The Economics of Land Use

Final Report

California Infill Finance Options Analysis

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The Strategic Growth Council

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ACRONYMS

AB	Assembly Bill
AHSC	Affordable Housing and Sustainable Communities Program
BART	Bay Area Rapid Transit District
CalEPA	California Environmental Protection Agency
CEQA	California Environmental Quality Act
CFD	Community Facilities District
CMA	Congestion Management Authority
COG	Council of Government
DA	development agreement
EPS	Economic & Planning Systems, Inc.
ERAF	Education Revenue Augmentation Fund
ERTA	Eco-Rapid Transit Authority
GHG	greenhouse gas
I-Bank	California Infrastructure and Economic Development Bank
IFD	Infrastructure Financing District
ISRF	Infrastructure State Revolving Fund
MPO	Metropolitan Planning Organization
OBAG	OneBayArea Grant Program
RHNA	Regional Housing Needs Allocation
SCIP	Statewide Community Infrastructure Program
SCS	Sustainable Community Strategy
SGC	Strategic Growth Council
TIF	Tax Increment Financing
TOD	transit-oriented development
TRA	tax rate area

1. INTRODUCTION

The Strategic Growth Council (SGC), as a part of its broader legislative mandate, has identified "infill" development as an important strategy for achieving Assembly Bill (AB)-32 greenhouse gas (GHG) reduction targets. While contributing to GHG reductions, it is important to note that achieving infill development will confer a broad range of benefits. These benefits include increased economic vitality of the State's urban centers; decreased consumption of energy, water, and other natural resources; reduced conversion of farmland and natural habitat areas; and the opportunity for more efficient infrastructure investment and delivery of municipal services—all ample justification for new investment and effort to achieve infill development.

The SGC also recognizes that there are numerous constraints faced by local governments pursuing infill development. The SGC commissioned this study to identify and evaluate infill development constraints and funding challenges, to document and assess existing infrastructure funding and financing mechanisms, and to explore and recommend new and modified funding and financing mechanisms for use in the State of California's infill areas.

Over the past six years California's Metropolitan Planning Organizations (MPOs) have been preparing Sustainable Community Strategy (SCS) plans mandated by SB 375 through intensive and interactive regional planning efforts. As a part of these planning efforts, MPOs have developed new regional and local population and employment forecasts that envision increasingly clustered future regional land use patterns that likely will provide GHG reduction benefits. A key goal of the SCS process is to help achieve GHG reduction targets specified in AB-32, through development in more compact urban forms. Accordingly, the SCS plans have identified infill areas where new development may be accommodated (e.g., Plan Bay Area's Priority Development Areas). Typically, these infill development areas are well connected to regional-serving transit or can serve as town centers with enhanced walkable and bike-friendly access.

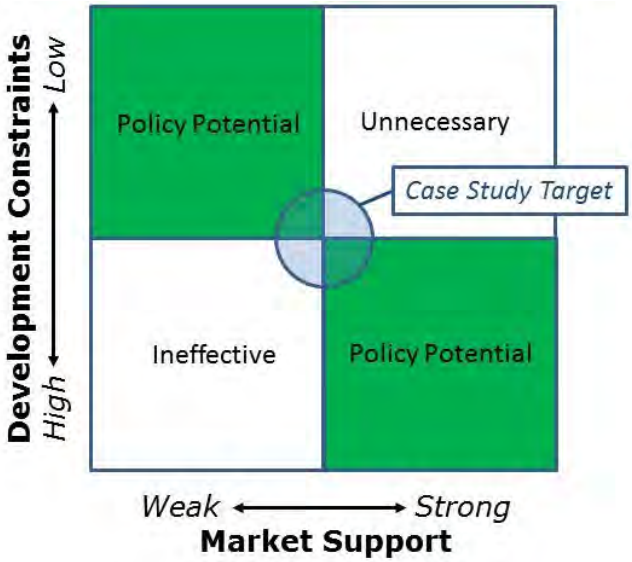
In some areas of the State, these regional plans are well-supported by the existing urban fabric and current market conditions. Along with economic recovery from the 2008-09 Great Recession infill development is occurring throughout the State. For example, during 2013 California cities issued over 39,000 building permits for residential units in buildings with five or more units (a dense housing format typically found in urbanized areas). However, this infill development is not occurring evenly in California. Nearly 80 percent of these permitted units in (5+ unit) multifamily structures were issued in Los Angeles, Santa Clara, San Diego, Orange, and San Francisco counties. By comparison, fewer than 600 of the permits (about 1.4 percent of the State total) were issued in Contra Costa, Sacramento, and Fresno combined during 2013.

Particularly outside of California's high-value coastal urban centers, a variety of factors are affecting the production of infill housing and commercial land uses. Notable infill development constraints include market conditions, physical conditions, infrastructure (e.g., sewer, water, streets), and other community conditions (e.g., schools, public facilities). In places where market demand, physical conditions, existing infrastructure, and community conditions are problematic, current funding and financing options are commonly inadequate, which hinders local and regional agencies' ability to implement infill development plans. Identifying funds and financing tools that address the challenges of infill development is the primary charge of this study.

In addition to site-related development constraints and market factors, the policies and actions of, and the lack of coordination among, State, regional, and local regulating agencies has also inhibited infill development, in some cases slowing or stopping infill projects and the implementation of infill development plans. There are a number of regulations and policies found across various levels of government that work at cross-purposes to the goal of achieving strategic infill development in California. While the mix and severity of these institutional constraints varies substantially from region to region, city-to-city, and even from site-to-site, a concerted intergovernmental effort to align public sector policy would benefit the implementation of the infill development. History has shown that otherwise excellent urban plans and development projects, particularly those with a substantial affordable housing component, will not come to fruition without supportive public policies at all levels of government. Public agencies must be coordinated and focused upon the objective of achieving infill development. Accordingly, this study proposes a multifaceted intergovernmental program to align public sector actors and to improve the probably that infill development as envisioned in the SB-375 SCS plans will be built.

Study Methods and Process

The findings and recommendations provided by this study are the result of a six-month process in which Economic & Planning Systems, Inc. (EPS) conducted interviews and research; met with SGC, Housing Finance Agency, and other state government staff; and received guidance from a panel of expert advisors to the study. EPS authored three interim memoranda and took comments from project staff and advisors on each. EPS also presented key findings and recommendations to the SGC members at their June 2014 meeting. This **Final Report** reflects the culmination of the study and includes key elements from each of the three interim memoranda produced previously.



The first phase of this study involved a case-study-driven evaluation of infill development across a range of contexts and geographies throughout California. Among other things, the study finds a spectrum of feasibility in infill development areas, with different implications for effective policy intervention, as illustrated at the right. The selection of case studies sought infill plans where policy intervention and reforms would be likely to advance infill development, in situations where (1) market conditions are strong and supportive but other constraints (e.g., infrastructure, available land, and/or or planning context) appear to be prohibitive, and/or (2) where market conditions are not currently "ripe" but could be substantially improved through catalytic projects and related place-making investments. The selected case studies have the potential for economic success. The selection process sought to exclude case studies where infill development occurs without intervention or there is no realistic prospect for new development.

Report Organization

This Study is divided into two major sections, as follows:

I. **Recommendations**: Section I of this study (Chapters 1 through 3) presents recommendations to advance infill development. The recommendations include those related to a program of intergovernmental coordination and policy alignment reflecting the cross-cutting nature of infill development benefits and a set of recommendations for new funding sources and financing tools needed to advance infill development throughout the State consistent with the mandate created by SB-375 and the SCS plans.

II. **Background and Analysis**: Section II (Chapters 4 through 6) includes the background research and analysis conducted as part of this study, including documentation of the existing conditions and constraints facing infill development in California; an overview of the existing infrastructure and development financing tools available in the State (as a basis for identifying emerging trends and potential "best practices" as well as funding gaps and opportunities for addressing them); and finally, the infill development case studies. The case studies, which include downtown revitalization and transit-oriented development (TOD) plans, illustrate a range of challenges associated with infill development and provide further insight into local needs for infill-related funding and financing tools.

Next Steps

The recommendations resulting from this study will require further vetting and analysis and in many cases substantial legislative and policy-related actions to achieve successful implementation. To this end, it may be useful for the SGC to support or conduct additional outreach and hearings on the topic of infill development and specifically the recommendations contained in this study. This outreach effort would engage legislators, critical State agencies, regional and local government representatives, housing, transportation, agricultural, environmental, and other advocates, and developer interests. The primary goal of these continuing efforts would be to refine and formalize a strategy to align California's land use policy and regulatory regime, offer meaningful funding resources, and provide effective development financing tools that have broad-based support.

2. RECOMMENDED GOVERNMENTAL ACTIONS

While this Report focuses on identifying additional funding options and financing techniques, it recognizes that institutional issues, as noted above, are often an impediment to infill development. Resolving these issues may be as effective, or in some cases more effective than new funding and financing to promote infill development. This chapter presents a program for intergovernmental coordination and policy alignment that reflects the cross-cutting nature of infill development, considering the varied purview of individual State agencies, regional and sub-regional agencies and local government. This program seeks policy alignment and resolution of existing intergovernmental fragmentation and conflict, to remove barriers to infill development that is consistent with SB-375 and a range of other public policy objectives.

Intergovernmental Infill Development Program

Achieving the infill development aspirations of regional SCS plans throughout California will require actions by State agencies (and the legislature), regional agencies, and local agencies, each aligning and expanding their respective roles and responsibilities to more effectively achieve the commonly-shared benefits of infill development. The effectiveness of public funding and financing resources depends largely upon this intergovernmental effort. The implementation of SCS plans is currently limited financially, with MPOs relying primarily on federal transportation funds and State planning grants. Even in combination with local efforts, the available funding resources are insufficient to achieve meaningful infill development in many areas of the State. If there is a compelling State interest in achieving broad-based infill development throughout the State, then State, regional, and local governments first must be coordinated in support of this effort, by establishing:

- Clear mission and public priorities regarding achieving infill development;
- Policy review and alignment processes and regulatory reform; and
- Entitlement streamlining and project funding aligned with public priorities.

The State of California has the opportunity to provide leadership in meeting these objectives, in cooperation with regional and local governments. The proposed Intergovernmental Infill Development Program includes:

1. State actions that improve program coordination and reduce regulatory hurdles, enable funding sources and financing capacities, and provide direct funding or credit enhancement to infill development areas.

2. Regional actions that align existing financial resources, including federal grant funding, State investments, and regional transportation funds in regional transportation infrastructure with infill development objectives.

3. Local actions that improve development readiness of infill development areas through planning, policy, entitlement, and funding support for needed infrastructure and affordable housing.

State Actions

The State of California has the opportunity to provide leadership, technical support, enhanced local funding authority, and additional State funding sources and financing mechanisms, which can enhance the development potential and readiness of infill development areas throughout the State. Currently, many regional and local entities are limited in their ability to address infill development constraints. Financing tools and resources are limited and local governments continue to grapple with the persistent economic effects of the 2008-09 Great Recession. Furthermore, conflicting State requirements and regulations often inhibit the type of development that may in fact be supportive of broader missions (e.g., air quality regulations versus urban intensification). These issues could be addressed through State actions as outlined below.

1. Provide Technical Support

State agencies involved with urban development policy, local assistance funding, and regulation (e.g., Strategic Growth Council, Housing and Community Development, Office of Business and Economic Development, California Environmental Protection Agency), Resources Agency, California Department of Transportation) have an opportunity to play a positive role promoting infill development by serving as clearing houses for information and guidance and in some cases expanding their activities to be advisors on planning and financing "best practices." In this role, these agencies could provide needed support for local and regional planning efforts (e.g., similar to the recently completed Proposition 84 planning grant program administered by the SGC).

Over the past decade, planning grant programs including those implemented by the regional MPOs and county-based Congestion Management Agencies (CMAs) around the State have invested millions in local land use planning for infill development areas, including the creation of new development regulations and required environmental review. These investments have revitalized urban planning and created a sound body of best practices for specific plans, infill development regulations, environmental approvals, and implementation strategies, including infill development funding and financing plans.

The proposed additional technical services would draw on existing and future planning and implementation work to establish advisable strategies to address specific problems faced by local jurisdictions pursuing infill development. For example, a well-equipped State agency might advise project proponents on available financing (e.g., the State and federal grant programs or how to bring EB-5 or other alternative funding sources to a project).

***Funding link**: Funding available through the State's Cap-and-Trade Program (or other sources) could be used to support State-led technical support to local governments and new infill area planning grant program.*

2. Address Regulatory Constraints

Through AB-32 the State of California has set forth aggressive targets for reducing GHG emissions and further, through SB-375, has created a comprehensive regional planning and implementation framework. However, it is clear that the regulatory and funding actions of all State agencies are not aligned with the policy objectives of SB-375. Rather, the case remains that the individual agencies, operating under their respective statutory

authorizations, pursue their objectives without necessarily recognizing the State's intent to promote and expand infill development through the regional SB-375 SCS plans. Specific State regulations affecting the entitlement and development process remain a substantial barrier to infill development due to the cost and uncertainty involved.

Probably the most notable example relates to California Environmental Quality Act- (CEQA-) based environmental analysis as presently practiced in California. CEQA has transcended its original purpose in a variety of ways and is commonly used as a tool with which local stakeholders stall, diminish, or defeat infill development proposals. Additionally, the complexity and costs of project-by-project full environmental review and the associated risks and consequences of litigation, regardless of a complaint's merit, often present a significant deterrent to private investment. Ongoing efforts to reform CEQA should be linked to the State's statutory objectives (i.e., AB-32 and SB-375). Specifically, CEQA reforms should seek to reduce the cost and risk of planned development in infill areas, while still maintaining a framework to identify and mitigate the environmental impacts of new development.

While CEQA is the most commonly cited statewide statute impeding infill development, a variety of other State and regional regulatory requirements also affect the entitlement and development process. For example, the complex and rigorous development standards required by the California Coastal Commission, Bay Conservation and Development Commission, the Tahoe Regional Planning Agency, the Delta Protection Commission, and other land use authorities in California also may hinder infill development in pursuit of their respective conservation goals. It also will be valuable to establish a State-level effort to evaluate the diverse regulatory activities of agencies and improve coordination towards the common objective of promoting infill development. This effort may involve policy review within the respective agencies, clarification of priorities, and possibly even legislative changes. An existing State agency such as SGC could play an organizing role in this interagency effort.

***Funding link**: These activities should be budgeted as part of the respective agency's activities. It is possible that the SGC, given the State agencies represented, could play a coordinating role in this effort.*

3. Improve Local Funding Options

The manner in which local government is funded in California is complex, inequitable, and highly sensitive to the state's economic conditions. Consequently, improving fiscal stability and providing additional recurring revenues to local government is the single most important action the State can take to further infill development. Available municipal funding sources are often inadequate to meet the full range of service demands at the city and county level. Moreover, local government funding, because of its dependence on local sales taxes, is highly sensitive economic downturns. Loss of redevelopment agency funding has further limited local government ability to pursue infill development. Despite reductions in public services and underinvestment in infrastructure related to lack of adequate fiscal resources, many California municipalities are committed to achieving sustainability goals in their communities, including increased compact and infill development as a means for achieving more cost-effective infrastructure and services.

The use of State ballot initiatives has exposed the tax system and financing capacities to single-purpose reforms that cumulatively have resulted in further inequities, inflexibility, and instability. In response, local governments have adopted a range of coping mechanisms including an increasing reliance on development-based financing (impact fees, exactions, and dedications), increased use of their redevelopment agencies (before dissolution), and deferred maintenance of infrastructure. Meanwhile, the state's population growth has continued apace and related demands and costs of services have seen commensurate increases. Add to this the persistently sluggish economic recovery in some corners of the state, and the situation arises where there is little incentive for cities to accommodate new growth, especially in challenging infill development areas.

While reforming California's local government financing regime lies beyond the scope of this study, it is important to recognize that fiscal weaknesses at the local level, particularly the allocation and sharing of property tax revenues between cities and counties, affect policy objectives such as achieving infill development. Going forward there are opportunities for the State to improve the resources available and to offer more stability to local government.

***Funding link**: New funding options including newly-enabled local funding sources, reduced implementation thresholds for existing taxation and financing mechanisms (including enhanced Infrastructure Financing District legislation), and lowering special tax voter thresholds as recommended below are all intended to expand local government funding and financing options.*

4. Increase Direct Investment

Implementing the SCS plans, achieving infill development, and providing affordable housing will require substantial public investment, in many cases beyond the existing capacity of local government. The current development-based funding strategies deployed by local government, in addition to the existing federal and regional agency transportation funding sources, often are inadequate to meet this challenge, especially where major infrastructure upgrades or other costs (e.g., land assembly or hazardous materials remediation) are necessary. Additional public funding sources beyond existing development-based sources and available local resources will be needed to overcome infill development constraints in many cases.

State-sponsored direct investments should generally be prioritized for "ready" infill development areas. Maximum funding efficiency and effectiveness may be accomplished through the preparation and use of a "return-on-investment" criteria-based scoring system that ranks projects based on SB-375 objectives and leverage local capacities.

***Funding link**: State funding available from the Cap-and-Trade program or new State infrastructure bond measures could fund a targeted local government infrastructure grant program and a new loan program (e.g., an I-Bank program targeted at infill development). Also, creating new funding capacity through programs such as the proposed State real estate transfer fee could support affordable housing programs in targeted infill development areas.*

Regional Actions

The MPOs and Councils of Government (COGs) have collaborated with each other and their local agency members during the past five years to create SCS plans in response to SB-375. These plans are the most ambitious regional plans that have ever been created for the state's metropolitan areas and provide a sound basis for regional resource allocations related to transportation and land use, and related implementation actions.

5. Focus federal transportation grant funding on infill development areas

Federal transportation funding is largely allocated to transportation projects and local governments by the MPOs or the CMAs. The current federal transportation funding that can be made available for incentivizing infill development, while seemingly substantial at the regional level, is relatively small compared to the transportation funding needs of infill development areas. Further, the federal grant program is cyclical and future funding is uncertain. For future cycles of federal funding, it may be valuable for regional transportation agencies to consider allocating greater shares of regional federal transportation grant funding to infill areas with substantial development capacity (readiness), but with infrastructure needs beyond local funding capacity.

***Funding link**: Coordinate funding available from federal transportation grant programs with State transportation investments. Encouraging the State's members of Congress to pass meaningful new funding for the Federal Transportation Trust Fund as well as special transportation programs will be necessary to maintain the existing federal highway system let alone promote alternative transportation modes and reductions in carbon emissions and other air pollutants.*

6. Enhance implementation of Regional Housing Needs Allocation

Affordable housing requirements for local governments are currently expressed through implementation of the State Department of Housing and Community Development-mandated Regional Housing Needs Allocation (RHNA). This decades-old process of setting affordable housing targets is linked to mandated preparation and certification of local General Plan Housing Elements. Because of the varied circumstances and policies of cities and counties, and the manner in which RHNA has been determined, the process only requires identification of new housing site capacity. There is substantial variation in city and county affordable housing policy and production. Moreover, the level of subsidies required to actually achieve affordable housing targets is typically far beyond the capacity of a local jurisdiction using its existing range of funding options (e.g., impact fees, inclusionary policy, or available tax credit programs). Regional agencies (MPOs and CMAs) and local housing departments could address these problems in a variety of ways including:

- Creating or promoting new housing funding resources regional housing trust funds;
- Encouraging more consistency and equity in housing policies and programs among its member cities and counties; and
- Reconciling widely-varied local affordable housing programs and performance so that the burden of providing the housing is more equitable within a region.

***Funding link**: Creation of regional housing trust funds and also allocation of existing funding to regional housing program efforts both could improve realization of RHNA housing production.*

7. Focus County transportation sales tax measure on infill development areas

Local-option ½-cent sales tax measures have been approved in 19 California counties, sponsored by either the local CMAs or COGs (including virtually all of the State's metropolitan counties. These sales tax measures have raised substantial revenues over the past several decades that have been invested in regional transportation improvements, augmenting funding from the various federal transportation grant programs and the State's transportation investment. Funding from sales tax measures can far exceed the available grant funds (e.g., OneBayArea Grant Program grants in the Bay Area). Some regions also have implemented multi-jurisdictional funding efforts, such as regional development impact fee programs for transit and other facilities. While these funding sources are in large measure allocated for the current funding cycle, over time as these Countywide or citywide funding sources are updated or reauthorized they can be better aligned with regional planning objectives as reflected in SCS plans.

