White Paper

Infrastructure Financing for Infill Development in the Bay Area

The Economics of Land Use

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Metropolitan Transportation Commission

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June 23, 2016

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1. INTRODUCTION AND EXECUTIVE SUMMARY

Introduction

This report provides guidelines and resources for local jurisdictions pursuing development of their "infill development" areas. Specifically, these guidelines and resources address funding sources and financing techniques necessary to pay for urban infrastructure that supports infill development.

A shift towards infill development has occurred over the past decade as regional market trends, land supply constraints, and regional policy have reoriented growth patterns inward, back toward the Bay Area's previously-developed city centers, commercial corridors, and older suburbanized areas.

The market trends supporting infill development include:

- The concentration of post-recession job creation in San Francisco, the Peninsula, and Silicon Valley;
- Demographic and socio-economic trends that have increased demand for rental and for-sale housing in higher-density, walkable urban locations with transit access; and
- Increasing commute times from suburban areas and the relatively limited capacity for additional "greenfield" development in outlying areas where traditional single-family subdivision development historically has occurred.

Regional policy also has driven the shift in development trends toward infill development around the Bay Area. The Metropolitan Transportation Commission (MTC) and the Association of Bay Area Governments (ABAG) adopted *Plan Bay Area* in 2013, the region's first integrated long-range transportation and land-use/housing plan. Plan Bay Area forecasts growth in areas with greater accessibility to transit, job centers, shopping, schools, parks, recreation and other amenities, while planning for environments that better support walking and biking. Plan Bay Area projects that the San Francisco Bay Area will grow by over 2 million people, 1 million jobs, and 660,000 housing units by 2040. Approximately 80 percent of the housing growth and more than 60 percent of job growth is anticipated to be located in Priority Development Areas (PDAs), or locally identified areas for growth.

However, while market trends and regional policy direction favor infill development, infill development areas commonly face a range of challenges, not the least of which is funding for needed infrastructure improvements, in an era where traditional development-based funding sources often are inadequate and redevelopment powers have been eliminated. Over the coming years, these constraints require local governments to adopt a more "development-positive" policy that includes more accommodating land use regulations and entitlement procedures, reduces the risks and costs of environmental review, keeps infrastructure and mitigation costs within realistic limits, and increases public investment to augment the traditional development-based funding sources. Creating real estate value and minimizing project risks and development costs are the prerequisites to infrastructure funding and financing strategies.

Plan Bay Area acknowledges the effort needed to ensure that PDAs realize their full development potential, and outlines strategies and initial legislative changes needed to support the proposed pattern of growth. MTC has taken additional steps to assess development opportunities and constraints, including detailed assessments of infrastructure need in specific PDAs.

Due to the great diversity of market opportunities and development constraints facing the region's infill development areas, this White Paper places infrastructure funding and financing within a broader context of real estate development opportunities and constraints. Through context-sensitive consideration of development potential, the paper explores which funding sources and financing techniques are best suited across a range of varying project development opportunities and constraints. The paper relies on case studies to illustrate the spectrum of site conditions, approaches to assessment, and the selection of appropriate funding and financing strategies. For each case study, a "feasibility screen" provides essential information to evaluate infrastructure funding and financing potential.

Executive Summary

1. ***While infill development areas benefit from existing infrastructure and other advantages they also commonly face challenges unique to the redevelopment of existing built areas.***

   Recognizing and managing development constraints is an essential part of achieving infill development. Even with robust financing resources, infill areas that suffer from severe constraints may render existing and new financing options insufficient to assure new development feasibility and promote desired private investment. **Chapter 2** describes the array of typical infill development constraints including real estate market conditions, physical conditions in the area, regulatory and community conditions, and financial and fiscal constraints. A key question for infill-supporting infrastructure financing is whether public investments can adequately address the primary constraints limiting infill development.

2. ***Without state legislation, financing techniques that rely on the real estate value creation to pay for infrastructure (development-based funding) are likely to continue to be the basis of infill development infrastructure financing.***

   While there is a range of funding sources and financing options available to serve infill development in California, the most frequently-used funding and financing approaches rely on the creation of new real estate value. These methods include development-based funding (e.g., fees and exactions) and land-secured financing (e.g., Mello-Roos Community Facilities Districts). In addition, tax increment financing (TIF) instruments may be helpful in some instances, particularly as a complement to development-based and land-secured approaches. While numerous other funding sources and financing techniques are available, options typically are limited by the unique circumstances of a particular project or plan. Without redevelopment (dissolved by the State in 2012), development-based funding and land-secured taxes and debt are the primary tools for funding new development-required infrastructure. These sources may be layered or augmented with local sources that offer "bridge" financing and/or provide funding for specific infrastructure projects. **Chapter 3** offers a detailed overview of infrastructure funding and financing approaches.

3. The available tax increment financing techniques currently have limited value potential for many California jurisdictions, but if feasible can leverage development-based funding sources.

In recent years the State of California has created new TIF tools, most notably Enhanced Infrastructure Financing Districts (EIFDs) through SB-628 and Community Revitalization and Investment Authorities (CRIAs) through and AB2. While these tools provide an approach to funding and financing infrastructure that is similar in form to the tax increment financing historically used by redevelopment agencies in California, a significant difference is the degree to which property tax is diverted. Under California redevelopment law, most of the growth in property tax within redevelopment areas was diverted to the redevelopment agency, away from the State (school funding), counties, and other local entities. By comparison, California's new TIF tools only divert the sponsor jurisdictions' shares of property tax (i.e., funds that would otherwise accrue to the sponsors General Fund accounts). For this reason, the new tools provide significantly less property tax revenue for infill-related investments. While these new, more-limited tools are likely to be attractive when it is feasible for a sponsor to give up tax revenue (e.g., when growth yields a fiscal surplus), they are most likely to be used in concert with a number of other funding and financing approaches. **Chapter 4** provides case studies demonstrating the utility of infill funding and financing techniques, including opportunities to pursue multiple sources and to layer and leverage funding sources.

4. Infill area funding and financing occurs in a context of overall urban planning, land use regulation, and city administration and budgeting.

Because infill-supporting infrastructure funding and financing is dependent on the successful creation of new real estate value, infrastructure considerations must be an integral component of infill development planning, including policy development, impact analysis, and implementation strategy. Accordingly, infrastructure and other public investments should be pursued in a coordinated and methodical manner beginning with the urban planning process. Determining the potential for infrastructure funding and financing requires a clear understanding of localized development opportunities and constraints, with market and financial feasibility conditions, land use policy and regulatory considerations, and commitment to sound implementation and administration of area development. While there may be fundamental constraints to contend with, including regulatory barriers, entitlement uncertainties, and excessive cost burdens, all are within the purview of local governments and thus are fundamental to achieving successful infill development. **Chapter 5** offers a multi-step guide to development planning and infrastructure financing, encapsulated into seven essential activities that support infill development.

2. INFILL OPPORTUNITIES AND CONSTRAINTS

The ideal infill area infrastructure financing program will reflect the urban context and also site-specific market conditions, development opportunities, and development constraints. Thus, it is very important to begin infrastructure financing efforts by gaining a clear understanding of the infill area in question in these regards. This section refers to the "place type" classification of infill areas (as defined in Plan Bay Area) and also describes the range of market opportunities and development constraints. The outcome of this opportunity and constraint analysis will have a direct bearing on the particular approach to achieving infill development objectives, including efforts to improve development readiness and select effective funding and financing techniques.

Infill development generally refers to development that occurs within an existing urbanized area on remnant vacant or underutilized property. For purposes of this study, infill development sites are defined broadly to also include larger, generally developed areas containing infill development sites that are being planned for new development and revitalization. These larger infill development areas commonly are the subject of a specific plan or area plan that provides information for analytical purposes, including clear descriptions of the development challenges. In recent years, numerous such infill development plans have been created around the State as part of urban revitalization, transit-oriented development, and more recently, as part of the regional Sustainable Community Strategies.

Geographic Diversity and Place Types

Infill development occurs in a variety of urban area contexts. In regional planning efforts, it has proven useful to group these varied contexts into a set of "place types". *Plan Bay Area* includes the following place type categories (among others) for its PDAs, where future development is proposed to be focused and incentivized:

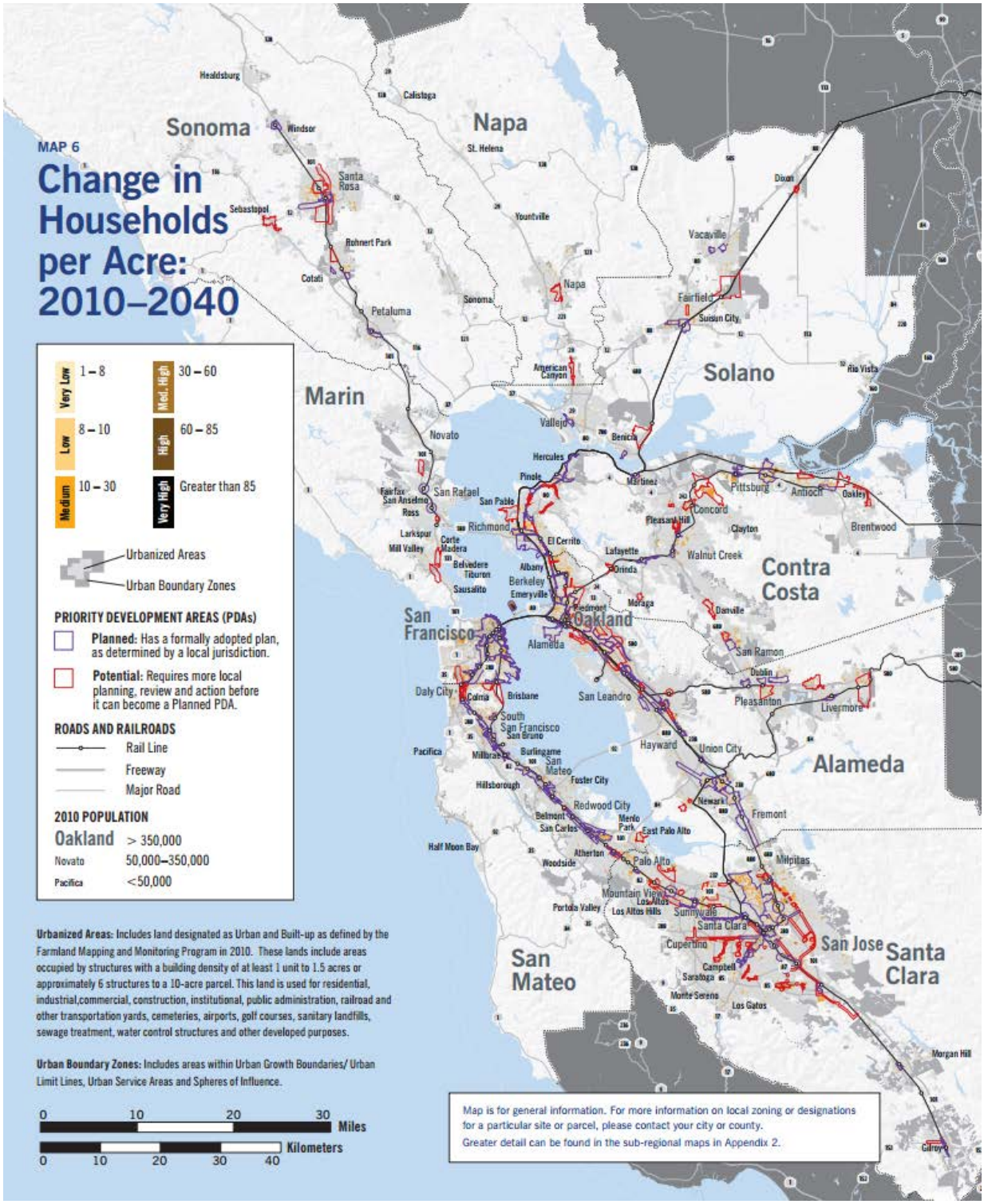
- **Regional Centers** – the region's primary Central Business Districts featuring a dense mix of housing, office, retail, and entertainment attractions
- **City Centers** – Central Business Districts in the region's secondary cities
- **Suburban Centers** – mixed-use areas with typically lower-density development found in outlying suburbs
- **Mixed-Use Corridors** – linear areas along arterial roads that often extend across jurisdictional boundaries
- **Transit Neighborhoods** – primarily residential areas that have a major transit facility

Figure 1 presents a map of *Plan Bay Area*.

As the place type categories suggest, the location and conditions, including physical, market, and political circumstances, vary widely and present very different development opportunities and challenges, as well as implications for funding and financing infill-supporting infrastructure. In a Regional Center, for example, market demand may yield high achievable price points for new development, but developable parcels and construction costs may be relatively expensive. In a Suburban Center, existing roadways may be appropriate for peak-hour commute traffic, while the location lacks amenities and a walkability that would appeal to potential residents. In Mixed-

Use Corridors, existing parcels may be very shallow and abut established residential neighborhoods, making higher-density development difficult to achieve.

Figure 1 Plan Bay Area



Source: Plan Bay Area, Adopted July 18, 2013

Development Opportunities and Constraints

Recognizing and managing both development opportunities and constraints is essential as part of infill development and infrastructure financing. In this regard, it is important to recognize that weak real estate market conditions or extraordinary infrastructure costs may not be overcome with readily available funding resources or financing techniques. In these instances of low development value or high cost, measures will need to be taken by the local jurisdiction to improve market attractiveness of the area, to lower infrastructure costs, or to attract funding from non-development-based funding sources such regional, State, or federal grants.

Real Estate Market Conditions

1. Market Constraints. Market constraints occur when local real estate market conditions (sale values and rents) for infill development real estate products do not immediately support the type or intensity of development envisioned by local land use policy or regional growth projections. While market prospects for multifamily and mixed-use development (development prototypes commonly associated with infill development) recently have been and likely will remain strong in the Bay Area's more central locations, conditions in outlying areas where more traditional suburban development dominates often are less strong. Market demand also may lag in localized infill areas with demographics of less buying power or institutional conditions, even where broader market conditions are positive.

   Unfavorable market conditions are difficult to influence through public policy and public investment. Accordingly, it is important to conduct market analysis and understand the severity of market constraints on infill development policy objectives and the potential for public actions to influence market conditions. In some instances, public investment can alter market demand by addressing infrastructure or institutional shortcomings that affect the attractiveness of an area. Examples may include investments in streetscape upgrades or open space, or the removal of a nuisance activity or property. However, in other instances, little can be done to promote market improvement. This may be the case where there is an ample supply of vacant existing development or developable land or where market fundamentals (e.g., population or employment growth) are stagnant. Urban transformation requires incremental strategic actions and a long view.

2. Financial Feasibility Constraints. Financial feasibility constraints are related to market constraints but add the investment return "hurdle" required to attract developers to projects. Feasibility constraints occur when potential new development does not generate enough value (i.e., sales prices or rental values) to offset development costs and provide profit for private-sector actors. Market weakness and/or site constraints can render desired multifamily and mixed-use development infeasible from a private investment standpoint. Furthermore, parking within higher-density building formats and required affordable housing contributions also add substantially to project development costs and can result in feasibility challenges in weak markets.

Physical Conditions

3. Site-related Constraints. Site-related constraints occur where the development capacity of an infill site is inhibited by existing urban buildings and parcel configurations. While there may be some vacant sites within infill development areas, most infill development capacity

will come from redevelopment of dated, existing commercial, industrial, or other low-density land uses with new multifamily or mixed-use development.

Where the value differential between existing uses and potential future uses is high, there can be an adequate financial incentive to assemble a collection of parcels to form a viable infill development site. However, where this differential is low and market potential is uncertain, there may be insufficient financial return to justify redevelopment. Specifically, redevelopment on a site with an existing use requires that the new use support land value equivalent to the full market value of the existing use, plus the demolition and other costs that are required to achieve a buildable site. These redevelopment-specific cost factors commonly drive the overall cost of development well above vacant "greenfield" development costs. Further, when land is highly "parcelized" (subdivided to small lots), parcels may be insufficient to support infill development of an efficient scale. Achieving a suitable assemblage of land can be challenging for developers, given disparate ownership and varying landowner priorities and investment/landowning objectives.

In addition to unique costs associated with infill and land assembly challenges, infill development areas also may have hosted historical uses that deposited hazardous materials. For example, sites that were previously gasoline stations, dry cleaners, or heavy industrial sites commonly handled hazardous materials that remain present on site. The cost of environmental remediation actions required to redevelop these sites often is well beyond the existing land value supported by new uses. The release from liability and power to compel responsible parties to pay cleanup costs (i.e., Polanco Act powers) are important for local governments seeking to address these site-related constraints.

4. Infrastructure Constraints. Infrastructure constraints occur when desired infill development cannot be supported due to deficiencies in major infrastructure (e.g., roadway and intersection capacity; transit facilities and services; public parking; water, sewer, and storm water systems) serving the area. A potential advantage of infill development is the opportunity to take advantage of existing infrastructure capacity. However, where basic infrastructure is dilapidated or inadequate to support new higher density development, it may require substantial public investment to improve capacity and development readiness. In some cases such infrastructure deficiencies are so great that they exceed the development-based financing capacity of the area. A clear understanding of infrastructure constraints is an important part of infill development planning and should be a priority use of development-supported funding sources.

