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May 6, 1985

Joint Transportation & Community
Development and Budget & Finance
Committee

CITY MANAGER'S OFFICE
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Honorable Members in Session:

Subject: FINANCING INFRASTRUCTURE IMPROVEMENTS IN THE WEST-OF-MCCLELLAN
INDUSTRIAL AREA (M85-059)

Summary

Attached is a report setting forth an appropriate course of action for financing infrastructure improvements in the West-of-McClellan industrial area. The Transportation and Community Development Committee is being asked to direct Public Works and Planning staff to proceed with the recommendations specified therein.

Background

The 1984 North Sacramento Community Plan designates 840 acres of land north of Bell Avenue, south of Ascot Avenue, east of Dry Creek Road and west of McClellan Air Force Base for warehouse and distribution uses in an industrial park setting. This land is known as the West-of-McClellan area. While the area was rezoned M-1-S(R) for park-type light industrial development subject to full infrastructure improvements, individual projects have been denied by the City within the last year due to their inability to provide permanent water, sewer, and drainage improvements.


The course of action recommended in the attached report should correct this situation, and hopefully facilitate quality industrial development in a well serviced, orderly manner that is a long-term asset for North Sacramento and the City. The Transportation and Community Development Committee direction to staff is consistent with the Plan's adopted implementation strategy. The strategy directs Public Work and Planning to proceed with this matter (page 99, items 1 and 2).

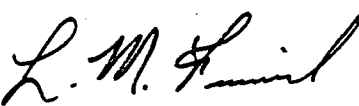
May 6, 1985

Recommendation

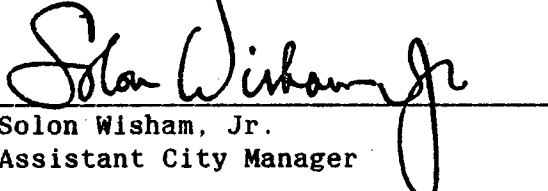
Direct Public Works and Planning staff to follow the course of action for financing West-of-McClellan infrastructure improvements as setforth on pages 13 and 14 of the attached report.

Respectfully submitted,


Marty Van Duyen
Planning Director


FOR Mel Johnson
Public Works Director

RECOMMENDATION APPROVED:


Solon Wisham, Jr.
Assistant City Manager

ML:lao
attachment
M85-059

May 15, 1985

**FINANCING INFRASTRUCTURE
IMPROVEMENTS IN THE WEST-
OF-MCCLELLAN INDUSTRIAL AREA**

I. PURPOSE

When the North Sacramento Community Plan was adopted in 1984, the City Council established North Sacramento as one of the City's future employment centers. Labor Intensive-Industrial uses were located near major freeways, and the area west of McClellan AFB was chosen as one of the primary locations for regional warehousing and distribution. Since the West-of-McClellan industrial area (see Figure 1) lacked the necessary infrastructure to support industrial development, the Council directed staff to explore various alternatives which could finance the construction of water, sewer, drainage, and other necessary facilities.

This report will describe the history of the West-of-McClellan industrial area and recommend specific tasks which should be taken to construct these improvements.

II. HISTORY

In 1965 when North Sacramento became part of the City of Sacramento, 450 acres north of Bell Avenue and between Raley Boulevard and McClellan AFB was designated for heavy commercial and industrial uses. This industrial area as well as other parts of North Sacramento lacked the necessary water, sewer, and drainage improvements which would allow for continued residential and industrial development. In order to provide these services north of I-80, the City supported, in the late 1970s, the establishment of assessment districts and the construction of a regional sewer interceptor, trunk lines for water, sewer and drainage, and road improvements. This effort resulted in the approval of new residential and industrial projects near Pell Circle and Main Avenue, and a general upgrading of the community's infrastructure system.