***Funding link**: Funding available from a new or extended county-wide sales tax measures can be (and in a number of cases, already is) being directed on a priority basis by the CMAs to projects that support infill development.*

Local Jurisdiction Actions

Local governments retain wide discretion over land use policy and regulation, and are generally responsible for providing and maintaining backbone infrastructure that serves infill areas. Thus local jurisdictions have the primary responsibility for implementing regional SCS plans and advancing development in infill areas. Given this important role, efforts by local jurisdictions to help achieve the area's infill development potential include the following actions.

8. Assure Regulatory Certainty, Transparency, and Streamlining

Local land use policy, development regulations, and environmental review directly affect the time, costs, and risks involved with obtaining development entitlements (i.e., approvals) and can affect the financial feasibility of infill development. Providing state-of-the art planning and land use analysis, reducing state and local regulatory barriers and uncertainties, and reducing the related financial risks can substantially improve real estate project feasibility and attract investment capital.

Establishing local planning and development regulations, including adopting a supporting specific plan and related use-by-right zoning standards (minimizing additional discretionary review), CEQA streamlining strategies (e.g., completing program EIRs and comprehensive mitigation strategies), definitive and appropriate infrastructure financing programs, and fast-track permitting procedures can all help minimize entitlement costs and the time required to obtain entitlement, and reduce uncertainties, without weakening policy attainment or regulatory standards. It also is valuable to adopt General Plan policies that are consistent with infill development goals such as appropriate level-of-service standards and growth management policies that prioritize infill sites.

The "planning grant" programs administered by the SGC (Proposition 84) and the MPOs (federal transportation grant funding) in recent years have helped local governments improve the development readiness of infill development sites.

***Funding link**: Funding available from the existing regional planning grant programs or SGC's existing Sustainable Communities Planning Grant and Implementation program, or a similar program could enhance local government infill development planning and regulatory reform efforts to address infill development.*

9. Create Local Infill Development Area Investment Programs and Financing Strategies

The primary job of a city and other local agencies is to provide adequate infrastructure systems, public facilities, related maintenance and operations, and municipal services (e.g., emergency response). As a part of a comprehensive infill development strategy, sponsoring cities (and counties and special districts serving the area) should first endeavor to be well-regarded as a place to live and work, provide municipal services at or above typical municipal level-of-service standards, have basic infrastructure systems in place, and offer a diversity of civic facilities and amenities. In addition, public investments in streets, parking, utilities, and public facilities can have a significant impact on the feasibility of infill development, primarily by assuring adequate public services. Creating a local capital improvement program that identifies major public service and infrastructure deficiencies is an important first step for struggling cities. It is important to assure that these infrastructure and public facilities and amenities are cost-effective and achievable given expected financial resources and capacities. A financing analysis that matches infrastructure investments to the assembled financial resources also should be prepared.

***Funding link**: Local investment programs supporting infill development can be supported through creative use of development impact fees and special tax financing, leveraging community-wide financial resources, effective competition for available State, federal, and regional funding, and better utilization of existing programs such as the Community Reinvestment Act.*

10. Create Local Affordable Housing Strategies

Meeting State-designated affordable housing objectives, as expressed through the RHNA, has always been a challenge for California's cities and counties. Local governments, when contemplating their Housing Element, identified affordable sites in infill development areas, has made the affordable housing challenge more acute. The financial subsidies necessary to achieve even a portion of the affordable housing development are, in most places, far beyond the financial resources and strategies currently available.

Cities with effective affordable housing programs have historically relied upon inclusionary zoning, in-lieu and/or impact fees, commercial linkage fees, and required redevelopment agency funding set-asides for housing. These local programs and resources are typically combined with cooperating affordable housing developers that bring federal program monies and other resources (e.g., Low Income Housing Tax Credits) to achieve affordable housing production. The success of affordable housing programs at producing affordable housing units varies considerably from city to city, but often remains below levels mandated by the State. While additional funding from State, regional, and local sources is needed, it also will

be necessary to combine funding with a broad affordable housing strategy at the local level that includes:

- Achieving affordability by design where possible through innovative building form and unit sizes, density bonus programs, etc.
- Controlling cost of affordable housing construction as at the present time it is common for affordable housing projects to actually cost more on a unit-cost basis than comparable market-rate housing.
- Keeping affordable housing mitigation costs borne by market rate developers within reasonable economic limits as inclusionary zoning and related fee programs must be internalized into private development economics. At some point, in combination with other public costs that must be internalized, these requirements will distort, deter, or eliminate potential for development otherwise desired and consistent with local plans and programs.

Funding link: *Funding available from the proposed State real estate transfer documentary fee, a new State Low Income Housing Tax Credit (LIHTC), an allocation of Cap-and-Trade Program funding for affordable housing, and a new State bond supporting affordable housing would collectively create financial resources and incentives needed for local governments to create affordable housing projects.*

3. RECOMMENDED INFILL FINANCING OPTIONS

Achieving infill development as envisioned in the State's planning priorities and reflected in regional SCS plans and local general plans will be substantially enhanced by creation of new funding sources and financing mechanisms at the state level and by support of additional funding and financing at the local level. At the present time the constraints involved and limited funding and financing capacity create an impediment or disincentive for local government to pursue infill development. As noted above, funding for various aspects of infill development can be derived from existing and new State, regional, and local sources. While a diverse response is appropriate, the most important and effective funding initiative will be to strengthen local governments by providing additional recurring funding sources and also improve discretionary local revenue-raising authority. Such expanded funding resources also will reduce perceived risks from the capital markets and lower local government financing costs. **Figure 1** presents a summary of how infill development constraints (as described in **Chapter 4**) can be addressed respectively by funding sources presented in this chapter.

Figure 1 Summary of Funding Sources and Uses

	Site Acquisition	Real Estate Construction	Parking Construction	Local Infrastructure	Regional Infrastructure	Brownfield Remediation	O&M
Cap-and-Trade Funding	✓	✓	✓	✓	✓	✓	✓
Tax Increment Financing	✓	✓	✓	✓	-	✓	✓
Revolving Loan Program	✓	-	✓	✓	-	✓	-
Infrastructure Bond	-	-	-	✓	✓	-	-
Affordable Housing Bond	✓	✓	-	-	-	-	-
Infill Area Special Taxes	-	-	✓	✓	-	-	✓
Infill Tax Credit Program	-	✓	-	-	-	-	-
Document Recording Fees	-	✓	-	-	-	-	-
Motor Fuel Taxes	-	-	-	-	✓	-	✓

The recommendations in this chapter are organized into three categories:

1. Modifications to Existing State Legislation or Programs;
2. New State Bond Programs; and
3. State Legislation and Initiatives to Create New Funding Sources.

As discussed above, creating new funding sources and financing options should occur as part of a broader intergovernmental program focused upon promoting infill development around the State. The entire focus of this program should be to assure that all efforts are made to align the interests and activities of state, regional, and local government towards a common objective of achieving infill development throughout the state, thus contributing to the reduction in GHG production and to other public policy objectives. At the present time it is commonly argued (by those opposing growth and development intensification) that residential development, particularly higher-density housing that includes affordable housing, does not generate sufficient municipal revenues to cover the related additional municipal service cost. Providing additional resources and powers to local would help to alleviate these fiscal concerns.

Modifications to Existing State Legislation or Programs

There are a number of opportunities to amend existing State legislation or programs to make them more effective and provide additional funding for infill development. These include:

- Allocating a portion of the State's Cap-and-Trade Program funding directly to programs supporting infill development;
- Providing an enhanced local tax increment financing authority (e.g., Infrastructure Financing District) and related infill development land assembly and disposition powers; and
- Creating an improved State-sponsored lending program to provide needed at-risk credit to local governments pursuing infill development.

Recommendation #1 -- Direct Cap-and-Trade Program funding toward infill development

Use a significant portion of Cap-and-Trade Program funding to support local infill development. Revenues could fund investments in infill housing (particularly affordable housing), transit-oriented development, high-density mixed-use development, and transportation projects. Further, appropriate State agencies (e.g., Office of Planning and Research, Housing and Community Development, Resources, Transportation) working in collaboration, as they have over the last several years as part of the SGC, could be instrumental for evaluating and distributing Sustainable Communities funds, based on the GHG performance of the proposed projects. Another potential use of Cap-and-Trade Program funds would be to capitalize an Infill Development Revolving Loan Program that makes loans in support of infill development (see ***Recommendation #3****).*

AB-32 requires California to reduce greenhouse gas emissions to 1990 levels by the year 2020. The California Air Resources Board created a cap on greenhouse gas emissions and an auction system for emission credits that meets the requirements of AB-32. The program resulted from a multi-year process, with special consideration of potential impacts on disproportionately impacted communities. The auctions produce revenue, which by law must be spent on reducing greenhouse gas emissions. Some estimates indicate that revenue might reach as much as $5 billion per year in the future.

Funded through Cap-and-Trade auction proceeds and the Greenhouse Gas Reduction Fund, the Strategic Growth Council's Affordable Housing and Sustainable Communities Program (AHSC) supports land use, housing, transportation, and land preservation projects, specifically infill and compact development that reduce GHG emissions. These projects facilitate the reduction of the emissions of GHGs by improving mobility options and increasing infill development, which decrease vehicle miles traveled and associated greenhouse gas and other emissions, and by reducing land conversion, which would result in emissions of greenhouse gases. Approximately $120 million in local assistance funding will be available in fiscal year 2014/2015, with a continuous appropriation for this program in subsequent years. Of the total amount, 50 percent of funds intended for affordable housing, including preserving and developing affordable housing for lower-income households. Additionally, 50 percent of funds are intended for disadvantaged communities, as identified by the California Environmental Protection Agency (CalEPA), which could include investments in affordable housing. Program guidelines for the new AHSC program are anticipated to be adopted by the SGC by the end of 2014.

Recommendation #2 -- Pursue additional changes to the Infrastructure Financing District statutes and legislation

- *Eliminate voter approval requirement for Infrastructure Financing District (IFD) formation and consider lower voter requirements for debt issuance;*
- *Address IFD funding limitations and inequity by creating a matching increment factor incentive contribution from State funding sources; and*
- *Consider broader and more well-defined uses for IFD financing.*

The State of California currently offers a Tax Increment Financing (TIF) tool, the Infrastructure Financing District (IFD) codified by Government Code section 53395. Local agencies may establish an IFD for a given project or geographic area of the jurisdiction. The IFD captures incremental increases in property tax revenue from future development that otherwise would accrue to the city's General Fund, to secure debt and fund infrastructure. However, the current law is widely viewed as restrictive, making IFDs difficult to enact.

The establishment of an IFD requires approval by every local taxing entity that will contribute its property tax increment and also requires two-thirds voter approval (within the specific geographic area) to form the IFD. While the direct cost burden falls to property owners paying property taxes in the IFD, there is a citywide opportunity cost attributable to foregone general fund revenue. However, development value that is created through the use of the IFD increases the tax base and creates new general fund revenue when the IFD is eventually dissolved. Currently, the IFD law limits the types of projects that may be financed.

From the perspective of California cities and developers seeking to stimulate investment in infill development within their communities, some key enhancements to IFD statutes likely will be beneficial, and would increase the likelihood that the IFD will be a well-subscribed financing mechanism for promoting infill development.

Some of these key elements that could expand the use of IFD's include:

- The voting threshold remains an impediment to establishment and use. While lowering the voting requirement to 55 percent for IFD formation may be helpful in some cases, elimination of the voting requirement (similar to other proposed legislation such as SB-628) would be a good way to further increase use of the IFD. For debt issuance, a two-thirds voting threshold is consistent with the State Constitution, though a threshold of 55 percent or less certainly would increase the potential for usage.

- The IFD proposal does not provide access to property tax revenue beyond the local jurisdiction's share (i.e., AB-8 tax allocation), except by agreement with other participating agencies. Local tax allocation factors vary substantially from city to city, but are typically in the range of 15 percent of the one percent general property tax levy in California. Further, the use of local property tax to support infrastructure financing has fiscal implications, since funding otherwise required for municipal service costs is diverted to fund infrastructure for new development.

- The IFD proposal expands the type of projects that may be funded, though the specified uses could be even broader (e.g., IFD formation costs, clearly-defined operations and maintenance costs for IFD projects) and be more clearly prescribed in some cases (e.g., energy projects are not explicitly included). Articulating well-defined and appropriate uses of IFD financing will limit unintended outcomes.

Recommendation #3 -- Create an improved lending program targeted for infill development and capitalized with State funds

> *This program would address several financing needs faced by local government pursuing infill development, including providing "mezzanine" debt or land-secured tax increment financing districts. Such lending would provide funding early in the development process when infrastructure investments are needed but adequate special tax capacity or tax increment has not yet developed (as a project is built and sold to new residents or businesses). The program would seek to fill financing gaps by providing financing for transactions that would otherwise not take place because commercial lenders are either unable or unwilling to accept the credit risks inherent in the project or development area. In contrast to the current California Infrastructure and Economic Development Bank (I-Bank) reliance on commercial sources of credit, capitalization with State funds would allow the higher-risk investments needed to meet needs of infill development.*

Such a lending program could be created and administered by the I-Bank or be an entirely new program modeled on the Green Bank, a State program that finances green projects throughout the world and operates two authorities that finance and administer programs and projects that promote green jobs and green California industries, keep air and water clean, and encourage conservation of natural resources and the use of alternative energy.

New State Bond Programs

The State of California has a long history of using bond initiatives to fund major public works projects in the State. It was 100 years ago that California Proposition 11 Bonds for the construction of buildings at the University of California-Berkeley. In recent years, State voters have passed ballot-box initiatives that authorized significant funding for housing, transportation, and other public infrastructure.

Recommendation #4 -- New voter-approved bond initiative to provide support for infrastructure

> *Pursue a new voter-approved bond initiative to provide grant support for transit infrastructure, "complete streets," and other urban mobility programs and infrastructure that enable and support infill development projects.*

The State has historically issued bonds to fund major infrastructure projects including State projects and also those built by local government agencies. In November 2006, voters approved Proposition 1B which provided $19.9 billion for transportation. Proposition 1B enacts the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 to authorize funding for specified purposes. Some critics have indicated that Proposition 1B funding was directed to highways rather than future-oriented investments in public transit and other sustainable urban mobility programs. The new bond measure would be expressly for infrastructure in qualifying infill development areas.

Recommendation #5 – New one-time and recurring State funding to support affordable housing development

- *Pursue a new voter-approved bond initiative that funds a competitive grant program for local governments, in combination with other funding sources, and creates affordable housing projects in qualifying infill development areas.*
- *Adopt and implement a property transfer fee or tax funding source to provide a stable and recurring source of funding for qualifying affordable housing projects located within infill development areas.*
- *Use bond and recurring funding as part of a matching program that leverages local government affordable housing efforts and funding.*

One of the key problems faced by jurisdictions pursuing infill development is the lack of adequate funding sources to achieve affordable housing objectives. The "funding gap" for these projects commonly far exceeds the ability of the private sector or local jurisdictions to fund. There is little doubt that without additional public funding affordable housing targets set forth in SCS plans and the State's RHNA program will not be achieved. Past programs and current proposals address this issue:

i. Proposition 1C was the $2.85 billion housing bond passed by the voters in November 2006. Part of the Governor's Strategic Growth Plan, Proposition 1C devoted funding for housing and infrastructure programs to produce an estimated 118,000 housing units, 2,350 homeless shelter spaces, and infrastructure projects that help infill housing

development such as water, sewer, parks, and transportation improvements. Before 1C, Proposition 46 was a $2.1 billion housing bond approved by voters in November 2002.

ii. Proposed legislation (SB-391) which sets forth a State-administered document tax is an example of a potential recurring funding source. The bill would impose a $75 recording fee on real estate transactions in California. Under the proposed bill, revenues from the fee would accrue to the Department of Housing and Community Development for use funding affordable housing and administering housing programs. Regardless of use, funding from a new property transfer tax or fee is a potentially valuable source of new funds to support infill development.

State Legislation and Initiatives Creating or Supporting New Funding Sources

Recommendation #6 -- Provide a direct property tax incentive to cities and counties pursuing infill development through creation of IFDs (linked to Recommendation #2, above)

This incentive is accomplished by shifting property tax from the State-controlled ERAF back to the local jurisdiction proportional to the allocation of the existing local property tax and up to an aggregate limit. The return of a portion of Education Revenue Augmentation Fund (ERAF) funding to local government (ERAF funding supports K-12 education) would require the State backfill education funding from another source.

While the State of California had historically contributed property tax revenue to local urban redevelopment through allocating its share (i.e., that accruing to the ERAF used for supporting K-12 education) to redevelopment agency project areas, there is no current legislation that provides for such contributions. The key issue here is that the current system of allocating property taxes local government (created by AB-8 as an implementing measure to Proposition 13) allocates only a small portion (typically about 15 percent of the property tax dollar) of property taxes to cities. Moreover, this share varies widely between cities with some receiving less than five percent and others receiving 40 percent or more, all due to the original AB-8 allocations. Further, the fact that property taxes are one of the key local revenue sources to fund municipal services reduces the attractiveness of dedicating property taxes to infrastructure financing districts.

Recommendation #7 – Lower voter thresholds for local tax measures

Propose a constitutional amendment that lowers the voter-approval threshold from the current two-thirds requirement to 55 percent for special taxes (e.g., parcel taxes or community facilities districts) and related bonded indebtedness that provides funding for infill development public infrastructure, facilities, or services.

Proposition 13 of 1978 altered the California Constitution to require that “special taxes” levied by local governments be subject to two-thirds voter approval (Article XIII C). Local entities typically propose to increase taxes by adopting an ordinance or a resolution at a public hearing. Proposition 39 in 2000 lowered the voter-approval threshold for most school facilities bond debt to 55 percent. In recent years, there have been a number of constitutional amendments to lower the threshold for voter approval of various local taxes from the current two-thirds level to

55 percent. If successfully passed, a constitutional amendment that seeks to lower the voter-approval threshold specifically for infill development infrastructure could significantly increase local jurisdictions ability to finance desired projects.

Recommendation #8 – New State investment tax credit program

> *Design and implement a State investment tax credit program that provides State income tax credits to qualifying infill development projects.*

Tax credit programs are commonly used by state and federal governments to induce investments from the private sector. Project developers and investors use tax credits to offset their state or federal income tax obligations. Tax credits are typically project specific, but often are made available to investors in a practice known as syndication which allows developers to "sell" credits. Throughout the US, tax credit programs exist for low-income housing, community development, historic preservation, renewable energy, brownfield development, and other specialized uses. The State of California currently supports a number of tax credit programs, including low-income housing and community development programs. For example, during 2013 State legislation created the "California Competes Tax Credit," an income tax credit available to businesses that want to come to California, or stay and grow in California.

Proposed legislation, The Economic Development and State Historic Tax Credit Act (AB-1999) is intended to encourage public and private investment in historic urban and rural communities across California, encourage reinvestment in historic residential neighborhoods and commercial districts, and promote long-term economic growth through sustainable development practices in disinvested and underserved areas. The proposed bill includes a significant State tax credit for rehabilitation of qualifying historic buildings, with a credit bonus for specific project types (e.g., local, state, or federal surplus properties, low-income housing, military base reuse zones, or Transit-Oriented Development areas).

While this State historic tax credit likely would be a beneficial incentive that promotes investment in infill locations, there may be an opportunity for a tax credit program that targets new infill development as well. For example, the State of Iowa has a tax credit program that supports investment in industrial or commercial properties that are vacant, blighted, obsolete, or otherwise underutilized. Typically, the necessary infrastructure is in place but the property's current use is outdated or prevents a better or more efficient use of the property. A similar program could help to incentivize infill development in California.

