

## 5. Economics

### Market and Economic Impact of the Alternatives

The Market Profile section of the Existing Conditions Report explored the relative strength of the real estate market for various land uses in the Central Estuary and offered projections of potential future demand. This section revisits the market potential of land uses within the context of the three Plan Alternatives.

The section begins with a brief outline of the market potential for two land uses that were not examined specifically in the Market Profile included in the Existing Conditions Report:

- Research and Development (R&D), with a special focus on business incubators, and
- High-rise residential towers.

#### R&D and BUSINESS INCUBATORS

“Research and Development” (R&D) uses encompass a wide range of business and building types, ranging from dense biotechnology labs to more space-intensive machine testing spaces and small production centers. While there are currently a large number of R&D users in the East Bay, most are located in Berkeley or Emeryville, and to date Oakland has not captured a significant share of the market.

Strategic Economics interviewed several commercial brokers about the potential for R&D in the Plan Area. Brokers reported that some new flex space in Jack London Square and along Mandela Parkway have been occupied by R&D uses, which suggests that there may be potential for R&D space in the Oakland Estuary, provided that it was in a safe environment with good freeway, transit, and retail access. However, the depth of this market is uncertain, and many R&D-oriented buildings in the East Bay are currently vacant. It is likely that many bio- and high-tech labs would prefer to locate in Emeryville or closer to UC Berkeley, rather than the Plan Area, even if it would require higher rents.<sup>12</sup>

In the current market, R&D development in the Plan Area would be perceived by investors as relatively risky; however, the central location suggests that over time, a well-designed, larger project could help to establish a market for this use. Brokers tended to agree that, were R&D space developed in the Plan Area, it would be most successful if it were related to the food industries that have been thriving in the area. One broker specifically suggested that a business park that included for-sale space with roughly 25% office space, a small amount of lab space, and a larger amount of production space would work best. He also suggested that parking ratios of about 2.5 per 1,000sq. ft. would be necessary to meet market demand.

A business incubator is space that is dedicated to a program designed to support the development of new businesses during their start-up period. The businesses receive support services and resources tailored to their needs. Typical goals of incubation programs are creating jobs in a community, enhancing a community’s entrepreneurial climate, retaining businesses in a community, building or accelerating growth in a local industry, and diversifying local

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<sup>12</sup> The preference is a reflection of superior neighborhood amenities and proximity to students and professors in these locations.

economies.<sup>13</sup> In terms of building types, there is little that distinguishes an incubator from other commercial uses. Form tends to vary by context: in eastern cities, incubators are often located in single, mid-size buildings, while in the west, incubators are more often in suburban-style “flex” spaces. Total square footage typically ranges from 10,000 to 30,000 square feet. Some examples include:

- **Water, Energy, and Technology Incubator (Fresno): 13,000 sq. ft.:** The Claude Laval “WET” Incubator in Fresno opened in 2007 as a collaboration between the Central Valley Business Incubator, California State University- Fresno, and the International Center for Water Technology. Currently, it houses five on-site members, which have access both to the specialized facilities of the incubator, and to additional lab space/expertise associated with the University.
- **Santa Fe Business Incubator: 30,000 sq. ft.:** Founded in 1997, the SFBI is a non-profit organization partly supported by the City of Santa Fe. With on-site technical support and training, the incubator supports the growth of high tech, service and manufacturing businesses.
- **Youngstown Business Incubator: 25,000 sq. ft.:** Supported by the State of Ohio, a number of regional universities, and several non-profit organizations, the YBI assists technology-based businesses by connecting entrepreneurs to physical infrastructure, collaboration and networking opportunities, and funding resources.

Most often, incubators are associated with a university or other major institution, and they are generally run as non-profits. San Jose, in particular, has been a hub of incubators, owing in large part to major contributions from the San Jose Redevelopment Agency and San Jose State University. Two of the largest of these incubators are the Environmental Business Cluster and the San Jose BioCenter.

Brokers did not have strong opinions about the potential of an incubator in the Plan Area. However, the proximity of the University of California at Berkeley, Lawrence Livermore Laboratory and other Bay Area institutions and the high rate of business “births” in the Plan Area, (outlined in the Existing Conditions Report), suggest that such a use might be well-received. To be successful, a business incubator would need to be sponsored by a governmental entity or educational institution. Federal assistance for business incubator projects is provided through the Economic Development Administration (EDA).

R&D incubators are proposed in Alternatives 2 and 3. Each is 45,000 square feet, which is substantially larger than the typical range, but these incubators are meant to anchor larger redevelopment of and reinvestment in these industrial areas. The exact size of the incubators would be determined in negotiation with the institutional partner and area developer, and might include small office, lab or other work space in the building itself. In each case, surrounding areas would be developed with small to medium size light industrial and R&D facilities in sizes and formats that are in demand in the current Oakland market.

## Residential Towers

During the recent real estate market boom, a considerable number of new condominium projects were built in Oakland, most in downtown and Jack London Square. In the Oakland Estuary, Signature Properties developed a 100-unit project with two- to three story townhouse-style

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<sup>13</sup> National Business Incubator Association, [www.nbia.org](http://www.nbia.org).

attached units along the waterfront. In the current market, there is little potential for additional condominium or apartment development, and it will take some time for the market to absorb hundreds of recently built units that remain vacant or that have been converted temporarily to rental properties. This is especially true in the Plan Area, where 74 foreclosures have been filed for units in one of recently developed condominium projects, and where sales prices have fallen dramatically. Over the longer term, however, it is expected that there will be demand for additional multifamily units in Oakland’s downtown and waterfront areas, given that demographic and consumer trends are increasingly favoring housing in central locations with good access to transit and other urban amenities.

However, while it is clear that there will be additional demand for housing in the Plan Area over time, the feasibility of new construction depends not only on the number of households who would potentially like to live in the market area, but also on construction costs, achievable price points, and the relative attractiveness of the location relative to other opportunity sites. As the market recovers, it is expected that lower-density building types will become feasible sooner than mid-or- high-rise building types, given that these taller buildings have significantly higher construction costs on a per-square foot basis.<sup>14</sup> Even under strong market conditions, high-rise condominiums or apartments need to achieve significantly higher sales prices than condo or apartment projects under six stories. Furthermore, denser multi-family housing is considered riskier by investors, because of greater upfront capital requirements, longer timeframes, and larger carrying costs. During the last market cycle, only one high-rise building was completed in Oakland, the Ellington, located near Jack London Square. This luxury project, developed by Oz Erickson, came on the market after condo sales prices had already dropped dramatically. The units are currently being sold below cost.<sup>15</sup>

Thus, although it is difficult to predict the exact timing of the housing market recovery and how construction costs might change in the future, it is highly unlikely that a high-rise residential project would be built in the Plan Area during the next 5 to 10 years. Once the market improves substantially, it is possible that high-rise development of this type might become feasible to construct in the Plan Area. However, given the long time frame, it is more likely that lower-density multifamily development of six stories or less will be proposed at this location.

## **Impact of Alternatives on Viability of Existing and Future Uses**

The following matrices outline the impact of the viability of existing and future land uses, within each subarea, for each of the three alternatives. Each of the plan alternatives represents a set of “trade-offs,” since enhancing the potential for one land use can often lead to the diminished viability of another. The viability of residential uses, for instance, is compromised by the noise, pollution, poor street infrastructure and lack of retail amenities associated with industrial neighborhoods. Conversely, industrial uses are often compromised by the presence of residential uses, which generally entail an amplification of traffic, a reduction of available parking, and an increased likelihood of complaints about industrial operations. In addition, when residential uses become permitted by zoning, the price of land often increases, which can lead to the displacement of industrial firms. Neighborhood-serving retail is dependent on the presence of offices and

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<sup>14</sup>Buildings under six stories can typically be built using wood-frame construction; buildings over six stories are required to use concrete or steel materials, which is more expensive.

<sup>15</sup> “Luxe Oakland Condos Hit Market”, San Francisco Business Journal, April 24, 2009.

residential uses, while the availability of small-scale retail can be an important factor in the viability of such uses. However, the traffic and large parking provision associated with regional-serving retail can often work in an opposite fashion, serving as a disamenity for adjacent uses.

The following matrices outline the impact of the viability of existing and future land uses, within each subarea, for each of the three alternatives. The tables are color-coded based on the net impact on the viability of that land use within the subarea. Green represents a positive impact on viability, yellow represents a neutral impact on viability, and red represents a negative impact on viability.

**Table 5.1: Impacts of Alternative I on Viability of Land Uses**

	<b>West</b>	<b>Central-West</b>	<b>Central-East</b>	<b>East</b>
<b>Residential</b>	Reinforcing existing food industries will limit the viability of residential development and discourage speculation.	The viability of existing and new residential in this subarea is high, but this alternative does not significantly increase that viability.	Designating the warehouse triangle for residential development will significantly augment the viability of this use.	Zoning for residential, eliminating industrial uses, and enhancing physical infrastructure will significantly increase viability of residential uses.
<b>Office</b>	Orientation toward low density, industrial uses will preclude expansion of neighborhood amenities like retail and transit. This will not significantly impact the viability of office uses.	The viability of office is low in this subarea, but this alternative does not alter this.	The viability of office is low in this subarea, but this alternative does not alter this.	The viability of office is low in this subarea, but this alternative does not alter this.
<b>Light Industry/ Warehousing</b>	By reinforcing the long-term role of food industries in this subarea, this alternative will encourage new investment by these firms.	By allowing residential to continue to expand in this Subarea, the viability of existing light industry/warehousing will be diminished.	By replacing heavy industry at Owens-Brockway with a business park, the potential for light industry increases. Warehousing is diminished, however, with new residential development.	By allowing residential to continue to expand in this Subarea, the viability of existing light industry/warehousing will be diminished.
<b>Heavy Industry</b>	While viability of existing industry remains high, potential for new heavy industry is low in this subarea. This alternative does not alter this potential.	The viability of heavy industry is low in this subarea, but this alternative does not significantly change this.	In this alternative the sole heavy industrial use in the subarea is eliminated.	By allowing residential to continue to expand in this Subarea, the viability of existing light industry/warehousing will be diminished.
<b>Retail</b>	The viability of retail is low in this subarea, but this alternative does not alter this.	The viability of retail is low in this subarea, but this alternative does not alter this.	The presence of higher density employment uses and housing, along with new adjacent retail will increase the viability of retail somewhat.	Zoning for retail and enhancing the physical infrastructure will increase the viability of retail development.

