



6.0 Financing and Organization

How the project will be funded and operated organizationally is fundamental to its success. This cluster of tasks, **Financing and Organization**, includes the Financing Plan, but it is expanded to address operating and governing considerations.

Goals and principles guiding this section included:

- A total initial project of \$50 million or less
- A planning and delivery period of five years or less
- A local funding strategy, including significant private participation in funding

Toward these ends, the Team developed the Financing and Organization cluster to focus on the financial and organizational elements necessary to deliver a locally funded project.

6.1 Funding Tools

This section identifies a “short list” of potential streetcar funding mechanisms. Each was evaluated for preliminary feasibility and appropriateness for the Downtown/Riverfront Streetcar project. The list of funding tools does not include those that were considered inappropriate (whether for legal, political, technical, or other reasons) for the project. The fund sources are grouped by the potential source – Development Related, City, County/Region, and State and Federal.

The analysis of potential funding revealed there are several suitable and available fund sources to move the project to the next stage of project development. Following the brief description and a possible range of funding, Table 14 demonstrates the potential low-to-high range by candidate source. The next step in the process is to perfect a package of acceptable funding mechanisms for the streetcar’s implementation.

6.1.1 Development Related

Four principal sources fall under this category. The sources are the Community Facilities District (CFD), Special Assessment District, Tax Increment Financing (TIF), and Development Impact Fees. A brief description is presented with an estimate of a potential range of funding for each.

Community Facilities District

A community facilities district (CFD or Mello-Roos CFD) assesses property owners to pay for specific infrastructure that benefits the district. Revenues can be collected up front or paid over a fixed period of time in annual assessments. The formula for assessing property can be very flexible. For a streetcar, it could be variable based on a property’s distance from the streetcar, with those closest to the alignment paying more. Other factors in the assessment formula could include the size of the parcel, the number or size of residential units, the amount of commercial space, fronting footage along the streetcar, and other factors.



CFDs must be approved by a 2/3 majority of property owners. However, this only applies when the planned area is essentially vacant or only made up of commercial properties. If there are more than 12 registered voters in the proposed district, then the CFD must go to a public vote of all registered voters in the district. This could present a much higher hurdle to achieving the 2/3 support.

The potential funding range is from \$5 million to \$50 million. This was calculated by estimating total property value within the area served by the proposed streetcar line, using data provided by SACOG for each of the TAZs, and projected to 2015. Assessment rates of 2% and 3% of total value were applied to low and high estimates of value to derive the potential funding range.

Special Assessment District

Special Assessment Districts are very similar to Mello-Roos CFDs in intent, logistical implementation, and result. Like a CFD, special assessment districts are geographical areas in which property owners receive a special benefit from new publicly-financed infrastructure, and assessments are made on property in order to build and sometimes operate that infrastructure. Special assessment districts are widely used in California.

Assessment Districts are authorized by three pieces of legislation—dating from 1911, 1913, and 1915—that allow for the collection of assessments (1911 and 1913) and for bonds to be issued, paying for the improvements or operations related to assessments (1915). Thus, the districts have a very long history of legal precedence and infrastructure funding in the state. Since 1913, assessment districts can fund public transportation projects, so this will not be an issue in the case of the streetcar.

The potential funding range is from \$5 million to \$50 million, derived in the same manner described for CFDs. Assessments could be paid upfront, in a lump sum, or spread over time and repaid with annual installments.

Tax Increment Financing

Tax increment financing (TIF) is one of the most powerful urban financing tools available. All of the streetcar alignment is within redevelopment districts in Sacramento and West Sacramento. However, budgets in both districts are overcommitted with projects, and other project funding priorities would need to be delayed in order to add the streetcar to the project list. Nevertheless, doing this should be strongly considered by both cities since the streetcar is exactly the kind of infrastructure project that TIF is designed for: to lay the groundwork for more intensive private investment that will generate higher property taxes in the future.

