bae urban economics

Memorandum

To: Bruce Brubaker and Rosie Dudley, PlaceWorks

From: Sherry Rudnak and David Shiver, BAE Urban Economics

Date: November 10, 2014

Re: Community Benefit and Financing Strategies for the San Antonio Precise Plan

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Introduction

As part of the San Antonio Precise Plan preparation, the City of Mountain View retained BAE Urban Economics under PlaceWorks to prepare a technical memorandum regarding mechanisms to finance desired improvements and amenities set forth in the draft San Antonio Precise Plan. This analysis evaluates the potential for a community benefits program as well as other financing mechanisms to support the implementation of the Precise Plan.

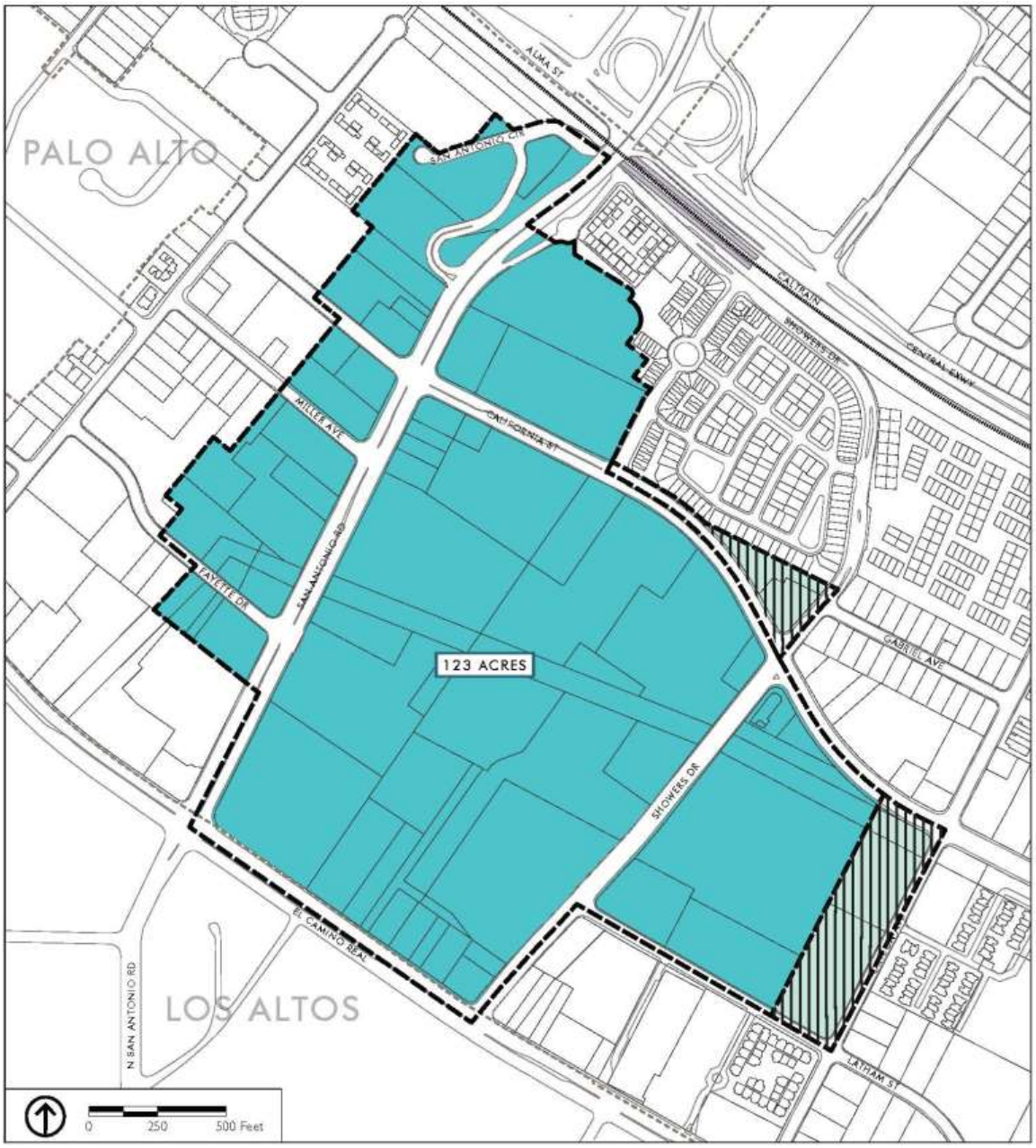
This memorandum first presents key elements of the San Antonio Precise Plan, including desired improvements and amenities. This will establish a baseline for improvements that will be required of new development and/or accomplished through community benefits. It then presents a discussion of community benefits and potential tiered program for the Precise Plan area. A financial analysis is undertaken to determine the level of community benefits that new development in the Precise Plan area could support and, finally, additional funding mechanisms are identified that could bridge funding gaps should they occur.

San Antonio Precise Plan

Physical Area

The San Antonio Precise Plan area is comprised of approximately 123 acres and generally corresponds to the San Antonio Change Area as set forth in the 2030 General Plan. The area is bounded roughly by El Camino Real to the south, the back property lines of parcels on the west side of San Antonio Road to the west, the Caltrain tracks to the north, and Ortega Avenue to the south. The Precise Plan boundary differs slightly from the San Antonio Change Area by including parcels on the north side of California Street to address connectivity goals and adjacent parcels on Ortega Avenue to implement separate General Plan actions. The Precise Plan area is shown in Figure 1.

Figure 1
San Antonio Precise Plan Area



Planning Goals

The San Antonio Precise Plan implements the broad policy direction established by the 2030 General Plan. The General Plan identified the San Antonio Precise Plan area as an area where land use changes could occur over the next 20 years to generally accommodate higher intensities and mixed uses. Specifically, the 2030 General Plan vision for the San Antonio Precise Plan area states the following:

> *In 2030, San Antonio is a lively mixture of commercial and residential uses. Bicyclists and pedestrians connect easily to surrounding neighborhoods, Caltrain, and VTA stations. San Antonio Center, the core of the area, is a regional and local draw with its housing, retail stores, services, and restaurants. Walkable blocks and streets oriented to pedestrians are punctuated by vibrant, active plazas and enhancements to the Hetch Hetchy right-of-way.*

Precise Plan Principles and Preferred Alternative

To date, the public planning process for the San Antonio Precise Plan has reconfirmed the vision set forth for the area in the 2030 General Plan. As shown in Figure 2, there are three primary subareas in the Precise Plan Area:

- Mixed Use Corridor: properties highlighted in orange
- Mixed Use Center: parcels designated in blue
- Use Restricted: the areas in grey are use-restricted. The property at the corner of Showers Drive and California Street will be allowed the same increased intensity as the Mixed Use Center. The other parcels will see no change in land use or intensity

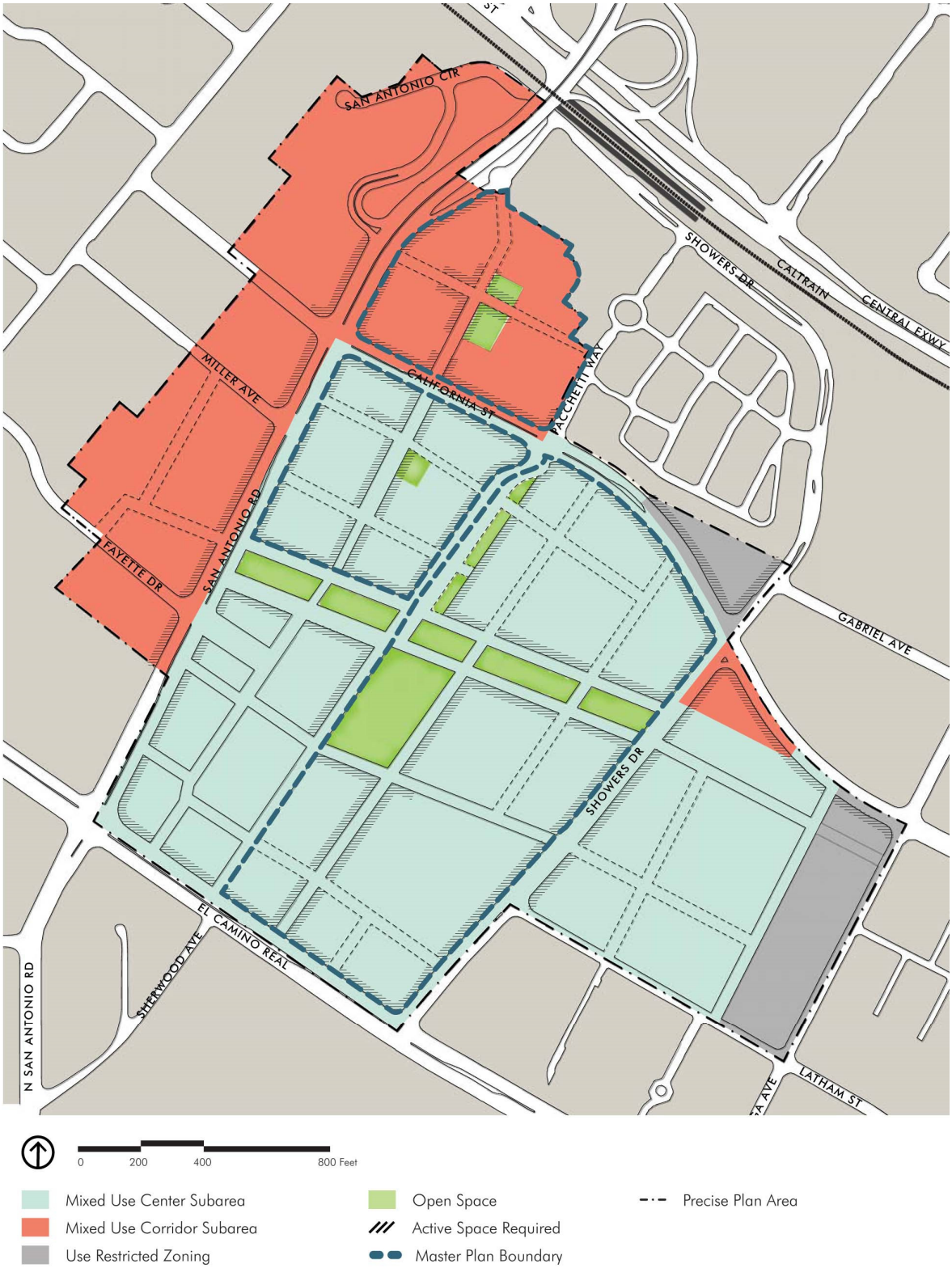
The total net new development program for the Precise Plan area is approximately 1,240 residential units, 600,000 square feet of office, and 420,000 square feet of retail. Each district has different maximum allowed intensities.