Recommendation #9 – Introduce a new motor fuel tax for infill transportation projects

> *Transit infrastructure investments are commonly credited with increasing urban land values, improving infill development feasibility, and reducing GHG emissions, as travelers choose mass transit modes over private vehicle use. Improving transit facilities and service is one of the key strategies for improving infill area development readiness. An additional motor fuel tax of two and a half cents ($0.025) per gallon may be appropriate. This funding, approximately $350 million per year Statewide would be used to fund qualifying infill development area transit infrastructure improvements and operations and would be allocated to cities and counties on a need- and performance-competitive basis.*

The State imposes a tax on motor vehicle fuels (i.e., the Highway Users Tax), which includes gasoline, diesel fuel, natural gas, and ethanol. At the present time the tax per gallon is $0.18 (Revenue and Tax code Section 7360-7361). While the bulk of fuel tax revenue is used for highway and roadway construction and maintenance, Article 19 of the California Constitution states that these revenues may be used for research, planning, construction, and improvement of public mass transit facilities. The Highway Users Tax is allocated through a complex formula as specified in Streets & Highways Code Section 2105-2108, with funding allocated by formula to the State (approximately 64 percent), and counties and cities (approximately 36 percent). Highway Users Tax revenue allocated to cities and counties in FY 2013/14 totaled nearly $1 billion.

The revenue allocated to local entities is the primary source used by local government for maintaining local streets and highways (a very small sum is allocated to a State Bicycle Transportation Account). In most cities and counties the Highway Users Tax is inadequate to fund required maintenance of streets and highways and thus additional funding must be derived from local or regional funding sources.

Motor fuel taxes, as presently configured, suffer from several deficiencies from a revenue perspective. Because the tax is a “pennies per gallon” base, it does not keep up with inflation. As gas prices have increased, the tax represents a smaller and smaller portion of total gasoline prices. Additionally, as fuel efficiency has increased fuel consumption has proportionately decreased resulting in falling tax revenues. Meanwhile, the cost of maintaining the State’s streets and highways continues to increase. Periodic (and unpopular) increases in the motor fuel taxes are needed just to keep up with inflation. Motor fuel taxes are less on a per capita constant dollar basis than they were decades ago.

While existing motor fuel tax revenues are needed for maintenance of existing streets and highways, introducing an additional motor fuel tax as a means to fund alternative transportation modes and other sustainable mobility programs that reduce GHG emissions makes considerable sense from an economic perspective. Such a tax would create much needed funding from the primary source of GHG emission, motor vehicle transportation.

4. INFILL DEVELOPMENT EXISTING CONDITIONS

Definition and Diversity of Infill Sites

Infill development generally refers to development that occurs within an existing urbanized area on remnant vacant or underutilized property. For purposes of this study, infill development sites are defined more broadly to include larger, generally developed areas containing infill development sites that are being planned for new development and revitalization. These larger areas are commonly included in a specific plan or area plan that can provide information for analytical purposes and illustrate infill development challenges. In recent years numerous such infill development plans have been created around the state as part of urban revitalization efforts, transit-oriented development efforts, and more recently, as part of SB 375 implementation.

Infill Development Place Types

Infill development can occur in a wide variety of physical and market contexts. In regional planning efforts, it has proven useful to think of development possibilities referring to these contextual indicators. For example, the Association of Bay Area Government's Plan Bay Area includes the following categories (among others) for its Priority Development Areas, where future development is proposed to be focused and incentivized:

- **Regional Centers** – the region's primary Central Business Districts featuring a dense mix of housing, office, retail, and entertainment venues
- **City Centers** – Central Business Districts in secondary cities within a region
- **Suburban Centers** – mixed-use areas with typically lower densities found in smaller suburbs
- **Mixed-Use Corridors** – linear areas along well-traveled roads that may extend across jurisdictional boundaries
- **Employment Centers** – urban areas primarily developed with office and industrial uses
- **Transit Neighborhoods** – primarily residential areas that have a major transit facility

As these categories suggest, the physical, market, and political conditions vary widely among infill sites, and present different development opportunities and challenges. In a Regional Center, for example, market demand may yield high achievable price points for new development, but developable parcels and construction costs may be relatively expensive. In an Employment Center, existing roadways may be appropriate for peak-hour commute traffic, while the location lacks amenities and a walkable environment that would appeal to potential residents. In Mixed-Use Corridors, existing parcels may be very shallow and abut established residential neighborhoods, making higher-density development difficult to achieve. Further, in many potential infill development areas, underlying systemic conditions may contribute to higher crime rates, lower school performance, or other deficiencies that create challenges to attracting investors, residents, and employers.

Development Readiness

As noted above, the mix of development opportunities and constraints within specific infill development areas varies greatly in California given the State's size and the diversity of urban locations and economic conditions. Even within a single metropolitan region, individual cities infill development potential can vary substantially from area to area given highly localized conditions. Recognizing this diversity will be an important consideration in developing new funding sources and financing options. While ranking infill development areas related to their "development readiness" would result in spectrum that spans from highly ready (feasible) to not ready (highly infeasible), three broad categories of infill development can be defined:

- **Category #1 – Development Ready** – Infill areas that have strong market demand and manageable development costs. In these areas new funding sources and financing options are not essential (development is not substantially constrained by a lack of new funding sources or financing options).
- **Category #2 – Potentially Development Ready** – Infill areas with lower price points or weaker market demand and/or development costs that may make desired development infeasible. In these areas new funding and financing options may be able to offset market weakness or improve financial capacity in such a way that development becomes feasible.
- **Category #3 – Readiness Challenged** – Infill areas with little or no market demand in the foreseeable future for higher density development (e.g., mixed-use, multifamily) and/or having infrastructure needs and other development costs well above what can be conceivably funded given available sources and public or private return on investment requirements. In these areas it may be unwise to apply new funding sources or financing options simply because the desired development may not materialize due to market conditions or that aggregate public or private investment is simply not justified.

Common Infill Development Constraints

Overview of Infill Development Constraints

Recognizing and managing development constraints is an essential part of achieving infill development. These constraints are typically the subject of development feasibility analysis and related public or private interventions to improve feasibility. Accordingly, understanding the shape of an infill development site's "constraint profile" is a logical first step in the planning process. A key consideration is that certain constraints may not be overcome with additional funding or financing options, even with new financing resources. That is, development may be impeded by an insurmountable cost constraint (e.g., significant hazardous material remediation costs) or market/feasibility constraint (rents or prices below those needed to justify private investment). In infill areas with severe constraints, the well-conceived use of existing resources or even new financing options may be insufficient or ineffective. For purposes of this Study development constraints have been grouped into four categories:

- Real estate market conditions;
- Physical conditions of the area and sites;
- Regulatory and community conditions; and
- Financing constraints and fiscal conditions.

Real Estate Market Conditions

1. Market Constraints. Market constraints occur when local real estate market conditions, presently or as expected in the future, do not support the type or intensity of development envisioned or allowed by local land use policy or regional growth projections. While market prospects for multifamily and mixed-use development (the development prototypes commonly associated with infill development) have recently been and likely will remain strong in the State's metropolitan areas, conditions in outlying areas where more traditional suburban development dominates are less certain. Market demand also may lag in those infill areas with unfavorable demographic or institutional conditions, even where broader regional conditions are positive. Unfavorable market constraints are difficult to influence through policy changes and public investment. Thus it is important to conduct market analysis and understand the implications of market constraints on infill development policy objectives and recognize that urban transformation requires incremental strategic action and a long view.

   In some instances, public investment can alter market demand by addressing infrastructure or institutional shortcomings that affect the attractiveness of an area. Examples may include investments in streetscape upgrades or open space, or the removal of a nuisance activity or property. However, in other instances, little can be done to advance maturation of a market for higher density infill land uses. This may be the case where there is an ample supply of vacant existing development or developable land for lower-density and potentially lower-cost uses, or where market fundamentals show little or no improvement (e.g., population or employment growth).

2. Financial Feasibility Constraints. Financial feasibility constraints are related to market constraints but add the "hurdle" of infill development construction costs. Feasibility constraints occur when potential new development does not generate enough value (i.e., sales prices or rental values) to offset development costs that include site-related costs and the cost of construction. In combination, market and site constraints often render desired multifamily and mixed-use development infeasible from a private investment standpoint.

   The higher-density formats of infill development commonly require structured parking, either "onsite" (within individual buildings) or in public parking structures, or both simply because surface parking becomes too costly with the higher urban land values. Structured parking is expensive and adds substantially to construction costs. It is common for structured parking requirements to represent 10 to 15 percent of the construction cost of mixed-use and higher density multifamily housing as compared to 1 to 2 percent of cost in projects where surface parking is possible.[1]

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[1] Assumes units cost $300,000 and structured spaces at $30,000 to $45,000 each, versus surface parking spaces at $3,000 to $5,000 each.

Over time these financial feasibility constraints may diminish as market conditions improve, infrastructure constraints are resolved and as incremental public and private redevelopment efforts become successful. Providing affordable housing in the context of infill development presents a particular financial feasibility constraint given the substantial subsidies required in most cases to achieve desired levels of affordable housing. This is especially true where land costs are high and if affordable housing funding requirements are placed on market rate development in the infill area. Assembling an adequate, consistent, and flexible strategy for providing affordable housing subsidies will be one of the key challenges of achieving infill development throughout California.

Physical Conditions

3. Site-related Constraints. Site-related constraints occur where the development capacity of an infill site reflects the challenges of redeveloping existing urban buildings and parcels. While there are some vacant sites within infill development areas much of the infill development capacity will come from redeveloping existing commercial, industrial, or lower density residential land uses with new multifamily or mixed-use development. In many instances, small parcels with problematic configurations will require private or public parcel assembly to create larger, adequate sites for new development.

   Where the value differential between existing uses and potential future uses is high, there can be adequate private incentives to assemble infill sites. However, where the differential is low and market potential is uncertain there will be less private investment. Commonly, land owners are seeking a land price that exceeds the "residual land value" that is achievable from the infill uses being considered. In addition, displacing existing uses requires that the full value of the current use (capitalized value of rent streams) be paid, in addition to the subsequent demolition and site preparation costs. These factors often drive the overall cost of development well above vacant "greenfield" development. Further, when land is not assembled, parcel sizes may be insufficient to support infill development, and infrastructure financing challenges may arise from incongruent land development goals.

   In addition to land assembly and costs associated with dislocation/relocation of existing land uses, infill development areas also may have historical uses that deposited hazardous materials in buildings or grounds, such as sites that were previously gasoline stations, dry cleaners, or industrial sites handling hazardous materials. The cost of remediating these sites often is well beyond the existing land value and may exceed the financial capacity of even more intensive infill development. The release from liability and power to compel responsible parties to pay cleanup costs (i.e., Polanco Act powers) will be important for local governments seeking to address these site-related constraints.

4. Infrastructure Constraints. Infrastructure constraints occur when desired infill development cannot be supported due to deficiencies in major infrastructure (e.g., transportation system, public parking, water and sewer utilities, and transit services) serving the area. One of the factors supporting infill development is the opportunity to take advantage of existing infrastructure capacity. However, where basic infrastructure is dilapidated or inadequate it may require substantial public investment to improve capacity and related development readiness. In some cases such infrastructure deficiencies are so large that they exceed the development-based financing capacity of the area.

In these cases external sources of funding (e.g., citywide sources, regional and State funding, and federal funding) will be necessary to provide infrastructure within infill areas. A clear understanding of infrastructure constraints is an important part of infill development planning and site selection and should be a key focus for new funding sources and financing mechanisms.

Local jurisdictions throughout California commonly levy development impact fees and other charges to cover the cost of community-serving infrastructure including major transportation and transit improvements, parks and recreation facilities, other civic facilities, and improvements to water and sewer utilities. Infill development contributes to the demand for these improvements and thus is subject to these fees and charges adding to the cost of development and affecting development feasibility. However, not all jurisdictions distinguish between the demands created by infill development, where existing infrastructure may be adequate and greenfield development where new infrastructure is required.

Regulatory and Community Conditions

5. Political and Legal Constraints. A policy constraint occurs when the existing local land use policies (e.g., land uses, densities, and development restrictions such as height limits) do not allow the development intensity necessary to incentivize redevelopment and/or accommodate the regional housing or jobs forecasts for the area. In areas where land use policies are in place that limit infill development potential (e.g., growth management policies, height limits) a logical first step is to complete additional land use planning and revision of development regulations (e.g., preparation of specific plan) and related environmental review, consistent with desired infill development objectives. Where local political opinion opposes intensification, a common pattern in higher income suburban enclaves, such policy reforms will be difficult to achieve.

6. Community Character and Social Constraints. Infill development sites are by definition located in the context of existing urban development. Infill sites are part of the surrounding community and will be affected by and affect the community's existing or emerging pattern of land uses and related demographic and social conditions transportation facilities, and institutional conditions (e.g., quality of local schools, public safety concerns). These community conditions will affect the prospects for infill development in a variety of ways.

7. Affordable housing requirements. A key expectation of infill development is the ability to increase housing supply including that available to families with incomes at or below the area median income. The cost of achieving substantial affordable housing in infill development areas is high, simply because construction costs will exceed the average "ability to pay" of low and moderate income families. While actual "funding gaps" will vary with the depth of subsidy required and also the types of construction and tenure assumed, it is common for the average funding gap to be in the range of $100,000 to $200,000 per unit.

   In pursuit of increasing affordable housing supply, local jurisdictions have imposed inclusionary programs that require market rate developers to provide affordable units. While inclusionary policies have the potential to create the desired affordable units, the cost burden is shifted to the market-rate units and/or landowners, which affects development feasibility (or the ability to support other needed public investments).

Inclusionary affordable housing policies and related in-lieu fees or implementation measures have been under review in several recent court cases, and the future of their use in California is uncertain. Historically, redevelopment agencies also provided a significant source of funding from a mandated "set aside" of tax increment funds for affordable housing.

8. Community opposition. Because infill projects occur within existing communities and often involve displacement of some existing land uses or increase development intensity, they frequently mobilize community opponents who value the "status quo." Community opposition often is expressed in local land use policies or voter initiatives, impose zoning restrictions, or allow referenda on city council development approvals. Community opposition also expresses itself as challenges to a project's environmental approval. While not a cost item directly, the risks and delays associated with protracted community opposition can deter desired private investment in infill development projects.

   CEQA can add considerable risk to the entitlement process, a deterrent to large-scale private investment in infill areas. CEQA requires state and local agencies to identify the significant environmental impacts of a proposed development project and to avoid or mitigate those impacts, if feasible. CEQA is commonly used as the basis of litigation that opposes development projects. Litigation targets infill development projects frequently, usually on the basis of water supply, traffic, or air quality.

   A key factor in infill development planning and development regulations is achieving "regulatory certainty," a transparent regulatory environment where the private sector investors understand what is required to gain entitlements and regulatory discretion is limited as a matter of policy (e.g., use-by-right zoning). From a financial perspective there are substantial benefits to reducing the time and risk involved in the entitlement process. The value created by reducing costs and risks can be redeployed for public purposes including infrastructure funding.

Financing Constraints and Fiscal Conditions

9. Infrastructure Financing Constraints. Financing constraints occur when the cost of needed infrastructure exceeds the ability of the new development or the local jurisdiction to pay for these improvements. With the demise of redevelopment agencies and the encumbrance of land, cash assets, and bond proceeds by the successor agencies and DOF, local governments have limited authority and financing capacity to promote or pursue redevelopment projects though land assembly or subsidizing desired private development. Where market conditions are strong, the private sector typically has adequate incentive to invest. However, where market conditions are weak or development costs or risks are high, lack of redevelopment powers and public financing sources will impede infill development.

   While existing State and federal grant programs can be directed at infill development to provide additional funding (e.g., the Bay Area's OneBayArea Grant program), the amount available when compared to the infrastructure investments required will not be anywhere close to the cumulative needs.

10. Fiscal Constraints. Fiscal constraints occur when local jurisdictions cannot support the additional costs of maintaining the infrastructure or providing municipal services needed by new development. This issue is of particular concern now, given a historical drain on local fiscal resources imposed by State government and Constitutional amendments combined

with the persistent fiscal effects (reduced tax flows to local government) attributable to the recent recession. At a minimum, fiscal constraints reduce the incentive for local governments to accommodate new development (in infill area or elsewhere). While compact urban development is inherently more efficient and more easily provided with municipal services, local governments will need support with improving the efficiency of municipal services and increasing the local tax base.

5. EXISTING FUNDING AND FINANCING

This chapter identifies and evaluates existing local government funding sources and financing mechanisms. The limitations associated with the existing funding sources and financing mechanisms creates the basis from which this study considers modified and new funding sources, financing mechanisms, and related governmental reforms. The chapter commences with an overview of economic and fiscal trends in California and closes with a program of "best practices" for infill development financing.

Overview of Economic and Fiscal Trends

As a preface to the consideration of new funding sources and financing mechanisms, it is useful to consider the broader trends influencing municipal infrastructure financing in California. Economic, fiscal, and political trends over the past several decades, beginning with Proposition 13 in 1978, have sowed the seeds for the revenue constraints (relative to service costs) now facing California's local jurisdictions. These trends, as summarized below, compounded with the lingering effects of the Great Recession, have led local jurisdictions to a range of coping strategies that strain their ability to maintain existing, let alone invest in new, infrastructure. The ability of local jurisdictions to pursue infill development has been directly influenced by these trends.

- Shift of financing responsibilities to local governments. During the past three decades there has been an increasing shift of infrastructure financing responsibilities from State and federal government to the local level. Many grant programs that once funded major highway improvements and water and sewer infrastructure improvements have been abandoned.

- Advent of Constitutional and statutory restrictions on municipal revenues. Beginning with the "tax revolt" that resulted in Proposition 13 in 1978, voters (through voter-approved ballot initiatives) and the legislature have continued to restrict the ability of local governments to raise revenues for general or special purposes. In 1996, Proposition 218 effectively eliminated the use of Assessment Districts in California. This trend continues to the present with the State's elimination of Redevelopment agencies in 2012.

- Increasing public expectations regarding municipal levels of service and infrastructure standards. Citizens have come to expect high standards for the quality and function of infrastructure (e.g., traffic congestion thresholds) and cities have often embedded these standards in planning documents, such as General Plans and other policy documents. These higher standards are sometimes necessary to assure the sustainability of infrastructure.

- Increasing federal and State regulatory standards and mandates. The lack of funding from federal and State government has not slowed the growth in mandates related to water quality, habitat conservation, pollution controls, and other requirements that have increased cost burdens on local governments. Compliance with these mandates results in expenditures that compete for resources needed for other local services and infrastructure.

- Linking infrastructure to growth management policies. State law mandates that cities need to demonstrate how projected growth will be accommodated by their respective General Plans, including mitigation for impacts (e.g., traffic) through infrastructure investment. However, California has never established a statewide "growth management" policy, as seen in other states (e.g., Washington and Florida), local jurisdictions have imposed a range of land use regulations, including urban limit lines, growth rate caps, and infrastructure concurrency policies. These policies often are explicitly linked to concerns regarding the costs of infrastructure and the impact on other aspects of local quality of life. However, growth controls also can inhibit economic development and create unintended negative fiscal consequences, including reduced impact fee revenue and other development-related revenues.

- Market and financial effects of the 2009-08 recession. The "Great Recession," while officially over, has had persistent effects on real estate markets and related (public and private) financing. Reduced market values and tighter credit standards have affected both consumers and producers of real estate assets. Effects rippled to local jurisdictions through lower property tax receipts, and also reduced the funding that can be collected through development impact fees and other fees and taxes. In some cities, disproportionately high development fees, resulting from dramatic market declines, also have affected housing development feasibility.

Existing Funding Sources and Financing Mechanisms

The infrastructure and development funding and financing options currently available to California cities fall into four general categories, which include:

- Developer-Based Funding;
- Land-Secured Funding and Financing;
- City Funding and Financing; and
- State and Federal Programs.