The potential funding range is estimated from \$2 million to \$10 million per City (up to \$20 million combined).

Development Impact Fees

Development impact fees can be collected on new development that occurs within the project area. The fees cover the capital cost of the infrastructure needed to serve new development and the people who occupy or use the new development. The potential funding range is from \$1 million to \$5 million.



6.1.2 City Sources

Two principal sources fall under this category, and one source is applicable to both cities. The sources are the extension of the West Sacramento ¼ cent sales tax, and the second is General City Funds. A brief description is presented with an estimate of a potential range of funding for each.

West Sacramento ¼ cent Sales Tax

West Sacramento's Measure K provides for a ½-cent citywide sales tax to fund a variety of projects. This is actually a combination of two separate ¼-cent sales taxes, one of which is set to expire in 2013. By renewing the expiring portion of the sales tax, significant revenues would continue to be generated, a portion of which could be dedicated to the streetcar. Such an extension would require a citywide vote and the revenues would likely need to be dedicated to a range of citywide projects in addition to the streetcar in order to gain widespread support. The renewal would only require a 50 percent voter approval. This vote could take place before the expiration of the tax, allowing for future revenues to be bonded for construction in the next few years.

The potential funding range is \$750,000 per year or \$9.4 million bonded for capital construction.

City General Funds

General funds are always in tight supply, but such funds have been used to partially pay for a number of streetcar systems, including Portland and Charlotte. Since all parties have agreed that the streetcar should have minimal impacts on existing budgets, a relatively small range of general fund revenues is included here.

The potential funding range is \$1 million to \$3 million per City.

6.1.3 County/Regional Sources

The Sacramento Area Council of Governments (SACOG) is the only source of regional resources. Once planning and engineering is complete, West Sacramento (or whichever agency will be responsible for construction) could pursue a grant from the Community Design program. Regarding County Sources, there is discussion of a future Sacramento County sales tax proposal to fund a variety of transportation improvements.

6.1.4 State/Federal Sources

- **Proposition 1B (Transportation Bond Package)** - California's Transportation Bond Package (Proposition 1B) was approved by voters in November 2006 and later enacted by Senate Bill 1266, allocating \$19.9 billion to a wide variety of transportation-related projects around the state, of which \$4.0 billion is specifically directed towards public transportation fleet expansion and capital improvement. The majority of the \$4.0 billion public transportation fund will be allocated according to formulas;



- **Proposition 1C** - Passed in November 2006, Proposition 1C will provide funding for housing, with specific applications to transit-oriented development (TOD). Pending further legislative definition of applicable projects, this funding source could potentially be used for infrastructure (such as streetcars) that supports TOD and housing;
- **State Grants and Federal Earmarks** - Such earmarks have been used in other transit systems and the streetcar would seemingly be a good candidate due to its potential to serve as a model for other California cities. Earmarks or any other federal funding sought for this project are assumed no to include Federal Transit Administration grants, since other projects in the region will be seeking such funding.

Table 14. Summary of Potential Capital Funding Sources

Funding Type (Listed from Local to Federal)	Range (millions)		Location	
	Low	High	Sac	W. Sac.
Development-Related				
CFD or AD	\$5.0	\$50.0	✓	✓
TIF (Sac)	2.0	10.0	✓	
TIF (West Sac)	2.0	10.0		✓
Development Impact Fees	1.0	5.0	✓	✓
City				
W. Sac ¼-cent Sales Tax Extension	0	9.4		✓
W. Sac General Fund	0	3.0		✓
Sac General Fund	0	3.0	✓	
County / Region				
SACOG Community Design Grant	0.5	2.0	✓	✓
SUBTOTAL	10.5	92.4		
State/Federal				
Prop 1B	0.0	10.0	✓	✓
Prop 1C	0.0	20.0	✓	✓
Legislative Earmark	0.0	20.0	✓	✓
TOTAL	16.5	142.4		

