposed on new development as part of existing habitat conservation plans fund ongoing costs.³

However, in general one-time fees on new development, including in lieu mitigation fees and development impact fees (discussed below) rarely fund ongoing costs. Furthermore, there may be a statutory constraint on the use of fee revenues for operations and maintenance.⁴ Further legal analysis is needed to determine whether fee revenues could be used for ongoing costs.

DEVELOPMENT IMPACT FEE

Another type of exaction on new development is the development impact fee imposed under the Mitigation Fee Act⁵. Similar to the in lieu habitat mitigation fee, this fee could be based on the type of habitat being developed (“taken”) by the project. Unlike the in lieu habitat mitigation fee, this approach would not be based on a land dedication requirement. However, a development project could choose to dedicate habitat and receive a credit against the impact fee due.

³ See for example mitigation fees adopted for the *Western Riverside County Multiple Species Habitat Conservation Plan* and the *Coachella Valley Multiple Species Habitat Conservation Plan/Natural Community Conservation Plan*.

⁴ *California Government Code* Section 69513.8.

⁵ *California Government Code* Sections 66000 through 66025.

An advantage of the impact fee compared to the land dedication/habitat mitigation fee is the possibility to impose the fee on all new development including infill projects. Impact fees must be adopted based on findings of reasonable relationships between the development paying the fee, the need for the fee, and the use of fee revenues. Further technical analysis is required to establish this relationship for infill development, though this probably could be done based on the indirect impacts of growth on the loss of habitat.

As discussed above regarding habitat mitigation fees, further legal analysis is needed to determine whether fee revenues could be used for ongoing costs.

CONSERVATION EASEMENTS

Conservation easements are a funding source in the sense that they reduce the cost of land acquisition. A conservation easement purchased from a landowner requires that the land remain in its current state in perpetuity. Easements preserve habitat without transferring title to a public entity. The landowner can continue certain farming or grazing activities if those activities are compatible with habitat requirements.

This funding source is only for land acquisition and does not fund any ongoing costs such as biological monitoring. Current PCCP cost estimates assume that 28 percent of needed habitat will be acquired by easement rather than fee title purchase.

COMMUNITY FACILITIES DISTRICTS (SPECIAL TAX)

The Mello-Roos Community Facilities Act of 1982 enables the formation of Community Facilities Districts (CFDs) by local agencies.⁶ for the purpose of imposing special taxes on property owners. CFDs are primarily used as a way to finance public facilities with debt financing secured by a lien on property within the district, though certain ongoing public service costs may be funded as well.

A summary description of this funding source as it relates to the PCCP Financing Plan includes:

- ◆ CFD approval requirements make this funding source primarily attractive to development projects on undeveloped land.⁷
- ◆ A key advantage of this funding source compared to benefit assessment districts is flexibility. CFDs impose *special taxes* on property owners not

⁶ *California Government Code* Sections 53311 through 53368.

⁷ Areas with fewer than 12 registered voters can form a district with a two-thirds property owner vote based on acreage essentially allowing the developer(s) to form the district. Areas with 12 or more registered voters require two-thirds registered voter approval making this approach less attractive for developed areas.

special assessments discussed below with regards to benefit assessment districts.

- The amount of special tax paid by land use type can be based on any type of rate and method approved by the property owners when forming the CFD. This allows the developer significant flexibility to spread the burden of the special tax across different land uses within the district as economic factors warrant.
- Special tax revenue may be used for a broad range of public capital facilities and services designated in the law. Unlike special assessments, special taxes are not constrained by the special benefit received by a property.
- CFDs can fund open space whether located inside or outside the district.
- ◆ The only possible limitation of the use of special tax revenue may be for ongoing costs. Further legal analysis is needed to evaluate this issue.
- ◆ Similar to benefit assessments, CFD special tax liens on property may be used to secure debt financing. Debt capacity is limited by:
 - A minimum ratio of the value of a property to the property's share of debt in case of default, typically no less than 3:1.
 - A maximum annual property tax rate of two percent of market value, including the base property tax, the CFD special tax, and all other overlapping debt, assessments, and charges.

There are several examples of CFDs funding open space and habitat preservation. Solano County and the City of Fairfield have used a CFD to fund open space acquisition. The Fort Ord Reuse Authority uses a CFD to fund all costs associated with the habitat mitigation requirements of redevelopment of the former military base, including contributions to an endowment to fund ongoing costs.

