Proposition 13 forever changed the fiscal relationship between local government and the State of California. Since that time, cities, counties and special districts have been forced to seek innovative strategies to secure much needed capital for services, land, buildings and equipment. For communities hoping either to keep pace or to increase their economic potential, innovative financing often entails cost sharing schemes that blend funds from various sources. Alternative and supplemental financing strategies may involve the use of traditional short- and long-term debt financing in combination with loans and grants provided by state and federal governmental agencies.

State and federal funds provide eligible communities with certain benefits. First, credit standards are not as stringent as those required for a community to issue debt. Second, funds may be used for public benefit purposes that do not generate revenues or cannot be supported through assessments or taxes. State and federal financing programs are intended to fill the gaps left by traditional municipal financing options that may not serve low-income or rural communities. Finally, public agency loans and grants may not be counted against a public entity’s debt limit. Used in tandem with traditional debt, these funds can extend the spending capacity of many municipalities.

The following is a partial list of state and federal programs that offer infrastructure financing. They should be seen as sources of funds that may supplement cash balances or municipal debt to achieve economic development goals.

State Community Financing Programs
Housed within the California Trade and Commerce Agency, the California Infrastructure and Economic Development Bank was created by the California Legislature in 1994. The Infrastructure Bank provides low-cost loans that support the creation of infrastructure for economic development. A Board of Directors, consisting of the Secretary of Trade and Commerce, who serves as its Chair, the State Treasurer, and the Director of the state’s Department of Finance governs the Bank.

Funding for the Bank was provided by state budget allocations totaling $475 million over the past two years. These funds capitalized the Bank’s Infrastructure State Revolving Fund Program or ISRF. ISRF provides low-cost loans to local agencies for infrastructure projects that support economic development. The Bank expects to issue revenue bonds to significantly leverage the financing capacity of the ISRF program.

Loans obtained from the Bank are available in amounts ranging from $250,000 to $20 million, with a financing period of up to 30 years. Entities that are eligible to apply for a loan through the ISRF program include any subdivision of a local government — cities, counties, departments, agencies, commissions, special districts, assessment districts, and joint powers authorities.

At the urging of the State Treasurer, the Bank ranks projects that meet all threshold eligibility criteria according to several different measures that reflect the project's ability to contribute to job creation and retention, community revitalization, and environmental sustainability. The list of eligible projects includes: county roads and state highways, public transit, drainage and flood control, educational facilities, environmental mitigation, port facilities, sewage collection and treatment, solid waste collection and disposal, public safety facilities, water treatment and distribution, defense conversion, parks and recreation facilities, and power and communication facilities.

The application process for the ISRF program requires submission of a preliminary application followed by a loan application. The Infrastructure Bank provides technical assistance to help applicants identify appropriate projects and also to complete the application process.

In addition to the ISRF program, the Infrastructure Bank serves as a conduit issuer for a wide variety of projects. Since 1995, the Infrastructure Bank has issued more than $7 billion in rate reduction bonds, industrial development bonds, 501(c)(3) bonds and exempt facility bonds. For more information, preliminary loan applications, and loan program criteria, visit the Bank’s Internet site at http://commerce.ca.gov/ciedb or call (916) 322-1399.
Another financing program administered by the Trade and Commerce Agency is the Rural Economic Development Infrastructure Program (REDIP). REDIP was established in 1986 to provide low-cost loans for construction, improvement or expansion of public infrastructure that will help create or retain permanent, private sector jobs in rural areas of the state. Eligible applicants must be public agencies or special districts located within one of three regions: 1) the boundaries of selected counties defined to be rural by the state; 2) a county or city with a project outside of an urbanized area anywhere in California; or 3) any city with a population less than 100,000 in selected counties.

Eligible projects include the construction, rehabilitation, alteration, expansion or improvement of sewer and water facilities; street storm drains, bridges, railroad spurs, utility connections; wastewater treatment plants and collection lines; roads, streets, highways and related improvements; other public facilities or infrastructure improvements needed for industrial or commercial activities. For more information, contact REDIP at (916) 322-1498 or visit the Trade and Commerce Agency’s website at http://commerce.ca.gov/business/select/communities/redip.html.

The State Water Resources Control Board (SWRCB) administers the State Revolving Fund (SRF) loan program to address water quality problems associated with discharges from publicly-owned wastewater treatment plants, non-point source and storm drainage sources. The program was created by the federal Clean Water Act of 1987, which authorized funding for construction of wastewater treatment and for water recycling facilities, for implementation of non-point source and stormwater drainage pollution control management programs, and for the development and implementation of estuary conservation and management programs. All federal and state contributions, as well as monies received from loan repayments, remain in the fund to finance eligible activities. Allocation of funds under the SRF is subject to goals set by the SWRCB.