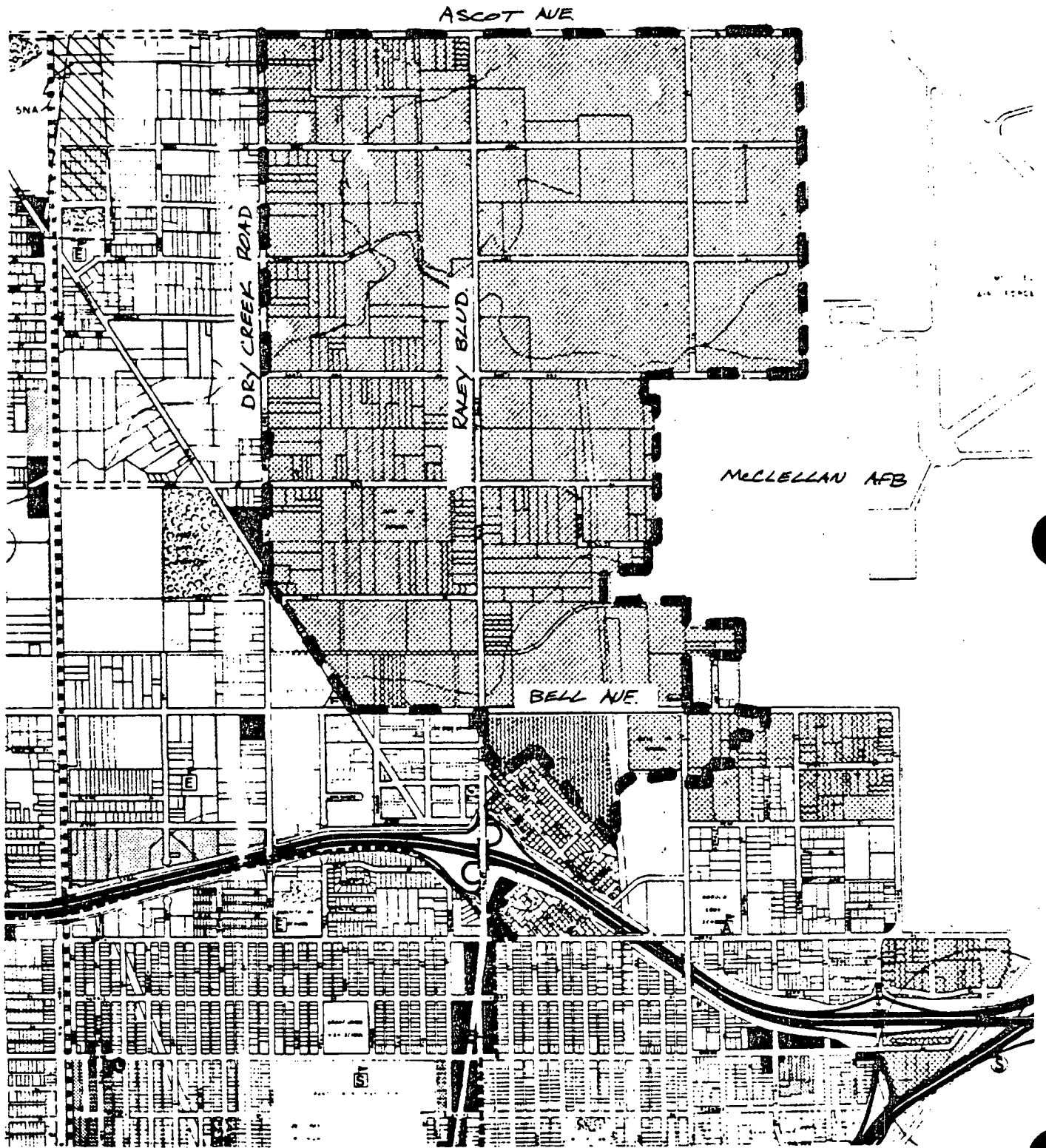
During the preparation of the 1984 North Sacramento Community Plan, staff found that even though considerable progress had been made in facilitating development north of I-80 additional actions had to be taken to allow development of industrial uses West of McClellan.

First, the area between Dry Creek Road and Raley Boulevard was heavily impacted by high noise levels from McClellan AFB. The existing residential land use designation had to be changed to an industrial category. This change reduced the harmful noise impacts on residents and expanded the industrial area closer to existing services. Second, steps had to be taken to extend infrastructure facilities into the larger industrial area. West-of-McClellan now encompassed 840 acres.

Residential property owners generally supported the expansion of this industrial area but they wanted assurances that future industrial development would not adversely impact their houses. This entails guarantees of quality design, especially in proximity to these residences.

FIGURE 1

BOUNDARY OF THE WEST-OF-MCCLELLAN INDUSTRIAL AREA



Many people wanted the existing A-Agricultural zoning changed to an industrial category in order to stimulate development. Under normal circumstances the City would not have changed the zoning, especially in an area lacking major infrastructure facilities. Given the need to avoid new residential construction near McClellan AFB and to promote new industrial development, the City Planning Commission recommended rezonings to M-1 Industrial. The Commission attached to the M-1 zone, the R-Review Overlay Zone to ensure that future industrial projects would be properly designed. This designation would also ensure that adequate water, sewer, drainage, and road improvements would be provided at the time of site plan approval.

The City Council approved these recommendations with the expectation that property owners would submit plans with acceptable water, sewer, drainage, and road improvements and that staff would explore, with property owners, the various ways to finance these facilities.

III. KEY DEVELOPMENT FACTORS

A. MCCLELLAN AFB

One of the prime considerations during the preparation of the North Sacramento Community Plan was the need to protect McClellan AFB as an important employment center. Since the future growth of the Base could be hampered if residential growth was allowed to occur in areas experiencing high noise levels, the City had to expand the "West-of-McClellan" industrial area from Raley Boulevard to Dry Creek Road.

This expansion provides new opportunities for industrial development, but it also presents a challenge to bring together the various property owners and develop a consensus on how to construct a total infrastructure system.

B. THE NEED FOR INFRASTRUCTURE

If urban land is to be developed, it needs infrastructure improvements which will permit development to occur in an orderly and comprehensive manner. Among the facilities normally provided for developed property are adequate vehicular access from a public street of sufficient size to promote traffic safety and reduce congestion, sanitary sewer facilities to prevent the development from becoming a health hazard, a water system of sufficient capacity to aid in fire suppression, and storm drainage facilities to reduce the possibility of damage to the property from flooding. To insure these facilities, cities and counties require that the installation of the necessary streets, sewer, water, and drainage facilities are guaranteed by the property developer prior to subdivision or building permit issuance.

Haphazard property development raises costs to the general public for maintenance of substandard facilities, and causes inconvenience to the property owner and public due to the lack of adequate facilities and depressed property values. If infrastructure is not provided before development occurs, the difficulty in providing it after the fact is multiplied.