Regulatory and Community Conditions

5. Political and Legal Constraints. A policy constraint occurs when the existing local land use policies (e.g., land uses, densities, and development restrictions such as height limits) do not allow the development intensity necessary to incentivize redevelopment and/or accommodate the regional housing or jobs forecasts for the area. In areas where land use policies are in place that limit infill development potential (e.g., growth management policies such as development caps or allocation programs, height limits) a logical first step is to complete additional land use planning and revise development regulations to support the desired infill development objectives. Where local political opinion opposes intensification, such policy reforms are difficult to achieve.

6. Community Character and Social Constraints. Infill development sites are by definition located in the context of an existing urban fabric and the surrounding community will be affected by redevelopment, including during the construction period and after redevelopment is complete. Potential effects on demographic and social conditions, transportation facilities, and institutional conditions (e.g., quality of local schools, public safety concerns) are common concerns associated with development. These existing and future community conditions affect the prospects for infill development, particularly in local contexts which are sensitive to the pace and nature of land use change.

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

Financing Constraints and Fiscal Conditions

8. Infrastructure Financing Constraints. Financing constraints occur when the cost of needed infrastructure exceeds the ability of the new development or the local jurisdiction to pay for these improvements. Since the State of California dissolved Redevelopment, local governments have had more limited authority and financing capacity to promote or pursue infill projects (e.g., though land assembly or subsidized development). Nonetheless, where market conditions are strong, the private sector has found opportunities to invest in infill development and supporting infrastructure. However, where market conditions are weak or development costs are relatively high, the absence of Redevelopment , funding, and financing has limited local governments' ability to promote change in infill areas with infrastructure deficits.

9. Fiscal Constraints. Fiscal constraints occur when local jurisdictions cannot support the additional costs of maintaining the infrastructure or providing municipal services required by existing and/or new development. This issue is of particular concern now, given the historically high drain on local fiscal resources imposed by the State and State Constitutional amendments. At a minimum, fiscal constraints reduce the incentive for local governments to accommodate new development (in infill area or elsewhere). Moreover, local fiscal constraints limit the potential for cities to take advantage of financing tools which require local contributions of tax revenue (e.g., IFDs and EIFDs).

3. EVALUATING INFILL FUNDING AND FINANCING OPTIONS

There are a range of funding sources and financing options available to infill development in California, primarily including development-based funding sources, allocations of city-wide sources, and state and federal grant programs. While various innovative funding sources and financing techniques may be available, four primary funding sources will nearly always form the backbone of any financing program.

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

1. Development-Based Funding
2. Land-Secured Funding and Financing
3. City Funding and Financing
4. State and Federal Programs

Figure 2 provides an overview of these funding categories, including a brief summary of the funding characteristics:

- **Cash or Debt:** Is the tool a new source of funding, a financing mechanism, or both?
- **Revenue Stream:** Where does the funding come from?
- **Required Approval:** Does the tool require voter approval, a new City ordinance, or other approach to implementation?
- **Role and Scale:** Is the tool the principal source of funding for an infrastructure program or one of many sources of funds required? Would the tool be appropriate for a citywide program, area program, or project-specific infrastructure?

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

Figure 2 Summary of Infrastructure Funding and Financing Tools

Funding / Financing Type	Cash / Debt	Revenue Stream	Required Approval	Infill Financing Role and Scale
Development-Based Funding				
Project Exactions	Cash	One-time investments by new development	Conditions of map approval; no voter approval	Primary Source; Project Scale
Area Development Impact Fees	Cash	Obligatory one-time fees on new development	Local ordinance; no voter approval	Primary Source; District Scale
City Development Impact Fees	Cash	Obligatory one-time fees on new development	Local ordinance; no voter approval	Supporting Source; City Scale
Private Financing, Development Agreements, and Partnerships	Cash and other contributions	Voluntary contributions by new development	No voter approval	Primary Source; Project Scale
Land-Secured Funding and Financing				
Community Facilities Districts	Cash or debt	Special taxes on real property	2/3 voter approval; Landowner vote if <12 voters	Primary or Supporting Source; District Scale
Special Benefit Assessment Districts	Cash or debt	Real property assessments	Majority landowner approval, protest proceeding	Supporting Source; District Scale
City Funding and Financing				
General Obligation Bonds	Debt	Ad valorem property tax	2/3 voter approval	Primary Source; City Scale
Revenue Bonds	Debt	Enterprise (utilities) revenue	No voter approval	Primary Source; City or District

Figure 2 Summary of Infrastructure Funding and Financing Tools (continued from previous page)

City Funding and Financing (Continued from previous page)				
Parcel Taxes	Cash or debt	Flat rate property tax	Majority or 2/3 voter approval (general or special purpose)	Primary or Supporting Source; City or District Scale
Sales Tax and Other Local Taxes	Cash or debt	Local-option taxes	Majority or 2/3 voter approval (general or special purpose)	Primary Source City Scale
Capitalizing Leases	Debt	General Fund obligation	2/3 voter approval	Primary Source; Project Scale
Infrastructure Financing Districts	Cash or debt	Property tax increment	2/3 voter approval	Supporting Source; City or District Scale
Enhanced Infrastructure Financing Districts	Cash or debt	Property tax increment	55% voter approval for debt	Supporting Source; City or District Scale
Community Revitalization and Investment Authority	Cash or debt	Property tax increment	No vote required; Subject to protest	Supporting Source; City or District Scale
State and Federal Programs				
Grant Programs	Cash	State and federal government funds	No voter approval	Supporting Source; City or District Scale
State Infrastructure Bank	Debt	General Fund obligation	Depends on funding source	Supporting Source; District Scale
Statewide Community Infrastructure Program	Debt	Local assessment district or CFD special tax	No voter approval	Supporting Source; District or Project Scale

1. Development-Based Funding

Development Impact Fees

A development impact fee is an ordinance-based, one-time charge on new development designed to cover a "proportional-share" of the total capital cost of necessary public infrastructure and facilities. The creation and collection of impact fees are allowed under AB-1600 as codified in California Government Code Section 66000, known as the Mitigation Fee Act. This law allows a levy of one-time fees to be charged on new development to cover the cost of constructing the infrastructure needed to serve the demands created by the new development. To the extent that required improvements are needed to address both "existing deficiencies" as well as the projected impacts from growth, only the portion of costs attributable to new development can be included in the fee. Consequently, impact fees commonly are only one of many sources used to finance a city's needed infrastructure improvements. Fees can be charged on a jurisdiction-wide basis or for a particular sub-area of the jurisdiction (such as a specific plan area).

Establishment

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

Cost Burden

The burden incidence of development impact fees is upon the project developers and builders who pay the fees. Fees are a cost of development and are "internalized" into project costs in the same manner as all other development- and construction-related costs. There is no direct effect of fees on development pricing, because the markets set pricing independent of costs. However, when costs are too high for the market to bear, development may be deterred until such time as prices justify costs. All costs will influence land value, so it is often the case that landowners bear a portion of the cost of fees through lower land values (prices paid by developers or builders). So long as total development costs fall within a reasonable level, potential negative effects on development feasibility effects are manageable.

Economic Considerations

There are a number of specific economic considerations of development impact fees including:

- The effects of fees on the financial feasibility of new development and potential to deter otherwise desirable development (due to excessive costs); and
- The competitiveness effects of higher development costs (compared to neighboring jurisdictions) leading to dislocation of desired development.

A benefit of impact fees is that they provide a comprehensive and programmatic framework for identifying and allocating infrastructure costs to new development based on a demonstrated nexus between the new development and infrastructure need. In addition, there is no discretion on the part of developers subject to the fees nor is voter approval required.

The key limitation of development impact fees (in addition to the nexus requirement) is the timing of funding. Infrastructure often is needed "up-front" while fees are paid over time as development occurs. This means that other funding or financing methods are needed to close the timing gap. Fees also are irregular, as they depend on development activity that varies with economic conditions. During the 2008-09 recession, when development around the State and in the Bay Area slowed dramatically and prices fell precipitously in many locations, fee program revenues fell proportionately. Fees also require ongoing management including annual review, fund accounting, and updating to assure the efficacy and transparency of the fee program.

Related to the economic concerns discussed above, it is important to recognize that there are methods for moderating or deferring fees. Though individual development impact fee ordinances must be consistently applied and coordinated, they may contain features that can reduce potential negative economic effects and to avoid unnecessarily inhibiting otherwise desirable development. Also, there can be features of development impact fees that address economic concerns generally or on a case-by-case basis.

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

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

- Credits and Reimbursements: Credits and reimbursements are mechanisms that allow developers subject to an impact fee to build infrastructure in-lieu of paying the fee. Credits provide proportional fee forgiveness for the value of that construction against the fee obligation. Reimbursements occur in the case where construction value exceeds the particular developer's fee obligation.

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

Private Financing, Agreements, and Partnerships

Developers commonly fund infrastructure requirements privately, for example virtually all "in-tract" improvements (infrastructure improvements within a subdivision) are privately financed. In some cases area-serving infrastructure (not fully the responsibility of a particular developer)

can be privately financed. These cooperative arrangements are typically structured in development agreements or reimbursement agreements. This upfront infrastructure development may be fully or partially refunded, using subsequently collected development impact fees, special tax bond proceeds, or other city funding sources. These arrangements tend to be available during times of strong market performance. In weaker markets or locales it may be difficult to obtain such private financing.

Project-Specific Conditions and Exactions

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

Development Agreements

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

Incentive Zoning

Land use regulations can be configured in a manner that can provide incentives for additional private investments in local infrastructure and community benefits beyond that obtainable through the normal regulatory procedures. Community Benefit Incentive Zoning (CBIZ) programs are founded on the concept of "value capture." Public entities commonly create value with investments in public facilities and services (e.g., transit and utilities upgrades) as well as through changes to zoning code that increase the value of land. Typically, when the public sector creates value in these ways, landowners enjoy a financial gain. Value capture occurs when the public sector reclaims some of the value created by its activities. The State of California's Affordable Housing Density Bonus Law is an example of a CBIZ value capture program. Under this law, developers are granted additional density (i.e., the right to build additional market rate units) in return for their development of affordable housing units. A key limitation of CBIZ is the requirement for a strong real estate market in which developers are seeking to take advantage and pay for the incentives offered.

2. Land-Secured Funding and Financing

Special Benefit Assessment Districts and Community Facilities Districts

There is a long history in California and elsewhere in the United States of using land-secured financing methods to fund local infrastructure or provide services that benefit a particular area (ranging from an entire jurisdiction to sub-areas of all sizes). Traditionally, special assessment bonds as authorized by the Improvement Bond Act of 1915 and other related legislation were issued and funded by annual property tax assessments from benefitting properties. Increased voting requirements created by Proposition 218 largely eliminated the use of Special Benefit Districts in the mid-1990s. However, since the mid-1980s the Mello-Roos Community Facilities District (CFD) has been a well-used infrastructure finance tool, though it is not well suited for most infill applications due to voting requirements.

Establishment

California's land-secured funding districts can fund a wide range of infrastructure improvements that generate direct and measurable benefits to specific properties. The districts require (resident) voter or landowner approval. In the case of assessment districts, majority landowner approval is typically required. In the case of a CFD, a two-thirds voter approval is needed in areas that have more than 12 residents (landowners can approve special taxes in areas with 12 or fewer residents).

Cost Burden

The owners or users of real estate pay assessments or special taxes. By adding to the cost of ownership, the assessment or tax may affect the price a buyer is willing to pay for a home or commercial property, in which case the cost incidence is shared with the builder, land developer, or landowner. Experience suggests that less than 100 percent of the financing burden is recognized by buyers.

Economic Considerations

Land-secured financing provides a well-established method of securing relatively low-cost tax exempt, long-term, fixed rate, fully-assumable debt financing. However, there can be challenges associated with establishing measurable and specific benefits to particular properties. In addition, land-secured financing adds financing costs (e.g., cost of issuance and program administration). Further, the financing capacity of a district may be limited in early phases of development and it may be necessary to rely on other sources of infrastructure funding during initial years. Finally, while land-secured financing has been widely used in greenfield development where landowner approval is the norm, achieving a two-thirds voter approval in infill areas typically is a barrier to use of the tool.

Special Benefit Assessment Districts

Special benefit assessment districts are a way of creating a property-based assessment upon properties that benefit from a specific public improvement. The formation of assessment districts requires majority approval of the affected property owners. Benefit assessments can fund a wide range of infrastructure improvements so long as a direct and measurable benefit can be identified for the benefitting properties. There are numerous forms of special benefit assessments in the California statutes, including the Municipal Improvement Act of 1913, Lighting and Landscape Maintenance Districts, and others. However, in 1996, Proposition 218 effectively curtailed the use of Assessment Districts in California by limiting the methods by

which local governments may exact revenue from taxpayers without their consent. In addition, recent court rulings (Silicon Valley Taxpayers' Assn., Inc. v. Santa Clara County Open Space Authority, 44 Cal. 4th 431 (Cal. 2008)) have further tightened the requirements for demonstration of "special benefit" thus further reducing the flexibility and utility of assessment districts.

Community Facilities District Act

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

3. City Funding and Financing

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

General Obligation Bonds

A general obligation bond is a type of municipal bond that is secured by a state or local government's pledge to use legally available resources, most typically including property tax revenues, to repay bond holders. General obligation bonds are restricted to defined capital improvements. Credit rating agencies often consider a general obligation pledge to have very strong credit quality and frequently assign them investment grade ratings. In California, cities must secure a two-thirds voter approval to issue general obligation bonds.

Establishment

Creation of general obligation bonds requires two-thirds voter approval if the issuance is for non-educational purposes.

Cost Burden

The incidence of burden of general obligation bonds is upon all property owners in the issuing jurisdiction proportional to the value of their property. It is this very broad base of funding that provides excellent security for general obligation bonds, thus typically garnering the lowest interest rate of any municipal debt instrument.

Economic Considerations

General obligation bonds allow public entities to finance at a low fixed rate over the useful life of the asset. However, general obligation bonds are limited to capital improvement expenditures and also are limited in their use to the precise purposes outlined in the authorizing ballot

measure. General obligation bonds are commonly restricted to particular capital uses (e.g., street improvements, drainage improvements, parks and recreation).

Revenue Bonds

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

Establishment

Revenue bonds are issued by the municipal enterprise and require no voter approval. Revenue bonds may provide improvements for an entire jurisdiction or a sub-area.

Cost Burden

The incidence of burden of revenue bonds is upon rate payers.

Economic Considerations

Revenue bonds typically have a good risk profile and therefore garner comparatively low interest rates. Because they are secured exclusively by enterprise revenue, they are not general obligations of the city and do not require ballot approval. The ability to adjust rates to cover debt service costs and the ability to charge such rates differentially (given differing costs and benefits in service sub-areas) creates flexibility and appropriate cost allocation.

Revenue bonds are limited to enterprise-related expenditures and to the precise purposes outlined in the authorizing bond instrument. Revenue bonds also are limited by the rate base, which is a constraint when rates must conform to Constitutional and statutory requirements (e.g., Proposition 218).

Parcel Taxes

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

Establishment

Parcel taxes, if used for general purposes including infrastructure investments, can be imposed with majority voter approval. If used for special purposes, parcel taxes will require two-thirds voter approval. They may be used for funding ongoing services or pledged to debt service.

Cost Burden

The incidence of burden of parcel taxes (and special taxes) falls upon property owners. Typically such taxes are “flat rate” charged per parcel, sometimes with use-related variation and exemptions.

Economic Considerations

Parcel taxes (and special taxes) create an opportunity for voters to decide to pay for municipal services or facilities that they deem important. With a broad funding base and strict allocation rules, the taxpayers can assure that funding will be used as intended. However, parcel taxes (and special taxes) are limited to the purposes for which they were approved. They also are commonly subject to a "sunset" date, and must be re-authorized periodically to maintain funding.

Sales Tax and Other Local Taxes

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

General Taxes versus Specific Taxes

General Tax

- Expended at the discretion of the local government's governing body on any programs or services
- Simple majority (50% +1) approval is required for General Taxes

Special Tax

- Tax levied by a city or county that is dedicated to a specific purpose
- Taxes (other than property taxes for infrastructure bonds) levied by special districts, school districts, and community college districts (i.e., Special–Purpose District Tax)
- All taxes levied on property other than the property tax
- Two–thirds voter support is required to approve special taxes.

Source: Legislative Analyst's Office

Establishment

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

Cost Burden

The incidence of burden falls to those paying the taxes or rates. For example, sales taxes are paid by residents, businesses, employees, and visitors, while transient occupancy taxes are paid by visitors. The rationale for this payer burden is that these residents, businesses, employees, and visitors will benefit from the investments made in infrastructure and development.

Economic Considerations

Use of various general fund sources to support infrastructure investments including repair and replacement of existing infrastructure, as well infrastructure that serves new development, requires little additional administrative effort and is typically secure given the broad range of revenue sources pledged to the financing. However, the use of existing General Fund revenue is limited by current demands to support municipal operations.

