FINAL DRAFT

Fiscal Impact Analysis
And CSD Feasibility Study

Butterfly Village

October 28, 2004

Prepared for

Monterey County
Monterey County Planning & Building Inspection Department

Prepared by

Applied Development Economics
2029 University Avenue • Berkeley, California 94704 • (510) 548-5912
1029 J Street, Suite 310 • Sacramento, California 95814 • (916) 441-0323
www.adeusa.com

CONTENTS

LIST OF TABLES

EXECUTIVE SUMMARY

INTRODUCTION

Part of the Rancho San Juan Specific Plan Area, Butterfly Village is a mixed-use development that will be built on 671 acres of mostly undeveloped land. The project, which will be phased in over six years, will include 1,077 residential units, 45,000 square feet of neighborhood commercial, 71 rental villas, 70 time-shares, a golf course with club house, and parks and open space. At buildout, these components are expected to have a combined market value of $621 million (in 2004 dollars).

As this is a large project in a relatively undeveloped area of the county, it is the County's intention to establish a Community Services District at Rancho San Juan to fund the annual costs of certain public services and the maintenance of certain public facilities. In addition, the County may consider establishing a Community Facilities District (under the Mello Roos) to finance the construction of certain public infrastructure. This document is intended to analyze the fiscal impact of the Butterfly Village project on public services and the evaluate the capacity of the project to support public financing.

FISCAL ANALYSIS

ADE analyzed the fiscal impacts of Butterfly Village on the Monterey County General Fund from project inception through ten years after buildout. Road Fund and Library Costs were calculated separately, along impacts to the North County Fire Protection District, and CSA 74, which funds paramedic services. The fiscal analysis addresses annual operations and maintenance costs for public services, which are summarized in Table 1. Infrastructure and facilities financing is addressed in the next section.

The financing plan in Chapter 4 of the report proposes a Communtiy Services District that would fund public services under the County Public Works Department and the County

Road Fund. The right-hand column in Table 1 shows the effect of the CSD on the General Fund and the Road Fund.

TABLE 1
Fiscal Impact of Butterfly Village at Buildout
(2010 Dollars)

Fiscal Impact		Without CSD	With CSD
County General Fund			
	Revenues	$2,229,788 - $2,894,875	$2,229,788 - $2,894,875
	Costs	2,560,210	1,756,516
	Net Impact	(330,422) - 334,665	473,272 -1,138,359
County Road Fund			
	Revenues	55,695	55,695
	Costs	1,802,195	0
	Net Impact	(1,746,500)	55,695
County Library Fund			
	Revenues	100,479	100,479
	Costs	89,554	89,554
	Net Impact	10,926	10,926
CSA 74 Paramedics			
	Revenues	16,446	16,446
	Costs	NA	NA
	Net Impact	NA	NA
North County Fire Protection District			
	Revenues	786,000	786,000
	Costs (Short term/Long term)	898,539 -358,000	898,539 -358,000
	Net Impact	(112,539) – 42,700	(112,539) – 42,700
City of Salinas (2004 dollars)			
	Revenues	189,737	189,737
	Costs	80,277	80,277
	Net Impact	$109,460	$109,460

Source: ADE, Inc.

General Fund

With No CSD

The analysis projects a range of potential revenues, which may result in either a negative or a positive impact by the project. The negative impact would occur if the County loses the motor vehicle-in-lieu subvention from the state, or the equivalent property tax revenues. If the county continues to receive these funds, then the project will likely have neutral impact on the County General Fund. If the lodging component of the project performs very well, as anticipated by the project sponsor, then the project may generate a positive fiscal benefit for the General Fund.

The services funded through the General Fund would include a patrol of four Sheriff's officers as recommended by the Sheriff's Department. Overall, however, this analysis assumes existing levels of service for County departments, which in some areas such as criminal justice and health services have been demonstrated to be inadequate. However, at this time, the County does not have additional sources of funding for these services, which are mandated by State and Federal law.

With a CSD

The CSD would fund Public Works operations and maintenance services through a special assessment. This would reduce the potential for the project to have a negative impact on the General Fund, as shown in the right hand column of Table 1.

ROAD FUND

The project would generate a negative impact on the County Road Fund. At full buildout of the project, the annual costs to maintain public roads in the project are projected to exceed available revenues by $1.75 million, including annual operating costs for transit services of $353,000.

With a CSD, the limited gas tax revenues generated by the project would be available to fund regional county road maintetnace costs generated by project traffic.

COUNTY FREE LIBRARIES

The Library Fund will receive property tax revenues from the project and these funds are projected to be sufficient to fund the project's proportional share of the cost to operate a new library at Rancho San Juan.

PARAMEDIC SERVICES

The development will generate a total of about $16,400 (2010 dollars) in special taxes for County Service Area 74, which administers paramedic emergency medical services.

FIRE PROTECTION SERVICES

The North County Fire Protection District will receive property tax revenues from Butterfly Village estimated at $786,000 per year at buildout. These funds would easily cover the project's proportional share of the future Rancho San Juan fire station; however, it generates a $110,000 deficit in relation to the interim costs of expanding the Pesante Road fire station.

CITY OF SALINAS

Although not within the City boundaries, Butterfly Village will have fiscal impacts on the City of Salinas due to its proximity. The primary source of revenue generated for Salinas by residents of Butterfly Village will be sales tax, estimated to equal roughly $190,000 at buildout. Costs estimated at $80,300 will be incurred due to increased traffic generated by Butterfly Village residents, as well as their use of some City services such as recreation programs. Thus, Butterfly Village will have small positive fiscal impact on Salinas. As the remainder of Rancho San Juan develops, it will provide additional commercial centers as well as public facilities and services. The impact on Salinas will diminish as Rancho San Juan becomes a more self-sufficient community.

PUBLIC FACILITIES FINANCING

Butterfly Village is subject to development impact fees from several of the service jurisdictions. The developers have agreed to pay $16.3 million in traffic impact fees for regional and local traffic improvements. In the case of the North County Fire Protection District, Butterfly Village will pay a total of $746,000 in public safety impact fees. In the case of schools, Butterfly Village is expected to generate impact fees totaling $6.41 million for the Santa Rita Union School District, and $2.23 million for the Salinas Union High School District. These funds will go towards providing school facilities for the 921 new students that the development is expected to generate. However, due to state funding shortfalls and existing debt obligations, there will still be gap of $7.4 million for the project's share of school facilities.

The developers of Butterfly Village will also donate a site for a new fire station, as well as land for parks and open space. In addition, backbone infrastructure is expected to cost about $35 million in 2004 dollars.

The project will also generate unfunded capital facilities costs of $990,000 for the County Library and $1.1 million for the Sheriff.

Both public and private funding sources will be used to finance the construction of backbone infrastructure and public facilities, and to make up for the shortfalls to the Road Fund and Monterey-Salinas Transit budget stemming from development of the project.

Two separate standards are used in determining how much debt a development can support. The first, value-to-lien ratio, is the ratio of the land value (including infrastructure improvements) to the principal amount of the special tax lien. A minimum value-to-lien ratio of 4:1 is required by law. The value of the land in Butterfly Village is projected to be approximately $202.6 million (in 2010 dollars). Therefore, the maximum debt that could be secured by the property is one quarter of this amount, or about $50.6 million.

The second standard used in determining supportable debt is the effective tax rate, or ETR. Although there is no legal limit, a maximum ETR of two percent of market value has evolved as a standard for residential development and is established as the maximum threshold in the County's adopted Financing Policy. This includes the basic property tax rate plus any special taxes or assessments already paid on the property. Table 2 summarizes the financing capacity of the project based on the ETR, and lists the facilities and services anticipated to be financed.

Financing Policies

The principal objective of the financing program for the Butterfly Village Project is to secure adequate funding for the construction and maintenance of required public facilities in a cost-effective and equitable manner. Butterfly Village is part of the larger Rancho San Juan Specific Plan and therefore bears a relationship to future service demand and facility requirements imposed by development in the balance of the specific plan area. The proposed Community Services District (CSD) for Butterfly Village, as well as the proposed Community Facilities District, may be established to include all of Rancho San Juan, or the CSD may be expanded at a later date. Monterey County has adopted policies that govern these types of financing programs. The County's policies are presented in Appendix B.

Table 2
Summary of Financing Capacity at Buildout (2010)

	Effective Tax Rate (ETR) [a]	Costs in 2010 Dollars
Financing Capacity		
Value of Land		$202,600,000
4:1 Lien Ratio		x25%
Maximum Debt Secured by Land		$50,650,000
ETR		
Ad-Valorem Property Tax Levy	1.00%	$7,566,681
Bond Indebtedness	0.10%	$790,605
Other Parcel Taxes, Assessments,Charges	0.23%	$1,706,400
O&M Services Funded by CSD	0.34%	$2,605,889
Available for Funding Infrastructure [b]	0.33%	$24,749,078
Infrastructure Costs		
Schools	0.12%	$8,855,157
Library	0.02%	$1,181,862
Sheriff	0.02%	$1,324,953
Backbone Circulation Infrastructure [c]	0.18%	$13,387,106
Subtotal Total Public Financed Infrastructure	0.33%	$24,749,078
Rate Based Funding/Developer Funded Public Infrastructure [c]		$22,976,014
Grand Total Cost for Public Facilities		$47,725,092
Grand Total Proposed ETR	2.00%	

Source: ADE, Inc.

Notes: [a] A maximum of 2% is allowed by County policy.
[b] Infrastructure funding capacity is based on the following bond assumptions: 30 yr term, 6.5% coupon rate, 30% debt issuance costs.
[c] Backbone infrastructure costs are shown in 2005 dollars since those facilities would need to be constructed early in the development phase. The available funding capacity is sufficient to complete about 90% of the estimated circulation costs. The remainder is included in the Developer Funded row.

PUBLIC SERVICES FINANCING PLAN

The following table summarizes the service responsibilities under the proposed financing program.

Table 3
Summary of Financing and Service Responsibilities

Service	Responsibility	
	Construction	Operations/Maintenance
Internal Streets/Storm Drainage	Developer/CFD	CSD
Regional Roadways	Developer Impact Fee	County/Cities
Transit	Developer/CFD	MST/CSD
Water Service	Developer/CFD – Rate reimbursement	CA Water Co.
Wastewater Treatment	Developer/CFD – Rate reimbursement	Cal Am Water Co.
Parks and Recreation	Developer - Land Dedication Developer - Park Development	CSD
Library	Developer/CFD	County Free Libraries
Fire Station	Developer Impact Fee/Site Dedication	North County FPD
Police Protection	Developer/CFD	County Sheriff
Schools	Developer Impact Fee CFD Finances Balance	Santa Rita School Dist. Salinas Union HS Dist.
Paramedics	Developer/CFD	County Assessment

Source: ADE, Inc. "CFD" refers to Community Facilities District as authorized by the Mello Roos legislation. "CSD" refers to Community Services District.

1. INTRODUCTION

Following this brief introduction, this report consists of three parts: a project description, a fiscal analysis and a Public Facilities Financing Plan (PFFP) with attendant financing policies. The fiscal analysis of Butterfly Village estimates the annual operating costs and revenues for all services provided to the development through the Monterey County General Fund, the Road Fund, the North County Fire Protection District, and the Monterey County Free Libraries. It reflects the proposed phasing of the development, as provided by the developer, and projects the fiscal performance of the development for a period of ten years after completion of the project. This projection reflects escalations in costs and revenues as the development ages, and is, thus, presented in future dollars.

Initially, the analysis describes the fiscal impacts of the Butterfly Village project without the use of public financing. Subsequently in the PFFP, the report outlines public financing options for mitigating the project's impacts on public services and facilities. The PFFP assesses the level of debt and assessments Butterfly Village can support to pay for backbone infrastructure, as well as budget shortfall costs that can be feasibly financed using public financing

2. PROJECT DESCRIPTION

LAND USE OVERVIEW

Butterfly Village is a mixed-use development proposed for inclusion in the San Juan Specific Plan area, located north of Salinas in unincorporated Monterey County. Altogether, Butterfly Village consists of approximately 671 acres of mostly undeveloped land, allocated as follows: 225.1 acres (34%) to residential uses, 7.6 acres (1%) to hospitality, 4.2 acres (0.6%) to neighborhood commercial, and 229.6 acres (34%) to golf course-related uses. The remaining 204.4 acres (30%) will consist of on-site public facilities, right-of-way (ROW), parks, and open space.

The residential component of Butterfly Village will include 1,077 units, ranging in size from estate (one unit per acre) to high density (15-20 units per acre). The hospitality component will consist of 71 villas and 70 time-shares. A summary of major land use categories, acreages, and unit counts is presented in Table 4.

TABLE 4
Butterfly Village Land Use Summary

Land Use	Acreage	Percent Acreage	Square Feet	Units
Residential	225.1	33.5%		1035
Neighborhood Commercial	4.2	0.6%	45,000	42
Hospitality	7.6	1.2%		70
Golf Course & Facilities	229.6	34.2%		
Parks, Open Space, & ROW	204.4	30.5%		
Total	**671**	**100%**	**45,000**	**1077***

Source: ADE, based on information provided by Bestor Engineers
*Note: Hospitality units are not counted in residential unit totals.

