



GOODWIN CONSULTING GROUP

*THE SANCTUARY
CITY OF STOCKTON*

FISCAL IMPACT ANALYSIS

Final Draft

AUGUST 13, 2008

*The Sanctuary
City of Stockton
Fiscal Impact Analysis*

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***The Sanctuary
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The Sanctuary City of Stockton Fiscal Impact Analysis

EXECUTIVE SUMMARY

PURPOSE AND SCOPE OF REPORT

This report addresses the fiscal implications of the Sanctuary development project (Sanctuary) by analyzing the potential recurring fiscal impacts to the City of Stockton (City) General Fund. Impacts on the Measure W Fund are also considered but are analyzed in the overall context of the General Fund. The evaluation was conducted in accordance with the City's Fiscal Principles and Objectives, which are outlined in Chapter 2 of the report. Furthermore, the analysis was executed within the framework of the more specific Templates and Guidelines governing new City fiscal studies, which are discussed in Chapter 1 of the report.

This fiscal impact analysis compares the annual costs of providing public services against the annual revenues that will be generated by new development to determine the net fiscal impact. It analyzes the impacts on the City's discretionary General Fund and Measure W Fund only; other districts and funds supported by development fees and/or user charges (e.g., enterprise funds), state funding (e.g., school districts), or a specific allocation of property taxes (e.g., school districts, flood control districts) are not analyzed in this study.

Two scenarios are evaluated in this report. The first scenario, presented as *Expected Values/Expected Absorption*, reflects the developer's estimates of sales prices and project absorption. A second scenario, incorporating lower values and slower absorption and aptly named *Lower Values/Slower Absorption*, is also included to provide a sense of how changes in these two key variables affect the results of the analysis. For each of these two scenarios, two cases are analyzed. The first, referred to as the base case, mostly reflects the departmental budgets outlined in the City's 2007-2008 budget. The alternative case, however, analyzes the fiscal impacts when "preferred standards" are incorporated. Specifically, costs associated with Other Post-Employment Benefits, as well as the Police and Public Works departments, are adjusted upward to account for higher service levels.

Commensurate with the City's desire to have all fiscal impact analyses peer reviewed by a City consultant, this report was reviewed by Economic & Planning Systems (EPS). The peer review process was designed to ensure that two public finance consultants are involved in the preparation of the documents, creating a system of checks and balances that is intended to result in quality products that bridge sometimes opposing private and public sector viewpoints, consider all crucial analytical elements, and protect the City's interests going forward. EPS has conducted a thorough review of the fiscal impact analysis and its related assumptions, and concurs with the conclusions and supporting analysis presented herein.

PROJECT DESCRIPTION

Sanctuary is located in an unincorporated area of central San Joaquin County, adjacent to the north-western edge of Stockton's city limits; it is situated within the City's Sphere of Influence and is expected to be annexed into the City prior to development. Four distinct phases are proposed for development, with a mix of residential and non-residential land uses. Almost 7,100 residential units are anticipated as well as over 830,000 square feet of retail, office, and hotel uses. Sanctuary is expected to be home to approximately 21,152 residents and is expected to create 1,913 new jobs within the City (2,187 jobs including school and religious land uses).

CONCLUSIONS

Upon the proposed annexation, the City will provide the vast majority of public services to Sanctuary. In doing so, the City will incur a wide variety of expenses, all in the effort to adequately provide the services required by Sanctuary's residents and employees.

Scenario 1: Expected Values/Expected Absorption

The expected residential values in Scenario 1 range from a high of \$1,000,000 for the residential estates to \$315,000 for high density residential units, which consist exclusively of townhomes and condominiums. The envisioned timeline varies depending on the residential product type but extends out fifteen years in the case of the low density residential and medium density residential units.

Base Case

In the base case, which effectively leaves the City's 2007-2008 budget unchanged, all but one fiscal year shows a positive net fiscal impact. In 2016-2017, an approximately \$108,000 deficit is expected when the fire station engine company becomes operational. Compensating for this one fiscal year, however, is a cumulative surplus of \$6.1 million, arising from development prior to 2016-2017. This mitigating factor implies that a funding mechanism designed to address fiscal deficits is likely unnecessary. The remaining years of development, through the first year after buildout, generate annual fiscal surpluses from \$286,000 in 2017-2018 to \$2.8 million in 2026-2027.

After buildout, General Fund revenues accruing to the City from the proposed development are an estimated \$14.8 million per year. In contrast, annual expenses are not quite \$12.0 million, resulting in the \$2.8 million annual surplus mentioned above. On a per unit basis, Sanctuary is expected to generate a net fiscal surplus of \$391 per residential dwelling unit after buildout.

Alternative Case

The alternative case includes three adjustments, in addition to the minor adjustments made in the base case, to expenditures estimated using the multiplier method. The alternative case assumes that 10% of the budgeted General Fund salary base needs to be set aside to recognize Other

Post-Employment Benefits expenses; this is an expense not currently included in the City’s budget. In addition, the alternative case reflects a 2.7% increase in the police department multiplier to account for an increase from the existing level of service of 1.46 officers per 1,000 residents to the desired service standard of 1.50 officers per 1,000 residents. Finally, public works deferred maintenance, not addressed in the current budget and unrelated to street maintenance, is added to the base case public works multiplier to limit further increases to the City’s annual unfunded maintenance.

Over the initial five years of development, a sizable surplus is generated due to the residential and non-residential land uses emerging in Sanctuary. In fact, over \$4.3 million in surpluses will accumulate over this time period to the City’s General Fund. With the introduction of the fire station engine company toward the end of Sanctuary’s second phase, fiscal years 2016-2017 through 2019-2020 show annual fiscal deficits. Notwithstanding these years, over the course of the first nine years of development, Sanctuary is still expected to generate a cumulative surplus of \$2.6 million.

Beginning in the tenth year of development and continuing through buildout, Sanctuary is expected to provide fiscal surpluses in every year. It is expected to generate \$14.8 million in annual revenues and \$13.6 million in annual expenses (2008 \$) after buildout. This results in an annual surplus of over \$1.1 million to the City’s General Fund after buildout of Sanctuary, which is equal to an average of \$162 per residential dwelling unit.

Despite the fiscal deficits in the middle years of the development, the ability of the initial surpluses to more than cover these later deficits suggests that there is no need to implement measures to mitigate the interim deficits under the alternative case. However, it will be necessary to implement a system to ensure that initial surpluses can be captured, retained, and applied against interim deficits. Potential systems are conceptually discussed in Chapter 6 under the section, “Fiscal Cash Flow.” The alternatives presented, while preliminary, show just some of the options available to the City.

Scenario 2: Lower Values/Slower Absorption

The chart below illustrates the reduced residential values applicable to Scenario 2. Overall, the impact is a reduction in total value of approximately 9%.

	Expected Value	Reduced Value	% Change
Residential Estates	\$1,000,000	\$850,000	(15%)
Low Density Residential	\$550,000	\$500,000	(9%)
Medium Density Residential	\$450,000	\$410,000	(9%)
High Density Residential	\$315,000	\$300,000	(5%)
Active Adult (Age-Restricted)	\$450,000	\$380,000	(16%)

For each individual land use category, the absorption schedule presented in Scenario 2 is increased by 50%. As an example, since the residential estates product type is expected to

absorb over eight years in Scenario 1, Scenario 2 assumes an increase of four years (from eight to twelve) in the absorption of the residential estates units.

Base Case

The results of the base case analysis are less favorable in the second scenario than in the first. Lower values drive down all of the revenues tied to property values (e.g., secured and unsecured property taxes, real property transfer taxes) as well as revenues indirectly related to sales prices (e.g., sales and use taxes are a function of household income, which is, in turn, related to home value). The slower absorption, meanwhile, impacts the analysis by lengthening the time between certain front-loaded costs and revenues anticipated at buildout.

Despite the lower values and slower absorption, just two fiscal years (as opposed to one) show a negative net fiscal impact. Beginning with fiscal year 2020-2021 and continuing into the next fiscal year, deficits of approximately \$274,000 and \$98,000, respectively, are expected due to the introduction of the engine company. Similar to what happens in the first scenario, a cumulative surplus arises from development occurring prior to 2020-2021. In Scenario 2, though, the surplus is actually *higher* because the slower absorption allows surpluses from Phase 1 to accumulate over a longer timeframe. The approximately \$9.7 million cumulative surplus implies that a funding mechanism designed to address fiscal deficits is likely unnecessary. In the years following the second deficit, annual fiscal surpluses range from \$54,000 to \$2.3 million.

Total annual revenue generated by Sanctuary after buildout is estimated to be \$14.3 million in 2008 dollars. In contrast, annual expenses are not quite \$12.0 million, resulting in a \$2.3 million annual surplus. On a per unit basis, Sanctuary is expected to generate a net fiscal surplus of \$319 per residential dwelling unit after buildout.

Alternative Case

The alternative case under Scenario 2 is comparable to the alternative case under the first scenario. Deficits in the middle years of development are compensated by earlier surpluses. Over the initial nine years of development, a substantial surplus is anticipated. In fact, over \$6.3 million in surpluses will accumulate over this time period to the City's General Fund. With the introduction of the engine company toward the end of Sanctuary's second phase, fiscal years 2020-2021 through 2027-2028 show annual fiscal deficits. Even with these eight consecutive years of deficits, note that a cumulative surplus remains; in fiscal year 2027-2028 a balance of almost \$1.5 million is expected.

Throughout the remainder of the development schedule and continuing through buildout, Sanctuary is expected to provide fiscal surpluses in each year. Despite the fiscal deficits in the middle years of the development, the ability of the initial surpluses to more than cover these later deficits suggests that there is no need for measures to mitigate fiscal deficits. As pointed out under Scenario 1, a mechanism will need to be established to allow initial surpluses to cover later interim deficits.