Capitalizing Leases

Capitalizing leases, most commonly Certificates of Participation (COPs), are typically used by government agencies for construction or improvement of public facilities. Through the use of a lease-type repayment structure, the monies needed to fund these building projects do not (by California State law) constitute public debt and do not require voter approval. Usually, a public entity enters into a tax-exempt lease-purchase with a lessor and the lessor provides the agreed-upon the public facility. In this way, government agencies may use their leasing powers to provide more expedient access to the capital markets than the more restricted powers to incur debt. Agencies typically use tax-exempt leases to finance non-enterprise projects, such as schools, courthouses, jails, and administration buildings.[1]

Infrastructure Financing Districts and Enhanced Infrastructure Financing Districts

Infrastructure Financing Districts (IFDs) and Enhanced Infrastructure Financing Districts (EIFDs) are forms of Tax Increment Financing (TIF) that currently are available to local public entities in California. Local agencies may establish an IFD or EIFD for a given project or geographic area in order to capture incremental increases in property tax revenue from future development. In the absence of the IFD or EIFD, this revenue would accrue to the city's General Fund (or other property-taxing entity revenue fund). EIFD funds can be used for project-related infrastructure, including roads and utilities, as well as parks and housing. Unlike prior TIF/Redevelopment law in California, IFDs and EIFDs do not provide access to property tax revenue beyond the local jurisdiction's share (AB-8 tax allocation, see "Local Property Tax" text box below).

Largely because IFDs can be difficult to enact, Senate Bill 628 created a similar but more flexible tool, the EIFD. The EIFD bill expands the scope of eligible projects considerably, and lowers the voter/landowner threshold to pass a bond from two-thirds to 55 percent. In addition, EIFDs can be formed and gain access to unlevered (debt free) revenue without a vote.

While any tax increment, no matter how small, could benefit a marginally financially feasible project, it is important that in most cases the local property tax available is very limited (California cities typically get between $0.10 and $0.20 of a property tax dollar). Moreover, the use of local property tax to support infrastructure financing has fiscal implications for California cities. Dedicating tax revenue to infrastructure limits funding for new public services costs associated with development.

[1] California Debt Advisory Commission 1993.

Establishment

The establishment of an IFD or EIFD requires approval by every local taxing entity that will contribute its property tax increment. The IFD also requires two-thirds voter approval (within the specific geographic area) to form the IFD. EIFDs only require a vote when debt issuance is sought.

Cost Burden

The incidence of burden of an infrastructure financing district is local taxing jurisdiction that foregoes property tax revenue for services and dedicates these funds to infrastructure or other eligible investments.

Economic Considerations

IFDs and EIFDs, a form of TIF, redirect property taxes otherwise accruing to the city General Fund. The value created by the project is captured and invested in a manner that helps realize the project. However, only specific types of public investments of community-wide significance may be financed through an IFDs and EIFDs. IFDs and EIFDs cannot be used to finance operations and maintenance expenses. Unlike former Redevelopment TIF, IFDs only can utilize local government's share of property tax (along with other agencies who agree to forego their share of tax increment).

Local Property Tax

The county auditor is responsible for allocating property tax revenue to local governments pursuant to state law. The allocation system (referred to as AB 8) defines the share of property tax that accrues to local government and services districts.

The county auditor allocates the revenue to local governments by Tax Rate Area (a single county may have thousands). Each local government's share is based on its share of countywide property taxes during the mid-1970s.

The most significant factor in explaining the differences among local governments' shares of property tax is the difference in service responsibility. Local governments that provide a full range of governmental services typically receive a greater share of property tax.

Source: Legislative Analyst's Office; Elledge 2006

Community Revitalization and Investment Authority

The Community Revitalization and Investment Authority Law (AB 2) allows cities (and other property-taxing entities, except school districts) to establish a Community Revitalization and Investment Authority (CRIA) in disadvantaged communities (defined by the legislation). The CRIA area may adopt a resolution to allocate its share of property tax increment to the CRIA for funding of affordable housing and other redevelopment-related costs (e.g., infrastructure, environmental remediation, property). CRIA powers are similar to the authority of former Redevelopment agencies, including eminent domain.

Establishment

A CRIA is formed by City resolution or through entering into a joint powers agreement. The actions of the CRIA are governed by a community revitalization plan. To adopt an AB2 community revitalization plan, the CRIA must hold hearings. If there is a majority protest, the CRIA must terminate proceedings. A majority protest exists if protests have been filed representing over 50 percent of the combined number of property owners and residents in the area (who are at least 18 years of age). If between 25 percent and 50 percent of the combined number of property owners and residents in the area who are at least 18 years of age file a

protest, then an election must be held. If an election is required, a majority vote is required to adopt the revitalization plan.

Cost Burden

The incidence of burden of CRIA tax increment funds falls to the local taxing jurisdiction that foregoes property tax revenue for services and dedicates these funds to the CRIA.

Economic Considerations

CRIAs create a new opportunity to redirect property taxes otherwise accruing to the city General Fund to infrastructure. However, similar to IFDs and EIFDs, the CRIA only may utilize local government's share of property tax (along with other agencies who agree to forego their share of tax increment). Furthermore, the CRIA area must include at least 80 percent of land that has an annual household income that is less than 80 percent of the statewide annual median income, as well as three out of the four additional criteria defined in the statute (high unemployment, high crime rates, deteriorated or inadequate infrastructure, deteriorated commercial or residential structures, including a former military base).[2] A key concern related to the potential for CRIAs is that they are targeted for use in areas that likely, given these eligibility requirements, typically will have weak market conditions and local jurisdictions with minimal flexibility to give up property tax revenue that is otherwise needed to support municipal service costs.

4. State and Federal Programs

Grant Programs

Local and regional government entities commonly participate in a range of State and federal grant programs, compete for special grants, and partner with other public agencies on strategic infrastructure improvements. These grant programs and cooperative efforts, while mainly focused on maintenance of existing infrastructure, can be managed in a way that supports revitalization and infill development efforts.

State Infrastructure Bank (IBank)

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

The IBank has broad authority to issue tax-exempt and taxable revenue bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities, and leverage state and federal funds. The IBank's current programs include the Infrastructure State Revolving Fund (ISRF) Program, 501(c)(3) Revenue Bond Program, Industrial Development Revenue Bond Program, Exempt Facility Revenue Bond Program and Governmental Bond Program.

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[2] See AB-2 Community revitalization authority full text here: https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB2.

The ISRF Program provides very low-interest rate loans up to $25 million (per applicant) to municipal governments for a wide variety of municipal infrastructure, including infrastructure needed to serve new development. An application is required for these loans, and loans require a stable and reliable source of repayment. If approved, loan repayment can be funded through a commitment of city general fund revenues or a pledge of a particular revenue source, including a citywide tax, land secured assessment, or special tax levied on a particular area.

Common criticisms of the IBank ISRF Program have included its cumbersome program application process, its strict credit standards and related risk aversion, and limited financial incentive to participate. However, recent changes to the program may increase IBank lending to cities without other credit options. Pursuing further opportunities to modify or expand the Program, or to create an entirely new program, could make State-sponsored lending a useful tool for assisting and incentivizing infill development.[3]

Statewide Community Infrastructure Program

The Statewide Community Infrastructure Program (SCIP) is a program of the California Statewide Communities Development Authority (CSCDA) that makes use of a local government's ability to create land-secured financing districts. The Program "pools" debt obligations to gain a comparatively lower interest rate and issuance costs (particularly if the issue is less than $5 million). SCIP can benefit developers because it provides low-cost, long-term financing of fees and improvements, which can otherwise entail substantial upfront cash outlays. Local agencies benefit from SCIP when fee funds are made available upfront or infrastructure is financed with attractive terms. Typically, most public improvements required as conditions of project approval are eligible, including roads, street lights, landscaping, storm drains, water and sewer facilities, and parks. Further, the availability of low-cost, long-term financing also can soften the burden of rising fees and improvement costs, which benefits developers and local agencies. According to CSCDA, the SCIP program has assisted communities and developers throughout California to finance over $150.2 million in impact fees since 2003.

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

Participation in SCIP entails the submission of an application by the property owner of the project for which development entitlements either have been obtained or are being obtained from a local agency. For projects determined to be qualified, SCIP provides non-recourse[4] financing of either (a) eligible development impact fees payable to the local agency or (b) eligible public capital

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[3] Find more information concerning California Infrastructure and Economic Development Bank programs available here: http://www.ibank.ca.gov/programs_overview.htm.

[4] Non-recourse financing is a loan structure in which the lending bank is only entitled to repayment from the proceeds of the project, not from other assets of the borrower.

improvements (or both). Under certain circumstances, determined on a case-by-case basis, development impact fees payable to local agencies also may be used as repayment for upfront SCIP funding.

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

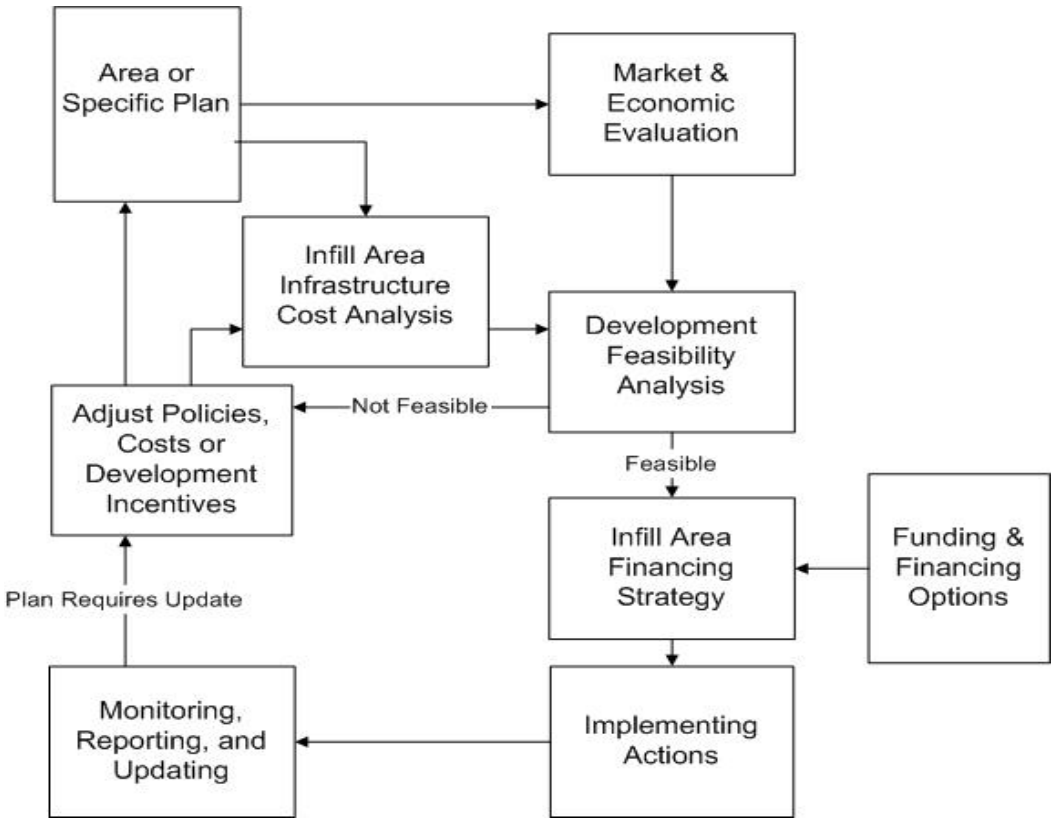
4. ASSEMBLING AN INFILL FINANCING PROGRAM

As documented above, infill development areas typically face a range of development constraints that can add costs and complexity to the development process. These constraints include the need for land assembly often involving displacement of existing lower density development, replacement or expansion of inadequate infrastructure, and the higher construction cost for mixed use buildings sought for infill development and the need for structured parking. At the same time development financing in the post-Recession period remains challenging with high equity requirements, higher construction lending costs, and higher mortgage lending standards that limit potential buyers.

Given these considerations infill development should be pursued in a coordinated and methodical approach that incorporates economic and market analysis, clear documentation of needed infrastructure investments, development feasibility analysis that balances real estate value created with development costs, consideration of "state-of-the-art" funding and financing options, assembly of a responsive and realistic financing strategy, and finally a commitment to effective implementation and administration of needed financing mechanisms.

Figure 22 illustrates the steps involved in such an infill financing program. Each step is subsequently described. Ideally, the infill financing program is an integral part of the infill area planning process, allowing for necessary adjustments to the plan and related development regulations needed to assure development feasibility and that needed infrastructure is constructed in a strategic and timely manner.

Figure 22 Illustration of Area Plan Financing Program Steps



1. Market and Economic evaluation of the area plan

A market and economic evaluation of the infill area should be conducted, ideally as a part of the related land use plan preparation. The evaluation should document current market conditions and provide a forecast of the likely real estate value of development; document the broader economic benefits (e.g., jobs, retail sales, household income, multiplier effects) and analyze potential fiscal effects (increases in municipal service costs and revenues). This market and economic information is fundamental to subsequent feasibility analysis.

2. Infill Area Infrastructure Cost Analysis

Once the infill area mix and scale of uses are quantified and an assessment of existing infrastructure deficiencies is conducted the basic infrastructure items can be identified along with a preliminary estimate of their construction costs. These costs typically include upgrades to existing utilities that may be inadequate to serve new development, expansion of water and sewer treatment capacity, relocating or creating more pedestrian-friendly and transit-oriented streets, and creation of public plazas and parks that improve the livability of the new urban neighborhood.

3. Development Feasibility Analysis

The infrastructure cost analysis combined with the potential real estate value allows a development feasibility analysis. Typically this analysis involves financial analysis of "development prototypes" (reflecting the type and scale of development anticipated in the area) and reflecting the infrastructure cost burdens imposed on new development. Such analysis determines the ability of a project or the entire infill area to fund necessary infrastructure over time and, insofar as feasibility falls short, the magnitude of funding "gaps" that may exist.

4. Cost and Policy Adjustments (planning iteration)

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

5. Funding and Financing Mechanism Options

Given the development constraints, costs of infrastructure, and market and development financing challenges it is necessary to assure that the most efficient and cost-effective funding sources and financing mechanisms are applied. This Report provides a summary of these funding and financing options and there are many other compendia describing these options. In general, the foundation of infrastructure financing in infill areas will always be through "development-based" sources (impact fees and exactions, special taxes, tax increment financing). In cases where feasibility challenges are met despite best practices it may be necessary to augment development-based funding sources and financing with additional sources of funding along with other incentives if sought-after revitalization and commercial and industrial development is to occur.

6. Infill Financing Strategy

The financing strategy for an infill area is a document that reflects the forgoing technical analysis, provides the necessary policy guidance, establishes a flexible and robust financing framework, and specifies implementation actions. Such a financing strategy may, often is, an integral part of specific plans (as required by State Planning Law) but may also be a stand-alone document.

7. Implementing Actions

The financing strategy should identify the specific actions necessary to implement the selected funding sources and financing mechanisms consistent with broader City policy and economic development objectives. These actions may include entitlement-related procedures such as negotiation of development agreements or other funding agreements with developers, establishing an area development impact fee program, establishing a special tax or assessment district, providing "bridge" funding advances for early term infrastructure investments. Considerable time and effort may be involved in such implementing actions that include integration with broader citywide funding an financing initiatives, development project-specific negotiations, cooperation with other public agencies, public outreach and involvement, and following the prescribed formation proceedings.

8. Monitoring, Reporting, and Updating

There are implications associated with a higher level of City involvement in financing infill area infrastructure financing. For example, the economic, fiscal, and financial analysis needed to complete infill area infrastructure financing along with formation and ongoing administration of the financing mechanism, and construction-related efforts require substantial city participation and other expenses that must be anticipated and funded as a part of the overall program. Infill development typically plays out over an extended period of years. Thus, following adoption of the implementing actions it will be necessary to monitor the financing mechanisms and related compliance to assure success. Changing circumstances (e.g., market conditions, developer proposals, etc.) often are inconsistent with forecasts or what may have been expected thus requiring periodic adjustments to the financing strategy or its component mechanisms.

5. CASE STUDY INFRASTRUCTURE FINANCING ASSESSMENT

To illustrate opportunities and constraints associated with infill development and infrastructure, this white paper considers six case studies of infill development areas around the Bay Area (see **Figure 3** and **Figure 4**). These case studies, which include a range of infill development locations and conditions, endeavor to illustrate how the location-specific challenges (or advantages) of an infill area influence the strategic path forward for planning, development, and infrastructure funding and finance. The case studies offer an assessment of development potential, the most critical factor affecting development-based infrastructure financing, as well as other community and institutional factors. Further, the case study assessment provides infrastructure financing strategy concepts, including specific funding sources and financing techniques that complement the unique circumstances of each area.

