APPENDIX E: FINANCIAL FEASIBILITY AND FISCAL NEUTRALITY

The development program set forth in the Preliminary Development Concept (PDC) is required to meet two key financial thresholds:

1) The PDC must be a financially feasible plan that can be successfully implemented by the development community; and

2) The PDC should minimize the fiscal impact to the City for the provision of key municipal services to the site.

The PDC is expected to be developed in three phases, and since the timing of property delivery and market conditions for the latter phases is speculative, the following financial feasibility and fiscal impact analysis is largely focused on the first phase of development. As the land use program for the remaining two phases is developed, there will be a separate financial analysis conducted to determine the financial feasibility of the proposed development program and a fiscal impact analysis will be conducted to assess what, if any, impacts the development will have on the City's General Fund. The PDC phasing is shown in Figure 1.

FINANCIAL FEASIBILITY

To determine the financial feasibility of the PDC, revenue sources from the project were compared to the costs of development. The primary sources of revenue include:

- ❖ Sale of land for new development;
- ❖ Leasing of existing buildings;
- ❖ Sale of existing buildings; and
- ❖ Project-based public financing.

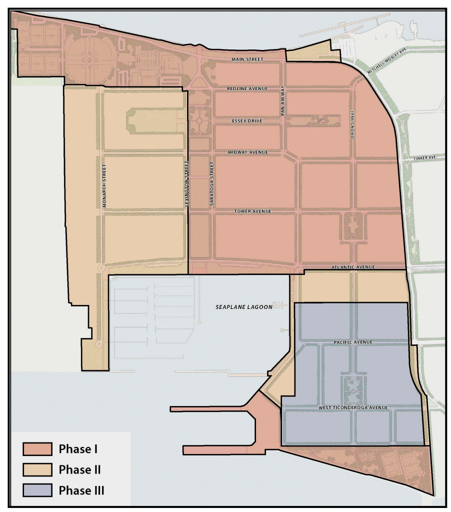

Figure 1 – Phasing Plan

As shown on Table 1, the primary revenue source for the first phase of development is the sale of new land, which is expected to generate approximately $250 million. The revenue for the first phase is projected to total approximately $355 million.

Table 1 - Sources of Revenue (Phase I)	**Total**
Sale of Land	$250,000,000
Building Leasing	$30,000,000
Building Sales	$30,000,000
Project-Based Financing	$45,000,000
Total	**$355,000,000**

The costs associated with the development of the PDC are significant. They include:

- Complete replacement of all major infrastructure systems, including but not limited to sewer systems, storm drain systems, water distribution systems, electrical systems, and most roadways;

- Demolition of obsolete and hazardous structures and systems;

- Renovation and rehabilitation of existing buildings, including historic resources programmed for adaptive reuse;

- Traffic mitigation measures and integrated, multi-modal transit improvements;

- New or improved public facilities, such as the transit center and ferry terminal, sports complex, the O'Club, City Hall West and a branch library;

- Fiscal mitigation of public service costs to Alameda Point (as discussed below);

- The provision of over 600 affordable housing units; and

- The provision of approximately 150 acres of public open space.

As shown on Table 2, the development costs and debt service for Alameda Point is expected to total approximately $360 million, of which $260 million is the projected costs for infrastructure and site preparation work.

Table 2 – Development Costs (Phase I)	**Total**
Infrastructure/Site Preparation	$260,000,000
Fiscal Impact Mitigation	$30,000,000
Building Renovations	$10,000,000
Predevelopment/Entitlements	$25,000,000
Debt Service	$35,000,000
Total	**$360,000,000**

A comparison of revenues and costs shows that the new development planned for Phase I at Alameda Point will not generate sufficient revenues to cover all the project costs for Phase 1. The projected nominal deficit is estimated to be negative $5 million, but when the return to the private sector is factored into the analysis (20%), the project is expected to generate a negative cash flow of approximately $45 million.

To improve the project economics, and like most major reuse and urban infill projects of similar scale, Phase I is expected to require a creative public/private financing strategy including the following:

- **Mello-Roos Bonds** – This financing mechanism requires developers and/or tenants and residents of new development to pay an additional assessment on top of their annual property tax bill. The proceeds from this additional assessment are used to retire debt service from bonds that can be issued up-front to cover the costs of public infrastructure and reduce the financial equity required from a developer. Mello-Roos bonds may marginally affect the value of new development but are generally considered to be financially beneficial for development projects, and are typical in large-scale development projects in California. Mello-Roos bonds are not an investment of City dollars into the project, and place the City at minimal risk.

- **Tax Increment Financing Bonds** – In a redevelopment area such as Alameda Point, the net new property tax revenues generated by new development and/or appreciation of existing property can be dedicated to capital improvements of public infrastructure. Under Redevelopment Law, a portion (20 percent) of the tax increment must be dedicated to affordable housing. Bonds can be issued up-front in a development process to generate money for public infrastructure and affordable housing, and the debt service on such bonds is retired through the property tax increment from future development. Tax increment financing is typical of urban redevelopment projects in California, and does represent an investment of public dollars into the Alameda Point redevelopment. The City's General Fund is affected by the diversion of tax revenues toward capital improvements rather than ongoing operations and maintenance expenses, but the fiscal impacts of this financing strategy can be mitigated (as discussed below).