Desired Improvements and Amenities

The Preferred Alternative sets forth a number of specific improvements and amenities, including:

- Improved pedestrian/bike connections
- Major new streets and sidewalk improvements
- A central green and linear greenways/open space
- Amenities for community gathering in commercial areas
- Pocket parks and children's play areas
- Affordable housing
- Centralized structured and/or underground parking garage to serve regional retail uses

Figure 2
Preferred Alternative
San Antonio Precise Plan



Financing Desired Improvements and Amenities

As part of the implementation of the Precise Plan, the City will look toward the private sector development community to construct and/or provide funding for improvements and amenities. The City has an array of existing funding sources and financing mechanisms for many of these improvements, such as:

- Improvements required as CEQA mitigations
- Permit conditions (code required improvements)
- Existing fee programs

These existing tools generally require a nexus between the project and the required fee or improvement. A community benefit program is a tool to provide additional improvements and/or funding above and beyond these existing tools in exchange for parcels being able to redevelop at increased intensities.

Community Benefits

Community benefits refers to monetary or in-kind contributions made by property owners or developers in excess of what is otherwise legally required in exchange for new or expanded development rights granted by the agency having jurisdiction, primarily cities and counties. This exchange is voluntary for both parties. Community benefits are often identified through the public planning process and most frequently include additional physical improvements such as parks, open space, community centers, and/or transit improvements, and provision of affordable housing beyond what may be otherwise required. Once community benefits are identified and evaluated for feasibility, a public agency would incorporate such benefits into a negotiated agreement and permit conditions in exchange for higher project intensity. Community benefits requirements can also be set forth in general plans, specific plans or precise plans, as appropriate. Community benefits is an evolving concept. There is no standard definition of community benefits and implementation practices vary greatly among public agencies.[1]

There are two key considerations when designing a community benefits program. First, desired improvements and amenities must be categorized into improvements that mitigate an impact or comply with design standards versus improvements that the agency determines are "above and beyond" project requirements. Second, the agency must determine what the baseline level of entitlements from which additional development rights are granted in exchange for

[1] For specific case studies of community benefit programs, please refer to the analysis prepared by Strategic Economics for the El Camino Precise Plan area and the policy brief prepared by Greenbelt Alliance, dated November 2012.

community benefits. Setting the baseline level of entitlement is important in order to properly evaluate the economic feasibility of desired community benefits. In most cases, a value must be set for the land that represents its existing value under existing development rights.

Knowing the land value is important in order to prepare an economic analysis of community benefits since the increment of value that arises from the new development rights must be accurately estimated. Community benefits at its heart is a sharing of the incremental value to land of new entitlements. The feasibility of obtaining community benefits is achieved when a project has a value that covers soft and hard development costs and generates a fair rate of return to the project investors at a rate commensurate with project risk.

The analysis provided herein for Mountain View focuses on the financial capacity of new development within the San Antonio Precise Plan area to support new improvements, amenities, and community benefits.

Baseline and Additional Densities

Table 1 presents the baseline and additional densities for the two districts set forth in the Draft San Antonio Precise Plan where the community benefits program would apply.

Community Benefit Strategy

While a tiered approach can be applied in both the El Camino and San Antonio precise plan areas, the nature of desired improvements and amenities for the San Antonio Precise Plan requires a somewhat different approach to how a community benefits program would be structured. Tier 1 for the Mixed Use Corridor would be the same for both the El Camino Real and San Antonio precise plan areas. The Tier 1 process for the Mixed Use Center would be different that Tier 1 for the Mixed Use Corridor since it has a lower baseline above which additional development would be conditioned upon providing community improvements and major improvements.

In the case of development at the San Antonio Center, the goal of replacement of surface parking serving regional retailers with approximately 1,900 structured or underground parking spaces along with a public open space (proposed for the regional retail district in the San Antonio Precise Plan) cannot be incrementally implemented over a long period of time. The "lumpy" nature of these planned improvements and their high cost mean that mechanisms to fund and implement these improvements need to be determined with property owners early on in the application process to undertake major redevelopment of existing regional retail uses. The most commonly used tool is a development agreement. The development agreement would set forth the specific intensities to be developed as indicated in Table 1, a development phasing program, and timing of community benefits. The number of parties to such an agreement would be limited to those within the regional retail district that would benefit from the parking structure and public open space.

Table 1
Intensity Standards
San Antonio Precise Plan

Standard	Mixed Use Corridor Subarea Base	Mixed Use Corridor Subarea Tier 1	Mixed Use Center Subarea Base	Mixed Use Center Subarea Tier 1
Maximum Floor Area[2]	1.35 Up to 0.5 FAR can be office or commercial	1.85 FAR Up to 0.5 FAR can be office or commercial	An addition of less than 20% of existing square feet at the time of Plan adoption, or 0.35 FAR, whichever is less	2.35 FAR Up to 0.75 FAR can be office or commercial
Maximum Stories	3 stories	4 stories [3]	2 stories	6 stories[4]
Maximum Building Height	45 feet	55 feet [3]	35 feet	75 feet[4]
Community Benefits Requirement	No community benefit contribution required.	Community benefit contribution required.	No community benefit contribution required.	Community benefit contribution required.

Allocation of Desired Improvements and Amenities

Table 2 presents a potential allocation of improvements and amenities proposed under the draft San Antonio Precise Plan in the same format as shown for the draft El Camino Precise Plan. This allocation is a starting point and would be prioritized and refined on an ongoing basis as part of the implementation of the San Antonio Precise Plan.

[2] Floor area ratio (also commonly abbreviated as FAR) is the ratio of the gross floor area of a structure to total land square feet.
[3] Up to 5 stories (65 feet) will be considered on a case-by-case basis if project provides significant community benefits or major open space improvements per Figure 4-2 in the Draft Precise Plan. Additional height (in feet) may be allowed if needed to accommodate commercial uses.
[4] Up to 8 stories (95 feet) will be considered on a case-by-case basis for a project with significant community benefits. Additional height (in feet) may be allowed if needed to accommodate commercial uses.

Table 2
Allocation of Improvements and Amenities
San Antonio Precise Plan

Improvements and Amenities	Development Standards, CEQA Mitigations, Permit Conditions, and Existing Fee Programs	Additional Community Benefits
Pedestrian and Bicycle	• Continuous and/or widened sidewalks • Intersection improvements • Curb bulb-out requirements • Class II, Class III, and Class IV bicycle facilities • Flashing signals at pedestrian and bike crossings • On-site bike parking/storage requirements	• Additional on- and off-site pedestrian and bicycle paths and intersection improvements in excess of requirements to enhance area mobility • Upgrading of traffic signals to enhance pedestrian and bicycle safety • Contribution to or installation of bikeshare stations • Enhanced street improvements and landscaping beyond requirements • Removal or contribution to removal of existing pedestrian and bicycle barriers (e.g. grade-separated crossings). • Contribution to area-wide pedestrian/bike wayfinding signage program • Contribution to enhance off-site connectivity to regional transit systems • Contribution to other citywide improvements
Parks, Recreation, and Open Space	• Park land dedication or In-Lieu Fee requirement • Landscaping requirements • Common area amenities typical for use	• Providing publicly accessible parks, plazas, tot lots, etc., above and beyond existing Park Land Dedication Fees and required open area standards or contributions to off-site publicly accessible open spaces available to the community.

