Review of Funding Tools for Public Improvements in the Eastern Neighborhoods

A Report to the
San Francisco Board of Supervisors
by the Eastern Neighborhoods
Infrastructure Finance Working Group,
a subcommittee of the
San Francisco Capital Planning Committee

July 2009

Table of Contents

Executive Summary

The Board of Supervisors adopted the Eastern Neighborhoods Area Plans (ENAP, Ordinance No. 297-08) and established development impact fees (Ordinance No. 298-08) in December 2008. The ENAP rezoned portions of the largely industrial neighborhoods of the Mission, Eastern South of Market Area, Central Waterfront, and Showplace Square/ Potrero Hill to promote a balanced mix of residential and sustainable commercial development in the Eastern Neighborhoods. A Needs Assessment was conducted for the ENAP which was the basis for an ENAP Public Improvements Program. The needs of the area specifically include open space and streetscape improvements, transit and transportation improvements, community facilities and services, local and neighborhood serving businesses, and affordable housing. While developers will pay substantial development impact fees to help defray the $244 to $395 million projected cost of public infrastructure needs (see Table 1: Impact Fee Schedule), impact fees are only projected to meet 30% of the $395 million to 50% of $244 million. Other existing sources are projected to meet an additional 12% of these costs, leaving a funding gap of $99 to $234 million.

The Board of Supervisors, therefore, directed the Capital Planning Committee to establish the Eastern Neighborhoods Infrastructure Finance Working Group (ENIFWG) to recommend funding strategies for the ENAP (Resolution No. 510-08). The working group includes representatives from the Planning Department; the Office of Economic and Workforce Development; the Mayor's Office of Public Policy and Finance; the Controller's Office, Office of Economic Analysis; Department of Public Works, Division of Finance and Budget; Office of the City Administrator, Capital Planning Program; and the public.

Funding Alternatives & Criteria

This report evaluates the following funding alternatives (see Appendix C for a matrix detailing the potential revenues, types of projects funded, and process for establishment of each alternative):

- *General Fund Set-Asides* are voter-mandated appropriations of discretionary City funds for specific purposes or programs.
- *Tax-Increment Funding (TIF) Tools* use future tax-increment revenue to invest in infrastructure, economic development, and affordable housing projects. These include *Redevelopment Tax-Increment Financing (RTIF)*, which is currently used to help revitalize blighted redevelopment project areas; *Infrastructure Finance Districts (IFD)*, which are intended for use in substantially undeveloped areas;
- *Land-Secured Funding (LSF) Tools* levy special charges on property, including *Mello-Roos/ Community Facilities Districts (CFD)* to fund facilities and services and *Assessment Districts (AD)* to pay for public improvements or services.

This report then evaluates each alternative with the following criteria (see Appendix D for a matrix analyzing the fiscal impact, compatibility, and potential revenues of each alternative):

- *Fiscal Impact* evaluates the burden of costs for the City, the relevant voters, and/or the State
- *Compatibility* evaluates the effectiveness and flexibility of each alternative by identifying the range of public improvements in the ENAP that can be funded;
- *Potential Revenue* projects the range of revenues each alternative possibly generates.

Analysis of Alternatives

The ENIFWG rejected the creation of a *General Fund Set-Aside* as infeasible to implement. Members of the Board of Supervisors have put forth legislation to limit current and future set-asides, and citywide voters have not voted favorably for set-asides in recent years.

Redevelopment Tax Increment Financing (RTIF) and *Infrastructure Finance Districts (IFD)* allocate a portion of new property tax revenue generated in a defined area to that specific area instead of to the City's General Fund. Under state law, tax-increment revenue can fund the construction of capital improvements but cannot fund maintenance, repairs, operations, or City services. New development can have both local and citywide impacts on infrastructure and services. Under traditional RTIF and IFD allocation rules, the majority of the new tax increment would be allocated to fund local public improvements in the Eastern Neighborhoods rather than citywide services in the City's General Fund. However, there is no legal requirement that would prevent the City from allocating a greater portion of new tax increment to the General Fund to supplement citywide services. The Board of Supervisors could also create a pilot project, potentially called a *Proxy TIF*, by annually setting aside a portion of tax increment generated by specific regions of the Eastern Neighborhoods to fund public improvements in these specific areas. A *Proxy TIF* could be used on a pay-as-you-go basis to supplement ENAP development impact fees and/or enhanced services and maintenance. However, the critical constraint is that there is no bonding capacity, rendering them unable to support major capital improvements.

Mello-Roos/ Community Facilities Districts (CFDs) and *Assessment District (ADs)* are voter-approved measures that increase the City's property tax base by levying new charges on properties in a defined area. Unlike TIF funding, the revenue from new charges can fund maintenance, repairs, operations, and services in additional to some capital improvements in the defined area. Although the new charges on property do not affect General Fund revenues, they do increase the burden of cost on land owners and/ or new development. With newly enacted ENAP development impact fess and heightened affordable housing requirements in place, an additional charge resulting from a CFD or AD may diminish the financial feasibility of some development projects and delay or discourage these projects. If development is delayed or discouraged, the revenue from development impact fees, transfer taxes, and property taxes could be delayed or diminished as a result. Therefore, any new taxes or assessments would need to be carefully calibrated to diminish the burden of costs on landowners and development.

Potential Revenues

The Capital Planning Program modeled the potential revenues generated by an IFD and a CFD for the entire ENAP. The CPP made a number of assumptions to model these revenues (see Appendix E for a detailed description of the IFD and CFD models and assumptions).

The CPP's key findings include:

1. **The Growth Rate Determines IFD Revenues**. The speed of development is the key determinant of the amount of revenues generated by an IFD. The portion of the increment dedicated to IFD revenues, while important, has a much smaller impact on the annual revenues the IFD can generate than the annual increase in NAV.
2. **The Timing of Revenues Determines the Bonding Capacity of an IFD**. Given fixed costs of issuance, 30-year bond terms, and the delay in accruing IFD revenue, bonds can

typically be issued between year 5 (assuming a high NAV growth rate) and year 11, assuming a 40-year IFD term.

3. **The Tax Rate Determines CFD Revenues and CFD Bonding Capacity**. For every $1 that the average parcel is willing to pay, the district would receive nearly $7,000 in revenues. A tax rate of $3,600 per parcel would be required to fully fund the $234 million funding gap at a 2.4% NAV growth rate and a tax rate of half that would be required at a 8.4% NAV growth rate.

4. **CFDs Can Issue Larger Bonds, Earlier.** CFDs have the advantage of generating revenues immediately, allowing for the issuance of bonds in year 1. Additionally, a CFD can better leverage its stream of revenue for bonds; for the same revenue stream, a CFD can issue about $100 million in bonds to an IFD's $40 million.

Recommendations

Multiple funding tools are necessary to provide adequate infrastructure and public services to transition the Eastern Neighborhoods from low-density, industrial neighborhoods to higher density, mixed-use neighborhoods. The ENIFWG recommends that the Board of Supervisors:

1. Select both a Tax-Increment Funding (TIF) Tool to fund capital improvements and a Land-Secured Funding (LSF) Tool to fund maintenance, operations, services, and capital improvements;
2. Adopt by resolution a clear statement of policy criteria to guide the use of TIF outside of a redevelopment project area and the creation of a customized TIF tool through state legislation;
3. Commission a consultant study to inform the formation of an IFD and CFD, including determining the potential boundaries of the IFD and CFD, the eligible infrastructure and services funded by the districts, the appropriate tax rates, the appropriate portion of tax increment, and the estimated bonding capacity;
4. Coordinate with other citywide efforts, including the formation of the:
    a. Eastern Neighborhoods Urban Innovation Community Benefit District supported by the Office of Economic and Workforce Development
    b. Assessment Districts under consideration by the Departments of Public Works and Recreation and Parks;
    c. Eastern Neighborhoods Citizen's Advisory Council and the Interagency Planning Implementation Committee, which are charged with establishing a mechanism for identifying and prioritizing final projects, scopes, and expenditures for both CFDs and IFDs; and
    d. City's annually-approved ten-year Capital Plan.

The City will also need to consider: conducting a full fiscal impact report to determine the ongoing costs of providing City services to the new EN residents; whether the City or a 501c3 not-for-profit entity should manage the disbursement of funds generated by the CFD; and expanding City staff's capacity – particularly in the areas of public financing and project implementation – to manage TIF funds, the infrastructure spending program, and coordination with implementing agencies or private contractors.

Overview

This report evaluates and recommends tools for funding the public improvement program in the Eastern Neighborhoods Area Plans (ENAP). This report provides background on the ENAP and the Eastern Neighborhoods Infrastructure Finance Working Group (ENIFWG), an overview and a comprehensive evaluation of the funding tools, and concludes with recommendations and next steps.

The Eastern Neighborhoods Area Plans

The Board of Supervisors adopted the Eastern Neighborhoods Area Plans (ENAP, Ordinance No. 297-08) in December 2008 to rezone and promote development in the largely industrial sections of the Mission, Eastern South of Market Area, Central Waterfront, and Showplace Square/ Potrero Hill neighborhoods (see Appendix A for maps of the ENAP). The ENAP were the result of many years of work by stakeholders from the City and County of San Francisco, business groups, and community organizations to identify the infrastructure and public benefit needs in these areas. Specifically, the needs of the area include:

- Open space and streetscape improvements,
- Transit and transportation improvements,
- Community facilities and services,
- Local and neighborhood serving businesses, and
- Affordable housing.

About the Working Group

The ENAP established a tiered set of development impact fees (Ordinance No. 298-08) to fund these proposed improvements, but projections show that they will not be sufficient to meet all identified infrastructure needs (see Needs Assessment section below). The Board of Supervisors, therefore, adopted Resolution No. 510-08 establishing the Eastern Neighborhoods Infrastructure Finance Working Group (ENIFWG) as a subcommittee of the Capital Planning Committee to recommend additional strategies for funding the public improvements in the ENAP. The ENIFWG aims to fund the capital, maintenance, operations, and service needs in the Eastern Neighborhoods. The ENIFWG was not tasked with selecting specific capital projects for funding nor with prioritizing them.

The ENIFWG consists of nine voting members, six from City departments and three appointed by the President of the Board of Supervisors. The members of the ENIFWG are:

- *Adam Van de Water*, Office of the City Administrator, Capital Planning Program (Chair)
- *Peter Cohen*, Public Member
- *Sarah Dennis*, Planning Department
- *Kurt Fuchs*, Controller's Office, Office of Economic Analysis
- *Douglas Legg*, Department of Public Works, Division of Finance and Budget
- *Dan Murphy*, Public Member
- *James Tracy*, Public Member
- *Greg Wagner*, Mayor's Office of Public Policy and Finance
- *Michael Yarne*, Office of Economic and Workforce Development

The writing of this report was a collaborative effort by the ENIFWG. It was facilitated and written by Maylin Jue and Adam Van de Water of the Capital Planning Program. Libby Seifel of Seifel Consulting Inc., Tom Lockard of Stone and Youngberg LLC, and Nadia Sesay and Anthony Ababon of the Controller's Office of Public Finance served as technical advisors. The final draft was circulated among all members for their review and commentary. There were no objections or disagreements on the content and recommendations of the final draft. The ENIFWG's recommendations and final report were approved by a unanimous vote at the last meeting on July 1, 2009.

Needs Assessment

Seifel Consulting Inc. (Seifel) assessed the current and future need for key community infrastructure, services, and amenities in the Eastern Neighborhoods to inform the Planning Department's development of a comprehensive public benefits package (see Seifel Consulting Inc's *Eastern Neighborhoods' Needs Assessment)*. Based on the results of the Seifel *Needs Assessment* and information gathered from the community during the planning process, Planning Department staff developed an Improvements Program of capital projects and other improvements for each neighborhood and for the Eastern Neighborhoods as a whole. This Improvements Program is fully described in the *Eastern Neighborhoods Implementation Document*, which lists a range of capital projects and other improvements to address the area's existing and future needs for: open space and streetscape improvements; transit and transportation improvements; and community facilities and services. In addition to these public infrastructure needs, the Needs Assessment also identified a desire for more local and neighborhood serving businesses; and affordable or below-market-rate (BMR) housing.

The Planning Department estimated costs associated with the capital projects set forth in the ENAP Improvements Program. While some of the capital projects in the Improvements Program have been specifically identified, the majority of projects are described only in a general sense (i.e. "one new park"), and their specific location and design must be developed during the ENAP's ongoing implementation process. Therefore, many capital projects are estimated in current dollars based on similar public projects within a very broad range of costs per square foot. Actual costs are very difficult to gauge with any appropriate level of detail and could vary from this estimate by as much as 25%, based on site specifics, current labor, and current construction costs when the project is underway. Total cost estimates ranged between $244 million, for a basic set of proposed capital improvements, to $395 million for full funding of all projects considered in the ENAP (see Planning Department, *Implementation Document*, 2008). Capital project costs, identified funding sources, and remaining funding gaps for the ENAP are summarized in Appendix B.

In addition, the costs of increased services and maintenance associated with the ENAP Improvements Program were not estimated, since they were difficult to estimate without a fully-scoped out program or services description. The ENAP acknowledge that a fundamental component of ensuring complete neighborhoods is ongoing operations and maintenance of public infrastructure. In addition to general maintenance and operations, the ENAP also highlighted the need for increased affordable housing production, which is another capital cost not included in the Planning Department's estimates.

Finally, the cost to provide basic city services (such as public protection, community health, public welfare, etc.) to the new residents and workers of the Eastern Neighborhoods was not estimated. A full fiscal impact analysis of the ENAP would provide this information, and give policymakers an estimate of the ongoing fiscal cost of providing these services.

The *Eastern Neighborhoods Implementation Document* also reviewed the effectiveness and appropriateness of a range of methods that could fund and implement the ENAP Improvements Program and associated services described above. Funding mechanisms fall into three categories:

1. *Existing sources* which already provide funding for certain projects in the Improvements Program. These include existing impact fees, secured funding for specific capital projects, and verified state and local bonds. Existing sources will provide between $29 and $45 million dollars towards capital improvements in the Eastern Neighborhoods.

2. *Plan-provided sources* were established by adoption of the ENAP and include the Eastern Neighborhoods Impact Fee, as well as zoning requirements and incentives. Impact fees were set at tiered levels (see impact fee schedule below) in order to maximize the amount of potential revenue generation (see Seifel Consulting Inc.'s *Eastern Neighborhoods Impact Fee and Affordable Housing Analysis*). A conservative estimate based on development projections in the Eastern Neighborhoods Final Environmental Impact Analysis (FEIR) illustrated that the fees could generate anywhere from $77-130 million over the life of the plan, with the Planning Department estimating $116 million as the most likely. Total revenue gained from fees will depend on how much development actually occurs, as well as the density of development. As illustrated below, higher density development projects that were rezoned with increases in height and stories pay higher impact fees, which affects the total revenue gained from fees. The timing of new development and associated impact fee revenue is difficult to predict, particularly in the current economy.

Table 1: Impact Fee Schedule for Eastern Neighborhoods Plan Areas

Tier	Description	Residential	Commercial
1	Projects that remain at current height; Projects under increased housing requirements (Urban Mixed Use); Affordable housing or other "protected" development types.	$8/gross square feet (gsf)	$6/gsf
2	Projects rezoned with minimal (1-2 story) increase in height.	$12/gsf	$10/gsf
3	Projects rezoned with significant (3 or more) increase in height; other designated districts.	$16/gsf	$14/gsf

Source: Planning Department

3. *Future revenue opportunities*, which are explored further by this report.

Existing sources will cover approximately 12% of the capital projects in the ENAP Improvements Program and Plan-provided sources, primarily the Eastern Neighborhoods Impact Fee, will cover 30% of the $395 million for all identified projects and 50% of the $244 million for the more limited set of projects. Per state law, development impact fees cannot be used to fund public infrastructure that corrects existing deficiencies.[1]

This leaves a funding gap of $99 to $234 million to provide the Eastern Neighborhoods with what the ENAP has identified as sufficient levels of infrastructure for open space, transit and public realm improvements, community facilities and services, and affordable housing. This gap does not include funding for maintenance, operations, or services associated with these capital improvements, nor does it include the cost of providing basic City services to the new residents and employees in the ENAP.

Funding Alternatives and Criteria

This report evaluates the following funding alternatives. These alternatives can be implemented individually or in combination and can provide dedicated revenue streams to bond against. Alternatives fall into three categories:

- *General Fund Set-Asides* are voter-mandated appropriations of City funds for specific purposes or programs.
- *Tax-Increment Funding (TIF) Tools* use future tax-increment revenue to invest in infrastructure, economic development, and affordable housing projects. These include *Redevelopment Tax-Increment Financing (RTIF)*, which is currently used to revitalize blighted redevelopment project areas; *Infrastructure Finance Districts (IFD)*, which are intended for use in substantially undeveloped areas;
- *Land-Secured Funding (LSF) Tools* include tools that levy special charges on property, including *Mello-Roos/ Community Facilities Districts (CFD)* to fund facilities and services and *Assessment Districts (AD)* to pay for public improvements or services.

Each alternative is discussed in more detail in the following section, and a matrix detailing their revenues, projects funded, and establishment can be found in Appendix C.

This report then evaluates each alternative with the following criteria:

- *Fiscal Impacts* evaluate the benefits and burden of costs for the City, the State, and/or the Eastern Neighborhoods.
- *Compatibility* evaluates the effectiveness and flexibility of each alternative by identifying the range of public improvements in the ENAP that can be funded.
- *Potential Revenue* projects the range of revenues each alternative possibly generates.

A matrix analyzing the fiscal impact, compatibility, and potential revenues of each alternative can be found in Appendix D.

[1] A fee shall not include the costs attributable to existing deficiencies in public facilities, but may include the costs attributable to the increased demand for public facilities reasonably related to the development project in order to (1) refurbish existing facilities to maintain the existing level of service or (2) achieve an adopted level of service that is consistent with the general plan (Government Code 60001, g)

Analysis of Funding Alternatives

For any and all funding alternatives to be viable, the alternative will need to balance the benefits and the costs for the City, State, and Eastern Neighborhoods; be compatible with the proposed ENAP; and be able to generate a substantial amount of revenue.

General Fund Set-Asides

To establish a General Fund Set-Aside Fund, the majority of registered voters must approve the ballot measure to set aside funds for a specific program or purpose. The ballot measure can be a proposition which is placed on the ballot by the Board of Supervisors or an initiative which is placed on the ballot by the public.

The ENIFWG concluded that the creation of a General Fund Set-Aside Fund for the Eastern Neighborhoods is currently infeasible to implement. Set-Asides carve out more of the General Fund budget for specific purposes and further limit discretionary funds for basic city services. A General Fund Set-Aside for the Eastern Neighborhoods would appropriate discretionary citywide money for a specific area in San Francisco. Citywide voters have not voted favorably for General Fund Set-Asides in recent years and are unlikely to be receptive to a General Fund Set-Aside that does not benefit the entire City. Members of the Board of Supervisors have also put forth legislation to reform current and future General Fund Set-Asides by setting a dollar cap on them, authorizing reductions during fiscal shortfalls and waiver during emergencies, and requiring the return of surplus balances.