Examples can be seen in Del Paso Heights and East Del Paso Heights in North Sacramento, the Woodbine area east of the Executive Airport, and around the California Youth Authority west of Power Inn Road. Property values are relatively low in these areas, and consequently do not attract high value construction.

Inadequate drainage results in extensive property damage during intensive storm periods. Morrison Creek, for example, was a small natural drainage swale in the early 1950's. In 1955, this creek overflowed during a spring storm and caused severe flooding to houses and businesses in the Elder Creek area. This facility was improved later, after considerable property damage had occurred.

Consequently, in order to avoid these problems, it is important to determine what types of facilities already exist, what other improvements are needed, and estimated costs for a total infrastructure system.

The following section of the report outlines the types of facilities which are needed to support development in the West-of-McClellan industrial area.

C. PUBLIC FACILITY NEEDS

1. Drainage

The study area lies within the boundaries of three separate drainage areas. These are the Magpie Creek Drainage Area, the Magpie Creek Diversion, and the Verano Creek Watershed.

The City has provided part or all funding for construction of a drainage pumping plant near the west end of Pinedale Avenue, and installation of drainage trunk lines near Pinedale, Sully, and Santa Ana, and Jessie Avenues, and construction of Magpie Creek between I-80 and Bell Avenue. These projects were funded without owner participation from City sewer funds and the 1964 Drainage Bond fund.

Additional drainage improvements which must be provided are as follows:

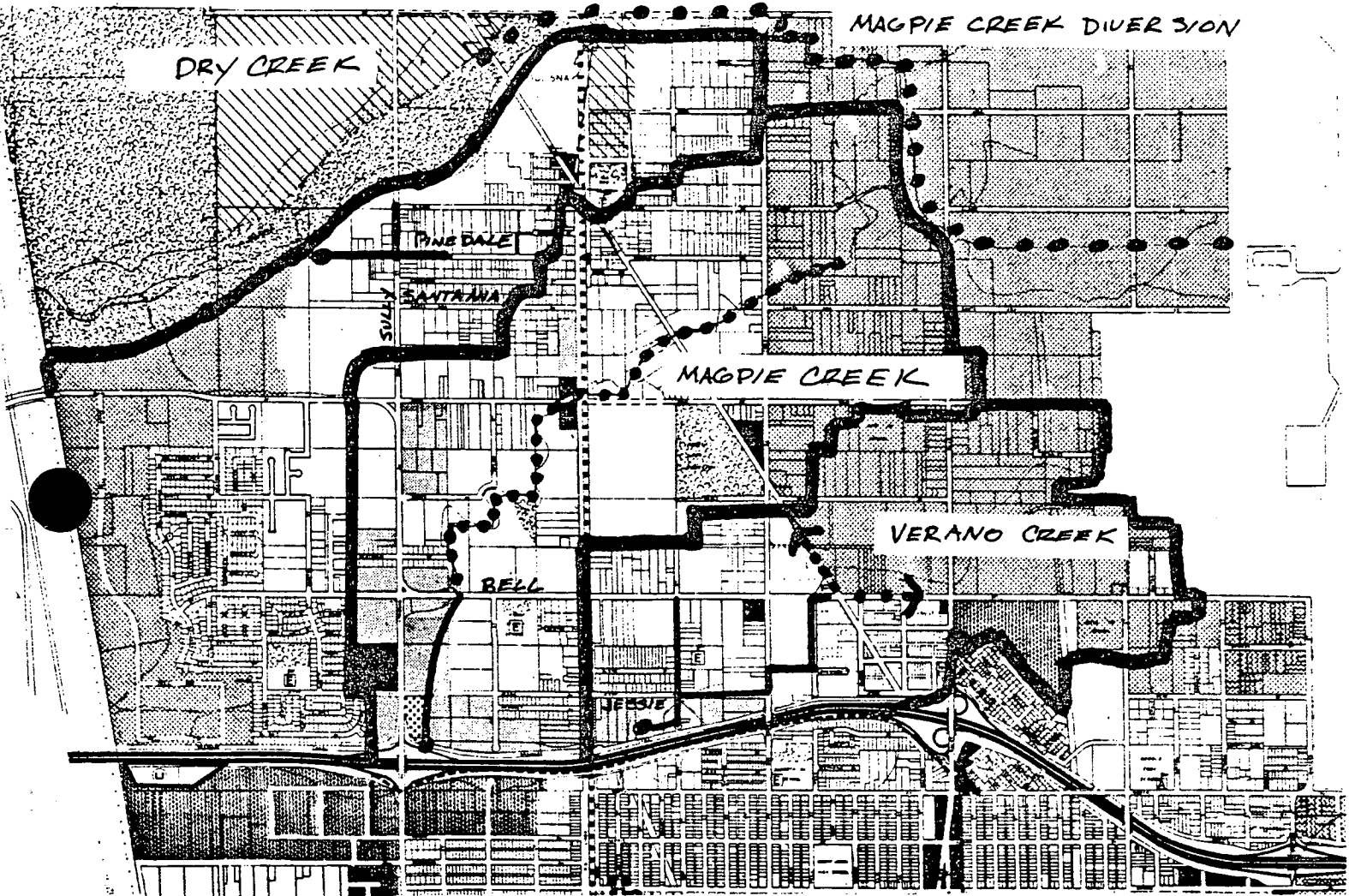
- o The Magpie Creek drainage channel north of Bell Avenue must be widened.
- o The Magpie Creek diversion and pump stations channel must be substantially improved in order to accommodate expected drainage flows. (It may be possible to stage this improvement since upstream drainage facilities are likewise substandard.)
- o Drainage trunk lines must be extended in the Verano Creek Watershed.