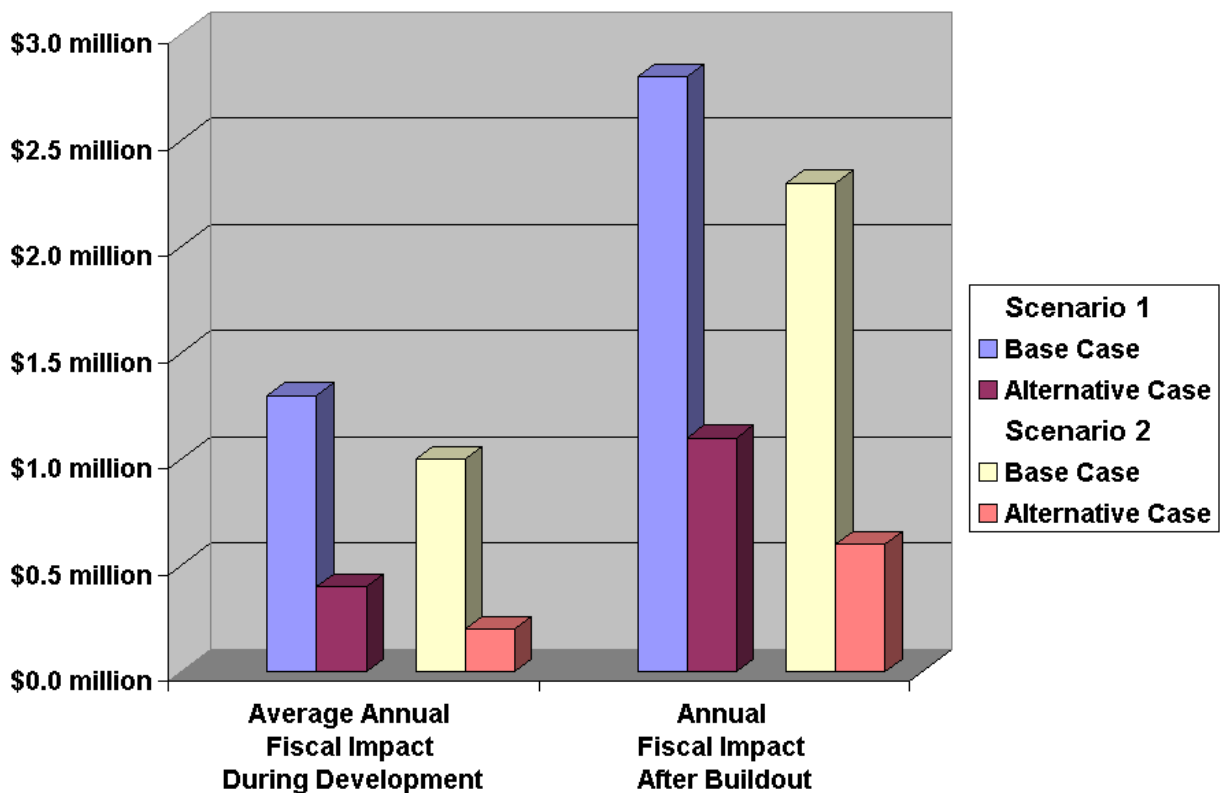
Sanctuary is expected to generate \$14.3 million in annual revenues and \$13.6 million in annual expenses after buildout. This results in an annual surplus of over \$600,000 to the City's General Fund, which is equal to an average of \$91 per residential dwelling unit.

SUMMARY

Although fiscal deficits are anticipated in interim years (for Scenario 1, one year in the base case and four years in the alternative case, and for Scenario 2, two years in the base case and eight years in the alternative case), the surpluses generated during the previous years of development build reserves that far exceed the deficits. Given the likelihood and magnitude of these cumulative surpluses, fiscal deficit mitigation measures appear unnecessary. A system to apply those surpluses against the temporary deficits must be developed.

The average annual fiscal impacts during project development, as well as the impacts on an annual basis after project buildout, are expected to be considerably positive for both scenarios under both cases. The graph below summarizes these results.

Summary of Fiscal Impacts



INTRODUCTION

PURPOSE OF REPORT

This report addresses the fiscal implications of the Sanctuary development project (Sanctuary) by analyzing the potential recurring fiscal impacts to the City of Stockton (City) General Fund. Impacts on the Measure W Fund are also considered but are analyzed in the overall context of the General Fund. Passed in November 2004, Measure W provides additional funding for public safety through a voter-approved 0.25% tax on all taxable transactions within the City. This report has been prepared pursuant to Sections 16-540.050. D and F of the City of Stockton Municipal Code and is part of the Sanctuary Master Development Plan.

ORGANIZATION OF REPORT

This report is organized into the following seven chapters:

- Chapter 1 States the objective of the report and outlines its structure
- Chapter 2 Presents the City's Fiscal Principles and Objectives
- Chapter 3 Describes the project in terms of location, land uses, and absorption
- Chapter 4 Outlines the scope, approach, and global/key assumptions
- Chapter 5 Identifies which methodologies apply to City revenue and expense categories
- Chapter 6 Summarizes the net fiscal impacts during and after development of the project, under the following two scenarios:

- Scenario 1 – Expected Values/Expected Absorption
- Scenario 2 – Lower Values/Slower Absorption

For each of the two scenarios, two cases are evaluated:

- Base Case – Effectively leaves the City's 2007-2008 budget unchanged
- Alternative Case – Revises the Other Post-Employment Benefits, Police Department, and Public Works Department cost multipliers to reflect desired service standards

- Chapter 7 Identifies funding sources to mitigate fiscal deficits

TEMPLATES AND GUIDELINES

The analysis presented herein adheres to a set of templates and guidelines that have been approved by the City. The templates identify the contents and structure that should be incorporated into fiscal and financial studies, while the guidelines provide specific assumptions and methodologies to use in the fiscal and financial analyses. Together, the templates and guidelines were established to direct the preparation of all fiscal impact and public financing analyses in the City, promote consistency in the analyses across development projects, and facilitate the peer review process. They are the result of an exhaustive process involving City staff, Goodwin Consulting Group, and financial consultants for each of the major development projects proposed in the City.

City staff completed a series of extensive analyses to support a variety of the assumptions and approaches contained in the guidelines. While the templates and guidelines are still evolving and subject to change, the analysis presented herein is based on the set of guidelines in effect at the time this report was prepared. Note that the templates and guidelines are not meant to be a strict prescription for completing the studies; rather, they serve together as a “manual,” and the manual’s directions can be adjusted as project circumstances warrant and deviations from the manual can be justified.

PEER REVIEW

The City of Stockton, in requiring developers to produce fiscal and financial analyses for their projects, also requires that those studies be reviewed by a City consultant. This peer review process ensures that two public finance consultants are involved in the preparation of the documents, creating a system of checks and balances that is intended to result in quality products that bridge sometimes opposing private and public sector viewpoints, consider all crucial analytical elements, and protect the City’s interests going forward.

Goodwin Consulting Group (GCG) was retained by the Project developer to prepare this FIA, and Economic & Planning Systems (EPS) was retained by the City to perform the fiscal and financial peer review for Sanctuary. EPS has conducted a thorough review of the FIA and its related assumptions, and concurs with the conclusions and supporting analysis presented herein. As part of the peer review process, EPS and GCG collectively decided that the FIA should be evaluated under two scenarios related to home values and absorption. EPS and GCG established more conservative value and absorption assumptions for the additional scenario. Details related to both scenarios are presented in the subsequent chapters of this report.

During the peer review process, EPS worked closely with GCG to review and collectively address all aspects of the FIA, including its assumptions, methodology, analysis, and statements. EPS and GCG also engaged City staff during this process to ensure that the resulting document is consistent with City policies and objectives.

FISCAL PRINCIPLES AND OBJECTIVES

The following principles and City objectives shall guide the implementation efforts associated with financing public services for the Project.

1. The Fiscal Impact Analysis (FIA) shall be consistent with, and serve to reinforce, the land use plan and subsequent development of the Project.

Objective 1.1: Apply land use regulations and financing mechanisms that encourage development of the Project at the proposed density ranges and in appropriate phases. Financing mechanisms shall assure that variances from density ranges and development phases do not negatively affect service levels.

Objective 1.2: Landowners, developers, and builders within the Project shall have the right to develop the Project at such time, rate, sequence, and order as they deem appropriate within the exercise of their subjective business judgment.

Objective 1.3: A detailed fiscal impact analysis reflecting how service costs will be funded shall be prepared to support adoption of selected financing mechanisms. The fiscal analysis should be updated during the development process to account for changing project-specific circumstances, shifting market conditions, and more refined service needs and cost data that will become available over time.

Objective 1.4: The original fiscal analysis for a project, and any subsequent updates, shall be based on and adhere to the template and guidelines for conducting an FIA as promulgated by the City and in effect at the time.

2. Future development within the Project shall pay the full costs of services needed to serve the Project area, except where other funding sources are appropriate and available, and shall pay the costs of mitigating potential impacts on existing services in the City.

Objective 2.1: Landowners, developers, and builders within the Project shall bear primary responsibility for funding all services needed to serve the Project area.

Objective 2.2: The level of municipal services provided to the Project shall be at least equal to, and in some cases superior to, the level of service provided within the existing City.

Objective 2.3: Existing landowners and residents shall not be burdened with assessments or taxes to pay for additional services required to serve the Project.

Objective 2.4: Properties outside the boundaries of the Project that benefit from additional services as a result of the Project, such as operation and maintenance costs associated with new fire engine and truck companies, shall contribute funding to these services through an agreed-upon mechanism.

Objective 2.5: Annual public services costs and revenues shall be managed to maintain a cumulative positive fiscal impact to the City; no cumulative fiscal deficits shall be allowed to accrue, which means that cumulative fiscal surpluses may be used to fund interim deficits.

3. The City shall facilitate the establishment of necessary financing entities and arrangements for financing service costs, including but not limited to park maintenance, road maintenance, and fire protection.

Objective 3.1: The City shall establish, pursuant to related statutory authority and procedures, Project area financing mechanisms (e.g., Community Facilities District, Assessment District).

Objective 3.2: All costs associated with forming and administering any financing mechanism shall be borne by the Project.

Objective 3.3: To ensure that funding of services is timely and that other public benefits are achieved, the City shall offer development agreements to specific plan developers or builders, consistent with existing City policy and ordinances.

4. Mechanisms shall be identified or established to assure ongoing maintenance of public facilities.

Objective 4.1: The Project area shall be incorporated into all existing Citywide or local maintenance districts to assure adequate funding for Project park and open space maintenance and other Project maintenance activities.

Objective 4.2: Developers shall participate in financing districts (e.g., Citywide or local Community Facilities District) established to offset costs of City services extended to the Project.

5. An ongoing monitoring and reporting system shall be established to ensure that appropriate adjustments are made so that implementing mechanisms can respond, as necessary, to changing circumstances.

Objective 5.1: At the time a fiscal mitigation vehicle is employed, the developer will execute an agreement with the City guaranteeing that, if fiscal deficits planned to be financed with that financing tool cannot be fully funded due to an unforeseen

funding shortfall, private equity or other sources of funding will be provided when needed.

Objective 5.2: An annual fiscal surplus or deficit shall be defined generally as the difference between fiscal revenues produced by the Project and fiscal expenses incurred by the City to provide services to the Project (revenues exceeding expenses result in a surplus; expenses exceeding revenues result in a deficit), but will be more specifically determined by the initial FIA and any subsequent updates conducted for the Project.