Parking	• Meet development standards for parking	• Contribute to and/or develop major shared parking facility (structured or underground)

Affordable Housing	• Rental Impact Fee
	• Below Market Rate Housing In-Lieu Fee
	• Commercial Housing Impact Fee
		• Development of affordable units on- or off-site, including:
		  • Provision of units over and above the amount required under existing regulations. On-site units preferred over off-site units.
		  • Provision of units instead of payment of housing impact fees.

Other	• On-site art per development standards • Sustainable design per development standards	• Contributions to and/or space provided for community facilities, affordable small business/non-profit spaces, etc. • Providing publicly accessible parking to serve area-wide/shared parking needs. • Off-site utility infrastructure improvements above and beyond those required to serve the development. • Funds in lieu of improvements. • Other community benefits proposed by the developer and approved by the City Council.

Financial Feasibility Analysis

This section summarizes BAE's development feasibility testing in order to understand whether the proposed development program would attract developers, and the extent to which returns from new development under the San Antonio Precise Plan could support additional community benefits, including greenways and open space, affordable housing, and shared underground parking. This section presents the findings of the pro forma development feasibility analysis.

Key Findings

- The Prototype Projects for Parcels A1, A2, C1, C2, and D1 (which includes the San Antonio Center retail), are financially feasible under current market conditions. Both rental and for-sale residential is financially feasible.

- While financial feasibility is obtained for the Prototype Project for Parcel A2, the overall project value of for-sale units is constrained by small unit sizes that limit sales revenue while the cost of providing required parking remains the same. Financial feasibility could be improved further by increasing unit sizes and relaxing parking standards; lower parking standards could be justified due to the site's proximity to the San Antonio Caltrain station.

- The value created through additional density for Parcels A1 and A2, Parcels C1 and C2, Parcel D1 and the San Antonio Center could be used to contribute to community benefits within the Precise Plan Area.

- The additional development (on parcels other than the tested prototype projects) in the rest of the Precise Plan area will generate additional value that could contribute to community benefits within and beyond the Precise Plan Area.

- The pro forma analysis indicates that a community benefits value of $19 per bonus FAR would be supportable for Parcels A1 and A2 and Parcels C1 and C2 while Parcel D1 and the San Antonio Shopping Center supports a lower value of $11 per bonus FAR foot. These values would be applied to bonus FAR feet – that is, development above baseline level. The value for the first two prototype projects is generally consistent with the findings for the El Camino Real Precise Plan ($15 to $20 per bonus FAR foot).

- The City could consider establishing a lower rate per bonus FAR foot for the San Antonio Shopping Center to help achieve major improvements and public benefits. The City could consider establishing a range of $10 to $20 per bonus FAR foot or similar strategies that account for collaborative master planned development on multiple parcels where major improvements area planned.

Methodology

To assess the potential for community benefits, BAE undertook a market-based financial analysis which included the following analytic steps:

1. **Development Program:** PlaceWorks and PYATOK formulated development programs for prototype projects within the San Antonio Precise Plan area. The development program includes a description of the site area, development density, mix of uses and unit types and sizes, and parking requirements. Parking requirements were broken down by new on-street, podium/structured, and underground spaces. The prototype project parcels are shown in Figure 3 below.

2. **Cost Assumptions:** For each prototype project, BAE estimated hard and soft construction costs for the development program, including on- and off-site costs, land costs, applicable impact fees, financing costs, and developer profit. Development costs are reported by land use component and include plan-required improvements such as sidewalks and bike facilities.

3. **Revenue and Project Value Assumptions:** For each prototypical project, BAE estimated rental and sales[5] revenues based on current market conditions and calculated the value of the completed project based on capitalizing net operating income (revenues less operating expenses) using market capitalization rates applicable to the land use product category. In the case of for-sale condominiums/townhomes, BAE estimated the likely sales prices to arrive at project value.

4. **Project Feasibility and Potential Level of Community Benefits:** Financial feasibility is achieved when the total value of the completed project exceeds the total development cost, including land costs and required developer profit. The estimated excess over costs represents the value potentially available for contribution to community benefits in the San Antonio Precise Plan area. Land costs were set to reflect the baseline development intensity permitted under the Precise Plan.

A series of static pro formas was used to conduct this feasibility analysis. A static pro forma uses the assumptions described above to calculate the residual value of the site without accounting for the time value of money (i.e. inflation and discount rates). Instead, a static pro forma relies on capitalization rates determined in the market to account for the total value of the development if purchased outright at the time of analysis. This is the same method that is used by developers to screen potential projects for feasibility. A detailed pro forma for each alternative is appended to this memorandum as Tables A-1 through A-4.

[5]Sales are for the for-sale residential component in Parcel A1 and A2.

Prototype Projects in the Precise Plan Area

The following three prototype projects were specified by PlaceWorks and PYATOK and associated development envelope, parking, open space, and other requirements are taken from the City's zoning code and other relevant regulations. Each prototype project consists of two parcels that are considered in aggregate due to common ownership. The following is a summary of the prototype projects that BAE analyzed:

A1, A2: Office/Retail/For Sale Residential. This project consists of two parcels, A1 and A2, as shown in Figure 3. Combined, this project would contain 91,400 gross square feet of office space, approximately 10,500 gross square feet of ground-floor retail, 275 for sale condominiums, and 770 parking spaces. The office space has an assumed efficiency factor of 90 percent, resulting in approximately 82,300 rentable square feet. The same 90 percent efficiency factor is applied to the retail space as well, netting approximately 9,400 rentable square feet.

The condominiums are assumed to total approximately 275,200 gross square feet, including interior common areas comprising approximately 10 percent of the gross square footage. To keep within the total square footage set forth in the development program, the unit mix was limited to one and two-bedroom units averaging 900 square feet of livable area.
Parking requirements are one space per 300 square feet of office space, one space per 200 gross retail square feet, one space for each studio and one-bedroom unit, and two spaces for each unit with two bedrooms or more. Of the 770 total spaces, 21 are provided through new, on-street spaces, 397 spaces in podium or structured parking, and 357 underground spaces.

C1, C2: Retail/Rental Residential. This project consists of two parcels, C1 and C2 that are considered under the City's existing parking requirements. (See Figure 3). Combined, this project would contain 189 rental residential units, 619 parking spaces, and 71,000 square feet of retail, with 51,900 square feet of the retail total representing two-story regional retail (e.g. 24-Hour Fitness facility).

The rental residential was generally modeled on the recently built Carmel Apartments project at 555 San Antonio Road, excepting that the Carmel project does not contain any 3-bedroom units and the prototype project does. In addition, BAE reviewed floor plans and rental rates from other recently completed apartment projects in Mountain View such as the Madera apartments just completed in 2013.

The retail component of this prototypical project is comprised of approximately 71,000 gross square feet, yielding 67,500 rentable square feet. The efficiency of this retail space is assumed to be 95 percent. Note that BAE's analysis assumes that existing regional retail tenants will pay current market rate rents upon relocation, along with any new tenants located in the liner retail. No leaseback or relocation costs were assumed in the analysis.

Parking requirements are one space per 200 gross retail square feet, one space for each studio and one-bedroom unit, and two spaces for each unit with two bedrooms or more. Of these total spaces, 86 are provided through new on-street spaces, 288 in podium or structured parking, and 245 underground spaces.

Figure 3
Prototype Project Development Program Summary

San Antonio Center and D1: Retail/Rental Residential/Shared Parking. This project consists of the D1 parcel that would contain rental residential and a shared parking structure, as well as 434,000 gross square feet of San Antonio Center regional retail that the parking structure

would serve. The San Antonio Center is considered under the City's existing parking requirements, and is included in this prototype to show its ability to support a new parking structure. This project would contain 85 rental residential units, 2,289 parking spaces, and approximately 434,000 gross square feet of regional retail. Of the 434,000 gross square feet, 132,000 gross square feet represents an existing Walmart that would not be relocated and approximately 224,000 gross square feet of existing retail that would be relocated and redeveloped. This scenario also proposes 78,000 gross square feet of new retail.

Similar to the C1 and C2 project, the rental residential for Parcel D1 was generally modelled on the recently built Carmel Apartments project at 555 San Antonio Road, excepting that the Carmel project does not contain any 3-bedroom units and the prototype project does.

Parking requirements are one space per 200 gross retail square feet, 1.0 space for each studio and one-bedroom unit and two spaces for each unit with two or more bedrooms. Parking in this prototype also includes a 6-story above-ground central parking garage. Of the total 2,289 parking spaces, 300 would be on-street and 1,989 would be podium/structured spaces. This parking would accommodate both existing uses and new development.