PHASING

This analysis estimates the fiscal impact of Butterfly Village during each year of its development. Because of the variety of uses that comprise the project, the composition of the development will vary from year to year, until all of the components are finally in place at the end of year six.

An estimate of the project's phasing was provided by the developer. Accordingly, we have assumed that the residential component will be built in roughly equal amounts during each year of the project. The commercial portion will also be divided into phases: golf course and clubhouse (year one); golf villas (year four); time-shares (year five); and neighborhood shopping (year six). For the purpose of projecting sales tax revenues, we have assumed that golf-related food service areas as well as sauna, recreational, and sporting facilities will begin operations in year one. A summary of the project's phasing is presented in Table 5.

TABLE 5
Projected Phasing For Butterfly Village

Project Component (Unit of Measure)	Year					
	1	2	3	4	5	6
Residential (units)	180	180	180	180	180	177
Golf Course (acres)	224.2					
Club House (SF)	20,000					
Food Service	(begin operations)					
Gift Shop	(begin operations)					
Pro Shop	(begin operations)					
Sauna, Recreational, & Sporting	(begin operations)					
Golf Villa Suites (units)				71		
Time-Shares (units)					70	
Neighborhood Shopping Center (SF)						45,000

Source: ADE, based on information provided by H-Y-H Corporation

PROJECTED DEVELOPMENT VALUE

Table 6 summarizes the projected development values underlying the fiscal analysis that follows. These figures reflect the expected obtainable prices for the various project components based on current market conditions. Residential values were provided by the developer. Non-residential values were calculated by ADE, Inc. based on projected income data provided by the developer.

In current dollar terms (2004), the residential component of the project will command a total value of $571,635,000 while the commercial components will be valued at $48,922,000. Combined, the total project will be valued at $620,557,000.

TABLE 6
Projected Project Assessed Values For Butterfly Village

Land Use	Acreage	Value (2004 Dollars)	Value (2010 Dollars)
Housing	225.1	$571,635,000	$700,661,000
Non-residential	241.4	$48,922,000	$57,739,000
Totals	**466.5**	**$620,557,000**	**$758,400,000**

Source: ADE, based on information provided by H-Y-H Corporation

Much of the financing analysis in later sections of the report are based on full buildout values for the project in 2010. As shown in Table 6, the future value of the project when it is competed is estimated at about $758.4 million. This reflects a two percent annual inflation for buildings built in the early phases of the project and an overall three percent annual inflation rate in unit values with some resales of early units during the buildout phase.

3. FISCAL IMPACT ANALYSIS

MONTEREY COUNTY SERVICES

This section addresses the revenues generated and costs incurred by the Butterfly Village development as they impact the Monterey County services. The General Fund includes expenditures funded by general tax revenues under the jurisdiction of the Monterey County Board of Supervisors. The Road fund– which covers items such as street light maintenance, median landscaping, and road maintenance–is funded mainly by state gas tax revenues. We have also broken out Library costs and revenues, since this fund receives its own property tax percentage as a funding source.

SUMMARY OF FISCAL IMPACTS

Using a newly developed fiscal impact model that is similar to the one developed for the Rancho San Juan Specific Plan Area in 2003 and the County General Plan Update in 2004, ADE estimated the annual costs and revenues associated with the phased development of Butterfly Village over a period of six years, plus ten years after buildout. The results of this analysis are presented in Table 7a. This part of the analysis does not address the capital costs stemming from construction of public infrastructure and facilities related to the project (see Chapter 4).

As discussed below, there are uncertainties associated with County finances and the performance of the project that necessitate the use of ranges in calculating some of the revenues. This results in a swing of about $800,000 which could result in a positive fiscal impact or a negative impact of between $300,000 to $500,000, once the project is fully developed. The most likely scenario is that the project will have a neutral impact on the County General Fund. The details of this analysis are discussed in the following sections of the report.

Table 7a reflects the projected fiscal impact of the project without the proposed Community Services District (CSD), which is discussed in more detail in Chapter 4. The CSD is proposed to fund the public works facilities maintenance and operation costs through a special assessment, which would improve the potential fiscal impact of the project on the General Fund and likely remove the prospect that the project may have a negative fiscal impact on the County.

TABLE 7a
Estimated Fiscal Impacts Of Butterfly Village on the Monterey County General Fund Without a CSD Through 10 Years After Buildout

	2010 Year 6 (Buildout)	2015 Year 11 (Five Years After Buildout)	2020 Year 16 (Ten Years After Buildout)
Revenues			
Property Tax	$1,088,861	$1,278,064	$1,500,533
Sales & Use Tax	$109,636	$127,098	$147,341
Tot Tax	$653,459 - $953,047	$757,538 - $1,104,642	$878,194 - $1,280,815
Timeshare Assessment Fee	$42,628	$49,417	$57,288
Utility Franchise Fees	$133,512	$154,777	$179,429
Real Property Tsf. Tax	$107,809	$127,150	$149,956
Fines, Forfeitures, & Penalties	$46,029	$53,360	$61,859
Licenses And Permits	$31,487	$36,503	$42,316
Motor Vehicle-In-Lieu/Property Tax*	$0 - $360,736	$0 - $418,192	$0 - $484,799
Use Of Money Or Property	$16,367 - $24,300	$19,103 - $28,300	$22,301 - $32,962
Subtotal	**$2,229,788 - $2,894,875**	**$2,603,011 - $3,374,029**	**$3,039,219 - $3,933,040**
Expenditures			
General Government	$342,831	$397,436	$460,737
Public Protection	$870,970	$1,009,693	$1,170,511
Judicial	$35,615	$41,288	$47,864
Sheriff	$353,439	$409,733	$474,993
Detention And Correction	$404,997	$469,503	$544,283
Other Protection	$76,918	$89,168	$103,371
Public Works	$803,694	$931,702	$1,080,097
Health And Sanitation	$285,268	$330,704	$383,376
Public Assistance	$120,999	$140,271	$162,612
Recreation-Cultural	$84,863	$98,379	$114,049
Education	$51,586	$59,802	$69,327
Subtotal	**$2,560,210**	**$2,967,986**	**$3,440,709**
Net	**($330,422) - $334,665**	**($364,974) - $406,043**	**($401,489) - $492,331**

Source: ADE, based on data from County of Monterey Final Budget, Fiscal Year Ending June 30, 2004, and Monterey County Public Works Department.

*The motor vehicle in-lieu tax was reduced by the Governor this year; however, the loss to counties is to be replaced with additional property taxes from the State. This number represents the remaining vehicle in-lieu tax plus these replacement property tax revenues.

TABLE 7b
Estimated Fiscal Impacts Of Butterfly Village on the Monterey County General Fund
With a CSD
Through 10 Years After Buildout

	2010 Year 6 (Buildout)	2015 Year 11 (Five Years After Buildout)	2020 Year 16 (Ten Years After Buildout)
Revenues (No Change)	**$2,229,788 - $2,894,875**	**$2,603,011 - $3,374,029**	**$3,039,219 - $3,933,040**
Expenditures			
Public Works	0	0	0
Other Costs (No Change)	1,756,516	2,036,284	2,360,612
Subtotal	**1,756,516**	**2,036,284**	**2,360,612**
Net	**$473,272 - $1,138,359**	**$566,727 - $1,337,745**	**$678,607 - $1,572,428**

Source: ADE, based on data from County of Monterey Final Budget, Fiscal Year Ending June 30, 2004, and Monterey County Public Works Department.

Fiscal Analysis Methodology

Per-Capita Factors

Most of the recurring costs and revenues in this analysis were estimated based on per-capita and per-employee factors that were developed for the fiscal model. Some of these per-capita and per-employee factors were calculated based on the total County population, others were based on the unincorporated population only, and still others were calculated with proportions of costs allocated to each category, as indicated in Table 5.[1] For each year of the development and for ten years thereafter, the per-capita factors were multiplied by the projected cumulative population, while the per-employee factors were multiplied by the projected cumulative employment base to obtain the total annual cost and revenue estimates shown in Table 7. Based on the residential phasing schedule and an estimated population density of 3.16 persons per household (provided by the County), it was assumed that 569 new residents would be added each year through year five, and that 558 new residents would be added in year six.

[1] Essentially, there are two basic types of services that the County provides – c*ountywide* services and *municipal* services. Countywide services are those that are available to all County residents regardless of whether they reside in one of the County's incorporated cities or within the unincorporated territory of the County (e.g. medical and social services, courts, and probation). Municipal services are those that are provided only to unincorporated area residents, and which would normally be provided by a municipality (e.g. police protection through the County sheriff patrol and land use planning).

The number of employees added for the golf course, its related uses, the villas, and the time-shares was estimated using 1997 Economic Census data. The number of employees added for the neighborhood shopping center was estimated as a percentage of total employment for Rancho San Juan based on square footage. In addition to the per-capita factors developed for this analysis, a number of more specific data sources were used to estimate the major costs and revenues, as noted in Table 8 and discussed further below.

Inflation Factors

Because this analysis estimates the impact of Butterfly Village over several years, inflation must be accounted for. To this end, we looked at two inflationary factors: one for revenues and one for costs. On the revenue side, we assumed that the items on which revenues are based would escalate at a rate similar to that of the Consumer Price Index, which is roughly three percent annually for the Monterey County region. The cost escalation factor for all expense items except public ways and facilities was to be estimated based on the growth of the County budget per person. However, this amount has fluctuated over the past few years due to budget constraints and funding changes imposed by the State. Because of this, we again utilized the Consumer Price Index inflation rate of three percent.

TABLE 8
Bases For Butterfly Village Revenue And Expenditure Calculations

	Basis for Calculation
REVENUES	
Property Tax (General Fund)	Assessed Value
Sales & Use Tax	Taxable Income
TOT Tax	# of Guest Rooms, Rental Rates, & Vacancy Rates
Time-Share Assessment Fee	# of Shares
Utility Franchise Fees	Unincorporated per Capita & Employee
Real Property Transfer Tax	Assessed Valuation & Turnover Rate
Fines & Forfeitures	Countywide per Capita & Employee
Licenses & Permits	Countywide per Capita & Employee
Motor Vehicle-In-Lieu	Countywide per Capita
Gas Tax	Countywide per Capita plus Unincorporated Road Miles
Use of Money Or Property	Unincorporated and Total per Capita
EXPENDITURES	
General Government	Unincorporated and Countywide per Capita and Employee
Public Protection	
Judicial	Countywide per Capita & Employee
Sheriff	Unincorporated per Capita & Employee
Detention and Correction	Countywide per Capita & Employee
Other Protection	Countywide per Capita & Employee
Public Ways & Facilities	Public Works Staff Estimates
Health & Sanitation	Countywide per Capita
Public Assistance	Countywide per Capita
Recreation-Cultural	Unincorporated per Capita
Education	Countywide per Capita

Source: ADE

As shown below in Table 9, public ways and facilities includes expenses related to the maintenance of roads and paths. Because these maintenance costs are related to the price of construction materials as well as labor, we have tied their escalation to the Construction Cost Index published in Engineering News-Record[2]. The average annual increase in this index between June 1994 and June 2004 was 2.8 percent, which we rounded to three percent for our analysis. Although the price index increased by 6.4 percent between June 2003 and June 2004 due to a construction boom in Asia, we feel that the ten-year average more accurately represents cost inflation over the long term.

All three inflation rates were compounded for each year of the project, and the resulting inflationary factors multiplied by costs and revenues to estimate their future values.

[2] This index is based on the price of 200 hours of common labor at the 20-city average of common labor rates, plus 25 cwt of standard structural steel shapes at the mill price prior to 1996 and the fabricated 20-city price from 1996, plus 1.128 tons of Portland cement at the 20-city price, plus 1,088 board-ft of 2 x 4 lumber at the 20-city price.

REVENUES

Property Tax

Property taxes are by far the largest source of revenue for the Monterey County General Fund. Several steps were used to calculate the amount of property tax generated by Butterfly Village over the analysis period. First, we assumed an annual escalation of estimated project values during the phasing period. As a result, any component of the project added after year one was first adjusted to its estimated future value using the inflation multiplier.

We next considered the effects of Proposition 13[3] on property tax escalations. Because commercial properties do not change hands very often and our analysis covers a total of only sixteen years, we assumed that, once they were built, commercial components of the project would not be reassessed to market value and would, thus, increase in value by only two percent each year. In the case of residential properties, we estimated a turnover rate of once every seven years, or fifteen percent per year. Properties not sold in a given year escalated in value by the two percent allowed, while properties that were sold in a given year were assumed to escalate in value by 12.25 percent[4]. This process was repeated for each year of phasing through ten years after buildout to estimate total residential valuations. Residential and commercial valuations were then summed for each year to obtain a total. This total was multiplied by one percent to obtain the total property tax collected. A rate of 14.39 percent was then applied to this amount to obtain the amount of

---

[3] Under the provisions of Proposition 13, property assessments may only be raised by a maximum of two percent each year until the property changes ownership (with a few exceptions). Once sold, the property is reassessed to market value and the two-percent increases begin again. Taxes are limited to one percent of assessed value, plus any additional taxes up to two percent passed by two-thirds of the voters.

