

MEMORANDUM

To: David Bugatto, Alleghany Properties, LLC
From: Tim Youmans and Lucas Perretti
Subject: Natomas Crossing Police Services and Youth Program
Community Facilities District; EPS #19407
Date: February 5, 2009

The Economics of Land Use



Economic & Planning Systems, Inc., (EPS) understands that Alleghany Properties, LLC, (Developer) proposes developing a Community Facility District (CFD) to fund police services and youth programs. In addition, EPS understands annual services funding would be targeted equally to police services and youth programs in North Natomas.

The proposed CFD would be assessed against approximately 180 multifamily housing units and approximately 2.6 million nonresidential square feet located in the current Natomas Crossing project located in the North Natomas plan area of the City of Sacramento (City).

EPS prepared a preliminary analysis to determine the tax revenue generated for the proposed CFD given the proposed land uses. This memorandum presents these findings and provides initial implementation direction should the Developer decide to use the proposed CFD.

Tax Rate Assumptions and Analysis

The Developer provided the assumptions used in this tax rate analysis. **Table 1** shows the proposed land uses.

The analysis assumes a time frame defined as Year 1, Year 2, Year 3, and so on since the actual completion date of the finished project is unknown. Each year represents the year in which development is added to the tax rolls. Absorption assumptions include these:

*Economic & Planning Systems, Inc.
2150 River Plaza Drive, Suite 400
Sacramento, CA 95833-3883
916 649 8010 tel
916 649 2070 fax*

*Berkeley
Sacramento
Denver*

www.epsys.com

- **Residential**—all units will develop in Year 3.
- **Nonresidential**—2.1 million square feet absorbed in Years 1 through 7 with the remainder absorbing approximately 100,000 square feet per year until buildout in Year 13.

A preliminary tax rate schedule includes a single residential tax rate charged to each multifamily unit and a single nonresidential tax rate charged to each square foot of nonresidential development regardless of subcategory (e.g., office, retail, or hospital). The initial annual residential CFD tax rate is \$25 per multifamily unit and \$0.105 per nonresidential square foot. Each tax rate will escalate at 2 percent per fiscal year.

The analysis assumes a 3-year phased-in nonresidential fee schedule to improve feasibility and encourage development. The tax rate schedule includes the following phase-in of nonresidential taxes:

- **Tax Rate 1—25-Percent of the Base Rate**—One-quarter the base tax rate for Year 1 of development.
- **Tax Rate 2—50-Percent of the Base Rate**—One-half the base rate for the second tax year.
- **Tax Rate 3—100-Percent of the Base Rate**—The full base tax rate for the third year and all successive years in perpetuity.

The Developer provided the estimated absorption schedule shown in **Table 2**. As shown, the planned 180 units will be constructed in Year 3. All planned nonresidential development will be placed onto the tax rolls by Year 13. As shown, nonresidential development is subject to Tax Rate 1 in the first year of development, Tax Rate 2 in the following year, and Tax Rate 3 in all future years.

The tax rate schedule is shown in **Table 3**. The initial tax rate schedule includes these Police Services and Youth Program CFD tax rates:

	Base Rate (Year 1)	
Residential	\$25.00 per unit	
Nonresidential		
Tax Rate 1	\$0.026 per Sq. Ft.	Year 1
Tax Rate 2	\$0.053 per Sq. Ft.	Year 2
Tax Rate 3	\$0.105 per Sq. Ft.	Year 3
Note: Residential and nonresidential tax rates will escalate 2 percent annually.		

Table 2 also shows the revenue generated on an annual and cumulative basis. As shown, the cumulative tax revenue over 30 years will be \$10.0 million

Funding Allocation

Funding will be allocated equally to both police services and youth programs (50 percent/ 50 percent). **Table 4** displays the amount of funding available for each funded service in each year from Year 1 to Year 30. As a result, in the year of buildout (Year 13), more than \$365,000 will be generated with \$184,000 available to fund police services and \$184,000 to fund youth programs. In Year 30, \$522,000 will be generated with \$261,000 of funding for each services category.

Implementation

This section describes some City actions needed for implementation of the proposed CFD.

1. *Change City Code Related to CFDs*

While Police services are eligible to be funded with a CFD, youth programs are not identified as such. Therefore, the City will need to adjust the City Code to allow for the funding of both services. The City will also need to identify what youth services expenditures would be funded by the CFD.

2. *Form CFD*

Following the adjustment to the City Code and in cooperation with the Developer, the City will initiate and continue through the normal CFD formation process. The Developer will be the only voter.

EPS anticipates providing technical support with the development of the proposed CFD. If you have any questions regarding this analysis, please call Lucas Perretti at (916) 649-8010.

Table 1
Natomas Crossing CFD Technical Support
Land Use Summary

Item	Units	Sq. Ft.
Residential		
Multifamily	180	
Nonresidential		
Hospital		600,000
Medical Office		600,000
Office		440,000
Hotel		150,000
Retail		857,114
Subtotal Nonresidential		2,647,114
Total	180	2,647,114

"U"

Source: Alleghany Properties, LLC.