The case study plans and future place types include the following:

I.	Richmond Bay, Richmond	Transit Neighborhood
II.	West Downtown, Walnut Creek	City Center
III.	Broadway Valdez, Oakland	Regional Center
IV.	Transit Area, Milpitas	Suburban Center
V.	El Camino Real, Menlo Park and Mountain View	Mixed-Use Corridor
VI.	Shiloh Road, Windsor	Suburban Center (not a PDA)

Development Readiness and Financing Assessment

The case studies infrastructure financing assessment begins with a review of development readiness and financial capacity, as location-specific development opportunities and constraints profoundly influence the individual funding sources and financing techniques identified above (see **Section 3**). The review applies a criteria-based rating system including six specific measures including market conditions and opportunities, infill area characteristics and capacities, and institutional and community factors (see **Figure 3**). Case study "scoring" based on these criteria informs the necessary development readiness activities and investments, as well as the potential utility of specific funding sources and financing techniques. The criteria system is relatively simple (not requiring substantial data) so it can be deployed generally to test infill areas throughout the Bay Area to inform potential financing options and needed actions.

Figure 3 Development Financing Readiness Criteria

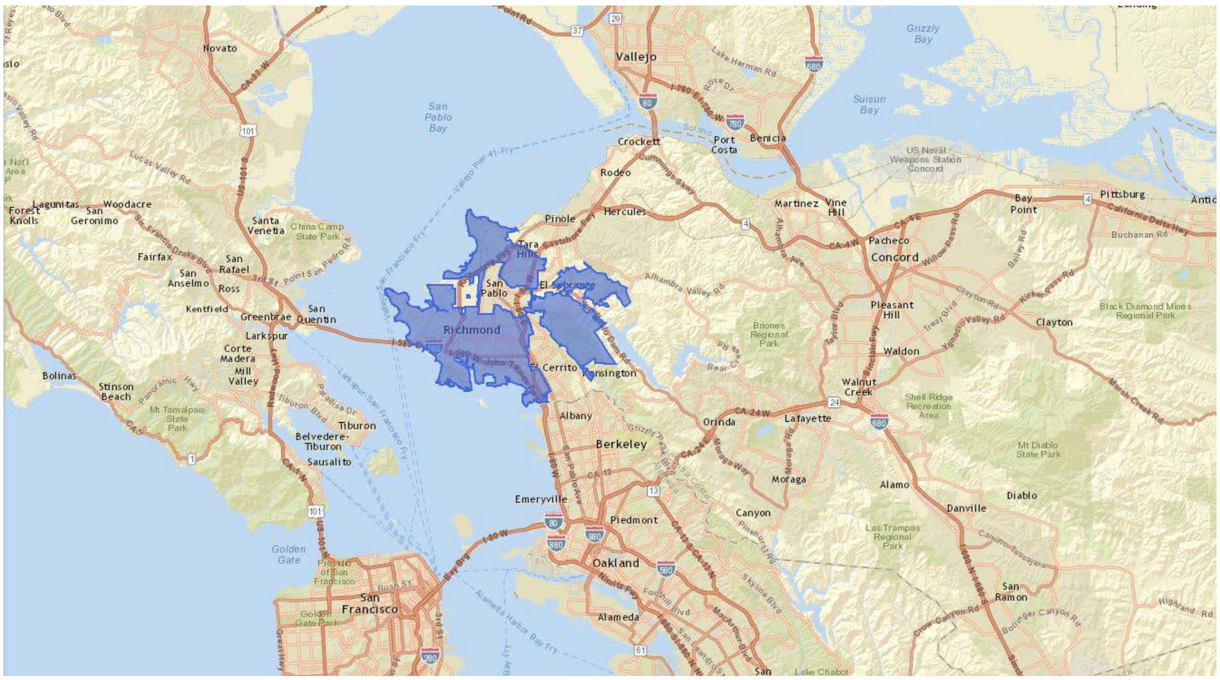
Criteria	Link to Financing	Criteria Range
1. Market Activity and Potential Factors		
Is there an active real estate market (development) in the immediate vicinity of the infill area?	Devleopment-based funding sources all depend on the scale and velocity of new development; nearby development is an indicator of such potential. Actual development activity and pending applications in the infill area are the best indicator of market activity	None = 1 Limited area, no local = 2 Strong area, no local = 3 Strong area, limited local = 4 Strong area, strong local = 5
2. Infill Plan Area Size		
Is the infill area large enough and containing diverse property ownerships and opportunity sites to provide adequate scale for public financing techniques?	The larger the area and the more viable development opportunity sites the greater the value potential and related creditworthiness of the area	< 50 acres = 1 50 - 100 acres = 2 100 - 150 acres = 3 150 - 200 acres = 4 > 200 acres = 5
3. Infill Development Requirements		
Are there physicial or infrastructure deficiency contraints that limit development potential?	Large physical constraints (e.g. hazardous materials remediation) or extraordinary infrastrucure deficiencies may prevent or deter substantial development activity	Substantial physical/infra. constraint = 1 Constraint subject to mitigation = 2 Infrastructure costs uncertain = 3 Costs known but substantial = 4 Costs known and limited = 5
4. Planning & Entitlement		
Is proper planning, zoning,CEQA clearances and entitlement procedures in place?	Having supportive planning and land use regulations and environmental review documents completed or streamlined creates value by reducing the uncertainties of the entitlement process	Infill planning/zoning not present = 1 Plans/zoning need update = 2 Plans/zoing under preparation = 3 Plans/zoning complete = 4 Plans/zoning/CEQA clearance = 5
5. Community Support		
Is there political and community support for proposed infill development?	Political and community support reduces potential impediments and legal challenges to development approvals and signals cooperative efforts by city to achieve infill development	History of initiative/referendum = 1 Vocal opposition & split council support = 2 Limited opposition and council support = 3 No opposition and council support = 4 Council support and development incentives offered = 5
6. Fiscal Resources		
Does city have the fiscal and financing capacity to accommodate and incentivize infill develeopment?	Fiscal status of the City and related financing capacity provides flexibility to engage in efforts to incentivize and subsidize desired infill development	Weak fiscal position and weak area performance = 1 Weak fiscal position and strong area performance = 2 Strong fiscal position and weak area performance = 3 Strong fiscal position and strong area performance = 4 Strong fiscal and area performance and financial incentives = 5

Figure 4 Overview of Case Study Locations

City of Richmond Case Study

The City of Richmond is a relatively large city of more than 50 square miles located in western Contra Costa County, with an extensive shoreline on San Francisco Bay and San Pablo Bay. The City played a key role in World War II, with tens of thousands of workers supporting shipyards and other wartime industries. Today, Richmond retains elements of this industrial past, serving as a hub for oil refining, shipping, transportation, and other commercial uses. Chevron is the most significant employer in the city. After years of disinvestment, Richmond is experiencing a construction boom with more than a dozen commercial and residential projects in the pipeline.

Figure 5 City of Richmond Overview



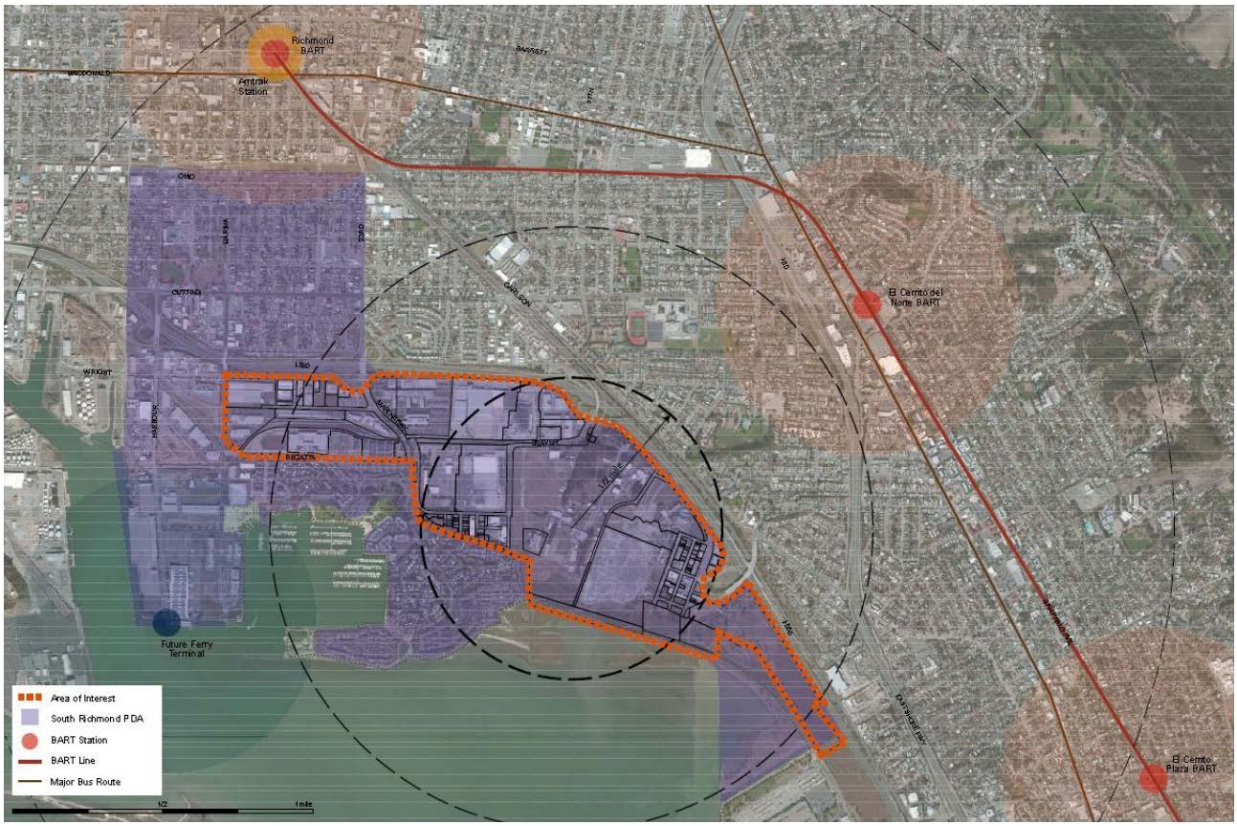
Population	Economy
City Population (2014) 108,565	**Housing Units (2010)** 39,328
City Population Growth (2010-2014) 4.7%	**Employed City Residents (2013)** 39,709
City Median Household Income (2009-2013) $54,589	**City Jobs (2013)** 29,550
Citywide Population Density (2010) 3448.9/square mile	**City Major Industries (by Employment)** Health Care and Social Assistance; Manufacturing; Retail Trade; Educational Services
City Households (2009-2013) 36,208	

Source: ESRI, US Census Bureau; EPS

Richmond Bay Specific Plan

In June 2012, the City of Richmond was awarded a Priority Development Area Planning Grant from the MTC and ABAG to develop the Richmond Bay Specific Plan (previously the South Shoreline Specific Plan) for a 220-acre area located south of Interstate Highway 580. The Specific Plan will focus on ways Richmond can take advantage of the planned Berkeley Global Campus at Richmond Bay, future ferry service, and other area assets, to create a sustainable shoreline district providing jobs, housing, transportation options, and opportunities for entertainment and recreation. The City recently concluded the public comment period for the Specific Plan. In addition, an advisory committee of Richmond residents is seeking consensus on a broad outline of recommendations to guide the UC's development of the new campus project.

Figure 6 Richmond Bay Specific Plan Map



Source: Opticos Design

Figure 7 Richmond Bay Specific Plan Real Estate Product Types LARGER

Residential Building Types	Commercial building Types
Townhome Small-Medium sized structure in medium density neighborhood with 3 to 8 townhouses side-by-side.	**Main Street Building** Small- to Medium-sized structure, typically attached, intended to provide a vertical mix of uses and upper-floor commercial, service, or residential uses
Apartment House Medium- to large- sized structure scaled to fit adjacent neighborhood serving main streets and walkable urban neighborhoods	**Mid-Rise Building** Medium- to large-sized structure, 3-6 stories tall, built on a large lot that incorporates structured parking
Courtyard Building Medium- to large- sized structure with multiple units accessed from a courtyard. Scaled to fit sparingly within primarily single-family or mdeium-density neighborhoods.	**R&D Building** Medium- to large- sized structure intended to accommodate research and development facilities
Live/Work Building Small- to medium-sized attached or detached structure consisting of one dwelling unit above/bahind a flexible ground-floor space. Located in medium-density neighborhoods or in a transition from a neighborhood into a neighborhood main street	**Industrial Building** Small- to medium- sized structure with form requirements intended to ensure that industrial buildings have a pedestrian scaled interface and complement surrounding development while providing for buildings at lower construciton costs

General Market Conditions

While residential real estate values have rebounded to new highs and development interest has reignited throughout much of the inner Bay Area, outlying markets such as Richmond have been slower to recover. Affordable housing developers have been active in Richmond in recent years but no significant new market rate multifamily housing has been developed. Current market pricing to purchase recently-built residential multifamily dwelling units averages in the mid $400,000s, which is insufficient to motivate most market-rate developers.

Nonresidential development has been primarily industrial warehouse and logistics projects. No significant new office or retail has been developed since 2000, with the exception of new building for the California Department of Public Health and a Target store. In today's market, the values achieved by office uses do not justify new development. Transaction data reveal that office space in Richmond commonly is trading for below $200 per square foot, and the top of the market for specialty office is valued below $300 per square foot. Retail real estate values also are relatively soft, with per square foot value averaging about $300. Development activity levels in the City suggest that until real estate values rise above roughly $300 per square foot, speculative office and retail development will be minimal.

Development Opportunities

The strategy for redevelopment of Richmond's south shoreline hinges on development of the UC Berkeley Global Campus. The UC's investment is anticipated to be a catalytic force that stimulates a wide range of subsequent investments in the area, similar to the ripple effect that UCSF investments had in San Francisco's Mission Bay. In addition, the City envisions the introduction of ferry service between San Francisco and the Plan area in 2018.

Photo credit: University of California

The UC Global Campus would redefine the south shoreline. The UC is seeking to construct the new campus for higher education, research, and technology development. The proposal is for a 5.5 million-square foot project on 134 acres within the Richmond Bay Specific Plan area. The facility would host academic programs from around the world and combine public and private efforts to address current international challenges in energy, computing, the environment, health and the global economy.

Without UC development and improved transportation options, the potential for redevelopment of the south shoreline is likely to limited in the near term (~ 5 to 10 years). However, there likely is potential for residential development building on the existing Marina Bay neighborhood, which is adjacent to the Specific Plan area, given available land and market demand for shoreline development.

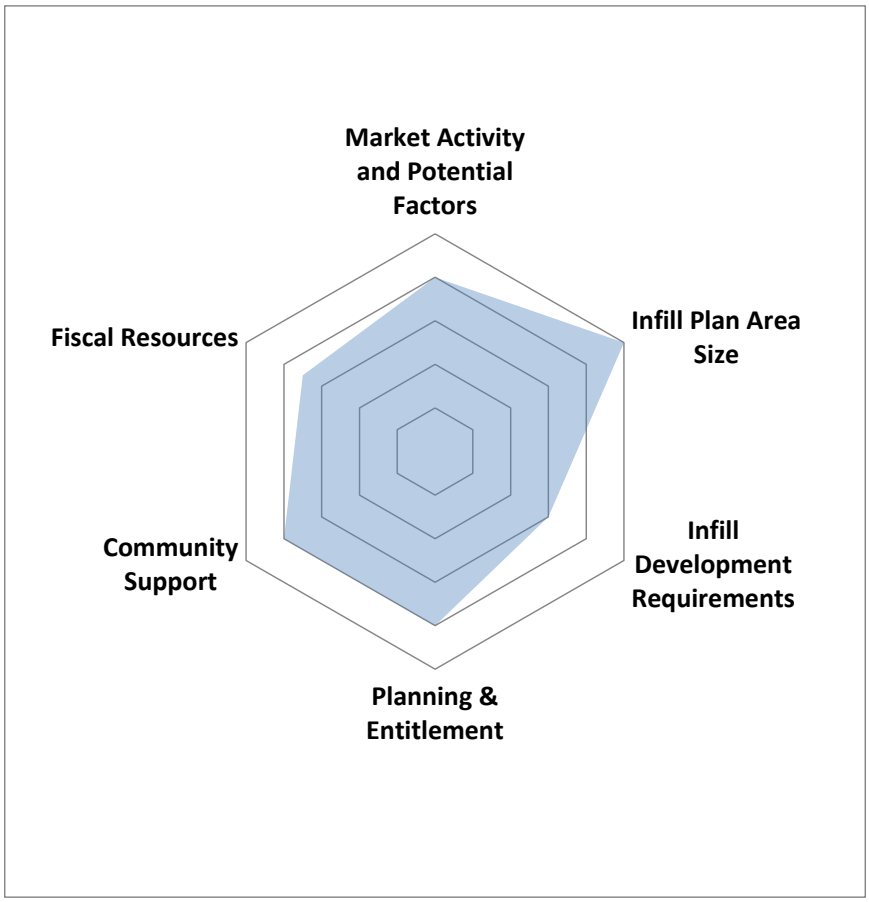
Site Development Constraints

Richmond's southern shoreline was the site of the Kaiser Industries' World War II shipyard. In addition to shipbuilding, a variety of other port-related and heavy industrial activities have occurred in the area. Chevron's refinery lies adjacent to the area, just north of I-580. The Specific Plan process has documented, based on substantial hazardous materials assessments that have occurred over the years, that significant environmental remediation will be required before new development occurs. The cost of remediation is unknown. In addition, the Plan has identified approximately $130 million in sanitary sewer, storm drain, potable water, dry utilities, public improvements, and fees for plan check and inspections, East Bay Municipal Utility District infrastructure, and City sewer improvements.