[4] This escalation rate was based on the average annual increase in Monterey County median home prices from January 1998 to January 2004. Data was obtained from rereport.com.

property tax allocated to the Monterey County General Fund.[5]

Sales and Use Tax

Sales and use tax was calculated based on the annual income of the taxable components of Butterfly Village, including golf-related restaurants and shops and the neighborhood shopping center. After adjusting for inflation, income from these uses was multiplied by the County sales tax rate of 1.25 percent to obtain the total tax.

TOT Tax

A transient occupancy tax (TOT) of 10.5 percent is levied on guest room receipts in Monterey County. However, in recent years the County has lost about eight percent of TOT revenues due to the loss of set-aside funds.[6] After adjusting future golf villa income for inflation and vacancy rates, the TOT rate was applied to obtain the annual revenues from this use. The vacancy rates used range from 25 percent as anticipated by the developer to 40 percent, which is more typical of lodging industry experience in the Salinas Valley.

According to the Monterey County Code, the TOT also applies to timeshare projects. In the case of timeshares, the tax is levied on shares that are rented out by their owners, based on the rent charged. The developers of Butterfly Village estimate that each one-week share will rent for an average rate of $1,250, which is in line with rents at other time-share facilities in the area. The developer anticipates that as many as 75 percent of the timeshares would be rented on a regular basis. Similar facilities in the Monterey Peninsula area, however, experience closer to a 40 percent rental rate. Adjusting future timeshare rental income for inflation, and applying this range of rental occupancy levels, we calculated a range of potential TOT revenues. The total TOT tax from

[5] This 14.39 percent represents the 23.98 percent of property tax revenues allocated to the County within Tax Rate Area 122-001, multiplied by 60 percent to account for the ERAF shift. It is anticipated that an additional percentage of the property tax will be diverted by the State in the upcoming year, although the amount has not yet been determined.

[6] Lou Solton, Monterey County Treasurer, personal communication, August 12, 2004.

both villas and time-shares would range from $653,459 to $987,000 at buildout.

Time-Share Assessment Fee

In addition to the transient occupancy tax, timeshares are subject to an assessment fee of $10 per share, which covers the cost of administering the property tax for this use. We assumed that this fee will increase at the same rate of inflation we used for other revenue factors. Assuming that each of the seventy units is divided into fifty-one shares (to allow for one week of maintenance per year), there will be a total of 3,570 shares in the project.

Real Property Transfer Tax

This tax, which is set at $1.10 per $1,000 of assessed valuation, is assessed each time a property is sold. This tax was applied to fourteen percent of the residential property valuation each year, on the assumption that only residential properties would change hands during the analysis period.

Other Revenues

Several revenue categories including *fines, forfeitures, and penalties; licenses and permits; motor vehicle-in-lieu fees; and the gas tax* were calculated based on per-capita and per-employee factors as described above.

EXPENDITURES

As with the revenues, the County expenditures in Table 4 were estimated based on per-capita and per-employee cost factors that were developed for the fiscal analysis of the Rancho San Juan Specific Plan, with the following exceptions.

Public Ways and Facilities

The estimates for the *Public Ways and Facilities* category of County expenditures includes a detailed analysis of operations and maintenance costs for Butterfly Village, conducted by County Public Works staff (Table 9). A major portion of these costs would actually be included in the County Road Fund, rather than the General Fund, including items such as pavement maintenance, street sweeping, and median landscaping. However, some of the costs, shown in the table with a double asterisk, represent levels of service that are not provided in the County except through special maintenance districts or other funding sources in excess of Road Fund revenues. The Road Fund is discussed separately below.

In the fiscal analysis, these costs were added annually during development phasing roughly in proportion to the number of acres being developed each year (in Tables 7 and Table 10 below). Accounting for inflation, the total operations and maintenance cost for Butterfly Village will be approximately $2.6 million per year at buildout, of which about 30 percent would be General Fund costs and the remainder would be Road Fund Costs.

TABLE 9
Estimated Costs Of Public Works Maintenance and Operations Services For Butterfly Village

	Maintenance Item	Total Estimated Annual Cost (2004 Dollars)	Total Estimated Annual Cost at Buildout (2010 Dollars)
1	Street Light Maintenance**	$76,700	$91,584
2	Pavement Maintenance & Management**	713,441	851,886
3	Street Sweeping**	171,892	205,248
4	Signal Maintenance	81,939	97,839
5	Median & Landscape Maintenance**	93,127	111,199
6	Curb, Gutter, & Concrete Sidewalk Maintenance	3,195	3,815
7	Sign Maintenance	1,722	2,056
8	Pavement Markings Maintenance	14,294	17,068
9	Fixed Route Transit/Paratransit**	353,000	421,500
	Subtotal Road Fund Eligible	**1,509,310**	**1,802,195**
10	Bicycle Path Maintenance*	cost included in items 2, 3, & 8	cost included in items 2, 3, & 8
11	Open Space Maintenance*	113,551	135,586
12	Swale (V-Ditch) Maintenance*	Cost included in item 5	cost included in item 5
13	Storm Drain Maintenance*	120,664	144,079
14	Percolation Pond Maintenance*	66,598	79,521
15	Trails & Parks Maintenance*	2,268	2,708
16	Water Management Coordinator*	150,000	179,108
17	Administrative Cost*	220,000	262,962
	Subtotal Non-Road Fund Eligible	**673,081**	**803,694**
	Grand Total Annual Cost	**$2,182,391**	**$2,605,889**

Source: ADE, based on information provided by Monterey County Public Works Department and the Engineering News-Record Construction Cost Index.

* Services not eligible for Road Funds.

** Services in excess of uniform County application of funds.

Sheriff

The estimated annual cost for providing police protection to Butterfly Village residents and businesses is based on information provided by the office of the Monterey County Sheriff for the Rancho San Juan Specific Plan Environmental Impact Report. Cost calculations assume that Butterfly Village will require a total of four sheriff deputies to provide adequate police protection, in accordance with a standard of one deputy per 1,000 residents. At a cost of $74,000 per deputy (in 2004 dollars), this would total $353,349 in 2010 dollars at buildout. The fiscal analysis summarized in Table 7 above suggests that this amount could be funded through General Fund revenues as is typically done in the unincorporated areas of the County currently.

However, the cost of a sheriff's substation at Rancho San Juan is unfunded. The Sheriff anticipates approximately a 5,000 sq.ft. facility to serve the fully built Rancho San Juan development, of which about 25 percent would be attributable to Butterfly Village. Based on previous analysis of Sheriff's facility costs, it is estimated that dwelling units and commercial development in the Greater Salinas Planning Area generate costs of about $870 per unit/1,000 sq.ft. for equipment and facilities for Sheriff services. Additionally, non-retail uses generate costs of about $290/1,000 sq.ft. On this basis, the cost to serve Butterfly Village is estimated at $1,109,627. The County currently does not have an impact fee to cover this expense; however, the cost could be funded through CFD bond financing as discussed in Chapter 2.

ROAD FUND

The state gas tax, which is the primary revenue source dedicated to funding public ways and facilities maintenance, is insufficient to cover the public works costs that will be generated by the new development. The project is estimated to generate a shortfall of about $1.75 million at buildout, with $55,700 in revenues against $1.8 million in expenditures (see Table 10). These expenditures include the cost of providing transit services to the project as discussed below. To make up the difference, maintenance assessments will be needed, as detailed in the Chapter 4 of the report.

TABLE 10
Estimated Fiscal Impacts Of Butterfly Village on Monterey County Roads and Facilities Maintenance

	2010 Year 6 (Buildout)	2015 Year 11 (Five Years After Buildout)	2020 Year 16 (Ten Years After Buildout)
Revenues			
Gas Tax	$55,695	$64,366	$74,850
Expenditures			
Public Ways and Facilities	$1,802,195	$2,089,238	$2,421,999
Net Shortfall	**($1,746,500)**	**($2,024,672)**	**($2,347,150)**

Source: ADE, based on data from County of Monterey Final Budget, Fiscal Year Ending June 30, 2004, and Monterey County Public Works Department.

Monterey-Salinas Transit

To serve the new residents and employees of Butterfly Village, Monterey-Salinas Transit (MST) plans to add an additional bus to one of its existing routes. The addition of a new route is considered unnecessary at this time due to the development's expected population and location adjacent to an existing route. However, once the entire Rancho San Juan Special Plan area is built out, MST will establish a new bus line to serve the area.

To serve Butterfly Village, MST will add a single bus operating on a 12-hour service day, at a cost of $318,207 per year in 2004 dollars. With an 11 percent overage added to cover paratransit, the total cost rises to $353,210 per year. To provide a new bus line for Rancho San Juan, MST will add two buses operating on a 15-hour service day, at a cost of $795,518 per year. Adding the 11 percent cost of paratransit brings the total cost to $883,025 per year.

MST is a joint powers agency made up of member jurisdictions including the cities of Carmel, Del Rey Oaks, Marina, Monterey, Pacific Grove, Salinas, Seaside, and the County of Monterey. Only about 30 percent of MST's budget is currently generated by farebox revenues; the rest (about $1.75 per passenger trip) is subsidized by member agencies through Local Transportation Fund monies, as well as by State and federal grants. The percentage of revenues generated by fares is expected to drop in the coming year due to flat ridership combined with increased costs. In addition, MST has had to cut its core services over the past 18 months due to funding constraints. The agency does not expect residents and employees at Butterfly Village to contribute to an increase in traditional funding sources. Consequently, the County of Monterey is requesting that new operating costs incurred by providing service to Butterfly Village be funded by a community services district, as described in Chapter 2 of this report. These costs are included in the Road Fund expenditures shown in Tables 9 and 10.

Monterey County Free Libraries

Library services are provided to residents of unincorporated Monterey County by the 17 branches of the Monterey County Free Libraries. To adequately serve the residents of Rancho San Juan, both in terms of capacity and proximity, the library system will require a new branch at the site of the development. According to the Rancho San Juan DEIR, the library should be approximately 7,600 sq.ft., with Butterfly Village generating the need for about 2,042 sq.ft. Recent studies of County service and facilities costs indicate that libraries cost about $485 per sq.ft. including books and furniture. The Butterfly Village share of the library costs would therefore be estimated at about $990,000. The County currently has no impact fee established for library facilities, leaving this obligation unfunded. The library could be funded with a Community Facilities District, as discussed in the next chapter of this report.

According to library administration, the full library would cost roughly $300,000 per year to operate[7]. Based on its size in proportion to Rancho San Juan, roughly a quarter of this cost, or $75,000 per year, can be attributed to Butterfly Village. For revenues, the library system relies on 1.33 percent of the one percent property tax collected by the County[8].

It is likely that the new library will not be built until after Butterfly Village, and possibly most of Rancho San Juan, has

---

[7] According to personal communication from Robert McElroy, County Librarian.

[8] This 1.33 percent represents the 2.2132 percent of property tax revenues allocated to the library system multiplied by 60 percent to account for ERAF.

been constructed. To estimate the financial impact of the library branch, costs and revenues, adjusted for inflation, were netted from buildout through ten years after the completion of Butterfly Village. Based on these calculations, it is projected that Butterfly Village will generate sufficient revenues to cover its share of costs for the library from buildout through ten years thereafter (Table 11).

TABLE 11
Estimated Fiscal Impacts Of Butterfly Village on the Monterey County Library Fund

	2010 Year 6 (Buildout)	2015 Year 11 (Five Years After Buildout)	2020 Year 16 (Ten Years After Buildout)
Revenues			
Property Tax (Library)	$100,479	$117,939	$138,468
Expenditures			
Library	$89,554	$103,818	$120,353
Net Library Fund Revenues	**$10,926**	**$14,122**	**$18,115**

Source: ADE, based on data from County of Monterey Final Budget, Fiscal Year Ending June 30, 2004, and Monterey County Free Library, Mr. Robert McElroy, County Librarian.

PARAMEDIC SERVICES

Monterey County provides ambulance service for residents through a County Service Area (CSA 74), which pays a paramedic ambulance subsidy to public and private providers that operate in the County. Services are funded from the Paramedic Emergency Medical Services Special Tax, which is levied on all parcels of real property in the CSA at a rate of $12 per benefit unit per year. It is expected that Butterfly Village will generate $13,773 in revenues (in 2004 dollars) for paramedic service at buildout. Benefit units and taxes that will be levied on each land use in Butterfly Village are shown in Table 12.

