The Economics of Land Use

EIFD Feasibility—Case Study Analysis

presented by:

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Essential Characteristics of EIFD

- Large enough boundary area (e.g., multiple properties) to capture sufficient tax increment.
- Proposed development projects must be described, quantified, and "market real" in the near term.
- Estimated value, market feasibility, timing, and need for public investment determined by market analysis.
- Estimated cost of infrastructure and related funding needs must be quantified.
- Companion funding sources should be identified.
- Fiscal effects should be measured and affordable to the municipality (reduction in General Fund revenue).

Case Study Area and Characteristics

- 30,000-resident suburban city in the outer Bay Area.
- 80-acre district with historic town center, prior mix of single-family homes, light-industrial uses, public uses, and agriculture.
- Recent redevelopment has resulted in land use intensification (mixed-use housing/retail) in prime locations.
- 20 acres remain under-utilized and appear well-positioned for redevelopment.
- Horizontal infrastructure improvements are required to support additional redevelopment.

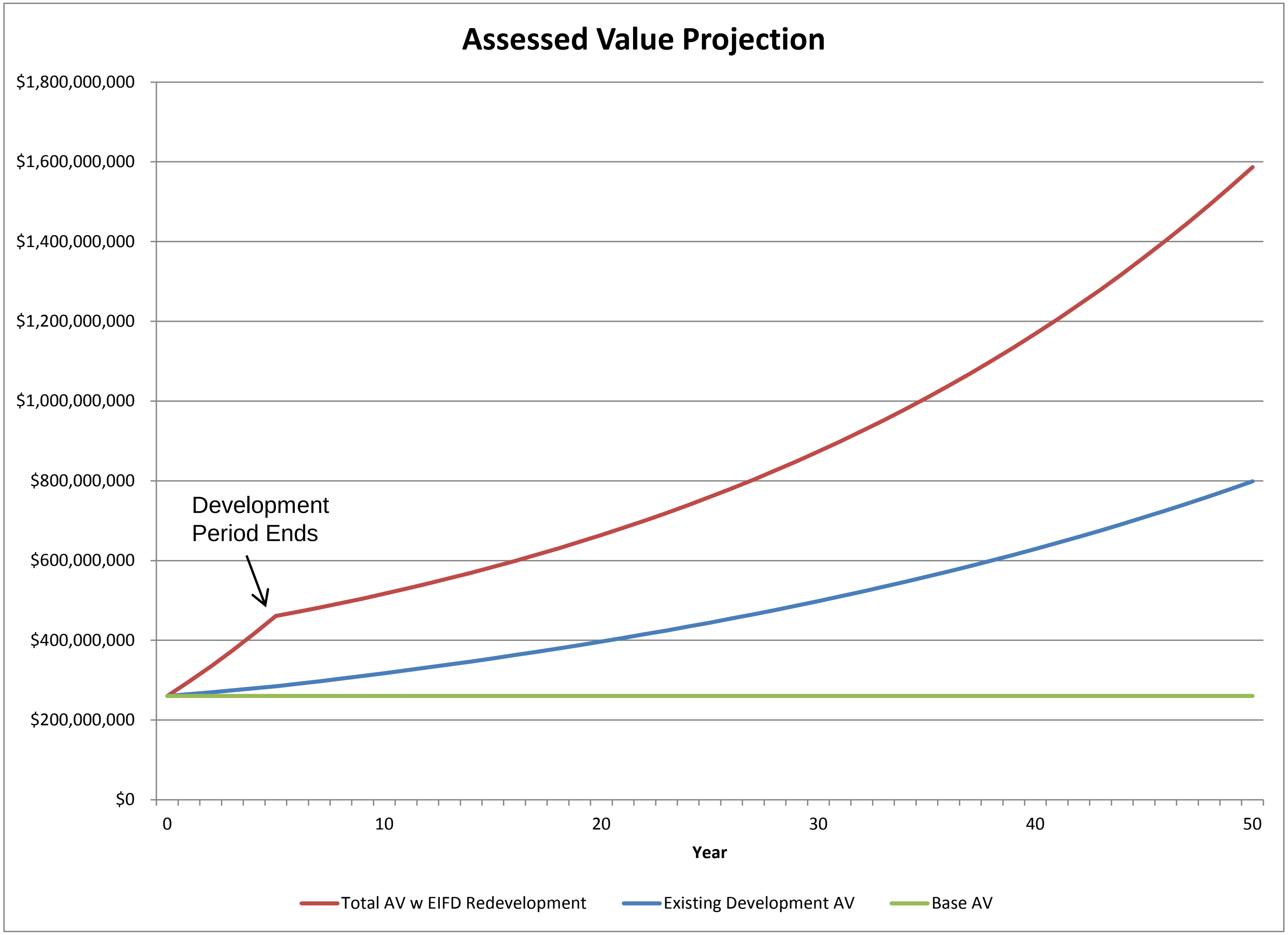
Case Study Development Projects

- Residential
  - Compact residential development
  - 30 dwelling units/acre
  - 300 units total
  - Market support for $400,000 to $500,000 per unit
- Commercial
  - Retail/office/medical office
  - 150,000 square feet
  - Market support for $275 to $325 per square foot
- Absorption
  - 5-year absorption of development pipeline