Key Assumptions

The analysis uses market data from CoStar, a third party real estate data vendor, Terranomics, a brokerage firm specialized in retail properties, and construction cost data from RS Means. BAE also relied upon recent work it has completed for other projects, including rent surveys, commercial and residential appraisals, and reviews of developer pro formas. These data are input into the pro forma model as assumptions to generate the findings of this analysis. It should be underscored that small changes to certain assumptions can often significantly change the development feasibility results. Below are some of the key assumptions used for each type of development tested.

All Development Types

The following key assumptions were used for all development types and do not change significantly by use.

1. Parking Costs: The analysis assumes that underground parking costs $50,000 per stall, while podium or above ground structured parking costs $25,000 per stall, and new on-street parking costs $5,000 per space.

2. Financing Costs: The analysis assumes that developers can obtain financing for 60 percent of the total costs and will be charged two percent in loan fees and a seven percent annual interest rate. Changes in the interest rate could change development feasibility.

3. Developer Profit: This analysis assumes that developers would not be attracted to a project unless they could earn a 10 percent return on hard and soft costs, excluding

land costs and, in the case of the prototype project in D1, structured parking costs.[6] The return on cost percent generally fluctuates between 8 and 12 percent during a real estate cycle. For this analysis, BAE has used return-on-costs requirement that falls in the middle of the range.

4. **Capitalization Rates.** To value the income generating components of each prototype project, BAE utilized a 5.5 percent cap rate for rental residential and office uses and a 5.75 cap rate for retail uses.

Office Uses

The following assumptions specifically apply to office uses. Changes in market conditions and their corresponding assumptions could significantly impact development feasibility and the ability to capture value for public benefits.

1. **Parking Ratios:** This analysis assumes that new office development would require one parking space per 300 gross square feet.

2. **Land Costs:** The base land value was set at $75 per gross square foot of allowable building area (FAR-foot) under the baseline intensity standard.

3. **Development Costs:** Based on current data from RS Means and interviews with local developers, this analysis assumes that office construction hard costs are approximately $175 per gross square foot, delivering a warm shell with an additional $75 per leasable square foot in tenant improvements (TIs).

4. **Net Operating Income:** BAE is active in the Mountain View market for another client and has tracked office rents. For this assignment, BAE reviewed rents for recently constructed and under construction office projects in Mountain View and assumed that new office space in Parcel A1 and A2 would be priced at $55 annually per square foot on a full service basis. For operating expenses, we took the $13 median per square foot annual cost as reported by BOMA's 2013 Experience Exchange Report for newly built Class A, mid-rise buildings in the Bay Area. Most of the Class A buildings in the BOMA database are located in and between San Francisco and San Jose.

Retail Uses

The following assumptions specifically apply to retail uses. Changes in market conditions and their corresponding assumptions could significantly impact development feasibility and the ability to capture value for public benefits.

[6] For D1, BAE estimated developer's profit as a percent of project value. Note that the El Camino Real community benefits analysis also utilizes a return on cost metric but it measures annual net income against development costs while this analysis takes a one-time return on cost to estimate developer profit that is then incorporated into total project development costs. Both methods are common metrics to assess financial feasibility.

1. **Parking Ratios:** This analysis assumes that new retail development would require one parking space per 200 gross square feet. This assumption effectively assumes the midpoint between the City's standard retail and shopping center parking standards. For Parcel D1 and the San Antonio Center, parking costs reflect structured parking facilities, not underground parking.

2. **Land Costs:** The base land value for ground floor retail uses was set at $75 per FAR-foot under the baseline intensity standards. Ground floor retail land rates are essentially the same for office due to the mixed use nature of the commercial component and the market does not generally distinguish between office and ground floor retail in mixed-use projects. For regional retail, a higher base value per FAR foot of $300 per existing square foot that is to be relocated (e.g., the 224,000 gross square feet) is assumed to reflect baseline land value plus the depreciated value of existing retail improvements.

3. **Development Costs:** Based on current data from RS Means and interviews with local developers, this analysis assumes that retail construction hard costs are approximately $133 per gross square foot for one-story development with an additional $25 per leasable square foot in TIs.

4. **Net Operating Income:** Market data from CoStar on similar properties within the Mountain View area show that new traditional ground floor retail in a mixed-use project in a high-traffic location can charge approximately $42 annually per square foot on a triple net basis. For new regional retail uses, the assumed rental rate is set at $48 per rentable square foot on a triple net basis, reflecting an opportunity for newly constructed, state-of-the art retail in a supply-constrained submarket and the site's proximity to Palo Alto and Los Altos.

Residential Uses

The following assumptions specifically apply to residential uses. Changes in market conditions and their corresponding assumptions could significantly impact development feasibility and the ability to capture value for public benefits.

1. **Land Costs:** The base land value for residential uses was set at $65,000 per rental unit and $80,000 per for-sale unit.

2. **Development Costs:** Based on current data from RS Means and data from other recently completed similar BAE assignments. This analysis assumes that residential construction hard costs are approximately $200 per gross square foot with an additional $5,000 or appliances in a rental unit and $7,500 for appliances in a for-sale unit. Higher costs for for-sale units reflect upgrades.

3. **Condominium Sale Prices:** According to sales data from newhomesource.com, Californiamoves.com, and Trulia, between November 2013 and February 2014, the median new Mountain View condominium sold for approximately $600 per square foot. This analysis uses the $600 per square foot sale price to determine the potential sale prices for new condominiums in the San Antonio Precise Plan Area.

4. **Rental Unit Prices:** The analysis uses rental rates from The Carmel apartments to project rental revenues from new apartment development in the San Antonio Precise Plan Area. The Carmel apartments were used as the primary source because it is a new residential rental development that is located within the Precise Plan Area. Rents range from $2,250 per month for a studio to $5,000 per month for a 3-bedroom unit[7] and average $3.90 per square foot of living space.

Financial Feasibility and Value of Potential Community Benefits

Table 4 presents a summary of the financial feasibility of the three prototype projects in the San Antonio Precise Plan area. Detailed assumptions and calculations are presented in Appendix A. These estimates are conceptual in nature.

All three prototype projects in Parcels A1 and A2, C1 and C2, and Parcel D1 and the San Antonio Center are financially feasible, e.g., generate additional value that could potentially fund community benefits. (See Table 4). It should be noted that while Parcels A1 and A2 are feasible, the profitability is constrained due to smaller unit sizes (750 to 1,050 square feet) that reduce sales revenue and the high fixed cost of structured parking relative to unit sales price. Financial feasibility can be enhanced when unit sizes are increased to 1,200 to 1,500 square foot range, representing a mix of one-, two-, and three-bedroom units instead of a mix of just one- and small two-bedroom units. Parcels A1 and A2 show a total potential pool of community benefits at $38 per bonus FAR foot and Parcels C1 and C2 are estimated to generate a total potential value of $39 per bonus FAR foot. San Antonio Center retail and Parcel D1 are also financially feasible, despite the large amount of structured parking and the high acquisition costs of land that contains existing retail uses. Note that no economic contribution is assumed from the existing 132,000 gross square feet occupied by Walmart. Parcel D1 shows a positive value of $22 per bonus FAR foot. Financial feasibility is achieved due to strong current market conditions, and could be affected by high costs for structured parking and changes in market conditions.

Practically speaking, the City would be unlikely to obtain the full potential community benefits value reported in Table 4 since reported values are highly sensitive to market conditions. Furthermore, certain existing retailers may be relocated, such as the 24-Hour Fitness, and these costs are not reflected in the financial assumptions (the lease terms and conditions that may determine lease termination or relocation costs for existing retail tenants are not known).

[7] The Carmel apartments do not offer 3-bedroom units; rental rates for 3-bedroom units are imputed from other apartment complexes and rental rates for smaller units at The Carmel.

To reflect a more realistic set of community benefits expectations, BAE has indicated the potential community benefits value at 50 percent of total value. The result is $19 per bonus FAR foot for Parcels A1 and A2 as well as Parcels C1 and C2; Parcel D1 and the San Antonio Shopping Center show a lower value of $11 per bonus FAR foot. These per bonus FAR foot values would be applied to bonus square feet (e.g., square feet in excess of the baseline shown in Table 1).

Table 4: Prototype Project Financial Feasibility Summary

	Potential Community Benefits		
Prototpyical Project (a)	Value Per FAR Foot	Bonus FAR Foot@50% Value	Financially Feasible?
Parcels A1 and A2	$ 38	$ 19	Yes
Parcels C1 and C2	$ 39	$ 19	Yes
Regional Retail and Parcel D1	$ 22	$ 11	Yes

Soures: BAE, 2014.