Tax-Increment Funding (TIF) Tools

The two primary types of Tax-Increment Funding (TIF) tools currently allowed by State Law are *Redevelopment Tax-Increment Financing (RTIF)* and *Infrastructure Finance Districts (IFD).* Both utilize future tax revenue to help fund the planning, design, purchase, construction, improvement, or rehabilitation of properties; but RTIFs and IFDs cannot pay for maintenance, repairs, operating costs, or services. The Board of Supervisors is empowered to create another potential but untested tool, what could be called a *Proxy TIF*. This would require the Board to make an annual appropriation of a portion of the General Fund equivalent to the Eastern Neighborhoods' tax increment revenue and accordingly would not create a dedicated revenue stream that could be bonded against. However, unlike an IFD, this approach would not require two-thirds vote of property owners or registered voters, and there would be no restrictions on the use of the increment, other than those that would otherwise apply to General Fund monies. The Proxy TIF is not separately analyzed in this report.

TIF Tools require an increase in the area's Net Assessed Valuation (NAV) to generate revenue. This increase in NAV occurs over time and is a result of both property appreciation and future development activity. The traditional rationale of TIF, as applied in redevelopment areas, is to create a progressive investment cycle where capital improvements funded by TIF lead to more private investment and new development that generate greater growth in assessed value over time. The notion is that "but for" the upfront public investment enabled by TIF bonds, the cycle of private investment would not occur and the increment would never exist. The primary rationale for implementing TIF in the ENAP is different. Instead of stimulating private investment solely through public investment in infrastructure, the TIF would also be used to increase public investment in neighborhoods rezoned for substantial increases in development potential. Areas that accept substantial and quantifiable development potential would be guaranteed a portion of the TIF generated from the new development for public infrastructure. TIF can also be used to offset the existing infrastructure deficiencies that cannot be financed by development impact fees. In this case, the larger increment would not exist "but for" the zoning changes as well as the upfront public investment.

At the time a TIF tool is adopted, the assessed value of all properties located within the TIF area is calculated by the County Assessor and designated as the base assessed value. The tax increment is equal to the property tax revenue generated as a result of an increase in the assessed property value above the base. For example, assuming that the project area is adopted during Fiscal Year 2010, the current assessed value of all properties within a designated area within the Eastern Neighborhoods will be the base. The increase in NAV in 2012 will be the difference between the NAV in 2012 and the 2010 base assessed value. The tax increment is the amount of tax revenues generated from this difference. The majority of the tax increment is used to invest in the area.

RTIF Overview

RTIF under current state law allows future tax revenues to be invested in economic development, property revitalization, and public capital projects for up to 45 years in a defined geographic area, specifically a redevelopment area (CA Health and Safety Code 33670-33679). The projects include the provision of residential, commercial, industrial, public, or other structures or spaces that are in the interest of general welfare. Under current law, the tax increment can fund redevelopment activity that primarily benefits the redevelopment project area. Redevelopment includes the planning, development, design, construction, or rehabilitation of any facilities or space essential to the project area (CA Health and Safety Code 33020-33022). Twenty percent of the tax-increment revenue must be used for low and moderate income housing. The tax increment revenue cannot be used to pay for employee or contractual services of any government agency unless the services are directly related to redevelopment. The area must also be blighted; a blighted area is one that is predominantly urbanized and suffers from adverse physical and economic conditions as defined in State Law (CA Health and Safety Code 33030-33039).

Although RTIFs have been widely used in California, RTIFs are currently only available under state law to redevelopment agencies who follow a legally prescribed process to adopt a redevelopment plan for an area with blight findings. To use RTIF in the Eastern Neighborhoods, the City would need to adopt blight findings, which may or may not be appropriate or legally defensible for many areas in the ENAP. Therefore, the City would need state legislation to allow tax increment revenues to be collected and spent outside of a redevelopment area to use RTIF for the entire Eastern Neighborhoods.

IFD Overview

California cities and counties can also form IFDs to pay for public capital improvements. It is the intent of the California Legislature that IFDs be formed in substantially undeveloped areas (CA Government Code 53395). IFDs cannot be established within a redevelopment area but may include areas that are not contiguous. IFDs have not been widely used in California. Two IFDs have been established in the state, and the Port of San Francisco is currently developing the City's first IFD along the southeastern waterfront.

IFDs can allocate tax-increment revenues for 30 years with a possible 10 year extension to fund the planning, design, purchase, construction, improvement, or rehabilitation of properties with an estimated life of 15 years or longer. These properties include but are not limited to highways, transit, water systems, sewer projects, flood control, childcare facilities, libraries, parks, and solid waste facilities. The facilities must have community significance and provide significant benefits to an area larger than the district. They do not need to be located within the boundaries of the IFD. IFDs cannot pay for maintenance, repairs, operating costs, and services.

IFDs are formed with approval by the legislative body, consultation with other taxing entities, and two-thirds voter approval within the district (if there are twelve or more registered voters in the district). The majority of the Board of Supervisors must approve the finance plan and the issuance of bonds proposed by the IFD. Affected local agencies must also approve the contribution of their portion of the tax increment to the IFD, and two-thirds of registered voters (if there are twelve or more) within the district must approve the creation of an IFD and any bonds issued from them. If there are fewer than twelve registered voters in an IFD, the approval of two-thirds of property owners is required instead. Property owners' votes are weighted based on the number of acres owned. If the land is publicly owned (as in the case of the Port of San Francisco), no voter approval is required.

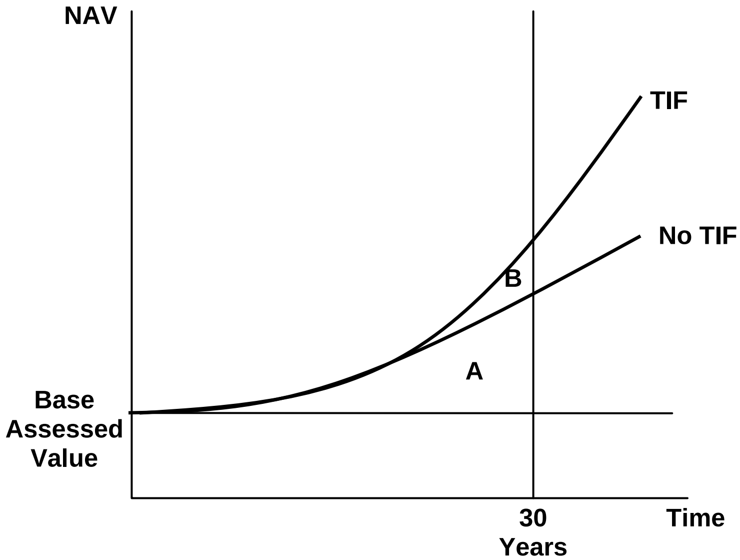
Fiscal Impact of TIFs

TIFs allocate a portion of new tax increment revenue that would otherwise accrue to the City's General Fund to a TIF area for public capital improvements, without increasing residents' taxes, assessments, or fees. The rationale for creating a TIF is that *but for* the TIF-backed public investment in capital improvements, increased private investment and the new tax-increment revenue would not have existed. Accordingly, it is considered prudent to allocate a portion of future tax increment to underwrite projects that catalyze private investment (and General Fund revenues) that would not otherwise occur. However, as noted earlier, the rationale for using TIF in the ENAP is somewhat different. It is based instead on the notion of capturing the additional increment from enhanced private investment made possible by both substantial and quantifiable increases in zoned development potential through the ENAP and capital improvements.

As detailed in Appendix E, the City's General Fund normally receives 64.7 cents of every tax dollar with the remaining 35.3 cents going to the Educational Revenue Augmentation Fund (ERAF) and four other taxing entities: the Unified School District (SFUSD), Community College District (CCSF), Bay Area Rapid Transit (BART), and the Bay Area Air Quality Management District (BAAQMD). In areas with established RTIF or IFDs, the City traditionally receives a smaller portion of tax-increment revenues (see Appendix E for a detailed description of the tax allocations under each scenario).

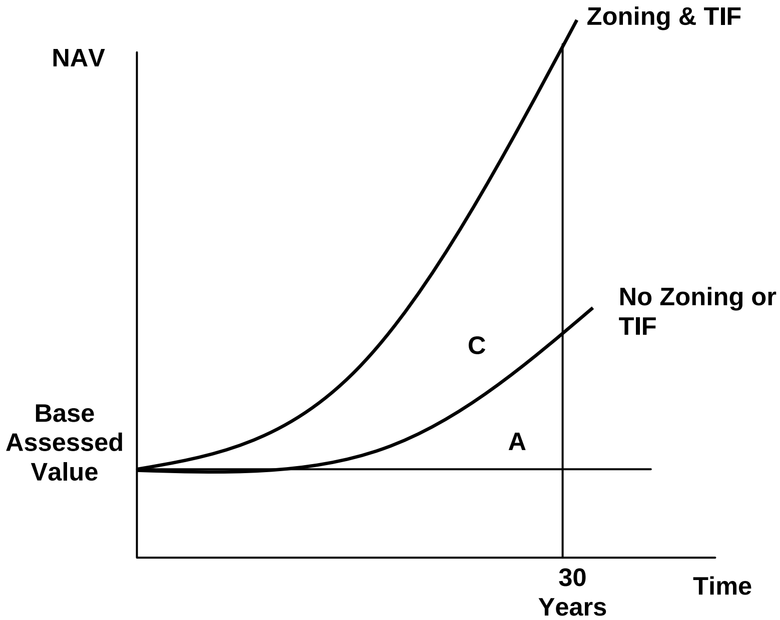
The ENAP includes some areas that are unlikely to see significant new development. As illustrated by Figure 1, in these areas the City would have gained the full tax increment A without the implementation of tax increment tools. Implementing a tax increment tool in these areas would gain a small additional tax increment, B. Traditionally these neighborhoods would be capturing both area A and a large portion of B for public improvements in the neighborhood. This allocates a significant portion of future General Fund revenues to the neighborhoods, A, in exchange for the creation of only minimal increases to the City's tax base, B.

Figure 1



Other ENAP areas will experience significant future development potential through substantial zoning changes. As illustrated by Figure 2 below, implementing a TIF tool in these substantially rezoned areas leverages the equivalent portion of General Fund revenues, A, to gain a higher return in future property tax revenues, C. The higher future property tax revenues are a result of both the rezoning and, to a lesser extent, the public investment of TIF. The neighborhoods captures a much larger property tax increment for capital improvements than above, and the City receives a higher return on investment. In addition, these areas are more likely to bring new residents and workers who contribute to sales, payroll, parking, and utility tax collections. This indirect economic activity further increases the City's tax base.

Figure 2



The ENIFWG also recognizes that as the Eastern Neighborhoods develop, the population will increase, and these new Eastern Neighborhoods residents will place additional demand on local and City services. The City currently does not collect enough tax revenue to fully fund basic City services. Therefore, the City will need a larger pass-through of additional property tax revenue than legally allowable to meet the expanded public service needs in the Eastern Neighborhoods. If the current legally allowable tax increment were allocated to fund the RTIF or IFD, there would be little to no new funding source to pay for the City services needed by new residents. As a result, the revenue from the rest of the City will bear the cost of paying for these additional services. To lower the burden of cost on the City, a larger portion of the tax increment could be allocated to the General Fund than allowed by law.

RTIF and IFD Compatibility with the ENAP

If made available as a funding tool through a state law change, RTIF could fund key capital and infrastructure improvements in ENAP, such as park acquisition, transit facilities, and expansion of community facilities. RTIF also directly funds affordable housing with twenty percent of its tax increment. However, traditional RTIF cannot fund any maintenance, repairs, or operations of these capital improvements or provide community services.

An IFD can fund all capital and infrastructure improvements on properties with a useful life of 15 years or longer in ENAP, such as park acquisition, transit facilities, and expansion of community facilities. An IFD cannot fund any maintenance, repairs, or operations of these capital improvements or provide community services. It is unclear whether an IFD may be used to fund affordable housing, except for circumstances where existing housing is demolished or removed as a result of their public infrastructure financed by an IFD. In these cases, IFD must set aside twenty percent of their units for affordable housing.

Land-Secured Funding (LSF) Tools

The two primary Land-Secured Funding (LSF) tools are *Mello-Roos/ Community Facilities Districts (CFDs)* and *Assessment District (ADs)*. They are new taxes or charges levied on properties and approved by either two-thirds of voters in the district (CFDs) or a weighted majority of property owners (ADs) (see Stone and Youngberg LLC, *The Stone & Youngberg Guide to Land-Secured Finance*, 2004). Unlike TIFs, CFDs and ADs can fund maintenance, repairs, operations, and services. CFDs can additionally fund capital needs, making CFDs the most flexible tool under consideration. Finally, these tools do not rely on any tax increment, meaning that all of property tax revenue generated by new development will flow to the existing tax entities (see Table 2).

CFD Overview

The Board of Supervisors must adopt a Resolution of Intention describing the boundaries and name of the CFD, types of facilities and services provided and purchased, the design and conditions of the special tax, time and place of public hearing, and the voting procedure. The boundaries of a CFD are flexible; they do not need to be contiguous, and additional areas can also be annexed into the district. There is also no requirement that the tax be apportioned based on benefit received or that a uniform tax rate be levied throughout the entire CFD. Therefore, a higher tax rate may be levied on properties closer to the improvements than on properties further away, but the tax rate levied does not need to be exactly proportional to the benefit received.

The tax can be structured to vary based on zoning or development intensity of the property being assessed. However, the tax structure cannot be based on property value.

The City must hold an election to authorize levying the special tax. If there are twelve or more registered voters within a proposed district, the tax must be passed by a two-thirds vote of the registered voters in the district. If there are less than twelve registered voters, the special taxes can be passed by a two-thirds vote by the landowners in the district. Landowners' votes are weighted based on the ownership of land area.

The special tax can fund the planning, design, purchase, construction, expansion, improvement, or rehabilitation of privately or publicly owned property with a useful life of five years or more. For tax-exempt CFDs, only public facilities can be funded. These capital facilities include but are not limited to: local park and recreation facilities; parkway facilities; elementary and secondary school sites; fire stations; highway interchanges; water and sewer systems; libraries; child care facilities; and undergrounding of utilities. Facilities funded do not need to be physically located within the boundaries of the CFD. A CFD tax can also fund certain services on a pay-as-you-go basis. These services include: police protection; fire protection and suppression; ambulance and paramedics; flood protection; recreation program and library services; removal and remedial action for cleanup of hazardous substances; and maintenance of parks, parkways, and open space (see CA Government Code 53313 for complete list and description).

AD Overview

The Board of Supervisors must initiate proceedings and adopt a Resolution of Intention. The Resolution must describe the boundaries of the district, the proposed improvements, the proposed assessment, and information about the issuance of bonds. An assessment is any levy or charge on real property that is imposed to pay for a public improvement or service that benefits the property. The size of the assessment is proportional to the benefit that the property receives from the public service or improvement.

A weighted simple majority of landowners must approve the establishment of an AD. Each landowner's vote is weighted in proportion to the size of the assessment he or she is paying. The size of the assessment levied on each landowner must be proportional to their benefit received from the improvements.

An AD funds specified improvements, maintenance, and services that the legislative body determines to improve public streets, places, property, easement, or right-of-way. The improvements include: grading, paving, and graveling of streets and roads; construction or reconstruction of sidewalks, crosswalks, steps, fountains, curbs, etc; fire and flood protection improvements; bombs and fallout shelters; improvements for water service, electrical service, gas service or lightning; and works, systems, or facilities for the transportation of people. All work must be done on public property.

San Francisco currently has many ADs across the City and several others are in development. The Office of Economic and Workforce Development is currently working with a small steering committee to form a new ENAP Community Benefits District (CBD) that would fund full-time staff and programs to actively promote sustainable economic development in the newly created

Production, Distribution and Repair and Urban Mixed Use districts (PDR-UMU). Similarly, the Department of Public Works is considering the establishment of a citywide Landscape and Lighting Assessment District, and the Recreation and Parks Department and not-for-profit Neighborhood Parks Council have expressed interest in establishing a citywide Assessment District for parks maintenance. The creation of a new AD in the ENAP should be done with consideration of these broader citywide efforts.

Fiscal Impact of LSFs

Funding the ENAP with LSFs means that property owners will pay an additional tax or assessment. As new taxes or assessments, LSFs offer new sources of revenue to fund development, and they do not reallocate new tax-increment funds from the City's General Fund. LSFs have positive benefits to residents and property owners who experience improved public amenities and higher levels of public services. To the extent that these improvements increase property values and indirect economic activity, LSFs also benefit the City as a whole by increasing the overall tax base.

However, establishing a CFD or AD will also likely require a voter education campaign (which will require City resources) to convince voters that the development is worth paying for through a special tax or assessment. Additionally, when establishing an AD, the assessment charged must be proportional to the benefit received, and determining the appropriate assessment rate for each property owner will also require City resources.

Depending on market conditions, imposing additional taxes or assessments on property in the ENAP could have an adverse impact on the financial feasibility of new development. Currently, the ENAP are already funded by developer impact fees which have been set at tiered rates of $8 to $24 per gross square foot based on zoning conditions (see Table 1). The additional improvements funded by the CFD theoretically should benefit the buyer or seller of the affected property. However, under certain market conditions, an additional tax or assessment could limit new development investments.

As emphasized in the final Planning Department report[2], ENAP below-market-rate (BMR) housing requirements and development impact fees were set to be as high as possible within the ENAP while maintaining financial feasibility, based on market conditions and cost data from 2006 and updated in early 2008. The Eastern Neighborhoods Financial Analysis found that in many development scenarios, the anticipated increase in land value generated by the ENAP rezoning was sufficient to absorb increased development costs associated with increased affordable/BMR housing requirements and impact fees, thereby still allowing development to occur. However, not all potential development sites received enough added value from the ENAP rezoning to absorb the commensurate increases in BMR housing requirements and impact fees. In these circumstances, increased impact fees would likely reduce the economic incentive

[2] http://www.sfgov.org/site/uploadedfiles/planning/Citywide/Eastern_Neighborhoods/Full_commission_packet_6-5.pdf

to redevelop some properties in the Eastern Neighborhoods and thus may preserve existing uses on these properties or delay development.[3]

Since the adoption of the ENAP and its associated impact fees, a national recession has triggered substantial drops in sale and rental values and rapid declines in absorption for both residential and commercial properties. These economic conditions coupled with the lack of private equity and financing for real estate projects have delayed and discouraged many residential and commercial development projects and may continue to do so for the foreseeable future. If development is delayed or discouraged, the revenue from development impact fees, transfer taxes, and property taxes could be delayed or diminished as a result. To minimize potential negative impact on the financial feasibility of development, additional special taxes and assessments should be kept at relatively low rates.

An additional tax or assessment may also negatively impact some current residents. Four out of five people in the Eastern Neighborhoods are renters, and on average, renters face high rents relative to their household incomes. Landlords can pass through up to 50% of any special tax or assessment to renters (San Francisco Administrative Code, Chapter 37). All of these potential adverse impacts caution against establishing an LSF that would impose substantial costs on landowners.

CFD and AD Compatibility with the ENAP

A CFD has the most flexibility in funding public infrastructure. Within the ENAP, the CFD can fund most proposed capital improvements and the maintenance, operations, and services accompanying them. However, CFDs cannot fund affordable housing.

Within the ENAP, the AD can fund the maintenance, repairs, and operations of most improvements but cannot fund most major capital improvements. ADs additionally do not provide funds to support affordable housing.