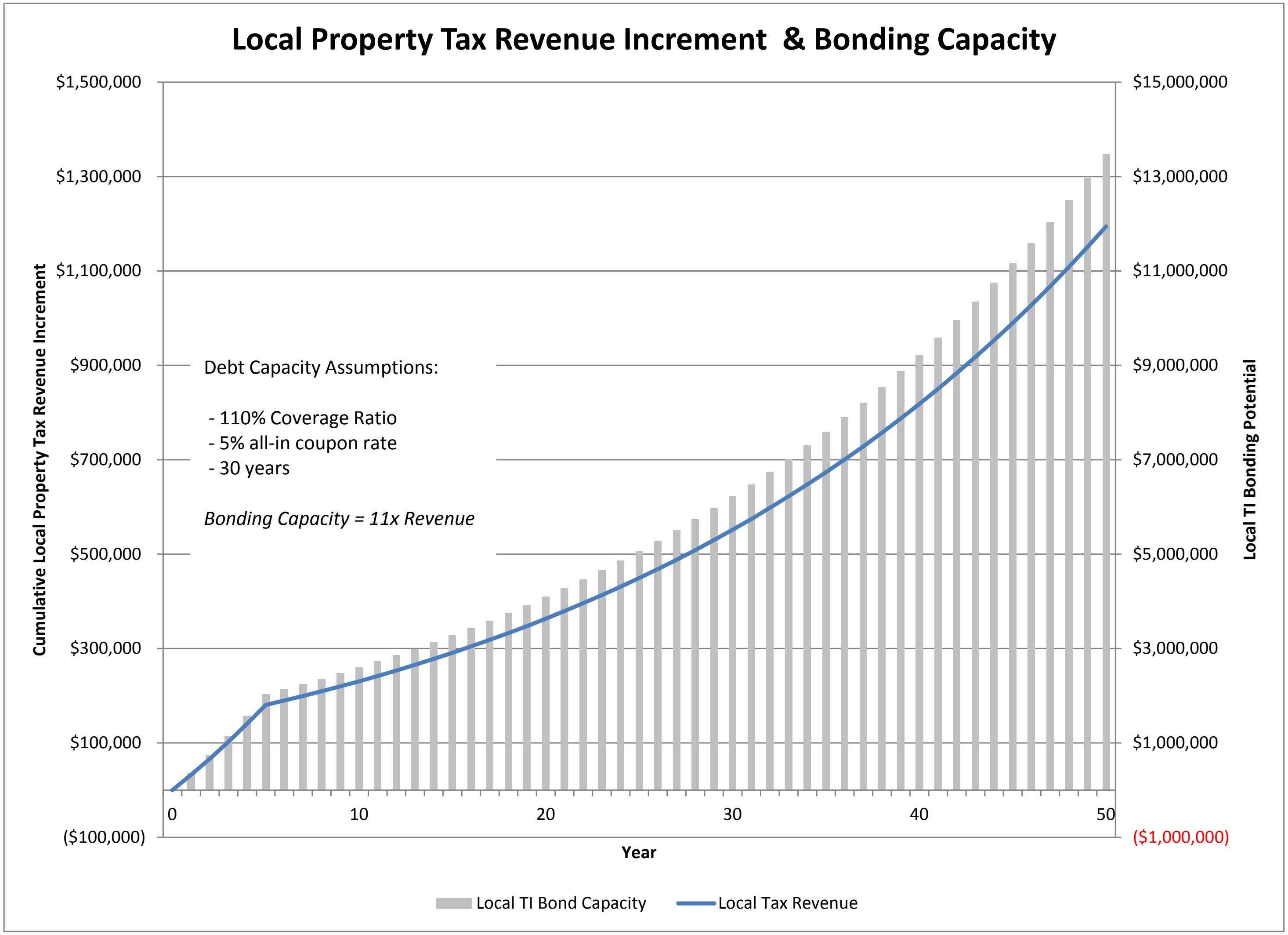
Tax Increment and Bond Capacity

- Sources of tax increment:
  - New development values.
  - Existing development turnover.
  - 2-percent growth of the existing development and the new development over time.
- Assessed value growth is rapid during buildout and then normalizes; bonding capacity grows proportionately over time.
- The local tax allocation factor is very important to financing capacity—substantial variation exists.
- EIFD financing (bonds) will generally provide “back-end” funding because it may take years for sufficient tax increment to be created.