BENEFIT ASSESSMENT DISTRICTS

Benefit assessment districts allow for the imposition of annual benefit assessments on property owners commensurate with the annual costs of an identified special benefit to that property. There are a number of different types of benefit assessment districts authorized by California State law. Some are limited to provision of public facilities (often using debt financing secured by a lien on property within the district) and some allow funding of operations and maintenance. Lighting and Landscaping Districts (L&Ls) are an example of one commonly used benefit assessment district.

Benefit assessment districts have certain requirements that limit, but not eliminate, their applicability to the PCCP:

- ◆ Benefit assessments can only fund facilities or services that provide a *special* benefit to a distinct group of properties owners. Special benefits must be in addition to any *general* benefits accruing to all properties in a jurisdiction. An increase in property value alone does not qualify as a special benefit.
- ◆ Property owners must approve a benefit assessment by majority vote.⁸ This constraint means that assessments are easier to impose on new development projects as a condition of approval, rather than more broadly on all property owners.
- ◆ Property owners can repeal an existing benefit assessment using an initiative process unless the assessment is funding repayment of debt.

Benefit assessments are often imposed as a condition of approval for development projects, similar to land dedication requirements, habitat mitigation fees, and development impact fees discussed above. The key difference is that benefit assessments allow for an ongoing revenue stream and therefore make them more suitable to fund ongoing costs. Unlike one-time fees paid by the developer, the funding burden falls on future property owners.

Several independent special districts have received majority property owner approval in existing developed areas to fund benefit assessments to preserve open space. This approach can provide a substantially higher level of funding compared to assessments imposed only on new development projects. However, these assessments have been challenged in the courts based in part on the assertion that they provide general and not only special benefits. Further legal analysis is needed to determine the applicability of this funding mechanism.

HABITAT MAINTENANCE ASSESSMENT DISTRICTS

Habitat maintenance assessment districts, enabled in 1994 by the State Legislature, are a type of benefit assessment district that appears to be designed for programs such as the PCCP.⁹ Habitat maintenance assessment districts can be used to fund improvements including “[t]he acquisition, construction, or rehabilitation of any facilities needed to create, restore, enhance, or maintain natural habitat”¹⁰ and can also be used to cover “incidental expenses” including but not limited to the costs of “biological monitoring and evaluation of collected data related to the establishment or operation of natural habitat.”¹¹ These districts can be formed to implement “a long-

⁸ The vote is based on acreage weighted by the amount of the assessment.

⁹ *California Government Code* Sections 50060 through 50070.

¹⁰ *Ibid.* Section 50060(b)(1).

term natural habitat maintenance plan approved by the Department of Fish and Game”.¹²

We do not know of any existing habitat maintenance districts so this funding source appears to be untested. This lack of use may be caused by the difficulty of demonstrating special benefit to certain property owners separate from general benefits to all property owners, as discussed above. Further legal analysis is needed to determine the applicability of this funding source.

Habitat maintenance districts have other constraints. Current law limits assessments to \$25 per parcel (inflated to approximately \$33 per parcel in 2005 dollars). Rough PCCP cost estimates indicate that at this level a habitat maintenance assessment would fund about one-third of projected annual ongoing costs. Habitat maintenance assessment districts are also limited to 30-year durations and imposition of the assessment upon most agricultural land is prohibited. The law could be amended to reduce these constraints. If so, habitat maintenance assessment districts could be a useful funding source for the PCCP Financing Plan especially for ongoing costs.

COMMUNITY SERVICES DISTRICTS

Community Services Districts (CSDs) are an alternative local governance structure for providing municipal facilities and services to an area.¹³ CSDs may be seen as an alternative or complement to the typical roles played by cities (in incorporated areas) or counties (in unincorporated areas). A summary description of this funding source as it relates to the PCCP Financing Plan includes:

- ◆ Initiation of the formation process may be done by petition submitted by residents located within the proposed district, or by a city or county within which the district will be located.
- ◆ Formation of a CSD requires approval of the Local Agency Formation Commission (LAFCO) and a majority vote of registered voters with the proposed district.
- ◆ An independent board elected by registered voters within the district governs the CSD.
- ◆ Implementation of a benefit assessment or property related charge requires a majority vote of property owners. Imposition of a special tax requires two-thirds approval by registered voters.

¹¹ Ibid. Section 50060(c)(7).