Potential Revenues

In consultation with the Controller's Office and Stone and Youngberg, LLC, the Capital Planning Program (CPP) modeled the potential revenues generated by an IFD and a CFD for the entire ENAP. The CPP made a number of assumptions to model these revenues (see Appendix E for a detailed description of the IFD and CFD models and assumptions). All revenues are shown in present value terms. The CPP chose to model these specific forms of TIF and LSF as:

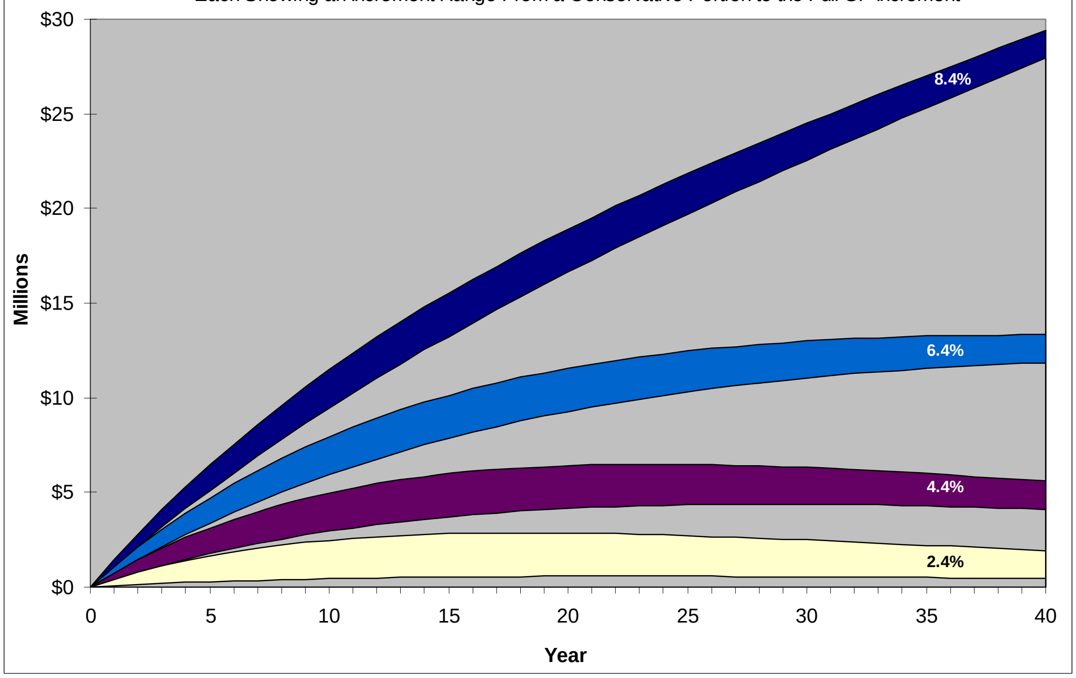
1. IFDs are the only currently available form of TIF for use in the Eastern Neighborhoods (RTIFs can only be used in redevelopment areas), and
2. CFDs do not require known locations, costs, and quantifiable benefits of the projects funded (ADs require this level of detail in order to ensure that the assessment is proportional to the benefit received).

[3] The Controller's Office finds in their "Eastern Neighborhoods Area Plans: Economic Impact Report" that even without the new fees and inclusionary requirements, the projects analyzed are only marginally feasible, given current market conditions. When the proposed impact fees and inclusionary requirements are included as additional development costs, financial feasibility of projects is diminished. (http://www.sfgov.org/site/uploadedfiles/controller/oea/081152_economic_impact_final(1).pdf)

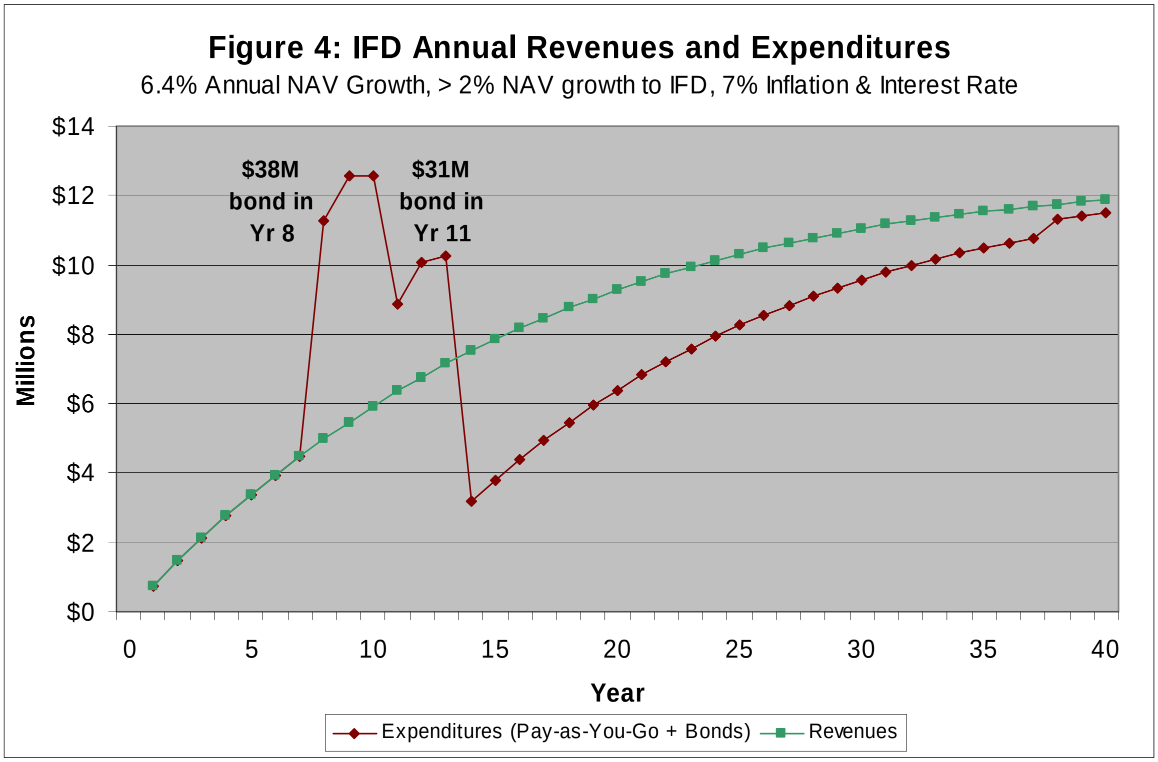
The CPP's key findings include:

1. **The Growth Rate Determines IFD Revenues**. The speed of development is the key determinant of the amount of revenues generated by an IFD. An IFD captures a portion of tax increment revenue and therefore will only capture revenue as new parcels are developed and the NAV in the area increases. The more rapidly the area develops, the more likely it is for an IFD to capture the increased tax increment revenue before its term expires in 30 to 40 years. As shown in Figure 3 below, the higher the annual increase in NAV (represented by the four colored ribbons for four potential growth rates: 2.4%, 4.4%, 6.4%, and 8.4%), the higher the annual IFD revenues. The portion of the increment dedicated to IFD revenues (as shown by the width of each growth rate ribbon), while important, has a much smaller impact on the annual revenues the IFD can generate than the annual increase in NAV.

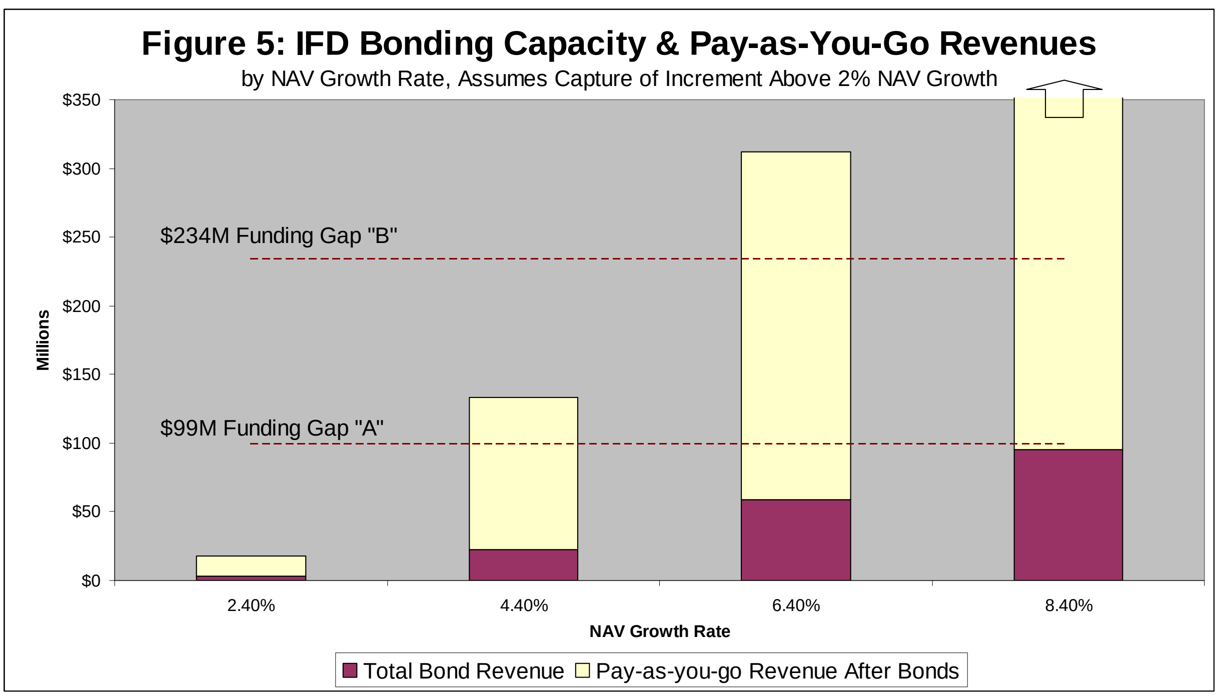
Figure 3: Projected Annual IFD Revenues
Adj for 7% Inflation Using 4 Different NAV Growth Rates
Each Showing an Increment Range From a Conservative Portion to the Full GF Increment



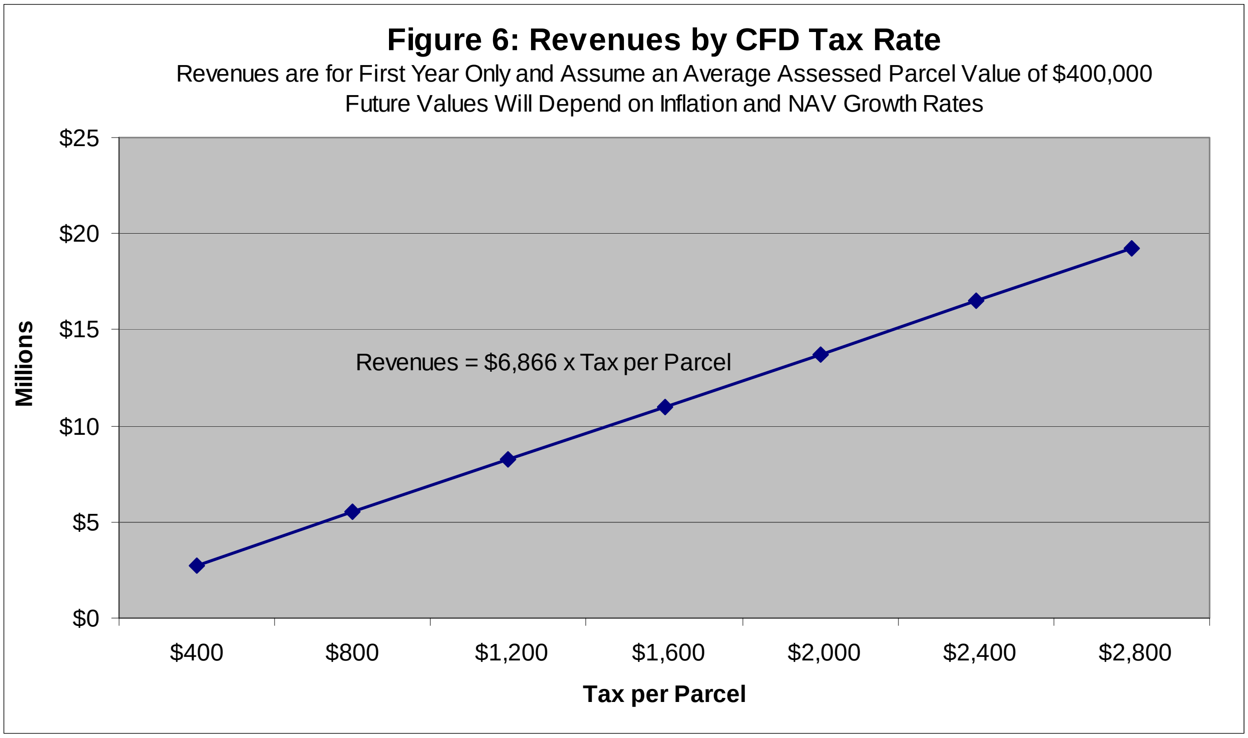
2. **The Timing of Revenues Determines the Bonding Capacity of an IFD**. Given a 40-year IFD term, bonds with a typical 30-year repayment schedule can only be issued within the first ten years of the IFD. Figure 3 also illustrates the fact that the majority of IFD revenues accrue in the later years of the IFD term due to incremental NAV growth. Because of the fixed costs of bond issuance, the first several years do not generate enough revenue to justify issuing bonds. Therefore, as illustrated by Figure 5, bonds can only be issued between year 5 (assuming a high NAV growth rate) and year 11.



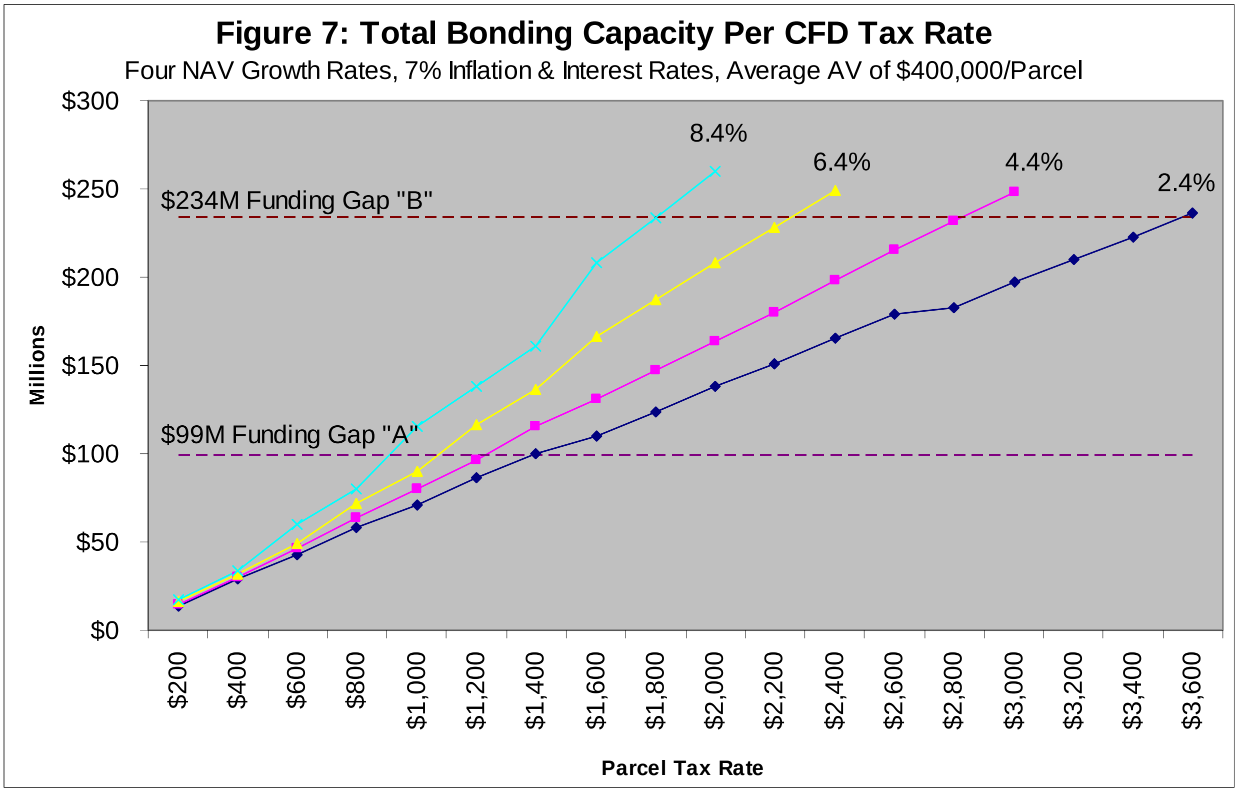
Depending on the NAV growth rate in the neighborhoods, an area-wide IFD capturing only the GF tax increment above 2% NAV growth can generate from $3 million up to $95 million in bonding capacity. This is represented by the dark red areas in Figure 5 below. The yellow areas in Figure 5 represent the remaining pay-as-you-go revenues (after debt service on the bonds) that largely accrue in the later years of the IFD term.



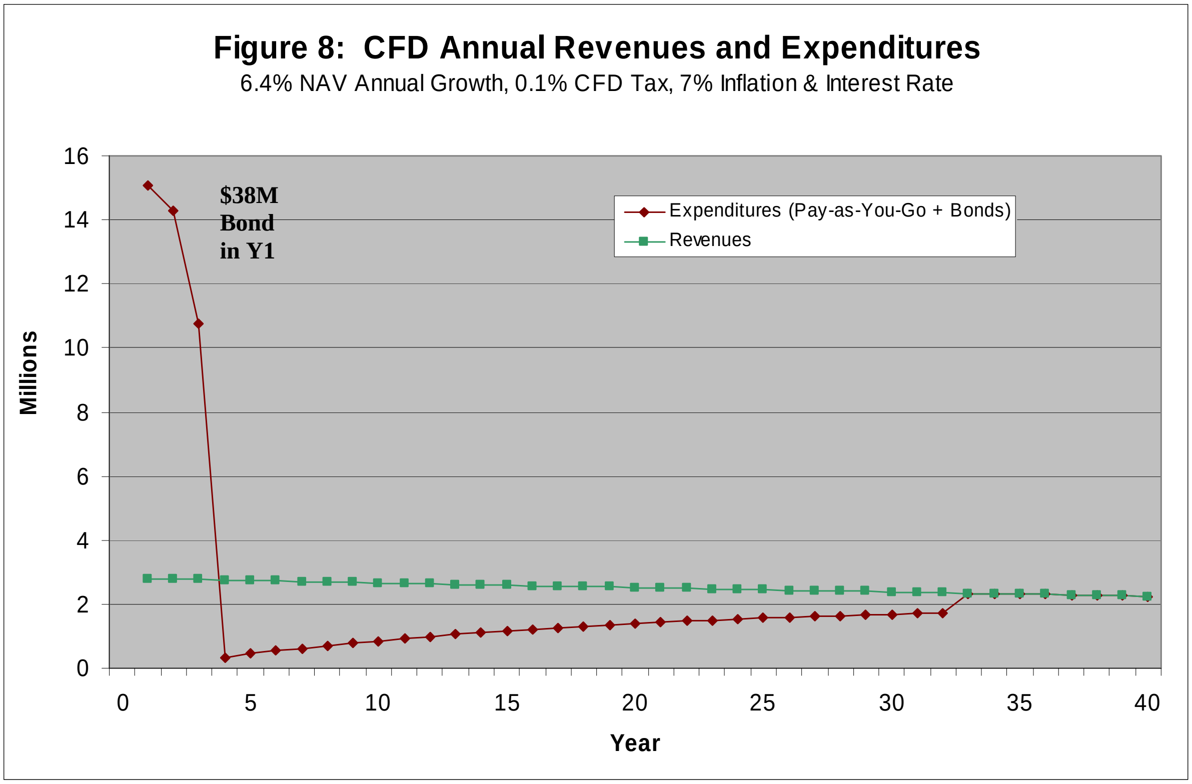
3. **The Tax Rate Determines CFD Revenues and CFD Bonding Capacity**. The amount of revenues generated by a CFD depends almost entirely on the residents' willingness to pay. As shown in Figure 4 below, for every $1 that the average parcel is willing to pay, the district would receive nearly $7,000 in revenues.



