LWA
LARSEN WURZEL
& Associates, Inc.
2450 Venture Oaks Way, Suite 240 • Sacramento, CA 95833
www.larsenwurzel.com

FINAL DRAFT Technical Memorandum

Town of Yolo Flood Risk Reduction Feasibility Study
Small Communities Flood Risk Reduction Program

Financial Feasibility *May 1, 2019*

Prepared by: Seth Wurzel, CGFM
Reviewed by: Derek Larsen, P.E. and Nasa Rehimtoola

Purpose

This memorandum has been prepared by Larsen Wurzel & Associates, Inc. (LWA) in support of the Town of Yolo Flood Risk Reduction Feasibility Study under the Department of Water Resources (DWR) Small Communities Flood Risk Reduction Program (SCFRRP).

Approach

The primary approach for analyzing financial feasibility begins with the assumption that the local funding required for a flood-risk reduction project will be raised through a property-based special benefit assessment. As a result, the requirements associated with imposing a benefit assessment would apply. These requirements, primarily those associated with Proposition 218, are discussed further below.

The next assumption is that the local beneficiaries would also be solely responsible for long term ongoing operations and maintenance (O&M) of any improvements. Therefore, locally generated annual revenue would first be utilized to pay for the on-going existing and future O&M of the project and then, any remaining annual revenue could be allocated toward the local share of the capital cost either on a pay-go basis or to service debt. However, levees protecting the Town of Yolo are maintained by the State of California, and funding for O&M is raised through California Water Code 12878, et seq.

In the case of the Town of Yolo, the feasibility team carried forward alternatives that would benefit areas outside of the Town of Yolo. The absence of detailed flood depth reduction mapping did not allow LWA to prepare a rate analysis. Therefore, a qualitative financial feasibility analysis was prepared for the Town of Yolo.

Financial Feasibility Constraints

Demonstrating Federal Interest

The United States Army Corp of Engineers' (USACE) planning process has a defined approach to determine flood risk reduction benefits. The USACE analysis is based on the value of damageable property and the projected reduction in flood damages once flood risk reduction measures are implemented. Less densely populated areas

with agricultural land produce lower benefits than densely populated areas. This makes demonstrating a federal interest in small communities in agricultural areas very difficult.

Securing federal funding for flood risk reduction projects will continue to become more competitive. In the past, funding for authorized projects has relied heavily on prioritizing appropriations based on a project's Benefit to Cost Ratio (BCR). This approach limits federal investments to areas that can achieve a very robust BCR and generally these projects would be in urban areas where significant benefits may occur. In the FY 2019 budget request, the current administration requires ongoing flood management projects to generally have a BCR greater than 2.5, leaving many eligible projects with lower BCRs at risk of de-authorization by the Congress if not funded within 5 years. While the BCR's for projects vary each year, the competition for limited federal funding also increases as authorizations continue to outpace appropriations.

Limited Availability of Federal Funding

The USACE has historically been a major financial contributor in the development of flood risk reduction infrastructures in California. The USACE is faced with more demands for building and maintaining its projects than available federal funding allows (Carter, 2018). It is estimated the USACE has a backlog of authorized projects higher than $96 billion. Annual appropriations for construction funding in FY 2018 and FY 2019 were $2.1 billion and $2.2 billion respectively, or just over 2% of the total backlog of authorized projects. However, some of the backlogged appropriations are related to projects that are unlikely to be constructed, as throughout the nation they are not competitive when compared against other projects.

There are multiple factors contributing to the growth of the USACE's backlog; Authorizations have outpaced appropriations, aging infrastructures require more significant financial investments, and construction related costs continue to escalate.

Limited Availability State Funds/Time Constraints

Following the passage of Federal Water Resources Development Act 1986, non-federal interests were required to share more of the financial and management burdens (DWR, 2016). These new requirements, coupled with the more stringent environmental regulations, resulted in further reduction in the federal share of spending for flood and water management projects. With the reduction in federal authorizations and the more stringent conditions on State and local financing of flood management projects, the State turned to general obligation (GO) bonds.