¹² Ibid. Section 50060.5(a).

¹³ *California Government Code* Section 61000.

Placer County likely would have to seek special state legislation to provide for a CSD with the power to acquire, restore, and maintain habitat. The law does not appear to grant CSDs a general power for these purposes.¹⁴ However, the CSD law includes a plethora of special authorizations for specific CSDs throughout the State. One special authorization allows formation of the Mountain House CSD in San Joaquin County in part for the ability to “[a]cquire, own, maintain, and operate land for wildlife habitat mitigation or other environmental protection or mitigation within or without the district.”¹⁵

Finally, governance by an independently elected board could create overly complex relationships for implementation of the PCCP. Placer County and cities included in the PCCP would need the CSD to provide adequate funding for the PCCP to enable development to proceed and support implementation of their General Plans. Accountability to state and federal wildlife agencies for implementation would now be spread among more local agencies. This issue could be addressed in the special legislation mentioned above by making the CSD a dependent district and having the Board of Supervisors act as the CSD board.

AGRICULTURAL LEASE REVENUES

Some land may be suitable for farming or grazing without compromising the preservation of habitat for endangered or threatened species. This type of land could generate lease revenue if it is acquired in fee title rather than maintained through an easement. Lease revenue could be used for any one-time or ongoing cost. However, this funding source is not expected to yield a significant amount of revenue for the PCCP Financing Plan.

PARCEL TAX

Parcel taxes are a type of excise tax on the use of property. Widely used throughout the state, these taxes are adopted as a special tax dedicated to specific purposes. All special taxes require two-thirds voter approval. Thus, the greatest challenge for this funding source is gaining countywide voter approval.

The greatest advantages of a parcel tax are (1) the large and stable potential funding base from a countywide tax, and (2) the flexible use of revenues. Parcel taxes are usually levied as a flat amount per parcel with variances by major land use categories. The parcel tax rate must not be correlated with assessed value to avoid being considered a property tax subject to the constraints of Proposition 13. The parcel tax

¹⁴ Ibid. Section 61600.

¹⁵ Ibid. Section 61601.26(e).

on a specific property need not be correlated with the benefit received by that property from the expenditure of tax revenues.

SALES TAX

A sales tax is another type of jurisdiction-wide excise tax, in this case imposed on retail sales transactions within the jurisdiction. Voters can elect to increase the sales tax in one-eighth of a cent increment. The sales tax would share the same advantages (broad-based, steady, and flexible funding source) and disadvantages (voter approval) as the parcel tax discussed above.

An attempt to increase the sales tax by a quarter-cent in Placer County to fund open space acquisition failed in 2000. A potentially more effective approach would be to include some habitat mitigation funding in a broader sales tax measure to fund popular transportation improvements. In the Coachella Valley area of Riverside County, approximately \$30 million from a half-cent sales tax measure for transportation improvements is being allocated to habitat mitigation as is approximately \$121 million in the Western Riverside Multiple Species Habitat Conservation Plan ¹⁶. These costs represent the direct, indirect, and cumulative effects of transportation projects on natural habitats.

OTHER LOCAL SOURCES

Some opportunities for inter-agency cooperation regarding funding implementation of the PCCP may exist. Possible partner agencies include the Placer County Water Agency (PCWA) and the Placer County Flood Control & Water Conservation District. Both of these agencies will be engaged in “covered activities” – actions that will potentially require habitat mitigation. Consequently, there is an incentive for them to cooperate in finding funding sources for the PCCP.

There may be some activities, especially those involving watershed protection, that may further both the goals of the PCCP and the Placer County Flood Control & Water Conservation District. The County should communicate and coordinate with the District to identify any potential common efforts that could share funding.

Finally, other local sources of revenue used by other habitat conservation plans include landfill tipping fees. The Western Riverside County Multiple Species Conservation Plan and the Coachella Valley Habitat Conservation Plan rely on a share of fees generated at a landfill being used to accommodate waste from outside the County.

¹⁶ MuniFinancial, *Development Mitigation Fee*, fee study completed for the *Coachella Valley Multiple Species Habitat Conservation Plan/Natural Community Conservation Plan*, 2004 (study still in administrative draft stage); Western Riverside Multiple Species Habitat Conservation Plan (June 2003).

SUMMARY

The matrix on the next page summarizes the key characteristics of the potential PCCP Financing Plan funding sources described above.

