Draft Summary Materials

FORA Phase II CIP Review

The Economics of Land Use

Prepared for:

Fort Ord Reuse Authority (FORA)

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Fort Ord Reuse Authority
Phase II Capital Improvement Program Review
Summary of Key Analysis Assumptions, Results, and Implications

Issue	Current Analytic Basis	Result/Implications	Caveats
1. Land Use Absorption	- Current analysis based on adopted CIP development forecasts provided by member jurisdictions. - CIP development forecasts have standing - adopted by FORA Board.	- Generates high levels of revenue associated with absorption (e.g. land sales and property tax). - Development and capital improvements are fully calibrated to Fort Ord buildout (i.e. "apples to apples" comparison). - Results in significant CFD Tax and Fee Policy reduction ($22,500 for SFR unit, 35% reduction from current level).	- Formulaic approach silent on absorption assumptions. - CIP development forecasts unrealistic in the past. - Development absorption most significant driver of formula results (particularly land sale revenues, property tax revenues, and HCP costs). - Utilization of absorption assumptions consistent with Market Study conclusions would result in significantly lower tax rate reduction (< 10%).
2. Property Tax	- Includes property tax revenues generated from July 1, 2012 through legislated FORA sunset date (2020).	- To the extent absorption extends beyond 2020, formula does not capture any property tax revenue beyond the current anticipated FORA sunset.	- If legislated FORA sunset date extended, formula would capture additional property tax revenue through the revised FORA sunset. - If legislated sunset date not extended, no established mechanism for post-2020 collection of property tax revenue.

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3. Land Sale Revenue	- Adopted CIP development forecast assumes that all land transferred to private ownership by 2020. - Analysis assumes land value will be equal to 10% of finished real estate value.	- Generates over $55 million in projected future land sale revenue through 2020. - Result appears unrealistic. For example, current analysis identifies $11 million in land sale revenue for Fiscal Year 2012/13.	- Relies on highly aggressive development forecast. - Land value assumptions reflect typical industry standards. May be overstated relative to Fort Ord development. - Risk of strategic reinvestment of land sale revenue reducing FORA share. › Varying participation structures. › Other strategies to capture and convert land value to services funding. - If 50% of current land sale revenue projections were assumed, would result in tax rate reduction of approximately 23% (versus 35% with no adjustment).
4. CFD Special Tax Revenue	- Assumes collection of CFD Special Tax through buildout, currently assumed to be 2020. - Analysis uses buildout development to calculate CFD Special Tax revenue generated because this level of development is coincident with the full set of CIP improvements in FORA FY 2012-13 CIP.	- Includes CFD revenue for all future development. If only a portion of CFD revenue is included, formula would result in lower tax rate reduction.	- Realistic absorption assumptions may necessitate Developer Fee Policy/ CFD replacement mechanism to fund CIP improvements subsequent to FORA's legislated sunset. - If FORA legislated sunset extended, formula is unclear as to how CFD Special Tax revenue should be computed. Potential approaches: 1. Continue utilizing buildout forecasts to derive CFD revenue available to fund full CIP, consistent with buildout development levels.

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4. CFD Special Tax Revenue (cont).			2. Revise formula to permit reduction of CIP expenditures to match development anticipated within FORA timeframe. 3. Otherwise revise the formula to clarify timeframe of assumed CFD special tax collection and revenue assumptions.
5. Habitat Conservation Plan	- HCP Endowment funding required driven by land use absorption assumptions. - Endowment is capitalized using an assumed maximum of 25% of CFD revenues may be dedicated to HCP endowment. - Assumes payout rate of 4.5%. - Includes $18.8 million in HCP contingency.	- Endowment funding approach minimized by land use absorption assumptions utilized, but reflects full contingency amount. - Endowment funding requirement includes full HCP contingency, reflecting potential for lower payout rate, slower absorption, and buffer to account for reduced tax rate and slower HCP endowment capitalization.	- If fee lowered significantly, FORA will need to dedicate a higher percentage of CFD revenues to HCP, reducing amount available to fund capital projects. - Alternatively, FORA could continue to dedicate 25% of CFD revenues to the HCP, resulting in longer capitalization period and higher overall CFD funding requirement. - HCP funding requirement estimate contingent on development absorption assumptions. If development absorption slower than CIP forecast, would result in higher overall CFD funding requirement. - Funding requirement also contingent on payout rate achieved. Lower payout rate would require additional CFD funding.