Objective 5.3: The monitoring and reporting process shall consist of true-up and audit steps that involve rerunning the fiscal analysis, comparing the results of the current fiscal update to those of the prior update or original study, submitting the analysis to the City and its peer review consultant, meeting with the City and its peer review consultant to review and revise the analysis as applicable, and adjusting implementing mechanisms for the remaining undeveloped portion of the Project as necessary.

Objective 5.4: The developer shall be responsible for conducting the monitoring and reporting, which will occur prior to when the following project thresholds are triggered:

- a. recordation of the first final subdivision map for the Project;
- b. recordation of the first final subdivision map for each planned major phase of development after the first phase, as documented in the Project's specific plan, financing plan, fiscal analysis, or otherwise determined in conjunction with the City;
- c. issuance of a building permit for a residential dwelling unit that constitutes the first of the remaining 20% of the units planned for the Project; and
- d. at any other time at the City's reasonable request based on changes to the Project, fluctuations in external market conditions, structural alterations to the City's budget, or other significant events, realized or envisioned.

Objective 5.5: The developer shall be responsible for covering all costs associated with the monitoring and reporting system, including the City's costs and peer review costs.

PROJECT DESCRIPTION

LOCATION, LAND USES, AND RELATED ASSUMPTIONS

The City, situated along the San Joaquin Delta waterway that connects to the San Francisco Bay and the Sacramento and San Joaquin rivers, is located 83 miles east of San Francisco and 45 miles south of Sacramento. Table A-1 of Appendix A to this report presents the total population and employment in the City as of January 1, 2008, estimated to be 296,900 and 94,400, respectively. (Note: The appendices include a Table 1A-1 for Scenario 1 and a Table 2A-1 for Scenario 2; where the tables are identical regardless of the scenario being analyzed, the text will refer, as an example, simply to “Table A-1.”)

Sanctuary is situated on the Shima Tract. It is located in an unincorporated area of central San Joaquin County, adjacent to the north-western edge of Stockton’s city limits. Because the proposed project is located within the City’s Sphere of Influence, it is expected to be annexed into the City prior to development. Located along Interstate 5, Sanctuary is generally bounded by a series of sloughs: Pixley Slough to the north, Fourteenmile Slough to the west, and Fivemile Slough to the south. A location map is presented on p. 8.

Sanctuary consists of residential and non-residential land uses on approximately 1,970 acres. A total of 7,070 dwelling units is proposed and includes a mix of housing types and densities. Sanctuary’s residential component is anticipated to include single-family residential homes, active adult residential homes, as well as townhomes and condominiums. Sanctuary is expected to be home to approximately 21,152 residents. With over 830,000 square feet of retail, office, and hotel uses, Sanctuary is also expected to produce approximately 1,913 new jobs from these land uses. Accounting for jobs generated by the new schools (242) and by development of land uses earmarked for religious purposes (32), a total of 2,187 jobs are expected.

As indicated above, two sets of residential values are analyzed in this report. The first set, the results of which are presented in Scenario 1, represents the expected values (in current dollars). A second, lower set of values is also evaluated, however, and is meant to serve as a general sensitivity test. Because of the importance of developed values and absorption on the results of the analysis, the sensitivity test exhibited in Scenario 2 assumes a significant decrease in the expected values and a lengthening of the development timeline by 50%. The project proponent has stressed, though, that development of the project is unlikely until the expected values can be achieved.

To some extent, the sensitivity test may be an academic exercise if development won’t proceed unless certain values are realized. Nonetheless, it is critical to understand the consequences of how potential variances in expected values and absorption affect the bottom line. Lower values drive down all of the revenues tied to property values (e.g., secured and unsecured property taxes, real property transfer taxes) as well as revenues indirectly related to sales prices (e.g., sales and use taxes are a function of household income, which is related to home value). The slower absorption, meanwhile, impacts the analysis by lengthening the time between certain

front-loaded costs and revenues anticipated at buildout. Although the two scenarios help frame the issue, it is important to note that actual sales prices and absorption will be different than either scenario, potentially having a material effect on the projected net fiscal impact.

More detailed information regarding project land uses, demographics, and other project assumptions is provided in Table A-2 of Appendix A. Also, a preliminary land use map can be found on p. 9.

PROJECT ABSORPTION/PHASING

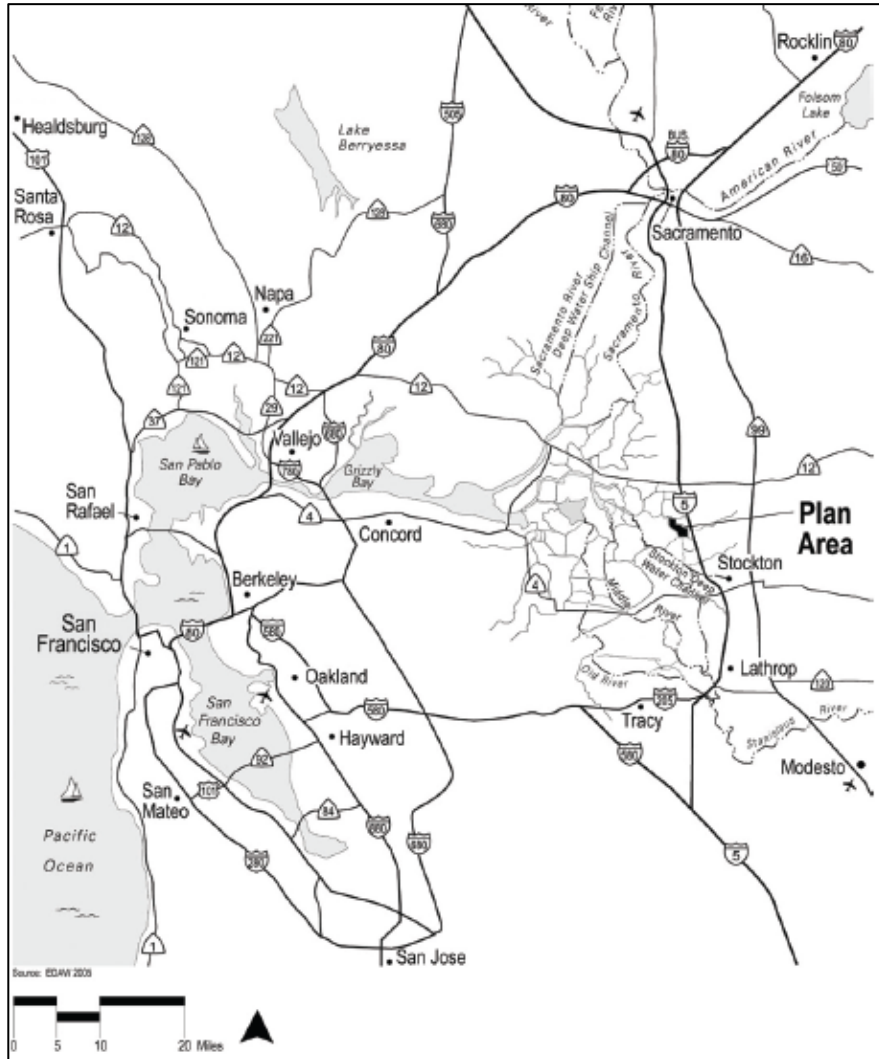
Four distinct phases are proposed for development, each with a mix of residential and non-residential land uses. All of the retail, office, and hotel uses are expected to be developed in the final year of the first phase and the first year of the second phase in Scenario 1 (in Scenario 2, non-residential absorption also begins in the final year of the first phase but is not fully absorbed until the second year of the second phase).

Table 1A-3 and Table 1A-4 in Appendix 1A and Table 2A-3 and Table 2A-4 in Appendix 2A illustrate the annual and cumulative absorption of residential units and non-residential acreage and square footage. The table below, however, presents the number of residential units within each of the four phases.

Land Use	Phase 1	Phase 2	Phase 3	Phase 4	Total
Residential Estates	0	125	80	8	213
Low Density	966	735	1,322	1,557	4,580
Medium Density	230	148	171	541	1,090
Multi-Family	309	103	206	309	927
Active Adult	0	200	60	0	260
Total	1,505	1,311	1,839	2,415	7,070

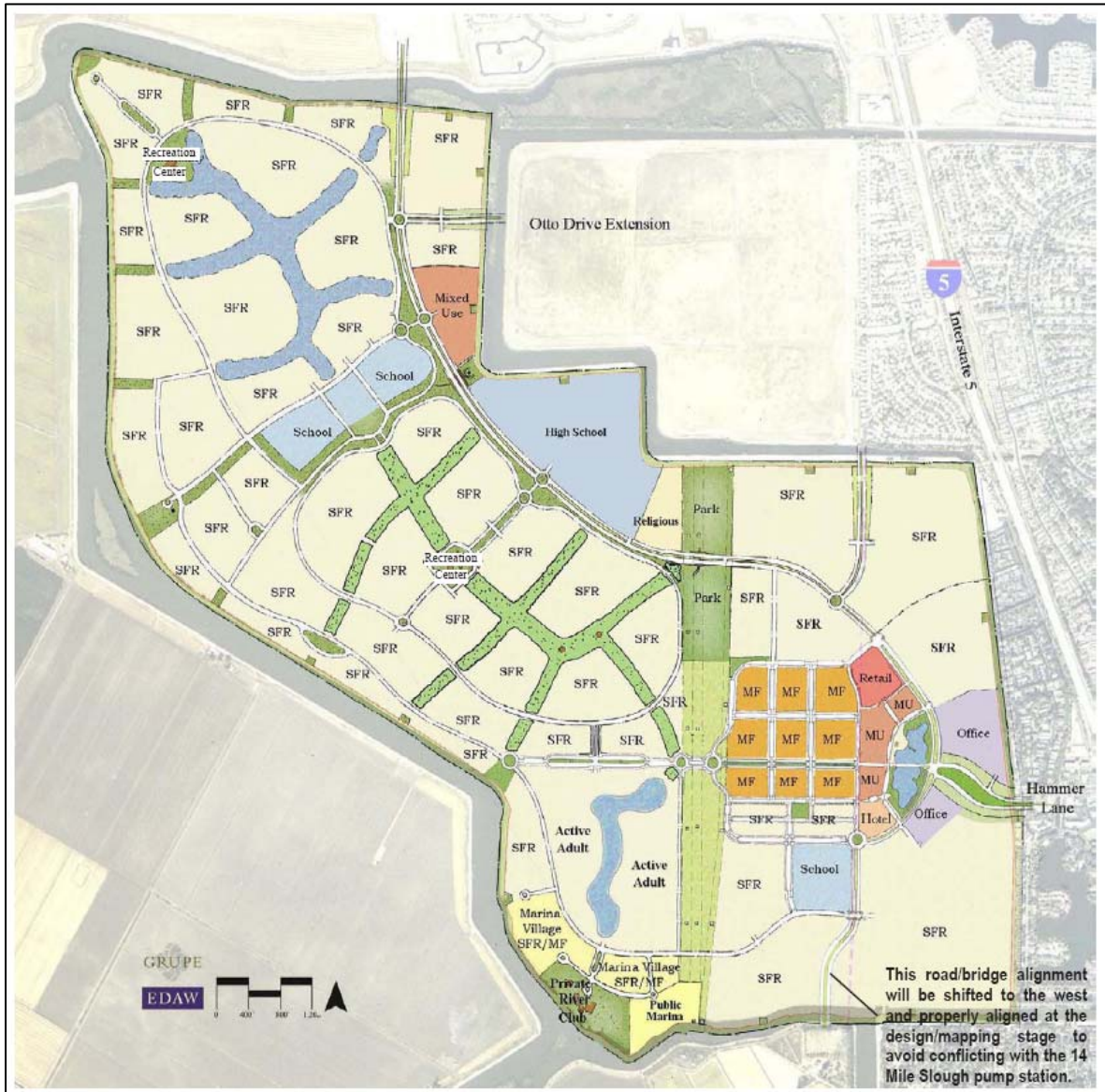
Scenario 2, as mentioned earlier, incorporates an absorption schedule that is 50% longer than the schedule presumed in the first scenario. More specifically, for each individual land use category, the absorption schedule presented in Scenario 2 is increased by 50%. As an example, since the residential estates product type is expected to absorb over eight years in Scenario 1, the second scenario assumes an increase of four years (from eight to twelve) in the absorption of the residential estates units.