Financing Assessment

Application of the development financing readiness criteria to the City of Richmond case study, as summarized in **Figure 8**, indicates an adequate planning area, market potential given the UC plan, and appropriate community support. However, site contamination and associated remediation requirements in the plan area are a concern.

Figure 8 Richmond Case Study Financing Feasibility Screen



Scoring Notes: Though Richmond's reported credit capacity is somewhat limited, scoring of Fiscal Resources benefits from an extraordinarily high Tax Allocation Factor (property tax rate), which greatly improves the potential for the City to achieve meaningful financing through EIFD or other property tax-based methods.

Development Strategy and Financing Program

The following development and financing strategy is recommended:

1. Continued progress towards improving the project area's development readiness. The City should seek to finalize the Specific Plan and associated CEQA documents. Ultimately, development of contaminated lands present in the planning area likely will require Remedial Action Plans and associated clearances from the State's Department of Toxic Substances Control. While remediation plans typically are undertaken by landowners, the City should coordinate and support landowners as appropriate to expedite the remediation processes. Further, there may be opportunities for the City to use Polanco Redevelopment Act powers to facilitate remediation actions in some cases.

2. Continued coordination with the University of California. The UC's proposed Global Campus is the primary catalyst project in the Richmond Bay Specific Plan and it is anticipated that the UC would be a major contributor to infrastructure financing. Key areas of coordination include achieving agreement on Development Agreement terms (including community benefits) and infrastructure cost sharing.

3. Develop an Infrastructure Funding and Financing Strategy. While the south shoreline area faces significant development challenges related to infrastructure and site remediation costs, substantial financing capacity will emerge as development occurs, particularly if UC proceeds with development of the Global Campus. The costs associated with these development challenges likely will require the use of multiple financing tools. Key elements of the strategy could include:

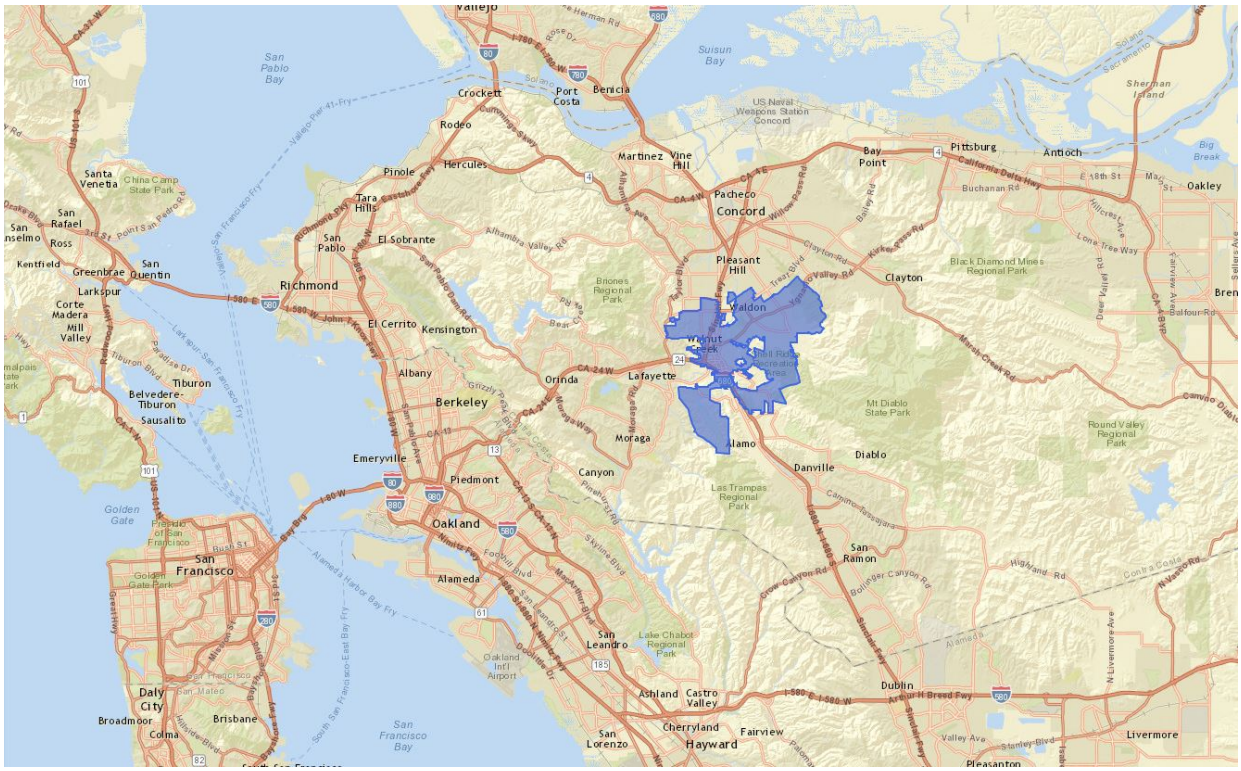
   - **Area Development Impact Fee** - to allocate infrastructure costs to new development as it occurs. Such a fee typically covers the required backbone infrastructure needed to support new development (e.g. streets, drainage, water, and sewer).

   - **Enhanced Infrastructure Financing District or Community Revitalization and Investment Authority** –takes advantage of the size of the Specific Plan area and the City's favorable property tax apportionment factor. Tax increment funding and financing could be directed toward some of the extraordinary costs associated with site remediation and also certain public amenities. Further, establishment of an EIFD or a CRIA also would create a sound institutional framework for integrating infrastructure funding provided by UC.

City of Walnut Creek Case Study

Located 16 miles east of Oakland at the junction of I-680 and SR-24, Walnut Creek serves as a hub for central Contra Costa County. Walnut Creek is the largest employment center in Contra Costa County with nearly 56,000 jobs. Broadway Plaza shopping center located in the downtown was Contra Costa's first major retail center and still today is a top-tier regional shopping center. Walnut Creek is accessible by two BART stations.

Figure 9 City of Walnut Creek Overview

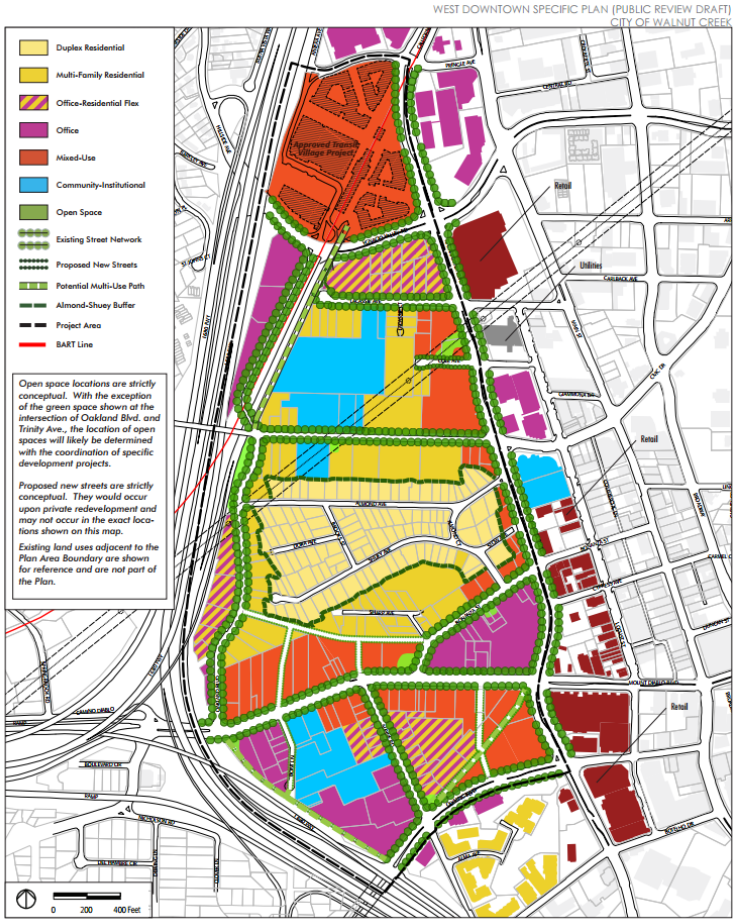


Population	**Economy**
City Population (2014) 67,673	**Housing Units (2010)** 32,681
City Population Growth (2010-2014) 5.5%	**Employed City Residents (2013)** 25,727
City Median Household Income (2009-2013) $81,953	**City Jobs (2013)** 55,838
Citywide Population Density (2010) 3248.1/square mile	**City Major Industries (by Employment)** Health Care and Social Assistance; Professional, Scientific, and Technical Services; Retail Trade; Finance and Insurance
City Households (2009-2013) 29,852	

Source: ESRI, US Census Bureau; EPS

West Downtown Specific Plan

There has been a boom in private investment in Downtown Walnut Creek and significant improvements to the BART station are planned. The West Downtown Specific Plan aims to improve the connection between BART and the Downtown by improving the area between the two destinations, as well as improving its major transportation corridors including Mount Diablo Boulevard, California Boulevard, Olympic Boulevard, and Ygnacio Valley Road. The West Downtown Specific Plan reflects the City's goals to promote residential and mixed-use infill development that enhances pedestrian and transit access and reduces traffic. The Plan Area is almost completely built out, with very few vacant properties.



The redevelopment concept for West Downtown includes transit-oriented development that focuses on clustered housing, retail, and employment at high densities around transit. Land uses in the plan include mixed-use, community/institutional, office, office/residential flex, multifamily residential, and duplex residential.

General Market Conditions

Downtown Walnut Creek has become well established as a desirable multifamily residential location in recent years, building on the city's recent multifamily developments and surrounding suburban single-family neighborhoods. The downtown area also is a highly competitive retail destination, and a regional headquarters and professional service employment center.

In the current economic cycle, downtown developers have pursued condominium projects. In addition, the downtown's Broadway Plaza is undergoing a $250 million upgrade and expansion. In today's market, consumers are buying recently developed multifamily units for about $600,000 on average. The values achieved by high-quality, well-located office and retail uses are on the order of $500 per square foot. Despite the relatively strong value of well-positioned properties, the Walnut Creek commercial market has not seen significant space demand spill over from San Francisco and the inner East Bay during the current real estate cycle. While the multifamily residential market is strong, the desired expansion of the office sector will lag due to lower growth potential at this time.

Development Opportunities

The City envisions the reinvigoration of its West Downtown area with a variety of context-specific infill redevelopment projects. While the market is relatively strong, parcels commonly are small, requiring assemblage to form a meaningful development site. The City is considering density bonuses for assembled parcels, as a means of incentivizing the development community to seize the opportunities for creative infill development.

Site Development Constraints

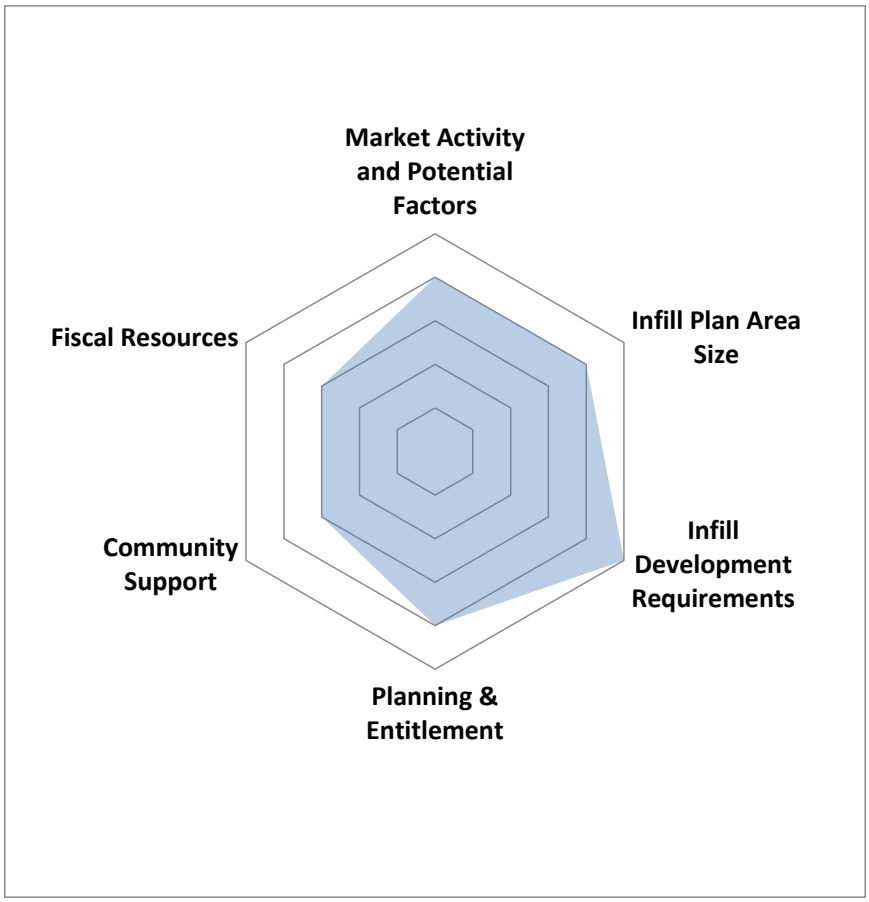
The West Downtown area exhibits development constraints that are common to many infill areas. While key opportunity sites already have been assembled, with development projects underway or pending, additional opportunity sites have existing income-generating uses that create high land value, and other remaining parcels are relatively small and require assembly to provide a developable site. The high cost of structured parking also creates a constraint, particularly for office uses. Community concerns regarding growth and traffic congestion may also pose challenges to development of the area.

The Specific Plan identifies an approximately $37 million public improvement program, including costs primarily attributable to streetscape and intersection improvements. While significant, this infrastructure investment plan appears achievable given the new real estate value created by the development envisioned by the Specific Plan.

Financing Assessment

Application of the development financing readiness criteria to the City of Walnut Creek case study, as summarized in **Figure 10**, indicates adequate market potential, a sufficiently sized plan area, and a lack of major infrastructure constraints. However, municipal fiscal conditions and community support are suboptimal.

Figure 10 Walnut Creek Study Financing Feasibility Screen



Scoring Notes: Fiscal Resources in the City are somewhat limited, despite strong revenues and creditworthiness, due to provision of high levels of City service and commensurate public costs. Community Support is scored to reflect public concerns regarding perceived effects of development on quality of life factors, particularly roadway congestion.

Development Strategy and Financing Program

The following development and financing strategy is recommended for the Walnut Creek West Downtown Specific Plan:

1. Continued community engagement. The City is engaged in an extensive community outreach effort to convey the planning goals of the Specific Plan. The City is responding to public concerns and refining the Plan to better reduce impacts on traffic by incentivizing transit use, walking, and biking, and minimize reliance on private automobiles.

2. Complete Specific Plan and related environmental review. The City continues efforts to refine the Specific Plan in response to the community outreach and ongoing technical analyses. As a part of this effort, the City is introducing a density incentive for projects that achieve desired (and necessary) land assembly and also reducing parking requirements (and related costs), adjustments that will improve the long-term development potential of the Plan area.

3. Incorporate detailed financial analysis and infrastructure financing program into the Specific Plan. The City recently has prepared a detailed financial feasibility analysis and development forecast for the Specific Plan area, focused on determining the relative feasibility of the types

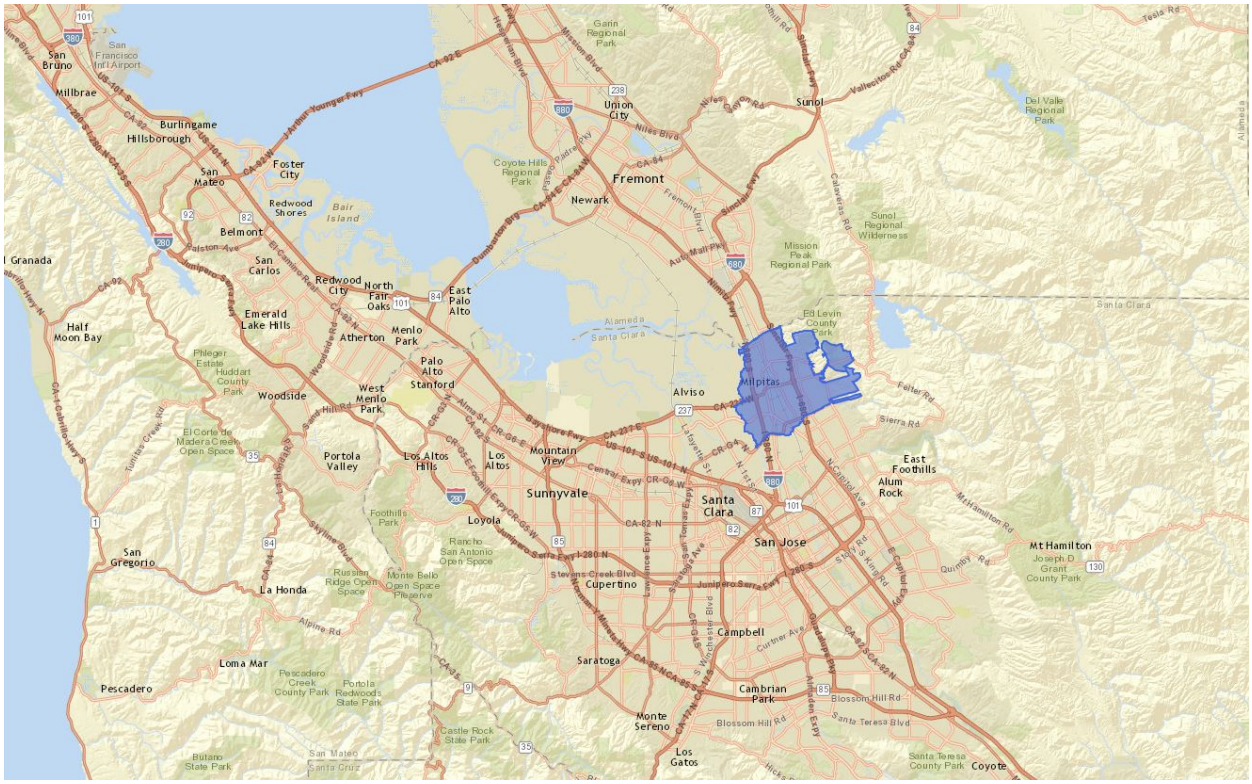
of development envision in the Plan area. This effort has included documentation of the required infrastructure improvement costs and defined approaches to funding infrastructure. In addition to new infrastructure, the City also is seeking mechanisms to assure that the ongoing operations and maintenance costs of infrastructure are funded.