6.1.5 Summary of Potential Capital Funding Sources

Table 14 summarizes the range of potential funding from the sources identified above. If only the lowest amount were secured from each source, there would clearly be a funding shortfall. Therefore, it will be critical that at least some of these funding sources are secured at the high end of the range indicated here, if not even higher, in order to reach the projected budget of \$55 million. The potential funding from the new Propositions 1B and 1C introduces a significant



unknown opportunity. The high range potential from all of these sources totals more than twice the projected capital cost of the streetcar. Therefore, there should be room to adjust the mix of funding tools as more information becomes available about each one and as they are tested more thoroughly with property owners, businesses, and public agencies.

6.1.6 Sample Assessment Calculation

Since one of the project criteria was to incorporate substantial private sector participation in financing, and a special assessment district appears to have good potential for funding some of the streetcar costs, a sample assessment calculation is included here.

In order to generate \$25 million in funds and limit the assessment to two percent of value (\$2 per \$1,000 in value), the special assessment district would need to be spread over a collection of properties valued at \$11.7 billion. Total property value within the streetcar service area was projected to be approximately that amount by 2015. To annualize the \$25 million assessment, a 20 year bond financed at 6% interest was assumed; annual payments on the bond would be \$2.2 million. Spread over the \$11.7 billion in properties, that equates to a payment of about 19 cents per \$1000 in property value per year. So for a property valued at \$1,000,000, the annual assessment payment would be \$190. If any exemptions were made for certain property types (e.g., residential, institutions, churches, etc.) the assessment rate would need to be higher for remaining properties to make up for the loss.

Another way to look at this sample assessment would be on a per employee basis. Property value estimates for office and retail properties were based on the projected number of employees. A property value of \$1,000,000 was derived from assuming \$300 per square foot in value for a small retail building of about 3,300 square feet. Such a building was assumed to host 9 employees. The same \$190 annual assessment works out to about \$21 per employee, or \$1.75 per employee per month.

For a residential property worth \$325,000, an assessment equal to 0.2 percent of value would be \$650. Annualized, using the same 20 year bond financed at 6%, the payment would be \$57 annually or \$4.75 per month.

This sample assessment could be reduced by varying the total property value over which it is spread, or by adjusting the percentage of value that's used, or by changing the total amount of funds to be financed. The primary benefit to properties paying the assessment is the locational advantage of being close to the streetcar, and the value added by the streetcar.

6.1.7 Potential Operations and Maintenance Funding Sources

The package of funding tools for ongoing operations and maintenance will need to be different than that for capital construction, as the former requires a steady, predictable flow of money over the long term, rather than a lump-sum contribution up front. For this reason, bonded money is not as important as sources that will generate cash flow each year.



Farebox Revenues

In most other cities, farebox revenues cover only a portion (between 2 and 40 percent) of operating costs of streetcar systems. This is partially due to the fact that some cities, like Portland, have lowered or eliminated fares in order to improve downtown transit circulation. The magnitude of farebox revenues will depend on many factors, including whether the streetcar integrates with fare structures for Yolobus and RT, whether transfers are allowed (and if so, for how long), monthly pass usage, fare evasion rates, and other factors.

Parking

Revenues from city-owned parking meters and garages have played a critical role in the funding of the Portland Streetcar. The potential funding range from this source was not evaluated because parking funds are dedicated to other purposes in the City of Sacramento and because no public parking revenue is currently generated in West Sacramento.

Property Based Improvement District (PBID)

A PBID assesses businesses and property owners to support district marketing, safety, and maintenance and could potentially be used to support operation of the streetcar. A PBID currently exists in downtown Sacramento that surrounds much of the proposed streetcar alignment.

Special Assessment District

An assessment district, as described above, can also fund operating costs. The proposed regional riverfront entity may be one vehicle.