In 2006, the State passed water management bond propositions 84 and 1E. The Disaster Preparedness and Flood Protection Bond Act of 2006 (Proposition 1E) authorized $4.09 billion in general obligation bonds to rebuild and repair California's most vulnerable flood control structures to protect homes and prevent loss of life from flood-related disasters, including levee failures, flash floods, and mudslides and to protect California's drinking water supply system by rebuilding delta levees that are vulnerable to earthquakes and storms. Proposition 84 enhances these efforts with an additional $800 million for flood risk reduction projects. Proposition 1 was passed on November 4, 2014 and included $395 million for flood risk reduction projects. Proposition 68 was passed on June 5, 2018 and included $550 million for flood risk reduction projects.

Proposition 1E funds have been allocated to conduct a Feasibility Study investigation that is consistent with DWR's SCFRR Program Guidelines (2016) and supports the (2012 and 2017) Central Valley Flood Protection Plan goals of promoting flood risk management actions to reduce flood risk to people and property protected by the State Plan of Flood Control facilities. The Project objectives include assessing the community's existing flood hazards, evaluating structural, non-structural and multi-benefit projects, and making recommendations to implement a flood risk protection project that integrates other resource needs, as much as is feasible.

Limited Local Funding Sources/Proposition 218 Assessments

Funding local infrastructure and services, including flood and water management projects became more difficult when voters in California passed Proposition 13 in 1978, Proposition 62 in 1986, and Proposition 218 in 1996. Proposition 13 limited ad valorem taxes on California properties. The proposition limited the amount of tax that could be collected based on the assessed value of private property, including real estate, to 1 percent of the assessed value of the property. Proposition 13 also decreased the assessed value of the properties to 1975 values (negating three years of increased value), and limited increases of assessed value to 2 percent per year. Property that is sold or declines in value after an initial purchase may be reassessed. The enactment of Proposition 13 cut local property tax revenue significantly, causing cities and counties to raise user fees and other local taxes. In response, voters approved Proposition 62, the Voter Approval of Taxes Act, in 1986. This proposition required that new general taxes be approved by two-thirds of the local agency's governing body and a majority of voters, and new special taxes be approved by a two-thirds majority of voters. This led local agencies and communities to use assessments and property-related fees (among other fees) to pay for government services. Proposition 218 was passed by voters in 1996 and added requirements and limits on local government's ability to impose or increase assessments and fees.

Proposition 26, which was passed in 2010, redefined many existing fees as taxes. The impacts of institutional and legal constraints associated with raising local funding for flood infrastructure and services is described in greater detail in a 2014 Public Policy Institute of California's report ("Paying for Water in California," 2014). Constraints from Proposition 218 and 13 have been thoroughly documented by the State and also highlighted as a major challenge in DWR's January 2005 White Paper, "Responding to California's Flood Crisis."

Tax Rate and Infrastructure Burden Considerations

In order to consider an area's ability to generate additional taxes and assessment, the uses of taxing capacity for all infrastructure and services should be considered. The California Debt and Investment Advisory Commission (CDIAC) promulgates guidelines with respect to land secured financing, including the use of assessments and Mello-Roos. CDIAC's Mello-Roos Guidelines (1991) suggest that jurisdictions should integrate Mello-Roos financing into the land use regulatory framework. Local governments can create a process for coordinating the use of land secured financing through the provision of this form of integration. The main concern is that in the absence of coordinated planning, taxpayers could find themselves vulnerable to onerous overlapping tax burdens imposed by a multitude of local governments that may provide services to the same group of tax payers. This issue is analogous to the current ongoing efforts associated with planning for the future of flood management infrastructure, to the extent that there are a multitude of planning efforts, all developing concurrent funding and

financing strategies. These efforts should be coordinated to ensure that there is sufficient funding capacity available from the identified beneficiaries.

Assessment Considerations

Federally backed home loans on property mapped into a 100-year flood zone require mandatory flood insurance. Alternatives that present property owners with an economic incentive to pass a land-based assessment are preferable. For example, a property owner would be more likely to support a land-based property assessment for a project that would alleviate the need to pay for mandatory flood insurance or reduce the cost of their flood insurance policy. Yolo County estimates Town of Yolo has 44 flood insurance policies in place. The average cost of National Flood Insurance Program (NFIP) flood insurance in Unincorporated Yolo County is approximately $940 per policy annually (FEMA, Sept 2018). A NFIP preferred premium flood insurance policy is currently $400 annually. Alternatives that achieve a minimum 100-year level of protection for Town of Yolo and reduce, or eliminate, the cost of NFIP flood insurance are preferred.

Alternative Analysis Screening Constraints

The alternatives were not screened using financial metrics as LWA was not provided with flood depth reduction data for the preferred alternative.