TABLE 12
Paramedic Emergency Medical Services Special Tax by Land Use

Land Use	Units	Benefit Units	2004 Total Tax at $12/Benefit Unit	Total Tax/ Benefit Unit – 2010 Dollars
Residential	1035	1	$12,420	$14,830
Timeshare	70	1	$840	$1,003
Hotel	71	0.2	$171	$204
Neighborhood	1	7	$84	$100

Commercial				
Recreation	1	2	$24	$29
Golf Course				
Club House	1	1	$12	$14
Restaurants	3	4	$144	$172
Shops	2	2	$48	$57
Park	1	2	$24	$29
Open Space	1	0.5	$6	$7
Total			**$13,773**	**$16,446**

NORTH COUNTY FIRE PROTECTION DISTRICT IMPACT ANALYSIS

FISCAL IMPACT

Butterfly Village falls under the jurisdiction of the North County Fire Protection District (NCFPD). Because the District is operating at capacity, and will otherwise not be able to maintain acceptable response times, a new fire station will be required as part of the development. To meet this need, H-Y-H is providing a site for the new station, which will also serve the rest of the Rancho San Juan development.

The Salinas Rural and North County Fire Protection Districts spend approximately $7.2 million annually to operate their six existing stations. Taking the average, we estimated the cost of operating a new fire station at Rancho San Juan to be roughly $1.2 million annually. Fire Chief Mark Pereira of the NCFPD confirmed that this is a valid estimate. Based on its size in proportion to Rancho San Juan, roughly a quarter of this cost–or $300,000–can be attributed to Butterfly Village.

To correspond with the progress of new construction at Rancho San Juan, the North County Fire District expects to expand in three phases. In the short term, the Pesante Road Fire Station will be expanded to accommodate the demands of Butterfly Village. As the rest of the Specific Plan Area is developed, a new station will be built at Rancho San Juan. Once the new station is operating, the Fire District will move the Pesante Road Station to a new location further from Rancho San Juan.

The interim cost of adding an engine company to the Pesante Road station is estimated to cost $750,000 per year plus some additional cost for facility improvements. This is well above the eventual fair share of fire protection service costs for Butterfly Village mentioned above. However, it represents the actual marginal cost of providing service to the development in the short term.

For revenues, the NCFPD receives 10.38 percent of the one percent property tax collected by the County[9]. Revenues and expenditures were netted over the development of the project and projected to ten years after buildout. Based on these parameters, at buildout (year six), Butterfly Village would generate a net gain of $427,000 for the NCFPD if the Rancho San Juan Fire station were operational and the project were allocated only its fair share cost (Table 13). However, with the marginal cost of expanding the Pesante Road station, the project would generate a negative impact of about $110,000 per year, which would increase to more than $120,000 per year in ten years if the Rancho San Juan station is not built.

Capital Facilities and Impact Fees

As noted above, H-Y-H will be donating the land for construction of the new fire station. Based on the preliminary gross land value analysis for the project, a one-acre site would be valued at about $260,000.

Existing impact fees for the fire district are currently $0.29 per square foot new residential units, while new sprinklered commercial units pay a rate of $0.18 per square foot. Based on these rates, Butterfly Village, would generate a fire protection impact fee of $746,000.

[9] This 10.38 percent represents the 10.7046 percent of property tax revenues allocated to the North County Fire District multiplied by 97 percent to account for the ERAF shift.

TABLE 13
Estimated Fiscal Impact Of Butterfly Village On The North County Fire Protection District Through Ten Years After Buildout

	2010 Year 6 (Buildout)	2015 Year 11 (Five Years After Buildout)	2020 Year 16 (Ten Years After Buildout)
Revenues			
Property Tax (Fire)	$786,000	$922,000	$1,083,000
Expenditures			
Fire	$358,000	$415,000	$481,000
Net	**$427,000**	**$507,000**	**$601,000**

Source: ADE, North County Fire Protection District

IMPACT ON SCHOOL DISTRICTS

Butterfly Village will contain 1,077 residential units at buildout. Of these, approximately 907 will fall within the Santa Rita Union District and 170 will fall within the Lagunita Elementary School District. All of the units will fall within the Salinas Union High School District. Based on student generation rates for each district, Butterfly Village is expected to generate 609 students for Santa Rita, 85 for Lagunita, and 227 for Salinas, for a total of 921 students (Table 14).

TABLE 14
Expected Number of New Students in Butterfly Village

District	New Households	Student Generation Rate per Household	New Students
Santa Rita Union			
K-6	907	0.55	500
7-8	907	0.12	109
Lagunita	170	0.50	85
Salinas Union	1077	0.21	227
Total			**921**

Sources: Applied Development Economics based on data from H-Y-H Corporation, Santa Rita Union District, Lagunita Elementary School District, and Salinas Union High School District.

SCHOOL FACILITIES PROVISION

Both the Santa Rita Union School District and Salinas Union High School District are already operating beyond capacity. Lagunita Elementary School (grades K-8) currently has space for 38 new students. With the 85 students generated by Butterfly Village, student demand would exceed the school's design capacity by 47, and would necessitate the use of portables. However, the Lagunita Elementary School District does not plan to build additional school facilities to accommodate new development and will not receive impact fees collected from Butterfly Village.

Although no schools are currently planned for the H-Y-H site, three elementary schools and one middle school are proposed as part of the Rancho San Juan Specific Plan. Part of the Santa Rita Union School District, these schools will provide enough capacity to accommodate all the K-8 students throughout the entire Specific Plan area. A new high school (to be part of the Salinas Union High School District) proposed as part of the Specific Plan would provide enough capacity to house new students and alleviate overcrowding in existing schools.

Although proposed school facilities at Rancho San Juan will provide the districts with adequate capacity in the long run, there will likely be overcrowding problems as the Specific Plan Area is developed. This is because the schools will most likely be built after the residential areas of the development are occupied.

According to Superintendent Bob McLaughlin, the Santa Rita Union School District will only be able to accommodate between 100 and 200 children until the proposed schools are built by utilizing portables on existing school sites. This falls far short of the 609 slots necessary to house expected students. Accommodating even 200 students will put a strain on the district, as they have just lowered school enrollments to a manageable size.

A similar situation will occur with the Salinas Union High School District. Everett Alvarez High School–where students from Butterfly Village will be sent until a new facility is built at Rancho San Juan–recently added 22 classrooms and will be removing ten of its 55 portables within the next year. According to Karen Luna of the District's Financial Services Department, some of these portables will have to be put back in order to accommodate Butterfly Village High School students in the near term.

School Facilities Costs and Finance

The most recent school opened in the Santa Rita School District was at Harden Ranch in Salinas. The school has a capacity for 700 students and cost $22,680,000, including land and construction.[10] On this basis, the 609 students from Butterfly Village would require facilities costing about $19.4 million.

A 2,000-student high school is estimated to cost $64,445,000.[11] The Butterfly Village project would generate about 11 percent of the demand for a high school (227 students), at a pro rata cost of $7.3 million.

Financing and construction of new school facilities is a complex, multi-step process that is difficult in the best of cases. Ideally, 50 percent of the funding for development is provided by the district from impact fees and negotiated developer fees, and the State makes up the remaining 50 percent with grant funding. In actuality, State funds amount to only about 40 percent of the total cost due to the manner in which they calculate their numbers. Additionally, developers' fees generally take five to ten years to collect and, as noted above, districts must rent portables to house students until new school facilities are developed. At $40,000 to $50,000 annually per portable plus another $50,000 for associated infrastructure and installation costs, a large portion of fees earmarked for new facilities is eaten up before new schools can even be built. Although it is also possible to finance new facilities with bond debt, this funding source cannot be used in the case of Santa Rita Union School District, which has already reached its debt limit.

Given the lack of other financing options, a Mello Roos Community Facilities District can be utilized to fund the construction of needed school facilities. Fees charged for

[10] Dr. Bob McLaughlin, Superintendent, Santa Rita Union School District, personal communication, September 16, 2004.

[11] Karen Luna, Financial Services Department, Salinas Union High School, personal communication, September 16, 2004.

school facilities funding could eventually be retired when the district issues its next general obligation bond.

The Salinas Union High School District currently administers the impact fees for all the districts within its territory. The total fee amount is collected from developers, and is then divided between the High School District and other districts within its boundaries. As noted above, the Lagunita District has opted out of providing new facilities, and will not receive impact fees from the Butterfly Village Development. Of a total of $3.49 per residential square foot, the Santa Rita Union School District receives $2.59, while the Salinas Union High School District receives $0.90. Of the $0.30 per square foot collected from commercial uses, $0.25 is allocated to Santa Rita, while $0.11 is allocated to Salinas. Based on these rates, Butterfly Village is expected to generate impact fees (in 2004 dollars) of $6,405,353 for the Santa Rita Union School District and $2,231,297 for the Salinas Union High School District (Table 15).

With the fees shown in Table 10 and assuming the state pays for 40 percent of the schools costs, the Butterfly Village project would generate a deficit of about $7.4 million in school facilities costs (Table 16 – 2004 dollars). This figure is included in the potential CFD financing program in the next chapter of this report.

TABLE 15
School Impact Fees Generated by Butterfly Village

Land Use	Fee per Sq Ft	Square Feet	Total Fee (2004 Dollars)
Residential			
Santa Rita	$2.59	2,450,156	$6,345,904
Salinas	$0.90	2,450,156	$2,205,140
Commercial			
Santa Rita	$0.25	237,795	$59,449
Salinas	$0.11	237,795	$26,157
Total			
Santa Rita			$6,405,353
Salinas			$2,231,297

Source: Applied Development Economics, based on data from the Salinas Union High School District.

TABLE 16
Schools Costs and Funding Sources

	Percent Share	2004 Dollars	2010 Dollars
Santa Rita Union School District			
Facility Cost (Project Share)	85.71%	$19,440,000	$23,212,377
Impact Fees		6,405,353	7,648,326
State Funds	40.00%	7,776,000	9,284,951
Remainder		5,258,647	6,279,100
Salinas Union High School District			
Facility Cost (Project Share)	11.35%	7,314,508	8,733,904
Impact Fees		2,231,297	2,664,285
State Funds	40.00%	2,925,803	3,493,562
Remainder		2,157,408	2,576,057
Total Potential CFD Financing		$7,416,055	$8,855,157

Source: ADE, Inc. based on data provided by the school districts.

PARKS FACILITIES

As part of their site design, H-Y-H has designated 10 acres as parkland and 132.9 acres as open space, for a total of 142.9 acres. The donated parkland and open space will comprise 21.3 percent of the land area in Butterfly Village. In the case of Rancho San Juan (excluding Butterfly Village), the development will include 76.5 acres of parkland and 450.6 acres of open space. At a total of 527.1 acres, this will make up 27.6 percent of Rancho San Juan's land area. The developer will also be responsible for development of the parks.

CITY OF SALINAS FISCAL IMPACT ANALYSIS

SALINAS FISCAL IMPACTS

Due to its proximity, Butterfly Village will affect costs and revenues for the City of Salinas. The primary revenue Butterfly Village residents will generate in Salinas is sales tax. Butterfly Village residents will spend about $30 million per year on retail goods, of which about $25 million will be taxable (Table 17). We estimate they will spend about $3.3 million onsite, which is equivalent to about 40% of the projected onsite taxable sales. The remaining 60% would be generated by visitors to the golf course and the hospitality units. We believe about two-thirds of the purchases offsite will occur in Salinas, amounting to about $15.2 million and generating about $189,700 in sales taxes for Salinas. While Salinas faces strong competition from retail outlets on the Monterey Peninsula, particularly for higher priced, specialty goods and restaurants, it enjoys significant market capture for discount goods, household items, auto sales and service, and groceries.

In the process of making shopping trips and possibly using other City services, project residents will generate traffic in Salinas, which will affect road maintenance costs as well as traffic and parking enforcement costs for the City. We have evaluated the cost of these functions and assumed that Butterfly Village residents would generate the same impact as Salinas residents, less the internal portion of project trips, which is estimated at seven percent in the Rancho San Juan EIR (see Table 5.2-13 in the DEIR). Residential development is estimated to generate 60% of the total trips, with the golf course at Butterfly Village boosting this proportion by five percent.[12] Currently available budget figures for Salinas provide only departmental level budgets, but we have estimated the portion allocated to sub-functions based on earlier years' budgets (2000-2001) for the City. Traffic and parking enforcement is estimated to comprise about five percent of the City Police Department budget while maintenance of streets, street lights and traffic signals, plus administrative overhead, are estimated at 21% of the Public Work budget. The resulting annual costs for these services are shown in Table 18.

It is also possible there would be mutual aid calls for service to the fire department and emergency medical services. However, the project is providing for direct fire protection from North County Fire District, as well as participating in County funding of paramedic services through CSA 74.

---

[12] Absent a comprehensive trip distribution for the City of Salinas, the 60% figures is based on the trip distribution for Rancho San Juan as a whole, which is a well-balance land use mix (DEIR Table 5.2-6). Credit for internal trip reduction is given to the non-residential land uses. The five percent addition for the golf course comes from DEIR Table 5.2-13.

Therefore, it is likely any mutual aid provide by the City of Salinas would be reciprocated and would not cause a net impact on those City services.

Although the project will provide onsite parks and the golf course, it is possible that project residents would seek to participate in City recreation programs. We have made the assumption that Butterfly Village residents will have about half the impact on city recreation services as do Salinas residents

From this analysis, it may be concluded that Butterfly Village would generate a minor net fiscal gain for the City of Salinas, at least during its initial years. If anything, it is likely project residents will make shopping trips to Salinas stores well before they begin participating in City recreation programs or impact other City services. Moreover, in the longer term this fiscal balance is likely to be maintained. When municipal services are fully developed at Rancho San Juan, demand for use of City services will diminish considerably. At the same time, however, Rancho San Juan will provide a greater variety of retail shopping opportunities, which will reduce the sales tax gain by Salinas.