The following section describes each of the funding sources and financing mechanisms that fall under these general categories. Without Redevelopment, development-based funding, including citywide and area development impact fees, project-specific exactions, private financing, and land-secured taxes and debt, are the primary tools for funding new development-required infrastructure. These sources may be augmented with local sources that offer "bridge" financing and/or provide funding for specific infrastructure projects.

Developer-Based Funding

Development Impact Fees

A development impact fee is an ordinance-based, one-time charge on new development designed to cover a "proportional-share" of the total capital cost of necessary public infrastructure and facilities. The creation and collection of impact fees are allowed under AB-1600 as codified in California Government Code Section 66000, known as the Mitigation Fee Act. This law allows a levy of one-time fees to be charged on new development to cover the cost of constructing the infrastructure needed to serve the demands created by the new development. To the extent that required improvements are needed to address both "existing

deficiencies" as well as the projected impacts from growth, only the portion of costs attributable to new development can be included in the fee. Consequently, impact fees are commonly only one of many sources used to finance a city's needed infrastructure improvements. Fees can be charged on a jurisdiction-wide basis or for a particular sub-area of the jurisdiction (such as a specific plan area).

- ***Establishment.*** Development impact fees can be imposed through adoption of a local enabling ordinance supported by a technical analysis showing the "nexus" between the fee and the infrastructure demands generate by new development. Fees may be charged for a particular improvement (e.g., transportation improvement) or include multiple infrastructure improvement categories in a comprehensive program. Impact fee programs must be reviewed annually and updated periodically to assure adequate funding and proper allocation of fee revenues to the infrastructure for which the fees are collected.

- ***Who Pays?*** The burden incidence of development impact fees is upon the developers and builders who pay the fees. Fees are a cost of development and are "internalized" into project costs in the same manner as all other development- and construction-related costs. There is no direct effect of fees on development pricing, because the markets set pricing independent of costs. However, when costs are too high for the "market to bear," development may be deterred until such time as prices justify costs. All costs will influence land value, so it is often the case that landowners bear a portion of the cost of fees through lower land values (prices paid by developers or builders). While individual circumstances will vary, industry experience has shown that the aggregate cost for off-site infrastructure generally should not exceed approximately 10 to 15 percent of total development sale value. That is, so long as total development costs fall within a reasonable level, potential negative effects on development feasibility effects are manageable. This concern has taken on increased importance in the wake of the recent recession.

- ***Economic Considerations.*** There are a number of specific economic considerations of development impact fees including:

  — The effects of fees on the financial feasibility of new development and potential to deter otherwise desirable development (due to excessive costs).

  — The competitiveness effects of higher development costs (compared to neighboring jurisdictions) leading to dislocation of desired development.

- ***Benefits***. Impact fees provide a comprehensive and programmatic framework for identifying and allocating infrastructure costs to new development based on rational nexus allocations. There is no discretion on the part of those subject to the fees nor is voter approval required.

- ***Limitations.*** The key limitation of development impact fees (in addition to the burden limit) is the timing of funding. Infrastructure is often needed "up-front" while fees are paid over time as development occurs. This means that other funding or financing methods are needed to close the timing gap. Fees also are irregular, as they depend on development activity that varies with economic conditions. During the recent recession, when development around the State slowed dramatically and prices fell precipitously in many locations, fee programs were seriously undermined. The timing of fee revenues that flow as development occurs often over many years is often not consistent with the timing of needed

infrastructure improvements. Fees also require ongoing management including annual review, fund accounting, and updating to assure the efficacy and transparency of the fee program.

- ***Increasing Flexibility of Fees.*** Related to the economic concerns discussed above, it is important to recognize that there are methods for moderating or deferring fees. Though individual development impact fee ordinances must be consistently applied and coordinated, they may contain features that can reduce potential negative economic effects and thus not unnecessarily inhibit otherwise desirable development. Also, there can be features of development impact fees that address economic concerns generally or on a case-by-case basis.

  — Fee Deferrals. While the statute allows a levy of fees at issuance of building permit, many development impact fee ordinances allow a deferral until the "certificate of occupancy" is issued.

  — Fee Waivers. Fee waivers provide the local government the ability to waive the fee for a particular project when it is determined that without such reduced costs a project that has substantial public benefit may otherwise not occur. Lacking such community benefits, waivers may be regarded as a "gift of public funds." Examples of such partial or total waivers include projects with the potential to generate substantial municipal revenue or amenities, affordable housing projects, and employment-generating uses. Fee waivers reduce funding in a fee program proportional to the aggregate amount of waivers or exemptions granted. Such revenue reductions must be "made up" by the city from other funding sources, or risk not being able to build the infrastructure for which the fee was levied.

  — Credits and Reimbursements. Credits and reimbursements are mechanisms that allow developers subject to an impact fee to build infrastructure in-lieu of paying the fee and receiving a proportional credit for the value of that construction against the fee obligation. Reimbursement would occur in the case where construction value actually exceeded the particular developer's fee obligation.

  — Short-Term Fee Financing (interest bearing installment payments). Ordinances can provide for a developer to pay fee obligations over a period of time subject to an interest bearing and secured note.

Private Financing, Agreements, and Partnerships

Developers commonly fund infrastructure requirements privately, for example virtually all "in-tract" improvements (infrastructure improvements within a given subdivision) are privately financed. In some cases area-serving infrastructure (not fully the responsibility of a particular developer) can be privately financed. These cooperative arrangements are typically structured in development agreements or reimbursement agreements. This upfront infrastructure development may be fully or partially refunded, using subsequently collected development impact fees, special tax bond proceeds, or other city funding sources. These arrangements tend to be available during times of strong market performance. In weaker markets or locales it may be difficult to obtain such private financing.

- ***Developer (Project-Specific) Conditions and Exactions.*** Before the advent of ordinance-based development impact fees, it was common for infrastructure to be funded by project-specific "exactions," payments or construction of infrastructure required as a condition of subdivision or project approval. While development impact fees have reduced the use of exactions, exactions remain an important part of development-based infrastructure financing as there are often infrastructure requirements of a new project that are not included in the applicable fee programs. Determination of the need for such additional infrastructure is based on "rough proportionality" (i.e., nexus) with the development itself and is often derived from CEQA-based mitigation measures.

- ***Development Agreements.*** A development agreement (DA) is a legally binding agreement between a local government and developer authorized by State statute (Government Code Section 65864 et seq.). A DA is a means for a developer to secure a development entitlement for a particular development project for an agreed upon period (often long-term approvals) in exchange for special considerations for the city (or county), generally including infrastructure improvements or amenities or other community benefits that cannot be obtained through the normal conditions applicable to the project. DAs are entirely discretionary on the part of local government (there is no nexus requirement) and must be individually adopted by local ordinance. Cities often establish their own policies and procedures for considering development agreements.

- ***Developer Funding Secured with Fee Credits and Reimbursements.*** Pursuant to terms of a development impact fee, a specific development exaction, or a development agreement, a developer may build and/or or directly fund infrastructure improvements and receive a credit against any formal fees or charges otherwise due. A developer also may receive reimbursement when the amount expended exceeds any fees or charges otherwise due. Such agreements effectively make use of private credit available to the developer to fund municipal infrastructure, subject to repayment from one or another municipal source of funding. Typically, repayment of reimbursable investments made by a developer is derived from future development impact fee revenue paid by other benefitting landowners or developers.

- ***EB-5 Funding***. In infill development locations with strong opportunities to create new jobs it may be possible to attract EB-5 investment from immigrants. EB-5 (i.e., the Immigrant Investor Program) was created by Congress in 1990 to stimulate the US economy through job creation and capital investment by foreign investors. Under the program, US visas are set aside for investors that support projects to promote economic growth.

- ***Incentive Zoning***. Land use regulations can be configured in a manner that can provide incentives for additional private investments in local infrastructure and community benefits beyond that obtainable through the normal regulatory procedures. Transfer of development rights and density bonus provisions are examples of such programs.

Land-Secured Funding and Financing

Special Benefit Assessment Districts and Community Facilities Districts

There is a long history in California and elsewhere in the United States of using land-secured financing methods to fund local infrastructure or provide services that benefit a particular area (ranging from an entire jurisdiction to sub-areas of all sizes). Traditionally, special assessment

bonds as authorized by the Improvement Bond Act of 1915 and other related legislation were issued and funded by annual property tax assessments from benefitting properties. Increased voting requirements created by Proposition 218 largely eliminated the use of Special Benefit Districts in the mid-1990s. However, since the mid-1980s the Mello-Roos Community Facilities District (CFD) has been a well-used infrastructure finance tool, though it is not well suited for most infill applications.

- ***Establishment.*** California's land-secured funding districts can fund a wide range of infrastructure improvements that generate direct and measurable benefits to specific properties. The districts require (resident) voter or landowner approval. In the case of assessment districts, majority landowner approval is typically required. In the case of a CFD, a two-thirds voter approval is needed in areas that have more than 12 residents (landowners can approve special taxes in areas with 12 or fewer residents).
- ***Who Pays?*** The owners or users of real property pay assessments or special taxes. By adding to the cost of ownership, the assessment or tax may affect the price a buyer is willing to pay for a home or commercial property, in which case the cost incidence is shared with the builder, land developer, or landowner. However, experience suggests that less than 100 percent of the financing burden is recognized by buyers.
- ***Benefits***. Land-secured financing provides a well-established method of securing relatively low-cost tax exempt, long-term, fixed rate, fully-assumable debt financing.
- ***Limitations***. There can be challenges associated with establishing measurable and specific benefits to particular properties. In addition, land-secured financing adds financing costs such as the cost of issuance and program administration. Further, the financing capacity of a district may be limited in early phases of development and it may be necessary to rely on other sources of infrastructure funding during initial years. Also, while land secured financing has been widely used in greenfield development where landowner approval is the norm, infill development areas are mostly inhabited, thus requiring the challenge of achieving a two-thirds voter approval.

Special Benefit Assessment Districts

Special benefit assessment districts are a way of creating a property-based assessment upon properties that benefit from a specific public improvement. The formation of assessment districts requires majority approval of the affected property owners. Benefit assessments can fund a wide range of infrastructure improvements so long as a direct and measurable benefit can be identified for the benefitting properties. There are numerous forms of special benefit assessments in the California statutes, including the Municipal Improvement Act of 1913, Lighting and Landscape Maintenance Districts, and others. In 1996, Proposition 218 effectively eliminated the use of Assessment Districts in California by limiting the methods by which local governments may exact revenue from taxpayers without their consent. In addition, recent court rulings (Silicon Valley Taxpayers' Assn., Inc. v. Santa Clara County Open Space Authority, 44 Cal. 4th 431 (Cal. 2008)) have tightened the requirements for demonstration of "special benefit" thus further reducing the flexibility and utility of assessment districts. Most recent land-secured financings have been Mello-Roos CFDs.

Community Facilities District Act

The Mello-Roos Community Facilities Act of 1982 *(authorized by Section 53311 et. seq. of the Government Code)* enables the formation of a CFD by local agencies, with two-thirds voter approval (or landowner approval in when there are fewer than 12 registered voters in the proposed district), for the purpose of imposing special taxes on property owners. The resulting special tax revenue can be used to fund capital costs or operations and maintenance expenses directly, or they may be used to secure a bond issuance, the proceeds of which are used to fund capital costs. Because the levy is a tax rather than an assessment, the standard for demonstrating the benefit received is lower, thus creating more flexibility. CFDs have become the most common form of land-secured financing in California.

As special taxes and tax overrides approach or exceed ½ percent of assessed value annually, on top of the basic one percent property tax rate, there is a heightened risk of value impacts shifting to home and land prices (which offsets benefits associated with the additional special taxes). Cities using CFDs often adopt policies that regulate how they are used and the various limits and considerations to be applied in creating CFDs.

City Funding and Financing

Cities have a number of ways in which they can raise money for capital projects, including seeking voter approval of general obligation bonds or special tax bonds, use of enterprise revenues for enterprise investments (e.g., water and sewer utilities), and through "capitalizing leases" funded with general fund revenue sources. Cities also have discretion over the use of various State and federal grant program funds that continue to be available.

General Obligation Bonds

A general obligation bond is a type of municipal bond that is secured by a state or local government's pledge to use legally available resources, most typically including property tax revenues, to repay bond holders. General obligation bonds are restricted to defined capital improvements. Because property owners are usually reluctant to risk losses due to unpaid property tax bills, credit rating agencies often consider a general obligation pledge to have very strong credit quality and frequently assign them investment grade ratings. If local property owners do not pay their property taxes on time in any given year, a government entity is required to increase its property tax rate by as much as is legally allowable in a following year to make up for delinquencies. In the interim between the taxpayer delinquency and the higher property tax rate in the following year, the general obligation pledge requires the local government to pay debt service coming due with its available resources. In California, cities must secure a two-thirds voter approval to issue general obligation bonds.

- ***Establishment.*** Creation of general obligation bonds requires two-thirds voter approval if the issuance is for non-educational purposes.
- ***Who Pays?*** The incidence of burden of general obligation bonds is upon all property owners in the issuing jurisdiction proportional to the value of their property. It is this very broad base of funding that provides excellent security for general obligation bonds, thus typically garnering the lowest interest rate of any municipal debt instrument.
- ***Benefits.*** General obligation bonds allow public entities to finance at a low fixed rate over the useful life of the asset.

- ***Limitations.*** General obligation bonds are limited to capital improvement expenditures and are also limited in their use to the precise purposes outlined in the authorizing ballot measure. General obligation bonds are commonly restricted to particular capital uses (e.g., street improvements, drainage improvements, parks and recreation).

Revenue Bonds

Cities and other local governments typically issue revenue bonds when they have access to a stable source of revenue such as municipal utility rates. Commonly, revenue bonds fund improvements to water and sewer facilities. Utility rates that fund revenue bonds can vary within a given jurisdiction if there are substantial differences in the costs of providing services. There also can be rate surcharges if unique improvements are needed to serve the area.

- ***Establishment***. Revenue bonds are issued by the municipal enterprise and require no voter approval. Revenue bonds may provide improvements for an entire jurisdiction or a sub-area.
- ***Who Pays?*** The incidence of burden of revenue bonds is upon rate payers.
- ***Benefits***. Revenue bonds have a good risk profile and therefore garner comparatively low interest rates. Because they are secured exclusively by enterprise revenue they are not general obligations of the city and they do not require ballot approval. The ability to adjust rates to cover debt service costs and the ability to charge such rates differentially (given differing costs and benefits in service sub-areas) creates flexibility and appropriate cost allocation.
- ***Limitations.*** Revenue bonds are limited to enterprise-related expenditures and to the precise purposes outlined in the authorizing bond instrument. Revenue bonds also are limited by the rate base, as utility rates must conform to Constitutional and statutory requirements (e.g., Proposition 218).

Parcel Taxes

Citywide parcel taxes can be imposed with voter approval to fund municipal services and infrastructure. They can provide a broad-based source of funding for citywide-serving services and infrastructure. Due to the voter approval requirements and similar to general obligation bonds, jurisdiction-wide parcel taxes or special taxes are typically only successful if they fund highly desired services and improvements, such as improved public safety services. Parcel taxes differ from general obligation bonds in that they can be used for maintenance and operations and they are not levied “ad valorem” (i.e., they typically have a flat or escalating rate structure applied to particular classes of properties).

- ***Establishment.*** Parcel taxes, if used for general purposes, can be imposed with majority voter approval. If used for special purposes, parcel taxes will require two-thirds voter approval. They may be used for funding ongoing services or pledged to debt service.
- ***Who Pays?*** The incidence of burden of parcel taxes (and special taxes) falls upon property owners. Typically such taxes are “flat rate” charged per parcel, sometimes with use-related variation and exemptions.
- ***Benefits.*** Parcel taxes (and special taxes) create an opportunity for voters to decide to pay for municipal services or facilities that they deem important. With a broad funding base and strict allocation rules, the taxpayers can assure that funding will be used as intended.

- ***Limitations.*** Parcel taxes (and special taxes) are limited to the purposes for which they were approved. They also are commonly subject to a "sunset" date, and thus must be re-authorized periodically to maintain funding.

Sales Tax and Other Local Taxes Linked to Municipal Credit and Financing

Subject to a vote, cities and counties can use a variety existing or new funding sources to fund infrastructure directly or provide interim financing for developer-based obligations. For example, local sales tax increases, transient occupancy taxes, utility user taxes, development taxes, and (local option) real estate transfer taxes (Charter cities only) all can be created or increased for this purpose. By enhancing General Fund revenues, the city gains the ability to divert some funds to infrastructure projects. A commitment to fund specific types of projects can be made in the ordinances that create new taxes or can be made as a matter of city policy. City funding can be used to fund infrastructure using a "pay-as-you-go" approach, as a source of reimbursement, or to support a municipal bond issue (e.g., to fill an initial funding gap associated with development impact fee programs or land secured financing programs).

- ***Establishment.*** Creation of new general or special revenues and any related issuance of bonds supported by such revenues are limited by State Constitutional requirements and statutes that require voter approval of greater than 50 percent for general taxes and two-thirds approval for special taxes (i.e., those earmarked for particular uses).

- ***Who Pays?*** The incidence of burden of taxes or rates is upon those paying. For example, sales taxes are paid by residents, businesses, employees, and visitors, while transient occupancy taxes are paid by visitors. The rationale for funding is that these residents, businesses, employees, and visitors will benefit from the investments made in infrastructure and development.

- ***Benefits.*** Use of various general fund sources to support infrastructure investments including repair and replacement of existing infrastructure, as well infrastructure that serves new development, requires little additional administrative effort and is typically secure given the broad range of revenue sources pledged to the financing.

- ***Limitations.*** Use of existing General Fund revenue is limited by current demands to support municipal operations. Issuing bonds (i.e., capitalizing general or special taxes) typically involves voter approval. Certificates of participation (described below) offer a means for raising capital without triggering the voting requirement.

Capitalizing Leases

Capitalizing leases, most commonly Certificates of Participation, are typically used by government agencies for construction or improvement of public facilities. By use of a lease-type repayment structure, the monies needed to fund these building projects do not (by California State law) constitute public debt and do not require voter approval. Usually, a public entity enters into a tax-exempt lease-purchase with a lessor and the lessor provides the agreed-upon the public facility. As new financing needs emerge and market conditions change, government agencies often find that their leasing powers provide more expedient access to the capital markets than the more restricted powers to incur debt. Cities can use capitalizing leases to provide upfront funding for projects needed to facilitate economic development, for example providing "bridge" financing for an infrastructure project.

Private Placement

Private placement is the sale of securities (e.g., revenue bonds) to a relatively small number of select investors. Given current financial markets, municipal financial advisors have found that structuring private placement municipal debt is competitive with more traditional municipal bond offerings. Investors involved in private placements are usually large banks, mutual funds, insurance companies and pension funds. Unlike a public issuance, securities are not made available for sale on the open market and in many cases detailed financial information is not disclosed and the need for a prospectus is waived.

Infrastructure Financing Districts

Local agencies can establish an IFD for a given project or geographic area of the jurisdiction. The IFD captures incremental increases in property tax revenue from future development otherwise accruing to the city's General Fund that can be used for funding project-related infrastructure. Current law is restrictive, making IFDs difficult to enact. However, a number of legislative proposals (e.g., SB 628) seek to modify IFD law. IFDs may become more viable funding and financing mechanism in the future, particularly if inter-agency partnerships improve the amount of increment financing available.

- ***Establishment.*** The establishment of an IFD requires approval by every local taxing entity that will contribute its property tax increment and also requires two-thirds voter approval (within the specific geographic area) to form the IFD.
- ***Who Pays?*** The incidence of burden of an infrastructure financing district is the property owners paying the property taxes. However, since the property tax "increment" is diverted to the IFD, and is not available to the city general fund, the city at large also "pays" by foregoing property tax revenue.
- ***Benefits.*** IFDs, similar to a redevelopment agency TIF, redirect property taxes otherwise accruing to the city to support new development. The value created by the project is captured and invested in a manner that helps realize the project.
- ***Limitations.*** Only limited types of public capital facilities that offer communitywide significance may be financed through an IFD. IFDs cannot be used to finance operations and maintenance expenses. Unlike former redevelopment TIF, IFDs only can utilize local government's share of property tax (along with other agencies who agree to forego their share of tax increment).