Model Assumption Sensitivities and Their Implications

The financial pro forma estimates of incremental project value are highly sensitive to a number of key factors:

- Rents and sales prices. The model utilizes current market rents and sales prices that reflect the market's position at the strong recovery point in the real estate economic cycle. To the extent that rents and sales prices decline due to a future recession, which is inevitable, the incremental value would decline significantly. In that instance, projects in the Precise Plan area would not proceed until rents and sales prices recovered.

- Capitalization rates. The model reflects current capitalization rates utilized by the investment community to value real estate projects and acquisitions. Currently real estate cap rates are low due to the strong economic recovery in a low interest environment. The incremental values of the prototypical projects are highly sensitive to small increases in capitalization rates that might be experienced if investor sentiment were to shift and assign greater risk to real estate as an investment class.

- Parking Treatments. The model reflects a land use plan scenario that maximizes podium, structured, and underground parking to free up land at the surface for open space, parklands, and development. Development costs can be lowered significantly to the extent that additional surface parking is programmed into the Precise Plan. This would certainly reflect a tradeoff between project economics, place-making principles, and the public's desire for additional green spaces.

- **Developer Profit.** The pro forma assumes a 10 percent return on development costs, including land. The incremental value is highly sensitive to the level of developer profit. To the extent that property owners and/or developers of parcels in the Precise Plan Area seek greater than 10 percent returns, the incremental value available for community benefits will be reduced.

- **Land Costs**. The model assumes that there is a base land value for each land use that represents roughly the value of land prior to the new entitlement action that would be implemented through the Precise Plan. To the extent that the base land value is challenged and increased, the incremental value of the projects allocated to community benefits would be reduced. The results for Parcel D-1 and the San Antonio Shopping Center are sensitive to the assumed value of existing improvements.

- **Level of Entitlements Proposed in the Precise Plan.** The pro formas have incorporated the development program for the Precise Plan Area and to the extent that higher levels of residential and/or office development are permitted, the incremental value available for community benefits would increase.

Other Potential Sources for Desired Improvements and Amenities

To realize the Precise Plan desired improvements and amenities, the City will need to work with property owners early in the process to help them understand the benefits of the proposed amenities to generate support for new funding and financing mechanisms. The cost of providing a 1,900-space underground garage at $50,000 per space would be approximately $95 million, compared to $48 million for aboveground structured parking. Although detailed park and open space costs are unknown at this time, they would add several million dollars to the total Precise Plan Area amenity costs. In addition to the community benefits contributions, other sources of funds are likely to be required to fund desired community amenities. To give a sense of other sources, BAE prepared a conceptual estimate of park in-lieu fees and incremental property tax that might also be leveraged to cover the costs of community benefits in the Precise Plan Area. (See Table 5). Assuming that park fees for residential units fall on the mid-point of the City's $15,000 to $30,000 range in fees, the incremental park in-lieu fee revenue would be approximately $17.5 million. In total, value capture and development fees could provide $34.4 million in one-time revenues that could support new amenities.

To the extent that desired community benefits exceed in cost $31.3 million, the City would need to find other mechanisms to raise additional funds, including leveraging a portion of the property tax increment. Applying a one percent property tax rate to the increment of new development, the City may realize approximately $900.000 annually in new property tax revenue that could be leveraged to support Precise Plan community benefits through bonding mechanisms such as general obligation or infrastructure finance district bonds. Additional

revenue over the base property tax could be raised from special assessments. A detailed presentation of other financing mechanisms Is provided in Appendix B.

Table 5: Park In-Lieu Fees and Property Tax Increment

	Park In Lieu Fees			Property Tax Increment		
Area	Residential Units	Average In Lieu Fee/Unit	Total Potential Fees	Total Development Costs	Total Potential Tax Increment (a)	Potential City Subvention
Precise Plan Area	1,240	$22,500	$27,900,000	$ 920,300,000	$ 6,900,000	$ 1,100,000

Note:

(a) Assumes 1% ad valoren tax rate; no increment sharing. 25% of development costs are deemed existing property roll value. 16% subvention to City.

Soures: PlaceWorks; City of Mountain View; BAE, 2014.

In addition, the City could work with property owners to establish parking or assessment districts to finance the desired underground garage. Working with property owners and developers early will generate more returns to the district and allow developers to provide input into the process and mechanism to promote additional redevelopment. The district rules would outline assessment costs, triggers, and benefits (development bonuses) of redevelopment before properties are ready to redevelop, so that all new development can contribute to funding the garage, and developers have sufficient time to plan redevelopment under the district's rules.

Post Precise Plan: A Master Plan for the Regional Shopping District

Master planning the new regional retail core in the Precise Plan Area with the aim of integrating new development across multiple parcels with impact/in-lieu fees and negotiated agreement for community benefits will establish an actionable plan on which property owners and developers can rely. The benefit of undergoing this additional step is that property owners and the City would have to jointly determine the optimal mix of tools to implement the Precise Plan and General Plan vision and then lock it in with long-term agreements.

Appendix A-1

Parcels A1 and A2
Pro Forma Detail Analysis

Pro Forma for Mixed-Use Development with For Sale Residential, Parcels A1 and A2, San Antonio Precise Plan Area

Major Assumptions			Pro Forma Analysis	
Characteristics of Project			**Development Costs**	
Site - gross acres / square feet	4.68	203,848	Land Costs	$24,158,075
Building and parking footprint		646,619	Demolition costs	$1,019,240
Comm'l net leaseable area (sf) office/retail	82,297	9,435	On and off-site costs	$1,019,240
Comm'l, % office / % retail	90%	5%	Parking costs	$27,630,000
Dwelling units (du)		275	Residential construction costs	$57,101,500
Studio - number / average size	0	0	Office construction costs	$16,002,175
1 bedroom - number / average size	137	750	Retail construction costs	$1,250,547
2 bedroom - number / average size	138	1,050	Tenant improvements	$6,408,135
3 bedroom - number / average size	0	0	Soft costs	$21,678,471.36
Parking res/comm'l (a):			Impact fees	$7,359,447
New on-street spaces	-	21	Total construction costs	$163,626,830
Podium/structured parking spaces	150	247		
Subterreanean parking spaces	263	89	Interest on construction loan	$8,246,792
Total parking spaces	413	357	Points on construction loan	$1,963,522
Size of average parking space, with circulation, sf		350	Total financing costs	$10,210,314
Common area sf: residential / commerical (b)	27,519	10,192		
Total sf - residential / comm'l	275,195	101,924	**Total development costs**	**$173,837,144**
Parking sf - residential / commercial	144,550	124,950	*Total Residential Costs*	*$132,598,593*
Total gross area by use, sf	419,745	226,874	*Residential Costs per DU*	*$482,177*
Total project gross area, sf		646,619	*Total Office Costs*	*$48,175,485*
Total number of stories	4	6	*Office Costs per Sq. Ft.*	*$527*
Dwelling units/acre	59		*Total Retail Costs*	*$4,049,291*
			Retail Costs per Sq. Ft.	*$386*
Development Costs			**Projected Income**	
Demolition costs, per site sf		$5	Office	
Land costs, per commercial FAR ft / DU	$75	$100,000	Gross scheduled rents	$4,526,330
Construction hard costs, per sf - residential		$200	Less vacancy	($316,843)
Construction hard costs, per sf - office/retail	$175	$133	Gross annual rents	$4,209,486
On and off-site costs, per site sf		$5	Less operating expenses	($1,152,157)
Appliance costs, per du		$7,500	Net operating income (NOI)	$3,057,330
Impact fees c) - residential		$6,464,897		
Impact fees c) - office/ retail	$880,869	$13,680	Retail	
Tenant improvements, per office sf / retail	$75	$25	Gross scheduled rents	$396,257
Soft costs, % of hard costs		20%	Less vacancy	($27,738)
Parking construction cost, per space:			Gross annual rents	$368,519
New on-street parking spaces		$5,000	Less operating expenses	($11,888)
Podium parking spaces (1/2 level down)		$25,000	Net operating income (NOI)	$356,632
Subterreanean parking spaces		$50,000		
Developer profit, % of total project costs		10%	**Total net operating income, Leased**	**$3,413,961**
Revenues and Operating Expenses			Residential	
Office rental rate, sf/yr, Full Service		$55.00	Gross Sales Revenue	$148,548,800
Retail rental rate, sf/yr, NNN		$42.00	Less vacancy	$0
Condominium Sale Price/Unit			Less Sale Costs (5% of Revenues)	($7,427,440)
Studio		$0	**Net Condominium Revenues**	**$141,121,360**
1 bedroom		$449,800		
2 bedroom		$629,900	**Development Feasibility**	
3 bedroom		$0	Residential	
Below market rate residential units as % of total		0%	Net Condominium Revenues	$141,121,360
Annual op. cost - office $ per sf/yr / retail % rev	$14	3%	Office and Retail	
Vacancy rate - residential / commercial	0%	7.0%	Capitalized value	$61,790,105
			Total Project Value	$202,911,465
Financing			Less development costs	($173,837,144)
Construction loan to cost ratio		60%	Less developer profit	($17,383,714)
Loan fees		2%	**Potential for Community Benefits**	**$11,690,606**
Interest rate		7%	Per Land Sq. Ft.	$57
Period of initial loan (months)		24	Per FAR Sq. Ft. (project, ex. parking)	$28
Drawdown factor		60%		
Total hard + soft construction costs		$163,626,830		
Total loan amount		$98,176,098		
Capitalization Rate - Office / Retail	5.50%	5.75%		