TABLE 17
Estimated Retail Purchases by Butterfly Village Residents, At Buildout
(2004 Dollars)

Retail Group	Projected Spending by Project Residents	Total Taxable Sales	Onsite Sales	Sales in Salinas	Sales Elsewhere
Total	**$30,231,565**	**$25,500,818**	**$3,297,990**	**$15,178,941**	**$7,023,886**
Apparel Store Group	**1,746,696**	**1,746,696**	**349,339**	**524,009**	**873,348**
Women's Apparel	393,226	393,226	78,645	117,968	196,613
Men's Apparel	144,456	144,456	28,891	43,337	72,228
Family Clothing	872,434	872,434	174,487	261,730	436,217
Shoe Stores	336,580	336,580	67,316	100,974	168,290
General Merchandise Group	**5,639,414**	**4,718,949**	**381,823**	**3,515,258**	**821,867**
Department & Dry Goods	3,133,145	2,942,023		2,297,848	644,175
Discount Stores	1,844,779				
Department Stores	1,288,349				
Other General Merchandise	1,485,984	1,395,339	191,030	1,064,775	139,534
Warehouse Clubs and Superstores	1,103,924				
Misc. General Merchandise	382,060				
Drug & Proprietary Stores	1,020,285	381,586	190,793	152,635	38,159
Specialty Retail Group	**1,950,392**	**1,938,967**	**537,343**	**926,106**	**475,518**
Gifts & Novelties	145,755	143,861	35,965	35,965	71,930
Sporting Goods	256,843	256,586	128,293	76,976	51,317
Florists	53,960	53,690	26,845	21,476	5,369
Photographic Equipment	33,972	33,972	8,493	18,685	6,794
Records & Music	107,024	107,024	26,756	58,863	21,405
Books & Stationery	182,482	182,482	45,620	100,365	36,496
Office Supplies/Computer Equipment	267,354	267,354	66,838	147,045	53,471
Office Supplies	129,630				
Computer Equipment	137,724				
Jewelry	166,617	166,451	16,645	66,580	83,225
Misc. Specialty Retail	736,385	727,549	181,887	400,152	145,510
Cosmetics/Beauty Supply	45,417				
Optical Goods	115,036				
Other Health/Personal Care Stores	83,919				
Toys & Hobbies	200,641				
Pet Stores	118,354				
Other Misc. Specialty Stores	173,018				
Food, Eating and Drinking Group	**7,406,626**	**3,798,855**	**968,720**	**1,847,838**	**982,297**
Grocery Stores	4,562,613	1,264,291	98,863	1,102,213	63,215
Supermarkets	4,372,888	1,154,442		1,096,720	57,722
Convenience Stores	189,720	109,848	98,863	5,492	5,492
Specialty Food Stores	139,809	80,949	20,237	52,617	8,095
Meat & Fish Markets	69,797				
Fruit & Vegetable Markets	27,110				
Misc. Specialty Food	42,902				
Liquor Stores	238,925	234,863	117,432	93,945	23,486
Eating Places	2,465,280	2,218,752	732,188	599,063	887,501
Full-Service Restaurants	1,182,210				
Other Eating Places	1,173,489				
Drinking Places	109,581				

TABLE 17 (cont.)
Estimated Retail Purchases by Butterfly Village Residents at Buildout
(2004 Dollars)

Retail Group	Projected Spending by Project Residents	Total Taxable Sales	Onsite Sales	Sales in Salinas	Sales Elsewhere
Building Materials and Home Furnishings Group	**3,253,826**	**3,250,358**	**455,096**	**2,034,786**	**760,476**
Furniture & Home Furnishings	1,265,972	1,263,440	81,460	765,045	416,935
Furniture Stores	858,674				
Other Home Furnishings Stores	407,298				
Household Appliances & Electronics	551,146	551,146	110,229	259,039	181,878
Used Merchandise	78,633	78,633		52,684	25,949
Nurseries & Garden Supply Stores	272,436	271,891	67,973	176,729	27,189
Lumber & Other Building Materials	673,754	673,754		606,379	67,375
Home Centers and Hardware Stores	391,261	390,870	195,435	156,348	39,087
Paint & Wallpaper	20,625	20,625		18,562	2,062
Automotive Group	**10,234,611**	**10,046,993**	**605,668**	**6,330,945**	**3,110,381**
New Cars & RVs	6,874,120	6,874,120		5,155,590	1,718,530
Used Car Dealers	495,062	495,062		371,296	123,765
Gasoline Service Stations	2,468,649	2,281,032	570,258	570,258	1,140,516
Mobile Homes & Trailers	2,080	2,080		1,040	1,040
Auto Parts & Accessories	177,051	177,051	35,410	123,936	17,705
Boats & Motorcycles	$217,649	$217,649		$108,824	$108,824

Source: ADE, Inc.

TABLE 18
Indirect Impact of H-Y-H Project on the City of Salinas at Buildout
(2004 Dollars)

Revenues		
	Sales Tax	$189,737
	Subtotal	**189,737**
Expenditures		
	General Government	7,719
	Police Protection	22,115
	Public Works	25,408
	Recreation	25,035
	Subtotal	**80,277**
Net (Cost)/Revenue		**$109,460**

Source: ADE, Inc.

4. PUBLIC FACILITIES FINANCING PLAN

FINANCING NEEDS

The physical development of Butterfly Village will require a significant investment of both public and private funds to install necessary public facilities, as well as ongoing revenues to fund operation and maintenance costs for public services and facilities. This chapter describes the facilities and services that will be financed, as well as which funding mechanism will be used for each component.

The fiscal analysis in the previous chapter indicates that Monterey County General Fund revenues are sufficient to pay for service costs normally provided by County Departments. In addition, the normal property tax revenues are sufficient to fund the operation of the proposed library and fire protection services. The available revenues are not sufficient to pay for County Road Fund costs, including the provision of transit services by Monterey-Salinas Transit (MST).

Regarding public facilities funding, the project would pay development impact fees to the County and other jurisdictions, including $16,017,310 in offsite traffic fees, $746,000 to North County Fire Protection District, $6.41 million to Santa Rita School District, and $2.23 million to Salinas Union High School District. These fees would mitigate the project impact for these facilities with the exception of the schools, for which a $7.4 million shortfall has been identified (2004 dollars).

Other infrastructure and facilities for which fees do not currently existing include the library, the Sheriff and the backbone infrastructure. The library and sheriff facilities costs were estimated at about $990,000 and $1.1 million, respectively, in the previous chapter. Backbone infrastructure encompasses the physical improvements to the land that will be needed to serve the new community. This includes the roads, related grading and erosion control, storm drainage, water, and sewer facilities. These facilities are expected to cost a total of roughly $35 million (in 2004 dollars). A summary of necessary infrastructure with costs is presented in Table 19 below. [13]

TABLE 19
Preliminary Cost Estimates for Backbone Infrastructure

Infrastructure Item	Cost
Road Grading	$1,954,000
Road Construction`	$6,033,000
Erosion Control for the Road System	$2,129,100
Storm Drainage	$1,765,000
Water	$6,185,000
Sewer	$7,152,000
Design, Administration, and Construction Stakeout – 20%	$5,044,000
Contingency – 20%	$5,044,000
Subtotal	**$35,304,000**

Source: ADE, based on data provided by Bestor Engineers, Inc., California Water Service Company, and California American Water Company

A portion of the required public facilities above will have to be constructed before development can proceed, possibly requiring lump-sum financing through the issuance of debt by a Mello Roos Community Facilities District. In addition, the operations and maintenance costs not included in the General Fund would require special taxes or assessments, through the establishment of a Community Services District. Each of these financing mechanisms is described below, and then the capacity of the project to fund these services is addressed next in the discussion.

Community Services District (CSD)

Description

CSDs are a type of independent special district that may be used to pay for a wide variety of public facilities and services that may be required by residents and property owners within the district, such as fire protection, garbage collection, sewage treatment, street lighting, etc.

[13] Cost estimates for backbone infrastructure shown in Table 2 do not include costs for open space included in the plan, as that land should be acquired through direct dedication and treated as the property owners' cost for participation in the project.

Powers

Government Code section 61600 provides that a CSD may exercise the following powers:

- supplying domestic, irrigation, sanitation, industrial, fire protection, and recreational water;
- collection, treatment, and disposal of sewage and storm water;
- garbage collection and disposal;
- fire protection;
- public recreation, including aquatic parks and recreational harbors, playgrounds, golf courses, swimming pools or recreation buildings;
- street lighting;
- mosquito abatement;
- equipment and maintenance of a police department or police protection;
- acquisition, construction and maintenance of library buildings and to provide library service (in cooperation with other agencies);
- construction, surfacing, and maintenance of streets (subject to the consent of the affected city or county);
- construction and improvement of bridges, culverts, drains, and curbs incidental to roads (subject to the consent of the affected city or county);
- undergrounding of existing overhead public utility lines;
- ambulance services (when approved by a majority of the voters in the district in an election for that purpose);
- providing and maintaining public airports;
- providing transportation services; and
- graffiti abatement.

Some CSDs have also been granted certain additional powers on an individual basis, such as the ability to construct and operate hydroelectric power generation facilities.

Funding

CSDs are empowered to levy ad valorem property taxes, general taxes, special taxes, special assessments (upon formation of an improvement district within the CSD), water standby and delivery charges, and "rates and other charges." Like Mello-Roos special taxes, fees assessed against real property in a CSD must directly relate to the benefit being received. A CSD may be broken into zones for the purpose of financing capital improvements or services that will benefit only limited areas of the CSD. Within each such zone, bonds may be issued, special rates or charges may be collected, or special taxes levied to pay for the improvements or services being provided.

Formation

CSD formation proceedings are begun by filing a petition, signed by 10 percent or more of the proposed district's registered voters, with the county LAFCO. Only contiguous, unincorporated area can be included in the proposed boundaries. The LAFCO will convene a public hearing at which to consider the formation request. After hearing testimony, the LAFCO will either approve, modify or deny the proposal. If it is approved, the LAFCO will adopt terms and conditions for the formation and establish a sphere of influence for the CSD. Then, the LAFCO will direct the county board of supervisors to hold a hearing on the proposal.

If, at the hearing, the board of supervisors finds that 80 percent or more of the registered voters within the proposed district have signed the petition requesting formation, and no protests have been received, the supervisors may order the CSD formed without an election. The receipt of protests requires that the board consider whether an election should occur. An election cannot be waived when a proposed CSD crosses county lines. If an election is held and a majority of the qualified voters are in favor, the district will be formed. Upon formation, the supervisors will issue a resolution of formation establishing the boundaries of the district, its purpose(s), and its name.

Once a CSD is created, its boundaries may be altered and contiguous or noncontiguous unincorporated area added. In addition, incorporated territory located adjacent to the CSD may be annexed with the permission of the affected city. Annexation proceedings are initiated in accordance with the Cortese-Knox Act (Gov. Code section 56000 et seq.) and administered by the county LAFCO.

A CSD is governed by a three or five member board of directors elected from among the registered voters residing within the district boundaries. The number of directors is established in the resolution of formation approved by the board of supervisors. Alternatively, the board of supervisors or city council may constitute the directors of the CSD. Unlike County Service Areas (CSAs), most CSDs are independent districts with their own board of directors.

Description of Mello-Roos Community Facilities Districts

The Mello-Roos Community Facilities Act (the "Act") was enacted in 1982 by the California State Legislature to provide and alternate means of financing public infrastructure and services subsequent to the passage of Proposition 13 in 1978. The Act complies with Prop 13, which permits cities, counties, and special districts to create defined areas within their jurisdiction and, by a two-thirds vote within the defined area, impose special taxes to pay for the public improvements and services needed to serve the area. The Act defines the area subject to a special tax as a Community Facilities District ("CFD").

A CFD may provide for the purchase, construction, expansion, or rehabilitation of any real or other tangible property with an estimated useful life of at least five years. A CFD may also finance the cost of planning, designing, engineering, and consultants involved in the construction of improvements or formation of the district. The facilities financed by the CFD do not have to be physically located within the boundaries of the CFD. The types of facilities that can be financed include, but are not limited to, the following:

- Roads, water and sewer lines, flood control channels
- Local park, recreation parkway, and open-space facilities
- School sites, structures, furnishings, and equipment
- Libraries
- Child care facilities
- Utility improvements
- Any other public facilities which the legislative body creating the CFD is authorized by law to contribute revenue to construct, own, or operate

A CFD may also pay for public services, including the following:

- Police protection
- Fire protection
- Recreation program services
- Library services
- Park and open space maintenance
- Flood and storm protection services
- Removal or cleanup of hazardous substances

Formation of a CFD authorizes a public agency to levy a special tax on all taxable property within the CFD in the manner prescribed in the formation documents. Property owned or irrevocably offered to a public agency may be exempted from the special tax. Mello-Roos special taxes are collected at the same time and in the same manner as property taxes, unless otherwise specified by the agency. Special tax revenues may be used to pay debt service on bonds and/or to pay directly for public facilities and services on a pay-as-you-go basis.