LOCATION MAP



Source: www.sanctuarybygrupe.com

LAND USE MAP



Source: Permitted Land Use Plan from the Master Plan, dated July 2007.

METHODOLOGY AND ASSUMPTIONS

SCOPE AND METHODOLOGY

Fiscal impacts arising from land development can be categorized broadly as either one-time impacts or recurring impacts, both of which involve a revenue and expense component. For example, a project may create the need for an onsite fire station, and the one-time construction cost of the station may be offset by a development impact fee; these costs and revenues would be included in a public facilities financing plan. The annual expenses associated with staffing and maintaining the fire station will be offset by annual property taxes and other revenues generated by new development to the City; these costs and revenues are part of the fiscal impact analysis. The fiscal impacts compared below are the annual, or recurring, revenues and expenses that affect the City as a result of development associated with Sanctuary.

This fiscal impact analysis compares the annual costs of providing public services against the annual revenues that will be generated by new development to determine the net fiscal impact. It analyzes the impacts on the City's discretionary General Fund and Measure W Fund only; other districts and funds supported by development fees and/or user charges (e.g., enterprise funds), state funding (e.g., school districts), or a specific allocation of property taxes (e.g., school districts, flood control districts) are not analyzed in this study.

Two methodologies are employed in estimating recurring fiscal impacts. First, the case study method is used to estimate recurring revenues and expenses by applying defined service standards, existing tax and fee rates, and suggested operating and maintenance costs to the various land uses and services proposed in Sanctuary. The second methodology used is the multiplier method, which assumes that fiscal impacts will result from proposed development at forecasted rates per resident, employee, or person served based on the City's fiscal year 2007-08 budget. The case study and multiplier methods are generally used under the following conditions:

Case Study Method

1. Marginal cost is a better approximation of the actual costs to provide similar services to specific developments in future years.
2. The land use distribution of the project being analyzed does not resemble the land use distribution within the public agency's area.
3. Service standards and estimated future costs for new projects are anticipated to be different than they are now.

Multiplier Method

1. Average cost is a reasonable approximation of the actual costs to provide similar services to specific developments in future years.
2. Specific revenues and expenses are generated based on population (e.g., gas taxes, social services).
3. Service standards and other information are not available or accurate.

The multiplier method relies on a “persons served” factor, which is most often the sum of all residents plus 50% of employees. The exact relationship of service demands and revenue potential between residents and employees is difficult to measure, but a service population comprised of all residents and 50% of employees is standard fiscal practice. This relationship suggests that a resident generally has twice the impact of an employee (e.g., a resident is home sixteen hours per day, while an employee is at work eight hours per day). The “Persons Served” factor for the City is 344,115 and is presented in Table A-1 of Appendix A along with the population and employee figures.

Case study and multiplier approaches are used to estimate different recurring fiscal impacts for Sanctuary, as listed in the following table:

<i>CITY OF STOCKTON</i>	
<i>Case Study Method</i>	<i>Multiplier Method</i>
Recurring Revenues	
Property Tax: Secured and Unsecured Real Property Transfer Tax Sales and Use Tax Measure W Sales Tax Public Safety Sales Tax Vehicle License Fees and Property Tax In-Lieu of VLF Transient Occupancy Tax	Other Taxes Licenses and Permits Fines and Forfeitures Other Revenue Revenue from Other Agencies Charges for Current Services Gas Tax
Recurring Expenses	
Park Maintenance Road Maintenance Landscaping Maintenance Street Lights O&M Traffic Signals O&M Fire Department Parks & Recreation Department Public Works Department	General Government Office of Economic Development Library Services Other Post-Employment Benefits Non-Departmental Parks & Recreation Department Police Department Public Works Department Measure W: Fire and Police Departments

Throughout the remainder of this report, reference is made to a base case and an alternative case. In specific terms, the variances between the two cases are discussed in the General and/or Major Assumptions section below. Generally, however, the differences relate to adjustments to the Other Post-Employment Benefits, Police Department, and Public Works Department cost multipliers.

GENERAL AND/OR MAJOR ASSUMPTIONS

Many assumptions are factored into the analysis of fiscal impacts. Some of the most critical assumptions, in terms of their effect on revenues and expenses, are delineated below:

1. The projected annual fiscal impacts are presented in current year 2008 dollars. Future impacts should be increased by an inflation factor that is tied to an appropriate inflation index such as the Engineering News-Record index or one of the regional consumer price indices.
2. A summary of the land use, demographic, and related assumptions incorporated into the fiscal analysis is presented in Table 1A-2 of Appendix 1A for Scenario 1 and Table 2A-2 of Appendix 2A for Scenario 2. The number of residential units and amount of non-residential square footage, population and employment densities, estimated values, and other pertinent factors are included in these tables. A particularly important assumption that affects property tax and property tax in-lieu of vehicle license fees is the estimated value of dwelling units in Sanctuary. In Scenario 1, average sales prices for single-family residential homes start at \$315,000 for the for-sale and for-rent townhomes and condominiums and range from \$450,000 for medium density and active adult units, to \$551,000 for low density units, and up to \$1,000,000 for the residential estate units. The second scenario, as discussed above, contemplates lower average values and can be compared to the first scenario in the table below.

	Expected Value	Reduced Value	% Change
Residential Estates	\$1,000,000	\$850,000	(15%)
Low Density Residential	\$550,000	\$500,000	(9%)
Medium Density Residential	\$450,000	\$410,000	(9%)
High Density Residential	\$315,000	\$300,000	(5%)
Active Adult (Age-Restricted)	\$450,000	\$380,000	(16%)

Annual and cumulative absorption assumptions are outlined in Tables 1A-3 and 1A-4 of Appendix 1A and Tables 2A-3 and 2A-4 of Appendix 2A for Scenarios 1 and 2, respectively. Both the expected sales price and absorption assumptions are based on proprietary in-house research conducted by the project applicant, The Grupe Company (Grupe). In Grupe's researched opinion, data from existing projects within Stockton and in surrounding communities support the value and development assumptions presented herein, particularly when the project's location in the upper westside of the City, water features and other quality amenities, and master planned character are considered. However, as noted above, numerous assumptions are incorporated into the fiscal impact analysis, some of which are relatively

uncertain at this time. For example, many factors combine to form the framework of the local real estate market, that market will ultimately determine home prices, and those prices will to a large extent dictate when development in Sanctuary actually occurs.

3. Sanctuary, which is currently in unincorporated San Joaquin County, is expected to be annexed into the City of Stockton. The governing jurisdiction is an important consideration because it will determine how property taxes and other revenues are calculated and allocated. The County will continue to provide countywide services to Sanctuary, such as health and human services and public assistance; however, the City will provide Sanctuary with typical municipal services, such as police and fire protection. Impacts to County services are not analyzed in this fiscal study.
4. Sanctuary currently lies within the following two tax rate areas (TRAs): 099-057 and 095-004. Pursuant to the County of San Joaquin and City of Stockton Agreement for Property Tax Allocation upon Annexation (Annexation Agreement), 20.0% of the County's General Fund property tax allocation from future incremental property tax revenue will be reallocated to the City's General Fund upon annexation; the County will retain the remaining 80.0% of the future incremental property tax revenue. Within these TRAs, nearly 15.7% of the total property tax allocation is allotted to the County's General Fund. Accordingly, 12.5% of the future property tax increment will be retained by the County's General Fund while the remaining 3.1% will be reallocated to the City's General Fund. Table A-6 in Appendix A illustrates this redistribution of tax allocation factors.
5. Upon annexation to the City, the City will provide road maintenance, library, and fire protection services to Sanctuary. Pursuant to discussions with County and City staff, the following property tax allocations are assumed: (i) 20.0% of the existing property tax allocation to Road District No. 3 (approximately 0.9% of the future tax increment) will be reallocated to the City's General Fund; (ii) 20.0% of the existing property tax allocation to the County Library (approximately 0.4% of the future tax increment) will be reallocated to the City's General Fund; and (iii) 20.0% of the existing property tax allocation to the Woodbridge Rural fire district (approximately 1.8% of the future tax increment) will be reallocated to the City's General Fund to provide additional fire protection services. This redistribution of tax allocation factors is also shown in Table A-6 of Appendix A.
6. Legal actions taken at the state level in the 1990s diverted a percentage of the 1.0% property tax into the Educational Revenue Augmentation Fund (ERAF). For purposes of the fiscal analysis, it is assumed that this situation will continue in future years.
7. Fiscal revenue and expense standards reflect existing revenues and expenses based on the City's 2007-08 fiscal year budget, with the following notable exceptions:

Pursuant to discussions with City staff, the general government cost multiplier is reduced by 15.5% to reflect the fact that a portion of the activities in these budget areas will not grow significantly, if at all, due to new development. For example, the City will continue to operate with just one City Council, city manager, city clerk, city attorney, and other similar positions and department heads, as outlined in the 2007-08 City budget. While

certain staff and related expenses will increase to respond to growth as a result of Sanctuary, executive staff, senior and other management levels, and other areas within these budget units will not increase in size or expense.