Transit Agency Operating Funds

Many streetcar systems have been subsidized through general operating funds from the regional transit agency. The source of these funds would be each agency's share of regional transit operating funds from state sources and sales taxes (TDA). This could require redirecting funds used to provide current services. Operating funds that currently go toward lines that could be discontinued can be redirected to streetcar operations.

Extension of the West Sacramento 1/4-cent Sales Tax

A portion of an extension of the West Sacramento sales tax could be dedicated to operations and maintenance instead of being bonded for capital construction. Since the full amount of existing sales tax revenue is dedicated through 2012 (its scheduled expiration) the timing would be right for using an extension to fund operating costs.

Advertising and Sponsorships

Advertising and sponsorships have been an important component of most other streetcar systems, either through annual advertising renewals or long-term prepaid sponsorships, advertising can supplement the operations budget.



Endowment Fund

An endowment could be a source of long-term stability for ongoing operating costs for the streetcar. Creating an endowment would require a significant up-front source of money, but would relieve budget uncertainty in future years.

6.1.8 Summary of Operations Funding Sources

Table 15, below, summarizes the potential revenues that could be generated for operations and maintenance. Funding operations and maintenance will undoubtedly be one of the most challenging aspects of the project and will require more detail in Phase 2. With incomplete knowledge about potential revenue sources, the funding package could still cover the \$3.5M in annual operating costs if revenues were secured at the high range for each source.

Table 15. Operations and Maintenance Funding Tools

Funding Type	Range (millions)	
	Low	High
Farebox	\$0.00	\$0.70
Funds from Discontinued Bus Service	0.00	0.16
PBID	0.50	1.00
W. Sac. ¼-cent Sales Tax Extension	0.00	0.80
Advertising / Sponsorships	0.30	2.00
Parking	0	TBD
Future Sacramento County Transportation sales tax	0	TBD
Total	\$0.80	\$4.66

6.2 Management Scenarios

While the proposed West Sacramento-Sacramento streetcar system is not difficult to understand conceptually, there is a wide range of functions which would have to be exercised in order to design, permit, fund, construct, operate and maintain the system. This section suggests several alternative managerial structures that could undertake the functions required to make the project a reality, and operate it on a continuing basis.

The present feasibility study was undertaken by an ad hoc consortium of the Cities of West Sacramento and Sacramento, and the principal transit agencies – the Yolo County Transportation District and the Sacramento Regional Transit District. As the work moves forward into the implementation stage, a more formal organization, with legal authority to reach decisions and act, likely will be required. In addition to meeting the requirements of public expectation as to political responsiveness and administrative transparency, the organization will need to be able to receive funds from various sources, carry out standard accounting functions, enter into contracts, and arrange for the extension of liability and property insurance over the operations and assets of the streetcar system. The relationship of a permanent implementation and operating structure that recognizes the participation of the various entities, while addressing ongoing performance of operations and maintenance functions for the streetcar system, is a key issue to be addressed by the feasibility study partners.



During the final design, procurement and construction period, the entity will have to be able to oversee the completion of environmental documents, implementation of the physical aspects of the system, and negotiate and enter into any necessary agreements with local and state agencies. In addition, the agency must have an ability to objectively monitor the actual operation and maintenance of the service.

6.2.1 General Requirements

An optimal permanent administrative and management structure for the West Sacramento, Sacramento and riverfront streetcar system is required to discharge the following general requirements within the three phases – Project Development, Construction and Procurement, and On-going Operations and Maintenance.

