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PUBLIC WORKS

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March 26, 1991

Budget and Finance Committee/Transportation  
and Community Development Committee  
Sacramento, California

Honorable Members in Session:

SUBJECT: NORTH NATOMAS FINANCING PLAN

**SUMMARY**

This report presents the recommended Financing Plan for North Natomas. It also provides a brief overview on the Mello Roos phasing strategy, recent landowner input, and current market conditions for bond financing. The draft Financing Plan is being submitted today for Committee review and comment. No formal action is requested at this time.

**RECOMMENDED FINANCING PLAN**

The initial draft of the "Financing Plan and Infrastructure Design Report for North Natomas" was presented to Joint Committee on April 17, 1990. Since that time, staff has been working with the various landowner groups to incorporate their comments and suggestions. Some minor refinements have been made to the tax model and the improvement phasing plan. A copy of the draft document was hand delivered to the Committee members prior to today's meeting.

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In brief, the Financing Plan consists of three special funding mechanisms, which will be unique to North Natomas. These include a Mello Roos Community Facilities District, a Special Developer Fee, and a Land Dedication Fee. In addition to the above, normal development fee revenues are recommended for certain regional improvements in accordance with current City and County policies. A summary of the recommended funding sources is attached for reference. The following is a brief description of the three special funding mechanisms.

Mello Roos Community Facilities District -- The Mello Roos is similar to a special assessment district in that municipal bonds are issued to finance the improvements. Debt service on the bonds is paid over time by properties within the district. The North Natomas Mello Roos is planned to finance \$182 million in infrastructure costs. The improvements recommended for the Mello Roos are considered priority infrastructure and are essential to serve urban development of North Natomas:

- Drainage Canals and Pump Stations (San Juan and Elkhorn/Del Paso System)
- Freeway Interchange and Overcrossing Improvements
- 200-Acre Regional Park (Land Acquisition and Perimeter Improvements)
- Fire, Library, and Police Facilities

Mello Roos bonds will be issued in phases as the community develops. The current Mello Roos model anticipates five separate bond sales during the projected 20-year build out of North Natomas. This approach assures that funding will be available for the improvements as development occurs. Additionally, it allows the Mello Roos taxes to be maintained at affordable rates and prevents overburdening the district with bonded debt.

Mello Roos special taxes are paid annually by both developed and undeveloped properties within the district. The special taxes are billed and collected together with the regular County property taxes. In general, the annual tax will range from \$378 to \$2,179 per unit for residential, depending on the size and type of residence. Non-residential tax rates range from \$5,952 to \$15,663 per acre, depending on the zoning designation. A summary of special tax rates for each land use category is attached.

Special Developer Fee -- This fee will be established as a Facilities Benefit Assessment (FBA). The fee is a one-time charge collected from developing properties at the time of building permit issuance. The fee will generate approximately \$18 million in revenue for the following air quality mitigation and landscaping improvements:

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- Park and Ride Lots for Light Rail and Transit
- Off-Street Bikeways
- Median Landscaping for Major Streets
- Freeway Corridor Landscaping
- Linear Parkway and Drainage Canal Landscaping
- Community Based Passenger Shuttles

The fee will apply to the same area as the Mello Roos District. Fees are projected to range from \$349 to \$870 per unit for residential and from \$1,018 to \$7,679 per acre for non-residential. A rate summary for the Special Developer Fee, by land use category, is attached.

Land Dedication Fee -- This fee is recommended as a special finance mechanism that will allow dedication of land in a manner that is fair and equitable to all property owners. The North Natomas Community Plan requires that all lands, easements, and rights-of-way needed for public facilities are to be dedicated as a precondition to development of a given property. At present, there are approximately eight major landowner/developer groups and a number of individual landowners within the North Natomas Financing Plan area. Due to the location of public facilities, such as drainage canals, greenbelts, landscaped freeway corridors, etc., certain landowners have more land to dedicate than their neighbors simply due to the location of their property. The Land Dedication Fee will minimize this imbalance by reimbursing those landowners who are required to dedicate more than their fair share of land.