2. Sanitary Sewers

As previously discussed, the City participated in the construction of the regional sewer interceptor line which runs down Rio Linda Boulevard. Through the use of assessment districts, sewer lines have been constructed west and east of Rio Linda Boulevard and Pinedale Avenues (Figure 3).

FIGURE 2

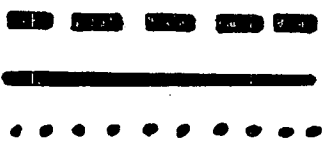
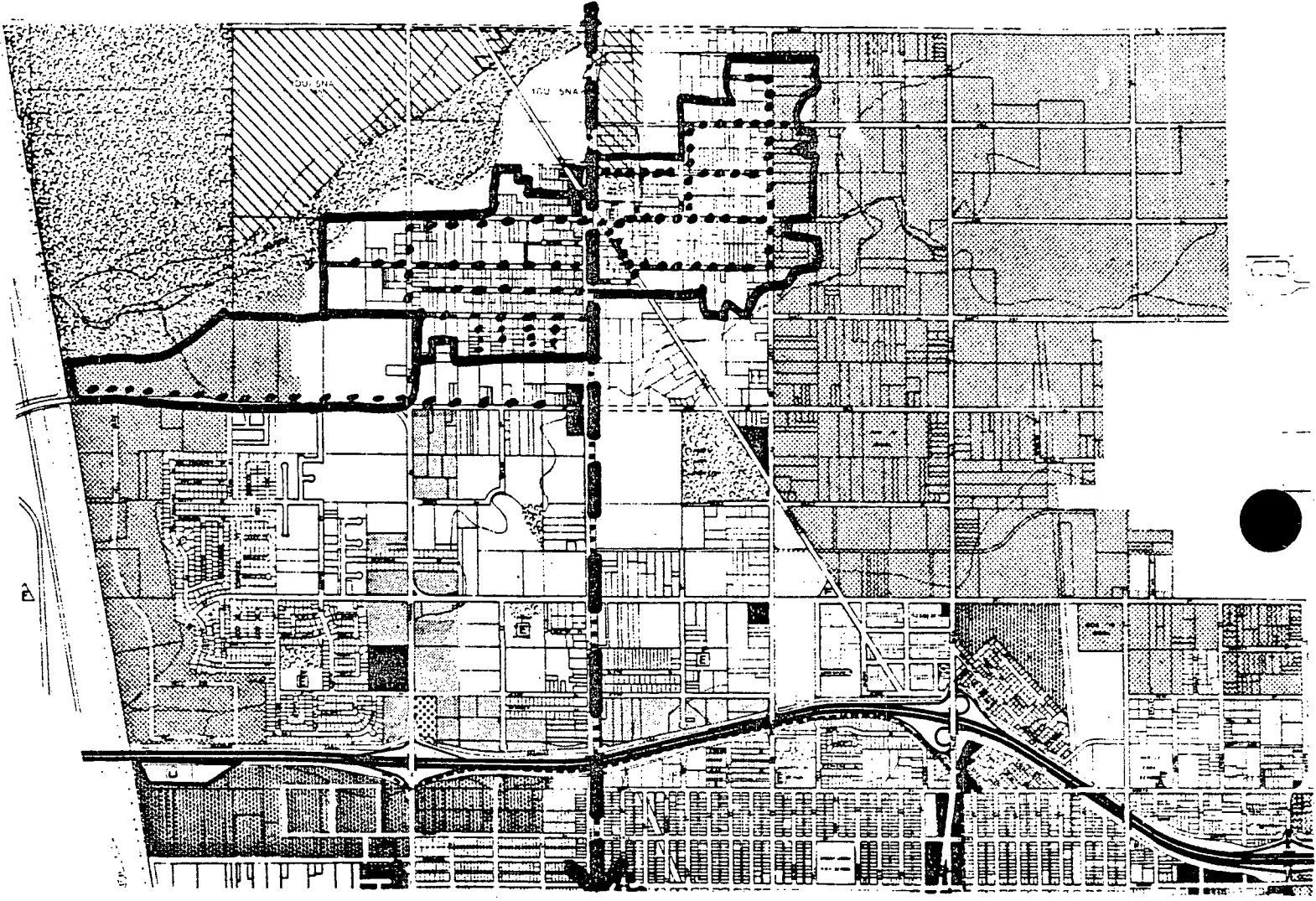
DRAINAGE AREA BOUNDARIES AND REQUIRED TRUNK LINES



- Existing Drainage Trunk Lines
- Needed Trunk Line Extensions

FIGURE 3

RIO LINDA BOULEVARD SEWER ASSESSMENT DISTRICTS AND SEWER LINES



Regional Sewer Interceptor
Sewer Assessment Districts
Existing Sewer Trunk and Lateral Lines

As shown on Figure 4, the sanitary sewers necessary to serve the study area will be tributary to the regional sewer interceptor line and adjacent to existing sewer assessment districts. The northerly portion of the study area must be served by a line constructed west along Ascot Road to Rio Linda Boulevard. The southerly portion of the area will be served by a pipeline constructed west along Bell Avenue to Rio Linda Boulevard.