Special Tax and Debt Capacity

The amount of debt that can be supported by a development must meet two separate standards: the value-to lien ratio and the effective tax rate, which are described below. The total debt and special assessments the project can support are limited by the lesser of these two measures.

Value-to-Lien Ratio

The first restriction on debt financing is the *value-to-lien ratio*, which is the ratio of the value of the land to the principal amount of the special tax lien. "Value" is defined as the appraised value of the land, including entitlements. The value of improvements in place on the date of bond issuance and/or to be constructed with bond proceeds is also included in the value calculation. "Lien" refers to the principal amount of all bonds issued by the proposed CFD (and any other debt secured by the property). A minimum value-to-lien ratio of 4:1 is required by law.[14]

The value of the land within Butterfly Village (including the installation of backbone infrastructure improvements) is projected to be approximately $175 million. Under the value-to-lien limitation, therefore, the estimated maximum amount of debt that could be secured by the property is one quarter of the projected value, or about $43.7 million. However, debt issuance costs and required reserves would reduce the amount of infrastructure that could be financed to $33.6 million. (In Table 20 below, these figures have been escalated to 2010 dollars; however, it is likely that some or most of the infrastructure expenditures would need to be made before 2010).

Effective Tax Rate

The second restriction on the amount of financing available is the total *effective tax rate* ("ETR") paid by a homeowner or property owner in the CFD. The ETR consists of the basic one percent ad valorem property tax levy, plus overrides from voter-approved bonded indebtedness and non-ad valorem taxes, assessments, and parcel charges (expressed as a percentage of market value).

Although there is no legal limit, a maximum ETR of two percent of market value has evolved as a standard for residential development throughout the State. It is thought that an amount higher than two percent may lead to market resistance by prospective homebuyers, or potential "taxpayer

[14] If calculating the value-to-lien based on the raw land (i.e. not including the value of the improvements to be constructed), a value-to-lien ratio of 3:1 is required.

revolts" by overburdened homeowners. The maximum supportable ETR should also consider the maximum tax rates paid by homes in competing projects in the area and, based on the strength of the real estate market, the demand for homes in general. Commercial/industrial projects often support higher ETRs, as the owner is able to spread the tax burden among many tenants.

If the additional ETR could be the full one percent above the base property tax, the estimated full market value of Butterfly Village at buildout (approximately $621 million in 2004 dollars) would support a maximum indebtedness of approximately $76 million[15], which is nearly 75 percent larger than the amount calculated in the value-to-lien ratio analysis above. (Again, in Table 20 below these figures are expressed in terms of 2010 dollars).

However, the local school districts and Hartnell College have already issued bonds which are included in the tax rate for the properties at Butterfly Village. The ETR on the existing project parcels currently already ranges from about 1.11 percent to nearly 1.4 percent. The parcels with the higher rates are subject to direct charges by the Monterey County Water Resources Agency in addition the school bond debt service and minor charges from other agencies. In addition, voters have approved additional bonded indebtedness for Hartnell College that has not yet been issued, which will raise future tax bills on the property by another five percent. Taken together, the existing and future debt service and direct charges by local agencies reduce the financing capacity of the project by more than 30 percent on average among the existing parcels.

Table 20 reflects the County priorities for the use of this financing capacity. The upper part of the table includes the operations and maintenance costs that must be funded by the Community Services District, including road maintenance and transit services. These services require use of 0.34 percent of the ETR, and when added to the existing obligation of

15 Assumes 30 year bonds with an average coupon (interest rate) of 6.5%, and estimated issuance/administrative costs of 30 percent of principal.

1.33 percent, leaves 0.33 percent for infrastructure and facilities financing. This revenue stream could fund a maximum of $24.7 million. The schools, the library and the sheriff facility together require about $11.3 million (2010 dollars), leaving capacity to fund less than half of the backbone infrastructure. While this amount exceeds the total funding capacity of the land, the schools, the library, and sheriff station could be built after some of the homes have been constructed. The lien-to-value ratio, then, could include the value of the homes as well as the land. The ETR would remain a constraint to funding, but would be sufficient to fund about 90 percent of the road construction and related grading, storm drainage, and erosion control. Water and sewer facilities can be funded by user rates as discussed below, although the developer may wish to prioritize these systems for public financing (CFD).

Table 20
Summary of Financing Capacity at Buildout (2010)

	Effective Tax Rate (ETR) [a]	Costs in 2010 Dollars
Financing Capacity		
Value of Land		$202,600,000
4:1 Lien Ratio		x25%
Maximum Debt Secured by Land		$50,650,000
ETR		
Ad-Valorem Property Tax Levy	1.00%	$7,566,681
Bond Indebtedness	0.10%	$790,605
Other Parcel Taxes, Assessments,Charges	0.23%	$1,706,400
O&M Services Funded by CSD	0.34%	$2,605,889
Available for Funding Infrastructure [b]	0.33%	$24,749,078
Infrastructure Costs		
Schools	0.12%	$8,855,157
Library	0.02%	$1,181,862
Sheriff	0.02%	$1,324,953
Backbone Circulation Infrastructure [c]	0.18%	$13,387,106
Subtotal Total Public Financed Infrastructure	0.33%	$24,749,078
Rate Based Funding/Developer Funded Public Infrastructure [c]		$22,976,014
Grand Total Cost for Public Facilities		$47,725,092
Grand Total Proposed ETR	2.00%	

Source: ADE, Inc.

Notes: [a] A maximum of 2% is allowed by County policy.
[b] Infrastructure funding capacity is based on the following bond assumptions: 30 yr term, 6.5% coupon rate, 30% debt issuance costs.
[c] Backbone infrastructure costs are shown in 2005 dollars since those facilities would need to be constructed early in the development phase. The available funding capacity is sufficient to complete about 90% of the estimated circulation costs. The remainder is

included in the Developer Funded row.

RATE-BASED FUNDING PROGRAMS

Unlike other capital facilities and services at Butterfly Village, water and sewer provision will be funded by ratepayer service charges. The initial construction of the facilities may be accomplished by the developer or by a Community Facilities District (CFD). The facilities financing and payment mechanisms utilized by these two utilities are described below.

WATER FACILITIES

Water Service within Butterfly Village will be provided by the California Water Service Company (CWSC). To supply the estimated 261 gpm of potable water required by the development, CWSC plans to convert and utilize two existing private wells within the project area, which are currently being used to irrigate crops. Once approval has been obtained from the California Public Utilities Commission, CWSC will interconnect these wells with those it already uses to provide water to customers in the City of Salinas.

In areas where it will be providing service, CWSC initially estimates how much it would cost for them to install the water system themselves. The developer or the CFD then has the choice of paying this price to CWSC, or doing the work himself using CWSC-approved contractors.

Once the new system has been installed, CWSC will pay back 2.5 percent of the cost annually to whatever entity financed it over the course of 40 years. This amount covers principal only, and includes no interest. The annual payment is financed through service charges to rate payers, who also pay capacity and volume charges to cover system operating costs. These charges are estimated to total about $35 per month. CWSC does not charge connection fees.

SEWER FACILITIES

Either the developer or a CFD will install an on-site sewage system for Butterfly Village, to be operated by the California American Water Company (Cal Am). As with the water system, the cost of the sewer facilities would be amortized into the monthly rates paid by homeowners in the project.

FINANCING POLICIES

The principal objective of the financing program for the Butterfly Village Project is to secure adequate funding for the construction and maintenance of required public facilities in a cost-effective and equitable manner. Butterfly Village is part of the larger Rancho San Juan Specific Plan and therefore bears a relationship to future service demand and facility requirements imposed by development in the balance of the specific plan area. The proposed Community Services District (CSD) for Butterfly Village may be established to include all of Rancho San Juan, or the CSD may be expanded at a later date. Similarly, the proposed Community Facilities District, which would fund a portion of the backbone infrastructure for Butterfly Village, may include the balance of the Rancho San Juan Specific Plan at a later date. The primary purpose of the financing program is to avoid adverse financial impacts on the various public agencies having jurisdiction over the project. Appendix B presents the adopted county policies with regard to the various financing mechanisms proposed in the plan. The table below summarizes the financial implementation responsibilities of the various agencies.

Table 21
Summary of Financing and Service Responsibilities

Service	Responsibility	
	Construction	**Operations/Maintenance**
Internal Streets/Storm Drainage	Developer/CFD	CSD
Regional Roadways	Developer Impact Fee	County/Cities
Transit	Developer/CFD	MST/CSD
Water Service	Developer/CFD – Rate reimbursement	CA Water Co.
Wastewater Treatment	Cal Am Water Co. – Rate reimbursement/CFD	Cal Am Water Co.

Parks and Recreation	Developer - Land Dedication Developer - Park Development	CSD
Library	Developer/CFD	County Free Libraries
Fire Station	Developer Impact Fee/Site Dedication	North County FPD
Police Protection	Developer/CFD	County Sheriff
Schools	Developer Impact Fee CFD Finances Balance	Santa Rita School Dist. Salinas Union HS Dist.
Paramedics	Developer/CFD	County Assessment

Source: ADE, Inc. "CFD" refers to Community Facilities District as authorized by the Mello Roos legislation. "CSD" refers to Community Services District.

APPENDIX A:
COUNTY PUBLIC FINANCING POLICIES

MONTEREY COUNTY

POLICY ON PUBLIC FINANCING

A. Approval process.

1. Departments initiating debt shall obtain the concurrence of the County Administrative Office, the County Auditor-Controller, the County Treasurer, and County Counsel.
2. Details of the financing plan must be reviewed by the Budget Committee of the Board of Supervisors.
3. Final approval of the financing plan must be obtained from the Board of Supervisors.

B. Purposes for which debt may be issued.

1. Debt may be issued to finance needed equipment, facilities or infrastructure identified in the County's capital improvement plan or adopted County Budget.
2. Debt may be issued to fund the short-term operating needs of the County, but must be repaid within 15 months from date of issuance.
3. Dry period loans pursuant to Government Code Section 53852.
4. Loans to the County Redevelopment Agency pursuant to Agreement dated 4- 1-86.

C. Legal limitations.

1. All debt issued by Monterey County shall be in compliance with all pertinent state and federal statutes and in compliance with all regulations promulgated by agencies that maintain jurisdiction over debt issuance.
2. All debt issued by Monterey County shall conform to the provisions of this policy.

D. Types of debt permitted to be issued. The County may engage in issuance of the following types of debt when circumstances, resources and appropriate planning suggest their use. In addition, the County should utilize the California

Communities Development Authority short-term Tax and Revenue Anticipation Note program and long-term CaLease program when appropriate. Monterey County is a member of the Authority.

1. Short-term debt:
    a. Bond Anticipation Notes: used to obtain interim project financing when bonds are approved but not yet issued.
    b. Grant Anticipation Notes: used to eliminate cash flow deficits associated with funding delays on state or federal funded programs.
    c. Tax and Revenue Anticipation Notes: used to eliminate cash flow deficits before receipt of taxes and other revenue in the same fiscal year.
2. Long-term debt:
    a. General Obligation Bonds and Limited Obligation Bonds: used for acquisition and improvements of land and buildings.
    b. Redevelopment Sales Tax Bonds: used for project area improvements.
    c. Senior Obligation Bonds: used for rehabilitation of public capital facilities.
    d. Special Assessment Bonds: used for facilities of local benefit to property.
    e. Tax Allocation Bonds: used for public projects within a project area.
    f. Certificates of Participation and Lease Revenue Bonds: use unrestricted.
    g. Revenue Bonds: used for revenue producing facilities.
    h. Taxable Bonds: used to avoid arbitrage rebate restrictions.
    i. Mello-Roos Bonds: used for community facilities districts.

E. <u>Permitted structural features.</u>

1. Maturity of the debt issued cannot exceed that permitted by law.
2. Maturity of the debt shall not exceed the estimated useful life of the project being constructed or improved with the proceeds of the debt, regardless of the legally permitted final maturity.
3. Compound interest bonds (also known as zero coupon bonds or capital appreciation bonds) are sold at a deep discount from par but do not require interest or principal payments until maturity. Subject to specific structural restrictions, they are to be used for projects that will not generate sufficient revenue to permit semi-annual debt service until some time in the future. Premium bonds are those sold at a premium over par. The premium cannot exceed that permitted by law.
4. In most cases, annual debt service will be approximately level with semi-annual interest coupons.
5. A mandatory redemption feature should be used on revenue bonds in order to

call bonds with revenues produced in excess of those required for debt service. An optional call feature should be used on special assessment bonds in order to call bonds from proceeds of assessment prepayments.

