

Chapter 9

Costs and Funding

This chapter provides planning-level estimates of the budget to implement the PCCP and identifies all necessary funds to pay for implementation.

9.1 Introduction

*[**Note to Reader:** The PCCP cost model is undergoing updates and the estimates in this working draft chapter reflect cost factors from modeling completed in 2006 for analysis of alternative reserve designs applied to the PCCP reserve defined by the **Ad Hoc Reserve Map** of August 2008. Cost factors have been updated to 2008 dollars using an inflation index. The cost estimates presented provide a guide to the general magnitude of the implementation budget and how various implementation activities contribute to that budget. Cost estimates will be adjusted to current dollars at the time that the final finance plan is prepared and this chapter is updated.]*

Habitat plans must demonstrate adequate funding for implementation of conservation measures. Prudent implementation planning also mandates a detailed up-front assessment of one-time capital and on-going operating budgets for the Plan.

The estimates presented in this chapter are planning-level estimates based on a detailed assessment of proposed implementation actions, including reserve acquisition, restoration, land management, monitoring, and program administration. The large land area covered by the PCCP, the diversity of habitats and species proposed for conservation, the range of conservation actions, and the 50-year implementation time horizon combine to require numerous estimating assumptions for the purposes of a budget and funding plan. These assumptions have been developed over a number of years, tracking the evolution of the PCCP. They reflect the best available current information and recent experience and have been reviewed by technical experts, land managers, and other interested parties.

The PCCP implementation budget is divided into seven major cost categories as listed below and summarized in this chapter.

- Program administration

- Land acquisition
- Habitat restoration/creation
- Reserve management and maintenance
- Monitoring, research, and adaptive management
- Remedial measures
- Contingency fund

All cost categories are mutually exclusive (i.e., not duplicative). Each cost category is divided into capital and operational costs. Capital costs are typically one-time costs for land, equipment, or structures. Operational costs are ongoing costs such as staff salaries, supplies, and contractor fees. Some cost elements are split between categories or assigned a single category for simplicity. For example, Placer County Authority (PCA) staff salaries are divided across several cost categories because staff will perform a variety of functions.

Over the 50-year permit term, the one-time budget for land acquisition and habitat restoration would be in the range of \$1.5 billion (2008 dollars). This budget would enable acquisition of an approximately 50,000 acre reserve, of which about 11,000 acres would require restoration activities. The total includes acquisition cost of about \$1.3 billion, restoration costs of about \$ 150 million, and a ten percent contingency budget.

The annual budget to administer the PCCP, manage reserve lands and monitor restoration activities and the effectiveness of conservation actions would vary over the course of the 50-year permit term primarily due to the size of the reserve. There are some start-up costs, fixed costs, and inefficiencies that make for a high per-acre budget in the early years of implementation. Initially, an annual budget of about \$2 – 3 million per year (\$600 per acre managed) would be required. By the mid-point of PCCP implementation, when half or more of the PCCP reserve lands would be under management, it would cost about \$200 per acre to manage and monitor the PCCP reserve, representing annual costs of about \$6 million per year. By the end of the permit term, annual costs per acre managed would be lower (about \$170 per acre) and the total annual PCCP budget would be in the range of \$8 million per year (2008 dollars).

[Note to Reader: *Costs in Perpetuity—the budget for implementation beyond the 50-year permit term will be estimated for the draft conservation strategy. These costs will be less (on an annual basis) than the costs in year 50, because certain conservation actions will no longer be required.*]

9.2 Methodology For Estimating Costs

The PCCP cost model estimates one-time and on-going annual costs from plan start-up through fifty years of plan operation (represented as the year 2060 in the model). One-time costs are capital costs associated

with acquiring land and restoring or creating habitat. On-going annual costs include the costs of program administration, land management, monitoring, and adaptive management to ensure that the PCCP meets its landscape-, community-, and species-level goals during the permit term and in perpetuity.

The PCCP cost model was developed for the economic analysis of the PCCP, including financial analysis of plan implementation, potential revenues, and PCCP financing strategies. The goal of the cost model is to conservatively estimate all expenses of the PCA over the permit term so that the implementation budget is not underestimated. The cost model is not intended to be a precise budget of all PCA costs but rather a planning-level estimate of the total budget and the budget by major category. The cost model was designed to demonstrate that all costs were accounted for and reasonably estimated and to provide a basis for determining necessary revenue to fund one-time and on-going activities.

The model is a series of linked spreadsheets that produces detailed and summary cost tables, as well as summary cost charts. Cost factors for all major cost categories are developed and estimated independently (Appendix J). The model structure was refined and expanded from cost models developed for three large, complex regional HCPs and NCCPs¹. Where possible, cost information obtained from Placer County staff, local conservation land managers, and habitat restoration practitioners were incorporated into the model. Detailed factors and overall estimates were reviewed by the consultant team, agency staff, and the PCCP Finance Subcommittee. If data from local agencies were unavailable, assumptions from land management agencies in other regions such as the East Bay Regional Park District, Contra Costa Water District Los Vaqueros Watershed, and the East Contra Costa County Habitat Conservancy² were used. A separate land valuation analysis was used to develop the critical land acquisition cost estimates (Appendix J). This valuation was based on an appraisal analysis of comparable real estate transaction data. This analysis is described more fully in Section 9.2.2 *Land Acquisition* and in Appendix J. All cost components expected to increase due to inflation during the planning process were tied to a single variable that could be adjusted as new cost-of-living statistics³ are released.