Since the study area is not now within the boundaries of the Regional Sanitary District, there will be annexation fee costs of approximately \$1,640 per acre payable to the Regional District. This fee will be in addition to the cost of the sewer lines. The Engineering Division staff has been working with the District staff to develop a means of deferring a part of these fees until each parcel develops. At this time, however, the fees are payable at the time of annexation to the District. Another fee of \$1,110 per acre associated with annexation must also be paid to the District when the property develops (CIE Fee). This is a fee based on the cumulative capital cost per equivalent dwelling unit paid through service charges if the dwelling had been connected to the Regional System since 1975.

3. Water Supply

A twelve inch main is located on Dry Creek Road and on a portion of Bell Avenue. Eight inch mains are on Main Avenue, Grace Avenue, near the southerly portion of Raley Boulevard, and on a portion of Bell Avenue.

The ultimate water system (Figure 5) should consist of twelve inch mains running along Dry Creek, Raley Boulevard, Bell Avenue, Santa Ana Avenue, Clair Avenue, and on Vince Avenue. Eight inch mains would be located in remaining streets.

4. Street Improvements

The street system now serving the study area consists of two-lane rural roads which are adequate to serve the present level of traffic. As the area develops, these streets must be upgraded to serve anticipated traffic. Present traffic planning calls for Raley Boulevard, Bell Avenue, and Dry Creek Road to be four-lane thoroughfares and the remaining roadways to be two-lane industrial streets. The 1985-1990 Capital Improvement Program includes the construction of a two-lane bridge on Rio Linda Boulevard in addition to minor widening of this major street.

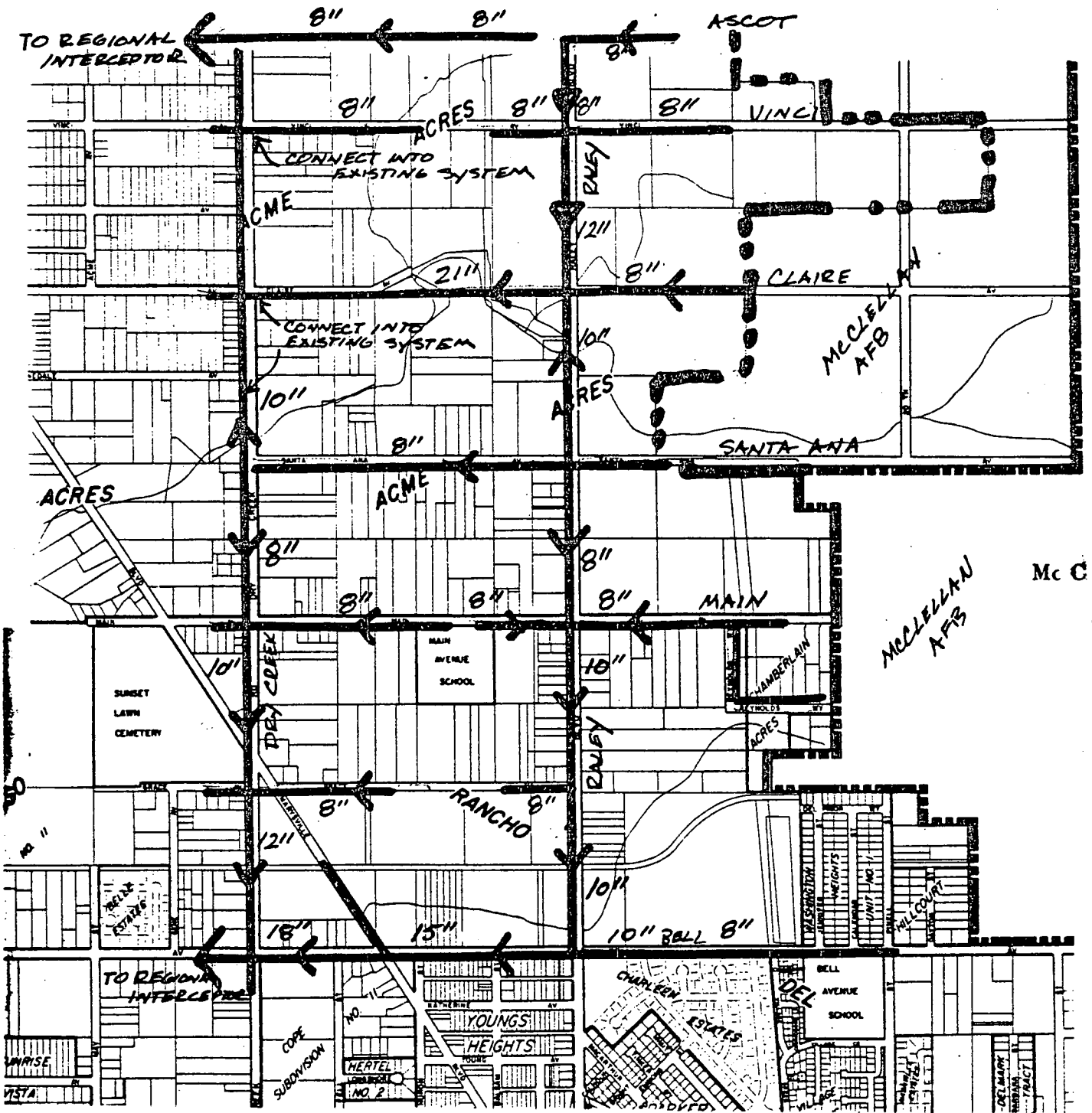
D. INFRASTRUCTURE COSTS AND FINANCING MECHANISMS