4. Adopt Area Development Impact Fee. Given the relatively modest infrastructure costs required, an Area Development Impact Fee program provides an efficient and effective approach to infrastructure cost allocation and funding. It also is likely that some portion of the desired streetscape improvements can be made by individual development projects as simple conditions of approval.

City of Milpitas Case Study

Milpitas has grown rapidly over the past ten years as the economy in San Jose and throughout Silicon Valley has boomed. Population has grown nearly 20 percent since 2000 and the number of housing units has increased similarly, with high-density housing located in the southern and western portions of the City. In addition, corporations such as Cisco, SanDisk, and Flextronics have moved to Milpitas. In the near future, the City will be served by transit through the Silicon Valley Bay Area Rapid Transit (BART) extension.

Figure 11 City of Milpitas Overview



Population	**Economy**
City Population (2014) 73,672	**Housing Units (2010)** 19,806
City Population Growth (2010-2014) 10.3%	**Employed City Residents (2013)** 27,673
City Median Household Income (2009-2013) $95,466	**City Jobs (2013)** 42,651
Citywide Population Density (2010) 4914.3/square mile	**City Major Industries (by Employment)** Manufacturing; Retail Trade; Accomodation and Food Services; Professional, Scientific, and Technical Services
City Households (2009-2013) 19,535	

Source: ESRI; US Census Bureau; EPS

Transit Area Specific Plan

Adopted in 2008, the Milpitas Transit Area Specific Plan (TASP) is a redevelopment plan for an approximately 437-acre area in the southern portion of the City, around the proposed Milpitas BART station and the Valley Transportation Authority Light Rail Station. The Plan envisions transforming an obsolete industrial district into a mixed-use, walkable urban neighborhood. The TASP includes the construction of approximately 7,100 dwelling units, 990,000 square feet of office space, 340 hotel rooms and 290,000 square feet of retail space.

Figure 12 Transit Area Specific Plan Real Estate Product Types

Plan Classification	Land Use	Maximum Base Density	Building Height
Boulevard Very high Density Mixed Use	Residential, Office, Commericial, Hotel, Medical	60 du/ac or 1.5 FAR for office	12 stories, up to 20 storied with use permit
Residential - Retail High Density Mixed Use	Residential, Office, Commericial, Hotel	40 du/ac or 1.5 FAR for office	75 feet, 12 stories on arterials, 20 stories allowed with use permit
Very High Density Transit-Oriented Resential	Residential, Neighborhood Commercial (ground floor only), Live/Work	60 du/ac	75 feet, 12 stories on arterials, 20 stories allowed with use permit
High Density Transit-Oriented Residential	Residential, Live/Work	40 du/ac	75 feet max
Retail Transit-Oriented	Retail, Hotel, Office	2.5 FAR	12 stories on arterials, 20 stories allowed with use permit
Transit	Transit Facilities	-	-
Industrial Park	Light Industrial	0.5 FAR	-
General Commercial	Retail and Commercial	0.5 FAR	-

General Market Conditions

The Milpitas residential real estate market has benefited greatly from economic expansion and job creation that has occurred throughout the South Bay during the post-recession period. Recently built multifamily unit pricing averages roughly $550,000. The market for office and retail uses reveals that pricing for these uses is somewhat less robust, with transactions commonly occurring in the range of $200 per square foot, which is insufficient to attract speculative developers, though well-positioned properties in the City can top $500 per square foot. The market potential for office, hospitality, and retail uses is lagging behind residential development.

Development Opportunities

The extension of BART to San Jose, passing through Milpitas, in combination with the TASP created significant new development opportunities in the TASP area. The area benefits from the relatively large parcels left by the historical industrial, R&D, and service commercial uses in the area.

Site Development Constraints

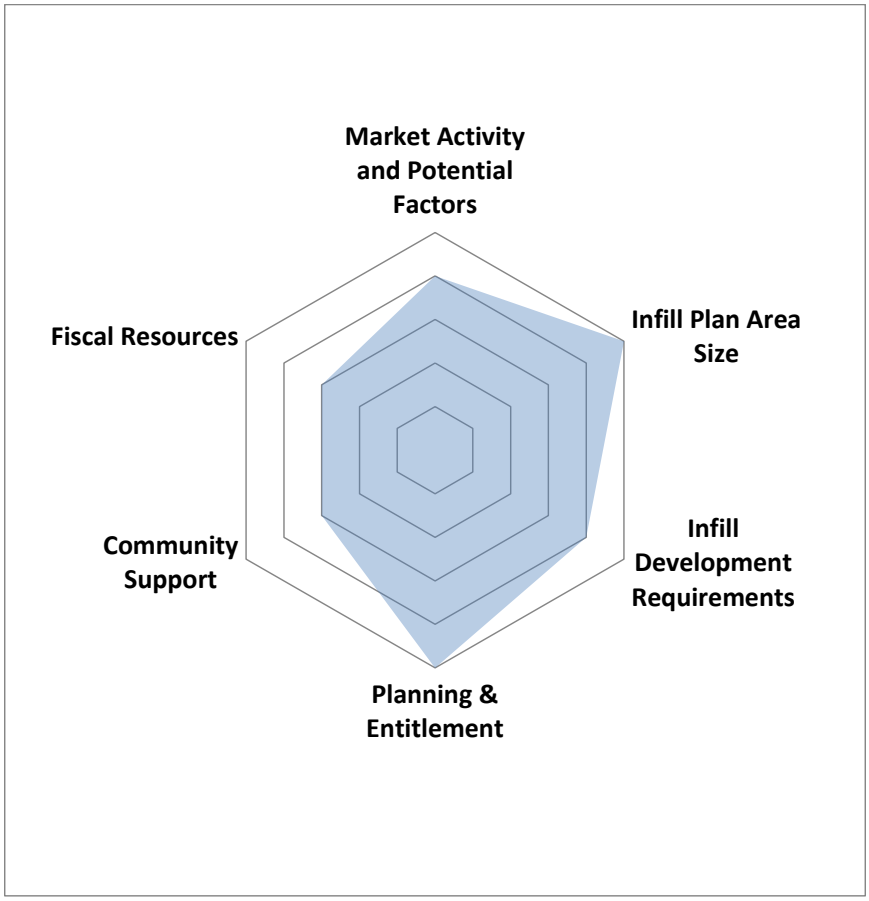
Remaining development opportunity sites may be somewhat more difficult and costly to assemble than in the first round of development, currently underway. Going forward, the value of existing uses, land price escalation, and the need to assemble remaining parcels to create a viable project area are constraints on development. Furthermore, the City's various legal disputes with the development community have had a negative effect on the local real estate investment climate.

The TASP identifies over $208 million in infrastructure and facilities, including roadways, utilities, and parks. In 2014, an update report put the infrastructure and facilities cost estimate at $234 million. These costs are included in an Area Development Impact Fee adopted shortly following adoption of the Specific Plan. While market demand and pricing, particularly for housing, is robust, developers are seeking to maximize investment returns by building multifamily housing at a somewhat lower density than originally envisioned in the Specific Plan. The low-density construction has resulted in lower fee revenues that originally calculated.

Financing Assessment

Application of the development financing readiness criteria to the City of Milpitas case study, as summarized in **Figure 13**, indicates adequate market potential, sufficient area size, manageable site requirements, and completed planning work, but indicates that community support and fiscal resources are less than ideal for development-based infrastructure financing.

Figure 13 Milpitas Case Study Financing Feasibility Screen



Scoring Notes: Fiscal Resources in the plan area are more constrained than initially anticipated due to development at densities that are low, relative to what the existing financing plan had projected. Community Support is scored to reflect ongoing City legal disputes with the development community.

Development Strategy and Financing Program

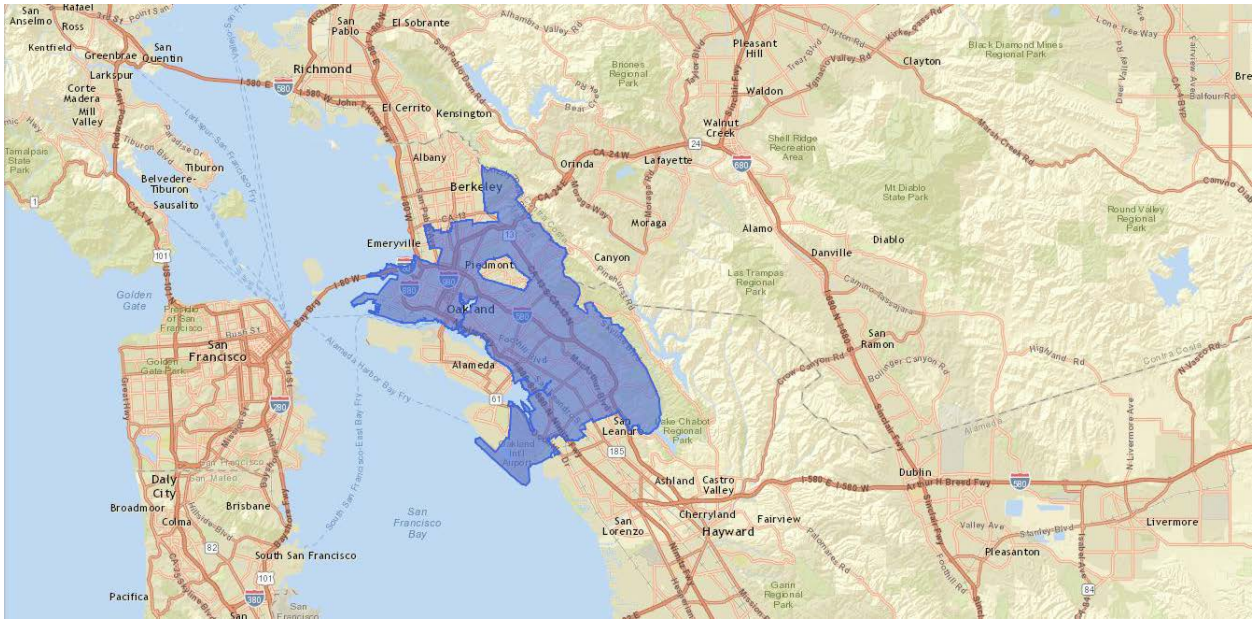
The following development and financing strategy is recommended:

1. Developer Outreach and Incentives. Achieving a balanced mixed-use transit neighborhood, as envisioned in the TASP, will require efforts to attract retail commercial, office and other employment-supporting uses, and hospitality uses to the area. Given current market conditions, such uses may require incentives to locate in the TASP. While the advent of BART service in the coming years will be transformative for the area, the City should consider regulatory and financial inducements to attract the desired mix of uses, possibly including incentives for parcel assembly.

2. Complete Update to the TASP Area Development Impact Fee program. The City has begun an effort to update the TASP development impact fee. This effort includes a comprehensive review of the required infrastructure and also computation of the per-housing unit fees based on the lower housing densities being realized due to market preferences. This effort is considering a land area-based cost allocation, reflecting the fact that the infrastructure requirements are not reduced in proportion to the lower housing densities.

City of Oakland Case Study

Oakland, the third most populous city in the San Francisco Bay Area and home of the busiest port in Northern California, enjoyed a downtown development renaissance during the late 1990s and early 2000s, but compared to San Francisco, the Peninsula, and South Bay, has seen relatively little development activity in recent years. However, with residential and commercial prices soaring in the most desirable Bay Area locales, Oakland is beginning to see spillover demand driving developer interest in new projects, particularly in the City's vibrant urban core.



Population	**Economy**
City Population (2014) 413,775	**Housing Units (2010)** 169,710
City Population Growth (2010-2014) 5.9%	**Employed City Residents (2013)** 167,328
City Median Household Income (2009-2013) $52,583	**City Jobs (2013)** 192,485
Citywide Population Density (2010) 7,004/square mile	**City Major Industries (by Employment)** Health Care and Social Assistance, Public Administration, Transportation and Warehousing, Educational Services
City Households (2009-2013) 154,786	

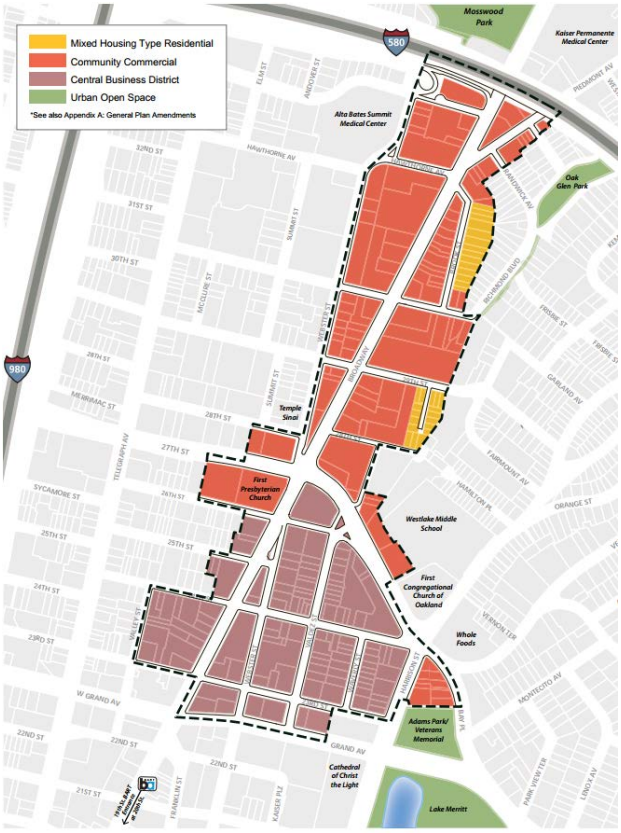
Source: ESRI; US Census Bureau; EPS

Broadway Valdez District Specific Plan

The Broadway Valdez District Specific Plan conceptualizes the area along Broadway between Grand Avenue and Interstate 580 as a mixed-use district providing a mix of retail, dining, entertainment, and diverse housing. Broadway is centrally located and viewed as the City's "Main Street." The Plan Area is a natural extension of downtown, is transit accessible by BART and AC

transit, and is adjacent to residential neighborhoods, medical campuses, Piedmont Avenue retail, and the edge of Lake Merritt. The Broadway Valdez area currently is developed with a complex mix of land uses, including automotive-related sales and service uses, assorted commercial uses, residential uses, and underutilized parcels.

Figure 14 Broadway Valdez Specific Plan Map and Real Estate Types



Residential Uses	Commercial Uses
Mixed Use Residential Stacked Falts Apartments Studio Units Assisted Living	Retail emphasis with complementary dining and entertainment uses Commercial uses
Residential FAR Valdez Triangle - 1.13 North End - 1.38	**Commercial FAR** Valdez Triangle - 2.26 North End - 2.56

General Market Conditions

While the real estate recovery in Oakland lags behind San Francisco, the Peninsula, and the South Bay, increasing residential demand and business expansions in Oakland have improved the development outlook. Oakland's recently-built multifamily units are now worth about $500,000 on average, with properties in desirable locations selling for far more. While office pricing is about $250 per square foot, recent news concerning the movement of technology firms into Oakland is likely to push values up quickly. Retail real estate pricing is highly variable, but desirable retail space has been transacting at about $300 per square foot on average.

Development Opportunities

The Broadway Valdez Specific Plan envisions the eventual transformation of the area into a retail-anchored mixed-use district. The plan builds on the growing success of redevelopment within the Uptown area of Oakland, which saw significant new development during the mid-2000s and has come alive with new restaurants and shops in more recent years. The Broadway Valdez Specific Plan area benefits from a number of large parcels (former auto dealerships), though there also are a numerous small, irregular parcels that will require assemblage for redevelopment to occur. The plan further benefits from streamlined entitlement and

environmental review processes attributable to CEQA clearance and various policies in the Specific Plan, which have allowed projects which conform to the plan to achieve fast-tracked entitlement approvals and permits. Perhaps most significantly, the expedited approval of numerous projects in the Specific Plan area has created a highly positive climate for real estate investment.