Bonding capacity is a function of both the CFD tax rate and the NAV growth rate. As shown in Figure 6 below, a tax rate of $3,600 per parcel would be required to fully fund the $234 million funding gap at a 2.4% NAV growth rate and a tax rate of half that would be required at a 8.4% NAV growth rate.



4. **CFDs Can Issue Larger Bonds, Earlier.** As shown by Figure 7, CFDs have the advantage of generating revenues immediately, allowing for the issuance of bonds in year 1. This allows CFDs to pay for significant improvements in the first few years, unlike an IFD which cannot issue bonds until years 5 to years 11. Additionally, a CFD has a more consistent stream of revenue and can therefore better leverage its stream of revenue for bonds. For example, for roughly a $200 million total stream of revenue over 40 years, a CFD can issue about $100 million in bonds, while an IFD can only issue about $40 million in bonds.



Recommendations

The ENAP Improvements Program encompasses capital improvements that require maintenance, operations, and services. The costs and benefits of these public improvements should be shared by both the City and Eastern Neighborhoods' property owners and/or tenants. The funding tools the ENIFWG evaluated include a General Fund Set-Aside, Tax-Increment Financing Tools (RTIF and IFD), and Land-Secured Funding Tools (CFD and AD). These funding tools were evaluated based on the following criteria: fiscal impacts on the City, State, and Eastern Neighborhoods; compatibility with the ENAP; and potential revenues generated by each funding alternative.

No single alternative comprehensively met all four of our criteria. The ENIFWG rejected a General Fund Set-Aside as infeasible to implement. The ENIFWG also found that the current set of TIF tools generate significant revenues for various types of capital improvements. However, they do not fund maintenance, operations, or services, and RTIF cannot currently be used of a redevelopment project area. Land-Secured Funding tools, on the other hand, can fund some capital as well as maintenance, operations, and services but to generate significant revenue would require neighborhood support for high increased taxes or assessments that may decrease the financial feasibility of new development and adversely affect existing residents.

The ENIFWG, therefore, makes the following recommendations:

Recommendation #1: Take Steps to Implement a Tax-Increment Financing Tool and a Land-Secured Funding Tool

The ENIFWG recommends that the City ultimately select both a *Tax-Increment Funding Tool* to fund capital improvements and a *Land-Secured Funding Tool* to fund capital projects, maintenance, operations, and services. The combination of the tools also allows the City and the Eastern Neighborhood property owners to share the costs.

Both sets of tools should meet the following basic parameters.

1. Any *Tax-Increment Funding Tool* should:
   a. only pledge a *portion* of its share of the net increase in property tax revenues to funding area-specific improvements, preserving the share of other taxing entities and enabling continued revenue to flow to the General Fund to fund needed services;
   b. have a dedicated source of revenue that is large enough to issue bonds against;
   c. not overlap with existing redevelopment project areas where TIF is already programmed;
   d. have demonstrated quantifiable existing public infrastructure deficiencies which cannot be funded by impact fees on new development;
   e. have undergone a comprehensive community planning process culminating in an adopted area plan with an associated Public Improvements Program; and
   f. only be applied to parcels with a 400 foot radius from parcels that experienced zoning increases that will significantly and quantifiably increase their net development potential.[4]

   Any *Land-Secured Funding Tool* should:
   a. set the tax rate at a level low enough to be acceptable to the required percentage of voters;
   b. ensure it does not significantly increase tax burdens on portions of the Eastern Neighborhoods that already bear development impact fees and/or may be under consideration for other types of taxes or assessments (BIDs, CBDs, parcel taxes); and
   c. relate specifically to a defined set of improvements, maintenance tasks, or services not already provided for by the City or covered by other taxes or assessments.

Recommendation #2: Adopt Clear Policy Criteria to Guide the Use of TIF Outside of Redevelopment Project Areas

The ENIFWG recommends that the Board of Supervisors adopt policy criteria to guide the use of TIF outside of redevelopment project areas. This includes approval of a resolution of policy

[4] Significant and quantifiable increases in development potential can be measured by changes in zoning that allow increased residential density and/or developable area by changes in height or bulk. It should allow for the exclusion of properties where new zoning restricts the permissible use, thereby decreasing potential market value.

formally adopting the criteria outlined in Recommendation #1 above as well as criteria to guide the creation of a customized TIF tool through state legislation. The Board may also wish to consider formally stating the portion of tax increment, or range of tax increment, that should be retained by the General Fund to serve the new resident and worker population in the EN.

Two efforts are currently underway in Sacramento to expand the use of TIF outside of redevelopment project areas; AB 338 (Ma) would allow tax increment districts for "transit villages" throughout the state and AB 1176 (Ammiano) would amend IFD provisions specific to the Port of San Francisco. While neither of these bills currently apply to the EN Public Improvements Program, they could be amended to either contain or set a precedent for establishing a more comprehensive TIF solution specific to San Francisco. A more comprehensive solution could include application of RTIF outside of a redevelopment area (which would not require a blight finding or district-wide vote) and/or legally extending the term of an IFD beyond the current 30 years (allowing the district to issue 30-year debt obligations after the first year).

Recommendation #3: Commission a Consultant Study to Inform the Formation of an IFD and CFD

Given that RTIF cannot currently be used outside of a redevelopment project area and ADs require a strict calculation ensuring that the assessment levied is proportional to the benefit received, the best currently available forms of TIF and LSF for the Eastern Neighborhoods are IFDs and CFDs.

The ENIFWG recommends that the Board of Supervisors commission a professional consultant analysis to more accurately quantify the potential budgetary and financial impacts of forming an IFD and CFD in the ENAP under a variety of geographic and economic scenarios. Since a single IFD or CFD does not need to be contiguous, the ENIFWG recommends forming one IFD and one CFD in the Eastern Neighborhoods in order to diversify risk for investors. The report should detail the potential boundaries of the IFD and CFD, the eligible infrastructure and services funded by the districts, the appropriate tax rates, the appropriate portion of tax increment, and the estimated bonding capacity. As part of the study, the selected consultant should perform neighborhood outreach and public opinion research to gauge support for the IFD and CFD at various tax rates. The Controller's Office of Public Finance has recently issued a Request for Proposals to pre-qualify financial consultants, providing a pool of qualified firms from which to choose for this task

Should the Board decide to establish an IFD and/or an area-wide CFD, they must adopt a Resolution of Intention and send the consultant study to all affected taxing entities, landowners and registered voters in the proposed district outlining the purpose of the district and an estimate of the public improvement infrastructure costs. Following a public hearing, the Board of Supervisors must then adopt a resolution to form the districts and the City must receive support from two-thirds of registered voters (or if less than 12 registered voters, by a two-thirds weighted vote of the landowners in the district).

Recommendation #4: Coordinate With Other Existing Efforts Underway

The ENIFWG recommends coordinating with other existing efforts, including the:

a. Office of Economic and Workforce Development, which is currently working to form a new Community Benefit District in the Eastern Neighborhoods that would fund full-time staff and programs to actively promote sustainable economic development in the newly created Production, Distribution and Repair and Urban Mixed Use districts (PDR-UMU);

b. Department of Public Works, which is working to establish a citywide Landscape Assessment District;

c. Recreation and Park Department and city advocates who are in preliminary discussions to form Assessment Districts for parks maintenance;

d. Eastern Neighborhoods Citizen’s Advisory Council and the Interagency Planning Implementation Committee, which are charged with establishing a mechanism for identifying and prioritizing final projects, scopes, and expenditures for both CFDs and IFDs; and

e. City's annually-approved ten-year Capital Plan.

The City will also need to consider:

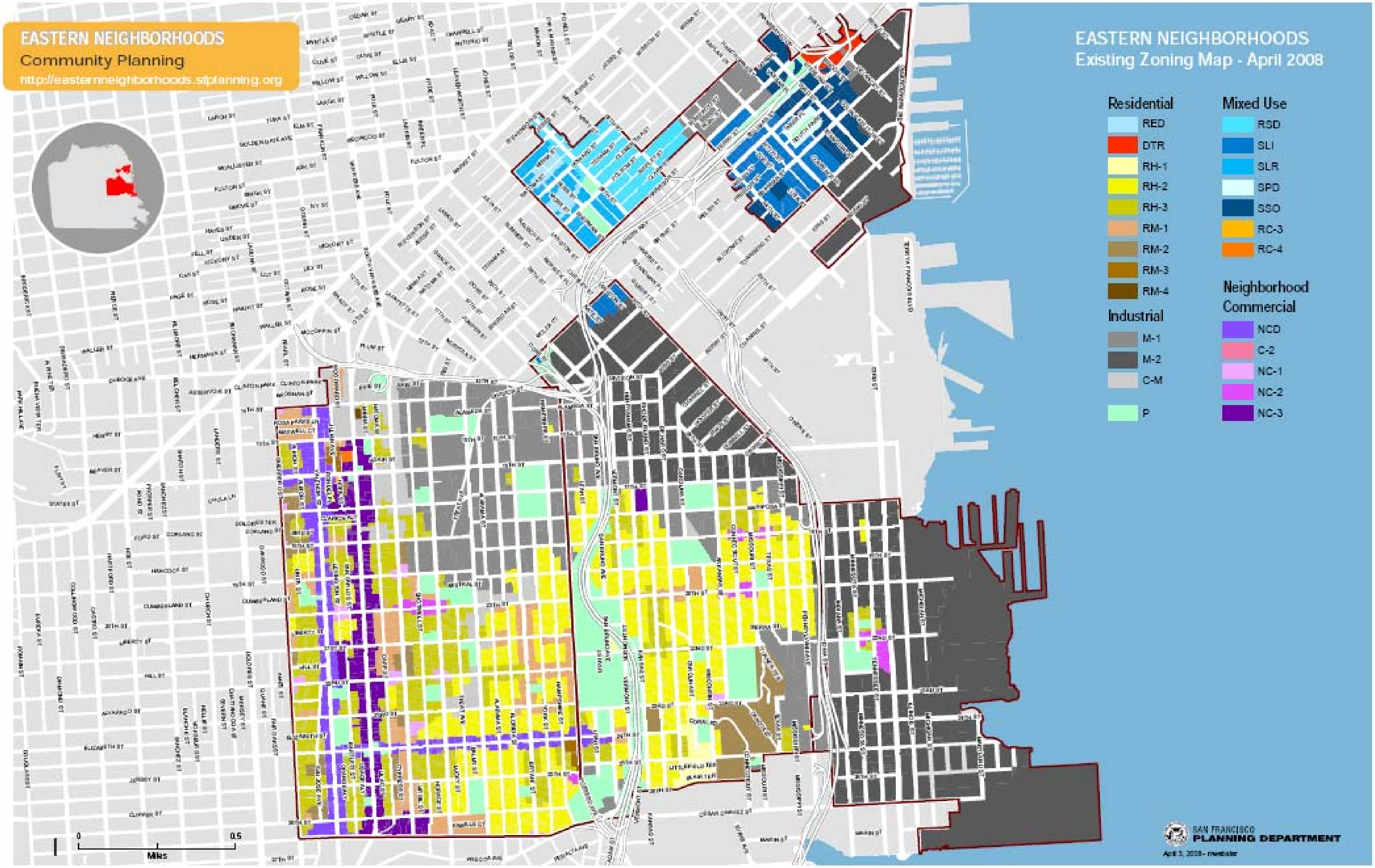
a. Conducting a full fiscal impact report to determine the ongoing costs of providing City services to the new EN residents;

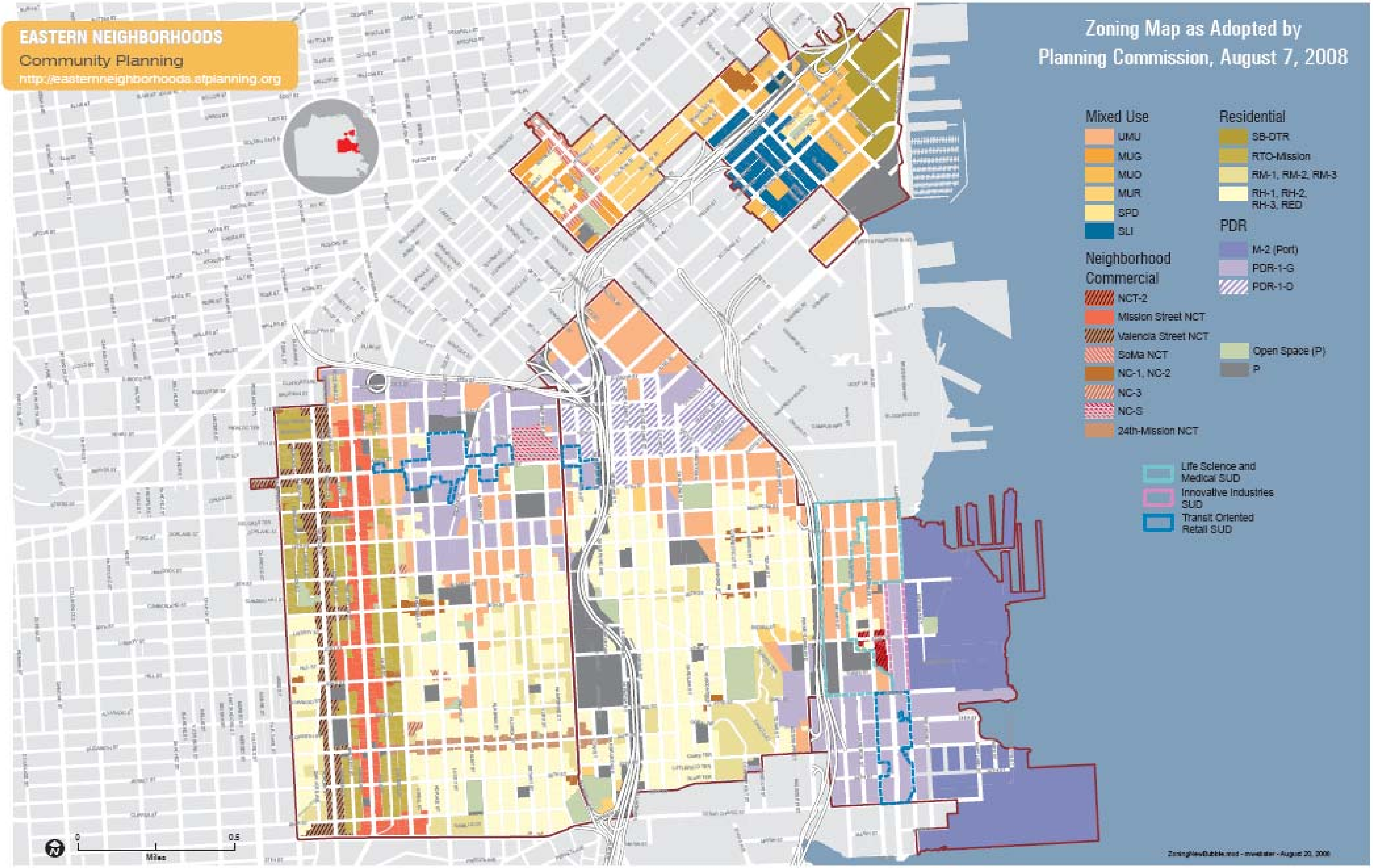
b. Whether the City or a 501c3 not-for-profit entity should manage the disbursement of funds generated by the CFD; and

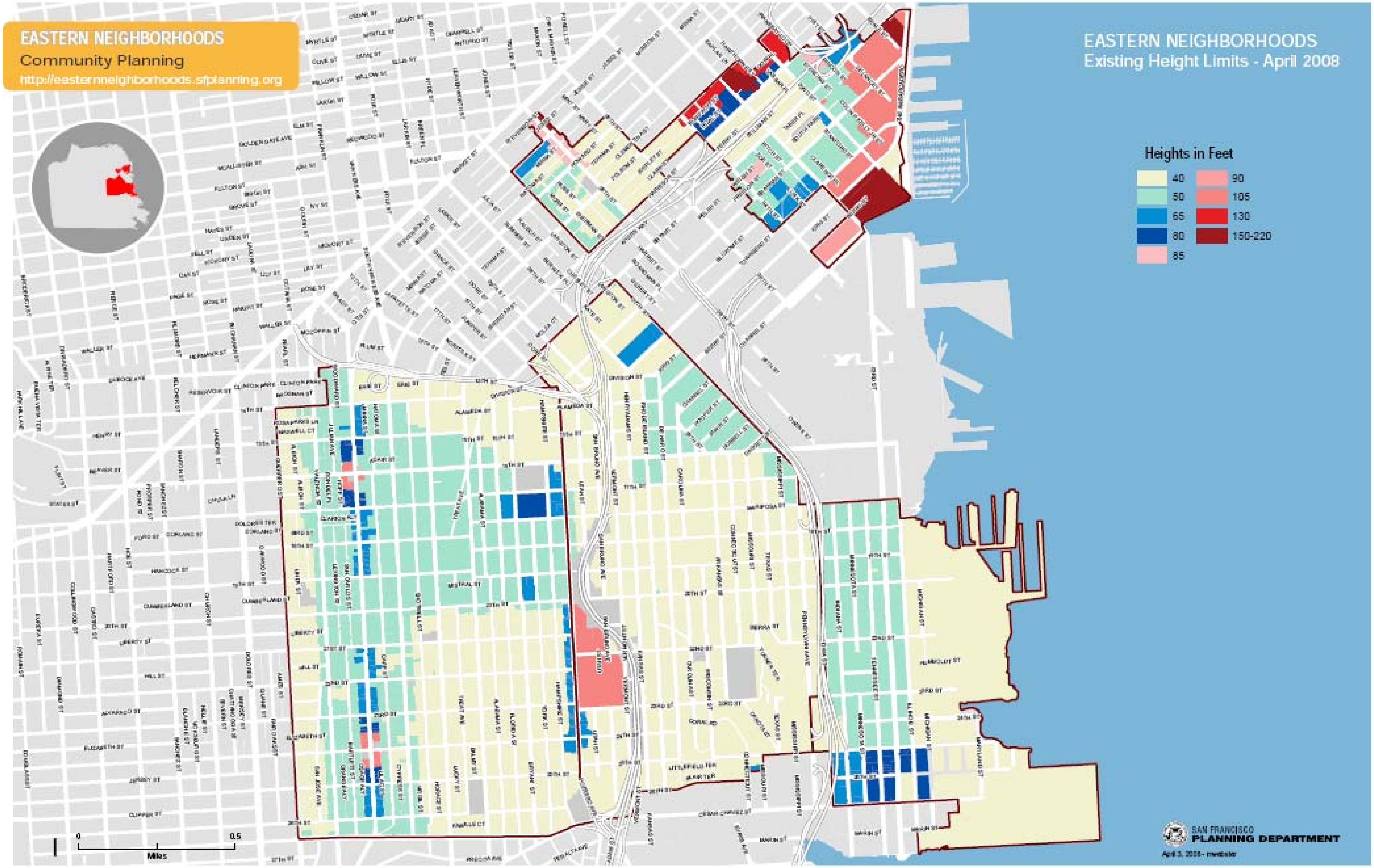
c. Expanding City staff’s capacity – particularly in the areas of public financing and project implementation – to manage TIF funds, the infrastructure spending program, and coordination with implementing agencies or private contractors.