1. Costs

Table 1 shows preliminary cost estimates for the "West-of-McClellan" industrial area. They include all needed improvements for streets, sewer, water, and drainage facilities. These estimates are based on 1984-1985 dollars and a 35 percent factor was added in order to take into account contingencies and engineering.

FIGURE 4

PROPOSED SEWER SYSTEM



PROPOSED WATER SYSTEM

FIGURE 5

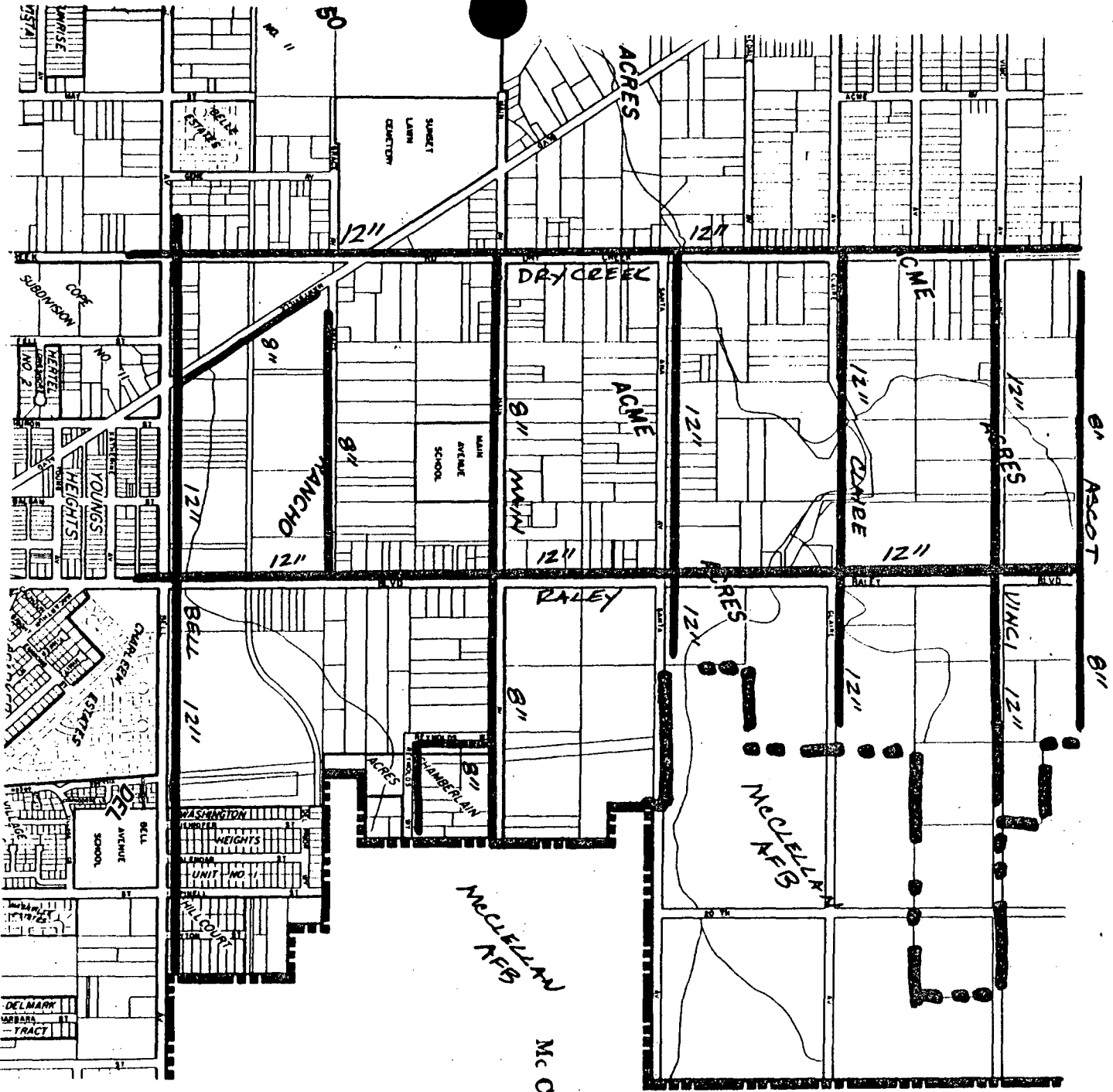


TABLE 1
PRELIMINARY COST ESTIMATE
WEST-OF-MCCLELLAN INDUSTRIAL AREA - 840 AC

<u>FACILITY</u>	<u>COST ATTRIBUTABLE TO STUDY AREA</u>	<u>ESTIMATED CITY PARTICIPATION</u>	<u>COST ATTRIBUTABLE TO PROPERTY OUTSIDE AREA</u>	<u>TOTAL</u>
Existing Streets	\$11,000,000	\$1,500,000		\$12,500,000
Drainage Including Bridges and Culverts	\$12,000,000	\$1,500,000	\$1,000,000	\$14,500,000
Sewer	\$ 3,000,000		\$ 500,000	\$ 3,500,000
Water	\$ 1,000,000			\$ 1,000,000
TOTALS	\$27,000,000	\$3,000,000	\$1,500,000	\$31,500,000