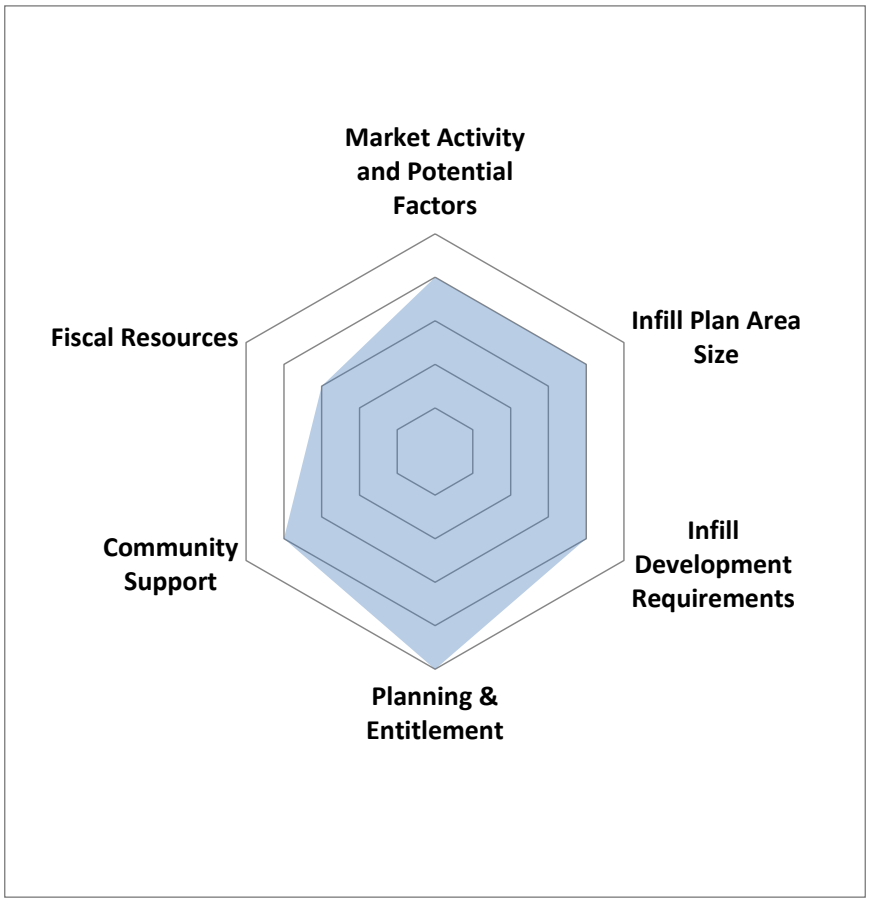
Site Development Constraints

The Specific Plan area is burdened with a range of constraints that are common in the infill redevelopment context. Existing income-generating uses, relatively small and irregular parcels, and parking are challenges. In addition, some small-scale development projects have struggled to fund the localized improvements necessary to support future development. Though the Specific Plan makes reference to a range of financing tools (tax increment financing, grants, fees, CFDs), implementation of these tools has not occurred. The City currently is studying the potential for citywide fees.

Financing Assessment

Application of the development financing readiness criteria to the City of Oakland case study, as summarized in **Figure 15**, indicates adequate market potential, sufficient plan area size, relatively modest site requirements, strong planning and entitlement preparedness, and community support, but a relative lack of fiscal resources.

Figure 15 Oakland Case Study Financing Feasibility Screen



Scoring Notes: Fiscal Resources in the plan area are scored to reflect the lack of infrastructure financing in the Plan area and citywide. The lack of implemented financing tools (e.g., impact fees) also affects scoring of site requirements, which despite being relatively modest area-wide, can be burdensome for specific projects.

Development Strategy and Financing Program

Favorable market conditions, supportive planning and land use regulations, and relatively modest overall infrastructure costs limit the need for additional development readiness measures in the Broadway Valdez Specific Plan Area. However, individual development sites may be hampered by lack of infrastructure capacity or other constraints.

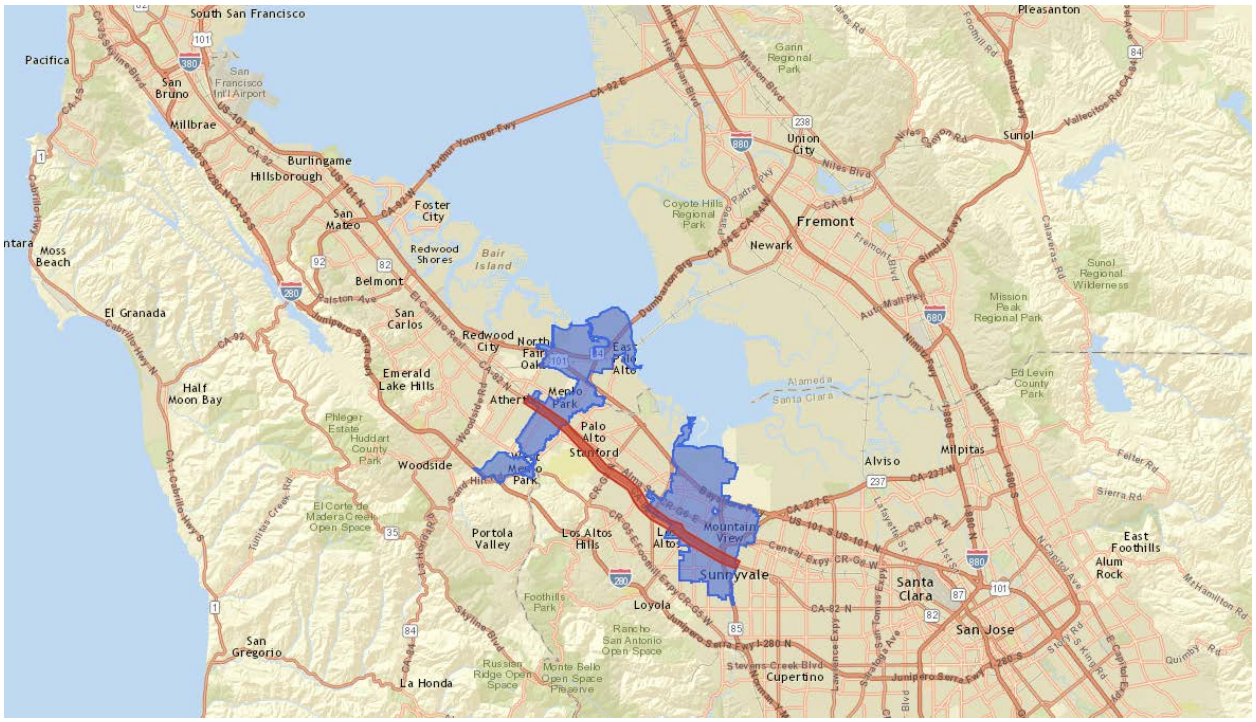
The following financing strategy could relieve this constraint:

1. Consider a comprehensive approach to improving infrastructure. Aging or otherwise inadequate utilities (e.g., water, sewer) that require upgrades and the desired street and streetscape improvements can be cost prohibitive for some projects. An Area Development Impact Fee for (localized improvements in addition to citywide fees and associated improvements) that proportionally allocates needed infrastructure costs to all development in the area would allow the City to be less reliant on project-specific exactions and also improve development potential, especially for smaller rehabilitation and reuse projects.

2. Consider use of Area-wide Enhanced Infrastructure Financing District. The City of Oakland desires a wide range of community improvements and investments to both serve and incentivize desired development in its transit-oriented neighborhoods. Across the City, improvements in streetscapes, particularly bicycle and pedestrian improvements are needed. For example, the Broadway Valdez Specific Plan identifies public realm and other retail catalyst improvements that may be difficult to fund with typical development-based funding sources such as the area fee recommended above, due to nexus requirements and the fragility of development feasibility. The City could consider an EIFD encompassing a large geographic area of the City to fund these community-serving public investments.

Cities of Mountain View and Menlo Park Case Study

The cities of Mountain View and Menlo Park are situated in the heart of Silicon Valley, where the technology industry is in a boom cycle and commercial and residential real estate markets have become extremely competitive.[5] Due to the concentration of high-value jobs in the region, office and residential real estate values are high and vacancies are low. Demand outstrips supply market wide, as evidenced by the number of tech companies and workers vying for scarce office space and residential units.



Population		Economy	
Mountain View	**Menlo Park**	**Mountain View**	**Menlo Park**
City Population (2014)		**Housing Units (2010)**	
79,378	33,309	33,881	13,085
City Population Growth (2010-2014)		**Employed City Residents (2013)**	
7.2%	4.0%	41,137	15,540
City Median Household Income (2009-2013)		**City Jobs (2013)**	
$97,338	$112,262	79,523	30,831
Citywide Population Density (2010)		**City Major Industries (by Employment)**	
6174.7/square mile	3271.3/square mile	Information; Professional, Scientific, and Technical Services; Health Care and Social Assistance; Retail Trade	Professional, Scientific, and Technical Services; Manufacturing; Information; Finance and Insurance
City Households (2009-2013)			
32,047	12,487		

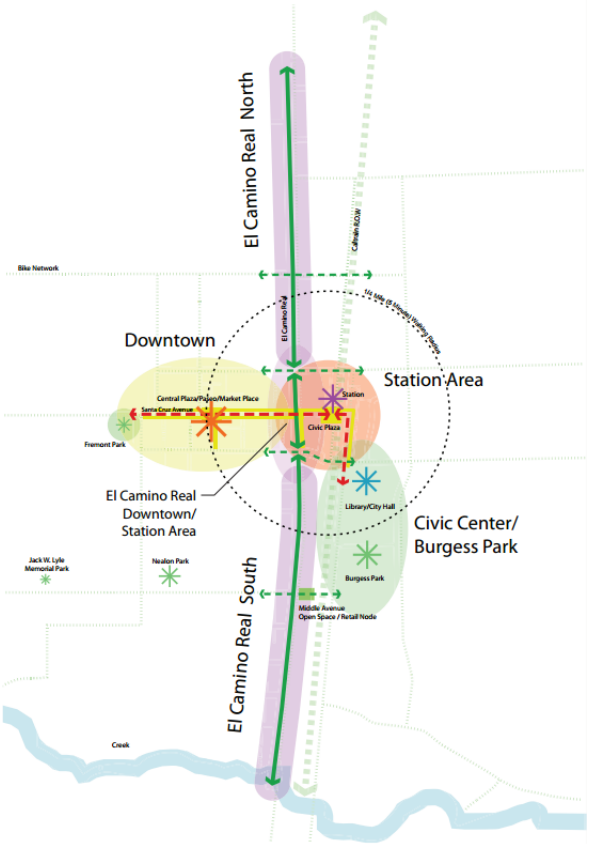
Source: ESRI; US Census Bureau; EPS

[5] While the case study considers El Camino Real generally, the case study focuses on Mountain View and Menlo Park, where Specific Plans have been completed.

Menlo Park El Camino Real / Downtown Specific Plan

The overall intent of the El Camino Real/Downtown Specific Plan is to preserve and enhance community life, character, and vitality through public space improvements, mixed-use infill projects sensitive to the small-town character of Menlo Park, and improved connectivity. The Plan encourages infill development of vacant and under-utilized lots along El Camino Real through increased intensities, retains the existing "village" character downtown by keeping buildings low and requiring varied building massing, and enhances connectivity across El Camino Real through crosswalk and sidewalk improvements.

Figure 16 Menlo Park El Camino Real / Downtown Specific Plan Map and Real Estate Types



Area	Land Use	FAR*	DU/Acre*	Height Max*
North-West	Mixed Use/Residential	1.10	25	38'
North-East Low Density	Mixed Use	0.75	20	38'
North-East	Mixed Use	1.10	25	38'
North-East Residential Emphasis	Mixed Use/Residential	1.10	32	38'
South-West	Mixed Use and Mixed Use/Residential	1.10	25	38'
South-East	Mixed Use and Mixed Use/Residential	1.25	40	60'

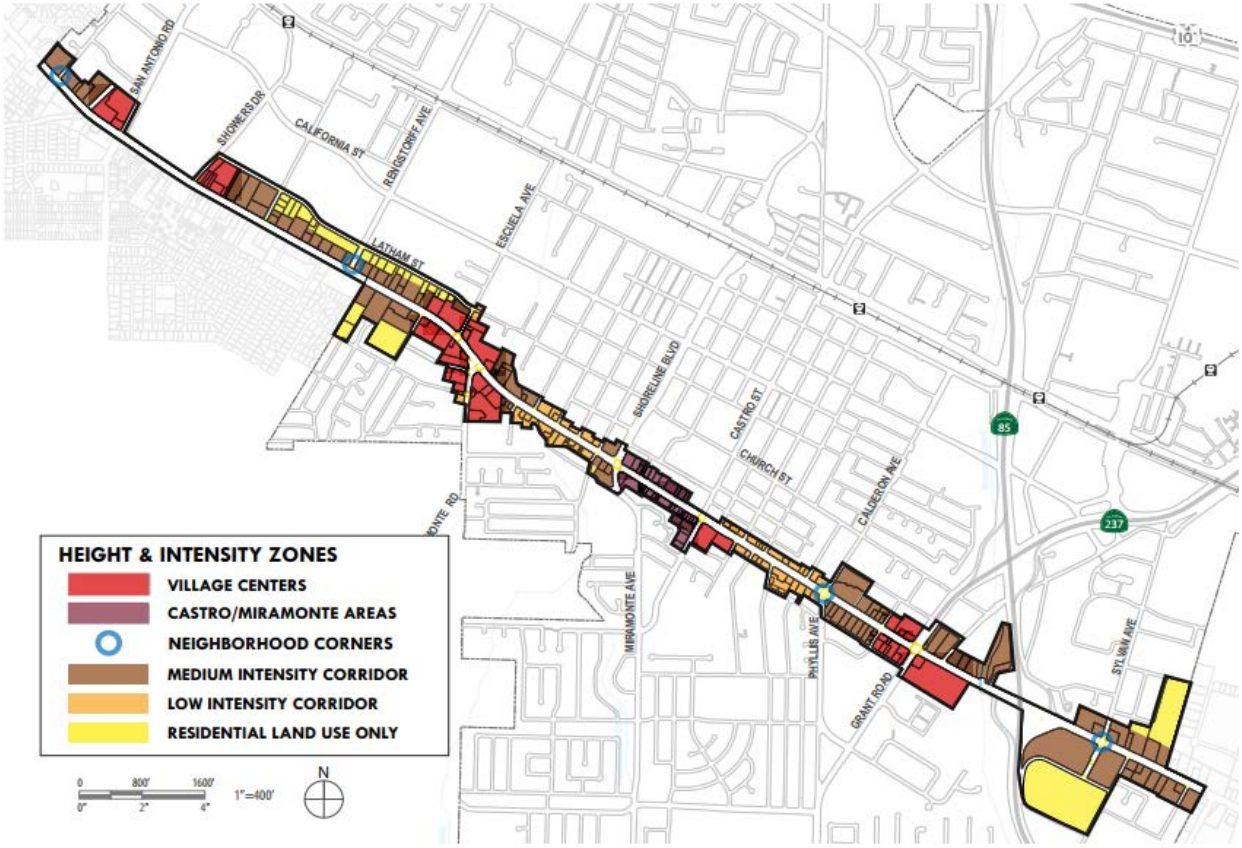
*Base allowable. Higher values allowable with Public Benefit bonus

Soure: City of Menlo Park; EPS

Mountain View El Camino Precise Plan

El Camino Real runs through the City of Mountain View, connecting with Sunnyvale to the southeast and with Palo Alto and Los Altos to the northwest. The existing corridor is primarily one- and two-story "strip" commercial in character, and most of the properties are bordered at the rear by residential neighborhoods. The Plan envisions that in the future El Camino Real will offer a range of place types, including commercial activity centers and housing clusters. There also will be new public spaces and parks where residents and visitors can gather. The Plan calls for transportation improvements throughout the corridor.

Figure 17 Mountain View El Camino Precise Plan Map and Real Estate Types



Area	Base			Tier 1			Tier 2		
Village Centers	1.35 FAR	3 (4) stories	45' (55')	2	4 (5) stories	55' (65')	2.3 FAR	5 (6) stories	65' (75')
Castro/Miramonte Sub-Area 1	1.35 FAR	3 stories	45'	1.85 FAR	4 stories	55'			
Castro-Miramonte Sub-Area 2	1.35 FAR	3 stories	45'	No Max FAR	3 stories	45'			
Medium Intensity Corridor	1.35 FAR	3 stories	45'	1.85 FAR	4 stories	55'			
Low Intensity Corridor	1.35 FAR	3 stories	45'						
Residential-Only Areas	1.35 FAR	3 stories	45'						

* Maximum heights in Village Centers are without (with) the provision of a public open area consitent with the Village Center Plazas guidelines

Source: City of Mountain View; EPS

General Market Conditions

The Peninsula and Silicon Valley are enjoying an extraordinary boom in real estate value, predominately attributable to technology sector growth. Menlo Park and Mountain View are situated on either side of Palo Alto, considered by many to be the epicenter of Silicon Valley's economic engine. Multifamily residential real estate values exceed $1 million on average. Office space throughout these cities has been trading at above $500 per square foot and is commonly near $1,000 in highly-desirable locations. Retail values vary greatly, with values commonly in the range of $500 to $700 per square foot.