Source: Strategic Economics 2009

**Table 5.2: Impacts of Alternative 2 on Viability of Land Uses**

	<b>West</b>	<b>Central-West</b>	<b>Central-East</b>	<b>East</b>
<b>Residential</b>	Zoning for residential, eliminating the largest heavy industrial uses and enhancing physical infrastructure will significantly increase the viability of residential uses.	The viability of existing and new residential in this subarea will increase slightly due to the elimination of heavy industry in adjacent subareas.	The viability of existing and new residential in this subarea is low, but this alternative does not significantly alter that.	Reinforcing industrial uses will limit the viability of residential development and discourage speculation.
<b>Office</b>	A larger residential population will increase the viability of neighborhood-serving retail and potentially justify better transit connections, which would increase the viability of office uses.	The viability of office is low in this subarea, but this alternative does not alter this.	By replacing the heavy industry at Owens-Brockway with an R&D incubator, the potential for low-scale office use increases.	The viability of office is low in this subarea, but this alternative does not alter this.
<b>Light Industry/ Warehousing</b>	By allowing residential to continue to expand in this Subarea, the viability of existing and potential light industry/warehousing will be diminished.	By allowing residential to continue to expand in this Subarea, the viability of existing light industry/warehousing will be diminished.	By replacing the heavy industry at Owens-Brockway with an R&D incubator, the potential for light industry and warehousing uses increases.	By reinforcing the long-term role of industrial uses in this subarea, this alternative will encourage new investment by these firms.
<b>Heavy Industry</b>	By allowing residential to continue to expand in this Subarea, the viability of existing and potential heavy industry will be diminished.	The viability of heavy industry is low in this subarea, but this alternative does not significantly change this.	In this alternative the sole heavy industrial use in the subarea is eliminated. However, the potential for heavier industry increases in the warehouse triangle.	By reinforcing the long-term role of industries in this subarea, this alternative will encourage new investment by these firms.
<b>Retail</b>	The presence of a larger residential population will increase the viability of neighborhood-serving retail.	The presence of a larger residential population in the West Subarea will increase the viability of neighborhood-serving retail.	The presence of higher density employment uses and new adjacent retail will increase the viability of retail somewhat.	Reinforcing industrial uses will limit the enhancement of physical infrastructure that is necessary to make retail viable in this subarea.

Source: Strategic Economics 2009

**Table 5.3: Impacts of Alternative 3 on Viability of Land Uses**

	<b>West</b>	<b>Central-West</b>	<b>Central-East</b>	<b>East</b>
<b>Residential</b>	Zoning for residential and eliminating the largest heavy industrial uses, without explicitly protecting industrial uses, will increase the viability of residential uses.	The viability of existing and new residential in this subarea will increase slightly due to the elimination of heavy industry in adjacent subareas.	By replacing the heavy industry at with planned development, the potential for residential uses in this, the most transit-rich portion of the Plan Area, increases.	Zoning for residential, eliminating industrial uses, and enhancing the physical infrastructure will significantly increase the viability of residential uses.
<b>Office</b>	The presence of a larger residential population will increase the viability of neighborhood-serving retail, increase the demand for transit, and, consequently, increase the viability of office uses.	The viability of new office development is low in this subarea, but this alternative does not alter this.	By replacing the heavy industry with planned development, the potential for new office increases, particularly given that this is the most transit-rich portion of the Plan Area.	The viability of offices is moderately improved by improvements in physical infrastructure and displacement of heavy industry.
<b>Light Industry/ Warehousing</b>	By allowing residential to continue to expand in this Subarea, the viability of existing and potential light industry/warehousing will be diminished.	By allowing residential to continue to expand in this Subarea, the viability of existing light industry/warehousing will be diminished.	This alternative does not allocate space for light industry or warehousing in this subarea.	The viability of existing light industry is diminished under this alternative, but losses may be offset by new "spin-off" businesses
<b>Heavy Industry</b>	By allowing residential to continue to expand in this Subarea, the viability of existing and potential heavy industry will be diminished.	The viability of heavy industry is low in this subarea, but this alternative does not significantly change this.	In this alternative the sole heavy industrial use in the subarea is eliminated.	By allowing residential to continue to expand in this Subarea, the viability of existing and potential heavy industry will be diminished.
<b>Retail</b>	The presence of a larger residential population will increase the viability of neighborhood-serving retail.	The presence of a larger residential population will increase the viability of neighborhood-serving retail.	The presence of a larger residential population will increase the viability of neighborhood-serving retail.	Zoning for retail and enhancing the physical infrastructure will increase the viability of retail.

Source: Strategic Economics 2009

**Impact on Residential Uses**

<b>Subarea</b>	<b>Alternative 1</b>	<b>Alternative 2</b>	<b>Alternative 3</b>
West	-	+	+
Central West	<b>0</b>	<b>0</b>	<b>0</b>
Central East	+	<b>0</b>	++
East	++	-	+

**Impact on Office Uses**

<b>Subarea</b>	<b>Alternative 1</b>	<b>Alternative 2</b>	<b>Alternative 3</b>
West	<b>0</b>	+	+
Central West	<b>0</b>	<b>0</b>	<b>0</b>
Central East	<b>0</b>	+	+
East	<b>0</b>	<b>0</b>	+

**Impact on Light Industry/Warehousing**

<b>Subarea</b>	<b>Alternative 1</b>	<b>Alternative 2</b>	<b>Alternative 3</b>
West	+	--	-
Central West	-	-	-
Central East	<b>0</b>	+	--
East	--	+	<b>0</b>

**++** = Significantly Improved

**+** = Improved

**0** = Neutral Impact

**-** = Decreased

**--** = Significantly Decreased

**Impact on Heavy Industry**

<b>Subarea</b>	<b>Alternative 1</b>	<b>Alternative 2</b>	<b>Alternative 3</b>
West	<b>0</b>	<b>--</b>	<b>-</b>
Central West	<b>0</b>	<b>0</b>	<b>0</b>
Central East	<b>-</b>	<b>0</b>	<b>--</b>
East	<b>--</b>	<b>+</b>	<b>--</b>

**Impact on Retail**

<b>Subarea</b>	<b>Alternative 1</b>	<b>Alternative 2</b>	<b>Alternative 3</b>
West	<b>0</b>	<b>+</b>	<b>+</b>
Central West	<b>0</b>	<b>+</b>	<b>+</b>
Central East	<b>+</b>	<b>+</b>	<b>++</b>
East	<b>++</b>	<b>-</b>	<b>+</b>

**++** = Significantly Improved

**+** = Improved

**0** = Neutral Impact

**-** = Decreased

**--** = Significantly Decreased

## **Fiscal Impact Analysis**

This report projects the potential fiscal impacts of each of the Plan Alternatives for the Central Estuary Specific Plan. Specifically, the analysis includes an estimate of how various ongoing costs and revenues to the City of Oakland's General Purpose Fund will be affected by new development through 2035. In addition, the analysis includes an estimate of the property tax increment that will accrue to the Coliseum Redevelopment Area.

This model depends on a series of assumptions that are outlined in the analysis below; to the extent that development and population and employment growth diverge from these assumptions, the results of the analysis may be inaccurate. However, comparing the results of these analyses is one important mechanism for assessing the relative feasibility, merits, and shortfalls of each alternative.

Section A describes the inputs and assumptions used to determine costs and revenues for all three alternatives. Sections B through D outline the assumptions used to determine the phasing of each of the three alternatives, and describe the findings of the analyses. Finally, section E, compares the three alternatives both on the basis of the amount of revenue that the city can derive from new development to finance infrastructure improvements in the Plan Area. The appendix provides detailed tables illustrating the fiscal impact of these alternatives to the City's General Purpose Fund revenues and expenses.

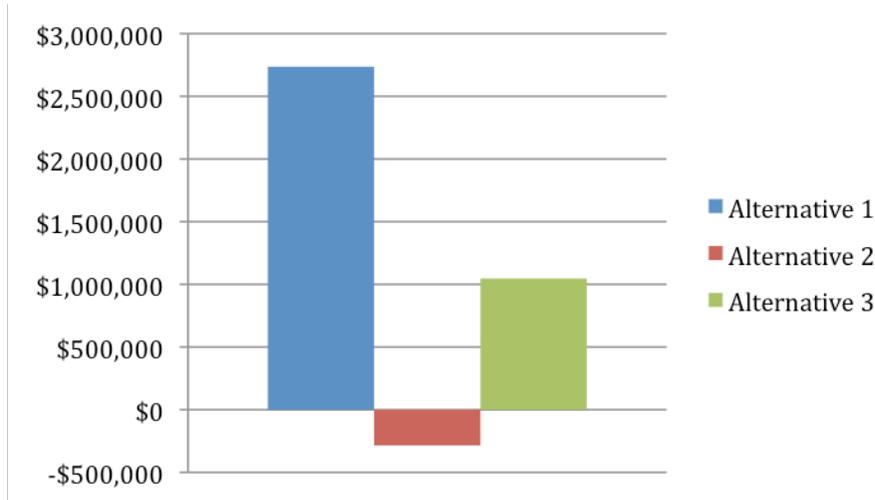
### ***Summary of Findings***

The three Plan Alternatives would have widely disparate impacts on the overall fiscal health of the city. At build out, the development outlined in Alternative 1 would have the largest to a net increase of revenue to the General Purpose Fund, \$2,736,000 (Figure 5.1).

In contrast, Alternative 2 would generate more new costs than new revenue, leading to a net loss of \$285,000. This is partly due to a lack of Sales Tax-generating land uses and an overall lower level of new, Real Estate Transfer Tax-generating development. Given that small changes to the development or cost assumptions can shift revenues or expenditures by a half a million dollars, however, it is possible that Alternative 2 could be fiscally neutral to the General Purpose Fund with only minor changes. For instance, either dropping the assumed average household size from 2.44 to 2.00 or the residential holding period from 7 years to 5 years causes all three alternatives to be fiscally positive throughout the duration of the projection.

Finally, while the additional expenditures entailed by the plan for Alternative 3 would be higher than either of the other alternatives, they would be more than offset by the additional revenues, leading to a net increase of \$1,047,000. However, each of these varies considerably over time. Because all three alternatives are highly dependent on the Real Estate Transfer Tax, the timing of development plays a critical role in determining whether net revenue is positive or negative in a given year, including at build-out.

**Figure 5.1: Alternatives Comparison, Net Revenue at Build-out (2009 Constant Dollars)**



Source: Strategic Economics, 2009.

### Model Inputs and Assumptions

Strategic Economics completed a dynamic fiscal analysis that considers the annual fiscal impact throughout the period in which new development is expected to occur, with assumed build-out of the alternatives occurring by 2035.

### Summary of Alternatives

Table 5.4 summarizes the net gain in housing units, square feet of non-residential development, and estimated population and job growth within the Plan Area at build-out of all three alternatives.

**Table 5.4: Net Change in Development within the Plan Area at Build-Out**

Land Uses	Alternative 1	Alternative 2	Alternative 3
Residential Units	1,930	1,416	3,729
Net Retail sq. ft.	436,412	-34,809	71,503
Net Office sq. ft.	0	163,096	201,500
Net Industrial sq. ft.	-1,558,286	-903,506	-1,864,364
Net Parks sq. ft.	114,714	107,348	268,699
<i>Estimated Net New Population</i>	<i>4,216</i>	<i>3,094</i>	<i>8,150</i>
<i>Estimated Net New Job Growth</i>	<i>361</i>	<i>697</i>	<i>220</i>

Source: CD + A 2009, Center for Community Innovation 2009, Strategic Economics, 2009

Note: Revised January, 2010; Original estimates of new retail and industrial space and jobs were revised to remove the effect of redeveloping the PG&E site. Other updates reflect refined area estimates and subsequent calculations.

Table 5.5 shows the current service population in Oakland, used to establish a base for understanding the per capita costs and revenues shown later in this memo. A “service base” is equivalent to the total current

residents in Oakland, plus one-third of all current employees working in the City. The one-third calculation is based on the assumption that employees spend 8 of 24 hours in the City of Oakland, or one-third of each day. Thus, Oakland has a service base of 479,877.