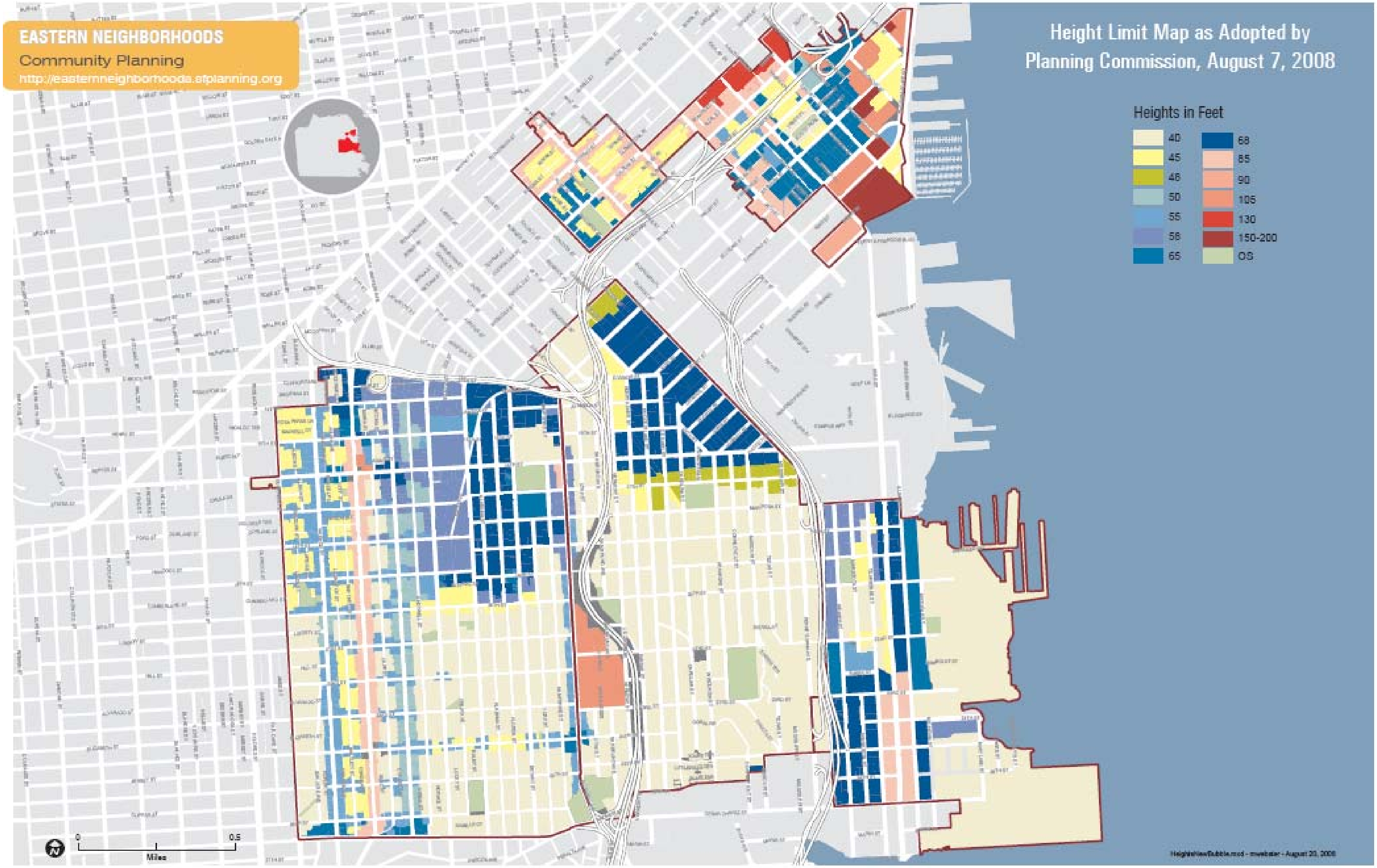
Appendix A: Eastern Neighborhoods Planning Areas Maps

SAN FRANCISCO PLANNING DEPARTMENT | APRIL 2008


EASTERN NEIGHBORHOODS
Community Planning
http://easternneighborhoods.sfplanning.org
EASTERN NEIGHBORHOODS
Existing Zoning Map - April 2008
Residential
RED
DTR
RH-1
RH-2
RH-3
RM-1
RM-2
RM-3
RM-4
Industrial
M-1
M-2
C-M
P
Mixed Use
RSD
SLI
SLR
SPD
SSO
RC-3
RC-4
Neighborhood Commercial
NCD
C-2
NC-1
NC-2
NC-3
0
0.5
Miles
SAN FRANCISCO PLANNING DEPARTMENT


EASTERN NEIGHBORHOODS
Community Planning
http://easternneighborhoods.sfplanning.org
Zoning Map as Adopted by
Planning Commission, August 7, 2008
Mixed Use
UMU
MUG
MUO
MUR
SPD
SLI
Residential
SB-DTR
RTO-Mission
RM-1, RM-2, RM-3
RH-1, RH-2, RH-3, RED
PDR
M-2 (Port)
PDR-1-G
PDR-1-D
Neighborhood Commercial
NCT-2
Mission Street NCT
Valencia Street NCT
SoMa NCT
NC-1, NC-2
NC-3
NC-S
24th-Mission NCT
Open Space (P)
P
Life Science and Medical SUD
Innovative Industries SUD
Transit Oriented Retail SUD
0
0.5
Miles


EASTERN NEIGHBORHOODS
Community Planning
http://easternneighborhoods.sfplanning.org
EASTERN NEIGHBORHOODS
Existing Height Limits - April 2008
Heights in Feet
40
50
65
80
85
90
105
130
150-220
SAN FRANCISCO
PLANNING DEPARTMENT
0
0.5
Miles


EASTERN NEIGHBORHOODS
Community Planning
http://easternneighborhoods.sfplanning.org
Height Limit Map as Adopted by Planning Commission, August 7, 2008
Heights in Feet
40
45
48
50
55
58
65
68
85
90
105
130
150-200
OS
0
0.5
Miles

Appendix B: Eastern Neighborhoods Capital Cost and Revenue Summary [5]

Public Improvement Category	Total Improvement Costs	Development Impact Fee Revenue Allocation[6]	Other Identified Funding	Funding GAP
Alternative A				
Open Space and Recreational Improvements	$ 88,000,000	$ (46,720,000)	$ (11,505,000)[7]	$ 29,775,000
Transportation, Streetscape, and Public Realm Improvements	$ 142,773,668	$ (61,311,000)	$ (17,488,500)[8]	$ 63,974,168
Community Facilities	$ 13,332,000	$ (7,968,000)	$ -	$ 5,364,000
Total Improvement Costs	**$ 244,105,668**	**$ (116,000,000)**	**$ (28,993,500)**	**$99,113,168**
Alternative B				
Open Space and Recreational Improvements	$ 149,265,000	$ (46,720,000)	$ (27,005,000)[9]	$ 75,540,000
Transportation, Streetscape, and Public Realm Improvements	$ 232,248,668	$ (61,311,000)	$ (17,488,500)	$153,449,168
Community Facilities	$ 13,317,000	$ (7,968,000)	$ -	$ 5,364,000
Total Improvement Costs	**$ 394,830,668**	**$ (116,000,000)**	**$ (44,493,500)**	**$234,338,168**

Source: See EN Initiation Package Page 1207, 4/17/2008.

Alternative A's Program of Improvements includes:
- One new park in each neighborhood, and one park renovation in each neighborhood.
- A limited network of "Green Streets", focused on East SoMa and key transit spines.
- 16th Street Transit Improvements and 30-Stockton/45-Union/Stockton Extension.
- General streetscape, pedestrian and bicycle improvements across the neighborhoods.
- Community facilities demanded by new development, as funded by impact fees.
- Affordable housing funded by existing Citywide and new Eastern Neighborhood programs.

Alternative B's Program of Improvements includes all public improvements in Alternative A and additionally includes:
- Additional parks at Townsend Circle in Showplace Square and in East SoMa
- The full proposed network of "Green Streets" and Living Streets
- Expanded transit including Potrero Avenue, Mission Corridor and key transit stop/station upgrades.

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[5] The above cost estimates only include capital projects. Costs related to affordable housing, maintenance, operations, and services are not included in this summary.

[6] The Planning Department estimated that Development Impact Fees will most likely generate $116 million. For residential development, impact fees should be allocated as follows: open space and recreational facilities = 50%; transit, streetscape, and public realm improvements = 42%; and community facilities = 8%. For commercial development, impact fee revenues should be allocated as follows: open space and recreational facilities = 7%; transit, streetscape, and public realm improvements = 90%; and community facilities = 3%. The Controller's Office of Economic Analysis estimated the weighted allocation as follows: open space and recreational facilities = 40%; transit, streetscape, and public realm improvements = 53%; and community facilities = 7%.

[7] February 2009 Proposition A Clean and Safe Neighborhood Parks General Obligation (G.O.) Bonds

[8] Design Grants, Redevelopment Agency, Developer Fees, Grant, Port, Prop K Match

[9] G.O. Bonds, Mission Bay, Port

Appendix C: Funding Alternatives

	Tax-Increment Funding Tools		Land-Secured Funding Tools		
	Redevelopment Tax-Increment Finance	**Infrastructure Finance District**	**Mello-Roos/ Community Facilities District**	**Assessment District**	**Set-Aside Fund**
Revenue					
Source of Revenue	Property Tax Increment	Property Tax Increment	Property-based Special Tax	Assessment	% Taxes
Length of Time	30-45 Years	30-40 Years	20-30 Years	20-30 Years	Unspecified
Projects Financed					
Planning	Planning and Design directly related to real property	Planning and Design directly related to real property	Planning and Design directly related to real property	NA	Planning and Design directly related to real property
Capital	Purchase, Construction, Expansion, Improvement, or Rehabilitation of Real Properties	Purchase, Construction, Expansion, Improvement, or Rehabilitation of Real Properties with Useful Life of 15 years or longer	Purchase, Construction, Expansion, Improvement, or Rehabilitation of Real Properties with Useful Life of 5 years or longer	Capital for Public Improvements**	Purchase, Construction, Expansion, Improvement, or Rehabilitation of Real Properties
Services	NA	NA	Specific Public Services and Maintenance*	Maintenance and Operation of Public Improvements and Services**	Maintenance and Operation of Public Improvements and Services
Other Requirements					
Affordable Housing	20% of Tax-Increment Revenue	Provide if funds used to build housing	NA	NA	NA
Area	Blighted area	Substantially Undeveloped area	NA	NA	NA

** Services include: police protection; fire protection and suppression; ambulance and paramedics; flood protection; recreation program and library services; removal and remedial action for cleanup of hazardous substances; and maintenance of parks, parkways, and open space (see CA Government Code 53313)*

*** Improvements and Services include: grading, paving, and graveling of streets and roads; construction or reconstruction of sidewalks, crosswalks, steps, fountains, curbs, etc; fire and flood protection improvements; bombs and fallout shelters; improvements for water service, electrical service, gas service or lightning; and works, systems, or facilities for the transportation of people (see Assessment District legislation)*

	Tax-Increment Funding Tools		Land-Secured Funding Tools		Set-Aside Fund
	Redevelopment Tax-Increment Financing	Infrastructure Finance District	Mello-Roos/ Community Facilities District	Assessment District	
Establishment					
Board of Supervisors	Authorizing Local Legislation	Resolution of Intention and Ordinance to Form	Resolution of Intention and Ordinance to Form	Resolution of Intention and Ordinance to Form	Place on Ballot
Voters	NA	2/3 District Vote or 2/3 Weighted Landowner Vote***	2/3 District Vote or 2/3 Weighted Landowner Vote***	Weighted Majority Landowner Vote	Majority City Vote
State	Authorizing State Legislation	NA	NA	NA	NA

**** If there are less than 12 registered voters in the district, landowners' votes are weighted based on the number acres owned*

References

- Governor's Office of Planning and Research, *A Planner's Guide to Financing Public Improvements*
- Stone and Youngberg LLC, *The Stone and Youngberg Guide to Land-Secured Finance*

Legislation

Redevelopment TIF

- California Health and Safety Code 33670-33679 (TIF); 33020-33022 (Redevelopment); 33033-33039 (Blight)

Infrastructure Finance District

- California Government Code section 53395 et. seq.

Mello-Roos/Community Facilities District

- California Government Code section 53311 et. seq.

Assessment Districts

- Improvement Act of 1911: Streets and Highway Code section 5000 et. seq.
- Municipal Improvement Act of 1913: Streets and Highway Code section 10000 et. seq.
- Improvements Bond Act of 1915: Streets and Highway Code section 8500 et. seq.
- Park and Playground Act of 1909: Government Code section 38000 et. seq.
- Tree Planting Act of 1931: Streets and Highway Code section 22000 et. seq.

Assessment Districts (cont.)

- Landscaping and Lighting Act of 1972: Streets and Highway Code section 22500 et. seq.
- Benefit Assessment Act of 1982: Government Code section 54703 et. seq.
- Integrated Financing District Act: Government Code section 53175 et seq.
- Street Lighting Act of 1919: Streets and Highways Code section 18000 et. seq.
- Street Lighting Act of 1931: Streets and Highways Code section 18300 et. seq.
- Parking District Law of 1943: Streets and Highways Code section 31500 et. seq.
- Parking District Law of 1951: Streets and Highways Code section 35100 et. seq.
- Parking and Business Improvement Area Law of 1989: Streets and Highways Code section 36500 et. seq.
- Property and Business Improvement District Law of 1994: Streets and Highways Code section 36600 et. seq.
- Pedestrian Mall Law of 1960: Streets and Highway Code section 11000 et. seq.
- Permanent Road Division Law: Streets and Highway Code sections 1160 et. seq.
- Community Rehabilitation District Law of 1985: Government Code section 53370 et. seq.
- Geologic Hazard Abatement District: Public Resources Code section 26500 et. seq.
- Open Space Maintenance Act: Government Code sections 50575 et. seq.
- Fire Suppression Assessment: Government Code section 50078 et. seq.

Appendix D: Analysis and Comparison of Funding Alternatives

	Tax-Increment Funding Tools		Land-Secured Funding Tools		Set-Aside Fund
	Redevelopment Tax-Increment Financing	Infrastructure Finance District	Mello-Roos/ Community Facilities District	Assessment District	
Fiscal Impact					
State		N/A	N/A	N/A	N/A
City					
Citywide Property Owners			N/A	N/A	
Eastern Neighborhoods Property Owners					
Compatibility					
Open Space Improvements	Capital	Capital	Capital/ Operations & Maintenance	Capital/ Operations & Maintenance	
Transportation Improvements	Capital	Capital	Capital/ Operations & Maintenance	Capital/ Operations & Maintenance	
Community Facilities and Services	Capital	Capital	Capital/ Operations & Maintenance	Operations & Maintenance	
Affordable Housing	20% Tax Increment	20% Housing Units	Cannot Support	Cannot Support	
Potential Revenues					
20 Years (Mid-Estimate)			$200M	$100M	
30 Years (Mid-Estimate)	$550M	$600M	$350M	$200M	
40 Years (Mid-Estimate)	$1,200M	$1,300M			

Appendix E: Revenue Projections

San Francisco Property taxes are normally allocated according to the following table:

Table 2: FY 2007-08 Tax Rate & Allocation

Taxing Entity	Tax Rate	Allocation
Countywide, Prop 13 Portion		
CCSF – General Fund	.56685541%	49.68%
CCSF – Library Preservation Fund	.02500000%	2.19%
CCSF – Open Space Fund	.02500000%	2.19%
CCSF – Children's Fund	.03000000%	2.63%
San Francisco Unified School District	.07698857%	6.75%
San Francisco Community College	.01444422%	1.27%
Bay Area Air Quality Mgmt. District (BAAQMD)	.00208539%	0.18%
Bay Area Rapid Transit District (BART)	.00632528%	0.55%
ERAF – Educational Revenue Augmentation Fund	.25330113%	22.20%
Total Countywide	**1.00000000%**	**87.64%**
Voter-Approved Debt Overrides		
CCSF – Debt Service Fund	.10365766%	9.08%
San Francisco Unified School District – Bond Fund	.01664605%	1.45%
San Francisco Unified School District – State Loan Fund	.00002078%	.01%
San Francisco Community College District – Bond Fund	.01307551%	1.15%
Bay Area Rapid Transit District – Bond Fund	.00760000%	.67%
Total Voter-Approved Debt Override	**.14100000%**	**12.36%**
Total Property Tax	**1.14100000%**	**100.00%**

Source: Controller's Office

Under RTIF and IFD, the tax-increment revenue is allocated according to the following table:

Table 3: Summary of Property Tax Allocations

	Tax Allocation from Base Assessed Value and Without TIF Area	Growth in Assessed Value	
		Redevelopment Project Area Tier One Allocation	Infrastructure Financing District (IFD) Allocation[10]
City's General Fund and Related Funds[11]	90%	18%[12]	0% to 25.3%[13]
Property Tax Increment Potentially Available for Infrastructure or Project Related Financing	0%	60%	64.7% to 90%[14]
San Francisco School District	7.7%	1.5%[15]	7.7%
State Districts, inc. SF Community College, BART and BAAQMD	2.3%[16]	0.5%[17]	2.3%
Affordable Housing	0%	20%	0%[18]
Total	100%	100%	100%

Source: Port of San Francisco, Office of the City Attorney & Seifel Consulting Inc.

In order to project future property values and tax revenues, the CPP examined the growth rate of the Net Assessed Value (NAV) of property in San Francisco over the last 19 years. The growth rate of NAV in San Francisco takes into account both increases in property values from inflation, added value from surrounding development, and new development.

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10 The State IFD law tracks the normal property tax allocation, not the redevelopment allocation. It allows affected taxing entities to contribute the share of taxes they would otherwise receive to the district, to help finance certain types of infrastructure under a infrastructure plan adopted by the legislative body. In contrast to redevelopment law, the IFD law does not require that the area be blighted. (See AB 1085, Migden, 2005, amending Section 53395.1 of, and adding Section53395.8 of, the CA Government Code.)

11 The City's General Fund property tax share includes 8% allocated to Special Funds set aside under the City's Charter (i.e. 2.5% to the Library Preservation Fund, 2.5% to the Open Space Fund, and 3% to the Children's Fund), 25.3% currently transferred to the Educational Revenue Augmentation Fund (ERAF) and 56.7% to the City's General Fund as discretionary revenues.

12 Equal to 90% of the 20% tier one statutory pass-through under the Community Redevelopment Law ("CRL"). The General Fund is only eligible to receive Tier one pass through payments.

13 The General Fund would need to cover the 8% allocation under the City's Charter for library, open space and children, from sources other than the tax increment from the IFD.

14 The percentage share depends on how ERAF is treated and whether the School District and other State agencies (Community College, BART and BAAQMD) agree to contribute their shares.

15 Equal to 20% statutory tier one pass-through under the CRL. In addition, the District would receive tier two and tier three pass through payments based on future growth in assessed value.

16 Consists of 1.5% to the San Francisco Community College, 0.2% to the Bay Area Air Quality Management District (BAAQMD), and 0.6% to BART)

17 Equal to 20% statutory tier one pass-through under the CRL. In addition, these taxing entities would receive tier two and tier three pass through payments based on future growth in assessed value.