During the PCCP planning process, the cost model was used to evaluate a number of alternative conservation strategies. The model takes input in the form of a matrix detailing acres of land acquired and acres of land restored by ecosystem and time period. The model applies cost factors

¹ The Lower Colorado River Multi-Species Conservation Plan (approved), the East Contra Costa County HCP/NCCP (approved), and the Santa Clara Valley HCP/NCCP (in-process).

² The Implementing Entity for the East Contra Costa County HCP/NCCP.

³ The Consumer Price Index (CPI) for the San Francisco-Oakland-San Jose Metropolitan Area from the U.S. Bureau of Labor Statistics was used as needed to increase cost estimating factors during the planning process.

to this input to generate the cumulative annual land implementation budget. Cost factor assumptions have been updated and refined based on new information to better reflect the evolving reserve design and conservation strategies.

Below are descriptions of each cost category and the key assumptions that were used to develop the PCCP cost estimate. See the cost model in Appendix J for an accounting of all assumptions.

9.2.1 Program Administration

The program administration budget covers costs for employees, facilities, equipment, and vehicles to operate the primary office of the PCA. Program administration costs also include staff travel, insurance, legal and financial assistance, and in-lieu payments for law enforcement and firefighting on reserve lands. These are costs that are not specific to a particular natural community, but that vary over time and reflect the activities undertaken by the PCA. Program administration costs are estimated to be, on average⁴, in the range of \$600,000 to \$700,000 per year during the permit term. Some program administration costs will be necessary beyond the permit term.

Administrative costs incurred by Permittees other than the PCA to implement the Plan are not included in the cost estimates. For example, the City of Lincoln and County of Placer will incur costs when reviewing applications for take authorization from various project proponents (see Chapter 6, Section 6.3). The City of Lincoln and the County will recover these costs from applicants according to the policies in place at each local jurisdiction. The fee amounts specified in the Plan do not reflect the costs of application review by the local jurisdictions, and revenues from the PCCP fees will not be used to cover these costs. Similarly, the cost of all conditions on covered activities described in Chapter 6 will be borne by the project proponents, either public agencies or private developers.

Staff

Up to 22.5 staff positions are identified in the budget for the PCA. These positions address administrative needs of the program (up to 4.5 staff), as well as field and technical needs of the PCCP reserve system (up to 18 staff for restoration, maintenance and management, and monitoring). For the purposes of the budget estimate, it is assumed that the following positions will be staffed as administrative personnel within the PCA according to the roles described in Chapter 8, *Plan Implementation*: an

⁴ Average costs cited in each section are the average annual cost over the 50-year permit term (total cost/50); actual annual costs will vary depending on the category. For example, annual costs for program administration and reserve management will grow over time as the Reserve System grows, while annual costs for restoration will peak midway through the permit term when most restoration projects will have been implemented.

Executive Director, a GIS/Database Technician, a Budget Analyst, an Acquisition Specialist, a Grant Specialist / Conservation Planner, and Administrative Secretary. All administrative staff costs are accounted for in the Program Administration cost category. Costs for field and technical staff in the positions of Senior Scientist, Reserve Manager, Biologist, technical staff and laborers are shared between the reserve management and maintenance, habitat restoration/creation, and monitoring, research, and adaptive management cost categories.

Office Space and Associated Costs

It is assumed that all administrative staff will be housed in a PCA office. (Reserve management staff will report to this office but will spend most of their time in the field.) All costs associated with general office operations are accounted for under the program administration category. General office costs include office space rental, utilities, office equipment including copy and fax machines, an office telephone system, publications, printers, scanners, and digital cameras. Additional costs will be incurred for a Geographic Information System (GIS) that includes GIS/database servers, software, and a plotter. Cost assumptions include initial costs and replacement costs.

Staff and Associated Costs

Staff-specific costs include employee salaries; benefits (identified by a salary multiplier to include the cost of benefits such as health insurance, payroll taxes, retirement plan, worker's compensation, disability, and life insurance); computers; office furniture; office supplies; cell phones; and, portable radios. A mileage allowance is also allocated for all staff with the exception of laborers. This allowance is based on a mileage allowance per employee per year and cost per mile. Travel costs are based on days of travel per year and per diem allowance for each employee. The Executive Director's travel costs include a per diem multiplier to cover additional travel expenses such as airfare.

Insurance

Insurance costs includes auto insurance for all PCA vehicles as well as for directors' and officers' insurance, general liability insurance, and professional liability insurance for PCA staff.

Legal and Financial Assistance

The PCA will periodically require outside legal and financial assistance for specialized needs. Outside attorneys will be needed to draft and review conservation easements, finalize land purchases, assist with negotiations, and assist with easement violations if they occur. Outside assistance with financial analysis will also be periodically required to review the program's cost/revenue balance and ensure that development fees are adjusted to

consider changing land costs and inflation. Legal costs are based on the billing rate for legal contractors and the estimated time contracted in 5-year period increments. Costs for ongoing financial analysis are based on the estimated cost for financial analyst services in 5-year period increments.

Law Enforcement and Firefighting

The PCA will pay the County to cover reserve-related public safety costs on an annual basis. Cost factors are based on*[Note to Reader: To be completed.]*

9.2.2 Land Acquisition

Land acquisition costs are divided into two broad categories. The first includes the cost of the pre-acquisition surveys required to determine the suitability of land for acquisition and management under the PCCP. This cost is categorized as an on-going, operational cost. The second is the price of the land or conservation easement itself, associated transaction costs, restoration costs (if any), and initial site improvements required upon purchase, all of which are considered one-time, capital costs.