In addition, fiscal standards from the City's 2007-08 fiscal year budget have been revised to reflect a reduction in both anticipated revenues from, and expenses related to, public safety services. Pursuant to discussions with City staff, future development is not expected to impact public safety revenues or expenses related to existing public safety contracts. Consequently, total revenues from, and expenses related to, public safety services are reduced by approximately \$4.7 million. Table A-8 in Appendix A illustrates the impact on the revenue side while Table A-12 demonstrates the effect on the expense side.

Affecting the alternative case only, City staff has also indicated that a cost multiplier equal to 10% of the General Fund salary base be included. The extra expense is intended to approximate the City's future Other Post-Employment Benefits (OPEB) obligations related to active employees. Estimated at \$20.35 per person served, the OPEB cost multiplier can be seen in Table A-12 of Appendix A. Since the City does not currently budget its future OPEB liability, the base case assumes a \$0 multiplier.

To ensure that expenses are not being double-counted, direct park and road maintenance costs are subtracted from the General Fund budgets of the Parks and Recreation and Public Works departments. More specifically, the Parks and Street Trees and the Operation and Maintenance line items are adjusted downward to account for the fact that such costs are estimated using the case study method. The amounts presented in Table A-12 of Appendix A relate solely to non-park and non-road maintenance costs, respectively.

Because 16 additional officers were added to the police department's payroll during the fiscal year, \$1,000,000 was added to the budget to reflect the full year cost. Both the base case and alternative case include this adjustment. Additional expenses, recognized only in the alternative case, include increases to the Field Services and Investigation line items in the Police Department budget. These line items were increased by 2.7%, which represents the increase to the preferred police service standard of 1.50 officers per 1,000 residents from the current standard of 1.46.

Lastly, in order to properly maintain various facilities and equipment, City staff has determined that the Public Works budget must be increased to halt any further rises in deferred maintenance. The adjusted total expense and accompanying alternative case cost multiplier is presented in Table A-12 of Appendix A, along side the base case multiplier for the department.

8. New development within Sanctuary will be responsible for funding costs related to on-going operations and maintenance for various capital improvements. Maintenance costs related to certain services are not included among the fiscal expenses to the City because a Homeowners Association (HOA) or Community Facilities District (CFD) will be established

to fund these ongoing services, including operation and maintenance of local streets, street light maintenance and energy on both local and arterial streets, landscaping (including soundwalls, privacy walls/fences, and entry features), as well as parks and open space (including bikeways and pedestrian paths). Only easily accessible (i.e., non-gated) community and neighborhood parks are expected to be publicly maintained and funded through a CFD. It is expected that all open space, in-tract neighborhood parks, and community parks that are not easily accessible will be privately maintained and funded through an HOA. In addition, neither the HOA nor the CFD will fund maintenance costs associated with approximately 3.4 miles of major arterial roadways, as noted in Table A-2 of Appendix A.

Park and recreation programming activities, events, etc., for parks that are privately maintained (i.e., HOA-funded/maintained) will be controlled by the City. An agreement explicitly affirming this arrangement will need to be executed prior to project implementation to protect the City's ability to schedule community events (e.g., softball tournaments) at privately maintained parks.

9. Total taxable sales have been calculated by focusing on the demand side of the retail picture. That is, based on estimates of household income and the percentage of household income expended on taxable sales, the total taxable sales generated by each household is established. Applying a City capture rate of 82% to the total taxable sales in each year results in the local demand presented in Tables 1A-10 of Appendix 1A and 2A-10 of Appendix 2A.

Since some taxable sales relate to excess regional capture, a portion of the non-residential supply is also accounted for in this analysis. City statistics reveal that Stockton has a per capita taxable sales rate that is 106% of the statewide per capita rate. In other words, Stockton generates 6% more in taxable sales on a per capita basis than the state on a per capita basis. For that reason, 6% of Sanctuary's total taxable sales supply is assumed to meet excess regional demand and is combined with the local project demand to determine the total taxable sales.

10. Annual fire protection costs are based on the assumption that Sanctuary will be responsible for funding 84.1% of the cost to operate and maintain one engine company since it will share these costs with The Preserve, another proposed development in the City. Sanctuary's fair share calculation for the engine company is presented in Table A-11a of Appendix A. Although Sanctuary also necessitates one truck company, the anticipated redeployment of the Station 7 truck company to the planned Station 16 results in no additional impact on the City's General Fund. As a result, the truck company expense is not addressed in this study.

Because the City's most recent fire service area analysis considers annual costs on a comprehensive basis, a fire department cost multiplier is not applicable. If a project triggers the need for a new fire station, then the case study method should be used to estimate fire protection costs. The comprehensive approach ensures that, over the range of proposed projects throughout the City, fully 100% of the incremental fire protection costs, conceptually identified in the fire service area analysis, are addressed in the various fiscal impact analyses for each project.

CITY REVENUES

Case Study Method

Secured Property Tax

Property taxes are allocated to public agencies and special districts based on the various allocation factors within a TRA. Two TRAs, 099-057 and 095-004, cover the Sanctuary area. Table A-6 in Appendix A identifies the allocation factors for the variety of districts, funds, and agencies for each TRA, after revenues have been shifted to ERAF. For purposes of this analysis, it is assumed that this shift will continue into the future. The property tax allocation of 6.3% of the 1.0% basic property tax is applied to the estimated assessed value created by Sanctuary. Annual secured property tax revenues estimated to flow to the City's General Fund during development and after buildout are shown in Tables 1B-1 and 1B-2 of Appendix 1B for the base case and Tables 1C-1 and 1C-2 of Appendix 1C for the alternative case for Scenario 1. Similar analyses are presented for Scenario 2 in Tables 2B-1, 2B-2, 2C-1, and 2C-2.

Unsecured Property Tax

Unsecured property includes items such as computers, furniture, machinery, and equipment in non-residential areas and in some home-based businesses. It is also comprised of other types of personal property, including boats and airplanes. Unsecured property taxes are typically calculated as a percentage of secured property taxes based on the historical relationship between the two. Non-residential property tends to generate significantly higher unsecured property taxes than residential property. As Table A-7 in Appendix A indicates, unsecured property tax revenues are assumed to be 1.0% of secured property tax revenues for residential property and 10.0% for non-residential property. Tables 1B-1, 1B-2, 1C-1, and 1C-2 of Appendices 1B and 1C present the unsecured tax revenues for the two cases. Again, similar analyses are presented for Scenario 2 in Tables 2B-1, 2B-2, 2C-1, and 2C-2.

Real Property Transfer Tax

When a residential dwelling unit or non-residential structure is sold within a city, a tax representing a small percentage of the value is generally transferred to a fund to be split between the city and the county in which it resides. As shown in Table A-7 of Appendix A, the current rate in Stockton is \$1.10 per \$1,000 of value, and the City receives 50.0% of the amount generated from real property transfers. For Scenario 1, annual real property transfer tax revenues anticipated to flow to the City's General Fund during development and after buildout are presented in Tables 1B-1, 1B-2, 1C-1, and 1C-2 of Appendices 1B and 1C, respectively. Parallel tables for Scenario 2 can be found in Appendices 2B and 2C.

Sales and Use Tax

Several methodologies can be used to estimate taxable sales. One method measures taxable sales based on the supply of retail square footage. Under this approach, a taxable sales per square foot estimate is multiplied by the total retail square footage planned in the project. Another approach looks at the demand side of the equation. Under that approach, household income, percentage of household income spent on taxable goods and services, and a taxable sales capture rate for the City are estimated to determine taxable sales. Often, as is the case here, a combination of both approaches is utilized.

Table 1A-9 of Appendix A presents the demand side assumptions and calculations for the first scenario while Table 2A-9 does the same for the second scenario. Estimates related to household income and percentage of household income spent on taxable sales are used to determine the taxable sales from residential land uses depicted in either Table 1A-10 of Appendix 1A or Table 2A-10 of Appendix 2A. As mentioned above, though, this fiscal analysis also considers the supply side of the equation.

The supply side approach, which simply counts taxable sales where point-of-sale transactions occur, is not considered entirely appropriate since there is evidence to suggest that proposed retail development throughout the City far exceeds demand created by proposed residential development. Of course, a significant portion of the taxable sales captured by the retail square footage developed in Sanctuary will be generated by new residential development that occurs in Sanctuary. The industry standard for development projects of this type is approximately \$250 per square foot of retail use. Office use is assumed to produce only minimal taxable sales (from a few point-of-sale businesses operating out of office space) and is estimated to be \$5 per square foot. These assumptions are presented in Table A-7 of Appendix A. To avoid double-counting taxable sales, however, only a certain portion of the non-residential taxable sales are included in the fiscal analysis. Only that portion of non-residential taxable sales that relates to regional demand (estimated to be 6%, as described in Chapter 4) is accounted for in Table 1A-10 of Appendix 1A or Table 2A-10 of Appendix 2A for Scenarios 1 and 2, respectively.

In addition to the 1.0% local sales tax, the City also receives a portion of the County's and State's pooled revenues. When a sale cannot be identified with a permanent place of business in this state, the local sales tax is allocated to the local jurisdictions through countywide or statewide pools. Accordingly, certain sellers are authorized to report their local sales tax either on a countywide or statewide basis. These may include auctioneers, construction contractors making sales of fixtures, catering trucks, itinerant vendors, vending machine operators, and other permit holders who operate in more than one local jurisdiction but are unable to readily allocate taxable transactions to particular jurisdictions. Use tax is also allocated through a countywide pool. Examples of taxpayers who report use tax allocated through the countywide pool include out-of-state sellers who ship goods directly to consumers in the state from a stock of goods located outside the state, and California sellers who ship goods directly to consumers in the state from a stock of goods located outside of the state. The countywide pools are prorated, first among the cities and the unincorporated area of each county using the proportion that the identified tax for each city and unincorporated area of a county bears to the total identified for

the county as a whole. Next, the combined total of the direct sales tax allocation and the prorated countywide pool amount is used to allocate the statewide pool amount to each city and county.

Based on data from the State Board of Equalization, the City of Stockton's share of revenues from these pooled funds is approximately 11.8% of its local sales tax revenue. This factor is presented in Table A-7 of Appendix A. It is assumed that this percentage will continue to be received in the future; therefore, these revenues are incorporated into the analysis as shown in Tables 1B-1 and 1B-2 of Appendix 1B and Tables 1C-1 and 1C-2 of Appendix C for Scenario 1. Comparable tables are presented in Appendices 2B and 2C for Scenario 2.