18 Assumes no housing exists within the IFD.

Table 4: Net Assessed Valuation for Property in San Francisco

Fiscal Year	Net Assessed Value	Growth Rate
FY 1989-90	46,127,361,795	
FY 1990-91	50,359,066,238	9.17%
FY 1991-92	53,059,769,301	5.36%
FY 1992-93	54,208,735,813	2.17%
FY 1993-94	57,054,155,106	5.25%
FY 1994-95	56,584,655,539	-0.82%
FY 1995-96	56,234,496,236	-0.62%
FY 1996-97	56,713,486,275	0.85%
FY 1997-98	58,595,583,241	3.32%
FY 1998-99	64,007,968,636	9.24%
FY 1999-00	70,481,563,870	10.11%
FY 2000-01	77,649,538,370	10.17%
FY 2001-02	87,262,335,387	12.38%
FY 2002-03	93,738,325,815	7.42%
FY 2003-04	98,145,268,023	4.70%
FY 2004-05	104,471,287,868	6.45%
FY 2005-06	111,406,190,157	6.64%
FY 2006-07	119,870,979,379	7.60%
FY 2007-08	130,004,478,543	8.45%

Source: Controller's Office

The average growth rate between FY 1989-90 and FY 2007-08 was **5.99%.** Since the housing bubble took place in the last decade, property values were inflated, and this growth rate in NAV is likely inflated as well. To calculate a conservative growth rate, the CPP calculated the average growth rate between FY 1989-90 and FY 1999-00, which was **4.40%.**

The CPP used the annual projected growth rate of 4.40% in order to project the future property values in the Eastern Neighborhoods. The CPP used the annual growth rates of 6.4% and 8.4% to project aggressive estimates of future property values, and the CPP used the annual growth rate of 2.4% to project a conservative estimate of future property values. This approach makes the simplifying assumption that development (and property value growth) occurs equally over the projection period, starting in Year 1. In reality, development will occur in cycles, and given current economic conditions, little development (and property value growth) can reasonably be expected in the near term. Thus, the illustrative revenue estimates of the various funding alternatives is accurate over the long-term, but likely overstate value growth in the earlier years of the projection period, an important consideration in estimating when revenue will be available.

The CPP used the Eastern Neighborhoods current NAV, $2.815 billion, as the baseline in the *tax-increment models*. For each year, the CPP subtracted the baseline from the projected property value to calculate the increase in assessed value above the base. The CPP calculated the tax revenue resulting from the increased value and calculated the amount that would be diverted toward the IFD and other taxing entities. IFD projections assume that other taxing entities did not grant approval for the IFD to capture its portion of the taxing increment and that ERAF continues to capture its 25.3% share. Therefore, the IFD only captures the City's General Fund portion, 64.7% of the tax increment. See Table 3 for details.

The CPP added the total amount of tax increment revenue for the IFD for a 40-year capture period, which includes the 30-year term as authorized by state law plus an additional 10-year extension that has been granted to IFDs in the past. A more conservative estimate reserves the tax increment generated by 2% annual NAV growth for the General Fund[19], leaving only a partial tax increment for the IFD. While RTIFs have been widely used and are well-established only two IFDs are known to exist in California. IFDs will therefore likely need to establish a track record of tax increment in order to determine the bonding capacity and will require a higher-than-average debt coverage ratio (a rolling annual calculation to ensure investors that revenues exceed expenditures). The CPP therefore assumed that IFDs will fund the ENAP on a pay-as-you-go basis for the first few years and assumed a higher debt coverage ratio of 1.40. A range of current market interest rates (6%, 7% and 8%) were used to discount future revenues. Finally, the CPP assumed we would only issue 30-year bonds and that 15% of each bond would be dedicated to paying the costs of issuance such as required insurance payments and underwriter's discounts. See Table 5 and 6 for a detailed look at one IFD scenario. See Figures 9 through 12 for IFD annual streams of revenue and expenditure at the different NAV growth rates. See Table 7 for a summary of the results of the IFD model.

In the *CFD tax model*, the CPP projected property values using the mid-range 4.4% annual growth rate starting from the current NAV in the Eastern Neighborhoods. A CFD tax cannot be based on property value, but rather on an apportionment of costs, typically on a per acre, per unit, or per square foot basis, which is determined by a formal Rate and Method of Apportionment study. At this early stage, CPP determined that it was premature to use this methodology to estimate potential revenue. Instead, as a proxy, the CPP assumed that the proposed CFD tax would be equivalent to a low level ad valorem tax. The CPP assumed a range of potential special taxes to be equivalent to 0.1% to 0.9% of property value. Since property owners already pay 1.141% of their property value in taxes, an increase of 0.1% is relatively minor and an increase of 0.3% is relatively moderate.[20] The CPP assumed that all property was taxed and multiplied the projected property value from each year by the proposed tax rates. The CPP used an average debt coverage ratio (a rolling annual calculation to ensure investors that revenues exceed expenditures) of 1.1 and assumed that the CFD would be established for a 40-year term. The CPP assumed that the first two years after issuing a bond are capitalized interest and therefore, debt service payments begin two years after bond issuance. The CPP assumed annual administrative costs of $40,000 (escalated at 2%/year) beginning in the first year of debt service payments (also assumed to escalate at 2%/year). A range of current market interest rates (6%, 7% and 8%) were used to discount future revenues. Finally, the CPP assumed we would only issue 30-year bonds and that 15% of each bond would be dedicated to paying the costs of issuance such as required insurance payments and underwriter's discounts. See Table 7 and 8 for a detailed look at one CFD scenario, Figures 13 through 16 for CFD annual streams of revenue and expenditure at the different NAV growth rates, and Table 9 through 13 for a summary of the results of the CFD model.

[19] Proposition 13 caps annual increases in assessed value to 2%.

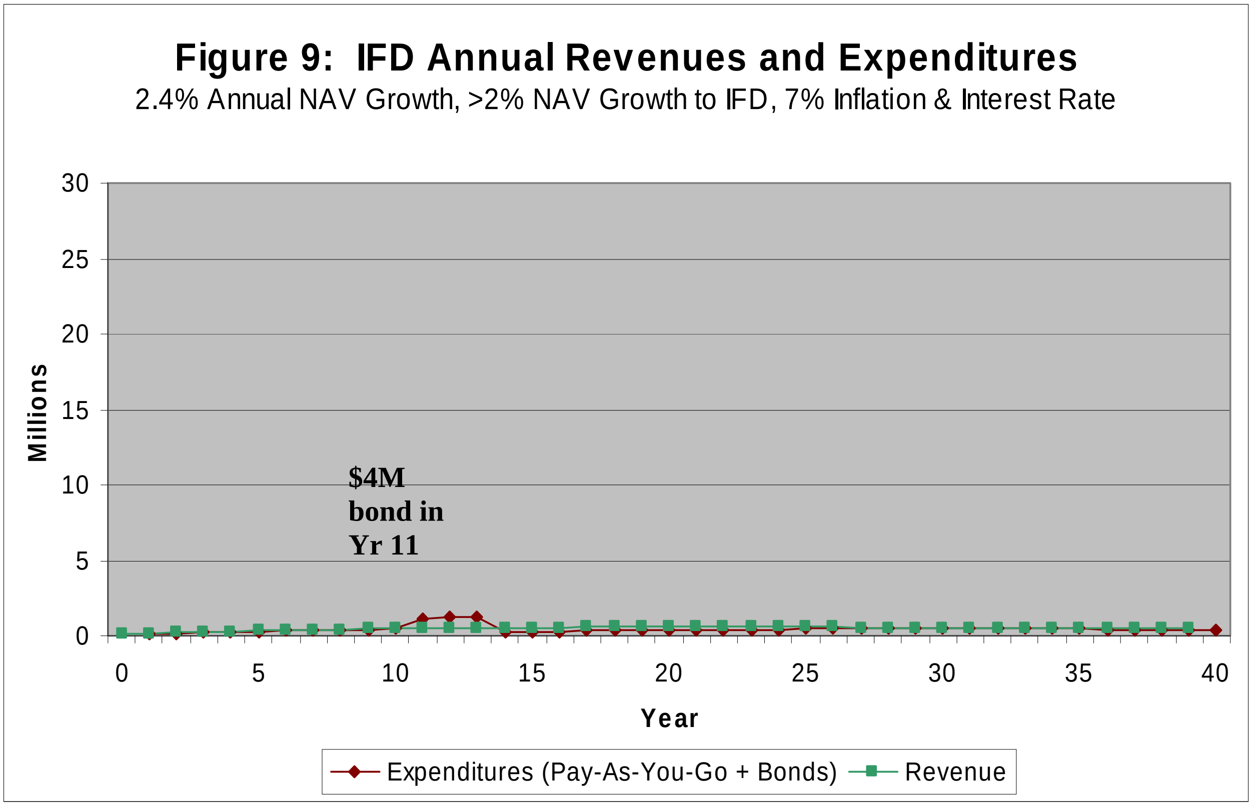
[20] As an illustration, the base property tax on a $600,000 property is currently $8,460 per year ($600,000 x 1.141%). A CFD equivalent to 0.1% of value would increase this tax bill 7%, or $600 per year; at 0.3%, the property tax bill would increase 21%, or an additional $1,800 per year for this hypothetical property.

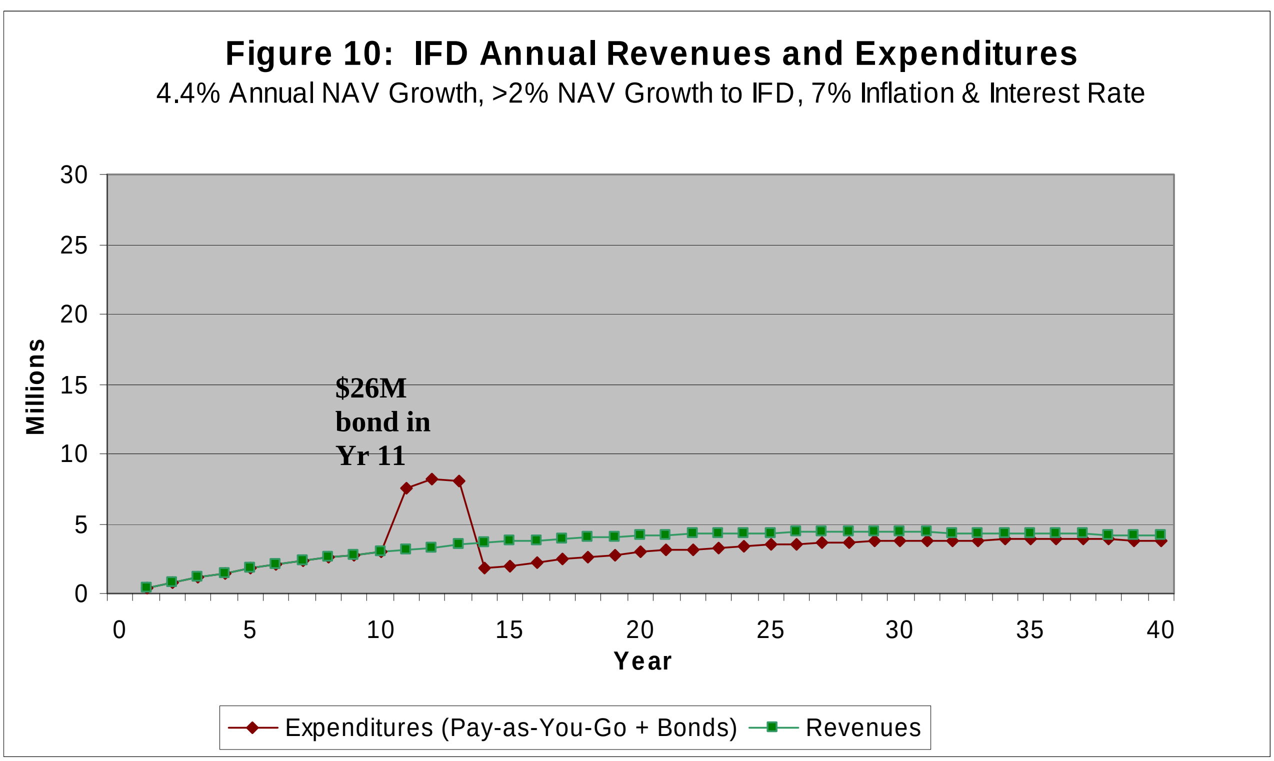
Table 5: IFD Model, 6.4% NAV Growth Rate, 7% Interest and Inflation Rate

Year	IFD Revenue, >2% NAV Portion	Estimated Actual Debt Service	Full Debt Service	Reserve: Debt Coverage	Available Revenues for Pay-As-You-Go	Available Revenues: Bonds+ Pay-As-You Go	Present Value of Available Revenues for Expenditure	Present Value of Revenue Stream
1	801,176				801,176	801,176	748,762	748,762
2	1,669,650				1,669,650	1,669,650	1,458,337	1,458,337
3	2,610,051				2,610,051	2,610,051	2,130,579	2,130,579
4	3,627,308				3,627,308	3,627,308	2,767,256	2,767,256
5	4,726,674				4,726,674	4,726,674	3,370,053	3,370,053
6	5,913,744				5,913,744	5,913,744	3,940,577	3,940,577
7	7,194,477				7,194,477	7,194,477	4,480,359	4,480,359
8	***8,575,223***	5,299,170	5,578,074	2,231,229	765,920	19,397,245	11,289,373	4,990,858
9	10,062,742	5,299,170	5,578,074		4,484,669	23,115,994	12,573,569	5,473,465
10	11,664,237	5,299,170	5,578,074		6,086,163	24,717,488	12,565,118	5,929,507
11	***13,387,377***	10,598,340	11,156,147	2,231,229	0	18,631,325	8,851,608	6,360,246
12	15,240,330	10,598,340	11,156,147		4,084,183	22,715,508	10,085,957	6,766,889
13	17,231,795	10,598,340	11,156,147		6,075,648	24,706,973	10,252,516	7,150,582
14	19,371,037	10,598,340	11,156,147		8,214,889	8,214,889	3,185,876	7,512,422
15	21,667,917	10,598,340	11,156,147		10,511,770	10,511,770	3,809,949	7,853,450
16	24,132,941	10,598,340	11,156,147		12,976,794	12,976,794	4,395,689	8,174,662
17	26,777,291	10,598,340	11,156,147		15,621,144	15,621,144	4,945,254	8,477,005
18	29,612,877	10,598,340	11,156,147		18,456,730	18,456,730	5,460,681	8,761,382
19	32,652,378	10,598,340	11,156,147		21,496,231	21,496,231	5,943,887	9,028,655
20	35,909,292	10,598,340	11,156,147		24,753,144	24,753,144	6,396,683	9,279,643
21	39,397,991	10,598,340	11,156,147		28,241,844	28,241,844	6,820,775	9,515,130
22	43,133,777	10,598,340	11,156,147		31,977,630	31,977,630	7,217,772	9,735,861
23	47,132,941	10,598,340	11,156,147		35,976,793	35,976,793	7,589,192	9,942,547
24	51,412,822	10,598,340	11,156,147		40,256,675	40,256,675	7,936,467	10,135,864
25	55,991,883	10,598,340	11,156,147		44,835,736	44,835,736	8,260,948	10,316,458
26	60,889,777	10,598,340	11,156,147		49,733,630	49,733,630	8,563,907	10,484,945
27	66,127,425	10,598,340	11,156,147		54,971,278	54,971,278	8,846,548	10,641,911
28	71,727,096	10,598,340	11,156,147		60,570,949	60,570,949	9,110,005	10,787,914
29	77,712,497	10,598,340	11,156,147		66,556,349	66,556,349	9,355,348	10,923,487
30	84,108,860	10,598,340	11,156,147		72,952,713	72,952,713	9,583,588	11,049,138
31	90,943,046	10,598,340	11,156,147		79,786,899	79,786,899	9,795,677	11,165,351
32	98,243,644	10,598,340	11,156,147		87,087,497	87,087,497	9,992,518	11,272,586
33	106,041,085	10,598,340	11,156,147		94,884,938	94,884,938	10,174,958	11,371,284
34	114,367,760	10,598,340	11,156,147		103,211,612	103,211,612	10,343,800	11,461,862
35	123,258,142	10,598,340	11,156,147		112,101,995	112,101,995	10,499,802	11,544,720
36	132,748,926	10,598,340	11,156,147		121,592,779	121,592,779	10,643,679	11,620,238
37	142,879,165	10,598,340	11,156,147		131,723,018	131,723,018	10,776,107	11,688,779
38	153,690,426	5,299,170	5,578,074		148,112,353	148,112,353	11,324,205	11,750,687
39	165,226,947	5,299,170	5,578,074		159,648,874	159,648,874	11,407,712	11,806,293
40	177,535,813	5,299,170	5,578,074		171,957,739	171,957,739	11,483,403	11,855,909

Table 6: IFD Model, 6.4% NAV Growth Rate, >2% NAV Growth to IFD			
	Bond Issue #1 (Year 8)	**Bond Issue #2 (Year 11)**	
Term (years)	30	30	
Annual Revenue to Service Debt	$8,367,110	$7,809,303	
Debt Coverage Ratio	1.4	1.4	
Debt Service	5,578,074	5,578,074	
Par Bond Amount; interest=6%	**72,942,179**	**72,942,179**	
Present Value of Par Bond Amount, 6%	**45,764,825**	**38,425,030**	
Project Fund Deposit, 6%	**38,900,102**	**32,661,275**	
Par Bond Amount; interest = 7%	**65,757,617**	**65,757,617**	
Present Value of Par Bond Amount, 7%	**38,271,532**	**31,240,970**	
Project Fund Deposit, 7%	**32,530,802**	**26,554,825**	
Par Bond Amount; interest = 8%	**59,656,907**	**59,656,907**	
Present Value of Par Bond Amount, 8%	**32,230,770**	**25,585,825**	
Project Fund Deposit, 8%	**27,396,155**	**21,747,951**	
	6%	7%	8%
Total Bonds	***$71,561,377***	***$59,085,627***	***$49,144,106***
Total Pay-As-You-Go	***$326,394,979***	***$253,073,989***	***$198,375,876***
Total	***$397,956,356***	***$312,159,616***	***$247,519,981***
Total Pay-As-You-Go, No Bonds)	**$333,725,655**		

Figures 9 through 10 illustrate the annual revenue stream and annual expenditures when issuing bonds from IFD. The par bond amounts (which do not take out the cost of issuance) are labeled below on each figure in the year bonds are issued. The CPP assumed that bonds would be spent evenly over a three year period.