Land acquisition and associated survey and transaction costs would only be incurred during the 50-year permit term of the PCCP. The costs will end once the PCCP reserve system has been fully assembled before the end of the permit term.

Land Acquisition Surveys

Before land is acquired for the PCCP reserve, surveys are required to determine whether or not the parcel satisfies the criteria for inclusion in the reserve (see Chapters 5 and 6). These pre-acquisition surveys, or Rapid Assessment Protocols (RAPs), are reconnaissance-level surveys to determine the biological value of the parcel.

Pre-acquisition surveys describe:

- Land-cover type;
- Covered species habitat;
- Covered wildlife populations;
- Covered plant populations; and
- Wetlands and streams (i.e., jurisdictional delineations).

Survey costs are based on hourly costs for survey personnel and the estimated number of hours per 200 acres required for each type of survey. A cost per hour for travel costs is built into the assumptions for pre-acquisition surveys. It is assumed that up to 25 percent more parcels

will be investigated than will be acquired i.e. some land will not meet criteria for acquisition and/or will otherwise fail to be acquired.

Land Acquisition Costs

Land acquisition capital costs, including transaction costs and site improvements, are estimated to be approximately \$1.3 billion over the permit term. In the current estimate, about 15 percent of the reserve would be acquired by means of conservation easements rather than fee title. Easements are likely to be concentrated on grazing land and in oak woodlands (based on past practice and land ownership patterns). Conservation easements are assumed to be available at 60 percent of the cost of fee title acquisition. Some lands acquired in fee title may be sold back to the private sector with a conservation easement that insures that the parcel's conservation values are protected. Due to high initial cost of the "Jump Start" and "Stay-Ahead Provision" (8.8.1), a large proportion of initial land acquisition may be in conservation easements.

Gifts of land or transfer of a conservation easement associated with a development project may occur during implementation. This would reduce land acquisition costs. However, for purposes of a conservative cost estimate, none of these were assumed to occur.

Fee title land cost assumptions are based on analysis of property values in the Plan area conducted by the appraisal firm Bender Rosenthal, Inc. (BRI) in June 2004. In 2006, the land cost assumptions were updated with analysis of more recent land transaction records from the Placer County Assessor's Office, information from real estate brokers, trends in agricultural land values, and records of transactions involving conservation land in the general vicinity.

The land value analysis defined sub-markets depending on the location and characteristics of the property. Relevant variables included: valley, foothills, rice, conservation areas, speculative land, and parcel size. There is a large range in the per-acre land prices derived from the analysis of land transactions and active listings. The assumptions used for the PCCP cost analysis reflect values at the higher end of the range. This provides relatively conservative estimates for the purposes of planning and also reflects the scarcity premium likely to be associated with acquisition of suitable reserve land. Values were estimated for the following categories:

- Vernal pool grassland complex (valley);
- Rice (valley);
- All other natural communities, larger parcels of 100 acres or more (valley and foothills); and
- All other natural communities, smaller parcels of 20 - 99 acres (valley and foothills).

The per-acre fee title land acquisition cost factors ranged from \$5,000 per acre (Sutter County rice land) to \$65,000 per acre (valley vernal pool grassland). The cost factors represent average planning-level estimates. Actual sales prices of individual properties over the permit term will vary considerably around these averages.

Per-acre cost factors were applied to the acquisition requirements by category outlined in the conservation strategy (Chapter 5). The timing of acquisition is a function of growth projections, impact and take analysis, and mitigation requirements, as well as assumptions about acquisition of public conservation land.

Land costs are expected to increase over time; mechanisms for addressing these increases are described in Section 9.3, *Funding Sources and Assurances*.

In addition to the pre-acquisition surveys described above, there would be other transaction costs associated with land acquisition under the PCCP. These transaction costs include costs for appraisal and preliminary title reports, legal description, and boundary surveys. Based on the experience of local entities acquiring and managing habitat lands, these costs are assumed to be three percent of the acquisition cost.

Some newly acquired land may need to be stabilized before habitat management or restoration can begin. Site improvements may include demolition or repair of unsafe facilities; repair and construction of boundary fences; repair and replacement of gates; and installation of signs (e.g., boundary and landmark signs). These costs are based on a rough estimate of annual building demolition/stabilization cost and per acre costs for other site improvements. It is assumed that ten percent of the acquired reserve land would require an initial one-time cost for site improvements.

9.2.3 Habitat Restoration/Creation

Habitat restoration/creation costs for over 11,000 acres of land are estimated to be \$150 million over the 50-year permit term. This work would be carried out by a combination of PCCP staff and specialized contractors. PCCP scientific staff would provide oversight and conduct some monitoring activities, and contract laborers would perform some of the construction and maintenance. Consultants would conduct surveys, prepare restoration plans, train staff, monitor construction, monitor restoration over time and conduct necessary restoration remediation. The budget covers the following activities:

- Surveys to select sites, delineate wetlands, and prepare detailed habitat maps and species reports for restoration plans;
- Soil or geomorphologic sampling and mapping;
- Design of restoration/creation projects;

- Development of plans, specifications, engineering, and environmental compliance documents;
- Bid assistance;
- Pre-construction surveys;
- Creation or restoration of habitat (construction activities);
- Construction oversight and monitoring;
- Post-construction monitoring and maintenance; and
- Adaptive Management.