DEBT FINANCING MECHANISMS

This section of the memorandum describes some potential financing mechanisms and related issues for the PCCP Financing Plan. Without the use of financing mechanisms, the PCCP Financing Plan would have to rely on a “pay-as-you-go” approach.

ENDOWMENT FOR ONGOING COSTS

The PCCP Financing Plan could recommend establishment of an endowment to pay for some or all of the ongoing costs in perpetuity. This is a common approach for funding habitat conservation plans. As mentioned above, endowments can provide a vehicle for converting one-time habitat mitigation and development impact fees into an ongoing funding source. Any of the other local funding sources could be used as well to establish an endowment.

A very large endowment would be required to generate enough income for ongoing costs once land acquisition and restoration has been completed. Long-term annual ongoing costs are estimated at about \$10 million in 2005 dollars once all land has been acquired. This level of funding could require a \$200 million to \$500 million endowment depending on investment policies.

The higher endowment level would be needed if endowment fund management were constrained by the County’s conservative investment policy. Current policy constraints result in investment yields of approximately two percent annually. Alternatively, fund management could be transferred to:

- ◆ A separate local private entity such as the existing Placer Land Trust;
- ◆ Another existing entity that provides endowment management service such as the Center for Natural Lands Management; or
- ◆ An entirely new non-profit entity formed specifically for this purpose.

In any of these cases, a separate non-profit entity could operate under less restrictive investment policies. Such an approach may generate higher investment yields through a more diversified investment portfolio with an acceptable level of risk.

**POTENTIAL FUNDING SOURCES
 KEY CHARACTERISTICS**

Funding Source	Use of Funds			Source of Funds		Annual Revenue		Voter Approval	Other Issues	
	One-time Costs	Ongoing Costs	Debt Financing	New Development Only	Broad Geographic Areas	Potential Amount	Stability		Add'l Legal Analysis	Special Legislation
Land Dedication / Habitat Mitigation Fee	Yes	Use Endowment	No	Yes	No	Low / Moderate	Variable	No	No	No
Development Impact Fee	Yes	Use Endowment	No	Yes	No	Low / Moderate	Variable	No	Yes	No
Conservation Easements	Yes	No	No	No	Yes	Low	Variable	No	No	No
Community Facilities District	Yes	Maybe	Yes	Yes	Yes	Low / Moderate	Stable	Landowner or Voter ¹	Yes	no
Benefit Assessment Districts	Yes	Yes	Yes	Yes	Yes	Low / Moderate	Stable	Land-owner ²	Yes	No
Habitat Maintenance Assessment Districts	Yes	Yes	No	Yes	Yes	Low / Moderate	Stable	Land-owner ²	Yes	Yes
Community Services Districts	Yes	Yes	Yes	No	Yes	Low / Moderate	Stable	Landowner or Voter ³	No	Yes
Agricultural Leases	Yes	Yes	No	No	Yes	Low	Stable	No	No	No
Parcel Tax	Yes	Yes	Yes	No	Yes	Moderate / High	Stable	Voter ⁴	No	No
Sales Tax	Yes	Yes	Yes	No	Yes	Moderate / High	Stable	Voter ⁴	No	No
Other Local Sources	Yes	Yes	TBD	No	Yes	TBD	TBD	TBD	TBD	TBD

Note: "TBD" is To Be Determined.

¹ Approval requires a two-thirds vote of property owners based on acreage, or if 12 or more voters are registered within the proposed district then approval requires a two-thirds vote of registered voters.

² Approval requires a majority vote of property owners weighted by the amount of the assessment.

³ Approval of district formation requires a majority vote of registered voters. Approval of a new assessment or charge requires a majority vote of .property owners weighted by the amount of the assessment.