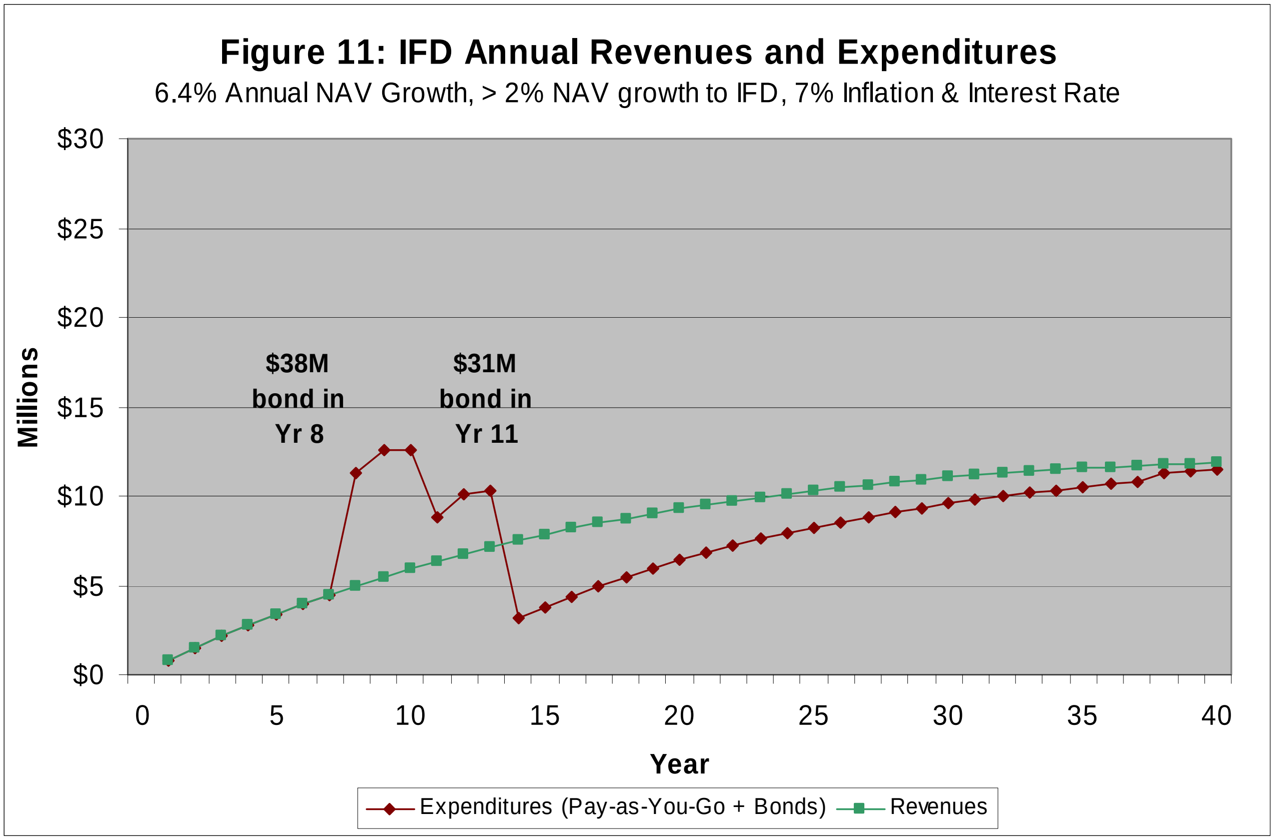


Figure 11: IFD Annual Revenues and Expenditures
6.4% Annual NAV Growth, > 2% NAV growth to IFD, 7% Inflation & Interest Rate
$30
$25
$20
$15
$10
$5
$0
Millions
$38M bond in Yr 8
$31M bond in Yr 11
0
5
10
15
20
25
30
35
40
Year
Expenditures (Pay-as-You-Go + Bonds)
Revenues

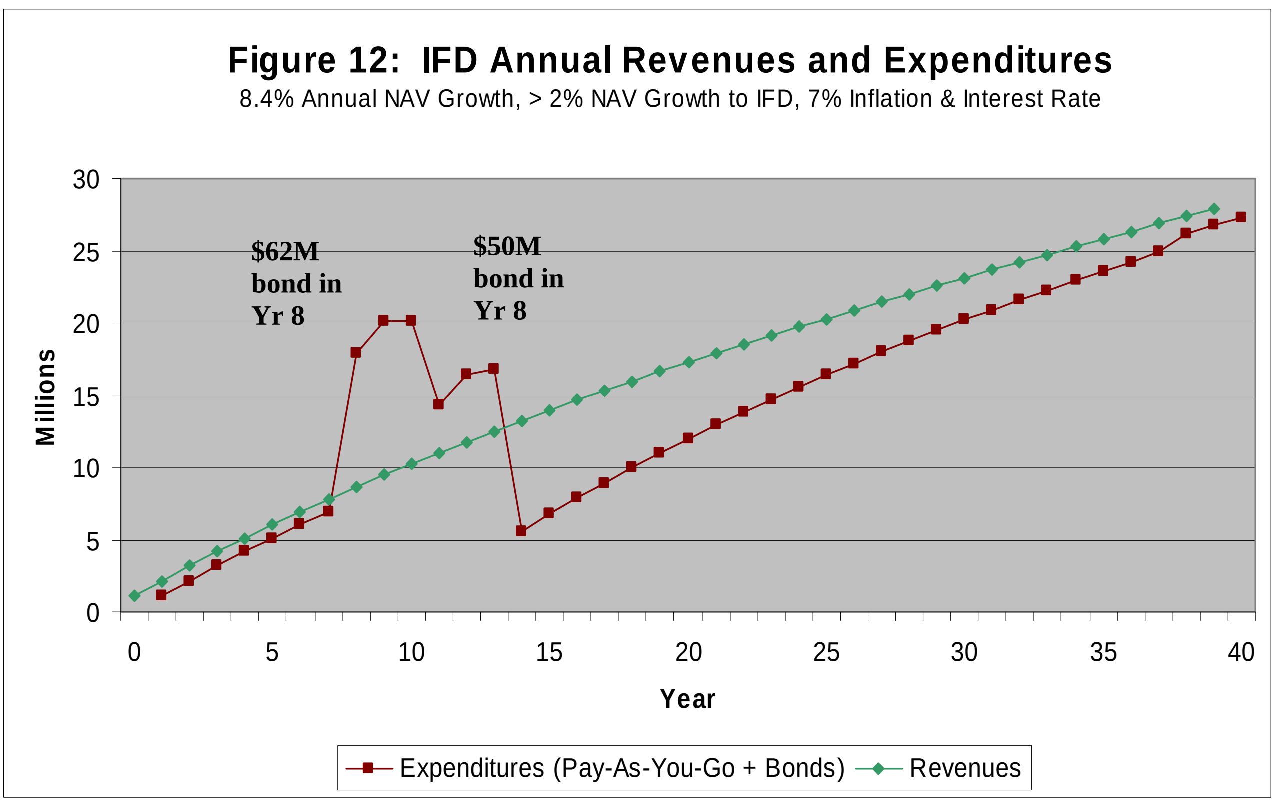


Figure 12: IFD Annual Revenues and Expenditures
8.4% Annual NAV Growth, > 2% NAV Growth to IFD, 7% Inflation & Interest Rate
30
25
20
15
10
5
0
Millions
$62M bond in Yr 8
$50M bond in Yr 8
0
5
10
15
20
25
30
35
40
Year
Expenditures (Pay-As-You-Go + Bonds)
Revenues

Table 7: Infrastructure Finance Districts (7% Interest Rate and Inflation Rate)

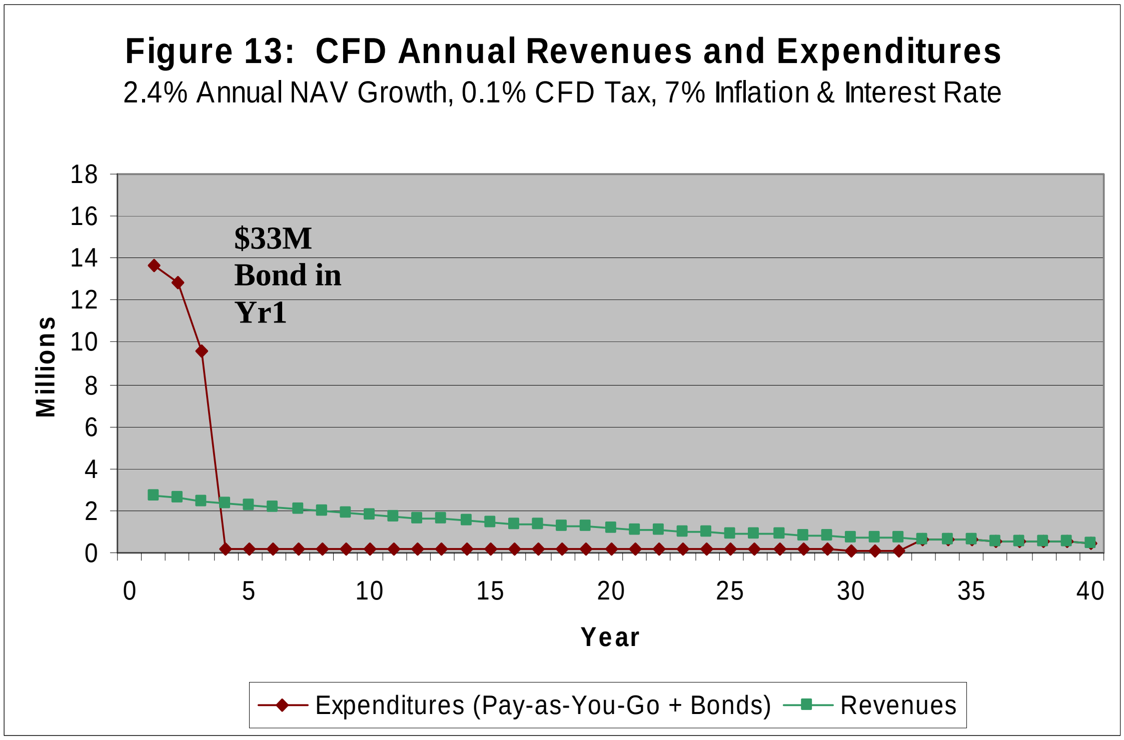
	2.4% increase in NAV		4.4% increase in NAV	
	growth above 2%	100.00%	growth above 2%	100.00%
Total General Fund Tax-Increment Revenue - 40 Years (PV)	**$73,947,468**	**$0**	**$73,947,468**	**$0**
Total Pay-As-You-Go Revenue (No Bonds)	**$18,758,080**	**$92,689,023**	**$141,141,176**	**$215,072,119**
Net Bond Proceeds - Issue #1 (PV)	$3,386,825	$18,455,705	$22,443,334	$37,512,214
Net Bond Proceeds - Issue #2 (PV)				
Net Bond Proceeds - Issue #3 (PV)				
Net Bond Proceeds - Issue #4 (PV)				
Total Bond Revenue	*$3,386,825*	*$18,455,705*	*$22,443,334*	*$37,512,214*
Pay-as-you-go Revenue After Bonds(PV)	*$14,135,076*	*$67,497,053*	*$110,506,107*	*$163,868,084*
Total Bonds & Pay-As-You-Go Revenue	**$17,521,901**	**$85,952,758**	**$132,949,441**	**$201,380,297**
	64% increase in NAV		**8.4% increase in NAV**	
	growth above 2%	100.00%	growth above 2%	100.00%
Total General Fund Tax-Increment Revenue - 40 Years (PV)	$73,947,468	$0	**$73,947,468**	**$0**
Total Pay-As-You-Go Revenue (No Bonds)	**$333,725,655**	**$407,656,598**	**$644,811,646**	**$718,742,589**
Net Bond Proceeds - Issue #1 (PV)	$32,530,802	$43,299,150	$52,433,154	$38,712,279
Net Bond Proceeds - Issue #2 (PV)	$26,554,825	$35,345,005	$42,801,072	$31,600,751
Net Bond Proceeds - Issue #3 (PV)				$51,591,252
Net Bond Proceeds - Issue #4 (PV)				
Total Bond Revenue	*$59,085,627*	*$78,644,155*	*$95,234,226*	*$121,904,281*
Pay-as-you-go Revenue After Bonds(PV)	*$253,073,989*	*$300,307,612*	*$514,817,274*	*$552,235,513*
Total Bonds & Pay-As-You-Go Revenue	**$312,159,616**	**$378,951,768**	**$610,051,500**	**$674,139,795**

Table 8: CFD Model, 6.4% NAV Growth Rate, 7% Interest and Inflation Rate

Year	Property Value	CFD Revenue 0.1%	Full Debt Service (Bond1)	Reserve: Debt Coverage (Bond1)	Administrative Costs	Available Revenues for Pay As-You-Go	Available Revenues: Bonds+ Pay-As-You Go	Present Value of Available Revenues for Expenditure	Present Value of Revenue Stream
0	2,814,931,639.00								
1	2,995,087,263.90	***2,995,087***				2,995,087	16,149,016	15,092,539	2,799,147
2	3,186,772,848.79	3,186,773				3,186,773	16,340,702	14,272,602	2,783,451
3	3,390,726,311.11	3,390,726	3,046,115	304,611	40,000	0	13,153,929	10,737,524	2,767,843
4	3,607,732,795.02	3,607,733	3,107,037	6,092	40,800	453,803	453,803	346,204	2,752,322
5	3,838,627,693.90	3,838,628	3,169,178	6,214	41,616	621,620	621,620	443,206	2,736,888
6	4,084,299,866.31	4,084,300	3,232,561	6,338	42,448	802,952	802,952	535,041	2,721,541
7	4,345,695,057.75	4,345,695	3,297,213	6,465	43,297	998,720	998,720	621,953	2,706,280
8	4,623,819,541.45	4,623,820	3,363,157	6,594	44,163	1,209,905	1,209,905	704,176	2,691,105
9	4,919,743,992.10	4,919,744	3,430,420	6,726	45,046	1,437,551	1,437,551	781,933	2,676,015
10	5,234,607,607.60	5,234,608	3,499,028	6,861	45,947	1,682,771	1,682,771	855,435	2,661,009
11	5,569,622,494.48	5,569,622	3,569,009	6,998	46,866	1,946,749	1,946,749	924,886	2,646,088
12	5,926,078,334.13	5,926,078	3,640,389	7,138	47,804	2,230,747	2,230,747	990,479	2,631,250
13	6,305,347,347.51	6,305,347	3,713,197	7,281	48,760	2,536,110	2,536,110	1,052,395	2,616,495
14	6,708,889,577.75	6,708,890	3,787,461	7,426	49,735	2,864,267	2,864,267	1,110,812	2,601,823
15	7,138,258,510.73	7,138,259	3,863,210	7,575	50,730	3,216,744	3,216,744	1,165,896	2,587,233
16	7,595,107,055.42	7,595,107	3,940,474	7,726	51,744	3,595,162	3,595,162	1,217,806	2,572,726
17	8,081,193,906.96	8,081,194	4,019,284	7,881	52,779	4,001,250	4,001,250	1,266,693	2,558,299
18	8,598,390,317.01	8,598,390	4,099,670	8,039	53,835	4,436,848	4,436,848	1,312,703	2,543,953
19	9,148,687,297.30	9,148,687	4,181,663	8,199	54,911	4,903,914	4,903,914	1,355,973	2,529,688
20	9,734,203,284.33	9,734,203	4,265,296	8,363	56,010	5,404,534	5,404,534	1,396,634	2,515,503
21	10,357,192,294.52	10,357,192	4,350,602	8,531	57,130	5,940,930	5,940,930	1,434,812	2,501,397
22	11,020,052,601.37	11,020,053	4,437,614	8,701	58,272	6,515,465	6,515,465	1,470,626	2,487,371
23	11,725,335,967.86	11,725,336	4,526,366	8,875	59,438	7,130,656	7,130,656	1,504,190	2,473,423
24	12,475,757,469.80	12,475,757	4,616,894	9,053	60,627	7,789,184	7,789,184	1,535,611	2,459,553
25	13,274,205,947.87	13,274,206	4,709,232	9,234	61,839	8,493,901	8,493,901	1,564,994	2,445,762
26	14,123,755,128.53	14,123,755	4,803,416	9,418	63,076	9,247,844	9,247,844	1,592,437	2,432,047
27	15,027,675,456.76	15,027,675	4,899,485	9,607	64,337	10,054,247	10,054,247	1,618,034	2,418,409
28	15,989,446,685.99	15,989,447	4,997,474	9,799	65,624	10,916,549	10,916,549	1,641,873	2,404,848
29	17,012,771,273.90	17,012,771	5,097,424	9,995	66,937	11,838,416	11,838,416	1,664,041	2,391,363
30	18,101,588,635.43	18,101,589	5,199,372	10,195	68,275	12,823,746	12,823,746	1,684,619	2,377,954
31	19,260,090,308.09	19,260,090	5,303,360	10,399	69,641	13,876,691	13,876,691	1,703,683	2,364,619
32	20,492,736,087.81	20,492,736	5,409,427	10,607	71,034	15,001,669	15,001,669	1,721,308	2,351,360
33	21,804,271,197.43	21,804,271				21,804,271	21,804,271	2,338,174	2,338,174
34	23,199,744,554.07	23,199,745				23,199,745	23,199,745	2,325,063	2,325,063
35	24,684,528,205.53	24,684,528				24,684,528	24,684,528	2,312,025	2,312,025
36	26,264,338,010.68	26,264,338				26,264,338	26,264,338	2,299,061	2,299,061
37	27,945,255,643.37	27,945,256				27,945,256	27,945,256	2,286,169	2,286,169
38	29,733,752,004.54	29,733,752				29,733,752	29,733,752	2,273,349	2,273,349
39	31,636,712,132.83	31,636,712				31,636,712	31,636,712	2,260,602	2,260,602
40	33,661,461,709.33	33,661,462				33,661,462	33,661,462	2,247,925	2,247,925

Table 9: CFD Model, 6.4% NAV Growth Rate, 0.1% Tax			
	Bond Issue #1 (Year 1)		
Term (years)	30		
Annual Revenue to Service Debt	1.1		
Debt Coverage Ratio	3,046,115		
Debt Service	2,893,809		
Par Bond Amount; interest=6%	**52,136,052**		
Present Value of Par Bond Amount, 6%	**43,774,435**		
Project Fund Deposit, 6%	**37,208,270**		
Par Bond Amount; interest = 7%	**46,425,632**		
Present Value of Par Bond Amount, 7%	**37,897,145**		
Project Fund Deposit, 7%	**32,212,573**		
Par Bond Amount; interest = 8%	**41,629,815**		
Present Value of Par Bond Amount, 8%	**33,047,090**		
Project Fund Deposit, 8%	**28,090,026**		
	6%	7%	8%
Total Bonds	***$37,208,270***	***$32,212,573***	***$28,090,026***
Total Pay-As-You-Go	***$74,398,738***	***$59,143,421***	***$47,686,717***
Total	***$111,607,008***	***$91,355,994***	***$75,776,743***
Total Pay-As-You-Go, No Bonds)	***100,549,135***		

Figures 13 through 16 illustrate the annual revenue stream and annual expenditures when issuing bonds from CFD. The par bond amounts (which do not take out the cost of issuance) are labeled below on each figure in the year bonds are issued. The CPP assumed that bonds would be spent evenly over a three year period.