6. Credit enhancements, such as bond insurance or a letter of credit, are to be used if they result in an overall net debt service savings. In any event, credit enhancement is a requirement for the use of Mello-Roos Community Facilities District financing in Monterey County (see Exhibit ‘A’).
7. Debt issues should be structured to be senior lien obligations; junior lien obligations are to be avoided due to the higher interest rate demanded by investors.
8. Derivative products such as interest rate swaps and hedges may be utilized when professional analyses suggest their use, and staff resources are available to properly monitor their use.
9. A reimbursement resolution should be approved by the Board of Supervisors for qualifying capital projects that require expenditures prior to the issuance of the debt so that those expenditures can be included in the debt issue sizing.

F. Specific permitted features by type of debt.

1. General obligation and revenue debt.

   a. General obligation bonds pursuant to state law require a two-thirds majority of those voting in a Local election to authorize a bond issue for a specific purpose. They may be issued to acquire, construct and improve real property, but cannot be used to purchase equipment or for operations and maintenance. A competitive sale is required, the bonds cannot be sold at a discount from par, and the interest rate cannot be higher than that approved by the voters. The maximum aggregate outstanding amount of general obligation bonds may not exceed 1.25% of the assessed valuation of all real and personal property in the County, except that for water conservation and flood control projects and construction of certain County roads, the maximum may increase to 3.75%. The maximum maturity cannot exceed forty years, and in no event shall it exceed the useful life of the project being financed. Annual debt service shall be approximately level. If the proceeds of the debt issue are to be used for construction of a project, the issue should be sized to include a 10 to 25 percent contingency factor, depending upon the certainty of the cost of the project. An optional call feature should be included, and any funds remaining after construction of the project should be used to call outstanding bonds. A debt service reserve is not required. A credit enhancement may be employed if it reduces the overall net cost of the issue. Estimated costs of issuance may be included in sizing the issue.
   b. Revenue bonds are to be used to acquire or construct a specific project and are to be repaid solely from the revenue produced by that project.

Bondholders are only entitled to repayment from fees and charges generated by the project and they have no recourse to the general fund. The net revenue coverage ratio (gross revenue less operations and maintenance cost) must be at least 1.25 times annual debt service. A debt service reserve equal to the highest annual debt service must be established and maintained. Project revenues must be treated as trust funds. There is no stated maximum maturity, but in no event shall it exceed the useful life of the project being financed. Annual debt service shall be approximately level. If the proceeds of the debt issue are to be used for construction of a project, the issue should be sized to include a 10 to 25 percent contingency factor, depending upon the certainty of the cost of the project. An optional call feature should be included, and any funds remaining after construction of the project should be used to call outstanding bonds. A credit enhancement may be employed if it reduces the overall net cost of the issue. Estimated costs of issuance may be included in sizing the issue. Capitalized interest from the dated date of the bonds to six months after the anticipated completion of the project is required and can be included in the issue sizing. Competitive sale is required, and bonds may be sold at a discount not exceeding 6%.

2. Fixed and variable rate debt.

   a. Fixed rate debt should most generally be used for project financings, so that annual debt service requirements are not subject to interest rate exposure and will not vary as interest rates change. As long as interest rates are relatively moderate, fixed rate debt should be used.

   b. Variable rate debt should be used if interest rates are high and market expectations are that rates will decline. While variable rate debt permits the issuer to obtain far lower rates than fixed rate debt, the issuer is subject to interest rate risk which could cause budgetary problems in the future. The frequency with which the interest rate on the debt is reset has a direct effect on the amount of interest to be paid. Variable rate debt should only be used if the issue can be converted to fixed rate debt. The County should consider the use of interest rate caps on any variable rate issue.

3. Lease-backed debt.

   a. Certificates of participation (COP's) provide long-term financing through a lease or installment sale agreement that does not constitute indebtedness under the state constitutional debt limitation and are not subject to other statutory restrictions applicable to bonds, including interest rate limitations, election requirements, competitive sale requirements, or semiannual or fixed rate interest payment restrictions. A debt service reserve fund is required, as is capitalized interest for the construction period. Rental interruption insurance should be provided and a revenue to debt service ratio of 1.25 must be available. Since annual appropriation for debt service is required, general fund pledges are to be avoided. COP's shall require specific noticing for public hearings to be held for any such financing.

b. Lease revenue bonds are similar to certificates of participation because they are both based on a lease agreement and are not subject to the constitutional debt limitation. The financed project may be revenue producing or non-revenue producing. The issuer (lessor) must lease to another public entity and receive lease payments in return that are sufficient to meet the debt service on the issue. Title must revert to the issuer after the bonds are paid in full. They must be sold at competitive sale, and cannot bear an interest rate above the legal maximum. The governing body of the lessee must approve the lease by ordinance, which is subject to referendum. If a referendum is held, at least a 50% majority must approve the matter or the lease is terminated.

4. Special obligation debt.

   a. Assessment district debt may be levied to provide infrastructure to the community. Sizing of the issue may include engineering costs, legal and financing costs, and the debt service reserve. The ratio of land value to assessment lien must be at least 4 to 1 on a per parcel basis. As there is generally a limited obligation of the issuer to make up any delinquencies or defaults, it is necessary to provide a covenant to foreclose. Diversity of ownership of the parcels in the assessment district is necessary to mitigate the risk of default or delinquency. Single owner assessment districts and developer-initiated assessment districts are to be avoided because of the higher risk of default and the possible consumption of staff resources. Other restrictions may apply depending upon under which Assessment Act the bonds are to be issued. Assessment district debt issues are subject to the provisions of Proposition 218, and thus require noticed hearings and mail elections prior to issuance.

   b. Tax allocation bonds may be issued by redevelopment agencies to revitalize blighted and economically depressed areas of the County and to promote economic growth. They may be structured as tax-exempt bonds, private activity bonds, or federally taxable bonds. If tax increment is the sole source of repayment, it must be at least 1.25 times annual debt service. The bonds must be sold by competitive sale and cannot bear an interest rate above the legal maximum. The issue must include capitalized interest to cover the period before sufficient incremental taxes will be realized. A professional analysis of projected tax increment is required for any tax allocation bond. The County must pursue all appropriate pass-through agreements prior to debt issuance.

5. Conduit issues.

   a. Industrial development bonds (IDB's) may be issued under the California Industrial Development Financing Act to assist private companies in financing certain projects. Bonds issued under the Act are repaid solely by private enterprise, and no taxes or other public moneys are obligated.

Issues in excess of $1 million are subject to the state volume cap. The maximum term is 40 years, the interest rate cannot exceed 12%, and they may be sold at either competitive or negotiated sale.

b. Small issue ($1 million or less) IDB's are not subject to the state volume cap, but there is a $1 million aggregate limit per issuing entity for the same user.

6. Taxable debt.

Taxable debt may be issued as the only financing alternative for facilities that cannot be financed with tax-exempt debt, such as privately used sports facilities or hydroelectric generation plants. There are no arbitrage restrictions on taxable debt. There are also no restrictions as to use of the bond proceeds and on the amount of private participation. Taxable debt may be sold by competitive or negotiated sale. In certain instances taxable debt may be issued in concert with tax-exempt debt on the same issue. This is to facilitate optimal financial structuring.

7. Mello-Roos debt.

The County currently maintains an adopted Mello-Roos policy. See Exhibit 'A'.

G. Credit objectives.

1. It shall be the objective of Monterey County to maintain and enhance its credit rating through prudent financial management and fiscal responsibility.
2. Adherence to direct and overall debt ratios and affordability targets will help assure obtaining needed financing at the lowest possible cost and the least burden for the taxpayer.

H. Authorized methods of sale.

1. Competitive sale is generally the method by which the County can obtain the lowest interest cost, and is required for specified types of debt issues. However, the use of negotiated sales may provide a more favorable financial outcome. Thus, the method of sale must be analyzed in conjunction with the County's Financial Advisor prior to any debt issue.
2. Private placement may be used for any debt issue structured specifically for one purchaser, typically a bank, insurance company, or leasing company. Financial analysis and Financial Advisor recommendation must precede any private placement issue.

I. Selection of external finance professionals.

Depending on the type of debt issue, external finance professionals may be selected by referral, reputation, prior service to the County, special expertise, or requests for proposals. External finance professionals include:

1. Financial advisor: will advise on matters such as debt issue structure and marketing techniques. Financial advisors are not generally allowed to also act as underwriter.
2. Bond counsel: will review all documentation and will opine as to the legality and tax ramifications on the debt issue.
3. Feasibility consultant: will determine feasibility of complex debt issues.
4. Underwriter: will agree to purchase and market the debt issue on negotiated sales; is the successful bidder on competitive sales.
5. Underwriter's counsel: acts as counsel to the underwriter on negotiated sales.
6. Special tax counsel: advises the issuer and bond counsel on tax related matters.
7. Rating agency analyst: reviews the issuer and the debt issue and assigns a rating.
8. Credit enhancement providers: analyze the debt issue and provide the credit enhancement.
9. Trustee/Registrar/Paying agent/Fiscal agent: a bank or trust company that provides corporate trust services relating to the debt issue.
10. Appraisers.
11. Absorption consultant.

J. <u>Policy on refunding debt.</u>

Outstanding debt issues may be refunded, if permitted by federal tax law, if the refunding results in at least a 2% annual debt service savings and the final maturity of the debt issue is not extended by the refunding. Other structural aspects are to be determined by the Financial Advisor and affected County staff.

K. <u>Policy on primary and secondary disclosure requirements and practices.</u>

1. Primary disclosure shall include the preliminary official statement and the official statement, which shall be prepared in a manner consistent with applicable securities laws and the Government Finance Officers Association guidelines.
2. Secondary (continuing) disclosure shall be made in accordance with Securities and Exchange Commission Rule 15c2-12 for any debt issue sold after July 3,

1995.

L. Integration of capital-planning and debt-financing activities.

The County of Monterey shall establish a Capital Improvement Plan for the next five fiscal years which will establish priorities for projects and/or improvements, identify financing needs and sources, identify the useful life of the improvements, and review financing alternatives. These activities will be coordinated by the County Administrative Office and the Finance and Capital Improvements Subcommittee of the Board of Supervisors.

M. Investment of bond proceeds not otherwise covered by the Investment Policy.

Bond proceeds not otherwise covered by the Investment Policy shall be prudently invested in permitted investments as defined in the bond resolution for the specific debt issue, and shall mature as needed for completion of the project. The repository for any debt issue proceeds shall be predetermined by the affected County staff and the County's Financial Advisor.

October 8, 2002

EXHIBIT A

MELLO-ROOS COMMUNITY FACILITIES DISTRICT

FINANCING POLICY

Section 53312.7(a) of the California Government Code requires that the County consider and adopt local goals and policies concerning the use of the Mello-Roos Community Facilities Act of 1982 (the “Act”), prior to the initiation of proceedings on or after January 1, 1994 to establish a Community Facilities District (also known as Mello-Roos district) under the Act. This policy is intended to satisfy the requirements of the Act and provides specific guidance for approval of public financing for provision of public facilities and services in proposed development projects through Community Facilities Districts In addition, this policy establishes the standards and guidelines for the review of these proposed development financings by County staff and its designated agent(s) and County’s Budget Committee (hereinafter “Committee”), and ultimately the Board of Supervisors. . In those cases in which fixed lien special assessment or other types of land based financing is substituted for Community Facilities Districts, the County will apply applicable provisions of this policy.

1. **Consideration of Community Facilities Districts.** The Board of Supervisors will consider the use of community facilities districts (hereinafter “CFD’s”) as well as other financing methods to assist certain types of residential, and/or non-residential development, where, in the County’s opinion, the financing of public facilities satisfies a public need and represents a significant public benefit, while having the financial security to reasonably assure a sound investment for potential bondholders and minimize any County exposure to liability for actions taken on behalf of public financing projects.

   While recognizing that public facilities proposed to be financed must meet a public need and must benefit properties within the proposed development project, public benefit implies that a significant public benefit will also result to the community at large. An example of significant public benefit is a public facility having regional impact such as an all-weather bridge, a freeway overpass, or a regional water or wastewater treatment plant. In respect of the foregoing, the County will give priority to the financing of backbone regional public infrastructure improvements that produce significant public benefit. Significant public benefit can also take the form of the provision of affordable housing through reduced housing costs.

   CFD financing will be permitted for public improvements that will benefit the expected long-term property owners, and whose useful life will be equal to or greater than the longer of (a) five (5) years or (b) the term of the bonds.

2. **Consistency with Comprehensive General Plan.** The proposed development project must be consistent with the County’s Comprehensive General Plan and have secured appropriate land use approvals from the County to allow for the implementation of the development of the area as contemplated.

3. **Ownership of Facilities.** Facilities which , upon completion, are to be owned, operated or maintained public agencies shall be considered public facilities. Limited exceptions will be made for certain facilities that are to be owned, operated or maintained by private utilities and homeowner associations.

4. **Appraisal.** An appraisal of the property subject to any lien required to secure any public financing shall be required. A minimum property value to lien/debt ratio of 4:1 (including any overlapping assessment or community facilities districts) must be present pursuant to Premise 3 entitled "Bulk Land Value" as set forth in Attachment A as determined by an M.A.I. appraisal. The appraisal shall be reviewed by the County and shall be prepared as set forth in Attachment A hereto.