COSTS PER ACRE

Study area only (840 AC)	\$ 32,000
Plus Sanitary District An- nexation Costs	\$ 2,750
TOTAL	\$ 34,750 (estimated property owner responsibility)

- 1) Costs are in 1984-1985 dollars with 35 percent Engineering and contingency factors.
- 2) The costs estimated above cover the cost to improve all the existing streets in the area. This cost is estimated to cover the total cost of drainage, water, and sewer in existing streets, trunk facilities in proposed easements and improvement of all existing streets to City standards including right-of-way acquisition as needed. Creation of new streets through subdivision procedures will increase the overall cost.
- 3) The estimated costs as an average per acre and may vary considerably depending on the location of property within the area due to expected variance in drainage costs.
- 4) Water costs do not include the cost of increasing treatment capacity or the cost of building additional transmission mains to serve the area from the City's treatment plant.

As shown, the ultimate average cost per acre to properties in the study area is about \$35,000. The actual cost per acre will vary due to differences of costs for the three drainage areas. In addition, the City will participate in the construction of road and bridge improvements according to existing City plans. Costs attributable to property outside of the industrial area are included in the table because of the need to make improvements to Magpie Creek and the Magpie Creek Diversion and to extend sewers west along Bell and Ascot Avenues. Even though these estimates provide a general picture of cost, they are still preliminary and as such are subject to modification as more detailed engineering work is completed.

2. Financing Mechanisms

For orderly development to occur in an area with multiple ownerships the most reliable method of providing public infrastructure improvements is through the use of a "District" approach where improvements are constructed under a contract administered by a public agency and funded by the property owners in proportion to the benefit received. The various financing mechanisms available for this approach are:

Assessment Districts

The Municipal Improvement Act of 1911 provides for the installation of sewers, water lines, drainage facilities and streets with the costs distributed to the properties based on benefit. Bonds are sold by the public agency with each bond representing a lien on a particular parcel. Bonds are repaid by yearly payments from the effected property owners and are billed with the yearly property taxes. In the case of default, the bondholder can cause the defaulting property to be sold to satisfy the obligation.

The Municipal Improvement Act of 1915 provides for a similar bonding mechanism except that the bonds are issued in unit amounts (usually \$1,000), the bonds cover the entire district without regard to parcels, and the governmental agency is responsible for foreclosure in the event of default on the bond payments.

These two bond acts, along with the procedures specified in the Municipal Improvement Act of 1913, have been used to finance improvements in new developments and redeveloped areas for many years. These acts have been amended by the State Legislature from time to time over the 70 years of their existence and have withstood innumerable judicial attacks. The bonds are easily salable provided that sufficient value exists in the property to make the bondholder whole in the event of default.

Mello-Roos Community Facilities Act

The Mello-Roos Community Facilities Act of 1982 provides for the sale of revenue bonds to finance the construction of a multitude of public facilities including police and fire facilities, schools, libraries, streets and utilities, and the operation thereof. This Act, first passed by the legislature in 1982, was substantially amended in 1984. Since this financing vehicle is relatively new there is only a small amount of case law concerning it.

Benefit Assessments Levied at Issuance of Building Permits

The City of San Diego has developed an ordinance providing for payments from property owners with the proceeds used to install various public improvements on a staged basis as they are needed. The facilities which may be constructed range from streets to utilities to parks and libraries. This procedure requires a detailed project financing report, a time table for phasing of the needed improvements, and a tabulation of the sums which each property will be required to pay at the time building permits are issued. The ordinance was passed by the City of San Diego in 1980 and has withstood initial judicial attacks.

Major City Street Tax

The City of Sacramento presently collects a City-wide tax which is utilized to fund construction or reconstruction of major City streets as money becomes available. This fund is also used to reimburse developers for the center paved portion of major thoroughfares which are constructed within new subdivisions. This fund can probably be utilized to pay for some of the thoroughfare construction in the study area as shown in the cost summary table.

City of Sacramento Water, Sewer, and Drainage Fees

These fees are a part of the City's service bill. The funds collected by these fees are utilized to offset the costs of maintenance and operation of the City's water, sewer, and drainage systems and is also utilized to fund improvements to these facilities as money becomes available. Projections contained in the City's most recent mid-year budget review indicate that a decreasing proportion of these funds will be available for construction projects in the future unless these fees are increased substantially.

IV. EVALUATION OF ALTERNATIVE FINANCING MECHANISMS

One major problem which confronts property owners in an area of multiple ownership is the "front end" expense of installing the basic facilities necessary to serve new development. Sewer, water, and drainage facilities generally cannot be phased unless only a portion of the area is designed for immediate development. The remaining area is not immediately serviced with these vital facilities under a phasing plan. This approach is difficult to implement since the diverse property ownerships usually result in development requests covering portions of the entire area which requires an immediate project or projects to provide all the needed facilities at one time. The effect is to burden some properties in the area with assessment payments well in advance of development. This often results in defaults on bond payments and premature sales to speculators at relatively low prices in order for the owner to escape default. This condition will probably prevail under either the assessment bond acts or under the Mello-Roos Community Facilities Act.