Proposed Legislation

The leading legislative proposal for revisions to State IFD law is SB-628 (enhanced infrastructure financing districts). Similar to predecessor proposals including Governor Brown's proposed Budget Trailer Bill Language, the proposal expands IFD-eligible projects considerably lowers the voter threshold to pass an IFD bond from two-thirds to 55 percent. In addition, under SB-628 enhanced infrastructure financing districts could be formed and could use a range of existing financial tools without a vote. Unlike prior TIF/Redevelopment law in California, IFDs do not provide access to property tax revenue beyond the local jurisdiction's share (AB-8 tax allocation).

While any tax increment, no matter how small, could benefit a marginally financially feasible project, it is important that in most cases local property tax available is very limited (California City's typically get between $0.10 and $0.20 of a property tax dollar). The case study analysis (**Chapter 6**) exhibits local tax shares that range from about 6 percent to 26 percent. Perhaps more importantly, the use of local property tax to support infrastructure financing has fiscal implications for California cities. Dedicating tax revenue to infrastructure limits funding for new public services costs associated with development.

It is important to note that the potential of IFDs (as currently legislated or amended as proposed) is limited in comparison to historical redevelopment powers. Beyond the relatively modest amount of funding that may result from IFDs, key redevelopment powers had included the ability to assemble land and to enter into contracts with the private sector (i.e., Downtown Development Authorities and Offices of Public Affairs). Additional local empowerment could greatly contribute to achieving desired sustainable land use-related objectives.

State and Federal Programs

Grant Programs

Local and regional government entities participate in a range of State and federal grant programs, competes for special grants, and cooperates with agencies (e.g., CalTrans) on specific improvements to the roads and transit. These grant programs and cooperative efforts, while mainly focused on maintenance of existing infrastructure, can be managed in a way that supports revitalization and economic development efforts.

State Infrastructure Bank

The I-Bank was created in 1994 to finance public infrastructure and private development that promote a healthy climate for jobs, contribute to a strong economy and improve the quality of life in California communities. The I-Bank operates pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act (Government Code Sections 63000 et seq.). The I-Bank is administered by the Governor's Office of Business and Economic Development and is governed by a five-member Board of Directors. Since its inception, the I-Bank has financed more than $32 billion in infrastructure and economic development projects around the State.

The I-Bank has broad authority to issue tax-exempt and taxable revenue bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities, and leverage State and Federal funds. The I-Bank's current programs include the Infrastructure State Revolving Fund (ISRF) Program, 501(c)(3) Revenue Bond Program, Industrial Development Revenue Bond Program, Exempt Facility Revenue Bond Program and Governmental Bond Program. The ISRF Program provides very low-interest rate loans up to $25 million (per applicant) to municipal governments for a wide variety of municipal infrastructure, including infrastructure needed to serve new development. An application is required for these loans, and loans require a stable and reliable source of repayment. If approved, loan repayment can be funded through a commitment of city general fund revenues or a pledge of a particular revenue source, including a citywide tax, land secured assessment, or special tax levied on a particular area.

Common criticisms of the I-Bank ISRF Program have included its cumbersome program application process, its strict credit standards and related risk aversion, and limited financial incentive to participate. However, recent changes to the program may increase I-Bank lending

to cities without other credit options. Pursuing further opportunities to modify or expand the Program, or to create an entirely new program, could make State-sponsored lending a useful tool for assisting and incentivizing infill development.

Statewide Community Infrastructure Program

The Statewide Community Infrastructure Program (SCIP) is a program of the California Statewide Communities Development Authority that makes use of a local government's ability to create land-secured financing districts. The Program "pools" debt obligations to gain a comparatively lower interest rate and issuance costs (particularly if the issue is small). SCIP benefits developers because it provides low-cost, long-term financing of fees and improvements, which can otherwise entail substantial upfront cash outlays. Local agencies benefit from SCIP because it encourages developers to pay fees upfront (more so than they otherwise would). Further, the availability of low-cost, long-term financing also softens the burden of rising fees and improvement costs, which benefits developers and local agencies.

The California Statewide Communities Development Authority is a Joint Powers Authority sponsored by the League of California Cities and the California State Association of Counties. Membership in the Authority is open to every California city and county, and most are members. SCIP financing is available for development projects situated within cities or counties (local agencies) which have elected to become SCIP participants. Eligibility to become a local agency requires only (a) membership in the League of Cities or California State Association of Counties, (b) membership in the Authority, and (c) adoption of a resolution making the election (the "SCIP Resolution").

Participation in SCIP entails the submission of an application by the property owner of the project for which development entitlements either have been obtained or are being obtained from a local agency. For projects determined to be qualified, SCIP provides non-recourse financing of either (a) eligible development impact fees payable to the local agency or (b) eligible public capital improvements (or both). Under certain circumstances, determined on a case by case basis, development impact fees payable to local agencies also may be used as repayment for upfront SCIP funding.

SCIP funding awards are aggregated for inclusion in a round of financing authorization. Periodically, as warranted by the accumulation of approved funding applications, the California Statewide Communities Development Authority issues tax-exempt revenue bonds. For projects involving a sufficient amount of financing (generally $5 million or more), a special series of bonds may be issued to fund the project separately if the timing of issuance of a pooled financing does not suit the project. Revenues to pay debt service on the SCIP bonds are derived from special assessments pursuant to the Municipal Improvement Act or through the levy of special taxes by establishing a CFD pursuant to the Mello-Roos Community Facilities Act.

Best Practices for Development Planning and Infrastructure Financing

The preceding discussion of funding sources and financing mechanisms occurs in a context of city fiscal policy, urban planning, capital improvement requirements, and municipal finance. These various facets of urban land development and growth should be aligned to assure that State and local policy objectives are achieved. New funding sources and financing mechanisms are one

part of this broader effort and should be integrated into city strategies with regard for sustainable community planning (General Plan and specific plan policy fulfillment) and economic development objectives. Further, efforts involved in the creation and ongoing administration of funding sources and financing mechanism also must be considered in light of local government resource constraints, specifically the need to sustain current operating budgets and related long-term liabilities.

Given these considerations infill development should be pursued in a coordinated and methodical approach that incorporates economic and market analysis, refining land use policy and regulatory requirements, strategic infrastructure investments along with financial analysis and the related implementing actions.

Such an approach to development planning and infrastructure financing includes seven primary steps:

1. Economic evaluation of the area plan
2. Area plan cost and feasibility analysis
3. Value added and cost management adjustments
4. Funding and financing policies and options
5. Preparation of area financing strategy
6. Implementing actions
7. Monitoring, reporting, and updating

Each of these steps is described in detail below.

1. Economic evaluation of the area plan

An economic evaluation of the planning area should be conducted, ideally as a part of plan-making. The economic evaluation should document market trends and likely values of the plan as it is realized, document the general set of infrastructure improvements and any extraordinary development costs (e.g., land assembly) that can influence development economics. The evaluation also should analyze future fiscal effects (municipal service costs and revenues) and also the range of broader economic benefits (e.g., jobs, sales, household income, multiplier effects). This information is fundamental to subsequent feasibility analysis and determining the appropriate financing strategy. This economic information also provides a basis for subsequent fiscal and financial analysis and a determination of the economic benefits of development.

2. Area plan cost and feasibility analysis

Once the plan land use capacity and mix of uses are quantified, market information is available, and basic infrastructure items (and other site-related development costs) are generally identified, a more detailed cost analysis can be conducted. The cost analysis combined with the quantification of potential real estate value (combining land use capacity and market prospects) allows a development feasibility analysis. Such feasibility analyses can determine the ability of a project or a plan area to fund necessary infrastructure and, if funding falls short, the magnitude of funding “gaps” that may exist. This information,

combined with the economic evaluation previously prepared, provides the basis for making adjustments to the project or plan (i.e., increasing value or decreasing costs) and formulating an informed financing strategy.

3. Value added and cost management adjustments

Feasibility analysis provides a basis for reconsidering the project or plan in question and its policies, especially those policies affecting "value creation" or conferring development costs. If feasibility challenges are identified it may be necessary to make changes that: 1) increase a plan's real estate value (e.g., higher densities) through the provision of development incentives that improve the project or plan's ability to fund necessary infrastructure; 2) reduce costs by altering the basic infrastructure improvement program or other policy-based development costs; or 3) apply the funding and financing techniques discussed above in a manner that offsets development costs.

4. Funding and financing policies and options

Given the need for infrastructure in newly developing and revitalization areas and related economic development objectives and economic limitations, it is necessary to assure that the most efficient and cost-effective mechanisms are applied in tapping development-based sources of funding. In cases where feasibility challenges are met despite best practices it may be necessary to augment development-based funding sources and financing with additional sources of funding along with other incentives if sought-after revitalization and commercial and industrial development is to occur.

5. Preparation of area financing strategy

A financing strategy for a given project or area or specific plan would synthesize the above technical analyses into the necessary policy guidance, financing framework, and implementation program. Such financing strategies are normally an integral part of specific plans as required by State Planning Law. Setting precise guidelines for the form and content of such strategies can assure that they adequately address economic, financial, and fiscal issues related to specific plan development.

6. Implementing actions

The financing strategy would provide policies, and a financing framework, and identify the specific actions necessary to implement the funding of local and related citywide infrastructure in a manner consistent with broader City policy and economic development objectives. There are implications associated with a higher level of City involvement in development-related infrastructure financing. For example, the activities outlined in the program (e.g., enhanced levels of economic, fiscal, and financial analysis as a part of plan making) and ongoing administration of the financing program components and plan-related implementation efforts require substantial staff time and other expenses that must be anticipated and funded as a part of the overall program.

7. Monitoring, reporting, and updating

Development of an area typically plays out over an extended period of years. Thus, following completion of the implementing actions it is necessary to monitor the financing strategy components to assure they are performing as expected. Changing circumstances (e.g., market conditions, developer proposals, etc.) often are inconsistent with forecasts or what may have been expected thus requiring adjustments to the program. Reporting also is necessary, as may be required by statute (e.g., Gov't Code Section 66000 et seq.) or by local policy. Finally, if adjustments are in order, amendments to the area plan or altering or remixing funding and financing mechanisms may be required.

6. CASE STUDIES

The case studies (infill development test cases) were selected from infill development plans around the State, including downtown revitalization and TOD plans. The selected case studies illustrate a range of challenges associated with infill development, and provide insight into local needs for infill funding and financing tools.

A key concept presented in this study is that infill areas fall along a diverse spectrum related to their development feasibility, including:

1. Areas with strong market potential and/or limited development constraints;
2. Areas with moderate market potential and/or more substantial development constraints; and
3. Areas with very limited market potential and/or very high development constraints.

The case studies selected generally reflect the second category, in which new and improved tools may be instrumental in supporting infill development (i.e., "but for" the funding/financing, infill development would not occur). Infill sites in the first category typically need little or no additional (public) resources. Sites in the third category face such significant hurdles that reasonable additional public investment likely will not achieve the desired market response.

This chapter presents the case study investigation, including analytical findings and contextual detail. The focus of the analytical work is on market viability and the sufficiency of funding and financing for the desired or necessary infrastructure investments. The analytical findings are summarized below, followed by detailed analysis of each case study, including citywide socioeconomic and real estate conditions, basic plan area infill development trends and constraints, as well as illustrative calculations of infrastructure funding and financing.

The selected case studies include:

I.	Concord Downtown	Suburban Center
II.	Fresno Downtown	Regional Center
III.	Sacramento River District	Regional Center
IV.	Southgate	Transit Neighborhood

Figure 2 Case Study Map

Source: ESRI and Economic & Planning Systems

Measuring Infill Development Feasibility and Financing Capacity

This examination of new funding and financing options, including the reintroduction of a form of TIF, relies on quantitative assessment of feasibility and funding capacity metrics. These quantitative metrics evaluate infrastructure funding and financing capacity relative to funding need, determined through a review of current planning documentation.

The discussion of new financing options at the State level is currently focused primarily on potential modifications to existing IFD legislation (i.e., Government Code Section 53395). The IFD is a TIF program that allows a public district to bond against their property tax increment (new tax revenue above an established base). Unlike prior TIF legislation in California (Redevelopment law), the IFD does not provide any access to property tax revenue beyond the local jurisdiction's share (AB-8 tax allocation) or other powers, such as condemnation. The case study analysis estimates the potential value of a local IFD.[2] In addition, there is a quantitative analysis of Special Tax capacity and overall infrastructure burden.

The quantitative outputs from the case study analysis, which measure the potential for infill development in the context of local real estate market, financial, urban planning, and infrastructure requirements, are *illustrative*. The methodology relies on a "static analysis" of tax revenue (i.e., a snapshot of the project/plan area at buildout). The analysis does not evaluate tax revenue and bonding capacity over time.[3] That is, the analysis does not directly address the capacity of financing tools to provide upfront infrastructure investment funds. For example, while TIF can provide some funding capacity early on, revenues are limited. Without new development, assessed values still appreciate over the base year value creating some incremental tax revenue. The focus here is on providing a snapshot of funding capacity, within the context of a Specific Plan or Strategic Plan.

To assess the potential of a local TIF, the analysis provides a calculation of basic property tax revenue that reflects California's standard 1 percent property tax rate, consistent with Proposition 13, then applies an appropriate local "tax allocation factor" (i.e., the local jurisdiction's share of the base property tax) to determine the annual property tax revenue accruing to the local municipality. This local tax revenue estimate informs the bonding capacity projection for each case study. A separate calculation considers the potential funding capacity of a Special Tax, assumed to be ¼ percent of property value annually. Further, the analysis relies on a "rule of thumb" (established from decades of economic analysis of land development) that an infrastructure program cost burden of 10 to 15 percent of the finished value of the real estate program is supportable, to evaluate the infrastructure need in relation to the infill development program. This 10 to 15 percent threshold is a high-level gauge of potential infrastructure cost burden, and reflects the full range of financing mechanisms that are typically brought to bear,

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[2] Note that the analysis was conducted before the May revision of the IFD legislation and does not reflect any potential funding associated with Vehicle License Fee In-Lieu revenue.

[3] Note that an illustrative, dynamic analysis is provided as part of the South Gate case study.

including aggregate development impact fees and land-secured financing. The metrics established by the case study analysis are designed to be replicable and rely on generally available information. This type of analysis could be useful in assessing prospective infill development areas and shaping the appropriate development strategy.

Real Estate Financial Feasibility

The case study analysis commences with a high-level real estate development pro forma analysis that establishes approximate feasibility threshold values ("hurdle" values) for residential and commercial real estate in each of the case study areas. The threshold real estate values represent approximate minimum market prices that would be necessary for developers to feasibly pursue infill projects. The analysis relies on these estimates of feasible values to (1) provide a financial feasibility metric (i.e., how "far off" is the real estate market) and (2) to calculate the total market value (finished value) of the plan.

The feasibility assessment considers current real estate market values in relation to an estimate of the "threshold value" required for real estate development to occur. The reported feasibility metric is expressed as *observed market value divided by cost-based feasible value threshold*. Where the metric is less than one, the market data suggest that current values are generally below what is necessary for new development to occur (of course, well-positioned high-value projects may still be successful). The analysis develops cost-based feasible value thresholds using construction cost estimates (reported by RS Means) and typical industry assumptions regarding real estate development economics.[4] The market data reflect residential condominium and townhome sale transactions citywide in 2012 (reported by RAND Statistics) and sales of office buildings greater than 5,000 square feet, built since 2004 countywide (reported by CoStar Group).

This high-level look at the real estate values required to attract private investment reveals that typical apartment or condominium units must sell for approximately $270,000 to $290,000 in the case study areas, and commercial real estate (office and retail uses) would need to achieve market pricing of about $340 to $370 per square foot to be financially viable. Note that the land values considered are estimated based on feasible development value and are not necessarily reflective of current market conditions. **Figure 2** presents the real estate development feasibility threshold analysis, including development costs and finished product sale values.

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[4] It is important to note that the overarching land development assumptions (soft costs, profit, and land value) are within the range typically observed statewide and have not been adjusted for localized conditions. In some cases the assumptions made here may yield estimates that differ from observed market transactions or other local conditions. For example, if a financially-stressed landowner sells a development site for less than the value assumed, the threshold sale value of finished real estate would be less.

Figure 3 Estimates of Financially Feasible Real Estate Threshold Values

	Concord	Sacramento	South Gate	Fresno
3-Story Residential Building: Per-Unit Cost and Value				
Hard Costs[1]	$165,000	$158,000	$153,000	$153,000
Soft Costs[2]	$41,000	$39,000	$38,000	$38,000
Developer Fee & Profit[3]	$28,000	$27,000	$26,000	$26,000
Land Value[4]	$59,000	$56,000	$54,000	$54,000
Sale Value	**$293,000**	**$279,000**	**$271,000**	**$271,000**
3-Story Commercial Building: Per-Square-Foot Cost and Value				
Hard Costs[1]	$190	$181	$176	$176
Soft Costs[2]	$38	$36	$35	$35
Developer Fee & Profit[3]	$31	$29	$28	$28
Land Value[4]	$110	$105	$102	$102
Sale Value	**$368**	**$351**	**$341**	**$341**

[1] Hard costs include vertical (building) and horizontal (sitework and parking) construction.

[2] Soft costs include architecture and engineering, environmental reporting, consulting, permits and fees, and taxes and insurance.

[3] Developer administrative fee (3.5 percent of costs) and return on investment (10 percent of costs).

[4] Finished land cost (including infrastructure) assumed to be 20 percent of finished product value.

Sources: RS Means Quick Cost Estimator and EPS

Estimates of financially feasible real estate value are, in all cases considered, above the current average market values observed in the case study regions. For example, in Fresno, the financially feasible threshold residential unit price is about three times the value of a typical townhome or condominium in the city. The financially-feasible commercial value in Fresno is almost two times the average market value of office space. Findings in Sacramento are similar. By comparison, financial feasibility is somewhat better for commercial in Concord and residential in South Gate. **Figure 4** presents data on observed real estate market prices and the "feasibility gap" calculated by this analysis.

The feasibility gap estimates are illustrative of market challenges, though it is important to note that new development in highly-desirable locations may be able to achieve pricing that is significantly higher than the observed market-wide average prices reported. Also, the feasibility tests only consider typical 3-story real estate products, and do not capture the feasibility potential of other infill product types (e.g., small-lot single family or townhome residential formats). **Figure 4** presents the feasibility metrics, which are calculated as the current real estate market value divided by feasibility threshold value. As discussed above, a value of 1.0 or more would indicate that market value is sufficient to support new development.

Figure 4 Feasibility Gap Estimates

	Concord	Sacramento	South Gate	Fresno
Residential Market[1]	$151,000	$154,000	$243,000	$95,000
Feasibility Gap	($142,000)	($125,000)	($28,000)	($176,000)
Feasibility Metric (*current value/ feasible value)*	0.52	0.55	0.90	0.35
Office Market[2]	$339	$204	$252	$192
Feasibility Gap	($29)	($147)	($89)	($149)
Feasibility Metric (*current value/ feasible value)*	0.92	0.58	0.74	0.56

[1] Average multifamily home price citywide 2013 (est.)

[2] Average office sale price per square foot countywide since 2004 (>5,000 SF built 2004-2013), with adjustment for city rent levels

Sources: RAND California Statistics; DQ News; CoStar Goup; and EPS

Real Estate Market Depth

The market depth metric considers the magnitude of the proposed residential program relative to the volume of residential real estate transactions occurring citywide. The metric is expressed as *program dwelling units divided by annual gross housing absorption citywide*. Where the values are relatively high, the proposed plan is likely to take more time to be fully developed. The program unit count is from the planning documentation. Residential real estate transaction volume estimates reflect turnover rates (an estimate of sales and new leases) for owner occupied and rental units (derived from US Census Bureau, ACS data).