**Table 5.5: Current Service Population**

	<b># (People)</b>
Residents	425,068
Employees	164,426
<i>Total</i>	589,494
<i>Service Base</i>	479,877

Source: California Department of Finance 2008, Local Employment Dynamics 2006, Strategic Economics, 2009

Table 5.6 shows the key land use assumptions used to calculate the total net new population and jobs that would be generated from each alternative, including multipliers for Value, Density, Holding Period (sales turnover), Vacancy rates, and Occupancy rates.

**Table 5.6: Key Land Use Assumptions**

<b>Land Use Type</b>	<b>Value</b>	<b>Density (persons per household, or sq. ft. per employee)</b>	<b>Holding Period (years)</b>	<b>Vacancy</b>	<b>Occupancy</b>
<i>Residential (per unit)</i>					
Multi-family	\$459,313	2.30	7	5%	95%
<i>Nonresidential (per sq. ft.)</i>					
Retail	\$364	500	15	10%	90%
Office	\$270	300	15	10%	90%
Industry (in)	\$150	(see below)	15	10%	90%
Industry (out)	\$111		15	10%	90%

Source: Urban Explorer 2009, Local Employment Dynamics 2006, Strategic Economics, 2009

These assumptions are described in more detail below.

**Property Values**

Property Values are used to estimate the total property tax, property transfer tax, and tax increment that can be accrued to the City General Purpose Fund and the Redevelopment Agency, respectively. Property Value assumptions were derived as follows.

Residential Value per Unit

None of the alternatives include the development of new single-family units; therefore, only multi-family units were included in the analysis. The value per unit is calculated using a weighted average of 85 percent market rate units and 15 percent affordable units, as required in all redevelopment areas in California. It is assumed, based on analysis of recent comparables and current market conditions, that market rate units are valued at \$500,000 while affordable units are valued at \$228,750. While it is likely that values would need to increase in order for development to be feasible, these values are used as a conservative estimate.

Value of Non-Residential Uses per Square Foot

The model assumes a value of \$364 per square foot for retail space, \$270 per square foot for office space, and \$150 per square foot for new industrial space. The value of this space was estimated using the income capitalization approach, which is derived from assumptions about expected rent, operating expenses and vacancy, and a capitalization rate that were for current market conditions. While it is likely that values would need to increase in order for development to be feasible, these values are used as a conservative estimate. For the industrial space that will be redeveloped, a value of \$111 per square foot was used, based on an average of assessments of existing industrial buildings in the Plan Area.

***Job and Population Estimates (Density and Occupancy)***

Many of the costs and revenues in the fiscal analysis were calculated based on the net increase in population and jobs resulting from the alternatives. Therefore Strategic Economics applied the following assumptions to derive population and job estimates from the housing unit and square footage estimates provided by Community Design + Architecture.

Residential Household Size

Strategic Economics derived a density of 2.30 persons per household based on the average household size for renters in Oakland, based on the 2006-2008 three-year estimate of the average household size for renters in Oakland from the U.S. Census American Communities Survey. Renters were used as the basis for household-size despite the likelihood that much of the new housing might be owner-occupied. This is because households in multi-family housing tend to be smaller than those in single-family homes, regardless of tenure. Renters are a good proxy for occupants of multifamily housing in general, as on average renter-occupied multifamily households tend to be somewhat larger than owner-occupied multifamily households.

Non-Residential Density

Table 5.6 uses rule-of-thumb estimates of the number of square feet per employee for a range of non-residential building types (office, retail, and industrial). Strategic Economics assumed 500 square feet of retail space per employee, and 300 square feet of office space per employee. The density of industrial space varies among the three alternatives, depending on the relative share of industrial space that will be developed as high-density R&D space, rather than lower density warehouses and manufacturing buildings. Alternative 3 assumes a more high-density type of space. Generally, net gains in industrial employment were derived from forecasts created by the Center for Community Innovation, and assumed employment densities range from 445 to 775 square feet per employee.

## ***Other Land Use Assumptions***

### Holding Period

A holding period is the length of time that a typical property owner would own any given parcel before selling to another owner. The holding period is used to calculate property transfer taxes (i.e. property sales) and boosts in property values when Proposition 13-limited values increase once properties are sold.<sup>16</sup> Actual holding periods were not available from the City, but it was agreed that the rule-of-thumb 7 year and 15 year period assumptions are appropriate for residential and commercial properties, respectively. Therefore, to ensure a smooth adjustment throughout the 21 year fiscal model, 1/7 or 1/15 (as applicable) of the specific plan study area’s new development value turns over annually.

### Vacancy/Occupancy

Occupancy and vacancy rates are used to determine the actual number of households and jobs generated from any given use, assuming that buildings are not usually fully occupied. Unoccupied spaces would not generate workers or residents, nor, on the revenue side, retail sales or transient occupancy tax (as applicable). The vacancy rates of five to ten percent are typical developer assumptions for evaluating a long-term period.

## **Change Over Time Assumptions**

### ***Inflation, Appreciation, and Cost of Living Increases***

Table 5.7 shows the inflation and appreciation assumptions used in the model. The inflation rate of three percent is an accepted standard for average inflation over a long period of time. The annual property appreciation rate of 4.5 percent was taken from the City of Oakland’s 2009-2014 Five-Year Financial Forecast: in the City Budget, this is the rate used for the increase in property tax revenue in 2013 and 2014, after growth rates have recovered from the current recession. However, this may be a conservative estimate, given that, since 1995, housing prices in the East Bay have increased an average of 6.2 percent annually. In conversations with representatives the City of Oakland’s Budget Office, we were cautioned against assuming that there would be Cost of Living Adjustments (“COLA”) above the rate of inflation in the future; therefore, COLA was set to three percent each year in the model. Other cities typically assume a four percent Cost of Living Adjustment each year.

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<sup>16</sup> For more on Proposition 13 value increase assumptions, versus market-rate appreciation, please see “Change Over Time Assumptions.”

**Table 5.7: Annual Inflation, Appreciation, COLA Assumptions**

	%
Inflation Rate	3.0%
Property Appreciation Rate	4.5%
Proposition 13 Appreciation Rate	2.0%
Cost of Living Adjustment (COLA)	3.0%
Constant Dollar Discount Rate	3.0%

*Source: City of Oakland 2009, Strategic Economics 2009*

The annual property appreciation rate was applied to property values in the year of sale or resale, while appreciation for non-sold property was assumed to be two percent, according to Proposition 13 restrictions. Therefore, in the year of resale, property values experience a compound 4.5 percent appreciation rate since the previous year of sale or resale.

All costs were adjusted to 2009 constant dollars using a discount rate of three percent, to be consistent with the assumed rate of inflation.

## **Revenue Assumptions**

This section summarizes assumptions for annual increases in revenues to the City General Purpose Fund. Revenues expected to experience an increase, and which are described below, include Real Estate Transfer Tax, Property Tax, Sales Tax, Vehicle License Fees, and Other Taxes and Fees.

### ***Real Estate Transfer Tax***

Oakland’s Real Estate Transfer Tax is 1.5 percent of the sales price for properties that sell within the City, each time that properties are sold or resold. Based on the turnover rates described in Table 5.6, this transfer tax was calculated for the residential and commercial development that changes ownership in any given year.

As the findings will show, Real Estate Transfer Tax represents one of the largest sources of revenue generated from the alternatives, particularly given that the Plan Area falls in a redevelopment area which limits property tax revenue. For comparison, this rate of 1.5 percent is one of the highest in the state, 27 times the typical 0.055 percent rate found in most general law cities in California. As a charter city, Oakland has more authority over setting its own rate, which explains this difference.

### ***Property Tax***

As previously shown in Table 5.6 and in the Property Value Assumptions section, new residential units were valued at a weighted average of \$698,250 each, new retail space at \$560 per square foot, commercial/office space at \$650 per square foot, and hotels at \$163,289 per room. These values were multiplied by the annual absorption of new units / square feet / rooms described in the phasing for each alternative, plus a 4 percent annual appreciation rate. The value of existing Emerging Plan developments was increased at 2 percent annually, per Proposition 13 guidelines, with 1/7 of the residential units and 1/15 of the non-residential properties assumed to be sold annually and therefore re-assessed at the new

sales price, assuming a 4 percent appreciation rate. Taxable assessed value was determined by adding the value of new sales to the assessed value of existing properties.

The City and other jurisdictions receive slightly more than one percent of this assessed value. Because the Plan Area is in a redevelopment area, the property tax revenue to the General Purpose Fund determined based on the pass-throughs<sup>17</sup> determined through AB 1290 state legislation, and agreements with the City and School District. The Plan Area is split between the Coliseum Redevelopment Area and the amended Coliseum Redevelopment Area; these two areas have slightly different assumptions driving their pass-throughs. Non-redevelopment jurisdictions (described below) receive 36.8 percent of property tax from new property value in 2009. Starting in 2026, an additional 11.2 percent of the marginal increase in tax increment from 2025 is also passed through to non-redevelopment area jurisdictions; this increase begins in 2028 for the amended area, based on the 2027 tax increment. Because the Plan Area is evenly divided between the two different redevelopment areas, pass-throughs from these two areas were averaged, and applied to the entire Plan Area.

Per the City of Oakland 2009-2011 Budget, 28 percent of this pass-through goes to the City, while the remainder goes to Alameda County, the Oakland Unified School District, and other local entities. In addition, approximately 15 percent of the City's portion of the pass-through is shifted to the state's Educational Revenue Augmentation Funds (ERAF). Taken together the share of the 1 percent property tax that goes to the City's General Purpose funds ranges from 8.75 percent in 2009 to 11.15 percent in 2035.

Of the overall portion of the property tax that is captured by the Coliseum RDA, approximately 4% is shifted to ERAF. Of the non-shifted tax increment, 25 percent is set aside for housing activities and a net of 10 percent of the remainder (for the non-amended area only) is set aside for school construction. Including these set-asides, the share of the 1 percent property tax on that the RDA collects ranges from 59.2 percent in 2009 to 49.12 percent in 2035.

### **Sales Tax**

Strategic Economics has assumed a taxable retail sales per square foot of \$300 annually, based on a typical range found in the industry publication *Dollars and Cents of Shopping Centers*. Strategic Economics applied a one percent sales tax allocation rate to the total taxable sales per square foot to derive the sales tax estimate for the General Purpose Fund. This does not account for sales tax generated from current or future industrial uses. Given the large-scale loss of industrial space under each alternative, this may cause sales tax to be overstated by a small margin in the projections.

In addition, the model assumes indirect growth in sales tax as a result of new household spending. Assuming that households will spend \$28,954 annually on taxable goods (per the Bureau of Labor Statistic's Consumer Expenditure Survey for households earning over \$70,000) and that 30 percent of these expenditures will be in Oakland, but outside of the Plan Area, the model projects an additional \$87 in sales tax revenue per resident annually.

Both components of sales tax are adjusted for inflation.

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<sup>17</sup> A "pass-through" refers to the percentage of property tax increment that is allocated to the City, School District, and other entities in the Redevelopment Area Plan.