Notes

(a) Parking ratios		
Residential/DU:studio/1BR/ 2+BR	1	2
Commercial sf per stall: office/retail	400	200
(b) Common area % resid'l / comm'l:	10%	10%
(c) Includes following impact fees for *Mountain View* per City staff:		
Housing impact (per sf)		
Office/High-Tech/Industrial (First 10,000 sf)	$5.00	
Office/High-Tech/Industrial (10,000+ sf)	$10.00	
Hotel/Retail Commercial/Entertainment (First 25,0	$1.27	
Hotel/Retail Commercial/Entertainment (25,000+ s	$2.53	
Rental Housing Impact	$0.00	Not applicable for for-sale units.
Park In-Lieu fee (per residential unit depending on valuation and parkland requirement)	$22,500	Mid-point of range.
School Impact Fees, effetive 05/23/14 (resid'l, comm'l per sf)	$1.12	$0.18

Sources: City of Mountain View; RS Means; Placeworks; Pyotak; Cassidy Turley; Marcus and Milichap; CoStar; BAE, 2014.

Appendix A-2

Parcels C1 and C2
Pro Forma Detail Analysis

Pro Forma for Mixed-Use Development with Rental Residential, Parcels C1 and C2, San Antonio Precise Plan Area

Major Assumptions		
Characteristics of Project		
Site - gross acres / square feet	2.70	117,500
Building and parking footprint		495,129
Comm'l net leaseable area (sf) office/retail	0	71,024
Comm'l, % office / % retail	0%	100%
Dwelling units (du)		189
Studio - number / average size	19	550
1 bedroom - number / average size	95	645
2 bedroom - number / average size	66	1,125
3 bedroom - number / average size	9	1,350
Parking res/comm'l (a):	207.9	706
New on-street parking spaces	-	86
Podium/structred parking spaces	146	142
Subterreanean parking spaces	120	125
Total parking spaces	266	353
Size of average parking space, with circulation, sf		324
Common area sf: residential / commerical (b)	36,952	0
Total sf - residential / comm'l	195,464	71,024
Parking sf - residential / commercial	113,673	114,968
Total gross area by use, sf	309,137	185,992
Total project gross area, sf		495,129
Total number of stories	4	6
Dwelling units/acre	73	
Development Costs		
Demolition costs, per site sf		$5
Land costs, per commercial FAR ft / DU	$75	$65,000
Construction hard costs, per sf - res	$200	$200
Construction hard costs, per sf - retail 1 and 2 story	$133	$151
On and off-site costs, per site sf		$5
Appliance costs, per du		$5,000
Impact fees c) - residential		$6,015,159
Impact fees c) - retail		$160,975
Tenant improvements, per office sf / retail	NA	$25
Soft costs, % of hard costs		20%
Parking construction cost, per space:		
New on-street parking spaces		$5,000
Podium parking spaces (1/2 level down)		$25,000
Subterreanean parking spaces		$50,000
Developer profit, % of total project value		10%
Revenues and Operating Expenses		
Office rental rate, sf/yr, NNN	NA	$0.00
Retail rental rate, sf/yr, NNN		$42.00
Residential rental rate per sq.ft./du/mo:		
Studio	$4.09	$2,250
1 bedroom	$4.11	$2,650
2 bedroom	$3.73	$4,200
3 bedroom	$3.70	$5,000
Below market rate residential units as % of total		0%
Annual op. cost - per du		$10,500
Annual op. cost - office $ per sf/yr / retail % rev	NA	3%
Vacancy rate - residential / commercial	5%	7.0%
Financing		
Construction loan to cost ratio		60%
Loan fees		2%
Interest rate		7%
Period of initial loan (months)		24
Drawdown factor		60%
Total hard + soft construction costs		$106,462,888
Total loan amount		$63,877,733
Capitalization Rate - Residential		5.50%
Capitalization Rate - Office / Retail	5.50%	5.75%

Pro Forma Analysis	
Development Costs	
Land Costs	$12,346,800
Demolition costs	$587,500
On and off-site costs	$587,500
Parking costs	$19,880,000
Residential construction costs	$40,091,386
Office construction costs	$0
Retail construction costs	$10,361,309
Tenant improvements	$1,775,600
Soft costs	$14,656,658.99
Impact fees	$6,176,134
Total construction costs	$106,462,888
Interest on construction loan	$5,365,730
Points on construction loan	$1,277,555
Total financing costs	$6,643,284
Total development costs	**$113,106,172**
Total Residential Costs	*$84,932,749*
Residential Costs per DU	*$449,380*
Total Office Costs	*N/A*
Office Costs per Sq. Ft.	*N/A*
Total Retail Costs	*$33,438,423*
Retail Costs per Sq. Ft.	*$471*
Projected Income	
Residential	
Gross scheduled rents	$7,415,880
Less vacancy	($370,794)
Gross annual rents	$7,045,086
Less operating expenses	($1,984,500)
Net operating income (NOI)	$5,060,586
Retail	
Gross scheduled rents	$2,983,008
Less vacancy	($208,811)
Gross annual rents	$2,774,197
Less operating expenses	($89,490)
Net operating income (NOI)	$2,684,707
Total net operating income	**$7,745,293**
Development Feasibility	
Capitalized value	$138,701,215
Less development costs	($113,106,172)
Less developer profit	($13,870,121)
Potential for Community Benefits	**$11,724,921**
Per Land Sq. Ft.	$100
Per FAR Sq. Ft. (project, ex. parking)	$39

Notes

(a) Parking ratios		
Residential/DU:studio/1BR/ 2+BR	1	2
Commercial sf per stall: office/retail	N/A	200
(b) Common area % resid'l / comm'l:	19%	0%
(c) Includes following impact fees for *Mountain View* per City staff:		
Housing impact (per sf)		
Office/High-Tech/Industrial (First 10,000 sf)	$5.00	
Office/High-Tech/Industrial (10,000+ sf)	$10.00	
Hotel/Retail Commercial/Entertainment (First 25,0	$1.27	
Hotel/Retail Commercial/Entertainment (25,000+ s	$2.53	
Rental Housing Impact	$10.00	per habitable sq. ft.
Park In-Lieu fee (per residential unit depending on valuation and parkland requirement)	$22,500.00	
School Impact Fees, effetive 05/23/14 (resid'l, comm'l per sf)	$1.12	$0.18

Sources: City of Mountain View; RS Means; Placeworks; Pyotak; Cassidy Turley; Marcus and Milichap; CoStar; BAE, 2014.

Appendix A-3

San Antonio Center Retail and Parcel D1
Pro Forma Detail Analysis

Pro Forma for Rental Residential on Parcel D1 and San Antonio Center Retail, San Antonio Precise Plan Area

Major Assumptions		
Characteristics of Project		
Site - gross acres / square feet	26.22	1,142,000
Building and parking footprint		1,192,110
Comm'l net leaseable area (sf) office/retail	0	286,900
Comm'l, % office / % retail	0%	5%
Dwelling units (du)		85
Studio - number / average size	9	550
1 bedroom - number / average size	43	645
2 bedroom - number / average size	30	1,125
3 bedroom - number / average size	4	1,350
Parking res/comm'l (a):		
New on-street parking spaces	-	300
Podium parking spaces	119	1,870
Subterreanean parking spaces	-	-
Total parking spaces	119	2,170
Size of average parking space, with circulation, sf		350
Common area sf: residential / commerical (b)	17,125	15,100
Total sf - residential /new comm'l	88,960	302,000
Parking sf - residential / commercial	41,650	759,500
Total gross area by use, sf	130,610	1,061,500
Total project gross area, sf		1,192,110
Total number of stories	4	6
Dwelling units/acre	28	
Development Costs		
Demolition costs, per site sf		$5
Land costs per FAR sq.ft. / per unit (c)	$234	$0
Construction hard costs, per sf - residential		$175
Construction hard costs, per sf - office/retail	$0	$133
On and off-site costs, per site sf		$5
Appliance costs, per du		$5,000
Impact fees (d) - residential		$2,711,305
Impact fees (d) - retail		$745,999
Tenant improvements, per office sf / retail	$0	$25
Soft costs, % of hard costs		20%
Parking construction cost, per space:		
New, on-street parking spaces		$5,000
Podium parking spaces (1/2 level down)		$25,000
Subterreanean parking spaces		$50,000
Developer profit, % of total project value		10%
Revenues and Operating Expenses		
Office rental rate, sf/yr, Full-Service		NA
Retail rental rate, sf/yr, NNN		$48.00
Residential rental rate per du/mo:		
Studio	$4.09	$2,250
1 bedroom	$4.11	$2,650
2 bedroom	$3.73	$4,200
3 bedroom	$3.70	$5,000
Below market rate residential units as % of total		0%
Annual op. cost - per du		$10,500
Annual op. cost - office $ per sf/yr / retail % rev	$0	3%
Vacancy rate - residential / commercial	5%	5.0%
Financing		
Construction loan to cost ratio		60%
Loan fees		2%
Interest rate		7%
Period of initial loan (months)		24
Drawdown factor		60%
Total hard + soft construction costs		$221,665,662
Total loan amount		$132,999,397
Capitalization Rate - Residential		5.25%
Capitalization Rate - Office / Retail	5.50%	5.75%