Local Tax Increment Financing Potential

The TIF metric considers the potential magnitude of local TIF funding relative to the infrastructure cost burden of the plan, assuming program values at financially feasible levels. The metric is expressed as *tax increment bonding potential divided by infrastructure cost.* Where the value is greater than one, the potential of local TIF funding capacity is likely to be sufficient to cover the estimated infrastructure cost. The bond value achievable with local property tax funds (TIF) is calculated for the entire proposed program (i.e., at buildout) in today's dollars, assuming 30-year bonds with all-in coupon rates of 5 to 7.5 percent.

Special Tax Financing Potential

The special tax metric considers the potential magnitude of funding from a ¼ percent special property tax relative to the infrastructure cost burden of the plan, assuming program values at financially feasible levels. The metric is expressed as *special tax bonding potential divided by infrastructure cost.* Where the value is greater than one, the potential for a ¼ percent special tax is roughly sufficient to cover the estimated infrastructure cost. The bond value achievable with a special tax is calculated for the entire proposed program (i.e., at buildout) in today's dollars, assuming 30-year bonds with all-in coupon rates of 5 to 7.5 percent.

Infrastructure Burden

The infrastructure burden metric considers the total infrastructure burden that is likely to be fundable through a well-developed financing strategy that draws funds from a variety of sources, including local, regional, state, and federal funds. The metric is expressed as *infrastructure funding capacity divided by infrastructure cost.* Infrastructure funding capacity is defined as 10 percent of finished real estate product value, assuming financial feasible value levels.

Summary of Case Study Findings

Infill development metrics are presented below. **Figure 5** provides numeric findings while **Figure 6** offers graphical illustrations of the infill development metrics. In **Figure 6**, the "spider graphs" represent infill development feasibility on a scale of zero to 1 for each metric, where zero is located at the center of the graph and 1.0 is located at the outer edge. A case study that is feasible across all metrics would be depicted as pentagon shape. However, the case studies fall short of 1 across most metrics. For example, Concord falls short on market depth, Fresno falls short on feasibility, and South Gate falls short on local TIF capacity. The following provides more detailed analysis of the case studies and associated infill development metrics.

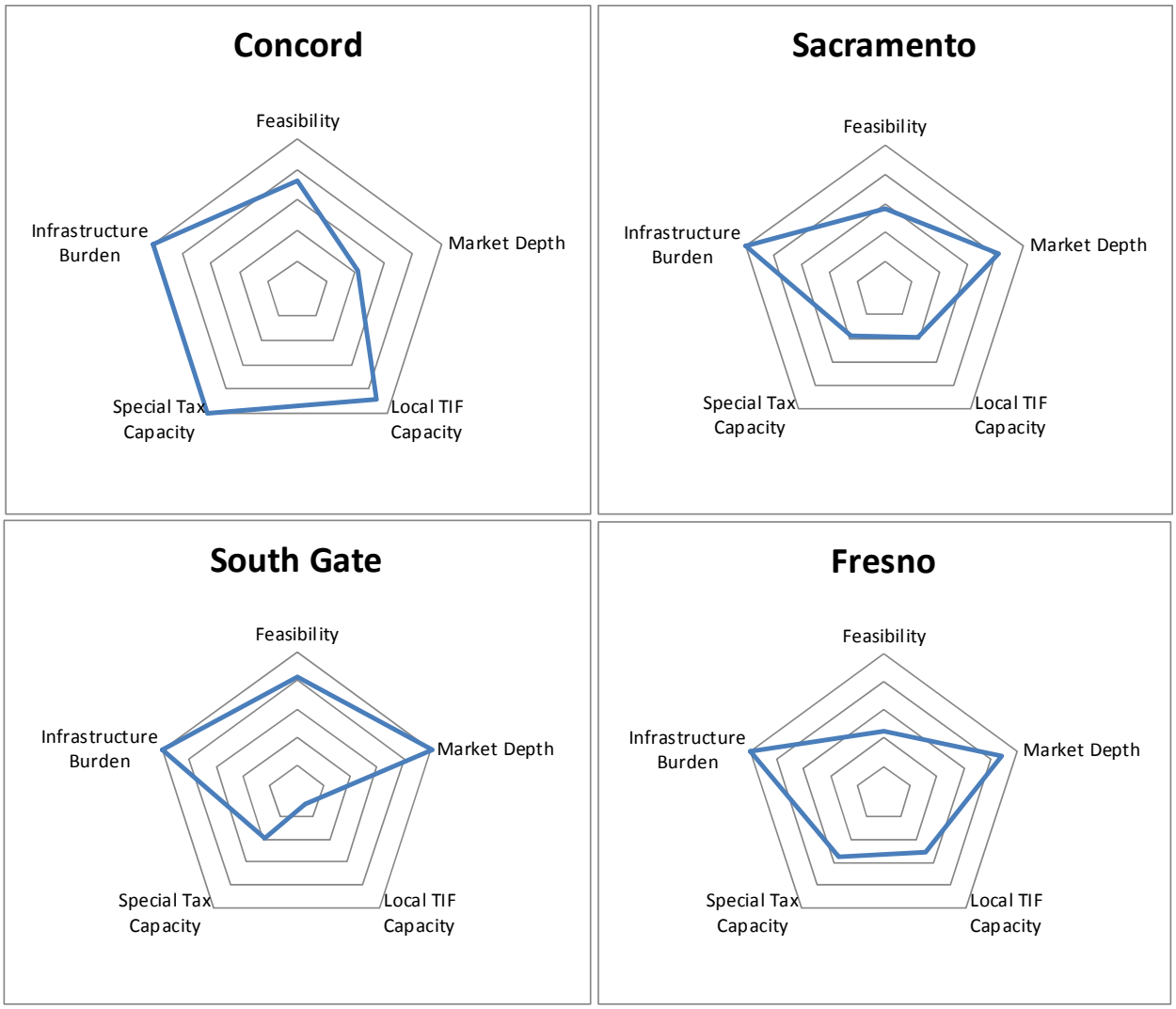
Figure 5 Summary of Infill Development Feasibility Metrics – Case Study Findings

Metric	Concord	Sacramento[1]	South Gate	Fresno
Feasibility	*Observed market value divided by cost-based feasible value threshold.* [2]			
	0.73	0.56	0.82	0.45
Market Depth	*Program dwelling units divided by annual gross housing absorption citywide.*			
	0.40	0.20	0.16	0.19
Local TIF Capacity	*Tax increment bonding potential divided by infrastructure cost.*			
	0.88	0.39	0.10	0.52
Special Tax Capacity	*Special tax bonding potential divided by infrastructure cost.*			
	2.02	0.38	0.39	0.55
Infrastructure Burden	*Infrastructure funding capacity divided by infrastructure cost.*			
	6.55	1.24	1.27	1.77

[1] Sacramento case study analysis excludes industrial and hosptality uses that are included in the plan program.

[2] Reflects analysis of residential and commercial (office and retail) weighted by the proposed development program.

Figure 6 Illustrations of Infill Development Feasibility Metrics – Case Study Findings



Notes:

1. *Feasibility is a critical "go/no-go" metric. Other metrics assume that feasibility is eventually achievable.*
2. *Market Depth is presented as a scaled inverse value derived from the* ***Figure 5*** *data above.*
3. *Capacity metrics where values are greater than 1 are capped at 1.0 for presentation purposes.*

City of Concord Case Study

Located roughly 30 miles east of San Francisco, Concord is the most populous city in Contra Costa County. From 1950 to 1980, Concord added over 100,000 residents, transforming the once agricultural town into a major regional center in the East Bay. A number of financial services, technology, energy, and industrial companies are located in Concord due in large part to its central location and suburban amenities. However, over the past ten years, the City has seen anemic population growth and a reduction in local jobs.

Figure 7 City of Concord Overview

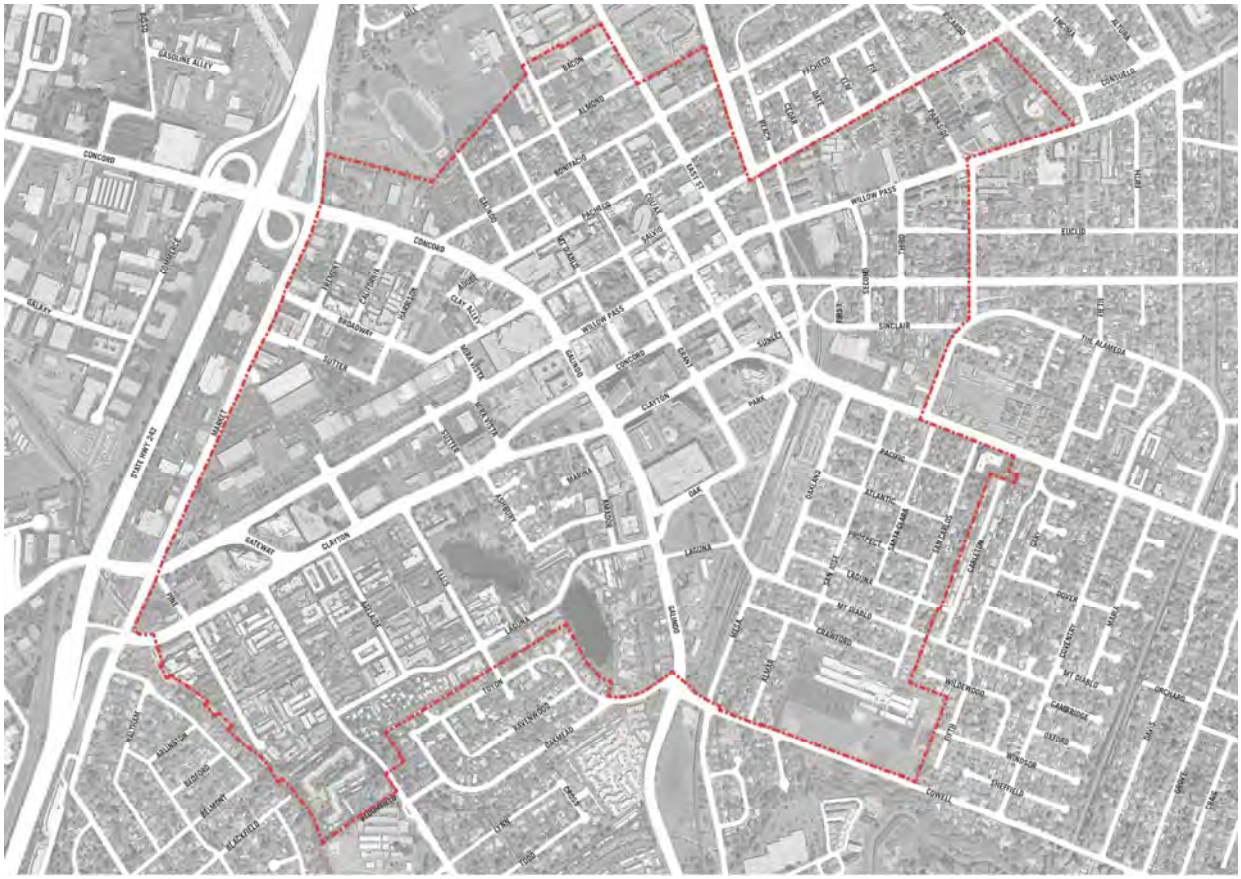
Source: ESRI and EPS

Population	Economy
City Population (2010)	**Employed City Residents (2012)**
122,100	64,500
Citywide Population Density	**County Employment Growth (2000-12)**
4,000/square mile	13,800 Nonfarm Jobs (-4.1%)
City Population Growth (2000-10)	**City Unemployment Rate (2012)**
300 (0.2%)	9.7%
City Household Income (2008-12)	**City Major Industries (by Employment)**
$66,000 (median)	Finance, Retail, Education, Health Care, Administration

Source: US Census Bureau, California EDD, and EPS

Downtown Specific Plan

The vision for Downtown Concord is to promote the historic, economic, and cultural heart of the city in a way that enhances its business climate and improves the quality of life for residents. The City envisions a transit-oriented urban space that serves both the local community and acts as a regional commuter hub for central Contra Costa County. The Downtown Concord Specific Plan seeks to revitalize the Downtown with new multifamily housing and mid-rise office. The Bay Area Rapid Transit (BART) station is a key asset within the plan area, and would be upgraded with streetscape and open space improvements.



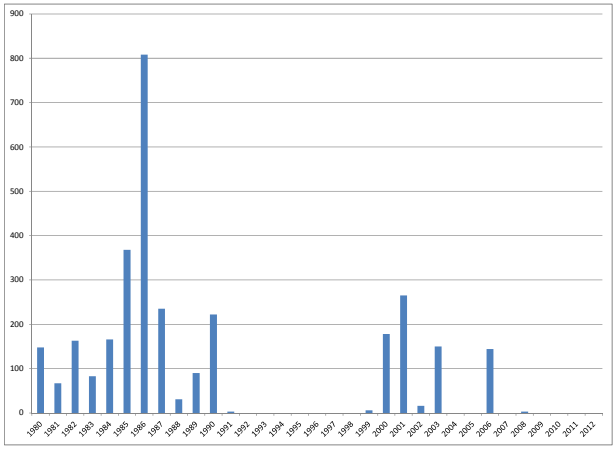
Housing Formats	**Commercial Formats**
Low-Rise Residential 1-4 stories of residential building space wrapped around a parking structure or next to a parking structure **Mid-Rise Residential** 4-5 stories of residential building space on top of a podium parking structure	**Mid-Rise Office** 4-5 stories of office building space on top of a podium parking structure.

Source: Downtown Concord Specific Plan

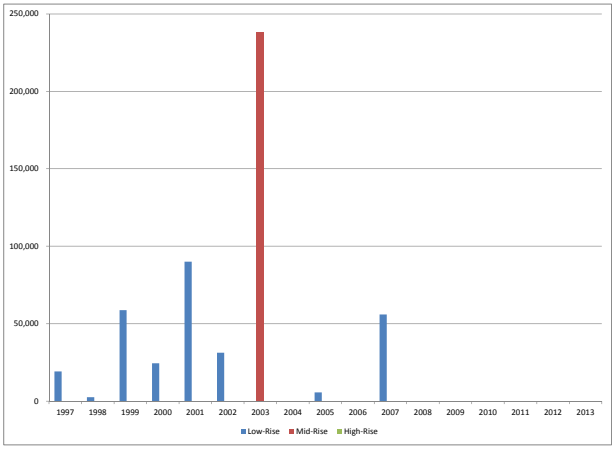
Real Estate Development Potential

Citywide multifamily residential permitting has generally trended downward over the past 25 years, with peak permitting in 1986. No multifamily permitting has occurred since 2008. Recent office development has primarily consisted of low-rise products, though one major Class A mid-rise building came to market in 2003.

Citywide Multifamily Permitting (Units)



Citywide Office Deliveries (Square Feet)



Source: SOCDS, CoStar Group, and EPS

Downtown Development

Approximately 15 major residential rental and office projects have been delivered Downtown since 2000. About half of these new projects are generally consistent with the current Specific Plan Alternatives, which include low-rise residential and mid-rise office. The recently-constructed low-rise office projects are inconsistent with the Specific Plan Alternatives.

Specific Plan Product Types	Development Activity	Height Range	Project Size
Low-Rise Residential	7 Projects	2-4 Stories	8 – 259 Units
Mid-Rise Residential	-	N/A	N/A
Mid-Rise Office	1 Project	10 Stories	240,000 Square Feet

Source: CoStar Group and EPS

Concord Downtown Specific Plan Metrics

The Downtown Concord Specific Plan Alternatives Analysis presents different programming, density, and land capacities for opportunity sites located in the specific plan area. Specific Plan land use alternatives include a plan program with "jobs focus" (i.e., more office space), a plan program with "housing focus" (i.e., more residential space), and a "balanced" program that provides similar quantities of office and residential space. Below, **Figure 8** presents the balanced program, which includes nearly 2,500 dwelling units and 2.66 million square feet of commercial space. At financially-feasible values, the aggregate program value is estimated at roughly $1.7 billion (2013$).

Figure 8 Concord Downtown Specific Plan Program Value

	Multifamily Residential	Retail	Office	Total
Dwelling Units (DU)	2,467			2,467
Square Feet (SF)		225,486	2,438,542	2,664,028
Value 2013$ (per Unit or SF)	$293,000	$368	$368	
Aggregate Program Value	**$722,831,000**	**$82,949,244**	**$897,063,297**	**$1,702,843,541**

The Concord Downtown Specific Plan Alternatives Analysis is a long-term plan. The residential program, which includes nearly 2,500 units, is equivalent to nearly 5 months of citywide residential transactions (sales and rental leases). However, given that the project would only capture a small fraction of the total real estate transactions in the city, plan area project absorption period is likely to take many years.

At buildout, and assuming financially feasible real estate values, the Concord Downtown Specific Plan Program could generate basic annual property tax of over $17.0 million. Property tax revenues would accrue to Mount Diablo Unified School District, Contra Costa County, the Contra Costa Fire District, City of Concord, and many other districts and entities. Based on data from a tax rate area (TRA) within the plan area, the City of Concord is likely to retain approximately 11 percent of the basic (1 percent) property tax, about $1.9 million per year. Assuming the City share of property tax revenue is used to service debt through an IFD or similar approach, roughly $19.9 to $25.9 million would be available to fund infrastructure. By comparison, a Special Tax (at 0.25 percent of assessed value) might support roughly $45.7 million to $59.5 million. Using the infrastructure burden test (i.e., that infrastructure cost should not exceed 10 percent of finished value), the program could support upwards of $170 million in infrastructure, assuming a wide range of funding sources.

Proposed Infrastructure Program

The Specific Plan envisions new roadway connections that would require removal of existing buildings and may require relocation of existing utilities. New water and sewer mains also may be required within the new roads, but no system-wide upgrades are anticipated. The Plan also calls for extensive streetscape improvements throughout the plan area and anticipates major public space and accessibility upgrades at the BART station. Costs associated with the Downtown Concord Specific Plan are estimated at roughly $26 million. The infrastructure cost total could be even higher once the need for additional structured parking at the station is considered.

Figure 9 Concord Downtown Specific Plan Local TIF Bonding Capacity

	Multifamily Residential	Retail	Office	Total
Aggregate Program Value	$722,831,000	$82,949,244	$897,063,297	$1,702,843,541
Annual Property Tax (Basic 1%)	$7,228,310	$829,492	$8,970,633	$17,028,435
City Allocation of Property Tax[1]	$787,886	$90,415	$977,799	$1,856,099
Local Bonding Capacity[2]	**$8,459,305** **$11,010,669**	**$970,757** **$1,263,541**	**$10,498,349** **$13,664,697**	**$19,928,411** **$25,938,907**

[1] City allocation of property tax reflects the downtown-specific Tax Rate Area share (10.9%).

[2] Hypothetical City property tax revenue bonding capacity reflects 110% coverage factor and a 30-year bond with all-in coupon rate of 5 to 7.5 percent.

Figure 10 Concord Downtown Specific Plan Special Tax Bonding Capacity

	Multifamily Residential	Retail	Office	Total
Aggregate Program Value	$722,831,000	$82,949,244	$897,063,297	$1,702,843,541
Special Tax[1] (0.25%)	$1,807,078	$207,373	$2,242,658	$4,257,109
Bonding Capacity[2]	**$19,402,076** **$25,253,828**	**$2,226,506** **$2,898,030**	**$24,078,782** **$31,341,049**	**$45,707,364** **$59,492,907**

[1] Mello-Roos Community Facilities District or similar Special Tax (at 0.25% of assessed value annually).

[2] Hypothetical special tax revenue bonding capacity reflects 110% coverage factor and a 30-year bond with all-in coupon rate of 5 to 7.5 percent.