**Vehicle License Fee (“VLF”)**

Vehicle License Fee is a local revenue source whose allocation is controlled by the State of California. As a result of budget adjustments over the last decade, Oakland receives Vehicle License Fee (VLF) funds via two streams of revenue:

1. *City wide per capita revenue* based on a State derived, population-based allocation formula.
2. *Property tax in lieu of VLF*. In 2004 the State of California reduced VLF from 2 percent to 0.65 percent; the State offset the potential loss of city revenue by providing additional property tax revenue. Since the 2005-2006 fiscal year, this revenue stream has grown proportionally with the city’s total assessed value.

Table 5.8 shows the VLF assumptions, including calculation of the citywide VLF revenue per capita and percent of property tax represented by the property tax in lieu of VLF. The model calculates the first source of VLF revenue based on a per capita increase. The second source of VLF revenue is calculated based on the ratio of citywide property tax to citywide VLF revenue. This ratio is then applied to the property tax assumptions in each alternative.

**Table 5.8: Vehicle License Fee Assumptions**

<b>Property Tax In-Lieu</b>	
Total Citywide Property Tax (FY 2009-10)	\$155,816,442
Citywide VLF Property Tax In-lieu Revenue (FY 2009-10)	\$31,900,000
VLF in-lieu relative to city property tax revenue	20%
<b>Per Capita</b>	
Citywide VLF Revenue (FY 2009-10)	\$1,100,000
Population (2009)	425,068
Per Capita VLF	\$2.59

Source: *City of Oakland 2009, California Department of Finance 2009, Strategic Economics 2009*

**Other Taxes and Fees**

Other General Fund revenue would experience a per capita increase as new residents and employees are added to the study area. Accordingly, Strategic Economics applied a “Service Population Factor” to each category, representing the relative proportion of revenues attributable to new residents, employees, or both. These revenue categories include utility user taxes, franchise fees, licenses and permits, fines and forfeitures, interest and rent income, intergovernmental revenue, and charges for services. Table 5.9, below, shows the per capita revenue generated by residents and employees.

**Table 5.9: Per Capita Revenue Assumptions**

	FY 2009-2010 G.F. Estimated Revenues	Revenue Per Capita	
		Resident	Employee
<i>Utility Consumption Tax</i>	\$54,451,200	\$113.47	\$37.82
<i>Business License Tax</i>	\$51,775,400	\$0.00	\$314.89
<i>Parking Tax</i>	\$7,140,000	\$14.88	\$4.96
<i>Licenses &amp; Permits</i>	\$1,354,890	\$2.82	\$0.94
<i>Fines &amp; Penalties</i>	\$28,175,510	\$58.71	\$19.57
<i>Interest Income</i>	\$2,000,000		
<i>Service Fees</i>			
<i>Port Revenue</i>	\$7,751,410		
<i>Franchise Fees</i>	\$13,492,260	\$28.12	\$9.37
<i>Parking Meter Fees</i>	\$11,000,000	\$22.92	\$7.64
<i>Public Works Fees</i>	\$309,000	\$0.64	\$0.21
<i>Rental Concessions</i>	\$2,246,220	\$4.68	\$1.56
<i>Personnel Services</i>	\$2,348,330		
<i>Miscellaneous Charges</i>			
<i>Police Charges</i>	\$1,546,130	\$3.22	\$1.07
<i>Fire (Mutual Aid, etc)</i>	\$1,417,920	\$2.95	\$0.98
<i>Finance</i>	\$1,551,610	\$3.23	\$1.08
<i>Rent Arbitration</i>	\$1,890,990	\$4.45	\$0.00
<i>Deemed Approved Program</i>	\$918,600		
<i>Parks &amp; Rec. Fee</i>	\$295,920	\$0.70	\$0.00
<i>Other</i>	\$647,780	\$1.35	\$0.45
<i>Grants &amp; Subsidies</i>	\$0		
<i>Miscellaneous</i>			

<i>Bedroom Tax</i>	\$128,000	\$0.30	\$0.00
<i>Raiders Surcharge</i>	\$160,000		
<i>Land Sales</i>	\$125,000		
<i>Loan Repayment</i>	\$400,000		
<i>Other Misc. Revenue</i>	\$19,960		
<i>Interfund Transfers</i>	\$12,966,380		
<b>Total</b>	<b>\$204,112,510</b>	<b>\$262.45</b>	<b>\$400.56</b>

Source: *City of Oakland 2009, Strategic Economics 2009*

### **Expenditure Assumptions**

Strategic Economics worked with staff in the Police, Fire, Library, and Public Works departments to estimate the annual service impact of new development in the Emerging Alternative. “Case Study” analysis<sup>18</sup> of the Police, Fire, Public Works, and Library Departments was important as these departments are directly affected by population growth (or in the case of Public Works, provision of additional public infrastructure). Other departments may be somewhat affected, but do not experience the same direct impact as a result of this new development and growth. Therefore for these departments, Strategic Economics estimated the annual impact using a per capita methodology.

#### **Police Department Assumptions**

The Oakland Police Department currently employs 18 sworn police officers per 10,000 residents. Representatives from the department indicated that, while this is among the lowest ratios among major American cities (compared to 49 officers per 10,000 residents in Baltimore, for instance), it is only slightly below their preferred rate of 20 officers per 10,000 residents. Strategic Economics used the preferred rate to estimate the number of new officers that would need to be hired in order to serve the additional population associated with new development in the Plan Area. Strategic Economics then applied an average per officer salary assumption of \$168,000 for each new officer being added to serve new population. Strategic Economics applied a 23 percent administrative cost increase above the police officer salary estimate, and an additional \$22,470 for annual equipment maintenance, per estimates provided by the Police Department. In total, this resulted in a per capita cost of \$458 per unit of the service population. For comparison, a direct per capita increase over the current City Budget (which has experienced significant cuts recently) would result in \$374 per unit of the service population, annually.

#### **Fire Department Assumptions**

In meetings with the Oakland Fire Department, several concerns were raised with regard to providing service to the Plan Area. For instance, were an earthquake to cause the I-880 to collapse, it would be difficult to provide services to the Plan Area, given that nearby fire stations are on the opposite side of the freeway. In addition, the Fire Department has already experienced delays due to railroad use in the area. The rail spur therefore has the potential to temporarily delay access by service vehicles, if there is a train on the tracks. Finally, representatives noted that the nearest station (engine 13 in Fruitvale) is one of the

<sup>18</sup> “Case Study” Analysis has been completed through meetings with Department representatives, and is completed for departments who could experience a significant impact as a result of new development in the Study Area.

busiest in the city, is in need of facility upgrades, and does not have excess capacity for responding to additional calls for service. While the idea of building an additional facility in the Plan Area was not seen as appropriate or necessary, the Fire Department noted the potential for bringing the City’s existing fire boat into active service, providing fire protection from the Estuary-side of the Plan Area. In addition, the Fire Department expressed concern that there is no dedicated source of funding (such as a development impact fee) that could help to pay for facility upgrades or expansion. Such infrastructure issues may need consideration during the Environmental Impact Review phase of this project, or other special City study.

Given that the Fire Department is already at capacity, there was not a sense that new development in the plan area would generate a “tipping point” where a expansion in facilities or staffing (such as a new engine company) would be necessary. Therefore, Strategic Economics has assumed that Fire Department costs would increase on a per capita basis, using the Department’s overall budget as a baseline. This translated into an additional cost of \$210 per unit of the service population.

**Public Works Assumptions**

Strategic Economics spoke with representatives working in different sections of the Public Works Agency to get estimates on the cost of providing maintenance for new infrastructure that would be necessary in each of the plans. Public Works estimates were calculated for street trees, streetlights, traffic signals, pedestrian crossing lights, street and sidewalk maintenance, and park facilities. Street trees were estimated to cost \$60 per tree, four times a year to maintain, and the recommendation was that they be placed every 30 feet. Streetlights were estimated to cost \$160 per year to maintain and were recommended to be placed every 100 feet. In addition, signals were estimated at \$3,100 per intersection to maintain, while pedestrian lights were estimated to cost \$160 per year to be maintained, placed every 80 feet; however, neither of these were included in any scenario, except in Alternative 3, where pedestrian lights were assumed for the new Embarcadero Boulevard. Street sweeping was estimated to cost \$795 per mile annually. Finally, no representative could be reached about the cost of street or sidewalk maintenance; therefore, this cost was calculated by dividing the total current budget for street and sidewalk maintenance by the number of current lane-miles of roadway in the city; this came to \$8,694 per lane-mile. These costs were added to arrive at a total cost of \$27,080 per new lane-mile in the Plan Area.

For parks, the representative from Public Works cautioned that the maintenance costs were variable depending on the infrastructure and use of each park. For instance, a ball-field would require a high level of maintenance, especially if it were used during the rainy season; park with play equipment would require additional insurance, which would add to the operations costs; a park with lighting and other infrastructure would require additional specialized maintenance. Public Works estimated, however, that on average, these parks would cost approximately \$25,000 per acre to maintain, annually.

Net increase in street lane-mileage and parkland is shown below, in Table 5.10.

**Table 5.10: Public Works Improvements**

	Alternative 1	Alternative 2	Alternative 3
Net Increase in Streets (lane-miles)	0.44	0.45	1.01
<i>Net Increase in Blvds (lane-miles)</i>	<i>0</i>	<i>0</i>	<i>0.29</i>
Net Increase in Park land (acres)	2.63	2.46	6.16

Source: Community Design and Architecture 2009, Strategic Economics 2009

**Library**

Staff from the Oakland Public Library asserted that it would be unlikely that the new population would necessitate the construction of new facilities in the Plan Area. There is capacity at the Cesar Chavez Branch in Fruitvale and existing plans for an additional library in San Antonio, which would both serve the western-most portion of the Plan Area and relieve demand for the services at the Cesar Chavez Branch. Therefore Library staff recommended that costs be calculated on a per capita basis, which was estimated to be \$21 per new resident.

**Per Capita Cost Assumptions**

Strategic Economics used a per capita model to estimate the remaining service costs for a new resident or employee. As shown in Table 5.11, this method was applied to all city departments and agencies not listed already. The expenses incurred by each department were multiplied by a service factor representing the share of expense generated by a resident versus an employee. Table 5.11 shows the results. These per capita cost factors were then applied to the projected employee and resident growth estimates.

**Table 5.11: Per Capita Expenditure Assumptions**

	<b>Total Costs</b>	<b>Expenditures Per Capita</b>	
	<b>(FY2009-10 Adjusted</b>	<b>Resident</b>	<b>Employee</b>
<i>Mayor</i>	\$2,395,750	\$4.99	\$1.66
<i>City Council</i>	\$3,522,370	\$7.34	\$2.45
<i>City Administrator</i>	\$5,864,050	\$12.22	\$4.07
<i>City Clerk</i>	\$2,321,460	\$4.84	\$1.61
<i>City Attorney</i>	\$3,901,630	\$8.13	\$2.71
<i>City Auditor</i>	\$1,323,720	\$2.76	\$0.92
<i>Finance and Management Agency</i>	\$17,035,740	\$35.50	\$11.83
<i>Human Resources</i>	\$4,553,390	\$9.49	\$3.16
<i>Information Technology</i>	\$8,007,940	\$16.69	\$5.56
<i>Contracting and Purchasing</i>	\$1,911,440	\$3.98	\$1.33
<i>Parks and Recreation</i>	\$11,004,550	\$25.89	\$0.00
<i>Museum</i>	\$5,085,030	\$0.00	\$0.00
<i>Human Services</i>	\$4,671,290	\$10.99	\$0.00
<i>Community and Economic Development</i>	\$3,616,380	\$7.54	\$2.51
<i>Non Departmental and Port</i>	\$48,511,670	\$101.09	\$33.70
<b>Total</b>	<b>\$123,726,410</b>	<b>\$251.45</b>	<b>\$71.52</b>

Source: City of Oakland 2009, Strategic Economics 2009

## ***Alternative 1: Development Assumptions and Findings***

### **Phasing**

In Alternative 1, the current uses in the West Subarea are largely preserved, while only minor changes (including the implementation of a new park in place of existing retail and two small residential developments) are indicated for the Central-West Subarea. In the Central-East and East Subareas, however, the Alternative indicates nearly wholesale change, including the development of a new Industrial Business Park and large areas converted from industrial to residential or retail uses. As with all three alternatives, the phasing of this change depends largely on long-range economic conditions that cannot be easily predicted. For the purposes of this impact assessment, however, the phasing is assumed to occur as follows:

#### **2009-2014:**

The development market is recovering from the current downturn and new development is being planned, but other than small in-fill housing, nothing new is completed.