Table 2
Natomas Crossing CFD Technical Support
Development Absorption Assumptions and Funding Generated

Fiscal Year	Cumulative Development				CFD Funding Generated [1]				Totals	
	Residential	Nonresidential Subject To			Residential	Nonresidential [2]			Annual	Cumulative
		Tax Rate 1	Tax Rate 2	Tax Rate 3		Tax Rate 1	Tax Rate 2	Tax Rate 3		
	<i>Units</i>	<i>Sq. Ft.</i>	<i>Sq. Ft.</i>	<i>Sq. Ft.</i>						
Year 1	0	100,000	0	0	\$0	\$2,625	\$0	\$0	\$2,625	\$2,625
Year 2	0	450,000	100,000	0	\$0	\$12,049	\$5,355	\$0	\$17,404	\$20,029
Year 3	180	100,000	450,000	100,000	\$4,682	\$2,731	\$24,579	\$10,924	\$42,917	\$62,945
Year 4	180	300,000	100,000	550,000	\$4,775	\$8,357	\$5,571	\$63,761	\$82,464	\$145,410
Year 5	180	300,000	300,000	650,000	\$4,871	\$8,524	\$17,048	\$76,861	\$107,304	\$252,714
Year 6	180	100,000	300,000	950,000	\$4,968	\$2,898	\$17,389	\$114,581	\$139,837	\$392,551
Year 7	180	800,000	100,000	1,250,000	\$5,068	\$23,649	\$5,912	\$153,780	\$188,410	\$580,961
Year 8	180	100,000	800,000	1,350,000	\$5,169	\$3,015	\$48,245	\$169,404	\$225,834	\$806,794
Year 9	180	100,000	100,000	2,150,000	\$5,272	\$3,076	\$6,151	\$275,188	\$289,687	\$1,096,482
Year 10	180	100,000	100,000	2,250,000	\$5,378	\$3,137	\$6,274	\$293,747	\$308,536	\$1,405,018
Year 11	180	100,000	100,000	2,350,000	\$5,485	\$3,200	\$6,400	\$312,939	\$328,024	\$1,733,042
Year 12	180	97,114	100,000	2,450,000	\$5,595	\$3,170	\$6,528	\$332,780	\$348,073	\$2,081,115
Year 13	180	0	97,114	2,550,000	\$5,707	\$0	\$6,466	\$353,290	\$365,464	\$2,446,578
Year 14	180	0	0	2,647,114	\$5,821	\$0	\$0	\$374,080	\$379,901	\$2,826,479
Year 15	180	0	0	2,647,114	\$5,938	\$0	\$0	\$381,562	\$387,499	\$3,213,979
Year 16	180	0	0	2,647,114	\$6,056	\$0	\$0	\$389,193	\$395,249	\$3,609,228
Year 17	180	0	0	2,647,114	\$6,178	\$0	\$0	\$396,977	\$403,154	\$4,012,382
Year 18	180	0	0	2,647,114	\$6,301	\$0	\$0	\$404,916	\$411,217	\$4,423,600
Year 19	180	0	0	2,647,114	\$6,427	\$0	\$0	\$413,015	\$419,442	\$4,843,041
Year 20	180	0	0	2,647,114	\$6,556	\$0	\$0	\$421,275	\$427,831	\$5,270,872
Year 21	180	0	0	2,647,114	\$6,687	\$0	\$0	\$429,700	\$436,387	\$5,707,259
Year 22	180	0	0	2,647,114	\$6,820	\$0	\$0	\$438,294	\$445,115	\$6,152,374
Year 23	180	0	0	2,647,114	\$6,957	\$0	\$0	\$447,060	\$454,017	\$6,606,391
Year 24	180	0	0	2,647,114	\$7,096	\$0	\$0	\$456,001	\$463,098	\$7,069,489
Year 25	180	0	0	2,647,114	\$7,238	\$0	\$0	\$465,121	\$472,359	\$7,541,848
Year 26	180	0	0	2,647,114	\$7,383	\$0	\$0	\$474,424	\$481,807	\$8,023,655
Year 27	180	0	0	2,647,114	\$7,530	\$0	\$0	\$483,912	\$491,443	\$8,515,097
Year 28	180	0	0	2,647,114	\$7,681	\$0	\$0	\$493,591	\$501,272	\$9,016,369
Year 29	180	0	0	2,647,114	\$7,835	\$0	\$0	\$503,462	\$511,297	\$9,527,666
Year 30	180	0	0	2,647,114	\$7,991	\$0	\$0	\$513,532	\$521,523	\$10,049,189

Note: CFD revenue generated may continue in perpetuity.

"abs1"

Source: Alleghany Properties, LLC, and EPS.

[1] See Table 3 for tax rate assumptions.

[2] Nonresidential fee rates are planned to be phased in over a 3-year period as follows:

- Tax Rate 1 - 25% of the base tax rate.
- Tax Rate 2 - 50% of the base tax rate.
- Tax Rate 3 - 100% of the base tax rate.