With these financing approaches, the economics of the project can be significantly improved, and the redevelopment of Alameda Point can include the numerous benefits (affordable housing, recreation facilities, etc.) envisioned and desired by the community.

As Phases II & III of the project are made available for development, a similar financial feasibility analysis will need to be prepared. Based on the condition of the property, market conditions and land plan ultimately approved by the ARRA Board, there may be a need to utilize public financing mechanisms to generate an adequate return on the project to attract private sector developers. Since the environmental condition of these phases generally precludes residential development, which is the major source of revenue for Phase I, the development of these latter Phases will be much more dependent on the demand for commercial space in the Bay Area.

FISCAL IMPACTS ON THE CITY'S GENERAL FUND

A key policy direction provided very early in the planning process by the ARRA and the City Council requires that the City of Alameda's General Fund not be adversely affected by the redevelopment of Alameda Point. Simply stated, the revenues generated by the development from property taxes, sales taxes, and other sources must exceed the costs of providing City services such as fire, police, park maintenance, etc. If this condition is not met, the development at Alameda Point is required to fund a "municipal service mitigation" fee to offset the negative impact on the City's General Fund.

The revenues generated by Phase I are expected to include revenues from property taxes, property transfer taxes, sales taxes, utility users tax, and a range of other fees and levies. As shown in Table 3, the public revenue from Alameda Point for the first phase of development is expected to total approximately $26.4 million.

Table 3 – Sources of Public Revenue	**Total**
Property Taxes	$5,400,000
Property Transfer Taxes	$9,000,000
Sales Taxes	$4,200,000
Utility Users Tax	$3,000,000
Other Fees and Levies	$4,800,000
Total	**$26,400,000**

The revenue outlined above is greatly affected by the use of tax increment financing to fund the infrastructure program for Alameda Point, since this action directs property taxes away from the City's General Fund.

The redevelopment of Alameda Point will result in the full range of municipal services being provided to the new residents and businesses. Principal municipal services include public safety (police and fire protection), public works activities, and recreation programming and maintenance. As shown on Table 4, these municipal service costs are expected to total approximately $32.4 million for the first phase of development.

Table 4 – Municipal Service Expenditures	**Total**
Police	$11,400,000
Fire	$9,200,000
Public Works	$9,600,000
Recreation	$1,300,000
Other City Services	$900,000
Total	**$32,400,000**

It is important to note that municipal service costs will be subject to a variety of factors ranging from annual City budgeting decisions (e.g., raises for police personnel) to the timing of desired features of the Alameda Point plan, such as the sports complex and library facilities. In addition, given the complexity of the project and the potential for change over time, it is difficult to estimate with certainty the fiscal surplus or deficit in a given year in the future.

Nevertheless, the City has reviewed the fiscal impact assumptions and projections and has determined that the Alameda Point redevelopment project is in fact likely to generate a fiscal deficit for the General Fund in most years of the development, and for some extended period into the future. To offset this projected deficit, the proforma developed to analyze the financial feasibility of the project assumes the project will pay a "municipal service mitigation" fee to the City. The fiscal mitigation fee will begin during the first year of development and will be paid on an annual basis until the project is completed. At that time, an annuity will be established to fund the projected deficit for the following years. The fiscal mitigation fee is expected to offset projected deficits for a period of 35 years, which coincides with the life of the redevelopment project area established for Alameda Point. Once the project area is dissolved, tax proceeds dedicated to service tax increment financing will be available for use by the City's General Fund to offset any operating deficits.

As an alternative to establishing a municipal service fiscal mitigation fee, a Municipal Service District (MSD) could be established for Alameda Point. Under this structure (which has not been analyzed in the project proforma), an annual assessment would be levied against the property at Alameda Point and the proceeds from the assessment would be used to offset the additional cost associated with providing municipal services to the site. An analysis would be necessary to determine the appropriate level of assessment and to determine if the levy of such an assessment would have a negative impact on the underlying value of the property.

At the time Phases II and III are available for development and a plan for development is approved, a fiscal impact analysis will be prepared for these Phases and a determination will be made regarding the need for a fiscal mitigation payment to the City, and if necessary, the appropriate amount of such a payment.

SUMMARY

The summary analysis outlined above indicates that for the redevelopment of Phase I at Alameda Point to be successful, some level of public financing will need to be committed to the project. For large scale redevelopment projects, tax increment financing and project based financing, such as Mello-Roos bonds, are common financing tools used to attract private capital to the redevelopment effort. By using these tools for Phase I, the profitability of the project can be improved and thus the potential for a successful redevelopment project is greatly enhanced.

With regard to the fiscal impact of the project on the City's General Fund, the preliminary analysis indicates that the cost to provide municipal services to the site will be greater than the public revenues generated by the development. To offset this deficit, the project includes a fiscal mitigation payment to the City to minimize, if not completely eliminate, the projected shortfall. As an alternative, a Municipal Service District could be created to offset the cost of municipal services to the Base.

As the PDC and the Phase I land use program is further refined and negotiations with the development community move forward, the assumptions used to calculate the financial feasibility and fiscal impact of Phase I will continue to evolve. Ultimately, as part of the project approval process, an updated Phase I feasibility analysis and fiscal impact analysis will be prepared and presented to the ARRA Board for its consideration.