#### **2015-2019:**

The first area where housing will become feasible will be the Central-West Subarea- two new housing developments are constructed in this area. In addition, the Industrial Business Park is implemented in the Central-East Subarea. In-fill housing continues to be developed.

#### **2020-2024:**

The Park Street Triangle is converted from retail use to parkland. Land assembly, infrastructure upgrades and environmental remediation is on-going to prepare Central-East and East subareas for residential development. In-fill housing continues to be developed.

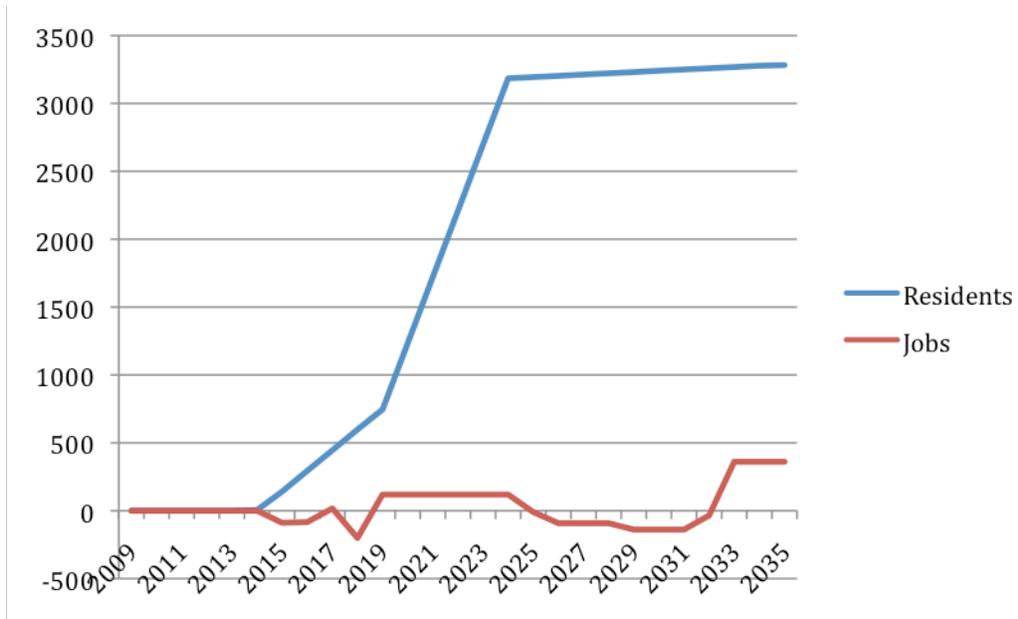
#### **2025-2029:**

New residential development opens in the Central-East Subarea and in the East Subarea, south of Tidewater. In-fill housing continues to be developed.

#### **2030-2035:**

Residential development in the East Subarea induces conversion of the area north of Tidewater to retail uses. Additional residential units are developed south of Tidewater and a park surrounding the extended Bay Trail is implemented. In-fill housing continues to be developed.

**Figure 5.2: Alternative I, Phasing**



Source: *Community Design and Architecture 2009, Strategic Economics 2009*

## Net Fiscal Impact to General Purpose Fund

As shown in Table 5.12 below, at build-out, Alternative 1 would generate a net gain of revenue of \$2,736,000 to the General Purpose Fund.

**Table 5.12: Alternative 1: Net Fiscal Impact to the City General Fund at Build-Out (in 2009 dollars)**

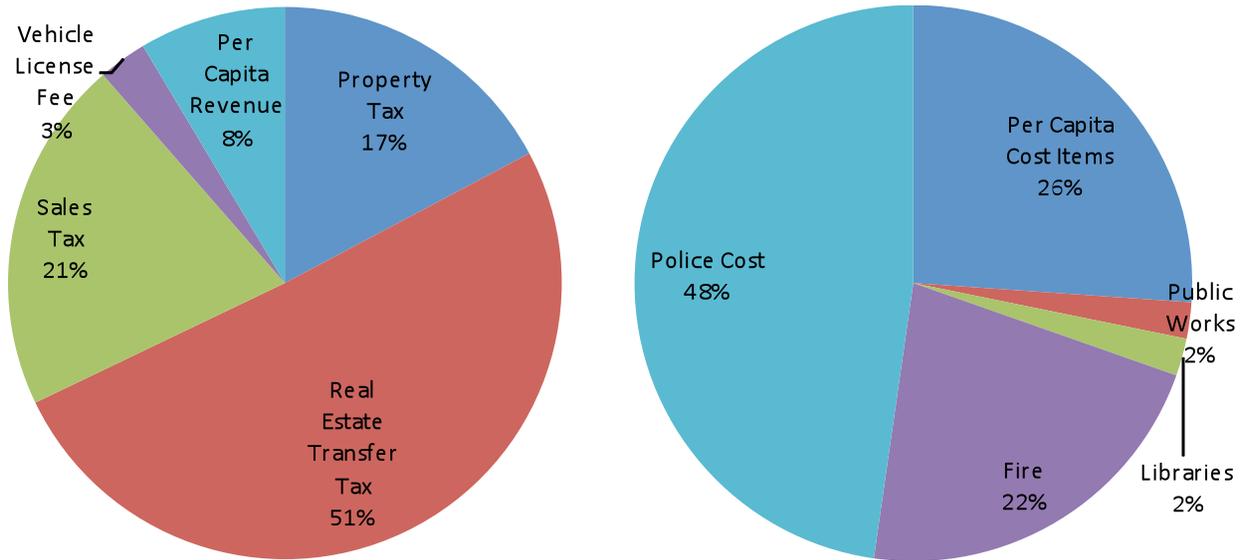
Revenues	\$
Property Tax	\$1,230,000
Real Estate Transfer Tax	\$3,620,000
Sales Tax	\$1,481,000
Vehicle License Fee	\$203,000
Per Capita Revenue	\$612,000
Subtotal	\$7,146,000
Expenditures	\$
Per Capita Cost Items	\$1,151,000
Public Works	\$93,000
Libraries	\$96,000
Fire	\$965,000
Police Cost	\$2,105,000
Total	\$4,410,000
Net Impact on General Fund	\$2,736,000

Source: *Strategic Economics, 2009*

While a significant amount of the new revenue is attributable to the sales tax generated by the new retail space, by far the largest contributor is the Real Estate Transfer Tax. Given that new development generates this tax at a much higher rate than existing buildings, revenue from this source is somewhat erratic and is highly dependent on the phasing of new construction. At various point in time, this source may be an even larger share of new revenue.

For costs, Police represent by far the largest share (48 percent) of marginal expenditures. This is a fairly comparable distribution of General Purpose Funds in the City of Oakland, where Police represent 43 percent of overall expenditures as of the 2009-2010 budget.

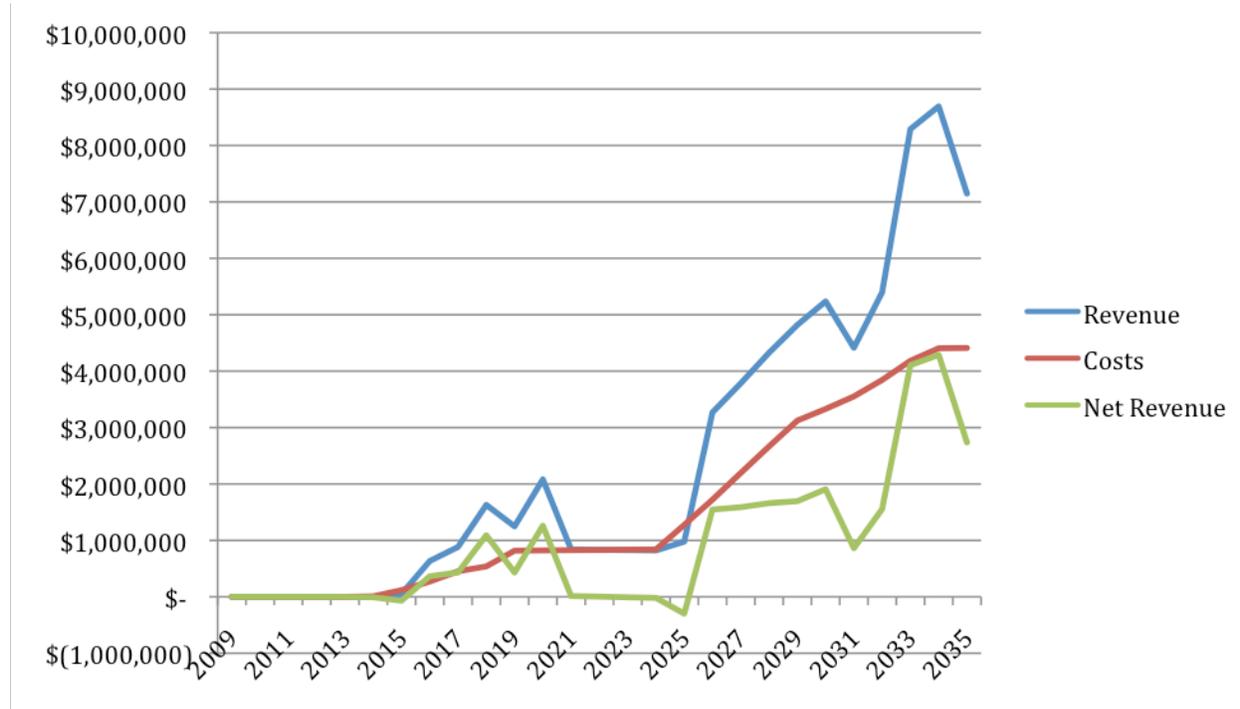
**Figure 5.3: Alternative I: Distribution of Additional Revenue Sources and Expenses at Build Out**



Source: Strategic Economics, 2009.

As shown in Figure 5.4, costs and revenues change dramatically over time, in synch with the phasing of new development and the addition of new residents and jobs. For much of the first fifteen years of the build-out costs and revenues grow slowly; during this period, net revenue ranges between moderate surpluses and small deficits. With the acceleration of development in the Central-East and East Subareas after 2025, costs rise rapidly, though somewhat steadily. Revenue, however, rises even more quickly, albeit erratically, in response to the changes in real estate transfer taxes. However, after development is fully completed and absorbed in 2035, this model projects a fiscal surplus of nearly \$2,000,000. This would dwindle over time, as property and sales taxes are likely to grow at a slower rate than costs, but would stay positive for the foreseeable future.