Table 3
Natomas Crossing CFD Technical Support
Preliminary Tax Rates

Fiscal Year	Residential	Nonresidential [1]		
		Tax Rate 1	Tax Rate 2	Tax Rate 3
	<i>Per Unit</i>	<i>Per Sq. Ft.</i>	<i>Per Sq. Ft.</i>	<i>Per Sq. Ft.</i>
<i>Tax Rate</i>	\$25.00	\$0.026	\$0.053	\$0.105
Year 1	\$25.00	\$0.026	\$0.053	\$0.105
Year 2	\$25.50	\$0.027	\$0.054	\$0.107
Year 3	\$26.01	\$0.027	\$0.055	\$0.109
Year 4	\$26.53	\$0.028	\$0.056	\$0.116
Year 5	\$27.06	\$0.028	\$0.057	\$0.118
Year 6	\$27.60	\$0.029	\$0.058	\$0.121
Year 7	\$28.15	\$0.030	\$0.059	\$0.123
Year 8	\$28.72	\$0.030	\$0.060	\$0.125
Year 9	\$29.29	\$0.031	\$0.062	\$0.128
Year 10	\$29.88	\$0.031	\$0.063	\$0.131
Year 11	\$30.47	\$0.032	\$0.064	\$0.133
Year 12	\$31.08	\$0.033	\$0.065	\$0.136
Year 13	\$31.71	\$0.033	\$0.067	\$0.139
Year 14	\$32.34	\$0.034	\$0.068	\$0.141
Year 15	\$32.99	\$0.035	\$0.069	\$0.144
Year 16	\$33.65	\$0.035	\$0.071	\$0.147
Year 17	\$34.32	\$0.036	\$0.072	\$0.150
Year 18	\$35.01	\$0.037	\$0.074	\$0.153
Year 19	\$35.71	\$0.037	\$0.075	\$0.156
Year 20	\$36.42	\$0.038	\$0.076	\$0.159
Year 21	\$37.15	\$0.039	\$0.078	\$0.162
Year 22	\$37.89	\$0.040	\$0.080	\$0.166
Year 23	\$38.65	\$0.041	\$0.081	\$0.169
Year 24	\$39.42	\$0.041	\$0.083	\$0.172
Year 25	\$40.21	\$0.042	\$0.084	\$0.176
Year 26	\$41.02	\$0.043	\$0.086	\$0.179
Year 27	\$41.84	\$0.044	\$0.088	\$0.183
Year 28	\$42.67	\$0.045	\$0.090	\$0.186
Year 29	\$43.53	\$0.046	\$0.091	\$0.190
Year 30	\$44.40	\$0.047	\$0.093	\$0.194

Note: CFD revenue generated may continue in perpetuity.

"tax_rates"

Source: Alleghany Properties, LLC, and EPS.

- [1] Nonresidential fee rates are planned to be phased in over a 3-year period as follows
- Tax Rate 1 - 25% of the base tax rate.
 - Tax Rate 2 - 50% of the base tax rate.
 - Tax Rate 3 - 100% of the base tax rate.

Table 4
Natomas Crossing CFD Technical Support
Summary of Total CFD Funding Available (Year 1\$)

Fiscal Year	Total Funding	Police Services	Youth Programs
<i>Percentage of Funding</i>	100%	50%	50%
Year 1	\$2,625	\$1,313	\$1,313
Year 2	\$17,404	\$8,702	\$8,702
Year 3	\$42,917	\$21,458	\$21,458
Year 4	\$82,464	\$41,232	\$41,232
Year 5	\$107,304	\$53,652	\$53,652
Year 6	\$139,837	\$69,919	\$69,919
Year 7	\$188,410	\$94,205	\$94,205
Year 8	\$225,834	\$112,917	\$112,917
Year 9	\$289,687	\$144,844	\$144,844
Year 10	\$308,536	\$154,268	\$154,268
Year 11	\$328,024	\$164,012	\$164,012
Year 12	\$348,073	\$174,036	\$174,036
Year 13	\$365,464	\$182,732	\$182,732
Year 14	\$379,901	\$189,951	\$189,951
Year 15	\$387,499	\$193,750	\$193,750
Year 16	\$395,249	\$197,625	\$197,625
Year 17	\$403,154	\$201,577	\$201,577
Year 18	\$411,217	\$205,609	\$205,609
Year 19	\$419,442	\$209,721	\$209,721
Year 20	\$427,831	\$213,915	\$213,915
Year 21	\$436,387	\$218,194	\$218,194
Year 22	\$445,115	\$222,557	\$222,557
Year 23	\$454,017	\$227,009	\$227,009
Year 24	\$463,098	\$231,549	\$231,549
Year 25	\$472,359	\$236,180	\$236,180
Year 26	\$481,807	\$240,903	\$240,903
Year 27	\$491,443	\$245,721	\$245,721
Year 28	\$501,272	\$250,636	\$250,636
Year 29	\$511,297	\$255,649	\$255,649
Year 30	\$521,523	\$260,762	\$260,762

Note: CFD revenue generated may continue in perpetuity.

"revenue1"

Source: Alleghany Properties, LLC, and EPS.