The Land Dedication Fee program includes 943 acres of land, easements, and right-of-way needed for public facilities. This includes land for the landscaped freeway corridors, freeway right-of-way, drainage canal right-of-way, habitat mitigation areas, greenbelt acreage, Light Rail right-of-way, overwidth right-of-way for major streets, civic lands, and a portion of the Regional Park owned by developing landowners. An important aspect of this fee program is that the developing property owners will determine a uniform land value for the 943 acres to be dedicated. Formal agreement on the land value must be completed prior to adoption of the Financing Plan. At the present time a tentative value of \$18.9 million (\$20,000/acre) has been assumed for discussion purposes. This equates to a fee (or fee reimbursement) of \$4,715 per acre for all property within the Financing Plan area. The fee is a one-time charge paid at the time of final subdivision map approval or building permit, whichever occurs first. The actual fee paid (or reimbursement) will depend on the amount of land each property owner is required to dedicate. A complete description of the Land Dedication Fee is provided on page 40 of the Financing Plan.

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### Financing Under Current Market Environment

The following subsection on the current market environment has been prepared by the office of the City Treasurer.

It should be pointed out that it may be necessary to modify the infrastructure phasing plan to match the capacity of the district to support phased bond sales. This modification may occur as a result of the changing economic conditions and the risk perception of investors.

The current U.S. economic cycle is in a recessionary phase, which is markedly different from past periods insofar as both the banking and the savings and loan industries are in critical financial strains. Further, investors in publicly issued undeveloped land financing have absorbed tremendous levels of debt in the past two years. The stain is aggravated by over-building and declining real estate values throughout the U.S. and major losses to banks from real estate projects. During this recessionary phase, it will be difficult for public or private sectors to raise money in capital markets unless the projects are perceived as feasible and conservatively valued at levels providing less financing leverage than in a stronger real estate environment. It should be considered that it may not be possible to borrow money at any cost in the public market unless investor requirements are met. In any event, borrowing costs on public debt secured by undeveloped land will be higher today on a relative basis than was the case when the City undertook the North Natomas Assessment District 88-03 financing in 1989.

The criteria for assessment bonds has become more stringent today than it was two years ago when the City financed North Natomas Assessment District 88-03. Investors have become cautious of land secured districts where substantial infrastructure is required before development may occur, as is the case in North Natomas. They examine appraisals and value-to-lien ratios carefully. They also analyze the ability of developers to finance private infrastructure critical to development as well as the development itself. Interest rate premiums may occur where value-to-lien ratios are less than 3 to 1. Finally, investors are requiring wider yield "spreads" between unrated assessment bonds and traditional rated municipal bonds.

The district will also be absorbing a portion of the flood control financing of SAFCA. As much as \$26 million in capital assessments for levee improvements may be financed by SAFCA over the next two to three years. A portion of these bonds will be secured by land in the Natomas area, placing additional debt burden on North Natomas. In addition, it is envisioned that an O&M assessment will be imposed by SAFCA within the next fiscal year. At this time, the actual assessments are not known but will certainly limit the financing potential of the district. Our plans to date have not provided for any financing of flood control improvements. The changed investor and economic environment may mean smaller bond sales to accommodate higher value-to-lien ratios. Further, if the interest rate environment is unfavorable, it may be prudent to finance only the most critical infrastructure elements while delaying others until rates decline. Therefore, it may become necessary to prioritize the phasing plan in the early bond sales. The infrastructure most critical for development would be financed first while less critical infrastructure, such as parks, might be temporarily delayed. Further, it may be advisable to prioritize capitalized interest during the first financing phase for the district. In this manner, investor concern for debt service payments may be alleviated as it is normal that a stronger building market occurs two to three years following the start of a recessionary period. At the same time, it is also important to move forward with financing critical infrastructure elements so that the land will be ready for development as the next building cycle begins.