**Figure 5.4: Fiscal Impact of the Alternative 1, 2009-2035 (2009 Constant Dollars)**

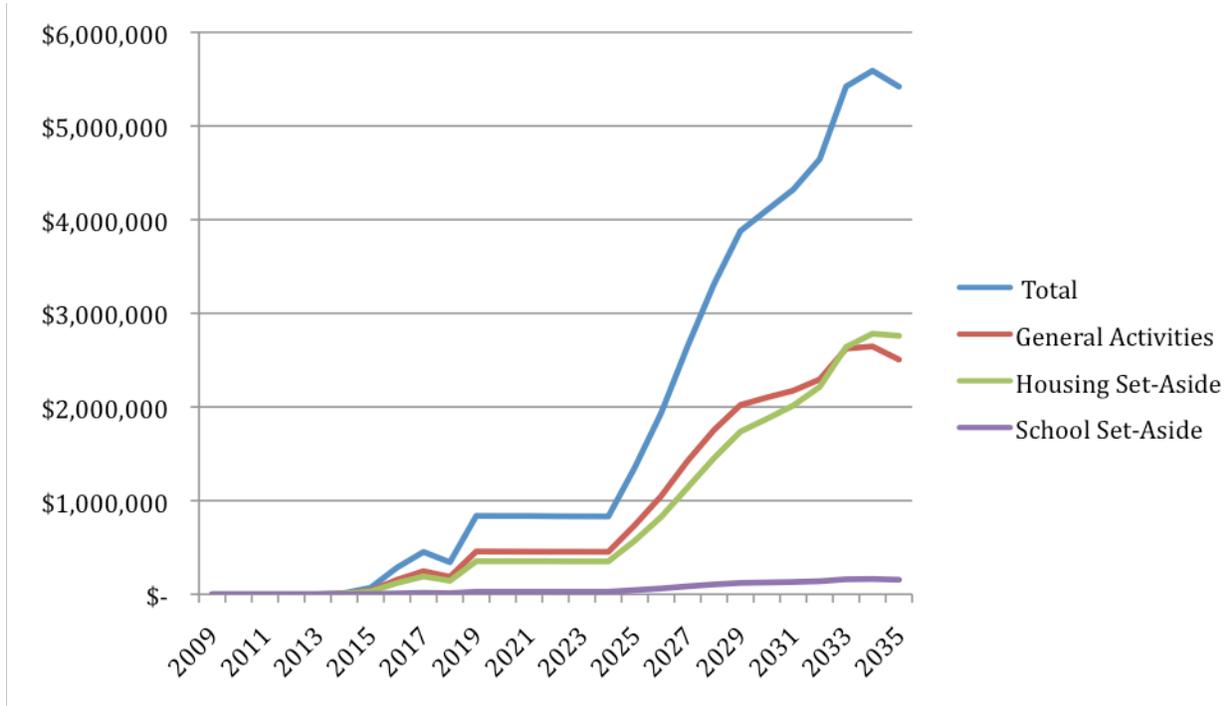


Source: Strategic Economics, 2009.

### Tax Increment Revenue to the Coliseum Redevelopment Area

As shown in Figure 5.5, below, the new development in the Plan Area does not generate a significant tax increment to the RDA for the first 10 years and does not exceed \$1,000,000 until 2025. From 2025 onward, however, the revenue to the RDA increases dramatically, with the tax increment reaching a peak of \$5,590,000 in 2034. It is important to note that the fall from 2034-2035 is not due to a reduction in assessments, but due to a growing pass-through to the general fund.

**Figure 5.5: Revenue Generated for the RDA, Alternative 1, 2009-2035 (2009 Constant Dollars)**



Source: Strategic Economics, 2009.

## ***Alternative 2: Development Assumptions and Findings***

### **Phasing**

In contrast to Alternative 1, in Alternative 2 the current uses in the East Subarea and Warehouse Triangle are largely preserved. In addition, even fewer changes, including one small residential development, are indicated for the Central-West Subarea. The major changes will take place on the Owen-Brockway site, (which will be redeveloped as an Incubator/R&D Business Park) and in the West Subarea, where the ConAgra Mill and a few other parcels would be occupied by new residential developments. In contrast to Alternative 1, this residential development takes place in areas with more existing amenities, near to other recent housing construction. Therefore, the phasing outlined below indicates that a much higher share of development will occur shortly after the market recovers.

#### **2009-2014:**

The development market is recovering from the current down-turn and new development is being planned, but other than small in-fill housing in the West Subareas and in-fill industry in the East Subarea and the Warehouse Triangle, nothing new is completed.

#### **2015-2019:**

The first area where housing will become feasible will be the Central-West Subarea- one new housing development is constructed in this area. In addition, new housing and offices will be developed in the western-most portions of the West Subarea (near the Oak to 9th project and existing Embarcadero offices). Finally, the Incubator/R&D Business Park will be developed in the Central-East Subarea. In-fill housing and industry continues to be developed.

#### **2020-2024:**

Facing increasing pressure from the surrounding residential development, ConAgra will be redeveloped as a large residential project that includes a small park at its center. Small in-fill office uses will take over existing industrial spaces throughout the West Subarea. In-fill housing and industry continues to be developed.

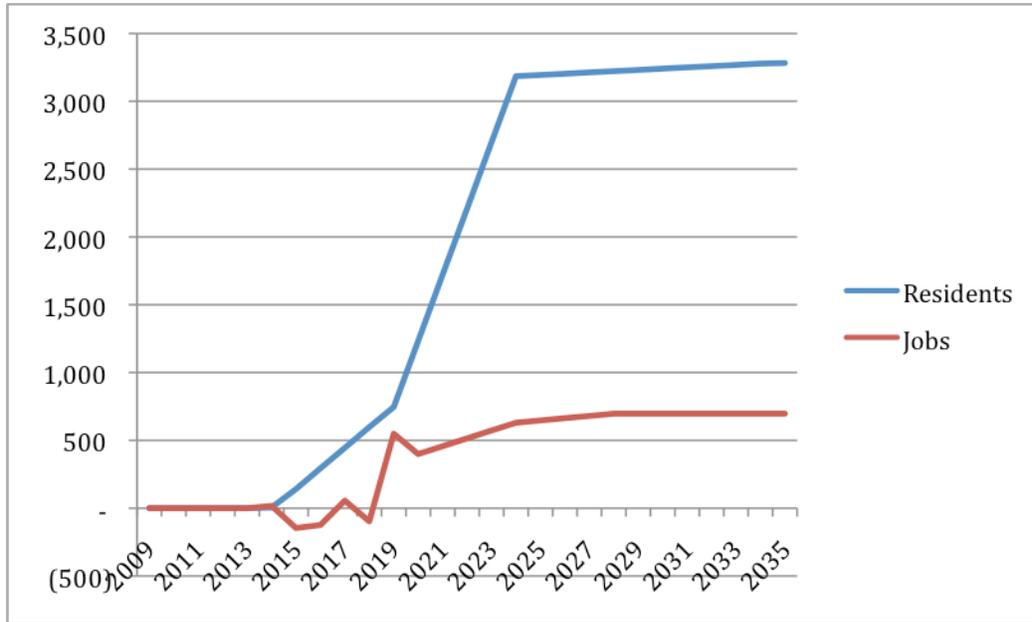
#### **2025-2029:**

Though small increments of in-fill housing and industry continue to be developed, the alternative has nearly reached full build-out in 2024.

#### **2030-2035:**

Though small increments of in-fill housing, the alternative has nearly reached full build-out in 2024.

**Figure 5.6: Alternative 2, Phasing**



Source: Community Design and Architecture 2009, Strategic Economics 2009

## Net Fiscal Impact to General Purpose Fund

As shown in Table 5.13 below, at build-out, Alternative 2 would generate a net cost to the General Purpose Fund of \$285,000. This is largely because, at build-out, the Plan Area only generates \$3,100,000 in revenue; this is less than half of that projected under Alternative 1.

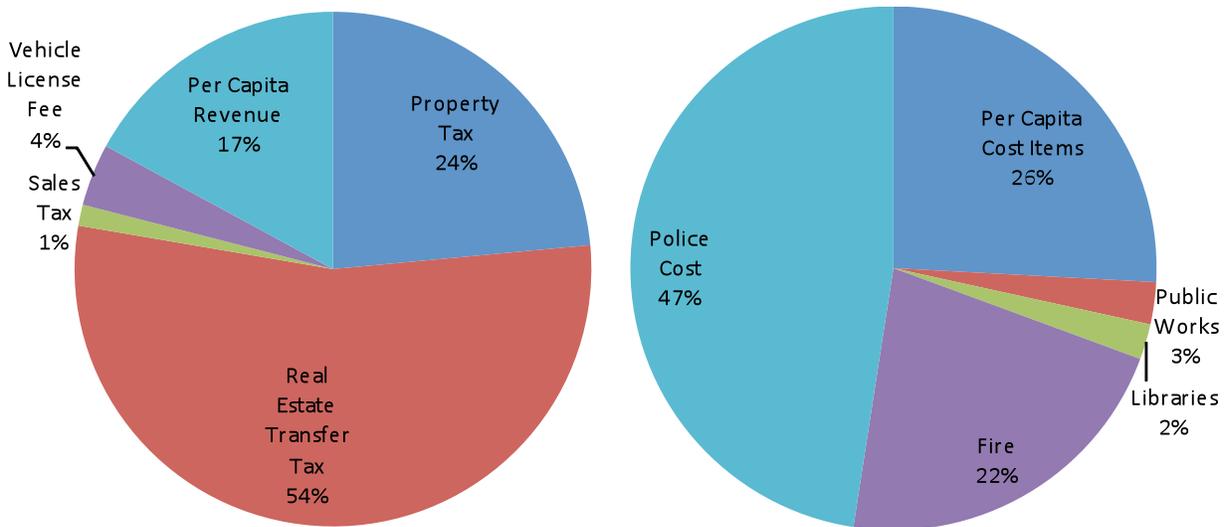
**Table 5.13: Alternative 2: Net Fiscal Impact to the City General Fund at Build-Out (in 2009 dollars)**

<b>Revenues</b>		<b>\$</b>
Property Tax		\$729,000
Real Estate Transfer Tax		\$1,680,000
Sales Tax		\$41,000
Vehicle License Fee		\$121,000
Per Capita Revenue		\$529,000
Subtotal		\$3,100,000
<b>Expenditures</b>		<b>\$</b>
Per Capita Cost Items		\$875,000
Public Works		\$88,000
Libraries		\$74,000
Fire		\$738,000
Police Cost		\$1,610,000
Total		\$3,385,000
Net Impact on General Fund		-\$285,000

Source: Strategic Economics, 2009

Alternative 2 is even more highly dependent on the Real Estate Transfer Tax than Alternative 1 (Figure 5.7). This is partly due to the lack of retail space in the Plan Area, which eliminates a potential large and more constant revenue source, in the form of sales tax.