Public agencies with the authority to operate, maintain, and collect fees for sewage treatment may apply for funding for wastewater treatment, water recycling, and urban stormwater pollution control projects. Public agencies, private parties, and nonprofit organizations may apply for funding for nonpoint source and estuary enhancement projects. Prospective applicants must contact the State Regional Water Quality Control Board in their area and be placed on the SRF loan program priority list. Once the project appears on the adopted list, the applicant can submit program documents and a loan application for review. Projects on the adopted list are available for funds on a first-come, first-served basis.

The SWRCB administers two other programs that provide financial assistance for construction of wastewater treatment facilities. The first is a state funded Small Communities Grant Program that provides up to 97.5 percent grant funding for small, needy communities with less than 10,000 people. The maximum grant is $3.5 million. The State may provide loan assistance through the SRF for the local share of these state grant funded projects. A total of $34 million in grant funding was provided for this program on March 7, 2000 by Proposition 13.

The second program administered by SWRCB, entitled the Water Reclamation Account, was also created by the Safe, Clean, Reliable Water Safety Act of 1996. The program provides $60 million for the construction of water facilities through a perpetual revolving fund loan program similar to the SRF, but capitalized with state funds. The passage of Proposition 13 on March 7, 2000 will provide an additional $40 million in grants and loans for water recycling. For more information on all SWRCB programs access the board on the Internet at http://www.swrcb.ca.gov.

The California Department of Housing and Community Development (HCD) offers support to eligible communities for economic development through its Community Development Block Grant Program (CDBG). The program was established by the federal Housing and Community Development Act of 1974. In 1982, the State Legislature assigned HCD responsibility for the program. The primary objective of the program is to develop viable urban communities through housing and economic development alternatives. Each year the program makes funds available through several programs.

CDBG entitlements are directly allocated to eligible cities and counties. All others must receive funds through the State’s CDBG program. A project is eligible for CDBG funding if it meets the national objectives of providing benefits to low- and moderate-income families, preventing or eliminating blight, and meeting an urgent community need. Eligibility is weighted according to percent unemployment, the ratio of loan funds to jobs created by the project, and the project’s ratio of loan funds to investments.

Non-entitlement communities may receive state CDBG funds for infrastructure improvement through two programs: the Over-The-Counter Program and the California Community Economic Enterprise Fund. Eligible projects, including sewer, water, storm drains, and business incubators, must accommodate specific business expansion or retention projects or support developer projects that meet CDBG national objectives and result in the creation or retention of jobs. HCD publishes a Notice of Funding Availability, as the funds become available. For more information contact CDBG at http://www.hcd.ca.gov/ca/cdbg/.

Federal Community Financing Programs

U.S. Department of Commerce’s Economic Development Administration (EDA) has two programs that may serve the needs of cities or other political subdivisions of the State, and community development corporations seeking to finance infrastructure. The Public Works
Development Facilities Program provides grants to distressed communities seeking to attract new industry, facilitate business expansion, diversify their local economy, and generate long-term, private sector jobs.

The program funds among other things: 1) water and wastewater facilities serving primarily industry and commerce; 2) access roads to industrial parks or sites; 3) port improvements; 4) business incubator facilities; and 5) brownfield redevelopment. Priority consideration is given to projects that improve opportunities for the successful establishment or expansion of industrial or commercial facilities; assist in creating or retaining private sector jobs and/or provide for additional long-term employment; reduce the long-term unemployment of low-income individuals residing in the area served by the project; fulfill a pressing need of the area; and, demonstrate adequate local funding support.

The 2000 fiscal year funding for the program is $205.7 million. The average grant amount for 1999 was $829,000. Complete funding availability information appears annually in the Federal Register. Eligible applicants need to contact the EDA office in their area. EDA is on the Internet at http://www.doc.gov/eda.

Another EDA program, the Economic Adjustment Program, uses grants to help states and local areas design and implement strategies for facilitating adjustments to declining economic conditions resulting from serious damage to the underlying economic base of the region. The downturn in the space and technology sector and the enactment of federal restrictions on timber harvests qualified Los Angeles and parts of California’s north coast, respectively, for assistance under this program. An applicant may be a city or other political subdivision of a state, as well as a community development corporation.

Program funds may be used to organize and carry out a planning process that results in a strategy or to implement a project that has been planned. Implementation grants may be used to support the creation or expansion of strategically targeted business development or a financing program, such as a revolving loan fund. The program may also be used for infrastructure improvement. Program funding levels for economic adjustment programs for fiscal year 2000 are $34.6 million. FY 1999 grants averaged $175,000 each.