Pro Forma Analysis	
Development Costs	
Land Costs	$67,200,000
Demolition costs	$5,710,000
On and off-site costs	$5,710,000
Parking costs	$51,225,000
Residential construction costs	$15,993,000
Office construction costs	$0
Retail construction costs	$40,029,798
Tenant improvements	$7,172,500
Soft costs	$25,168,060
Impact fees	$3,457,304
Total construction costs	$221,665,662
Interest on construction loan	$11,171,949
Points on construction loan	$2,659,988
Total financing costs	$13,831,937
Total development costs	**$235,497,599**
Total Residential Costs (includes parking)	*$31,632,542*
Residential Costs per DU	*$372,148*
Total Office Costs	*N/A*
Office Costs per Sq. Ft.	*N/A*
Total Retail Costs (includes parking)	*$207,622,598*
Retail Costs per Sq. Ft.	*$687*
Projected Income	
Residential	
Gross scheduled rents	$3,362,400
Less vacancy	($168,120)
Gross annual rents	$3,194,280
Less operating expenses	($892,500)
Net operating income (NOI)	$2,301,780
New Retail	
Gross scheduled rents	$13,771,200
Less vacancy	($688,560)
Gross annual rents	$13,082,640
Less operating expenses	($413,136)
Net operating income (NOI)	$12,669,504
Total net operating income	**$14,971,284**
Development Feasibility	
Capitalized value	$264,182,629
Less development costs	($235,497,599)
Less developer profit	($19,698,263)
Potential for Community Benefits	**$8,986,767**
Per Land Sq. Ft.	$8
Per FAR Sq. Ft. (project, ex. parking)	$22

Notes

(a) Parking ratios		
Residential/DU:studio/1BR/ 2+BR	1	2
Commercial sf per stall: office/retail	N/A	200
(b) Common area % resid'l / comm'l:	19%	5%
(c) Based on a blended rate for land with and without entitlements.		
(d) Includes following impact fees for *Mountain View* per City staff:		
Housing impact (per sf)		
Office/High-Tech/Industrial (First 10,000 sf)	$5.00	
Office/High-Tech/Industrial (10,000+ sf)	$10.00	
Hotel/Retail Commercial/Entertainment (First 25,(	$1.27	
Hotel/Retail Commercial/Entertainment (25,000+ :	$2.53	
Rental Housing Impact	$10.00	per habitable sq. ft.
Park In-Lieu fee (per residential unit depending on valuation and parkland requirement)	$22,500.00	
School Impact Fees, effetive 05/23/14 (resid'l, comm'l per sf)	$1.12	$0.18

Sources: City of Mountain View; RS Means; Placeworks; Pyotak; Cassidy Turley; Marcus and Milichap; CoStar; BAE, 2014.

Appendix B

Potential Funding Sources

There are a number of grant, loan, and value capture funding mechanisms that can be utilized to finance the infrastructure and community benefit items that will be listed in the Implementation section of the San Antonio Precise Plan. These sources are detailed in the sections below.

Local Tax Increment and Assessment Districts

Infrastructure Financing District (IFD)

Infrastructure financing districts (IFDs) provide a viable mechanism for California communities to collect tax increment to fund necessary infrastructure and other improvements. A recent change in state law now permits use these districts to fund low and moderate-income affordable housing. Jurisdictions must specify the portion of tax increment to collect over the designated period, as well as the list of projects that the IFD would fund. Once approved, the local government can collect an increment of taxes arising typically from increased value due to the improvements, and dedicate these revenues to repay a bond used to create the improvements. The key positive aspect of IFDs is that they do not add to the property tax bill of the property owner. Instead, much like former redevelopment funding, IFD's are a diversion of property tax from other entities to this special fund for specific purposes.

There are two challenges to creating an IFD. First, the jurisdiction must get approval from all other taxing entities that would forfeit a portion of their tax revenues. Each entity must pass a resolution accepting the creation of the IFD and the portion of increment they would commit. Second, the creation of an IFD requires approval from a two-thirds majority of registered district voters. Thus, property owners in the district to be created, generally need to be in favor of this concept, and understand how it will benefit their property. In the case of the San Antonio Precise Plan Area, there are few property owners in the regional retail sub-district so establishing such a district might be less burdensome than an area with many property owners.

Assessment Districts (Including Community Benefits Districts)

Assessment districts provide a mechanism for property owners to choose to levy an additional tax upon themselves for identified purposes. California law allows the creation of assessment districts for a wide variety of purposes; these can either fund capital improvements, or be established for operating costs (such as lighting and landscaping districts). Specific districts that might be applied to the San Antonio Precise Plan would be a parking district and/or park improvement district.

There are two primary challenges in establishing assessment districts, particularly for already developed areas. The first challenge is that total property taxes can only rise a certain amount

before new development is disadvantaged relative to properties not subject to an assessment. The second challenge is that assessment districts require a majority vote of property owners weighted by property value to pass. In an area with numerous small properties and extensive residential development the prospect of a tax increase may be difficult to pass.

Business Improvement District (BID)

A Business Improvement District (BID) is a type of assessment district that can assess either business owners or property owners (or both) to fund promotional, marketing, and other activities including additional maintenance or other public services or improvements. Related to the traditional BID model, Community Benefits Districts have recently been established in various California cities to provide a steady stream of funding for services and programs in primarily infill areas.

Other Local Sources of Funds

Development Impact Fees

Mountain View has established three impact fee programs that could be a funding source for affordable housing, parks, and recreational open space[8]. These fees, paid by new residential and commercial development projects, must only be used to pay for improvements that can be demonstrated to serve new residents and businesses (from new development), but these fees can be combined with other funding sources to fund a project that serves both new and existing residents or businesses. A nexus study, which calculates the new increment of development, estimates the portion of an improvement project attributable to that increment of growth, and allocates the fee among the new development projects by land use, is required by state law for implementation. Additional impact fees, such as a transportation and traffic impact fee could be considered as a means to fund additional improvements to enhance mobility in the Precise Plan Area.

Revenue Bonds

Public activities that are revenue generating, and create sufficient cash flow to cover operating costs and debt service can potentially issue tax-free municipal debt to cover the cost of capital improvements. A common example of this is revenue bonds for parking garage construction where there is pay parking.

General Obligation Bonds and Other Public Debt

New commercial and lodging projects could generate significant new sales tax and transit occupancy (lodging) tax revenues that will flow into the City's General Fund. This new money could be used to finance debt service on tax-exempt debt obligations so that existing activities provided through the General Fund are not impacted. Such a General Obligation bond, however, requires a two-thirds vote of local residents (except for educational facilities) to

[8] The impact fees are a Housing Impact Fee levied on new commercial development, a Below Market Rate In-Lieu Fee levied on new market-rate rental housing, and a Quimby Act park fee levied on new residential development.

approve. Alternatively, for facilities that can serve as collateral for debt, certificates of participation are a public finance technique that does not require voter approval.

Public Benefit Assessment District (SB 142)

This mechanism is applicable to SMART for its use to fund its station improvements. SB 142 (DeSaulnier) was signed into law in October 2013 and establishes new authority for transit operators to form Benefit Assessment Districts for public transit improvements. The new law authorizes the governing board of any transit operator, or any government entity contracting for transit operation services, to establish a Benefit Assessment District by a two-thirds vote of the governing board. However, the board is prohibited from establishing a district if a majority of property owners file a petition for exemption through the process set forth in the law.

The district may only levy an assessment on properties falling within a one-half mile radius of an existing or proposed transit station or rail facility, though multiple non-contiguous stations may be included under the same district. The assessment levied on each property must be directly proportional to the benefit to be received by that property from the proposed improvement and the governing board may issue public bonds backed by this assessment. Revenue from the assessment or bonds backed by the assessment may only be used for rail stations, ferry terminals, bus transfer stations and related investments. Funds may not be used for system development outside of the designated station areas, but may be used for transit service capital or operations costs. This new authority will expire on January 1, 2021 unless extended by the legislature.