The following land cover types will be restored and or created under the PCCP:

- Valley oak woodland;
- Aquatic and wetland;
- Valley-foothill riparian; and
- Vernal pool and vernal pool grassland complex that is currently degraded grassland or used for agriculture (except land that has been laser-leveled).

The cost is estimated for each 5-year period based on the area of each land-cover type estimated to be restored during that period. For planning purposes, this estimate is based on the take analysis of covered activities and simplified assumptions for the PCCP conservation strategy (the actual pace will depend on the pace of the covered activities and conservation actions during implementation). Restoration planning, specifications, bids, environmental compliance, and oversight are assumed to occur in the same 5-year period in which the restoration takes place.

The costs will vary depending on the type of habitat being restored. Costs for pre-construction surveys and planning are based on estimates of hourly labor costs and hours of work required for each type of activity for a given parcel size. There are different assumptions about labor hours required for each type of restoration planning activity and these factors vary by ecosystem. The budget assumes that all land to be restored will require surveys and planning. Restoration construction cost factors are expressed per acre of land restored. The base cost per acre covers construction labor and materials. Vernal pool restoration cost factors are based on assumptions about the maximum density of wetted pool acres to the total site (10 percent is the default assumption), and a 20 percent cost premium is assumed for restoration of vernal pools from restorable grasslands. Other restoration costs are estimated as a function of the base construction cost, with adjustment factors reflecting the type of restoration and the level of monitoring, and operation and maintenance assumed to be required. The costs for post-construction maintenance and monitoring of restoration projects apply during a five-year period for all restoration activity except vernal pool grassland complex, where a ten-year period is assumed.

It is also assumed that all habitat restoration/creation costs will be incurred during the 50-year permit term. All habitat restoration/creation projects will be implemented during this period. The cost of managing all of the restoration/creation projects after they reach their success criteria is included in Reserve Management and Maintenance (see Section 9.2.4).

9.2.4 Land Management

Land management and maintenance activities are budgeted at about \$3 million per year on average during the permit term. Land management costs cover the ongoing management and maintenance of the PCCP reserve lands. Annual costs are a function of the types of management activities required and the amount of land managed. The relationship is not directly proportional, however, because this component of the PCCP budget incorporates a factor to reflect decreases in unit management costs over time.

Management efficiency is expected to increase over time as staff develop better management practices and protocols. As the Reserve System grows, management efficiency will also increase due to economies of scale. This factor applies to all costs except the field and technical oversight of management activities. The default assumption is that efficiencies starting towards the mid-point of the permit term result in aggregate management costs three percent lower than what they would otherwise be. After each subsequent five-year period, management costs are reduced by another three percent below what they would otherwise be. By 2060, management costs are 18 percent lower than the initial cost.

Reserve management and maintenance activities include the following costs:

- A portion of the PCA's field and technical staff costs;
- Site maintenance (repair and replacement of gates and fencing);
- Managing wildlife (purchase of traps, tags, etc.);
- Managing livestock;
- Controlling invasive species (prescribed burns, herbicide application, mechanical and hand tool weed management);
- Vector control for mosquito abatement;
- Managing recreation on reserve lands;
- Maintaining waterways and ponds (clearing debris, dredging ponds, repairing spillways);
- Implementing all management actions within the adaptive management framework (costs associated with the adaptive management process such as external scientific review are described in Section 9.2.8); and

- Hiring contractors for specialized construction and maintenance of facilities (e.g., fencing, gates, roads, bridges, culverts) and the related planning activities.

It is assumed that PCA employees will conduct as much of the management and maintenance activities within the PCCP reserve system as possible and appropriate, using contractors for specialized tasks. The PCA field and technical staff will also provide onsite assistance to, and provide oversight of, contractors and consultants. Involvement of contractors and consultants in management planning will likely be higher in the initial years of implementation due to the time required to hire and train PCA staff and the need for management plans early in the implementation. It is anticipated that the PCA staff will assume most of the management planning work, including management plan development and updates. Sometime between six to ten years from the initiation of management activities.

The management budget includes labor and materials, and the assumptions are generally expressed per acre, although some costs are estimated on an annual basis. Some management activities apply to all natural communities and others to only specified types. The cost estimates incorporate substantial detail specifying various types of management activities and include variables to estimate, for each natural community, the percentage of land to which each management activity would apply. Costs are developed for the following ecosystems:

- Oak woodland;
- Aquatic and wetland;
- Valley-foothill riparian;
- Vernal pool and vernal pool grassland complex;
- Non vernal pool grassland;
- Rice; and
- Other agriculture.

Revenues received from land management or recreational activities, such as grazing or hunting, are addressed in the PCCP Financial Analysis.

Reserve management and maintenance will be required in perpetuity. All Reserve System management plans and most, if not all, reserve-specific management plans will have been written during the permit term. However, reserve management plans will need to be updated and modified in perpetuity.

9.2.5 Monitoring, Research, and Adaptive Management

Monitoring, directed research, and adaptive management costs are budgeted at about \$1.4 million per year on average over the 50-year

permit term. Like management costs, monitoring costs increase as the PCCP reserve grows.

Monitoring, directed research, and adaptive management activities are described fully in Chapter 7. These cost assumptions are specific to the various ecosystem types and cover the following:

- Costs associated with PCA staff conducting some monitoring, oversight of directed research and adaptive management activities;
- Planning, conducting, analyzing and reporting on monitoring of ecosystems, natural communities and covered species within the Plan area;
- Planning, conducting, analyzing and reporting on monitoring the effectiveness of conservation measures and habitat restoration/creation projects;
- Research directed at management and conservation needs of the PCCP Reserve System; and
- Stipends for science advisors participating in the technical advisory group.