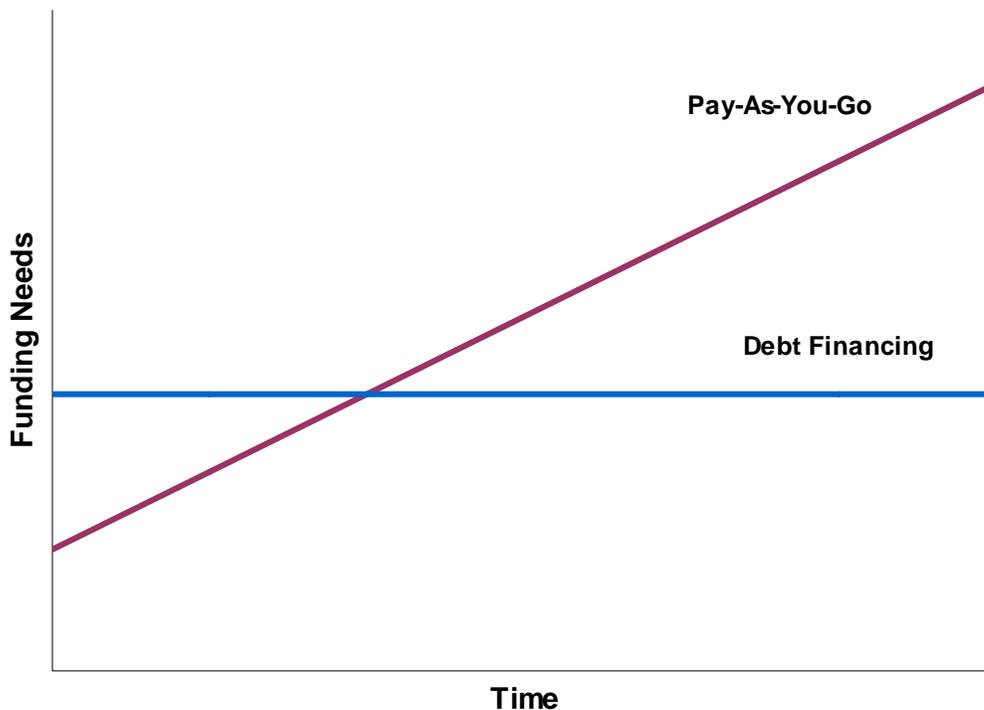
⁴ Approval requires a two-thirds vote of registered voters.

FINANCING LAND ACQUISITION EARLY IN THE PROGRAM

Another important issue is the potential for lowering overall program costs with land acquisition early in the life of the PCCP. As mentioned above regarding land dedication, future land price escalation is difficult to estimate, highly variable, and can be significant (over 10 percent annually) in areas subject to development pressure such as Placer County and where mitigation land will become increasingly scarce. To the extent that land prices would escalate faster than the cost of debt financing, total land acquisition costs would be lowered by borrowing funds to acquire land sooner compared to a “pay-as-you-go” approach.

The graph below illustrates these points. A “pay as you go” approach initially requires less revenue compared to a debt financing approach, but funding needs rise in the later years due to land price escalation. Under the debt financing approach, funding needs are greater initially to acquire more land sooner and fund the cost of debt. However, funding needs remain constant over time under this approach assuming a typical debt structure that generates level debt service costs.

FINANCING LAND ACQUISITION



SCIP PROGRAM

The Statewide Community Infrastructure Program (SCIP) is a new program made available through the California Communities Joint Powers Authority. The SCIP allows for financing of development impact fees through issuance of 1913/1915 Act special assessment bonds. Instead of developers paying the fee, the local jurisdiction receives funding through SCIP and future property owners pay the fee over time as an assessment. SCIP is designed for development projects that are too small to efficiently form a financing district and issue debt to fund impact fees.

The SCIP provides two program alternatives, an Impact Fee Reimbursement Program or an Impact Fee Pre-Funding Program. Under both programs the developer must agree to form an assessment district to pass the costs of the program onto future property owners within the development.

- ◆ *Impact Fee Reimbursement Program:* The developer pays the impact fees at the time a building permit is issued. SCIP then reimburses the developer.
- ◆ *Impact Fee Pre-Funding Program:* The local jurisdiction receives impact fee revenue when the tentative map is approved for all lots recorded on the map. The developer does not pay a fee at time of building permit.

The Pre-Funding Program would generate funds earlier in the development process compared to the payment of habitat mitigation or impact fees. This would enable earlier acquisition of habitat land. To date all SCIP financings have been for the Impact Fee Reimbursement Program. Incentives may be needed for developers to participate in the Pre-Funding Program.

STRATEGIC AND POLICY ISSUES

This concluding section highlights key strategic issues for Board of Supervisors consideration. Each strategic issue includes related policy choices that are also presented. Items requiring immediate or near term Board of Supervisor action are noted. All strategic and policy issues presented here will eventually need to be addressed to guide preparation of the financing plan for the PCCP.