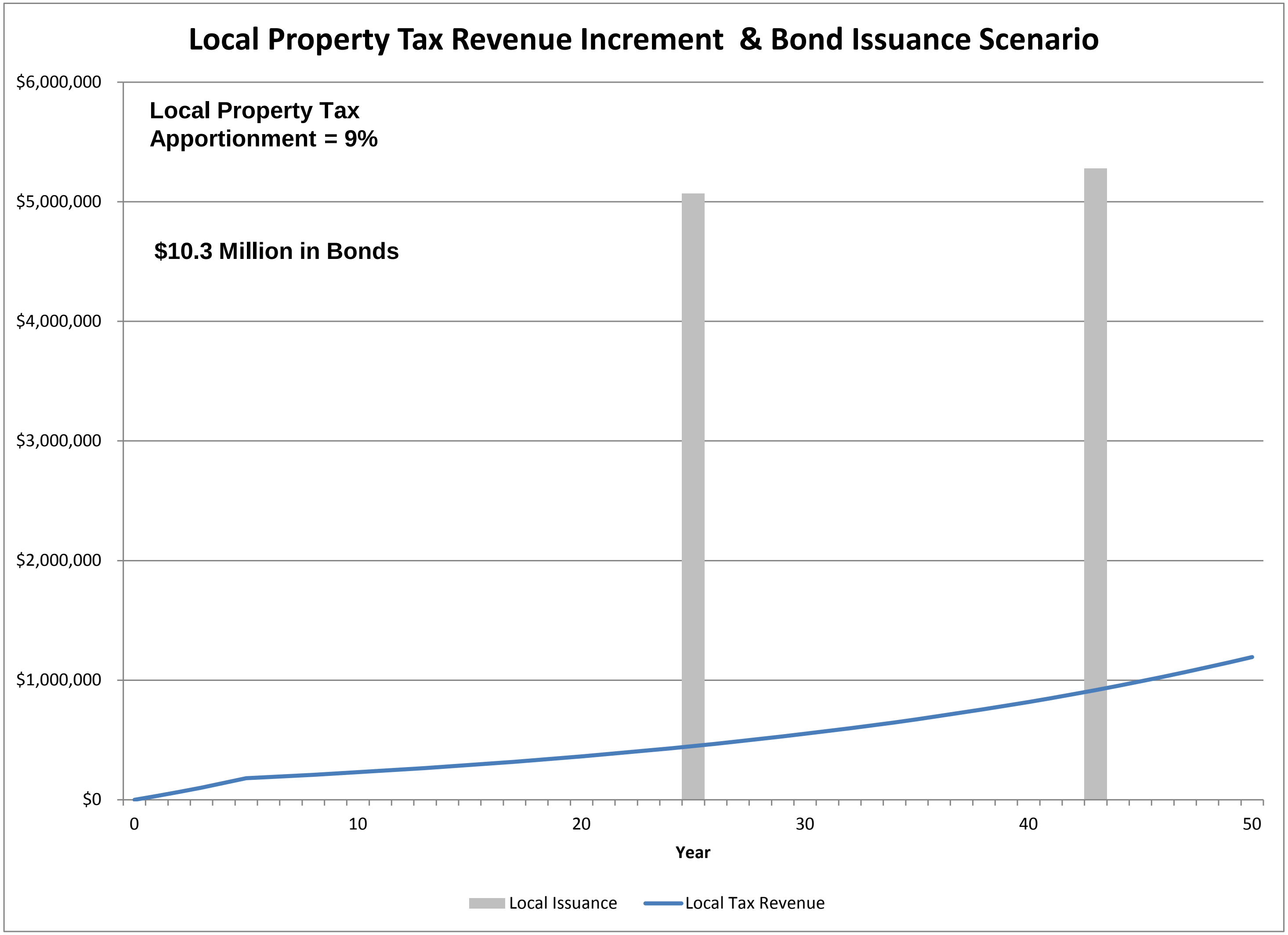
Assessed Value Forecast



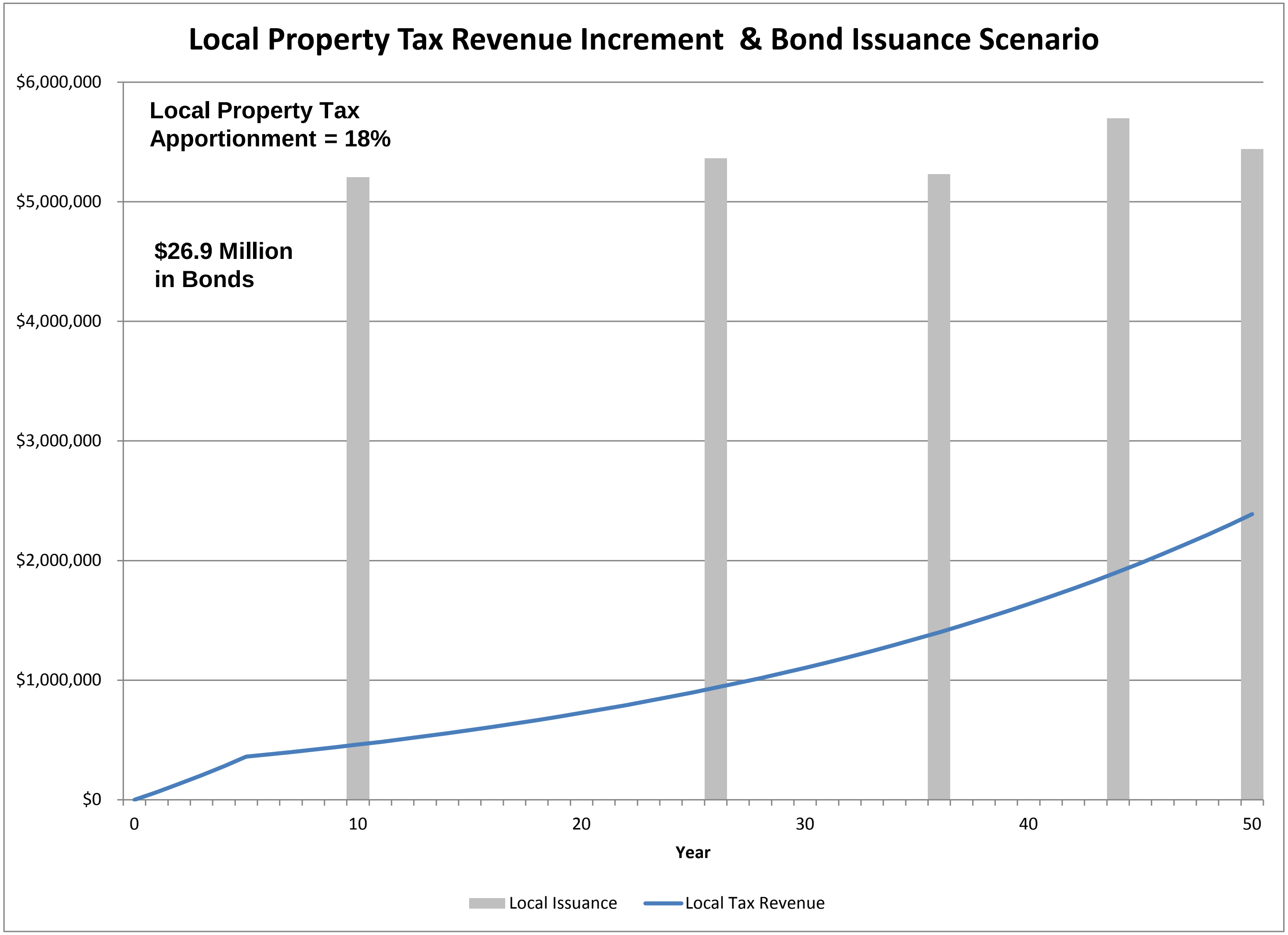
Assessed Value and Tax Increment Forecast



Bond Issuance Scenario 1



Bond Issuance Scenario 2 (2x tax factor)