Figure 11 Concord Downtown Infrastructure Burden Test

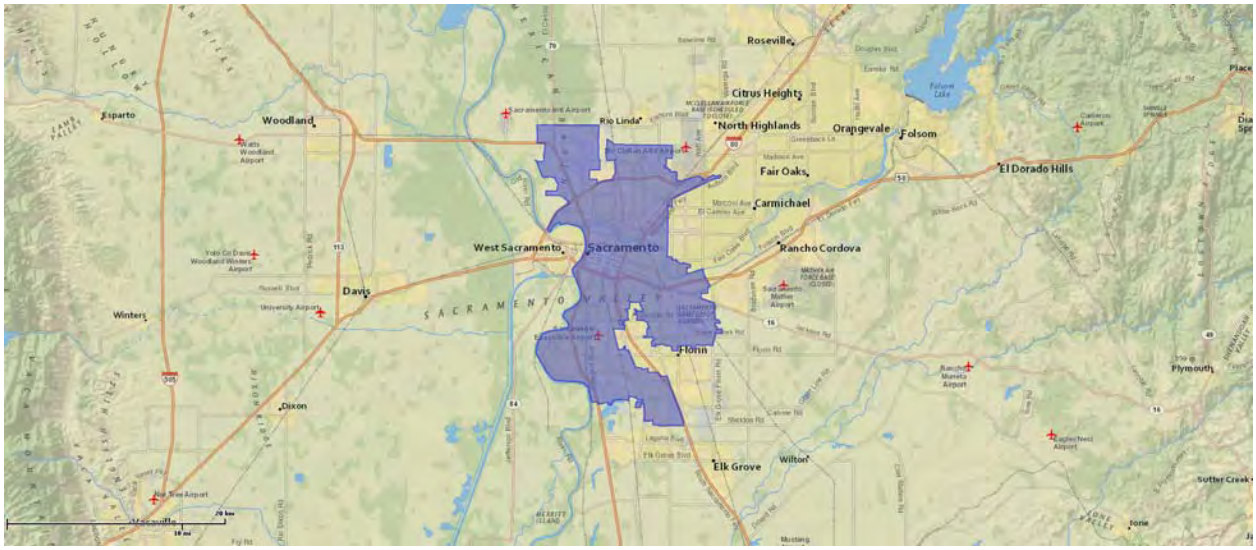
	Multifamily Residential	Retail	Office	Total
Aggregate Program Value	$722,831,000	$82,949,244	$897,063,297	$1,702,843,541
Supportable Infrastructure (10%)	**$72,283,100**	**$8,294,924**	**$89,706,330**	**$170,284,354**

[1] An infrastructure cost burden of 10% of the finished value of an infill real estate program is typically supportable.

City of Sacramento Case Study

Sacramento is the capital of California and public administration is the primary economic driver in the city. Located in the northern Central Valley, the city is the primary job center for a metropolitan region which spans from the Coastal Range Mountains to the Nevada border. The City of Sacramento dates back to the mid-19th century and has evolved dramatically over time in response to the economy, suburbanization, flooding, and other factors. By 1960, Sacramento had become a major U.S. city, home to nearly 200,000 people. Today, the population is nearly 470 million people.

Figure 12 City of Sacramento Overview



Source: ESRI and EPS

Population	**Economy**
City Population (2010)	**Employed City Residents (2012)**
466,488	189,900
Citywide Population Density	**County Employment Growth (2000-12)**
4,800/square mile	Loss of 1,600 Nonfarm Jobs (-0.3%)
City Population Growth (2000-10)	**City Unemployment Rate (2012)**
59,500 (15%)	12.4%
City Household Income (2008-12)	**City Major Industries (by Employment)**
$51,000 (median)	Government, Health Care, Services, Education, Accommodation/Food Service

Source: US Census Bureua, California EDD, and EPS

River District Specific Plan

The River District Specific Plan addresses the redevelopment of approximately 773 acres of land located north of the City of Sacramento downtown, at the confluence of the American and Sacramento Rivers. Today, the area is primarily developed with warehouse and office uses. In stark contrast to what stands there now, the River District Specific Plan envisions "a vibrant, mixed-use community connected to the surrounding neighborhoods by a network of local streets, light rail transit, and bicycle and pedestrian pathways." [5]

Housing Formats *(examples)*	**Commercial Formats *(examples)***
Low- Rise Residential	**Low-Rise Office / Industrial**
Multifamily structures up to 35' height	General commercial up to 35' height
Mid-Rise Residential	**Mid-Rise Office**
Multifamily structures up to 120' height	Office buildings up to 120' height
High-Rise Residential	**High-Rise Office**
Multifamily structures up to 250' height	General commercial up to 250' height

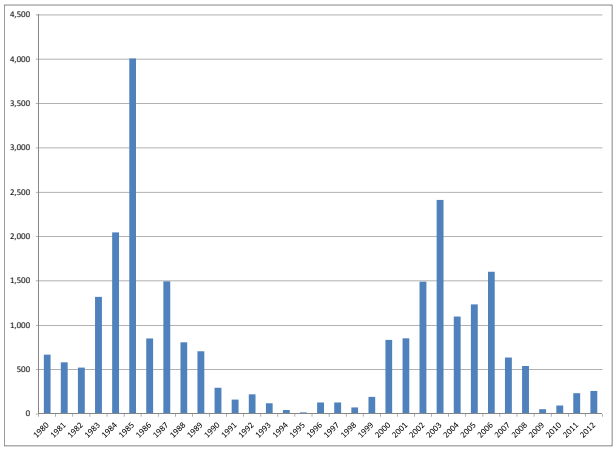
Source: River District Specific Plan

[5] River District Specific Plan, 2011

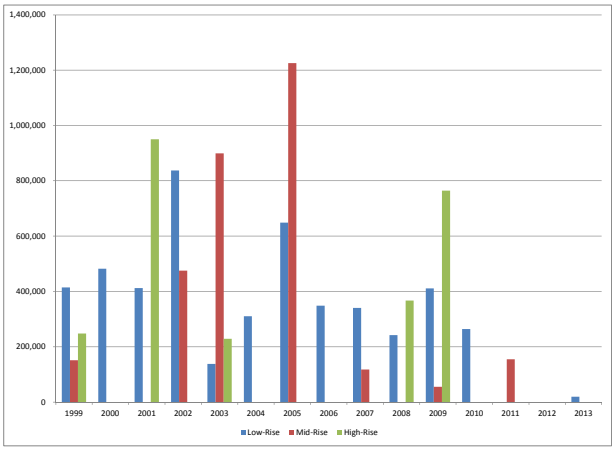
Real Estate Development Potential

Citywide multifamily residential permitting peaked in 1985 and again, though at a lower level, in 2003. Minimal multifamily residential permitting has occurred since 2008. Recent office development in Sacramento includes low-, mid-, and high-rise structures. Since 1999, office deliveries averaged about 700,000 square feet per year, with a peak of nearly 1.9 million square feet in 2005.

Citywide Multifamily Permitting (Units)



Citywide Office Deliveries (Square Feet)



Source: SOCDS, CoStar Group, and EPS

River District Development

Approximately 3 major projects have been delivered in the River District since 2000. Sacramento's only recently-constructed Class A office buildings were both built in the River District (in 2002 and 2011). Both projects were publically-funded government buildings. One new multifamily rental building is under construction, an 180,000-square-foot affordable project to be completed in 2014.

Specific Plan Product Types	Development Activity	Height Range	Project Size
Low-Rise Residential	-	N/A	N/A
Mid-Rise Residential	1 Project (affordable)	5 Stories	180 Units
High-Rise Residential	-	N/A	N/A
Low-Rise Commercial	1 Project (public)	3 Stories	146,000 Square Feet
Mid-Rise Commercial	1 Project (public)	6 Stories	155,000 Square Feet
High-Rise Commercial	-	N/A	N/A

Source: CoStar Group and EPS

River District Specific Plan Metrics

The development program for the River District includes residential, office, retail, industrial, and hotel uses. For the purposes of this analysis, only the programmed residential and commercial (office/retail) uses are considered (feasibility analysis has not been conducted for industrial and hospitality uses). As shown in **Figure 13**, buildout of the River District would include over 8,100 residential units and 4.8 million square feet of office and retail commercial space. At financial feasible values, aggregate residential, office, and retail program value is estimated at roughly $4.0 billion (2013$).

Figure 13 River District Specific Plan Program Value[1]

	Multifamily	Retail	Office	Total
Dwelling Units (DU)	8,144			8,144
Square Feet (SF)		854,479	3,956,000	4,810,479
Value 2013$ (per Unit or SF)	$279,000	$351	$351	
Aggregate Program Value	**$2,272,176,000**	**$299,783,490**	**$1,387,914,140**	**$3,959,873,630**

[1] Excludes industrial and hotel uses.

Similar to the Concord Downtown plan, the River District is a long-run, multiple-phase plan. The residential program, which includes over 8,100 units, is equivalent to about 2.5 months of citywide residential transactions (sales and rental leases). However, given that the project only would capture a small fraction of the total real estate transactions in the city, the project absorption period is likely to occur over many years.

At buildout, and assuming feasible real estate values, the River District Specific Plan Program could generate basic annual property tax of nearly $39.6 million. Property tax revenues would accrue to Sacramento County, the City of Sacramento, City of Sacramento Unified School District, Los Rios Community College, and many other districts and entities. Based on data from a TRA within the plan area, the City of Sacramento is likely to retain roughly 26 percent of the basic (1 percent) property tax, approximately $10.2 million per year. Assuming the City share of property tax revenue is used to service debt through an IFD or similar approach, roughly $109.3 to $142.2 million would be available to fund infrastructure. By comparison, a Special Tax (at 0.25 percent of assessed value) might support roughly $106.3 million to $138.3 million. Using a standard infrastructure burden test (i.e., that infrastructure cost should not exceed 10 percent of finished value), the program could support upwards of $396 million in infrastructure, assuming a wide range of local, regional, state, and federal sources.

Proposed Infrastructure Program

The River District Specific Plan envisions a new urban environment, with development of a mix of uses that will require new storm drainage, sewer, water, and transportation infrastructure as well as public improvements such as parks, schools, and public safety facilities. The River District

Public Facilities Financing Plan, adopted by the City in 2011, calls for a variety of funding sources to be used to pay for backbone infrastructure and public facilities. Project-based funding, City funding, and outside sources of funds are included in the financing strategy. More than $320 million in infrastructure and public facility improvements are needed, including storm drainage, sewer, water, transportation, parks, schools, libraries, and public safety facilities.

Figure 14 River District Specific Plan Local TIF Bonding Capacity

	Multifamily Residential	Retail	Office	Total
Aggregate Program Value	$2,272,176,000	$299,783,490	$1,387,914,140	$3,959,873,630
Annual Property Tax (Basic 1%)	$22,721,760	$2,997,835	$13,879,141	$39,598,736
City Allocation of Property Tax[1]	$5,839,492	$770,444	$3,566,939	$10,176,875
Local Bonding Capacity[2]	**$62,696,964** **$81,606,645**	**$8,272,033** **$10,766,915**	**$38,297,210** **$49,847,818**	**$109,266,207** **$142,221,378**

[1] City allocation of property tax reflects the Tax Rate Area share observed in the primary River District TRA (25.7%).

[2] Hypothetical City property tax revenue bonding capacity reflects 110% coverage factor and a 30-year bond with all-in coupon rate of 5 to 7.5 percent.

Figure 15 River District Specific Plan Special Tax Bonding Capacity

	Multifamily Residential	Retail	Office	Total
Aggregate Program Value	$2,272,176,000	$299,783,490	$1,387,914,140	$3,959,873,630
Special Tax[1] (0.25%)	$5,680,440	$749,459	$3,469,785	$9,899,684
Bonding Capacity[2]	**$60,989,264** **$79,383,896**	**$8,046,725** **$10,473,652**	**$37,254,096** **$48,490,096**	**$106,290,084** **$138,347,644**

[1] Mello-Roos Community Facilities District or similar Special Tax (at 0.25% of assessed value annually).

[2] Hypothetical special tax revenue bonding capacity reflects 110% coverage factor and a 30-year bond with all-in coupon rate of 5 to 7.5 percent.

Figure 16 River District Specific Plan Infrastructure Burden Test

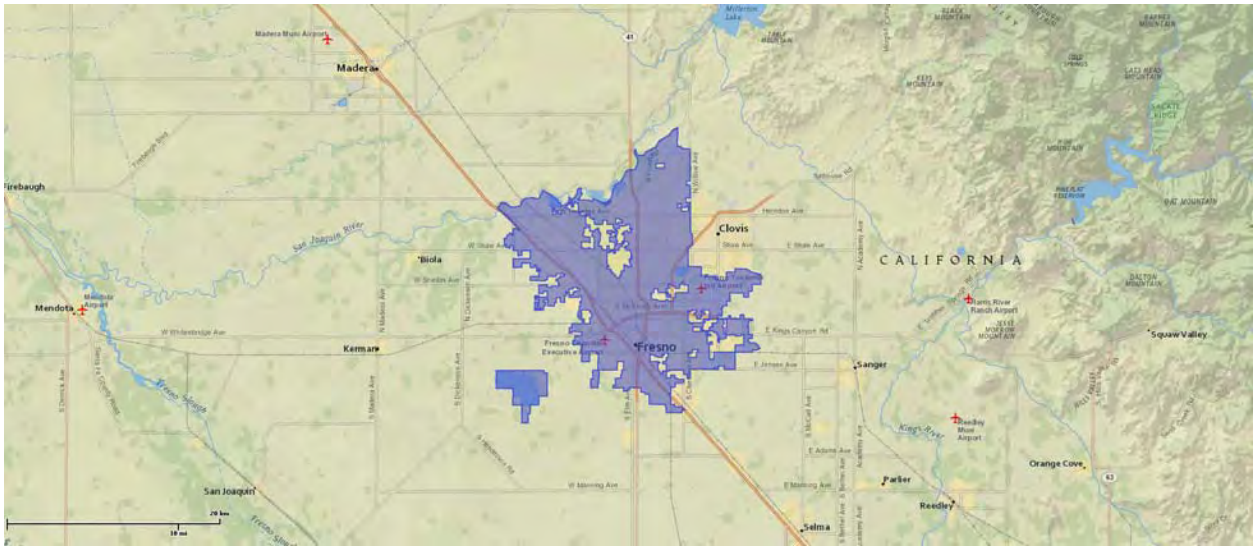
	Multifamily Residential	Retail	Office	Total
Aggregate Program Value	$2,272,176,000	$299,783,490	$1,387,914,140	$3,959,873,630
Supportable Infrastructure (10%)	**$227,217,600**	**$29,978,349**	**$138,791,414**	**$395,987,363**

[1] An infrastructure cost burden of 10% of the finished value of an infill real estate program is typically supportable.

City of Fresno Case Study

Fresno is centrally located within the State of California, approximately 190 miles southeast of San Francisco and 220 miles northwest of Los Angeles. The city is a regional center for the San Joaquin Valley and is also a tourism gateway to the Sierra Nevada Mountain Range. What began as a small railroad town in the mid-19th century has grown into a city of nearly half a million residents. While the City benefits from the strength of the agricultural industry in the region, which generates significant direct and indirect nonfarm economic activity, unemployment in the city is high.

Figure 17 City of Fresno Overview



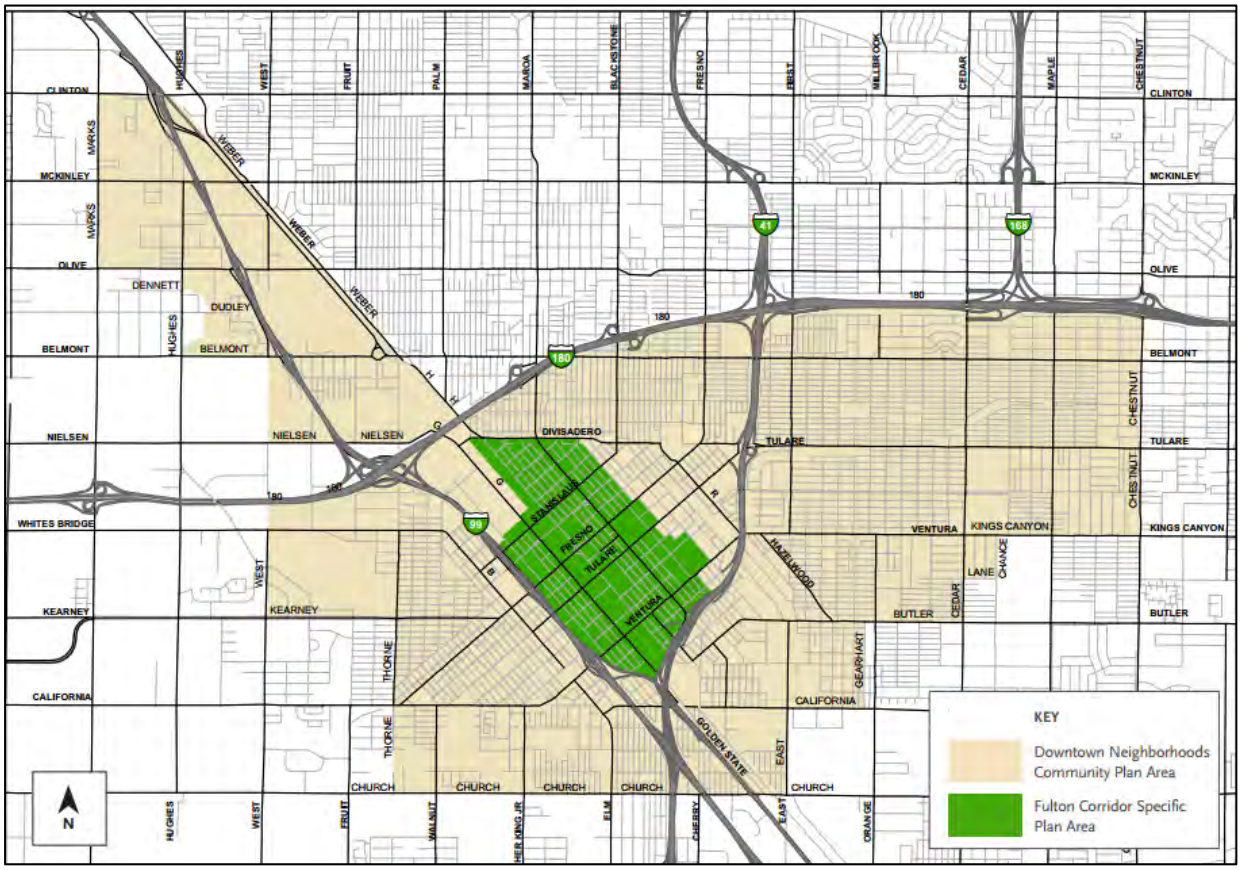
Source: ESRI and EPS

Population	**Economy**
City Population (2010)	**Employed City Residents (2012)**
494,700	199,000
Citywide Population Density	**County Employment Trend (2002-12)**
4,400/square mile	12,300 Nonfarm Jobs (4.5%)
City Population Growth (2000-10)	**City Unemployment Rate (2012)**
67,000 (16%)	14.3%
City Household Income (2008-12)	**City Major Industries (by Employment)**
$42,000 (median)	Health Care, Government, Retail, Education, Accommodation/Food Service

Source: US Census Bureua, California EDD, and EPS

Fulton Corridor Specific Plan

The Fulton Corridor Specific Plan (draft plan) provides a strategic vision for Downtown Fresno. The Specific Plan area covers approximately 655 acres in the southern portion of the city and includes some of the most notable historic resources in the city. The Plan anticipates a potential High Speed Rail station that would provide new transit access to and from the area, and promote nearby housing and commerce in the downtown. For decades the city has sought solutions to curb the decline of the historic downtown and while some progress has been made in recent years, Fresno's downtown still suffers from a low level of investment.