Development Opportunities

Developers are anxious to take advantage of the current real estate boom. Both Menlo Park and Mountain View have seen significant developer interest in their El Camino Real sites. Developers are primarily interested in office development, given its value, but residential uses also are financially attractive, and retail can be profitable either directly or as an amenity within a mixed-use project. Development potential is so strong that these cities are able to take advantage of incentive zoning (e.g., development bonuses), a community benefit/infrastructure funding approach that captures value by allowing higher density development desired by real estate developers.

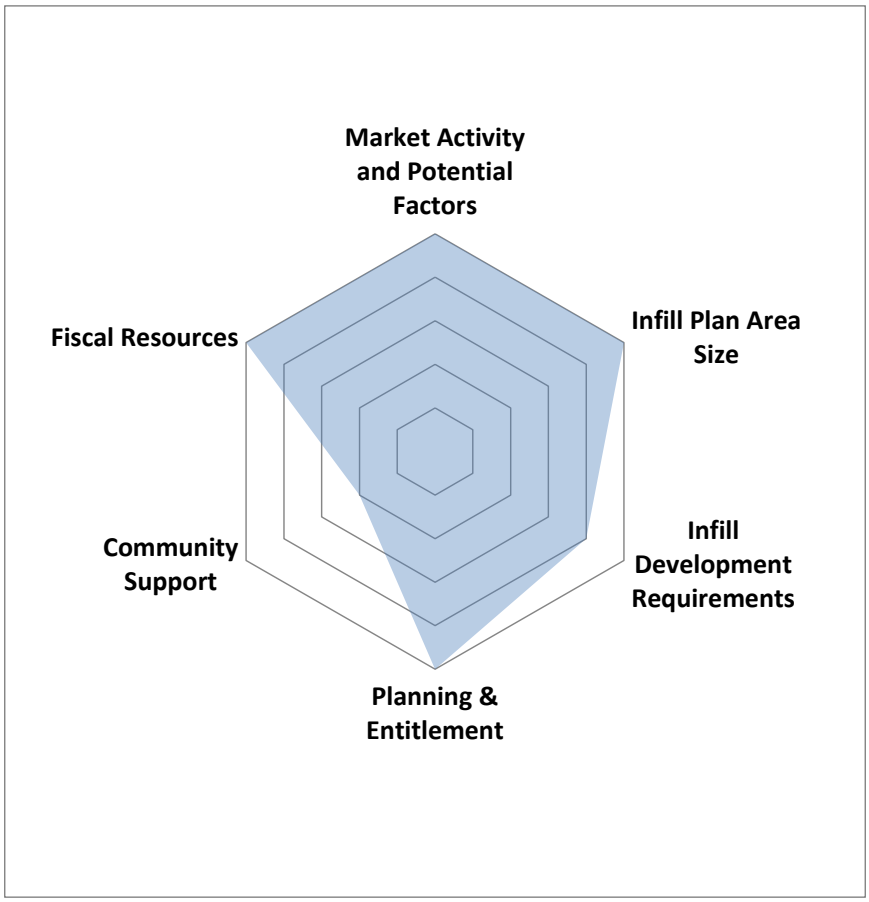
Site Development Constraints

El Camino Real's historic development as an auto-centric corridor of strip malls, motels, and commercial service shops (bordered by low-density residential in many cases) has resulted in parcelization and land use conflicts (e.g., the interaction of high-density uses with the historic low-density land use pattern) that create challenges for redevelopment. Small, irregular sites and community concerns are problematic. In addition, development has become highly contentious in both cities, with the communities seeking a range of "public benefits" (e.g., affordable housing, parkland improvements) from projects.

Financing Assessment

Application of the development financing readiness criteria to the El Camino Real case study, as summarized in **Figure 18**, indicates strong market potential, good planning area sizes, favorable municipal fiscal conditions, and minimal site requirements, but a significant challenge associated with community support.

Figure 18 Mountain View / Menlo Park Case Study Financing Feasibility Screen



Scoring Notes: Community support is scored to reflect vocal community resistance to significant development projects and the propensity for voter referenda related to new development.

Development Strategy and Financing Program

The following development and financing strategy is recommended:

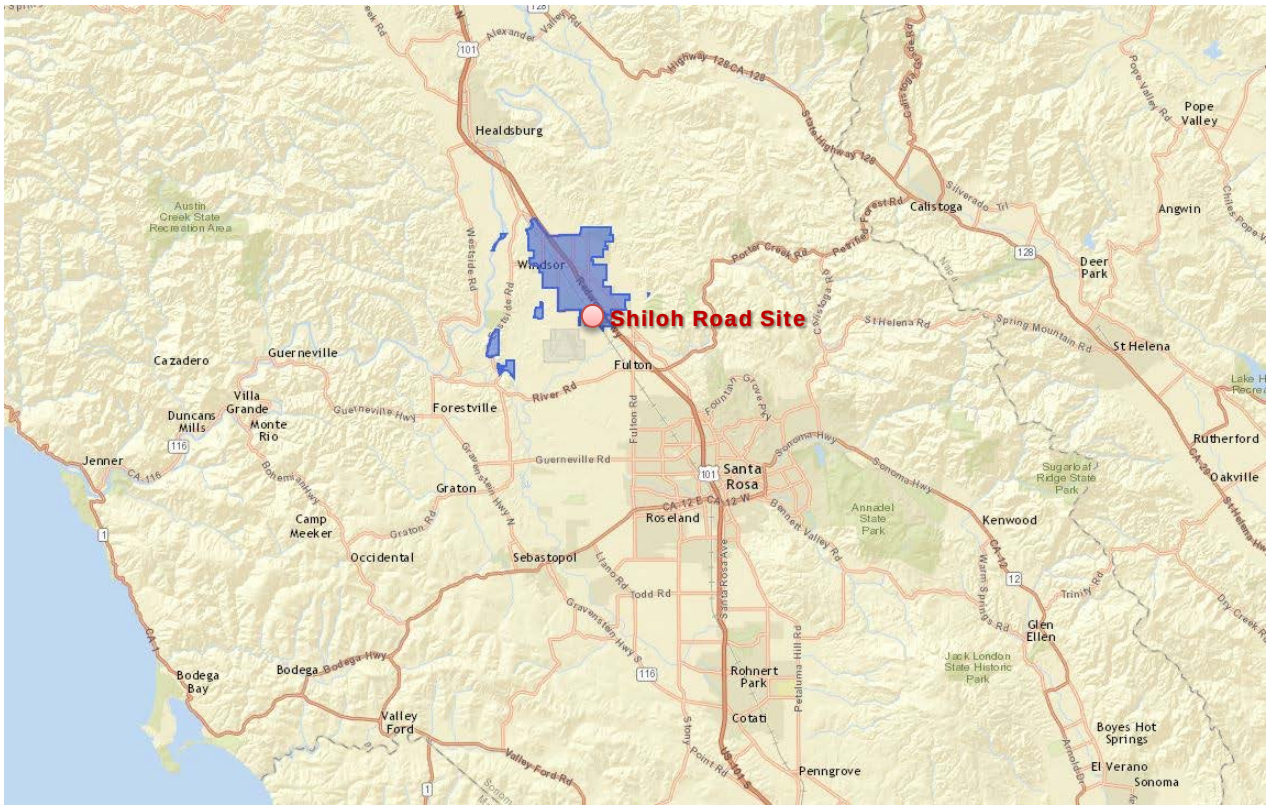
1. Consider Creation of Broader Funding and Financing Resources. This case study explores infill development and financing potential in two plan areas in two different cities along the El Camino Real corridor. The cities are located in different counties (Menlo Park is in San Mateo County and Mountain View is in Santa Clara County) and the El Camino Real corridor segment between the two cities falls within the jurisdiction of two other cities (Palo Alto and East Palo Alto). This multi-jurisdictional corridor presents an opportunity for collaboration. While the Grand Boulevard Initiative, a multi-jurisdictional planning effort for El Camino Real, has achieved successes establishing common ground and spurring cross-jurisdictional collaboration related to planning and development issues in the corridor, more can be done. While strong financing potential already exists in the case study cities, there is a potential opportunity for a multi-jurisdictional EIFD that could be used to fund continuous, coordinated improvements through the corridor.

2. Continue to Develop Community Support. While the El Camino Real case study plans currently are attracting significant investment interest, and some new development has occurred in recent years, community opposition is a threat to development in these areas. Community concerns and related activism around development issues creates risk and adds significant cost for project developers. Furthermore, Menlo Park and Mountain View already have significant requirements for large-scale new development, including high development standards and community benefits requirements for larger projects. Given current community sentiment and development requirements, these cities should continue to take great care with planning and policy revisions that strive to address community concerns while also increasing entitlement clarity and certainty for the development community. To the degree possible, regional goals for growth can be better met if project entitlements are more efficient (i.e., faster), and these areas will better sustain their appeal for infill development, particularly in the event that the market cools.

Town of Windsor Shiloh Road Mixed-Use Development

The Town of Windsor is located in Sonoma County just south east of Healdsburg along U.S. Route 101 in the Russian River Valley. Incorporated in 1992, Windsor is seven square miles in size, with a population of about 27,000. The Town is largely suburban in form, though successful development in the downtown has created a dense "old town" style, walkable village with a mix of uses and access to transit.

Figure 19 Town of Windsor Overview



Population	**Economy**
City Population (2014) 27,414	**Housing Units (2010)** 9,549
City Population Growth (2010-2014) 2.3%	**Employed City Residents (2013)** 10,692
City Median Household Income (2009-2013) $81,098	**City Jobs (2013)** 6,113
Citywide Population Density (2010) 3,688 /square mile	**City Major Industries (by Employment)** Accomodation and Food Services, Retail Trade, Educational Services, Manufacturing
City Households (2009-2013) 9,113	

Source: ESRI; US Census Bureau; EPS

Shiloh Road Conceptual Development Plan

The Shiloh Road Conceptual Development Plan envisions approximately 70 new dwelling units, 400,000 square feet of retail, and 70,000 square feet of office, near the Shiloh Road Interchange on Highway 101, at the southern end of the Town of Windsor. Due to the highly preliminary nature of the Concept Development Plan, additional information concerning the real estate formats and market orientation of products currently is unavailable.

Figure 20 Shiloh Road Conceptual Development Plan Illustration

General Market Conditions

Real estate in the Town of Windsor consists primarily of a well-established market for single-family housing, though there has been some condominium and townhome development in recent years. Observed pricing for townhomes and other attached units is around $600,000 on average. Retail and office development has occurred since 2000, primarily within the town center area as well as east of Highway101 at the Shiloh Road Interchange. Recent sales pricing for office and retail uses has been on the order of $250 per square foot, though there have been few transactions and pricing has been highly variable.

Development Opportunities

The Town of Windsor has identified a roughly 40-acre site that may possess development potential. The site is proximate to Highway 101, near the Shiloh Road interchange. Though only highly preliminary planning has occurred, the site appears well suited for a mix of uses including residential, retail, and office. The site does include some wetland areas which reduce development potential and add to the cost of development.

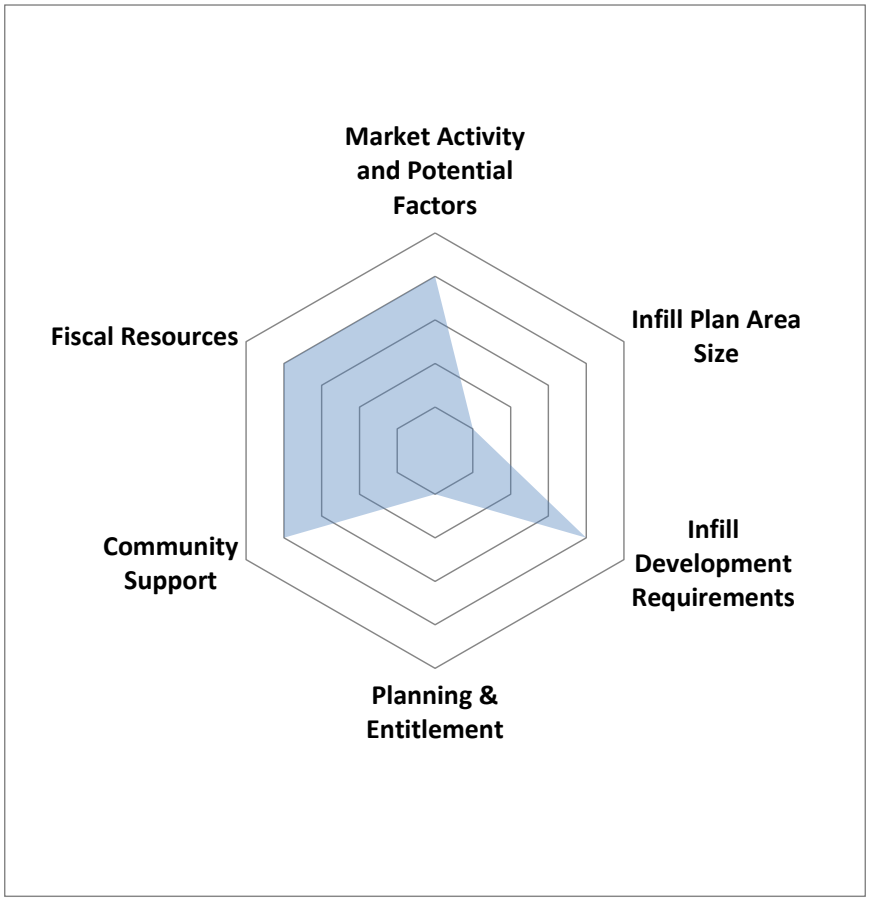
Site Development Constraints

The Town of Windsor has conducted preliminary analysis of the capital investment in infrastructure that would be required to serve the development site with Town services, including water, sewer, storm drains, as well as roadway upgrades and a creek relocation (and associated habitat mitigation). The highly preliminary estimate of these infrastructure costs is approximately $10 million. Relative to the potential value of the proposed real estate development project, the infrastructure cost requirement appears reasonably achievable at well below 10 percent of the projects potential finished real estate market value.

Financing Assessment

Application of the development financing readiness criteria to the Town of Windsor case study, as summarized in **Figure 21**, indicates adequate market potential, favorable municipal fiscal conditions, community support, and a lack of major site constraints. The relatively small size of the site and a current lack of the necessary land use policy and environmental clearances are deficiencies that should be addressed in advance of preparing the financing plan.

Figure 21 Windsor Case Study Financing Feasibility Screen



Scoring Notes: To address Infill Site Size concerns, the development concept might be expanded to reflect a district-level approach to infrastructure finance, particularly if the Town envisions broader development potential.

Development Strategy and Financing Program

The following development and financing strategy is recommended:

1. Improve the project area's development readiness. Addressing the project area's need for land use regulations will be required to approve such a project and complete the environmental clearances that are necessary. It is important that through this process the market potential of the site is reflected and the costs of various conditions of approval and mitigation measures, in combination with existing Town-wide development impact fees, fall within reasonable limits (generally considered to be 10 to 20 percent of finished real estate market value). As a part of this effort, it is important to clearly identify costs and actions necessary to obtain entitlements as uncertainties in these regards create risks that can deter the necessary private investment.

2. Consider a Developer Funded Infrastructure Program: If the Town seeks to address development of the 40-acre Shiloh site alone (as a single-developer financed project), and does not envision the project a catalyst for development in the Shiloh Road area, the most efficient and direct manner to fund needed infrastructure will be for the project applicants to fund infrastructure improvements directly through exactions agreed to as part of a Development Agreement. Based on cursory review of available data, the amount of funding required relative to the real estate value that will be created, indicates such an approach should be feasible with no need to an adopt fee ordinance or other financing methods.

3. Consider potential for an Enhanced Infrastructure Financing District: However, if the Town envisions that the 40-acre Shiloh Road project is a catalyst for new development in the area, or if it turns out to be the case that the developer is unwilling or unable to fund infrastructure directly as recommended above, the Town could consider adopting an EIFD as a means of incentivizing the project and creating desired infrastructure improvements. In order for tax increment funds to be bonded for upfront development, a vote would be required and the sizing of the EIFD would need to consider the geographic area within which this funding approach would be supported.

4. Consider creating a larger geographic area. If a broader development program for the Shiloh Road area is sought, it may be advantageous to create a planning area that encompasses the current Conceptual Development Plan area, as the relatively small site size and single ownership tends to constrain financing options. The Town could create a larger boundary for an EIFD, including adjacent areas that may have development potential. Such a larger area will improve efficiency and cost-effectiveness of formation and administrative efforts, improve the security for and credit-worthiness of any financing technique applied, and create funding and financing capacity for a variety of needed infrastructure improvements.