Public Safety Sales Tax

Proposition 172 created a one-half cent sales tax for local public safety. A figure of 3.3% is used to calculate the percentage of public safety sales tax revenue accruing to the City, as shown in Table A-7 of Appendix A.

Measure W Sales Tax

Measure W is a voter-approved 0.25% tax on all taxable transactions within the City. The 0.25% Measure W add-on is included in the fiscal analysis since it funds public safety services. As a result, the overall revenues presented in Appendices 1B and 2B and 1C and 2C integrate the additional sales tax revenues accruing from this tax.

Vehicle License Fees and Property Tax In-Lieu of Vehicle License Fees

Vehicle license fee (VLF) revenue was formerly determined on a per-capita basis. The November 2004 election and the passage of Proposition 1A enacted a constitutional amendment that introduced the property tax for VLF swap, which results in a new methodology to calculate property taxes in-lieu of VLF. Under the new law, the VLF backfill from the state general fund used to supplement taxpayer VLF revenues is eliminated and replaced with a like amount of property taxes dollar-for-dollar. In subsequent years after the 2004-05 base year, the property tax in-lieu of VLF amount grows in proportion to the growth rate of gross assessed valuation in the city or county, rather than in proportion to population, as previously used to determine VLF. The change in allocation also results in a small amount of remaining VLF that will continue to be allocated to cities based on population.

The City's property tax in-lieu of VLF (PTILVLF) and remaining VLF allocation for 2007-08 are shown in Table A-7 of Appendix A. The same table also shows the City's net assessed value for the 2007-08 tax roll, which can be used in combination with the City's PTILVLF to determine the PTILVLF as a percentage of net assessed value. Although the new law specifies that the assessed value of an area during its first year of annexation shall be ignored for purposes of calculating growth in the City's PTILVLF revenues, the fiscal analysis assumes that the nominal assessed value of the undeveloped land and the minimal projected growth, if any, in assessed valuation during the first year after annexation are expected to have an insignificant impact on the City's future PTILVLF revenues.

The PTILVLF allocated to the City was calculated by increasing the City's 2007-08 PTILVLF in proportion to the increase in the City's assessed value from Sanctuary. The amount of remaining VLF (\$6.22 per capita) is applied to the cumulative number of residents generated by Sanctuary and is also included in this analysis. Total remaining VLF and PTILVLF are presented in Tables 1B-1, 1B-2, 1C-1, and 1C-2 of Appendices 1B and 1C, respectively, for Scenario 1. Similar analyses are presented in Tables 2B-1, 2B-2, 2C-1, and 2C-2 for Scenario 2.

Transient Occupancy Tax

A transient occupancy tax (TOT) equal to 8% of the room rate is levied on hotels, motels, and other lodging facilities in the City. Since Sanctuary is proposed to include a 100-room hotel, it is expected to augment the City's general fund by increasing the amount of TOT revenues that may be collected in the City. The amount of additional TOT revenue that is expected to be generated by Sanctuary's hotel is calculated based on the assumptions identified at the bottom of Table A-7 of Appendix A. Total TOT revenue anticipated during development and after buildout is presented in Appendices 1B and 1C and 2B and 2C.

Multiplier Method

Of the fifteen revenue sources itemized in the fiscal analysis, seven are calculated using the multiplier method. These multipliers are applied to the appropriate residents, employees, or persons served estimate for each calculation.

- Other taxes include utility users, franchise, and TOT taxes. Since TOT taxes are accounted for above through the case study method, only utility users and franchise taxes make use of the multiplier method. A utility user tax is levied against all non-public users of gas, electric, water, telephone, and cable television services. Beginning in fiscal year 2006-07, the City approved a one-percent reduction in the utility user tax. Accounting for the reduction, a 6.0% utility user tax is used to derive future fiscal impacts related to future development in Sanctuary. The utility user tax is calculated on a persons served basis. Franchise taxes are levied on companies that receive the privilege of using public property such as utility poles, lines, and public land in order to transport electricity, cable television, gas and more. Franchise tax revenues relate to residential and non-residential land uses; therefore, a persons served factor is used to estimate these additional revenues generated for the City.
- Street and curb permits, police permits, and other licenses and permits are all based on persons served, business licenses are based strictly on employees, and animal licenses are based solely on residents.
- Fines, forfeitures, and penalties are based on persons served considering both residents and businesses generate various fee and fine revenues.
- Other revenues include cost recovery allocations as well as a wide variety of refunds and reimbursements for costs incurred by the City's General Fund that are the legal responsibility of a private party or other separate entity. The amount of other revenue generated in the City is based on the number of persons served.

- Revenue from other agencies is calculated on a persons served basis.
- Charges for current services relate to both residents and employees; therefore, an average cost per person served is used to determine additional revenue in this category.
- Gas tax revenues are based on the number of residents within the City.

CITY EXPENSES

Case Study Method

Park Maintenance

Since *all* parks in Sanctuary are expected to be funded through a homeowners association or a community facilities district, there is assumed to be no impact on the City's General Fund from park maintenance responsibilities.

Active Open Space/Landscaping Maintenance

All open space/landscaping maintenance responsibilities are proposed to fall on the homeowners association. Because the residents of Sanctuary will cover any active open space/landscaping costs through their monthly dues, there is no impact on the City's General Fund.

Road Maintenance

The homeowners association will also fund a majority of the cost related to street maintenance; however, Sanctuary is expected to consist of approximately 3.4 miles of arterial streets that will be maintained by the City. The total cost related to maintenance of these streets is comprised of pavement, curb, gutter, and sidewalk (for City street tree damage repair only), and traffic signal maintenance and energy components. Table A-11 in Appendix A presents the estimated maintenance costs per road mile or lane mile.

Fire Department

As mentioned in Chapter 4, a fire service area analysis that covers the City's numerous proposed projects estimated overall service requirements. The analysis indicated that Sanctuary must share in the cost to operate and maintain one engine company with The Preserve, another proposed project in the City. Based on data received to date, the engine company is proposed to be needed toward the end of Sanctuary's second of four phases. In Scenario 1, this translates to fiscal year 2016-2017; in Scenario 2, the final year of Sanctuary's second phase is fiscal year 2020-2021.

Although the City has preliminary plans to locate a new fire station within the Sanctuary project that would serve future development there and within The Preserve, it has not confirmed the specific location of the station. The City is in the process of analyzing response times from

various sites within each of these two development areas in order to determine an ideal site for the proposed station.

The same fire service area analysis that indicated the need for an engine company also identified the need for a truck company. However, the anticipated redeployment of the Station 7 truck company to the planned Station 16 results in sufficient coverage to Sanctuary. As a result, only the engine company's cost and phasing schedule is presented in Table 1A-11 of Appendix 1A and Table 2A-11 of Appendix 2A for Scenarios 1 and 2, respectively, because there are assumed to be no additional costs related to the relocation of an existing truck company. The overall approach to estimating fire costs was developed in conjunction with fire department staff and complies with the FIA guidelines in effect at the time this report was prepared.

Multiplier Method

Of the eleven expense categories, eight are calculated using the multiplier method and two utilize both the case study and the multiplier methods. These multipliers are applied to the appropriate residents, employees, or persons served estimate for each category.

- The general government category is calculated with a persons served estimate. This category includes the city attorney, city auditor, city clerk, City Council, city manager, as well as the administrative services and human resources departments.
- Office of economic development expenses are estimated on a persons served basis.
- The library services category is solely comprised of a transfer from the General Fund to the Library Fund. The General Fund transfer is used to offset costs associated with the City library system. These expenses are estimated using a per-resident multiplier.
- Other post-employment benefits relate to the City's set-aside for future obligations, primarily retiree health care costs, tied to its current employees. These expenses are estimated on a persons served basis and apply only to the alternative case.
- Non-departmental expenses (for example, Communication and Outreach team costs) include expenses that are citywide and not solely related to any one department. These expenses are estimated on a persons served basis.
- The parks and recreation department's administration unit provides administrative leadership and clerical support required to plan, direct, and coordinate the entire department. This expense category also includes a transfer from the General Fund to the Recreation Fund, which is used to subsidize recreation programs provided by the City. The portion of the Parks and Street Trees budget that is not accounted for by the case study method (street tree maintenance), and the entire Public Art budget, are also included. These expenses are estimated using a per-resident multiplier.
- The police department's budget consists of administration, field services, investigation, support services, and telecommunication divisions. The field services and investigation

budgets are adjusted to reflect the preferred officer standard in the alternative case, and the overall budget is revised to account for the full-year cost associated with new officers added during the fiscal year. Police department expenses are estimated using a persons served multiplier.

- The public works department includes department administration, engineering, central building maintenance, and the portion of operation and maintenance costs unrelated to road maintenance. As discussed above, an HOA will fund a majority of the street and other public works-related maintenance costs. In the alternative case, public works expenses are increased to eliminate any further deferred maintenance associated with City facility, IT, fleet, and equipment maintenance. Both cases utilize a persons served multiplier.
- Because Measure W revenues are included in the fiscal analysis, the expenditures funded by such revenues are also included. As Table A-13 of Appendix A illustrates, Measure W revenues offset fire and police department expenses. While the police department multiplier, estimated using persons served, is incorporated into the analysis, the fire department multiplier is not applicable, as the case study method fully addresses fire protection costs.

CONCLUSIONS

Upon the proposed annexation, the City will provide the vast majority of public services to Sanctuary. The City's General Fund is the primary discretionary fund that will be impacted by new development in Sanctuary and, as a result, is the main fund estimated in this study. Impacts on the Measure W Fund are also measured but are analyzed in the overall context of the General Fund. At this point, it is important to reiterate that costs associated with the annual operation and maintenance of easily accessible (i.e., non-gated) community and neighborhood parks are excluded from the analysis. Because such costs are expected to be fully funded by special taxes from a CFD, there will be no net impact on the City's General Fund. Nonetheless, the use of this public financing mechanism does affect Sanctuary's CFD bonding capacity and is appropriately accounted for in the related public facilities financing plan.

SCENARIO 1: EXPECTED VALUES/EXPECTED ABSORPTION

Base Case

Annual Net Fiscal Impacts during Development

In the base case, which makes only minor adjustments to expenditures estimated with the multiplier method, all but one fiscal year shows a positive net fiscal impact. In 2016-2017, an approximately \$108,000 deficit is expected due to the introduction of the engine company. Compensating for this one fiscal year, however, is a cumulative surplus of \$6.1 million, arising from development prior to 2016-2017. This mitigating factor implies that a funding mechanism designed to address fiscal deficits is likely unnecessary. The remaining years of development generate annual fiscal surpluses from \$286,000 in 2017-2018 to \$2.9 million in 2025-2026. Table 1B-1 in Appendix 1B presents the annual and cumulative fiscal impacts for the base case.