One possible solution which should be explored is to establish a private development corporation for the industrial area. The advantage could be the ability of property owners to share the cost and profits from development as part of one legal entity. This corporation could conceivably market the entire industrial area in addition to gaining access to various sources of capital.

The alternative to the issuance of bonds and the subsequent tax or assessment on properties, either developed or vacant, is the benefit assessment approach used by the City of San Diego. In this case the City of San Diego funded the costs of phased development by collecting fees at the building permit stage. In the West-of-McClellan industrial area this approach could require the City to "front" upwards of \$20,000,000 in construction costs with these costs being recovered as properties are developed. The City's financial condition does not, and will not permit such an expenditure.

Despite these problems, it appears that sewer, water, drainage, and some road improvements can most feasibly be accomplished by using assessment district proceedings in combination with newer procedures as discussed above. The costs are not out of proportion to other areas; however, property owners and

other development interests must be contacted and more detailed work must be done to choose the most appropriate structure and phasing plan. For example, it may be possible to defer some storm drainage and road improvements (5 years or less) in order to reduce initial costs. Assessment districts may be established first in those areas which are most likely to develop in the near future. As development proceeds, new assessment districts could be phased in. This tactic would avoid prematurely assessing improvement costs.

Additional work is needed to assign improvement costs outside of the industrial area and to take into account existing services when determining assessment levels.

Staff must work closely with property owners and other interests to explain the costs and to develop a workable infrastructure plan. No matter what type of plan is eventually developed, the likelihood of its implementation will ultimately depend upon the level of support from people willing to develop.

V. RECOMMENDATIONS

In order to develop a program for the construction of sewer, water and drainage facilities for the West-of-McClellan industrial area, the following actions are recommended:

PHASE 1 DETERMINE LEVEL OF INTEREST/BUILD SUPPORT

The Public Works and Planning staffs will meet with developers, property owners, and other interested parties in the area and will explain the improvement costs and discuss funding alternatives such as assessment districts, the Mello-Roos Act and others that might be identified and utilized to provide the needed infrastructure.

The purpose of the meetings will be to discuss with the community the existing problems and needs and to obtain input concerning the degree of support that can be anticipated from the community in developing a program to satisfy the infrastructure needs. The meetings will also identify potential problem areas. It is expected that specific groups or committees will need to be identified to coordinate the required community support and work with the City staff in further developing a program for those subareas that appear to have sufficient interest in funding infrastructure improvements at this time.

Staff will also contact City Bond Counsel to determine the desirability of assessment district or Mello-Roos bonds and to obtain their opinion for the maximum value the area could support. The City Attorney will also be requested to contact the City of San Diego to obtain further information on their assessment ordinance.

The work product from Phase 1 will be a brief report indicating staff's judgement as to whether or not sufficient interest exists within the West-of-McClellan area or subareas for the construction of infrastructure projects.

PHASE II DETERMINE COURSE OF ACTION

Insufficient Support for Infrastructure

If it is determined that it is premature to construct sewer, water and drainage facilities in all or part of the West-of-McClellan industrial area,

Public Works and Planning staffs will recommend a policy for development project requests submitted without adequate sewer, water and drainage facilities.

Sufficient Support for Infrastructure Construction

If there is consensus that the West-of-McClellan area, or portion thereof, is ready to receive sewer, water and drainage infrastructure, Public Works and Planning staffs will together develop an outline for an INFRASTRUCTURE PLAN.

The infrastructure plan will provide recommendations for proceeding with the construction of sewer, water and drainage projects within the West-of-McClellan area and will be developed in coordination with property owners and the development community. (The groups or committees identified in Phase I will provide the necessary coordination.) The Plan will include:

1. Preparation of a more detailed design plan for all infrastructure improvements.
2. Development of preliminary cost estimates.
3. Preparation of a tentative map showing estimated zones of benefit and apportionments of costs.
4. Development of time tables and phases for the installation of improvements within the area.
5. Evaluation of various funding mechanisms and a description of the preferred method or methods to fund the improvement.

This infrastructure plan outline will be presented to the City Council together with the request to authorize solicitation to consultants to prepare a plan. The plan could cost as much as \$50,000 and require 6 months to complete.

The infrastructure plan will be directed toward development of a comprehensive program and will be geared toward responding to the needs of developers and property owners to insure that the infrastructure is constructed in a manner consistent with the needs of orderly development in the area. The completed plan will be submitted to the City Council for review and approval.

PHASE III IMPLEMENTATION

As soon as funding is assured, the Public Works Department will work in partnership with the private sector to assure the timely design and construction of sewer, water and drainage facilities. Public Works will continue to work in partnership with property owners and other interested persons to implement and/or modify the plan as necessary to assure that infrastructure is constructed in a timely manner consistent with the development needs within the West-of-McClellan area.

Infrastructure development will be dependent upon the ability of the City and the private sector to bring about consensus and support for necessary projects.

GZ:lr