The PCCP budget includes an annual allocation of about \$60,000 to fund directed research to evaluate the Plan's conservation and restoration efforts. Results of this research will be reviewed by PCA staff and the PCCP Independent Science Advisory Group and translated to adaptive management recommendations.

Adaptive management costs cover scientists on the Independent Science Advisory Group (see Chapter 7). An annual stipend for each of the ten members, including travel costs is provided in the PCCP budget. The cost of implementing the results of adaptive management recommendations is assumed in the overall budget for PCCP land management.

All research costs and some monitoring costs are assumed to occur during the permit term. Some monitoring and adaptive management tasks will be required in perpetuity.

9.2.6 Remedial Measures

The budget for remedial measures is estimated to be, on average, approximately \$300,000 annually⁵ during the permit term. This budget covers the cost to implement remedial measures in response to adaptive management findings and to “changed circumstances”—changes in the expected implementation of the Plan that may require additional funding. For example, a wildfire or prolonged drought may disrupt restoration projects and necessitate replanting. These foreseeable circumstances are required to be funded in HCPs. (See Chapter 10, *Assurances*, for a description of all changed circumstances and remedial measures). The

⁵ Remedial costs will be incurred at irregular intervals, but much less frequently than annually.

budget for remedial measures was assumed to be ten percent of the operational budget for management activities on reserve lands.

Remedial measures for the Reserve System are not required after the permit term.

9.2.7 Contingency

Estimating the costs of a complex program such as the PCCP involves numerous assumptions and the use of average cost estimating factors for acquisition, administration, land management, and monitoring activities. The cost estimates used for the long-term planning program are subject to fluctuating cost factors, and are therefore, not precise. The estimates include a significant contingency factor to account for underestimated costs.

A contingency factor applies throughout the PCCP cost model. This factor appears as a variable on each sheet and can be changed for each cost component independently of the others. The default assumption across all cost categories is ten percent. This value is typically used in other large regional HCPs to ensure a conservative cost model that accounts for the many uncertainties in predicting program implementation over 50 years. The contingency factor is incorporated in the formulas used to develop cost factors or costs per period on each model worksheet. Contingency costs are assumed to be needed only during the permit term because Plan costs will drop substantially after the permit term.

9.2.8 Costs in Perpetuity

As described above, some costs are expected to be incurred only during the permit term, while others can be expected after the permit term. Because most of the impacts of the covered activities are permanent (see Chapter 4), many of the conservation actions must be implemented permanently. For example, land acquired for the Reserve System must continue to be managed beyond the permit term to ensure that it retains the biological values enhanced during the permit term. Similarly, monitoring must continue beyond the permit term to ensure that management actions are effective. However, the level of management and monitoring can be reduced after the permit term. To support this management and monitoring, the PCA is expected to retain XX staff (to be determined) positions. The funding mechanism to support these post-permit costs is discussed at the end of this Chapter in Section 9.3.4. Costs in perpetuity will not be incurred for land acquisition, habitat restoration/creation, environmental compliance, remedial measures, and contingency. *[Note to Reader: This paragraph adapted from the Santa Clara Valley chapter. We still need to address costs beyond the permit term.]*

9.3 Funding Sources and Assurances

[Note to Reader: The following is an updated assessment of PCCP funding and financing alternatives. The full-blown financial analysis and funding plan will be developed pending acceptance of the Second Administrative Draft Conservation Strategy.]

9.3.1 Introduction

This discussion provides a summary of potential funding and financing alternatives for the PCCP. It provides a preliminary evaluation of alternatives that could be considered in the PCCP Financing Plan. The information reflects Willdan Financial Service's research and work, including recent work on the Santa Clara Valley Habitat Conservation Plan. The discussion is also intended to remind PCCP decision-makers about strategic issues and corresponding policy decisions that need to be made regarding the PCCP Financing Plan.

A wide variety of funding sources and financing mechanisms are available to local governments. But their applicability to the PCCP Financing Plan varies substantially because of statutory constraints and political challenges, including the need for voter approval in some cases. Additionally, there are differing legal interpretations regarding the use of several funding mechanisms for habitat mitigation.

The funding and financing discussion is organized under the following sections:

- Overview of Funding and Financing Alternatives;
- Potential Funding Sources; and
- Strategic and Policy Issues.

9.3.2 Overview of Funding and Financing Alternatives

An overview of the sources and uses of funds for HCPs and the criteria to evaluate them is helpful in understanding the funding needs and challenges of the PCCP Financing Plan. This section briefly outlines potential funding sources and describes criteria to evaluate alternatives and meet strategic objectives.

Funding alternatives

Several Habitat Conservation Plans (HCPs and combined HCP/NCCPs) were reviewed for funding and financing alternatives, including Coachella,

East Contra Costa County, West Riverside County, and North Natomas Basin. Land dedications and development mitigation fees are used to offset a significant portion of one-time costs associated with these plans.

Other funding alternatives include:

- General taxes;
- Special taxes;
- Special Assessments;
- Land or water swaps;
- State bond measures;
- State/federal loan programs;
- Property-related fees and charges;
- Land/ water management agency funds;
- Federal and state land acquisition;
- Grants (federal, state, and private); and
- Private land acquisition.