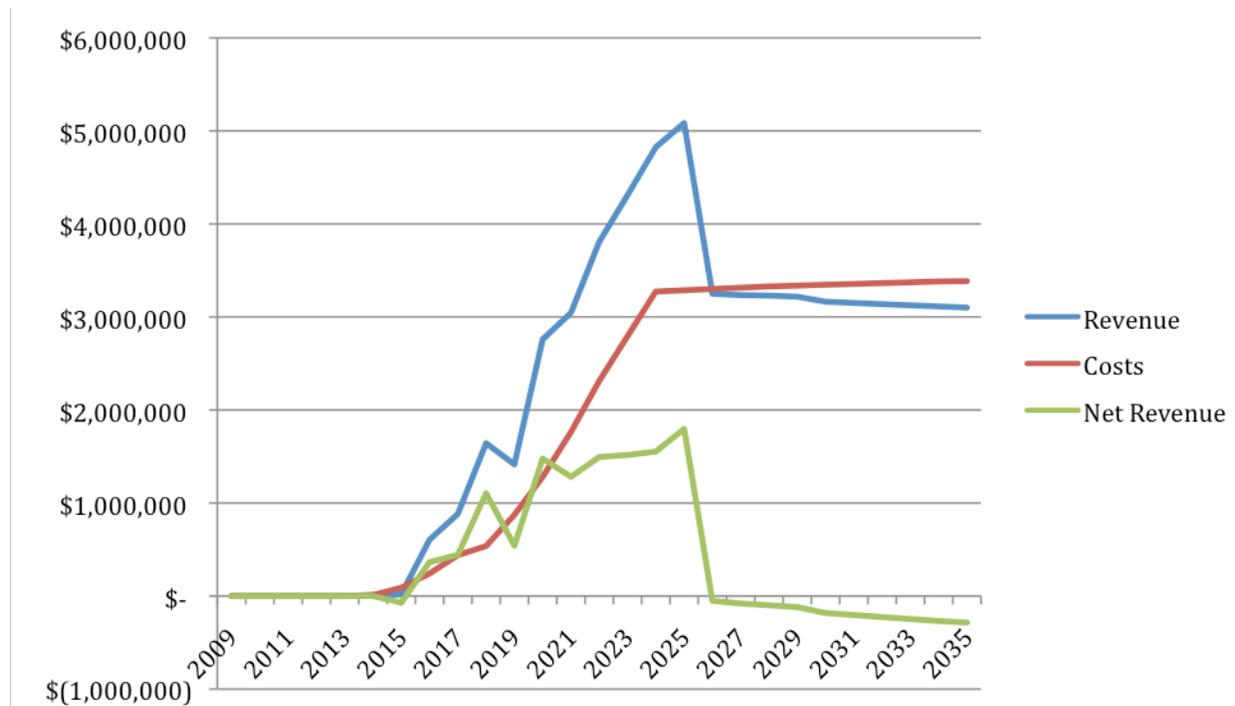
**Figure 5.7: Alternative 2, Distribution of Additional Revenue Sources and Expenses at Build Out**



Source: Strategic Economics, 2009

As shown in Figure 5.8, below, under Alternative 2, the Plan Area generates positive net revenue for the General Purpose Fund through 2025. These are the years when new development fuels a large growth in the Real Estate Transfer Tax. However, after the Alternative reaches near-build-out in 2024, revenue plummets. From that point forward, net revenue is negative for the Plan Area, slowly declining as inflation causes costs to grow faster than revenues.

**Figure 5.8: Fiscal Impact of the Alternative 2, 2009-2035 (2009 Constant Dollars)**

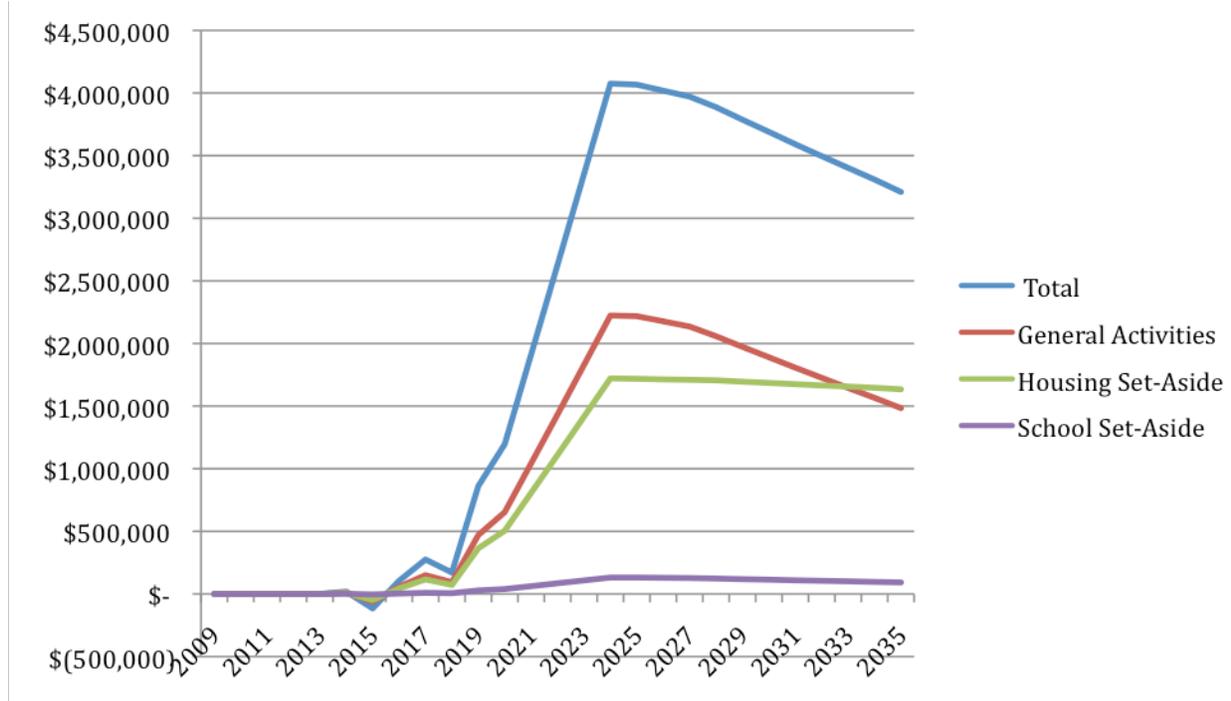


Source: Strategic Economics, 2009.

## Revenue to the Coliseum Redevelopment Area

As shown in Figure 5.9, below, the new development in the Plan Area does not generate a significant tax increment to the RDA for the first 10 years of the plan. However, from 2019 onward, however, the revenue to the RDA increases dramatically, with the tax increment reaching a peak of \$4,075,000 in 2024. From that point forward, the revenues to the RDA diminish, partly due to inflation and partly due to a growing pass-through to the General Purpose Fund.

**Figure 5.9: Revenue Generated for the RDA, Alternative 2, 2009-2035 (2009 Constant Dollars)**



Source: Strategic Economics, 2009.

### **Alternative 3: Development Assumptions and Findings**

*Note: this analysis was conducted with the assumption that the PG&E site would be redeveloped into light industrial and incubator space. At the outset of the planning process and after initial discussions with PG&E representatives, it appeared that this large site could become available for partial redevelopment within the Plan's 25-year planning horizon. However, in a letter to staff and testimony at the December 2009 Planning Commission hearing on the preferred alternative, a PG&E representative indicated that redevelopment or more intensive use of the site was not compatible with PG&E's goals. With the elimination of this change and the movement of the incubator to elsewhere in the Plan Area, there is a net loss of 300,000 sq. ft. of industrial land and associated job implications. As a consequence, there will be a slight reduction in real estate transfer and property taxes. However, the contribution of industrial space to these taxes is typically minor, so it is not perceived to substantially change the conclusions of this analysis.*

### **Phasing**

Alternative 3 includes the most intensive development of the three alternatives. Under this plan, both the Con-Agra and Owens-Brockway sites, as well as the Warehouse Triangle, are redeveloped as large-scale residential/mixed-use projects. In addition, in the East Subarea, the area south of Tidewater is transformed into an area with residential towers and high-density office buildings, while Pacific Gas and Electric site to the north was originally contemplated to be developed into an R&D incubator complex. Subsequent to indications from PG&E that they were less amenable to redevelopment than originally perceived, redevelopment of the PG&E site was removed from the land use and employment calculations. Finally, the Central-West area has more new housing than in any of the other alternatives. However, even as these developments are transforming most of the Plan Area, portions of the industrial West Subarea are preserved in their current use.

#### **2009-2014:**

The development market is recovering from the current downturn and new development is being planned, but other than small in-fill housing in the West Subareas, nothing new is completed.

#### **2015-2019:**

The first area where housing will become feasible will be the Central-West Subarea- three new housing developments are constructed in this area. In addition, a portion of the residential development on the Owens-Brockway site will be completed and absorbed by the market. As this is happening, the park surrounding the extension of the Bay Trail and Embarcadero will be implemented through the Central-West Subarea and new Retail will be developed in the Warehouse Triangle. In-fill housing continues to be developed.

#### **2020-2024:**

Facing increasing pressure from the adjacent residential development, ConAgra will be redeveloped as a large residential project. The remainder of the Owens-Brockway site and Warehouse Triangle will also be developed as residential. The Park Street Triangle is converted from retail use to park land. In-fill housing continues to be developed.<sup>19</sup>

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<sup>19</sup> Initially, this Alternative included redevelopment of the existing PG&E owned site as an R&D incubator complex during this period. However, due to recent indications by PG&E that this redevelopment would be unlikely, this has been eliminated from this Alternative, which assumes that the PG&E site will remain with its current use.

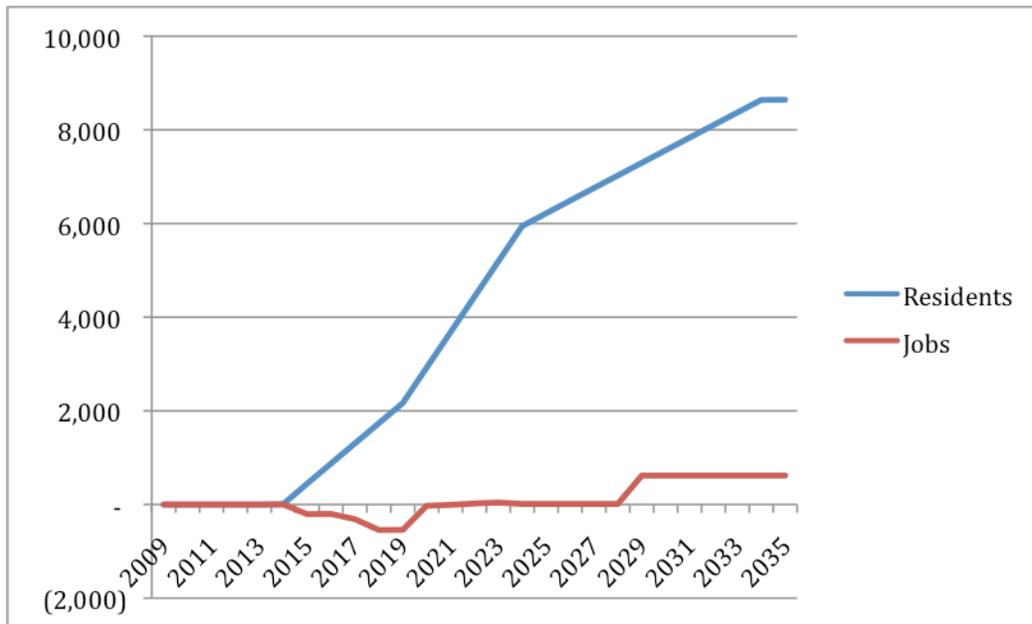
**2025-2029:**

A portion of the new high-rise residential and the office development in the East Subarea is completed. In-fill housing continues to be developed.