Housing Formats *(examples)*

Low- Rise Residential

2-story multifamily (general neighborhood)

Mid-Rise Residential

Mixed-use up to 5 stories (city center)

High-Rise Residential

Mixed-use up to 15 stories (CBD)

Commercial Formats *(examples)*

Low-Rise Office / Industrial

3-story commercial (general corridor)

Mid-Rise Office

Commercial up to 5 stories (city center)

High-Rise Office

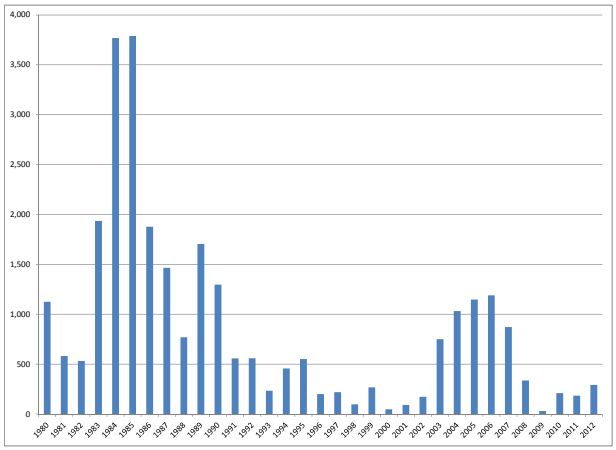
Commercial up to 15 stories (CBD)

Source: Fulton Corridor Specific Plan

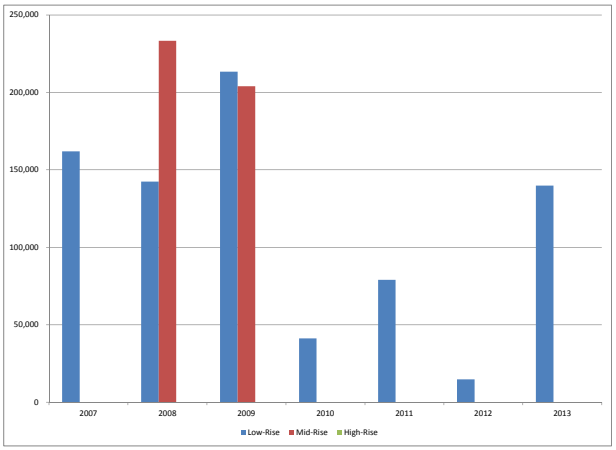
Real Estate Development Potential

Citywide multifamily residential permitting peaked in 1985 and again, though at a lower level, in 2003. Minimal multifamily permitting has occurred since 2008. Recent office development has included low- and mid-rise structures.

Citywide Multifamily Permitting (Units)



Citywide Office Deliveries (Square Feet)



Source: SOCDS, CoStar Group, and EPS

Downtown Development

Approximately 15 office developments and 6 multifamily rental developments have been developed in downtown Fresno since 2000. Office development includes primarily Class A and Class B office. Delivered in 2005, 855 M Street is the first privately-built tower in Fresno since 1973. In addition, three new market rate multifamily buildings were constructed downtown.

Specific Plan Product Types	Development Activity	Height Range	Project Size
Low-Rise Residential	6 Projects	1-4 Stories	8-142 Units
Mid-Rise Residential	-	N/A	N/A
High-Rise Residential	-	N/A	N/A
Low-Rise Commercial	12 Projects	1-4 Stories	4,000-90,000 Square Feet
Mid-Rise Commercial	3 Projects	6-11 Stories	200,000-500,000 Square Ft.
High-Rise Commercial	-	N/A	N/A

Source: CoStar Group and EPS

Fulton Corridor Specific Plan Metrics

The Specific Plan itself does not present a detailed development program, but the accompanying Market Analysis Report (2011) presents the range of development that is likely to occur within the Specific Plan Area. **Figure 18** presents a midpoint estimate of development potential for the Fulton Corridor Specific plan, including approximately 5,500 residential units and 4.7 million square feet of retail. At financial feasible values, aggregate program value is estimated at roughly $3.1 billion (2013$).

Figure 18 Fresno Fulton Corridor Specific Plan Program Value

	Multifamily	Retail	Office	Total
Dwelling Units (DU)[1]	5,510			5,510
Square Feet (SF)[1]		1,450,000	3,250,000	4,700,000
Value 2013$ (per Unit or SF)	$271,000	$341	$341	
Aggregate Program Value	**$1,493,210,000**	**$493,897,804**	**$1,107,012,319**	**$3,094,120,123**

[1] Program reflects midpoint of High/Low Development Program presented in the FCSP Market and Economic Analysis.

The revitalization of downtown Fresno is likely to take many years. The residential program, which includes over 5,500 units, is equivalent to over 2 months of citywide residential transactions (sales and rental leases). However, since the project would only capture a small fraction of the total real estate transactions in the city, the project absorption period is likely to be lengthy.

At buildout, and assuming feasible real estate values, the Fulton Corridor Specific Plan Program could generate basic annual property tax of nearly $31 million. Property tax revenues would accrue to Fresno County, City of Fresno, the School District, and many other entities. Based on data from a tax rate area within the plan area, the City of Fresno is likely to retain roughly 24 percent of the basic (1 percent) property tax, approximately $7.3 million per year. Assuming the City share of property tax revenue is used to service debt through an IFD or similar approach, roughly $78.4 to $102.0 million would be available to fund infrastructure. By comparison, a Special Tax (at 0.25 percent of assessed value) might support roughly $83.1 to $108.1 million. Using a standard infrastructure burden test (i.e., that infrastructure cost should not exceed 10 percent of finished value), the program could support upwards of $309 million in infrastructure, assuming a wide range of local, regional, state, and federal sources. This figure would be even higher with the inclusion of industrial and hospitality uses that are described by the Plan program but are not reflected in this analysis.

Proposed Infrastructure Program

The Fulton Corridor Specific Plan envisions a vastly improved urban environment, with major investments to streets, parks, transportation, and public utilities. Implementation of the Specific Plan considers a diverse mix funding sources. The Specific Plan estimates more than $30 million in "near-term" public infrastructure and facilities costs, but only provides estimates for some improvements (e.g., the cost associated with revitalization of the Fulton Mall, a major near-term investment, is not included). More recent analysis and various documents put the total cost of infrastructure associated with the Fulton Corridor Specific Plan at roughly $175 million, including streetscapes, open space, transportation, water service, sewer, and the Fulton Mall project. Some of these infrastructure improvements are ongoing projects which are partially funded. The Fulton Mall project, estimated to cost roughly $46.5 million, recently received some federal funding from the Department of Transportation. Going forward, a variety of funding sources and financing mechanisms will continue to be needed to satisfy the requirements of Fresno's downtown plan.

Figure 19 Fresno Fulton Corridor Specific Plan Local TIF Bonding Capacity

	Multifamily Residential	Retail	Office	Total
Aggregate Program Value	$1,493,210,000	$493,897,804	$1,107,012,319	$3,094,120,123
Annual Property Tax (Basic 1%)	$14,932,100	$4,938,978	$11,070,123	$30,941,201
City Allocation of Property Tax[1]	$3,523,976	$1,165,599	$2,612,549	$7,302,123
Local Bonding Capacity[2]	**$37,835,921** **$49,247,402**	**$12,514,702** **$16,289,192**	**$28,050,194** **$36,510,257**	**$78,400,817** **$102,046,851**

[1] City allocation of property tax reflects the downtown-specific Tax Rate Area share (23.6%).

[2] Hypothetical City property tax revenue bonding capacity reflects 110% coverage factor and a 30-year bond with all-in coupon rate of 5 to 7.5 percent.

Figure 20 Fresno Fulton Corridor Specific Plan Special Tax Bonding Capacity

	Multifamily Residential	Retail	Office	Total
Aggregate Program Value	$1,493,210,000	$493,897,804	$1,107,012,319	$3,094,120,123
Special Tax[1] (0.25%)	$3,733,025	$1,234,745	$2,767,531	$7,735,300
Bonding Capacity[2]	**$40,080,425** **$52,168,858**	**$13,257,100** **$17,255,500**	**$29,714,189** **$38,676,120**	**$83,051,713** **$108,100,477**

[1] Mello-Roos Community Facilities District or similar Special Tax (at 0.5% of assessed value annually).

[2] Hypothetical special tax revenue bonding capacity reflects 110% coverage factor and a 30-year bond with all-in coupon rate of 5 to 7.5 percent.

Figure 21 Fresno Fulton Corridor Specific Plan Infrastructure Burden Test

	Multifamily Residential	Retail	Office	Total
Aggregate Program Value	$1,493,210,000	$493,897,804	$1,107,012,319	$3,094,120,123
Supportable Infrastructure (10%)	**$149,321,000**	**$49,389,780**	**$110,701,232**	**$309,412,012**

[1] An infrastructure cost burden of 10% of the finished value of an infill real estate program is typically supportable.

South Gate Case Study

Established in 1923, South Gate is an urbanized community located approximately seven miles southeast of downtown Los Angeles. After a slow start during the Great Depression, the city grew economically during the 1940s as war-related manufacturing located in the area. Today, manufacturing industries remain a significant employer in the city. The city was hard hit by the recent recession and in 2012 exhibited an unemployment rate that was nearly 30 percent above Los Angeles County overall.

Figure 22 City of Southgate Overview

Source: ESRI and EPS

Population	**Economy**
City Population (2010)	**Employed City Residents (2012)**
94,000	35,600
Citywide Population Density	**County Employment Trend (2000-12)**
13,000/square mile	Loss of 207,800 Nonfarm Jobs (-5.1%)
City Population Growth (2000-10)	**City Unemployment Rate (2012)**
Lost 2,000 (-2%)	13.9%
City Household Income (2008-12)	**City Major Industries (by Employment)**
$42,000 (median)	Manufacturing, Transportation/Warehousing, Retail Trade, Education, Services

Source: US Census Bureua, California EDD, and EPS

Firestone and Atlantic Station Area Plan

The Firestone and Atlantic Station Area Plan establishes a vision for development around a rail station being planned by the Eco-Rapid Transit Authority (ERTA) on the future West Santa Ana Line. The adopted plan calls for a program comprised primarily of low- and mid-rise residential development.

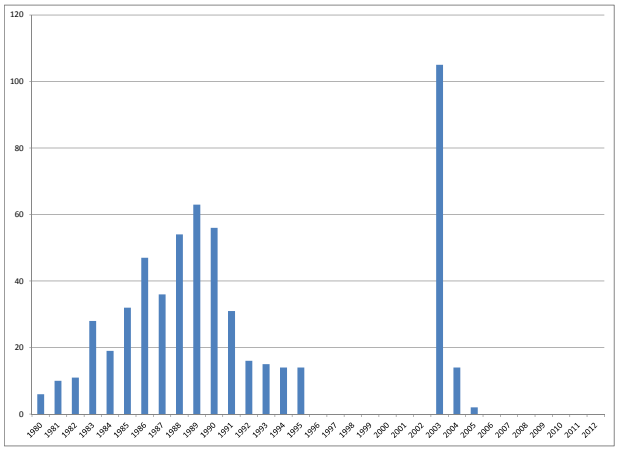
Housing Formats *(examples)*	**Commercial Formats *(examples)***
Low-Rise Residential	**Low-Rise Commercial**
3- to 4-story multifamily	1-story commercial use

Source: Firestone and Atlantic Station Area Plan

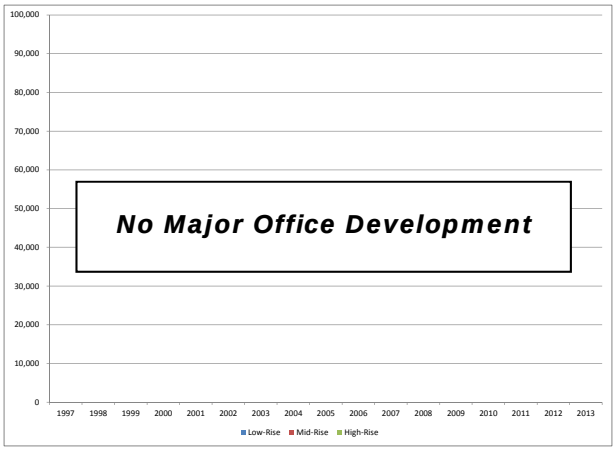
Real Estate Development Potential

Citywide multifamily residential permitting peaked in 2003 with over 100 units. There has not been any multifamily permitting since 2005 and there has not been any notable office development in the city in recent years.

Citywide Multifamily Permitting (Units)



Citywide Office Deliveries (Square Feet)



Source: SOCDS, CoStar Group, and EPS

There have been three significant multifamily rental projects developed in Southgate since 2000, including one market rate and two affordable projects. No projects have been developed in the Station Area.

Specific Plan Product Types	Development Activity	Height Range	Project Size
Low-Rise Residential	3 Projects (2 afford.)	3-4 Stories	69-100 Units
Low-Rise Commercial	-	N/A	N/A

Source: CoStar Group and EPS

Firestone and Atlantic Station Area Plan Metrics

In total, the plan calls for 380 residential units and about 331,000 square feet of commercial space, as shown in **Figure 23**. At financial feasible values, aggregate program value is estimated at roughly $216 million (2013$).

Figure 23 South Gate Station Area Plan Program Value

	Multifamily Residential	Retail	Office	Total
Dwelling Units (DU)[1]	380			380
Square Feet (SF)[1]		4,300	326,600	330,900
Value 2013$ (per Unit or SF)	$271,000	$341	$341	
Aggregate Program Value	**$102,980,000**	**$1,464,662**	**$111,246,223**	**$215,690,885**

[1] Program reflects the preferred alternative.

While not a large project relative to the other case studies, the South Gate Station Area Plan is significant for the City of South Gate. The residential program, which includes over 380 units, is equivalent to about 2 months of citywide residential transactions (sales and rental leases). The homeownership rate in the City of South Gate is about 46 percent and owner-occupied homes there turnover at rate of about 6 percent per year (540 home purchases). Of the 54 percent of households that are renters, an estimated 16 percent have moved into their home in the past year (1,800 new leases), an indication of relatively modest leasing volume in the residential rental market. Since the project only would capture a small fraction of the total real estate transactions in the city, the project absorption period is likely to occur over a few years.

At buildout, and assuming feasible real estate values, the South Gate Station Area Plan Program could generate basic annual property tax of nearly $2.2 million. Property tax revenues would accrue to Los Angeles County, Los Angeles Unified School District, the City of South Gate, and many other districts and entities. Based on data from tax rate areas within the City, the City of South Gate is likely to retain roughly 6 percent of the basic (1 percent) property tax, approximately $133,000 per year. Assuming the City share of property tax revenue is used to service debt using an IFD or similar approach, roughly $1.4 million to $1.9 million would be available to fund infrastructure. By comparison, a Special Tax (at 0.25 percent of assessed value) might support roughly $5.8 million to $7.5 million. Using the standard infrastructure burden test (i.e., that infrastructure cost should not exceed 10 percent of finished value), the program could support upwards of $22 million in infrastructure, assuming a wide range of local, regional, state, and federal sources.

Proposed Infrastructure Program

Including new streets, sidewalks, trails, crosswalks, and other pedestrian improvements, as well as the transit station and plaza, infrastructure costs are estimated at approximately $17 million. The costs associated with the transit facility, in particular, are likely to be funded by non-local sources, which would reduce the burden on development-based and local sources.

Figure 24 South Gate Station Area Plan Local TIF Bonding Capacity

	Multifamily Residential	Retail	Office	Total
Aggregate Program Value	$102,980,000	$1,464,662	$111,246,223	$215,690,885
Annual Property Tax (Basic 1%)	$1,029,800	$14,647	$1,112,462	$2,156,909
City Allocation of Property Tax[1]	$63,333	$901	$68,416	$132,650
Local Bonding Capacity[2]	**$679,985** **$885,072**	**$9,671** **$12,588**	**$734,568** **$956,117**	**$1,424,224** **$1,853,776**

[1] City allocation of property tax reflects typical share in non-Redevelopment Tax Rate Areas within the City of South Gate (6.15%).

[2] Hypothetical City property tax revenue bonding capacity reflects 110% coverage factor and a 30-year bond with all-in coupon rate of 5 to 7.5 percent.

Figure 25 South Gate Station Area Plan Special Tax Bonding Capacity

	Multifamily Residential	Retail	Office	Total
Aggregate Program Value	$102,980,000	$1,464,662	$111,246,223	$215,690,885
Special Tax[1] (0.25%)	$257,450	$3,662	$278,116	$539,227
Bonding Capacity[2]	**$2,764,167** **$3,597,852**	**$39,314** **$51,171**	**$2,986,047** **$3,886,653**	**$5,789,529** **$7,535,676**

[1] Mello-Roos Community Facilities District or similar Special Tax (at 0.25% of assessed value annually).

[2] Hypothetical special tax revenue bonding capacity reflects 110% coverage factor and a 30-year bond with all-in coupon rate of 5 to 7.5 percent.

Figure 26 South Gate Station Area Plan Infrastructure Burden Test

	Multifamily Residential	Retail	Office	Total
Aggregate Program Value	$102,980,000	$1,464,662	$111,246,223	$215,690,885
Supportable Infrastructure (10%)	**$10,298,000**	**$146,466**	**$11,124,622**	**$21,569,089**

[1] An infrastructure cost burden of 10% of the finished value of an infill real estate program is typically supportable.

Supplemental Illustrative Multi-Year Analysis

To highlight the difficulty associated with achieving sufficient bonding capacity from tax increment sources in the early years of a development project, **Figure 27** provides an illustrative multi-year tax increment analysis based on data from the South Gate Station Area Plan. In this analysis, the Phase 1 program is delivered in 2016 and Phase 2 is delivered in 2019. The first bond issuance, for a modest $600,000, might be issued by in 2018, while a more significant $1.3 million second issuance might occur in 2023. These bonds would be far short of the needed $17 million cost of infrastructure and would not be available until after project development, whereas funds for infrastructure are required early in the project development timeline.

Figure 27 Illustrative Multi-Year Tax Increment Analysis

Fiscal Year	Assessed Value (AV)	Gross TI Revenue (@ 1%)	TI Allocation to City (@ 6.15%)	Amount Available at 1.10 Debt Coverage	Bond Issuance
2013-14	$15,637,850	-	-	-	-
2014-15	$15,950,606	$3,128	$192	$175	$0
2015-16	$16,269,619	$6,318	$389	$353	$0
2016-17	$92,365,862	$767,280	$47,188	$42,898	$0
2017-18	$94,213,179	$785,753	$48,324	$43,931	$0
2018-19	$96,097,443	$804,596	$49,483	$44,984	$619,200
2019-20	$242,902,969	$2,272,651	$139,768	$127,062	$0
2020-21	$247,761,028	$2,321,232	$142,756	$129,778	$0
2021-22	$252,716,249	$2,370,784	$145,803	$132,548	$0
2022-23	$257,770,574	$2,421,327	$148,912	$135,374	$0
2023-24	$262,925,985	$2,472,881	$152,082	$138,257	$1,283,878
2024-25	$268,184,505	$2,525,467	$155,316	$141,197	$0
2025-26	$273,548,195	$2,579,103	$158,615	$144,195	$0
2026-27	$279,019,159	$2,633,813	$161,980	$147,254	$0
2027-28	$284,599,542	$2,689,617	$165,411	$150,374	$0
2028-29	$290,291,533	$2,746,537	$168,912	$153,556	$210,600
2029-30	$296,097,364	$2,804,595	$172,483	$156,802	$0
2030-31	$302,019,311	$2,863,815	$176,125	$160,113	$0
2031-32	$308,059,697	$2,924,218	$179,839	$163,490	$0
2032-33	$314,220,891	$2,985,830	$183,629	$166,935	$0
2033-34	$320,505,309	$3,048,675	$187,493	$170,449	$232,519
2034-35	$326,915,415	$3,112,776	$191,436	$174,032	$0
2035-36	$333,453,723	$3,178,159	$195,457	$177,688	$0
2036-37	$340,122,798	$3,244,849	$199,558	$181,417	$0
2037-38	$346,925,254	$3,312,874	$203,742	$185,220	$0
2038-39	$353,863,759	$3,382,259	$208,009	$189,099	$256,720
2039-40	$360,941,034	$3,453,032	$212,361	$193,056	$0
2040-41	$368,159,855	$3,525,220	$216,801	$197,092	$0
2041-42	$375,523,052	$3,598,852	$221,329	$201,209	$0
2042-43	$383,033,513	$3,673,957	$225,948	$205,408	$0
2043-44	$390,694,183	$3,750,563	$230,660	$209,691	$283,439
Cumulative Total		**$76,260,161**	**$4,690,000**	**$4,263,636**	**$2,886,356**

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