Criteria for Potential Funding Sources

Funding sources should be evaluated based on specific criteria. The application of the same criteria to evaluate each funding source allows their comparison and identification of preferred sources. Evaluation criteria include:

- Uses of funds: Can the source of revenue be used only for one-time (capital) costs, ongoing (operating) costs, or both? Can the revenues be used to pay back debt financing? Are there nexus constraints on the revenue source?
- Source of funds: Is the source local or from a state or federal source? Do all users pay or only new developments?
- Revenue characteristics: Is the revenue source stable? Is the available funding enough to cover a significant portion of costs?
- Approval requirements: How difficult is it to obtain approval? Does the source require voter approval?
- Legal considerations: Are there potential legal challenges to using the revenue source for an HCP?

9.3.3 Potential Funding Sources

Potential funding sources are described in this section along with their potential opportunities and constraints. The cost category (one-time and/or ongoing) appropriately addressed by each funding mechanism 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. A matrix summarizing the funding options by the evaluation criteria follows the descriptions and discussion.

Local sources

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 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, but in this case it is imposed on retail sales transactions within the jurisdiction. Voters can elect to increase the sales tax in one-eighth of a cent increments. 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 increase in the sales tax for general uses requires voter approval by a simple majority. For a special sales tax, two-thirds voter approval is required. A potentially effective approach would be to include some habitat mitigation funding in a broader sales tax measure to fund popular transportation improvements. Santa Clara County has been successful in passing a split ballot measure sales tax for regional transportation funding.

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. That source is providing approximately \$121 million for the Western Riverside Multiple

Species Habitat Conservation Plan.⁶ This funding offsets costs attributable to the direct, indirect, and cumulative effects of transportation projects on natural habitats.

Local/Regional Infrastructure Mitigation Payments

This revenue source is generated by local public agencies in connection with mitigation for infrastructure projects. Individual cities or other public agencies (e.g., park district, water district) would make payments or acquire land to offset the impacts of projects. For example, the Coachella Valley HCP includes the acquisition of 550 acres by the Coachella Valley Water District to mitigate habitat impacts of the Whitewater River Flood Control Project.

Land Dedication / In Lieu Habitat Mitigation Fee

These funding sources are exactions imposed on new development by the local agency with land use regulatory power. The County has this authority in the unincorporated areas and each city has this authority within their respective jurisdictions. Conditions of approval for a development project would include dedication of habitat 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. The County has this authority in the unincorporated area and each city has this authority within their respective jurisdiction.

Important considerations regarding land dedication and in lieu habitat mitigation fees as they relate to the PCCP or any other NCCP/HCP Financing Plans include:

- 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 Act⁷, and the mitigation of environmental impacts identified through the California Environmental Quality Act (CEQA).⁸

⁶ MuniFinancial, *Local Development Mitigation Fee*, fee study completed for the *Coachella Valley Multiple Species Habitat Conservation Plan/Natural Community Conservation Plan*, 2007. Western Riverside Multiple Species Habitat Conservation Plan (June 2003).

⁷ *California Government Code* Section 65913.8.

⁸ Exactions must conform to the “dual nexus” and “rough proportionality” constitutional tests described in case law.

- Infill development on existing lots not requiring discretionary approval would not be covered. (Note that infill on existing lots represents a relatively small share of total development projected by the PCCP.)

Land dedications and/or fees are one of the most commonly used funding mechanisms for habitat conservation plans in California.

Land dedication has a distinct advantage over other funding sources. Historically land prices have been highly variable and annual increases in land prices can be significant in areas subject to development pressure such as Placer County. Land dedication avoids the need to incur appraisal and other costs necessary to continually update land values to ensure that the habitat mitigation fee and any other funding sources for land acquisition will increase with land price escalation over time.

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.⁹

In general however, 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.¹⁰ 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 Act¹¹. 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.

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

⁹ 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*.

¹⁰ *California Government Code* Section 69513.8.

¹¹ *California Government Code* Sections 66000 through 66025.

reasonable relationships between the development paying the fee, the need for the fee, and the use of fee revenues. Further technical and legal analysis is required to establish this relationship for infill development, though this probably could be done based on the indirect and induced impacts of growth on the loss of habitat.

As discussed above regarding habitat mitigation fees, further legal analysis is also 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 reserve management or biological monitoring.

Community Facilities Districts (Special Tax)

The Mello-Roos Community Facilities Act of 1982 enables the formation of Community Facilities Districts (CFDs) by local agencies for the purpose of imposing special taxes on property owners.¹² 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.

Important considerations regarding CFDs as they relate to the PCCP Financing Plan include:

- CFD approval requirements make this funding source primarily attractive to development projects on undeveloped land.¹³
- A key advantage of this funding source compared to benefit assessment districts is flexibility. CFDs impose *special taxes* on property owners not *special assessments* discussed below with regards to benefit assessment districts.

¹² *California Government Code* Sections 53311 through 53368.

¹³ 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.

1. 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.
2. 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.
3. CFDs can fund open space whether located inside or outside the district.
 - One possible limitation of the use of special tax revenue may be for ongoing costs.
 - 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.
4. A maximum annual property tax rate of two percent of the 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 redeveloping 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 the 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. The Lighting and Landscaping District is an example of one commonly used benefit assessment district.