**2030-2035:**

The remainder of the high-rise residential development in the East Subarea is completed, along with the parkland associated with continuation of the Embarcadero and Bay Trail. In-fill housing continues to be developed.

Figure 5.10: Alternative 3, Phasing



Source: Community Design and Architecture 2009, Strategic Economics 2009

**Net Fiscal Impact to General Purpose Fund**

As shown in Table 5.14 below, at build-out, Alternative 3 would generate a net increase of \$1,047,000 in revenue to the General Purpose Fund. This is because, although the projected increase of expenditures at build out are more than double those of either Alternatives 1 or 2, it would also generate by far the most additional revenue.

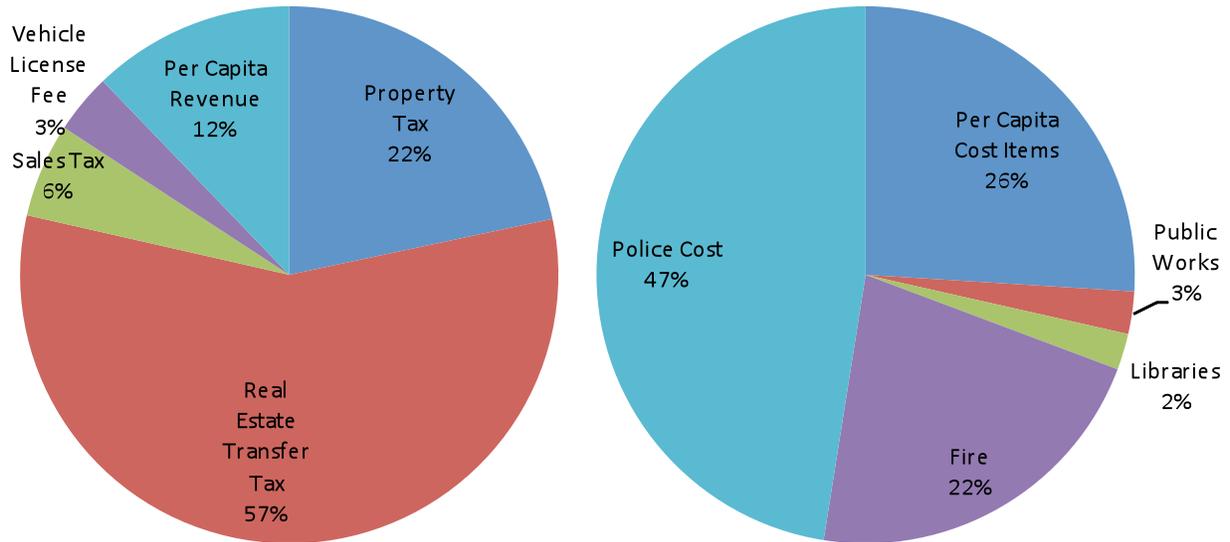
**Table 5.14: Alternative 3: Net Fiscal Impact to the City General Fund at Build-Out (in 2009 dollars)**

<b>Revenues</b>		<b>\$</b>
Property Tax		\$2,075,000
Real Estate Transfer Tax		\$5,454,000
Sales Tax		\$543,000
Vehicle License Fee		\$344,000
Per Capita Revenue		\$1,167,000
<b>Subtotal</b>		<b>\$9,583,000</b>
<b>Expenditures</b>		<b>\$</b>
Per Capita Cost Items		\$2,218,000
Public Works		\$218,000
Libraries		\$186,000
Fire		\$1,859,000
Police Cost		\$4,055,000
<b>Total</b>		<b>\$8,536,000</b>
<b>Net Impact on General Fund</b>		<b>\$1,047,000</b>

*Source: Strategic Economics, 2009*

Of the three Alternatives, this one is the most dependent upon the Real Estate Transfer Tax (Figure 5.11). However, compared to the more fiscally positive Alternative 1, Alternative 3 generates more revenue in each of the five sources of revenue, with the exception of sales tax.

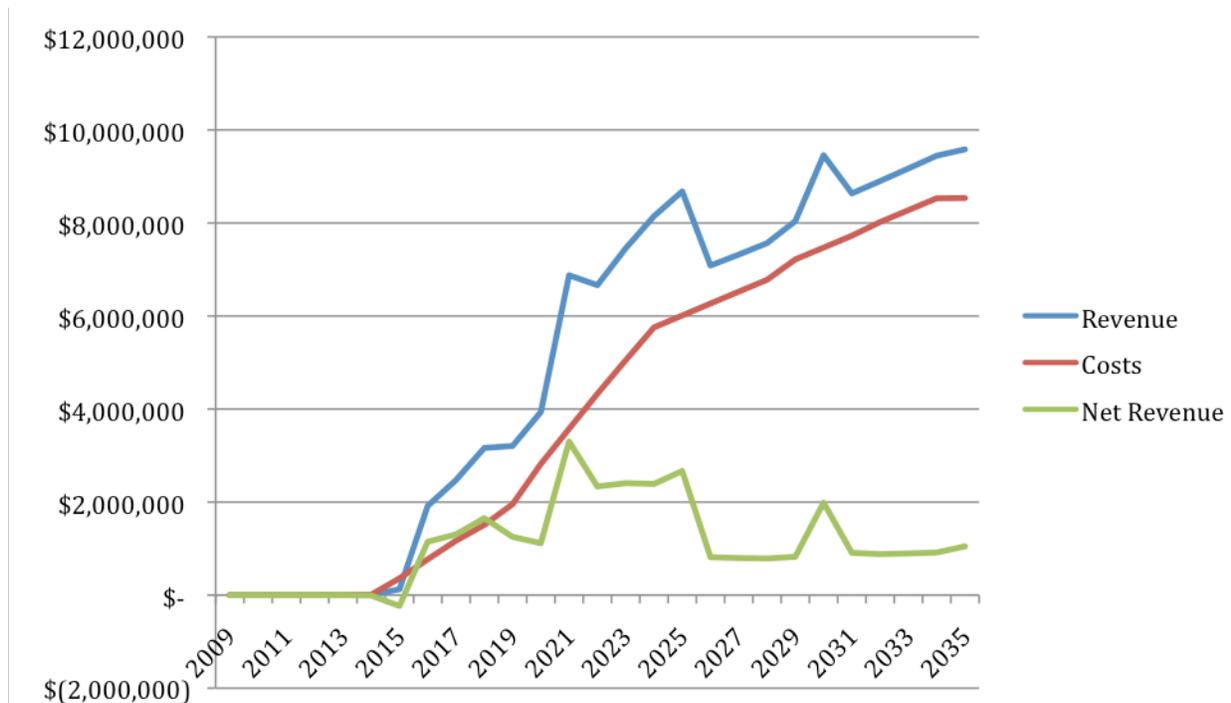
**Figure 5.11: Alternative 3, Distribution of Additional Revenue Sources and Expenses at Build Out**



Source: Strategic Economics, 2009

As shown in Figure 5.12, below, under Alternative 3, the Plan Area begins to generate a positive net revenue almost immediately after development begins in 2015. Both revenues and costs grow quickly for the entire period, though both begin to plateau approaching build-out. However, because the growth rates are similar for both costs and revenue, net revenue is fairly flat from 2015-2035.

**Figure 5.12: Fiscal Impact of the Alternative 3, 2009-2035 (2009 Constant Dollars)**

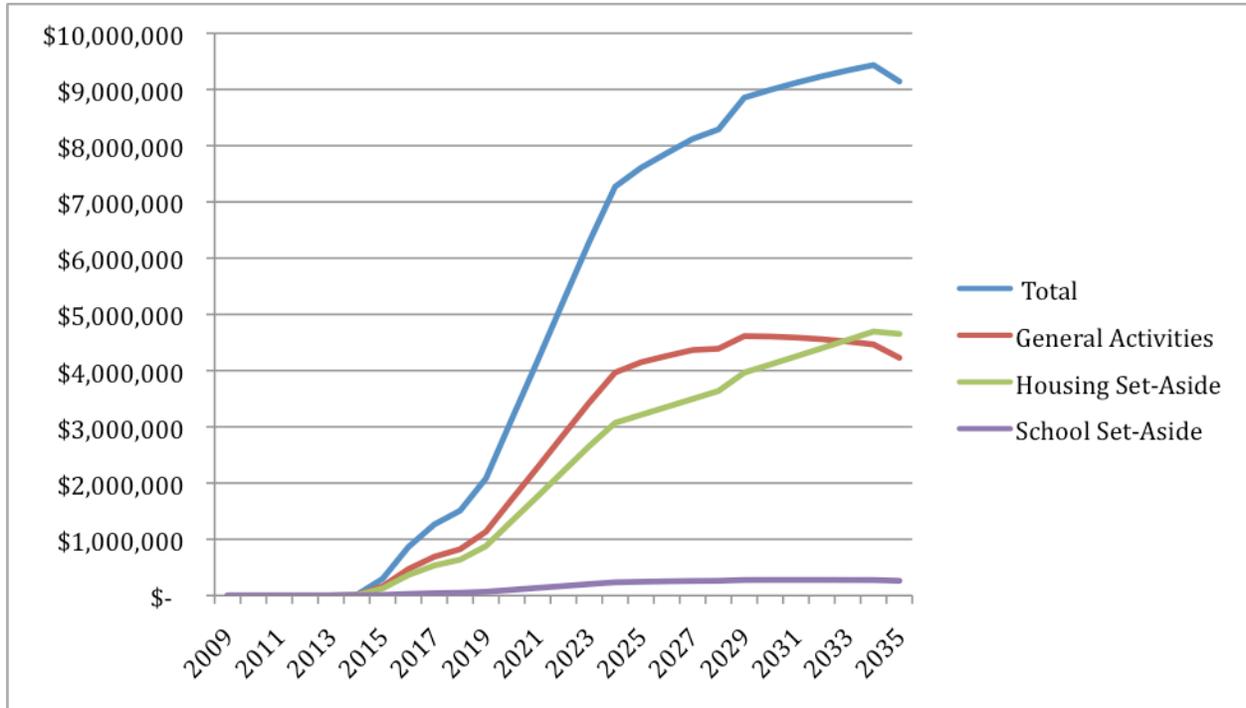


Source: Strategic Economics, 2009.

### Revenue to the Coliseum Redevelopment Area

As shown in Figure 5.13, below, the new development in the Plan Area generates a significant and rapidly growing tax increment to the RDA for the duration of the period. At its peak in 2034, the RDA will capture \$9,432,000 from the Plan Area- this is roughly \$4,000,000 more than Alternative 1 at its peak and more than \$5,000,000 more than Alternative 2 at its peak. It is likely that this would diminish in subsequent years, given the increasing pass-throughs as the RDA reaches its termination of its collection period in 2042-2043.

**Figure 5.13: Revenue Generated for the RDA, Alternative 3, 2009-2035 (2009 Constant Dollars)**



Source: Strategic Economics, 2009.