Regional and State Sources of Funds

OneBayArea Grant (OBAG)

The OneBayArea Grant Program (OBAG) establishes program commitments and policies for investing roughly $800 million over the four-year Cycle 2 period (FYs 2012-13 through 2015-16), funded by federal funds authorized by Congress in Moving Ahead for Progress in the 21st Century (MAP 21).

The OneBayArea Grant Program is a new funding approach that better integrates the region's federal transportation program with California's climate law (Senate Bill 375, Steinberg, 2008) and the Sustainable Communities Strategy. Funding distribution to the counties will consider progress toward achieving local land-use and housing policies by rewarding jurisdictions that accept housing allocations through the Regional Housing Need Allocation (RHNA) process and produce housing using transportation dollars as incentives. The program also supports the Sustainable Communities Strategy for the Bay Area by promoting transportation investments in Priority Development Areas (PDAs) and by initiating a pilot program that will support open space preservation in Priority Conservation Areas (PCA).

Bay Area Transit-Oriented Affordable Housing (TOAH) Fund

The Bay Area Transit-Oriented Affordable Housing (TOAH) Fund provides financing for development of affordable housing and community services such as child care centers, fresh food outlets, and health clinics in PDAs. The TOAH Fund is available for non-profit and for profit developers, municipal agencies, and joint ventures between these entities, provided that the entities have established track records of developing affordable housing. Because the TOAH fund targets PDAs, the Precise Plan area would need a PDA designation to be eligible for funding under this program.

State Transportation Improvement Program (STIP)

The STIP is a multi-year capital improvement program of transportation projects on and off the State Highway System, funded with revenues from the State's Transportation Investment Fund and other funding sources, including the State Highway Account. A wide variety of transportation capital projects are eligible for funding, including improvements to State highways and local roads, public transit (including buses), intercity rail, pedestrian and bicycle facilities, and inter-modal facilities.

STIP programming generally occurs every two years, with the California Transportation Commission (CTC) adopting a fund estimate in August of odd years. Transportation improvement plans prepared by Caltrans and local agencies are then submitted to CTC for approval by December of odd years. Caltrans prepares the Interregional Transportation Improvement Plan (ITIP), which governs roughly 25 percent of allocated funds for intercity projects. Regional Transportation Improvement Plans (RTIPs) are prepared by regional agencies including Regional Transportation Planning Agencies (RTPAs), County Transportation Commissions, and Metropolitan Planning Organizations (MPOs). In the Bay Area, MTC prepares the RTIP.

CalTrans Planning Grants

CalTrans provides planning grants for studies for sustainable transportation and transit planning studies, which can include studies that lead to SB 375 SCS implementation, corridor studies, evaluations of transportation issues involving intermodal facilities, and complete streets studies, among other planning activities.

Caltrans also provides grants for infrastructure projects that benefit bicycle commuters through its Bicycle Transportation Account. The project must increase the safety and convenience of bicycle commuters. Cities and counties interested in this funding source must create a Bicycle Transportation Plan (BTP) and submit it to their Regional Transportation Planning Agencies for approval.

Greenhouse Gas Reduction Fund (AB 32)

The 2006 Global Warming Solutions Acts (AB 32) established a cap and trade system in California. The system establishes quarterly auctions of carbon allowances, the first of which was held in November 2012. The most recent auction was held in August 2013 and proceeds

are on track to exceed $500 million annually in state revenue. These proceeds are deposited into a Greenhouse Gas Reduction Fund for the purpose of allocating funds to local greenhouse gas reduction activities. The FY 2013-14 California budget permitted a one-time transfer of Greenhouse Gas Reduction Fund revenues to the State's General Fund. These funds, comprised of auction revenue from FY 2013-14 are intended to be replaced subsequently and the Fund is expected to begin issuing funding in FY 2014-15. Funds will be distributed to State agencies, such as CARB and the California Environmental Protection Agency (CalEPA), which will then award funds for eligible local activities. Allocations for cap and trade revenues in FY 2014-15 and ongoing are as follows:

Appropriation Use	FY 2014-15	Ongoing
Affordable Housing and Sustainable Communities Program	$130 Million	20%
Low Carbon Transit Operations	$25 Million	5%
Transit and Intercity Rail Capital Program	$25 Million	10%
Waste Diversion	$25 Million	Unknown
Low-Income Home Energy Assistance Program	$75 Million	Unknown
High Speed Rail	$250 Million	25%
Clean Vehicle Rebates	$200 Million	Unknown
Wetlands and Watershed Restoration	$25 Million	Unknown
Sustainable Forests	$25 Million	Unknown
Energy Efficiency Retrofit State Revolving Fund	$20 Million	Unknown
Timberland Environmental Impact Report for Carbon Sequestration and Fuel Reduction Program	$17 Million	Unknown
Agricultural Energy and Operational Efficiency	$15 Million	Unknown
Disadvantaged Communities	Unknown	25% of all non-utility cap and trade revenues

Sources: California League of Cities; BAE, 2014.

Infrastructure State Revolving Loan Fund (ISRF)

The California Infrastructure and Economic Development Bank (I-Bank) loans money for infrastructure projects around the state. The I-Bank is the state's general purpose financing authority that finances public infrastructure and private development projects that promote economic development and revitalize communities.

Affordable Housing Innovation Fund

The California Housing and Community Development Department (HCD) provides loans to developers for projects that create or preserve affordable housing. The Affordable Housing Innovation Program – Loan Fund (AHIP-L) provides site acquisition loans to developers through a nonprofit fund manager. The Affordable Housing Innovation Program – Program Fund (AHIP-P) provides site acquisition financing to pre-qualified developers.

Federal Sources

Moving Ahead for Progress in the 21st Century (MPA-21)

Signed into law in 2012, the Moving Ahead for Progress in the 21st Century Act (MAP-21) is the nation's current long-term transportation authorization. Map-21 replaces SAFETTEA-LU, the authorizing legislation in effect from 2005 to 2012, though it continues or restructures many of the funding programs under the former legislation. MAP-21 authorizes $105 billion for fiscal years (FY) 2013-14 and 2014-15 to be distributed by the Federal Highway Administration (FHWA) and Federal Transit Administration (FTA) through a series of competitive grant and financial assistance programs for highway and road, transit, freight, bike, pedestrian, and multimodal projects. In the Bay Area, MTC is responsible for allocating MAP-21 funds to local jurisdictions through the OBAG process. Programs administered under MAP-21 include:

- National Highway Performance Program (NHPP). $21.8 billion per year to enhance the National Highway System (NHS), including border crossings and major intermodal transportation facilities on those routes.
- Surface Transportation Program (STP). $10 billion per year to preserve and improve highways and roads, transit capital projects, and public bus terminals and facilities.
- Highway Safety Improvement Program (HSIP). $2.4 billion per year to improve safety on highways and public roads, including $220 million per year for the Rail-Highway Crossings Program.
- Congestion Mitigation and Air Quality Improvement Program (CMAQ). $2.2 billion per year for transportation projects that improve air quality in areas designated as nonattainment or maintenance areas under the Clean Air Act.
- Transportation Alternatives Program (TAP). $809 million in FY 2013-14 and $820 million in FY 2014-15 to provide for a variety of alternative transportation programs, including bike and pedestrian trails and infrastructure-related projects for non-drivers. TAP consolidates funding from the former Transportation Enhancements, Recreational Trails, and Safe Routes to Schools programs.
- Urban Area Formula Grants. $4.9 billion in FY 2013-14 and $5 billion in FY 2014-15 to support public transportation in urbanized areas.
- State of Good Repair Grants. $2.1 billion per year to maintain public transportation systems for fixed-guideway systems, including rail systems, bus rapid transit systems, and passenger ferry service.
- Fixed Guideway Capital Investments Program ("New/Small Starts"). $1.9 billion per year for major investments in new and expanded rail, bus rapid transit, and ferry systems.
- Bus and Bus Facilities Program (Section 5309). $422 million in FY 2013-14 and $428 million in FY 2014-15 to replace, rehabilitate, or purchase buses and related equipment, and to construct bus-related facilities.
- Construction of Ferry Boats and Ferry Terminal Facilities. $67 million per year to construct ferry boats and ferry terminal facilities.

- Transportation Infrastructure Finance and Innovation Act (TIFIA). $750 million in FY 2013-14 and $1 billion in FY 2014-15 to provide credit assistance to surface transportation projects, including highway, transit, passenger and freight rail, and intermodal freight transfer facilities.

CDBG Infrastructure Financing

For cities and counties such as Mountain View that participate in the CDBG entitlement program, HUD offers grants that can fund infrastructure improvements, provided that low-income residents represent 51 percent of project benefactors. There are two kinds of grants: General Allocation Grants, which must address a health and safety need (such as relocating housing units due to sea level rise or improving security by installation of lighting in a park), and Over the Counter (OTC) Grants, which support off-site infrastructure to support economic development.