Benefit assessment districts have certain requirements that limit, but do 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 property 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.¹⁴ 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, at least one of these assessments for open space, in Santa Clara County, has recently been successfully challenged in the courts based in part on the assertion that they fail to comply with the special benefits and proportionality requirements of Proposition 218.¹⁵ Further legal analysis is needed to determine the appropriateness of this funding mechanism for the PCCP, but the recent decision seems to limit the probable applicability unless special benefits can be reasonably demonstrated.

Habitat Maintenance Assessment Districts

Habitat maintenance assessment districts, enabled in 1994 by the State Legislature, are a type of benefit assessment district that could be appropriate for programs such as the PCCP.¹⁶ 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”¹⁷ 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.”¹⁸ These districts can be

¹⁴ The vote is based on acreage weighted by the amount of the assessment.

¹⁵ *Silicon Valley Taxpayers Association, Inc. v. Santa Clara County Open Space Authority*; S136468, filed July 14, 2008.

¹⁶ *California Government Code* Sections 50060 through 50070.

¹⁷ *Ibid.* Section 50060(b)(1).

¹⁸ *Ibid.* Section 50060(c)(7).

formed to implement “a long-term natural habitat maintenance plan approved by the Department of Fish and Game.”¹⁹

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.

Habitat maintenance districts have other constraints. Current law limits assessments to \$25 per parcel (this amount could presumably be inflated to around \$36 per parcel in 2008 dollars)²⁰. 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, particularly 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.²¹ CSDs may be seen as an alternative or complement to the typical roles played by cities (in incorporated areas) or counties (in unincorporated areas). Important considerations regarding CSDs as they relate to the PCCP Financing Plan include:

- 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 within 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.

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

¹⁹ Ibid. Section 50060.5(a).

²⁰ Inflation calculated using Consumer Price Index – All Urban Users historic annual averages.

²¹ *California Government Code* Section 61000.

these purposes.²² However, the CSD law includes 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.”²³

Finally, governance by an independently elected board could create overly complex relationships for implementation of the PCCP. Placer County and the City of Lincoln 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.

Other Local Sources

Some opportunities for inter-agency cooperation regarding funding implementation of the PCCP may exist. Possible partner agencies include the South Placer Regional Transportation Authority, Placer County Water Agency (PCWA) and the Placer County Flood Control & Water Conservation District. 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.

²² Ibid. Section 61600.

²³ Ibid. Section 61601.26(e).

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.

State and Federal Sources

The participation of state and federal agencies is critical to funding the PCCP. State and federal agencies may 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. Unless specifically noted, federal and state funds cannot be used to fund the mitigation required of an NCCP/HCP permittee, unless a state or federal agency seeks permit coverage under the NCCP/HCP.

State/Federal Infrastructure Mitigation

Similar to local and regional infrastructure mitigation, this revenue source is provided by public agencies in connection with mitigation of infrastructure projects. It can be used to fund the mitigation required of an NCCP/HCP permittee. For example, under the Coachella HCP, Caltrans has an obligation to acquire 5,791 acres of habitat to mitigate non-interchange highway projects in the Coachella Valley.

State Bond Measures

Various State grant programs distribute bond proceeds for habitat acquisition and restoration. The programs are administered by state agencies including California Department of Parks and Recreation, Department of Fish and Game, Wildlife Conservation Board, California Department of Conservation, California Bay Delta Authority, and California Coastal Conservancy.

State bond funds for land acquisition include:

- Proposition 40 Resources Bond Act of 2002, provides a total of \$2.6 billion in bond proceeds, including \$745 million for acquisition, development, and restoration projects.
- Proposition 50 Water Quality, Supply and Safe Drinking Water Projects. Coastal Wetlands Purchase and Protection Bond Act of 2002 provides \$3.4 billion for the state water supply, including \$750 million for acquisition, protection and restoration of coastal wetlands, upland areas adjacent to coastal wetlands, and coastal watershed lands.

- Proposition 12 Safe Neighborhood Parks, Clean Water, Clean Air and Coastal Protection Bond Act of 2000, provided funds for local assistance grants.

A review was conducted of state and federal funding sources used by other HCPs that are generally available for habitat projects. In the review it was found that some of the bond proceeds listed above and included in other plans are designated for specific areas or have already been encumbered.

Other State Grant Programs

The California Department of Parks and Recreation administers several grant programs that could provide funds for land acquisition. The Recreational Trails Program provides federal funds for non-motorized trail projects. The Land and Water Conservation Fund provides federal funds for 50 percent of matching grants for planning, acquisition, and development of outdoor recreation areas and facilities.

Federal Grants

Under the Cooperative Endangered Species Conservation Fund (Section 6 of the Endangered Species Act) the U.S. Fish and Wildlife Service provides funding to states and territories for species and habitat conservation. These Section 6 Grants typically require a 25 percent match of non-federal funds. There are three types of grants:

- Recovery Land Acquisition Grants - These grants provide funds to states and territories for acquisition of threatened and endangered species habitat in support of approved recovery plans.
- Habitat Conservation Planning Assistance Grants - These grants provide funds to states and territories to support the development of HCPs.
- HCP Land Acquisition Grants - These grants provide funds to states and territories to acquire land associated with approved HCPs.²⁴

Habitat Restoration Program grant funds and Conservation and Restoration Program grant funds may potentially be available for land acquisition in Placer County. Additional research will be required. Similar to Section 6 Grants, these funds cannot be used for mitigation required of an HCP permit holder. Based on research conducted for the Santa Clara HCP it is assumed that they may only be used for land acquisitions above and beyond the requirements of the PCCP's mitigation obligations.²⁵

²⁴ U.S Fish & Wildlife Service, <http://www.fws.gov/endangered/grants/section6/>, downloaded January 12, 2007.