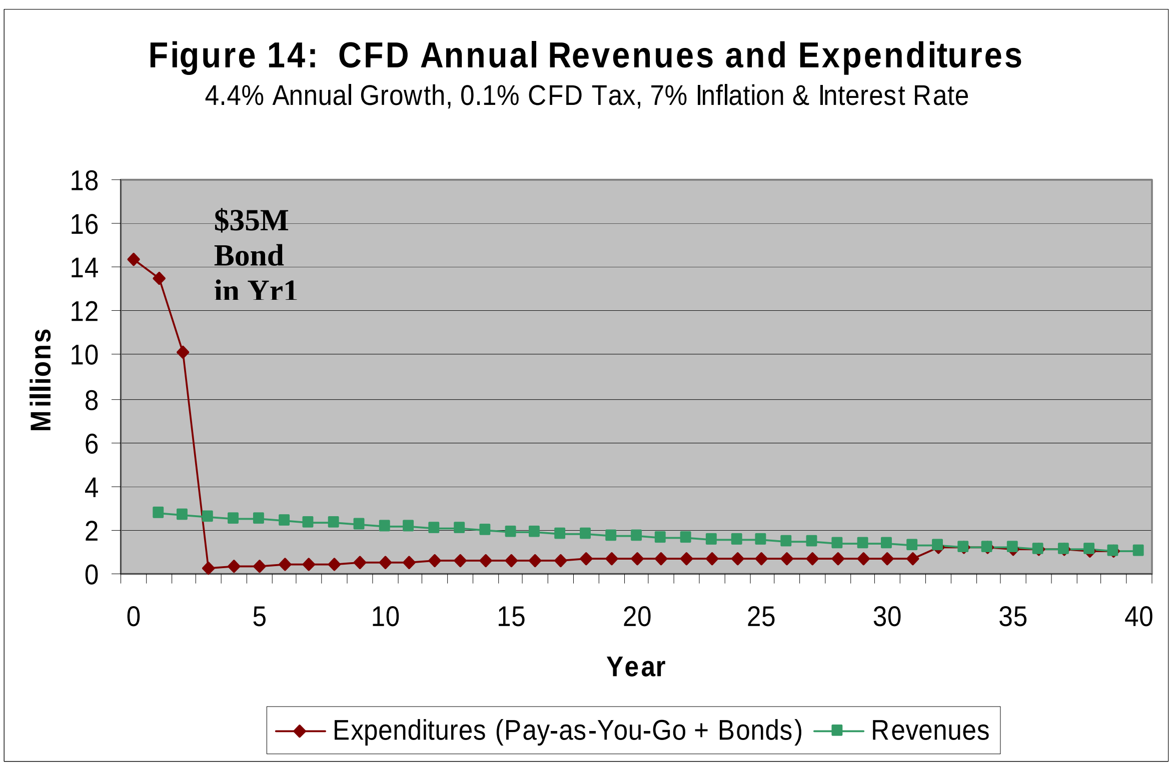


Figure 15: CFD Annual Revenues and Expenditures
6.4% NAV Annual Growth, 0.1% CFD Tax, 7% Inflation & Interest Rate

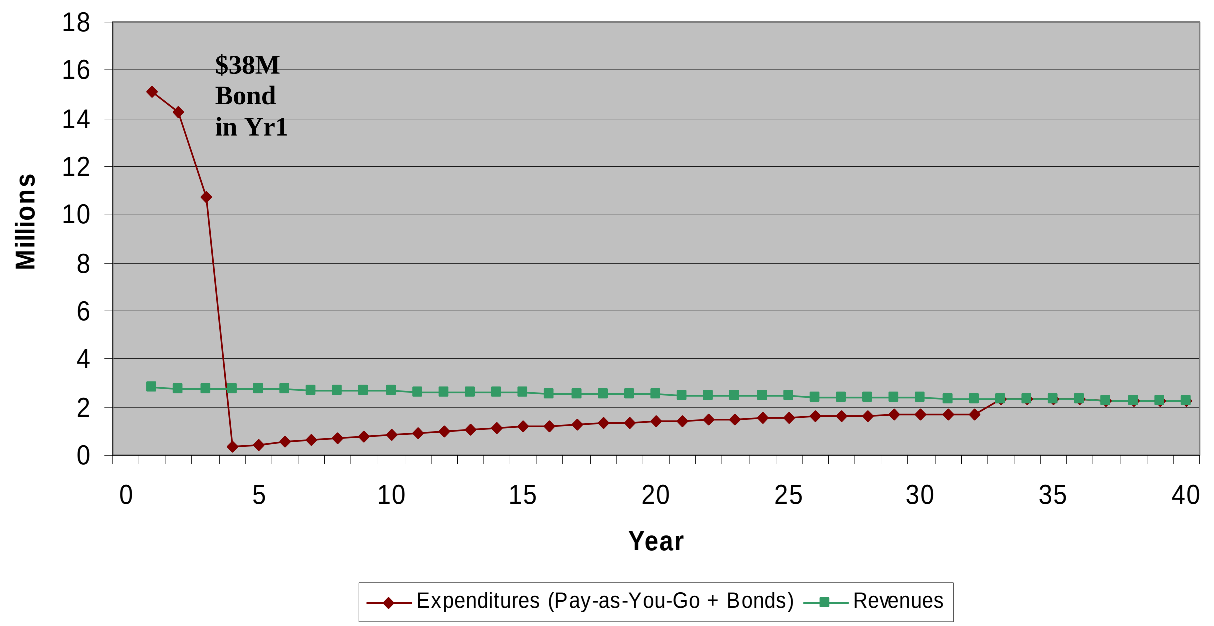


Figure 16: CFD Annual Revenues and Expenditures
8.4% Annual NAV Growth, 0.1% CFD Tax, 7% Inflation & Interest Rate

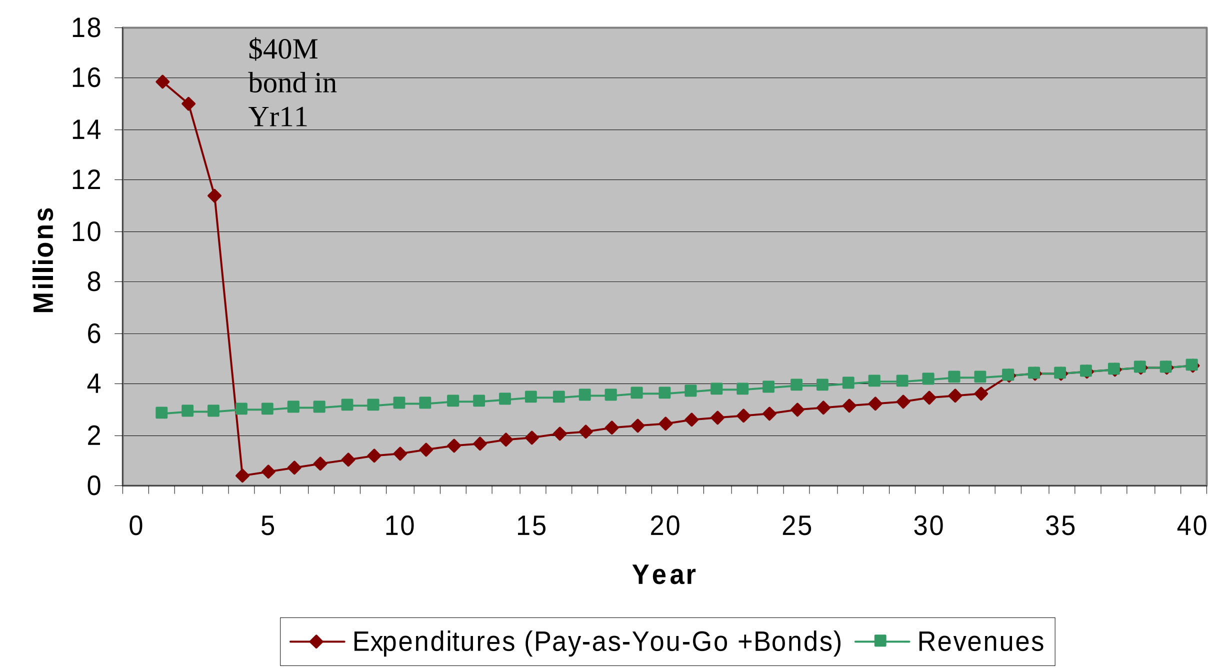


Table 10: Community Facilities Districts (7% Interest Rate and Inflation Rate); 2.4% NAV Growth Rate

Approximate Tax Rate	***0.05%***	***0.10%***	***0.15%***	***0.20%***	***0.25%***	***0.30%***
Total Pay-As-You-Go Revenue (No Bonds)	**$25,928,510**	**$51,857,021**	**$77,785,531**	**$103,714,042**	**$129,642,552**	**$155,571,062**
Net Bond Proceeds - Issue #1 (PV)	$14,144,070	$28,672,684	$43,201,298	$57,729,912	$38,263,396	$45,956,323
Net Bond Proceeds - Issue #2 (PV)					$33,146,119	$39,810,209
Net Bond Proceeds - Issue #3 (PV)						
Net Bond Proceeds - Issue #4 (PV)						
Total Bond Revenue	*$14,144,070*	*$28,672,684*	*$43,201,298*	*$57,729,912*	*$71,409,515*	*$85,766,531*
Pay-as-you-go Revenue After Bonds(PV)	*$7,449,191*	*$14,942,930*	*$22,436,669*	*$29,930,407*	*$38,479,186*	*$46,190,658*
Total Bonds & Pay-As-You-Go Revenue	**$21,593,261**	**$43,615,614**	**$65,637,966**	**$87,660,319**	**$109,888,701**	**$131,957,189**
Approximate Tax Rate	***0.35%***	***0.40%***	***0.45%***	***0.50%***	***0.55%***	***0.60%***
Total Pay-As-You-Go Revenue (No Bonds)	**$181,499,573**	**$207,428,083**	**$233,356,594**	**$259,285,104**	**$285,213,614**	**$311,142,125**
Net Bond Proceeds - Issue #1 (PV)	$53,649,250	$42,032,870	$47,304,013	$52,575,157	$57,846,300	$63,117,444
Net Bond Proceeds - Issue #2 (PV)	$46,474,298	$36,411,471	$40,977,661	$45,543,852	$50,110,042	$54,676,233
Net Bond Proceeds - Issue #3 (PV)		$31,541,868	$35,497,384	$39,452,901	$43,408,417	$47,363,934
Net Bond Proceeds - Issue #4 (PV)						
Total Bond Revenue	*$100,123,548*	*$109,986,208*	*$123,779,059*	*$137,571,909*	*$151,364,760*	*$165,157,611*
Pay-as-you-go Revenue After Bonds(PV)	*$53,902,130*	*$67,297,046*	*$75,724,366*	*$84,151,685*	*$92,579,004*	*$101,006,324*
Total Bonds & Pay-As-You-Go Revenue	**$154,025,678**	**$177,283,254**	**$199,503,424**	**$221,723,594**	**$243,943,765**	**$266,163,935**
Approximate Tax Rate	***0.65%***	***0.70%***	***0.75%***	***0.80%***	***0.85%***	***0.90%***
Total Pay-As-You-Go Revenue (No Bonds)	**$337,070,635**	**$362,999,146**	**$388,927,656**	**$414,856,167**	**$440,784,677**	**$466,713,187**
Net Bond Proceeds - Issue #1 (PV)	$68,388,587	$56,343,406	$60,375,294	$64,407,182	$68,439,070	$72,470,957
Net Bond Proceeds - Issue #2 (PV)	$59,242,423	$48,808,143	$52,300,813	$55,793,484	$59,286,154	$62,778,825
Net Bond Proceeds - Issue #3 (PV)	$51,319,451	$42,280,631	$45,306,199	$48,331,766	$51,357,333	$54,382,900
Net Bond Proceeds - Issue #4 (PV)		$36,065,475	$38,646,290	$41,227,106	$43,807,922	$46,388,737
Total Bond Revenue	*$178,950,461*	*$183,497,655*	*$196,628,596*	*$209,759,537*	*$222,890,479*	*$236,021,420*
Pay-as-you-go Revenue After Bonds(PV)	*$109,433,643*	*$129,588,161*	*$138,855,047*	*$148,121,932*	*$157,388,818*	*$166,655,704*
Total Bonds & Pay-As-You-Go Revenue	**$288,384,105**	**$313,085,816**	**$335,483,643**	**$357,881,470**	**$380,279,297**	**$402,677,124**

Table 11: Community Facilities Districts (7% Interest Rate and Inflation Rate); 4.4% NAV Growth Rate

Approximate Tax Rate	***0.05%***	***0.10%***	***0.15%***	***0.20%***	***0.25%***	***0.30%***
Total Pay-As-You-Go Revenue (No Bonds)	**$35,388,360**	**$70,776,720**	**$106,165,080**	**$141,553,439**	**$176,941,799**	**$212,330,159**
Net Bond Proceeds - Issue #1 (PV)	$15,012,091	$30,408,726	$45,805,361	$34,357,258	$42,996,883	$51,636,507
Net Bond Proceeds - Issue #2 (PV)				$29,762,382	$37,246,559	$44,730,736
Net Bond Proceeds - Issue #3 (PV)						
Net Bond Proceeds - Issue #4 (PV)						
Total Bond Revenue	*$15,012,091*	*$30,408,726*	*$45,805,361*	*$64,119,640*	*$80,243,441*	*$96,367,243*
Pay-as-you-go Revenue After Bonds(PV)	*$15,807,644*	*$31,659,835*	*$47,512,027*	*$59,639,901*	*$74,569,420*	*$89,498,940*
Total Bonds & Pay-As-You-Go Revenue	**$30,819,734**	**$62,068,561**	**$93,317,388**	**$123,759,541**	**$154,812,862**	**$185,866,183**
Approximate Tax Rate	***0.35%***	***0.40%***	***0.45%***	***0.50%***	***0.55%***	***0.60%***
Total Pay-As-You-Go Revenue (No Bonds)	**$247,718,519**	**$283,106,879**	**$318,495,239**	**$353,883,599**	**$389,271,959**	**$424,660,318**
Net Bond Proceeds - Issue #1 (PV)	$43,778,203	$50,051,700	$56,325,198	$62,598,695	$68,872,193	$60,920,347
Net Bond Proceeds - Issue #2 (PV)	$37,923,387	$43,357,878	$48,792,369	$54,226,861	$59,661,352	$52,772,972
Net Bond Proceeds - Issue #3 (PV)	$32,851,582	$37,559,275	$42,266,967	$46,974,660	$51,682,352	$45,715,212
Net Bond Proceeds - Issue #4 (PV)						$38,995,179
Total Bond Revenue	*$114,553,172*	*$130,968,853*	*$147,384,535*	*$163,800,216*	*$180,215,897*	*$198,403,710*
Pay-as-you-go Revenue After Bonds(PV)	*$101,792,646*	*$116,351,811*	*$130,910,976*	*$145,470,141*	*$160,029,306*	*$172,335,298*
Total Bonds & Pay-As-You-Go Revenue	**$216,345,818**	**$247,320,664**	**$278,295,511**	**$309,270,357**	**$340,245,203**	**$370,739,008**
Approximate Tax Rate	***0.65%***	***0.70%***	***0.75%***			
Total Pay-As-You-Go Revenue (No Bonds)	**$460,048,678**	**$495,437,038**	**$530,825,398**			
Net Bond Proceeds - Issue #1 (PV)	$66,005,628	$71,090,909	$76,176,190			
Net Bond Proceeds - Issue #2 (PV)	$57,178,157	$61,583,341	$65,988,526			
Net Bond Proceeds - Issue #3 (PV)	$49,531,255	$53,347,298	$57,163,342			
Net Bond Proceeds - Issue #4 (PV)	$42,250,273	$45,505,367	$48,760,460			
Total Bond Revenue	*$214,965,313*	*$231,526,915*	*$248,088,518*			
Pay-as-you-go Revenue After Bonds(PV)	*$186,708,926*	*$201,082,554*	*$215,456,183*			
Total Bonds & Pay-As-You-Go Revenue	**$401,674,239**	**$432,609,470**	**$463,544,701**			

Table 12: Community Facilities Districts (7% Interest Rate and Inflation Rate); 6.4% NAV Growth Rate

Approximate Tax Rate	***0.05%***	***0.10%***	***0.15%***	***0.20%***	***0.25%***	***0.30%***
Total Pay-As-You-Go Revenue (No Bonds)	**$50,274,568**	**$100,549,135**	**$150,823,703**	**$201,098,270**	**$251,372,838**	**$301,647,405**
Net Bond Proceeds - Issue #1 (PV)	$15,914,014	$32,212,573	$48,511,132	$38,524,670	$48,206,148	$44,514,716
Net Bond Proceeds - Issue #2 (PV)				$33,372,452	$41,759,146	$38,561,399
Net Bond Proceeds - Issue #3 (PV)						$33,404,269
Net Bond Proceeds - Issue #4 (PV)						
Total Bond Revenue	*$15,914,014*	*$32,212,573*	*$48,511,132*	*$71,897,122*	*$89,965,295*	*$116,480,384*
Pay-as-you-go Revenue After Bonds(PV)	*$29,549,437*	*$59,143,421*	*$88,737,406*	*$109,316,198*	*$136,664,792*	*$153,276,171*
Total Bonds & Pay-As-You-Go Revenue	**$45,463,451**	**$91,355,994**	**$137,248,538**	**$181,213,321**	**$226,630,086**	**$269,756,555**
Approximate Tax Rate	***0.35%***	***0.40%***	***0.45%***	***0.50%***	***0.55%***	***0.60%***
Total Pay-As-You-Go Revenue (No Bonds)	**$351,921,973**	**$402,196,540**	**$452,471,108**	**$502,745,675**	**$553,020,243**	**$603,294,810**
Net Bond Proceeds - Issue #1 (PV)	$51,956,548	$50,982,575	$57,368,275	$63,753,975	$70,139,674	$76,525,374
Net Bond Proceeds - Issue #2 (PV)	$45,007,975	$44,164,259	$49,695,947	$55,227,635	$60,759,323	$66,291,011
Net Bond Proceeds - Issue #3 (PV)	$38,988,691	$38,257,812	$43,049,702	$47,841,593	$52,633,483	$57,425,373
Net Bond Proceeds - Issue #4 (PV)		$32,634,001	$36,721,494	$40,808,987	$44,896,480	$48,983,974
Total Bond Revenue	*$135,953,214*	*$166,038,647*	*$186,835,418*	*$207,632,189*	*$228,428,961*	*$249,225,732*
Pay-as-you-go Revenue After Bonds(PV)	*$178,842,451*	*$190,938,988*	*$214,824,892*	*$238,710,796*	*$262,596,700*	*$286,482,604*
Total Bonds & Pay-As-You-Go Revenue	**$314,795,665**	**$356,977,636**	**$401,660,311**	**$446,342,986**	**$491,025,661**	**$535,708,336**

Table 13: Community Facilities Districts (7% Interest Rate and Inflation Rate); 8.4% NAV Growth Rate

Approximate Tax Rate	***0.05%***	***0.10%***	***0.15%***	***0.20%***	***0.25%***	***0.30%***
Total Pay-As-You-Go Revenue (No Bonds)	**$74,320,590**	**$148,641,179**	**$222,961,769**	**$297,282,359**	**$371,602,948**	**$445,923,538**
Net Bond Proceeds - Issue #1 (PV)	$16,850,490	$34,085,525	$32,276,726	$43,102,715	$43,862,313	$52,662,032
Net Bond Proceeds - Issue #2 (PV)			$27,960,096	$37,338,237	$37,996,248	$45,619,108
Net Bond Proceeds - Issue #3 (PV)					$32,914,700	$39,518,092
Net Bond Proceeds - Issue #4 (PV)						
Total Bond Revenue	*$16,850,490*	*$34,085,525*	*$60,236,822*	*$80,440,952*	*$114,773,261*	*$137,799,232*
Pay-as-you-go Revenue After Bonds(PV)	*$52,407,202*	*$104,858,952*	*$145,974,981*	*$194,659,367*	*$225,397,814*	*$270,501,678*
Total Bonds & Pay-As-You-Go Revenue	**$69,257,693**	**$138,944,478**	**$206,211,803**	**$275,100,319**	**$340,171,075**	**$408,300,911**
Approximate Tax Rate	***0.35%***	***0.40%***	***0.45%***	***0.50%***		
Total Pay-As-You-Go Revenue (No Bonds)	**$520,244,128**	**$594,564,717**	**$668,885,307**	**$743,205,897**		
Net Bond Proceeds - Issue #1 (PV)	$61,461,750	$63,774,833	$71,759,565	$79,744,297		
Net Bond Proceeds - Issue #2 (PV)	$53,241,968	$55,245,704	$62,162,573	$69,079,441		
Net Bond Proceeds - Issue #3 (PV)	$46,121,485	$47,857,245	$53,849,065	$59,840,884		
Net Bond Proceeds - Issue #4 (PV)		$40,822,339	$45,933,374	$51,044,410		
Total Bond Revenue	*$160,825,204*	*$207,700,122*	*$233,704,577*	*$259,709,032*		
Pay-as-you-go Revenue After Bonds(PV)	*$315,605,543*	*$330,443,641*	*$371,767,626*	*$413,091,612*		
Total Bonds & Pay-As-You-Go Revenue	**$476,430,747**	**$538,143,762**	**$605,472,203**	**$672,800,644**		