Project Development Phase

In the Project Development Phase, the existing partnership is the entity that oversees preliminary engineering and environmental analysis. In this capacity, the following actions will occur:

- Finalize the west and east ends of the alignments, service and operations plan, ridership estimate, and overall project cost
- Fund and oversee the successful completion of all preliminary engineering tasks
- Develop and negotiate an agreement for a funding and cost-sharing strategy among the four partners, including a continuing cost-sharing agreement
- Finalize a specific funding package for capital and annual operating expenses
- Conduct public outreach as required
- Develop a financing and cost-reimbursement structure for operations

Construction/Procurement Phase

As the project development moves into implementation, the complexities begin to build, and the pressure for centralized management becomes more evident. During this Phase, the project goes through final design and construction. Requirements for the Phase are to:

- Complete the final design of all civil and systems elements
- Develop and adopt a construction management plan
- Construct, install, test, and accept the track, traction power system, OCS
- Procure the vehicles
- Construct/test/accept modifications to RT maintenance facility as required
- Conduct operations and maintenance training
- Procure, test, and install fare collection equipment
- Complete the safety certification of entire system
- Put property and liability insurance in place



- Develop an O&M contract for the use of RT track and facilities
- Complete and implement the complementary bus/transit service plan (YoloBus and RT)
- Conduct public information campaign

Ongoing Operations and Maintenance Phase

- Implement O&M contract
- Monitor compliance with operations and cost objectives
- Implement marketing and promotion programs
- Modify as necessary
- Continuously monitor ridership and public/stakeholder satisfaction
- Prepare plans for extension

6.2.2 Management Alternatives

The means of owning and operating the streetcar in a multi-jurisdictional setting is a critical decision for the communities. The management orientation is to offer a range of possible approaches to be refined and recommended in the next phase of the project. Three models are offered for further evaluation and discussion.

The RT Option

Three possibilities for RT operation of the streetcar are described below. Several variations and alternatives may come up in Phase 2 of the study, as well.

- **First** YCTD, or West Sacramento, and Sacramento could contract for the provision of streetcar service with RT. Streetcar service parameters, including financial contributions and sources could be addressed in that agreement. The Policy Steering Committee created for this streetcar study could continue meeting on an as-needed basis.
- A **second** alternative (a variation of above) would be if West Sacramento contracted directly with RT for streetcar service, regardless of the funding source. West Sacramento would be entitled to appoint at least one person to the RT board. As the current legislation allows, votes are weighted based on the level of financial support from participating jurisdictions. This alternative offers the immediate advantage of not financially jeopardizing the continuation of YCTD bus service, which is largely dependent on West Sacramento TDA funds.
- A **third** alternative would be for the City of West Sacramento to activate full membership with RT. West Sacramento, YCTD, and RT would need to resolve operational, managerial, and financial issues associated with this option.

At this early stage, there is no reason to debate whether TDA funds should be shifted from YCTD to RT; rather, the intention of the streetcar project was never to establish one service mode by decimating the other. New funding sources will be needed to address the streetcar



funding needs. Bus and streetcar service are complementary to one another. Both YOLOBUS and RT may choose to reconfigure some of their local fixed route services to enhance transfer opportunities to/from streetcars.

The Portland Model

The City of Portland together with private sector supporters of the streetcar concept arranged for the incorporation of a not-for-profit corporation to provide focused leadership for the project. This entity is Portland Streetcar, Incorporated (PSI). PSI was established to provide the greatest possible flexibility in addressing implementation of the streetcar system. The PSI Board represents both the city and private partners, while contractual relationships with the City itself and with TriMet provide for the necessary flow of funding, the power of eminent domain, and for operations and maintenance. The Board membership is supportive and stable.

As the primary sponsoring public agency, the City of Portland assigned a Project Manager to oversee the entire sequence of streetcar planning, design, construction, and operating activities. PSI's staff works closely with the City Project Manager, in addition to reporting to the PSI board. In the West Sacramento-Sacramento context, this approach could be used by forming a similar not-for-profit corporation designed to meet the requirements of the local context. Board membership could be on the basis of appointments made by each of the current study partners, and might or might not also include representatives of the private sector.

Joint Exercise of Powers Authority (JPA)

JPAs are commonly used in California and elsewhere where mutually desired projects are dependent upon the coordinated effort of more than one public entity, across jurisdictional boundaries. The Capitol Corridor is a good example of a successful JPA, and some of the parties involved in the streetcar feasibility study are parties to that JPA.