²⁵ Personal communication with Caroline Prose, U.S. Fish & Wildlife Service, January 16, 2007.

Summary

The key characteristics of the potential PCCP Financing Plan funding sources described above are summarized in Table 9-1.

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9.3.4 Strategic and Policy Issues

This concluding section highlights key strategic and policy issues for consideration. 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: Financing Development Impact Fees

One-time exactions such as habitat mitigation fees and development impact fees could be financed through on-going taxes and assessments. This gives development projects the flexibility to pay the one-time fee or form a special district that passes the burden of providing facilities on to future property owners.

For development projects too small to justify the formation of a district and issuance of land-secured debt, the state has developed the Statewide Community Infrastructure Program (SCIP), a relatively new program made available through the California Communities Joint Powers Authority. The SCIP allows for financing of development impact fees through issuance of the 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.

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.

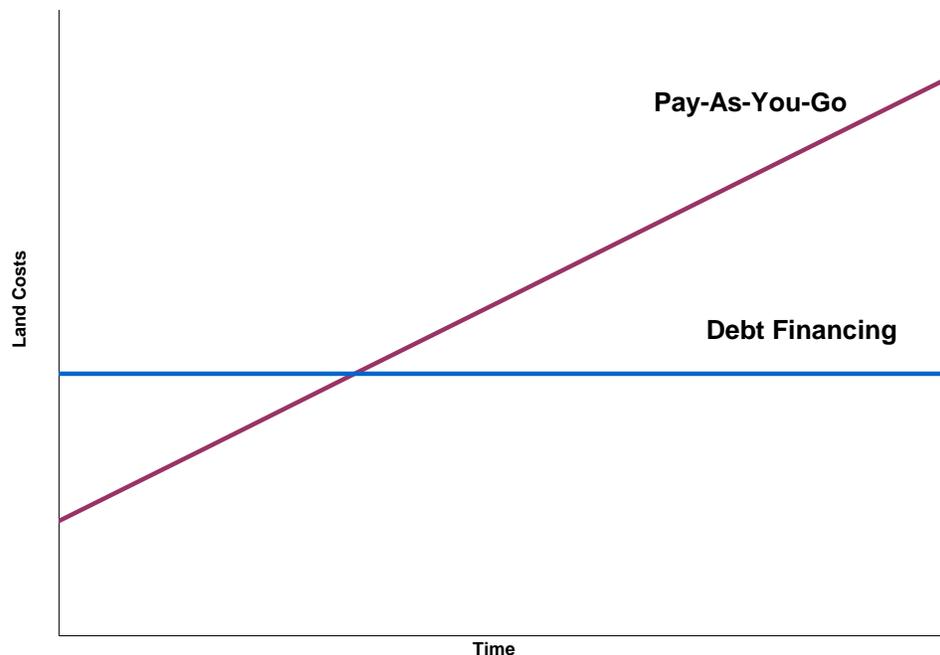
- *Impact Fee Reimbursement Program:* The developer pays the impact fees at the time a building permit is issued. SCIP then reimburses the developer.
- *Impact Fee Pre-Funding Program:* The local jurisdiction receives impact fee revenue when the tentative map is approved for all lots recorded on the 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, as described below. To date all SCIP financing has been for the Impact Fee Reimbursement Program. Incentives may be needed for developers to participate in the Pre-Funding Program.

Strategic Issue 2: Facilitating Early Land Acquisition

Upfront purchase of conservation lands should be considered. Without the use of financing mechanisms, the PCCP Financing Plan would have to rely on a “pay-as-you-go” approach. As mentioned above regarding land dedication, future land price escalation is difficult to estimate, highly variable, and can be significant (over ten percent annually). Over time, mitigation land will become increasingly scarce and therefore more costly. 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.

Financing Land Acquisition



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 the escalation of land price. 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.

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.

Below are strategies for facilitating early land acquisition.

Reserve debt capacity

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, CFDs, or the SCIP pre-funding program.

To implement this policy, the County and City 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. This ensures that local facility needs do not absorb all available debt capacity. The County and City 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.

Encourage land dedication by new development

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.

Seek Upfront Mitigation Payments From Public Agencies

Upfront mitigation payments from local, state, and federal agencies should be encouraged. Costs of regional impacts from major infrastructure projects could be included in a countywide sales tax initiative. The County could then secure a bond with the sales tax revenue allowing for early acquisition of land.

Strategic Issue 3: Balance Risk and Return on Investments

Policy direction is needed regarding the balance between risk and return on funding sources for ongoing PCCP costs. Both investment risk and political risk should be considered here.

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.

Typically, a large endowment would be required to generate enough income for ongoing costs once land acquisition and restoration has been completed.

Funding Ongoing Costs With An Endowment Versus Other Sources

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 below.

Alternatively, ongoing costs could be funded on a “pay-as-you-go” basis with annual special benefit assessments or CFD special taxes. These revenue 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.

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.

Current legal constraints imposed on public agencies typically result in investment yields of approximately two percent annually (after inflation). Alternatively, fund management could be transferred to:

- A separate local private entity such as a Land Trust;
- Another existing entity that provides endowment management service; or
- An entirely new non-profit entity formed specifically for this purpose.

Although investment yields have declined in general, in any of these cases, a separate non-profit entity could operate under less restrictive investment policies.

The designated 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.