5. **Absorption Study.** Unless waived by the County, an absorption study of the proposed development project shall be required for CFD financings. The absorption study shall be used as a basis for verification that sufficient revenues can be produced to fully and timely satisfy debt service requirements and costs of services and to determine if the financing of the public facilities and services is appropriate given the timing of the development. Additionally, the projected absorption rates will be provided to the appraiser for use in the appraisal required in Section 4 above.

6. **Rate and Apportionment of Special Tax.** With regard to CFD's, the proposed rate and method of apportionment of the special tax shall comply with the following criteria:

   a. The rate and method of apportionment shall not provide for an annually increasing maximum special tax for any classification. However, subject to County approval in its sole discretion, under appropriate circumstances, as determined by the County, an increase in the maximum special tax may be permitted, not to exceed two percent (2%) annually.
   b. The total projected annual special tax revenues must exceed the projected annual gross debt service on the bonds by at least ten percent (10%). In structuring the special tax, projected annual interest earnings on bond reserve funds shall not be included as revenue for the purpose of this calculation.
   c. In limited cases, as determined by the County in its sole discretion, a special tax for services may be permitted and the annual special tax may increase to reflect projected increases in costs to provide the applicable services in an amount to be determined by the County, in its sole discretion.
   d. The projected annual special tax revenues shall include amounts projected to be sufficient to pay reasonable annual administrative expenses and other direct costs to the CFD.
   e. All property not otherwise statutorily exempted or owned (or to be owned) by a public entity shall bear its appropriate share of the special tax liability.
   f. The special tax shall be apportioned on a reasonable basis to categories and classes of property within the CFD subject to the special tax.
   g. A formula to prepay the special tax may be permitted.
   h. The projected ad valorem property tax and other direct and overlapping debt for the proposed development project (including estimated CSA charges, projected benefit assessments, levies for authorized but unissued debt and any other anticipated municipal charges which may be included an a property owners annual tax bill), including the proposed maximum special tax, may not exceed two percent (2%) of the anticipated Assessor's full cash value of each improved parcel upon completion of the bond financed improvements and the reasonably anticipated private improvements.
   i. A backup special tax or other security device to protect against changes in densities resulting in insufficient annual special tax revenues to pay annual debt service and administrative expenses may be required at the sole discretion of the County.

7. **Credit and Structure for Bond Issues.** Each bond issue shall be structured to adequately protect bondholders and to not negatively impact the bonding capacity or credit rating of the County through a combination of credit enhancements, foreclosure covenants, and special reserve funds. Specifically:

   a. A credit enhancement will be required whenever one entity or related entities are responsible for twenty percent (20%) or more of the debt service obligation of the proposed debt issue. The required credit enhancement shall take the form of, and shall be provided as set forth in Attachment B, hereto.
   b. A foreclosure covenant will be required and shall be included in any applicable bond indenture or fiscal agent agreement.
   c. The County will require that capitalized interest on the initial series of bonds be funded from the proceeds of the bonds. Capitalized interest shall not exceed twenty-four (24) months, and shall be for a shorter period if (i) further restricted by statute or (ii) determined by the County, in its sole discretion. Interest earnings may, at the County 's discretion be applied to extend the initial term on capitalized interest but in no event beyond the term statutorily authorized. The inclusion of capitalized interest in subsequent series of bonds will be at the County's discretion and will only be permitted if a direct benefit inures to the ultimate property owners.
   d. A reserve fund equal to the lesser of ten percent (10%) of the original principal amount of the bonds, maximum annual debt service or one hundred twenty five percent (125%) of average annual debt service (the "Reserve Requirement") shall be funded from the proceeds of each series of bonds. A reserve fund surety bond or letter of credit, provided by a municipal bond insurer, a major banking institution or other equivalent source, may be substituted, at the County's sole discretion.

8. **Level Debt Service Requirement.** Bond issues will be structured with approximately level debt service. To the extent that bonds are issued in series, individual series of bonds may have uneven debt service if the intent is to create level debt service at such time as all series of bonds are issued and to minimize the potential of fluctuating annual special taxes.

9. **Maximum Term of Bonds.** If a single series of bonds is contemplated, the term of the bonds shall not exceed thirty (30) years. If multiple series of bond issue are contemplated, in no instance should an individual residential parcel be encumbered for debt service beyond a thirty-five (35) year period.

10. **Disclosure.** Disclosure of the special tax lien shall be in compliance with applicable statutory authority. The County, in its sole judgment, may require additional property owner notification if it deems such disclosure will assist subsequent property owners to be made aware of the lien obligation. In addition, applicants for CFD financings and all major landowners will be required to cooperate prior to and subsequent to all bond sales with initial and continuing disclosure to bondholders and the financial markets. Applicants and landowners will cooperate in the preparation, verification and dissemination of the identity of land owners, development project plans, timetables and statistics, and financial pro-forma information, and any other information the County and its financing team deem appropriate.

11. **Payment of Initial Fees and Costs by Applicant.** No proposal to initiate the formation of a CFD financing will he considered valid without the payment of a fee to compensate the County for all costs incurred to perform its analysis of the proposal and to pay for the costs of conducting the proceedings. Applicants for public financing projects shall submit proposals to the Clerk to the Board of Supervisors. The County will review the proposal within 60 days after it is deemed complete and make its determination whether or not to formally consider the proposed district. The applicant(s) shall deposit a minimum $10,000 estimated fee amount with the Clerk to the Board of Supervisors at the time the proposal is submitted. The minimum fee will be increased to an amount determined by the County in its sole discretion to be appropriate given the size and scope of the proposed project or financing. The estimated

fee amount shall be in the form of cash or other negotiable instrument. Failure to submit any requested increase in the deposit will result in a suspension of the processing of the financing.

12. **Independent Review by County.** The County will perform an independent review of the proposed public financing and may take recommendations to the Board of Supervisors regarding the financial risk, impact on the County's bonding capacity, economic feasibility and related issues. The applicant(s) shall be required to provide current and two prior years financial statements, preferably audited, of the entity responsible for the development and initial payment of special taxes and other materials to assist the County or its agent in its fiscal review.

13. **County to Select Professionals.** The County shall select the bond counsel, underwriter, financial advisor, appraiser, absorption consultant, special tax consultant and other professionals and consultants it deems appropriate.

14. **Cooperation by County Departments.** All appropriate County departments will cooperate with the initiating department, the Administrative Office and the Committee in conducting the necessary reviews and proceedings.

15. **Limited Security for Bonds.** All statements and materials related to the sale of CFD bonds shall emphasize and state that neither the faith, credit nor the taxing power of the County of Monterey is pledged to the repayment of the bonds, nor is there an obligation of the County to replenish the reserve fund from revenue sources other than special taxes or proceeds of foreclosure proceedings.

16. **County to Acquire Completed Facilities.** It is the desire of the County that it incur no liability for the design, engineering and maintenance of the public improvements to be financed through bond proceeds. It is the preference of the County to use the "acquisition district" approach to pay for CFD financed public infrastructure, under which bond proceeds will be released only upon completion of the financed improvement or approved components thereof and acceptance by the entity which is to own, operate and maintain the improvement. All contracts for public improvements to be owned, operated or maintained by the County (including the Water Resources Agency) shall be consistent with the requirements set forth in Attachment C, hereto.

17. **County's Use of Financial Consultant.** The County may, at its sole discretion, employ a financial consultant to assist the County during its fiscal review period (noted in Section 12) and all costs for consulting services will be borne by the applicant(s) as provided in Section 11 hereof.

18. **Disbursement of Bond Proceeds.** The financing documents will provide that bond proceeds will be used and disbursed at times and in the manner as specified in the resolutions forming the CFD and other such agreements entered into with the County with respect thereto.

19. **Report in Event of Default.** For outstanding bond issues, all County departments and agencies with administrative responsibilities will notify the Board of Supervisors and file a written report of the circumstances if an event of default under the financing documents has occurred.

20. **Refunding of CFD Bonds.** All proposed refunding or refinancing issues will be submitted to the County for review with complete disclosure of the benefits and costs of the proposed refinancing. A preliminary and final official statement or disclosure statement for any bonds to be refunded shall be filed with the County Treasurer, County Counsel and Clerk to the Board of Supervisors.

21. **Right to Modify or Waive Policies.** The County has the right to waive or modify any of the policies included herein if, in the County's judgment, benefit inures to the ultimate property owners, the CFD and/or to the County.

ATTACHMENT A

CRITERIA FOR APPRAISALS

(A) Definition of Appraisal. An appraisal is a written statement independently and impartially prepared by a qualified appraiser setting forth an opinion of defined value of an adequately described property as of a specific date, supported by the presentation and analysis of relevant market information.

(B) Standards of Appraisal. The format and level of documentation for an appraisal depend on the complexity of the appraisal problem. A detailed appraisal shall be prepared for complex appraisal problems. A detailed appraisal shall reflect nationally recognized appraisal standards, including, to the extent appropriate, the uniform Appraisal Standards for Federal Land Acquisition, as well as appraisal standards promulgated by the California Debt and Investment Advisory Commission, and shall specifically identify any departure from such standards . An appraisal must contain sufficient documentation, including valuation data and the appraiser's analysis of the data, to support the appraiser's opinion of value. At a minimum, the appraisal shall contain the following items;

- (1) The purpose and/or the function of the appraisal; a definition of the estate being appraised, and a statement of the assumption and limiting conditions affecting the appraisal.
- (2) An adequate description of the physical characteristics of the property being appraised; location, zoning, present use, end analysis of the highest and best use.
- (3) All relevant and reliable approaches to value consistent with Section D below, as well as commonly accepted professional appraisal practices and the standards of the California Debt and Investment Advisory Commission. If a discounted cash flow analysis is used, it should be supported with at least one other valuation method such as a market approach using sales that are at the same stage of land development. If more than one approach is utilized, there shall be an analysis and reconciliation of approaches to value that are sufficient to support the appraiser's opinion of value.
- (4) A description of comparable sales, including a description of all relevant physical, legal and economic factors such as parties to the transaction, source and method of financing, and verification by a party involved in the transaction.
- (5) A statement of the value of the real property.
- (6) The effective data of valuation, date of appraisal, signature and certification of the appraiser.

(C) Conflict of Interest. No appraiser or review appraiser shall have any interest direct or indirect in the real property being appraised for the County that would in any way conflict with the preparation or review of the appraisal. Compensation for making the appraisal shall not be based on the amount of the valuation.

(D) Community Facilities District Appraisal Premises. The valuation of proposed special tax districts should be based on three premises:

- (1) Raw Land Value. (Premise #1). The total land within the project shall be valued "as is".
  - (a) Without proposed infrastructure being financed or any future private improvements.
  - (b) With existing parcel configuration and existing land use entitlements.
  - (c) Considering planned densities allowed by the specific plan or other project approvals then in effect.

This is a typical type of land valuation.

- (2) Project Buildout value. (Premise #2). The total land within the project is valued under projected conditions.
  - (a) With proposed infrastructure being financed completed.
  - (b) At the planned densities allowed by the specific plan or other approvals then in effect.
  - (c) Land development is at the stage of being marketed to merchant builders or tentative tract maps ready to be filed.

This is a projected value based on project plans predicated on market conditions continuing as projected.

(3) Bulk Land Value. (Premise #3). The total land within the project is valued under projected conditions:

(a) With proposed infrastructure being financed completed.

(b) With existing parcel configuration.

(c) Considering planned densities allowed by the specific plan or other project approvals then in effect.

This premise should consider a discounted or "quick sale" valuation considering time, costs and the possibility of a per unit value based on the total size of the project.

ATTACHMENT B
POLICY ON CREDIT ENHANCEMENT

If property within the proposed boundaries of a CFD, owned by one entity or related entities, their successors and assigns, is responsible for twenty percent (20%) or more of the debt service obligation of the proposed debt issue, an irrevocable credit facility having the following terms will be required:

A. The credit facility will name the bond trustee or fiscal agent as beneficiary.

B. The face amount of the credit facility will be equal to three (3) times the amount of the annual debt service obligation for which the property so owned is responsible.

C. The credit facility will have a term of at least one year and be subject to annual renewal or call prior to expiration.

D. The credit facility may be drawn upon should there be a default by the property owner in the timely payment of the special tax obligation for the subject property.

E. The credit facility must be issued by a financial institution acceptable to the County that is rated "A" or better by Standard and Poor's Corporation, Moody's Investors Service or Fitch Investors Service, Inc.

F. The face amount of the credit facility may be drawn should the credit facility not be timely renewed or a substitute credit facility acceptable to the County not be timely provided, or if the rating or the capitalization of the provider falls to a level not acceptable to the County in its sole discretion.

G. The face amount of the credit facility will be subject to periodic adjustments should the property owner sell or transfer portions of the property to unrelated third parties.

For purposes of this Policy, parties will be considered to be related should they be so deemed by the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder. However, the County does reserve the right to apply a stricter standard than that provided by the Code in determining parties that are related.

The County may, in its sole discretion, require additional credit enhancements for a particular CFD financing if it is determined that they are needed to bring the credit worthiness of the proposed debt issue up to a level that is acceptable to the County in its sole discretion.