For communities located in the federally defined rural area, the USDA’s Rural Development (RD) provides some support through its Rural Utilities Service (RUS). The RUS’s Water Program Division has four programs that provide financial and technical assistance for developing safe and affordable water and sewer systems. These programs are administered by the 25 RD offices in California.

Recipients of loans, guaranteed loans, and grants for water, sewer, storm water and solid waste disposal facilities must be public entities or private non-profit corporations located in rural areas with a population of less than 10,000 persons. Grants may be provided when needed to reduce user costs to a reasonable level and can be used to cover up to 75 percent of development costs. Loan guarantees are typically 80 percent of any loss incurred by the lender, however, 90 percent guarantees may be issued on occasion.

Loans must be secured to protect Government interests. Bonds or notes pledging taxes, assessments, or revenues may be accepted if they meet statutory requirements. A mortgage or other lien also may be taken on the applicant’s property when permitted by state law. Applications may be filed at a regional office. For more information call the Rural Development State Office at (530) 792-5800 or access RD on the Internet at http://www.usda.gov/rus/water.

Local governments eligible for Department of Housing and Urban Development’s (HUD) Community Development Block Grants (CDBG) may find an additional source of funding for large economic development projects and revitalization activities in HUD’s Section 108 Loan Guarantee Program. The program allows a community to commit a portion of its current and future CDBG funds to secure federally guaranteed loans for large-scale projects.

HUD guarantees repayment of notes issued by local governments to raise capital for approved projects. The guarantees represent the full faith and credit of the U.S. Government, providing private investors with enough security that the participating local governments can borrow funds at lower interest rates, comparable to those that the federal government commands when borrowing through the U.S. Treasury. The guaranteed amount must not exceed five times the community’s most recent CDBG allocation. The maximum loan term is 20 years. Loan guarantees generally require security beyond the pledge of CDBG funds.

CDBG entitlement communities are eligible to apply for a guarantee from the Section 108 program. Non-entitlement applicants may apply provided that the State agrees to pledge the CDBG funds necessary to secure the loan. Non-entitlement applicants may receive their loan guarantee directly or designate another eligible public entity, such as an industrial development authority, to receive it and carry out the project.

Eligible projects must meet the CDBG national objectives. Projects may include rehabilitation of publicly owned property and the acquisition, construction, reconstruction or installation of public facilities. For more information on the Section 108 Loan Guarantee Program call (202) 708-3226 or access HUD on the Internet at http://www.hud.gov/progdesc/cdbg-108.html.
TRENDS IN LOCAL DEBT ISSUANCE FOR INFRASTRUCTURE

Since 1985, the California Debt and Investment Advisory Commission (CDIAC) has compiled data on public debt issuance in California. These annual data, including debt issuer, amount of financing, and type of debt instrument, appear twice annually in the Calendar of Debt Issuance and the Summary of California Debt Issuance. Monthly debt issuance data are published in CDIAC’s DEBT LINE as well. CDIAC also compiles data on Marks-Roos Bond Pooling and Mello-Roos Community Facilities Districts that are presented in annual reports highlighting these types of financing.

The data provided by debt issuers can be used to examine the trend of local agency debt issuance for several categories of infrastructure, including 1) flood control; 2) solid waste recovery; 3) wastewater collection; and, 4) water supply and storage. Taken alone, these data describe the willingness of local agencies to use traditional debt financing for various types of infrastructure.

In the following trend diagrams, annual debt amounts have been adjusted for inflation and increases in the State’s population. Expenditures are expressed in “1985 dollars”.

**Flood Control**
Since 1985, local agencies have issued $598 million in debt for flood control purposes. The trend in issue amounts from 1985 to 1999 peaked in 1994 at roughly 2.6 times the average annual debt issued for flood control purposes. The lowest debt issued for flood control projects occurred in 1989. The years 1994 through 1996 represent the only span of two or more years during which local agencies issued above-average debt for flood control.

**Solid Waste Recovery**
Local agencies have issued $870 million in debt for solid waste recovery since 1985. When adjusted in the trend analysis, 1985’s expenditures far exceeded the amount expended during all other years and nearly equaled the amount of debt issued from 1986 to the present.

**Wastewater Collection**
The total debt issued by local governments since 1985 for wastewater collection is $8.4 billion. When adjusted, the peak years for debt issuance for this purpose occur in 1991 and 1993. Since 1996, local agency debt issuance for wastewater collection has dropped to levels not seen since 1985.

**Water Supply and Storage**
Local agencies issued a total of $11.4 billion in debt to finance water supply and storage projects since 1985. In analyzing the trend of debt after it is adjusted for inflation and population growth, local agency debt peaked in 1991 and 1992. The lowest level of issuance was in 1987. Since 1996, debt issuance for water supply and storage has been at or above the average for all other prior years, indicating a period of increased expenditure for this purpose.