Annual Net Fiscal Impacts after Buildout

Vehicle license fee and property taxes in-lieu of vehicle license fees are the largest single source of projected City revenues, accounting for approximately 30.3% of the total. The second largest source of revenue comes from other taxes (such as utility users and franchise taxes), which represent approximately 19.0% of all revenue.

As shown in Table 1B-2 of Appendix 1B, total annual revenue generated by Sanctuary after buildout is estimated to be \$14.8 million in 2008 dollars. In contrast, annual expenses are not quite \$12.0 million, resulting in a \$2.8 million annual surplus. On a per unit basis, Sanctuary is expected to generate a net fiscal surplus of \$391 per residential dwelling unit after buildout. These findings can be found in Table 1B-2 of Appendix 1B. For Scenario 1, "after buildout" begins with fiscal year 2026-2027. All "after buildout" numbers, including the \$2.9 million number above, are specific to this one fiscal year.

Alternative Case

Annual Net Fiscal Impacts during Development

The alternative case, as discussed earlier, modifies the OPEB, Police, and Public Works multipliers to account for desired levels of service. As Table 1C-1 in Appendix 1C shows, over the initial five years of development, a sizable surplus is generated due to the residential and non-residential land uses emerging in Sanctuary. In fact, over \$4.3 million in surpluses will accumulate over this time period to the City's General Fund. With the introduction of an engine company toward the end of Sanctuary's second phase, fiscal years 2016-2017 through 2019-2020 show annual fiscal deficits. Notwithstanding these years, over the course of the first nine years of development, Sanctuary is still expected to generate a cumulative surplus of \$2.6 million.

Beginning in the tenth year of development and continuing through buildout, Sanctuary is expected to provide fiscal surpluses in each year. Despite the fiscal deficits in the middle years of the development, the ability of the initial surpluses to more than cover these later deficits suggests that there is no need for measures to mitigate fiscal deficits. The net surpluses also support the mix of land uses proposed for development in Sanctuary. However, a process to assure that initial surpluses can be used to offset intervening deficits must be implemented.

Annual Net Fiscal Impacts after Buildout

Since the revenue components do not change in the alternative case, vehicle license fee and property taxes in-lieu of vehicle license fees remain the largest single source of projected City revenues, accounting for approximately 30.3% of the total. The second largest source of revenue is still other taxes (such as utility users and franchise taxes), which represent approximately 19.0% of all revenue. As shown in Table 1C-1 of Appendix 1C, total revenue generated by Sanctuary after buildout is estimated to be \$14.8 million per year in 2008 dollars.

Development plans for Sanctuary will increase operation and maintenance costs for the City as the City meets the demands of the increased population. Table 1C-2 in Appendix 1C delineates the impact the development would have on the City's General Fund after buildout, which is estimated to be \$13.6 million annually in 2008 dollars. The largest expense category is the police department, accounting for approximately 47.1% of the total General Fund expenditures related to Sanctuary. Buildout costs for the fire department, which total approximately 18.8% of the total General Fund expenditures, represent the second largest expense.

As mentioned above, Sanctuary is expected to generate \$14.8 million in annual revenues and \$13.6 million in annual expenses after buildout. This results in an annual surplus of over \$1.1 million to the City's General Fund, which is equal to an average of \$162 per residential dwelling unit.

SCENARIO 2: LOWER VALUES/SLOWER ABSORPTION

Base Case

Annual Net Fiscal Impacts during Development

Despite the lower values and slower absorption, just two fiscal years (as opposed to one in Scenario 1) show a negative net fiscal impact. In 2020-2021 and 2021-2022, deficits of approximately \$274,000 and \$98,000, respectively, are expected due to the introduction of the engine company. Again, however, a cumulative surplus from development prior to 2020-2021 arises. In Scenario 2, though, the surplus is actually *higher* because the slower absorption allows surpluses from Phase 1 to accumulate over a longer timeframe. The approximately \$9.7 million cumulative surplus implies that a funding mechanism designed to address fiscal deficits is likely unnecessary. In the years following 2021-2022, annual fiscal surpluses range from \$54,000 in 2022-2023 to \$2.3 million in 2033-2034. Table 2B-1 in Appendix 2B presents the annual and cumulative fiscal impacts for the base case.

Annual Net Fiscal Impacts after Buildout

Vehicle license fee and property taxes in-lieu of vehicle license fees are the largest single source of projected City revenues, accounting for approximately 30.2% of the total. The second largest source of revenue comes from other taxes (such as utility users and franchise taxes), which represent approximately 19.7% of all revenue.

As shown in Table 2B-2 of Appendix 2B, total annual revenue generated by Sanctuary after buildout is estimated to be \$14.3 million in 2008 dollars. In contrast, annual expenses are not quite \$12.0 million, resulting in a \$2.3 million annual surplus. On a per unit basis, Sanctuary is expected to generate a net fiscal surplus of \$319 per residential dwelling unit after buildout. These findings can be found in Table 2B-2 of Appendix 2B. For Scenario 2, “after buildout” begins with fiscal year 2034-2035. All “after buildout” numbers, including the \$2.3 million number above, are specific to this one fiscal year.

Alternative Case

Annual Net Fiscal Impacts during Development

The alternative case under Scenario 2 is comparable to the alternative case under the first scenario. Deficits in the middle years of development are compensated by earlier surpluses. Table 2C-1 in Appendix 2C shows that, over the initial nine years of development, a substantial surplus is projected. In fact, over \$6.3 million in surpluses will accumulate over this time period to the City’s General Fund. With the introduction of an engine company toward the end of Sanctuary’s second phase, fiscal years 2020-2021 through 2027-2028 show annual fiscal deficits. Even with these eight consecutive years of deficits, note that a cumulative surplus remains; in fiscal year 2027-2028 a balance of almost \$1.5 million is expected.

Throughout the remainder of the development schedule and continuing through buildout, Sanctuary is expected to provide fiscal surpluses in each year. Despite the fiscal deficits in the middle years of the development, the ability of the initial surpluses to more than cover these later deficits suggests that there is no need for measures to mitigate fiscal deficits. The net surpluses also support the mix of land uses proposed for development in Sanctuary. Again, note that a system must be implemented, in accordance with Objective 2.5 in Chapter 2, to allow initial surpluses to pay for future deficits that occur for a short period of time.

Annual Net Fiscal Impacts after Buildout

Since the revenue components do not change in the alternative case, vehicle license fee and property taxes in-lieu of vehicle license fees remain the largest single source of projected City revenues, accounting for approximately 30.2% of the total. The second largest source of revenue is still other taxes (such as utility users and franchise taxes), which represent approximately 19.7% of all revenue. As shown in Table 2C-1 of Appendix 2C, total revenue generated by Sanctuary after buildout is estimated to be \$14.3 million per year in 2008 dollars.

Development plans for Sanctuary will increase operation and maintenance costs for the City as the City meets the demands of the increased population. Table 2C-2 in Appendix 2C delineates the impact the development would have on the City's General Fund after buildout, which is estimated to be \$13.6 million annually in 2008 dollars. The largest expense category is the police department, accounting for approximately 47.1% of the total General Fund expenditures related to Sanctuary. Buildout costs for the fire department, which total approximately 18.8% of the total General Fund expenditures, represent the second largest expense.

As mentioned above, Sanctuary is expected to generate \$14.3 million in annual revenues and \$13.6 million in annual expenses after buildout. This results in an annual surplus of over \$600,000 to the City's General Fund, which is equal to an average of \$91 per residential dwelling unit.

FISCAL CASH FLOW

Pursuant to the fiscal objectives outlined in Chapter 2, annual costs and revenues need to be managed so that cumulative fiscal impacts to the City at any given time are positive. Therefore, fiscal surpluses occurring prior to the onset of interim fiscal deficits that could arise while development is still underway may be utilized to offset such deficits. The offset can be applied in several ways. The simplest approach, since the fiscal impacts are General Fund monies, involves a yearly transfer to an account resembling a reserve fund in an amount equal to the annual fiscal surplus. Until full buildout of the project responsible for generating the fiscal surplus is achieved, the money in the fiscal mitigation reserve account should only be transferred back for General Fund use in years in which a deficit relative to the project is realized or expected to be realized. After buildout, assuming the project is expected to create annual fiscal surpluses, or at such time during buildout when fiscal projections are indicating that no more fiscal deficits will be generated, the balance could be returned, unrestricted, for General Fund

use. Such funds, much like annual fiscal surpluses expected after buildout, represent an unencumbered supplement to the City's General Fund.

A second approach would require the assistance of a development agreement or similar contract that could act as a conduit for the flow of economic development incentives from the City to the developer. Since fiscal surpluses, by law, cannot be directly returned to a developer, the City and the developer could enter into an agreement whereby a portion of the sales tax generated by the project, equal to the fiscal surplus, would be redirected to the developer as a means of encouraging the development of sales tax producing, job generating retail land uses. When the project produces fiscal deficits during buildout, the developer would be required to make cash payments to the City to mitigate the deficits, using the sales tax revenue already received for this purpose. A sales tax revenue reconciliation would need to be performed after buildout, or at such time during buildout when fiscal projections are indicating that no more fiscal deficits will be generated, to determine the difference between revenues received, and fiscal mitigation paid, by the developer; any balance would need to be transferred back to the City. This approach, in addition to working well from a timing perspective, has the added benefit of promoting job creation and an improved jobs/housing balance.

Although the Project is not yet at the implementation stage, the concepts outlined above should provide a good foundation for future discussions geared to finalizing a more detailed strategy. When that stage is reached, other options should be explored, as appropriate, in order to ensure that the recommended alternative is still feasible from an implementation standpoint for both the City and the developer.

SUMMARY

Although fiscal deficits are identified in interim years (for Scenario 1, one year in the base case and four years in the alternative case, and for Scenario 2, two years in the base case and eight years in the alternative case), the deficits are easily mitigated by surpluses generated during the previous years of development. A mechanism to retain those surpluses and apply them later against the interim deficits needs to be established. Given the likelihood and magnitude of these cumulative surpluses, fiscal deficit mitigation measures appear unnecessary. However, as mentioned earlier, certain park costs have been excluded from the analysis because of the planned use of CFD special taxes to fund ongoing operations and maintenance. As a result, a largely qualitative discussion of fiscal deficit mitigation measures follows in the subsequent chapter.

Each case within both scenarios results in significant positive fiscal impacts to the City's General Fund, in total during project development and on an annual basis after project buildout. The table below summarizes these results.