STRATEGIC ISSUE 1: FACILITATING EARLY LAND ACQUISITION

Upfront purchase of conservation lands should be considered. Additional financing costs should be weighed against the estimated future cost of increasingly scarce land. Early land acquisition will diminish the possibility that conservation land prices will outpace the funding available for land acquisition.

RESERVE DEBT CAPACITY IN NEW DEVELOPMENT PROJECTS TO FINANCE LAND ACQUISITION

Several developers with large landholdings in the PCCP Phase I area have begun meeting with the County regarding infrastructure planning and financing. To the extent that a development project will not be dedicating land for habitat, the County should seek the ability to finance land acquisition through a benefit assessment district, Community Facilities Districts (CFDs), or the SCIP pre-funding program.

To implement this policy the County will need to ensure that some share of total estimated debt capacity for the development project (e.g. 5 to 20 percent) is reserved as a condition of approval. The County may want to require initial projects to fund more land acquisition than their direct mitigation needs and use fee revenues from future projects for reimbursement.

Policy direction on this issue is needed as soon as possible to incorporate into current development proposals.

ENCOURAGE LAND DEDICATION OVER FEE PAYMENT

Land dedication of habitat should be encouraged. To the extent that land is dedicated overall PCCP implementation costs will be lower. Land dedication also reduces the chance that plan implementation will be flawed because impact fee revenues do not keep pace with escalating land prices and funding becomes insufficient for PCCP implementation. The Natomas Basin conservation effort encountered this problem so severely that it has since switched to a policy of land dedication only.

Some landowners likely will not be able to fulfill their mitigation requirements through land dedication alone. Consequently the PCCP should retain a habitat mitigation fee option. Care should be taken to assure that the fee is adjusted as often as is necessary to keep pace with rising land costs. If fees lag behind current land acquisition costs landowners will have an economic incentive to pay the fee and not dedicate land, and the PCCP will lack the funds needed for full implementation.

The Board of Supervisors should indicate whether they agree or not with the policy direction indicated above to encourage land dedication over payment of fees. Options can be further evaluated as the PCCP Financing Plan is developed.

STRATEGIC ISSUE 2: BALANCE RISK AND RETURN ON INVESTMENTS

Policy direction is needed regarding the balance between risk and return on funding sources for ongoing PCCP costs. There are two types of risk considered here: investment risk and political risk.

FUNDING ONGOING COSTS WITH AN ENDOWMENT VERSUS OTHER SOURCES

Ongoing costs could be funded with income generated by an endowment. Advantages of an endowment include a stable stream of income for ongoing PCCP costs, and the ability to demonstrate to state and federal wildlife agencies that the PCCP is fully funded. Disadvantages include exposure to investment risk and the cost of investment management. The level of these risks and costs would depend on the structure or entity managing the funds, as discussed above.

Alternatively, ongoing costs could be funded on a “pay-as-you-go” basis with annual special benefit assessments or CFD special taxes. These revenues streams would also be relatively stable but would only grow incrementally over time as development proceeds. There is virtually no investment risk associated with assessments or special taxes, and investment management costs are negligible. However, assessments are more difficult to approve and are subject to repeal by landowners or the electorate.

Finally, other revenue sources such as parcel taxes or sales taxes could provide a more stable source for endowments.

The Board of Supervisors should provide preliminary policy direction at this time regarding the use of an endowment for ongoing costs. These options can be further evaluated as the PCCP Financing Plan is developed.

PUBLIC VS. PRIVATE ENDOWMENT MANAGEMENT

To the extent that the County is willing to accept higher risk on investments, the potential for greater return on those investments increases. A prudent approach could likely reduce overall PCCP costs while keeping investment risk within acceptable boundaries. Conversely, if the County is uncomfortable with higher risk investments, any endowment created for PCCP implementation will require more funding.

If the County wishes to retain control over PCCP mitigation funds received, investment returns will be limited by the County’s fairly conservative existing investment policy (currently constraining yields to approximately two percent annually.) Alternatively, the County could designate an existing entity and/or a new non-profit entity could be created separate from the County. This entity would act independently to implement the mission of the PCCP. Financial management would be controlled by the entity and investments would not be subject to the County’s current investment policy, hence investment could be subject to higher risk and returns. Higher returns would lower the overall cost of the PCCP by decreasing the size of the endowment.

Assuming that an endowment will be part of the PCCP Financing Plan, the Board of Supervisors should give policy direction regarding favored options for endowment management (County, existing non-profit entity, new non-profit entity).