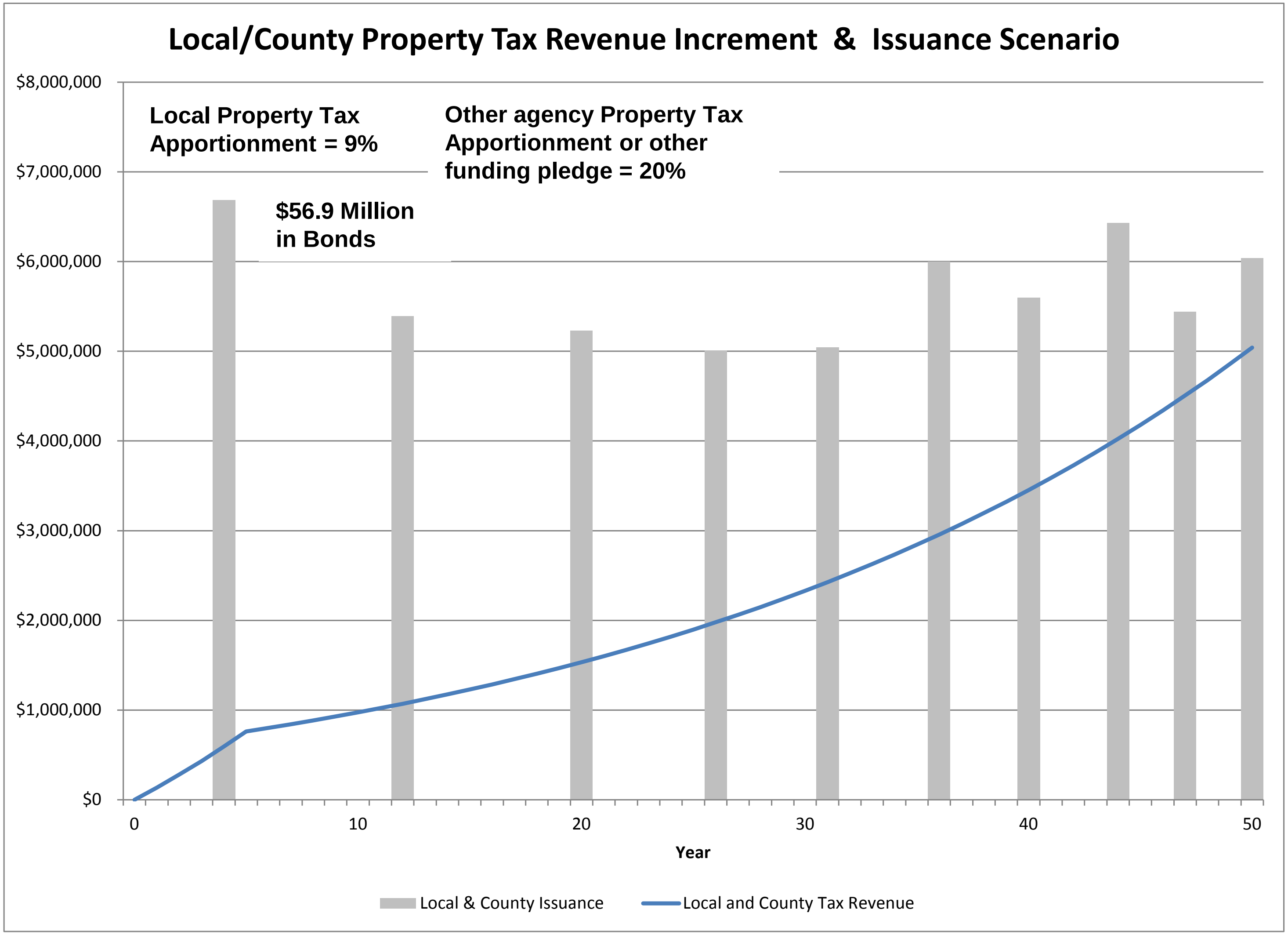
Comparison of Scenarios

- Scenario 1
  - A 9-percent increment produces approximately $10 million in proceeds, with an initial issuance delayed for up to 25 years.
- Scenario 2
  - An 18-percent increment produces approximately $27 million in proceeds, with an issuance in year 10.
- Conclusions
  - Bridge financing is critical (early dollars from other sources).
  - Additional property tax increment or other revenue pledges to increase bond capacity.

Other Funding Sources

- Development impact fees, Mello-Roos CFD special taxes, user fees, and matching funding from other agencies.
- Partnerships with other taxing jurisdictions (e.g., county) involving a pledge of their property tax increment.
- Pledging city “property tax in lieu of sales tax,” transient occupancy tax, or other local revenue sources.
- Achieving State participation (matching funding) for qualifying EIFDs.
- Assuming such other funding sources in Scenario 3, bond capacity increases to <u>$56.9 million</u>, with first issue in year 5.

Bond Issuance Scenario 3—Includes County Participation



Summary—Key EIFD Feasibility Issues

- Justification—do the infrastructure investments serve a public purpose?
- Affordability—are the fiscal effects acceptable?
- Development Feasibility—is there a strong likelihood of development occurring in a timely manner?
- Other Funding—is funding available to cover early year costs and to supplement bond debt service?
- Effectiveness—do combined financial resources and bonding capacity pay for needed infrastructure?
- Creditworthiness—is scale and quality of development adequate to attract bond buyers?