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Table 1
FORA Phase II CIP Review
CFD Special Tax Options

		Development Fee Policy/CFD Special Tax			
Land Use	**Basis**	**Existing Rate**	Preliminary Adjusted Rate	Difference	Percentage Change
		July 1, 2012	*April 11, 2013*		
			ROUNDED		
New Residential	per du	**$34,610**	**$22,290**	($12,320)	-35.6%
Existing Residential	per du	**$10,406**	**$6,700**	($3,706)	-35.6%
Office & Industrial	per acre	**$4,536**	**$2,920**	($1,616)	-35.6%
Retail	per acre	**$93,545**	**$60,240**	($33,305)	-35.6%
Hotel	per room	**$7,718**	**$4,970**	($2,748)	-35.6%

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Sources: FORA and EPS.

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Table 2
FORA Phase II CIP Review
Calculation of CFD Special Tax Funding Required

Item	Calculation	Amount
Remaining Capital Improvement Program and Other Costs		
Transportation/Transit	a	$112,699,000
Water Augmentation - CEQA mitigation	b	$23,526,000
Water Augmentation - voluntary contribution	c	$21,655,000
HCP Endowment [1]	d	$36,340,000
HCP Endowment Contingency	e	$18,800,000
Fire Fighting Equipment	f	$232,000
Contingency (MEC, Soil mgt. plans, insurance retention, etc.)	g	$16,905,000
Additional Utility and Storm Drainage Costs	h	$3,500,000
Other Costs (PLL Insurance)	i	$3,000,000
Other Costs (CFD Administration)	j	$1,000,000
Subtotal CIP Expenditures	**k = sum (a to j)**	**$237,657,000**
Preston Park Loan Repayment	l	$18,200,000
Total Expenditures	**m = k + l**	**$255,857,000**
Estimated Sources of Funds		
Existing Fund Balances [2]	n	$1,345,000
Existing Fund Balance for HCP Endowment [3]	o	$4,596,000
Grants	p	$1,000,000
CSU Mitigation Fees	q	$327,000
Loan Proceeds	r	$0
Land Sale Revenues [4]	s	$77,415,000
FORA Property Tax Revenues [5]	t	$14,509,000
Other Revenues	u	$0
Total Other Sources	v = sum (n to u)	**$99,192,000**
CFD Special Tax Revenue Required		
CFD Special Tax Revenue	w = m - v	**$156,665,000**
FORA CFD Special Tax Revenue Summary		
Estimated Maximum Policy & CFD Special Tax Revenue [6]	x	$243,200,000
Net Cost Funded by Policy and CFD Special Tax Revenue	y = w	$156,665,000
CFD Special Tax Required as a % of Maximum	z = y / x	**64.4%**
Adjustment Factor Applied to Prior Year CFD Special Tax Rate	(Rounded)	**64.4%**

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Source: FORA and EPS.

Amounts rounded to the nearest thousand.

[1] Includes existing fund balance for habitat mitigation.
[2] Existing fund balance provided by FORA as of February 2013.
[3] Equals existing fund balance for habitat mitigation as of February 2013.
[4] Reflects land sale revenue available after building removal obligations are met.
[5] Estimates based on formulaic approach. See Table C-1.
[6] Based upon remaining development subject to Basewide Development Fee Policy & CFD Special Tax.

Table 3
FORA CIP Phase II Review
Summary of HCP Endowment Payout Rate Sensitivity Analysis

Item	HCP Endowment Requirement
Alternative 1: 4.5% Payout Rate	**$32,000,000**
Alternative 2: 3.5% Payout Rate	**$39,000,000**
Difference	$7,000,000
Percent of HCP Contingency	37%
Alternative 3: 2% Payout Rate	**$64,000,000**
Difference	$32,000,000
Percent of HCP Contingency	170%

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