### INFRASTRUCTURE PHASING

Construction of the initial "backbone" infrastructure in North Natomas is essential to allow development to proceed. Accordingly, improvement phasing has been carefully integrated into the phasing of Mello Roos bond issues. The following summarizes the recommended phasing plan for funding and construction of Mello Roos infrastructure:

- Phase 1 --
  - Truxel/I-80 Interchange.
  - San Juan Canal system (design, offsite right-of-way, and advance equipment orders).
  - Regional Park land acquisition (portion).
  - North Market/I-5 Interchange (preliminary earthwork).
  
- Phase 2 --
  - San Juan Canal system (completion).
  - Elkhorn/Del Paso Canal (Elkhorn Boulevard to I-5).
  - Regional Park (completion of land acquisition).
  - North Market/I-5 Interchange (completion of construction).
  
- Phase 3, 4, & 5 --
  - Elkhorn/Del Paso Canal System (completion), Regional Park perimeter improvements, fire, library and police facilities, Light Rail overcrossing, freeway overcrossings, and interchange modifications.

The additional cost of providing a Light Rail crossing of Interstate 80 in the Truxel Road corridor has been included as an "optional improvement" in the Mello Roos priority list. This provision confers authority to City Council to issue Mello Roos bonds for the improvement as soon as the Systems Planning Study, recommending the crossing, is formally adopted by Regional Transit.

### LANDOWNER INPUT

In recent weeks, the City has received correspondence from four major landowner groups indicating their support and conditional willingness to participate in the Financing Plan. These groups represent the majority of the North Natomas area within the City limits. A separate staff report, also being presented today, will address a number of requests made by these landowners on issues pertaining to the North Natomas Community Plan.

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### POLICY CONSIDERATIONS

Specific policies concerning the Financing Plan are set forth throughout the adopted North Natomas Community Plan. The primary policy objective is stated in Section XIII of the North Natomas Community Plan:

"Although the costs to extend infrastructure to the North Natomas area will be quite high, the development community has indicated both feasibility and a willingness to provide capital improvements at no cost to the City. Analyses have shown that there will be an operating surplus generated at build out of North Natomas. The approach that will be taken with respect to public and private sector responsibilities to provide community facilities and services is as follows:

The private sector shall provide all necessary capital improvements within the North Natomas community, consistent with all criteria and standards detailed in the adopted North Natomas Community Plan.

The City of Sacramento will provide traditional maintenance and operation services to the North Natomas community area after capital improvements are installed and development occurs, consistent with all criteria and standards detailed in the adopted North Natomas Community Plan."

The draft Financing Plan has been developed to conform with these adopted policies and to allow each developing property owner to participate in a fair and equitable manner. City contributions to the project, as outlined in the attached funding source summary, relate to overwidth pavement construction for all major streets and installation of water storage, treatment, and transmission facilities. It is recommended that these contributions be funded by developer fee revenue (i.e. Major Street Construction Tax and Water Development Fees) collected from the North Natomas area in accordance with current City policy. No policy revisions are anticipated for the final financing plan.

### MBE/WBE

There are no MBE/WBE impacts related to this item.

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**RECOMMENDATION**

This report is an information item for Committee review and staff direction. No formal action on the Financing Plan is required at this time.

Respectfully submitted,



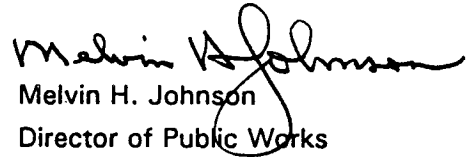
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Approved:



Melvin H. Johnson  
Director of Public Works

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District 1

**FUNDING SOURCE SUMMARY  
NORTH NATOMA FINANCING PLAN**

Improvements	Projected Cost	Mello Roos CFD	Special Fee Developer	City/County Contributions	Developer/Other Sources
Drainage Canal System and Bridges	\$128,172,900	\$126,765,000			(3) \$ 1,407,900
Freeways	32,241,600	31,139,500			(3) 1,102,100
Major Streets, Utilities and Signalization (7)	98,780,000		(1) \$ 1,095,500	(4) \$ 6,563,000	91,121,500
Sewer Trunks, Interceptors and Pump Stations	32,756,000			(5) 32,756,000	
Water Treatment, Storage and Transmission	48,594,300			(2) 48,594,300	
200-Acre Regional Park (Land and Off-Site Improvements)	15,018,000	15,018,000			
Fire, Library and Police	11,790,700	9,363,700			(6) 2,426,400
Air Quality Mitigation (Shuttle, Park/Ride, Bikeways)	12,195,600		12,195,600		
Landscaping Improvements (F. Corridor, Lin Parkways, and Canal Landscaping)	5,998,000		4,759,600		(3) 1,238,400
Planning/Studies	3,116,500				(3) 3,116,500
<b>TOTAL</b>	<b>\$388,663,000</b>	<b>\$182,286,200</b>	<b>\$18,050,700</b>	<b>\$87,913,300</b>	<b>\$100,412,800</b>

- (1) Median landscaping for major streets.
- (2) Water development fees.
- (3) Improvements/services completed in 1988 and financed by AD No. 88-03.
- (4) Major street construction tax reimbursement for overwidth pavement.
- (5) Sewer development fees (County).
- (6) Estimated regional cost of police substation.
- (7) Major street utilities include water distribution mains, sewer collectors and laterals, and storm drain trunks and interceptors.

NOTE: Cost projections are based on constant 1990 dollars and include an allowance for engineering, administration and contingencies.



**SUMMARY OF MELLO ROOS SPECIAL TAX  
RATES AND SPECIAL DEVELOPER FEES FOR THE  
NORTH NATOMAS FINANCING PLAN  
FY 1991/92**

Land Use	Annual Mello Roos Special Tax	Special Developer Fee (One Time Charge)	Land Dedication Fee (One Time Charge)
High Density Residential			\$ 4,715/Acre
<ul style="list-style-type: none"> <li>● Apartments</li> <li>● Single-Family, Attached</li> </ul>	<ul style="list-style-type: none"> <li>\$ 378/Unit</li> <li>641/Unit</li> </ul>	<ul style="list-style-type: none"> <li>\$ 349/Unit</li> <li>350/Unit</li> </ul>	
Medium/Low Density Residential		550/Unit (MD) 870/Unit (LD)	4,715/Acre
<ul style="list-style-type: none"> <li>● Less than 1,200 SF</li> <li>● 1,200-1,499 SF</li> <li>● 1,500-1,999 SF</li> <li>● 2,000-2,499 SF</li> <li>● 2,500-2,999 SF</li> <li>● 3,000 SF and Over</li> </ul>	<ul style="list-style-type: none"> <li>865/Unit</li> <li>1,026/Unit</li> <li>1,218/Unit</li> <li>1,506/Unit</li> <li>1,731/Unit</li> <li>2,179/Unit</li> </ul>		
Community/Neighborhood/Commercial	15,663/Acre	3,995/Acre	4,715/Acre
Highway Commercial	15,663/Acre	7,679/Acre	4,715/Acre
Manufacturing/Research Development (20% Office)	5,952/Acre	1,846/Acre	4,715/Acre
Manufacturing/Research Development (50% Office)	7,675/Acre	1,963/Acre	4,715/Acre
Light Industrial	5,952/Acre	1,974/Acre	4,715/Acre
Office/Business	15,663/Acre	3,679/Acre	4,715/Acre
Sports Complex	15,663/Acre	1,018/Acre	4,715/Acre
Agricultural Lands(1)	0/Acre	N/A	N/A
Undeveloped Land		N/A	N/A
<ul style="list-style-type: none"> <li>● Minimum</li> <li>● Projected</li> <li>● Maximum</li> </ul>	<ul style="list-style-type: none"> <li>500/Acre</li> <li>748/Acre</li> <li>8,900/Acre</li> </ul>		

(1) Applies only to land designated as "agricultural" by the adopted North Natomas Community Plan.