Scenario	Average Annual Fiscal Impact During Development	Annual Fiscal Impact After Buildout
<i>Scenario 1</i>		
Base Case	\$1.3 million	\$2.8 million
Alternative Case	\$0.4 million	\$1.1 million
<i>Scenario 2</i>		
Base Case	\$1.0 million	\$2.3 million
Alternative Case	\$0.2 million	\$0.6 million

The analyses contained herein comply with the City’s Fiscal Principles and Objectives outlined in Chapter 2 as well as with the more detailed Templates and Guidelines referenced in Chapter 1. The conclusions and recommendations presented herein also support the Fiscal Principles and Objectives.

FUNDING SOURCES TO MITIGATE FISCAL DEFICITS

DESCRIPTION OF FUNDING SOURCES

There are five principal mechanisms to fund the ongoing maintenance and service costs of new development that exceed the General Fund revenues collected from new development to pay for those costs. These include Landscaping and Lighting Districts, Mello-Roos Community Facilities Districts, Maintenance Annuity Funds, Fiscal Shortfall Fees, and Master Developer Advances.

As noted above, CFD revenues are assumed to offset any of the operations and maintenance costs associated with publicly-maintained park acreage. Although various financing options are available to fund ongoing service costs, the use of a CFD was deemed the most appropriate in this case because of the flexibility inherent in its legislation. A detailed description of each potential mechanism, however, is provided below.

Landscaping and Lighting Districts

The Landscaping and Lighting Act of 1972 authorizes cities to impose assessments on benefited properties to finance construction of street landscaping, street lighting, traffic signals, parks, street trees, sidewalk repair, and recreational improvements, as well as the maintenance and servicing of any of these improvements. Landscaping and Lighting Districts (LLDs) cannot be used to maintain streets or storm water facilities and cannot provide for general City services or public safety services, primarily because the special benefit tests of Proposition 218 cannot be met.

The formation of an LLD is initiated through either a petition submitted by 60% of the landowners in a proposed LLD or through adoption of a resolution of determination and preliminary approval of a report by the legislative body of a public agency (Council). The Council then adopts a resolution of intention, which designates the boundaries of the LLD, describes the proposed improvements and/or services, declares the agency's intention to levy assessments, and orders preparation of an Engineer's Report.

An assessment engineer prepares the Engineer's Report, which describes the improvements and/or services proposed to be funded by the LLD, provides a cost estimate for the facilities and/or services, includes an assessment diagram that shows the lines and dimensions of each parcel in the LLD, defines the benefit received by each parcel in the LLD, and determines the corresponding maximum lien and annual assessment that is assigned to each parcel. Because of the required special benefit finding, the boundaries of an LLD are almost always contiguous. Property cannot be left out of the boundaries and assessments cannot be adjusted based on a property's ability to pay, willingness to participate, or market feasibility.

Pursuant to Proposition 218, which was passed by the California voters in November 1996, each landowner is sent a notice of public hearing and a ballot that identifies the assessment assigned to

their parcel. The owner is directed to return the ballot indicating its support or opposition to the assessment. At the public hearing, the public agency must determine whether a majority protest exists. In doing so, each ballot is weighted based on the amount of assessment assigned to the parcel. If ballots opposing the assessment outweigh the ballots submitted in favor of the assessment, the agency must abandon the assessment proceedings.

If there is not a majority protest, an LLD is created and annual assessments are authorized to be levied against all parcels within the LLD that have an assigned assessment lien. After an LLD is formed, the public agency is responsible for the annual levy of assessments, compliance with state and federal continuing disclosure requirements (if bonds are issued), monitoring delinquencies in the LLD, and pursuing foreclosure on delinquent parcels. There is no commitment from the public agency to pay assessments in the event of a delinquency or default, and there is no risk to the agency's general fund if assessments are not paid.

Mello-Roos Community Facilities Districts

The Mello-Roos Community Facilities Act (Act) [Section 53311 et seq., of the Government Code] was enacted by the California State Legislature in 1982 to provide an alternate means of financing public infrastructure and services subsequent to the passage of Proposition 13 in 1978. The Act complies with Proposition 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 that area. The Act defines the area subject to a special tax as a Community Facilities District.

Services are funded through the levy of an annual special tax, which can be included as part of a CFD that also levies a separate special tax to secure bonds to fund public facilities. Because the special tax is not subject to a benefit nexus requirement, Mello-Roos can fund a variety of public services, including but not limited to police and fire protection, street maintenance, recreation and library services, park and open space maintenance, maintenance of flood and storm drainage facilities, and seismic retrofitting.

A CFD can be formed by almost any public agency, including many special districts. Formation of a CFD can be initiated by either a motion of the Council, a written request signed by two members of the Council, or a petition signed by 10% of either the registered voters or landowners within the CFD. Within 90 days of initiating proceedings to form a CFD, the Council adopts a resolution of intention to form the CFD. The resolution of intention sets forth the proposed boundaries of the CFD, the formula for allocating the special tax among properties in the CFD, services authorized to be funded by the CFD, and a date for a public hearing to consider formation of the CFD. At the public hearing, written protests may be submitted by voters or landowners within the CFD and, if a majority written protest exists (which is extremely rare), the CFD proceedings must be abandoned.

After the public hearing is closed, an election is conducted to authorize the levy of special taxes within the CFD. If there are less than 12 registered voters within the CFD, a landowner vote is conducted, with each landowner allowed one vote per acre or portion of acre owned within the CFD. If there are 12 or more registered voters within the CFD, a vote of the registered voters is

required, with each voter allowed one vote in the election. When the vote is counted, at least two-thirds of the votes submitted must be in favor of forming the CFD and levying the special tax.

After a CFD is formed, the public agency is responsible for the annual levy of special taxes, state and federal continuing disclosure requirements (if bonds are issued), monitoring delinquencies in the CFD, and pursuing foreclosure on delinquent parcels. There is no commitment from the public agency to pay special taxes in the event of delinquency or default, and there is no risk to the agency's general fund if special taxes are not paid.

Unlike the LLD act, the Mello-Roos Act is extremely flexible as to the boundaries of the CFD; parcels included in the CFD do not need to be contiguous, and parcels can be left out of the CFD to reduce the number of registered voters or to avoid taxing particular land uses. In addition, property can be annexed into the CFD after formation, and such annexed property will be subject to either the same, or a different set of, special taxes levied on property that had been included in the CFD when it was formed. Probably the most important aspect of a CFD relative to an LLD is that no finding is required that property in the CFD receives a special benefit from services being funded by the CFD.

Maintenance Annuity Funds

The Maintenance Annuity Fund (MAF) mechanism uses the results from a fiscal impact analysis to determine an amount to be deposited into an annuity fund. Negative fiscal impacts are mitigated by requiring the developer to pay a one-time fee, which would be collected prior to and as a condition of building permit issuance. This amount is calculated by translating the annual net fiscal deficit into a one-time MAF fee based on current or historical assumptions regarding interest rates and the length of time that fiscal impacts will need to be mitigated. A specified number of years for the MAF to cover can be determined or negotiated, but theoretically the MAF fee should be calculated to provide fiscal mitigation in perpetuity if deficits are projected to occur after project buildout.

There is no general law covering the concept of Maintenance Annuity Funds and no specific statutory provisions for adopting MAF requirements. The most common way to implement an MAF fee is to have it incorporated into a development agreement executed under Government Code Section 65864, et seq. Use of a development agreement will ensure that the MAF fee is not interpreted as a general or special tax, and that it will be excluded from the definition of development fees under Section 66000, et seq. (AB 1600), of the Government Code.

Fiscal Shortfall Fee

Similar to the MAF technique, the fiscal shortfall fee mechanism also uses the results from a fiscal impact analysis. However, the results of the fiscal impact analysis, for interim years prior to project buildout rather than in perpetuity after project buildout, are used to determine a one-time fee that will be levied on each residential unit at building permit issuance to directly fund public services in the year collected or to reimburse the Project's developers who have advanced funds for public services.

Also similar to an MAF, there is no general law covering the concept of fiscal shortfall fees and no specific statutory provisions for adopting fiscal shortfall fee requirements. The most common way to implement a fiscal shortfall fee is to have it incorporated into a development agreement executed under Government Code Section 65864, et seq. Use of a development agreement will ensure that the fee is not interpreted as a general or special tax, and that it will be excluded from the definition of development fees under Section 66000, et seq. (AB 1600), of the Government Code.

Master Developer Advances

Combining special tax and fiscal shortfall fee revenue may still leave a fiscal gap during the initial years of development. Direct funding contributions to the City from the Project’s master developer during those initial years that the Project is underway may be required. Master developer advances would be included as a provision in the development agreement for the Project.

ESTIMATE OF ANNUAL BURDENS BY LAND USE

A CFD within Sanctuary is proposed to mitigate the City-provided park maintenance costs created by development. An annual special tax for services is proposed only on developed residential property. The proposed maximum annual services special tax rates were determined based on the projected cost (\$515,000) of maintaining 37.5 acres of publicly-funded parks, including 27.5 acres of community parks (27.5 acres x \$14,700 per acre = \$404,000) and 10.0 acres of neighborhood parks (10.0 acres x \$11,100 per acre = \$111,000). The applicable community and neighborhood park acreages were established by Grupe in conjunction with City staff.

**Proposed Maximum Annual Services Special Tax Rates
Fiscal Year 2008-09 \$s**

Land Use	Proposed Maximum Annual Services Special Tax Rates*	Dwelling Units	Proposed Maximum Annual Services Special Tax Revenues
Residential Estates	\$133	213	\$28,500
Low Density Residential	\$78	4,580	\$357,500
Medium Density Residential	\$64	1,090	\$70,000
Multi-Family	\$47	927	\$43,500
Active Adult	\$59	260	\$15,500
Total		7,070	\$515,000

* These amounts would likely increase each year to track inflation in the costs to provide services.

Also, note that these amounts are properly reflected in the annual burden analysis contained in the complementary public facilities financing plan for Sanctuary.

**SCENARIO 1
APPENDIX 1A**

**FISCAL IMPACT ANALYSIS TABLES
ASSUMPTIONS**

SCENARIO 1
APPENDIX 1B

FISCAL IMPACT ANALYSIS TABLES
RESULTS OF THE BASE CASE

SCENARIO 1
APPENDIX 1C

FISCAL IMPACT ANALYSIS TABLES
RESULTS OF THE ALTERNATIVE CASE

SCENARIO 2
APPENDIX 2A

FISCAL IMPACT ANALYSIS TABLES
ASSUMPTIONS

SCENARIO 2
APPENDIX 2B

FISCAL IMPACT ANALYSIS TABLES
RESULTS OF THE BASE CASE

SCENARIO 2
APPENDIX 2C

FISCAL IMPACT ANALYSIS TABLES
RESULTS OF THE ALTERNATIVE CASE