



**MONTGOMERY COUNTY PLANNING DEPARTMENT**  
THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION

February 12, 2009

**TECHNICAL MEMORANDUM**

TO: Montgomery County Planning Board

CC: Piera Weiss, Master Planner (Vision Division)

VIA: Dan Hardy, Chief (Move Division), Acting Chief (Explore Division)

FROM: Jacob Sesker, Planner Coordinator (Explore/Research)

SUBJECT: Technical Memo-White Flint Financing

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**1.0 INTRODUCTION**

This memorandum contains Staff's technical analysis of the financing mechanism proposed in the White Flint Sector Plan. The memorandum includes the following information:

- Section 1 includes a discussion of the background of this analysis and a summary of findings.
- Section 2 includes an explanation of the assumptions used to establish a build-out of the development program and an analysis of the various revenues generated by that build-out.
- Section 3 (and Appendix A) describes the transportation system cost estimates.
- Section 4 provides an analysis of the proposed financing mechanism, while Appendix B demonstrates the sensitivity of the proposed mechanism to some alternative assumptions.

**1.1 BACKGROUND**

The most recent Planning Board discussions dealing with financing and administration took place on the following dates:

- September 11, 2008
- October 30, 2008

On September 11, 2008, Staff sought guidance from the Planning Board with respect to a series of issues. In that session, the Board expressed to Staff its support for the following financing principles, taken from Staff's September 11<sup>th</sup> cover memorandum:

- “Find ways to capture as much of the impact tax and general fund tax revenue as possible for projects within the district that will resolve short-term mobility issues, including possibly creating one or more districts, expanding the Metro Station Policy Area boundary and supporting changes to the Annual Growth Policy in 2009 that would capture impact taxes paid within a metro station policy area for use only on capital projects within the Metro Station Policy Area.”
- “Find ways to leverage future private sector revenues to decrease the up-front burden of impact taxes, thereby freeing up more private capital for investment in income/revenue producing uses, including possible road club or special tax/assessments applied to all new and existing commercial uses in lieu of impact taxes on commercial development.”
- “Find ways to leverage future general fund tax revenues to pay for reconstructing Rockville Pike and undergrounding utilities along the Pike to create a better street-level environment and improved pedestrian and bicycle mobility that benefit all property owners within the district, including using Tax Increment Financing (TIF) or TIF-like mechanisms.”

On October 30<sup>th</sup>, Staff came back to the Planning Board with a more detailed discussion of the issues associated with the implementation of the Sector Plan and a description of proposed financing and administration mechanisms. At that time, the Planning Board directed Staff to return with a quantitative analysis of the financing mechanism following the public hearing.

The financing mechanism would pay for a subset of all master planned transportation facilities. The financing mechanism proposed, often referred to as a “District” financing mechanism would receive funds from multiple sources. Those sources would include:

- 1) Transportation impact taxes (or equivalents) charged to new residential development<sup>1</sup>
- 2) Transportation impact taxes charged to new commercial development, if necessary<sup>2</sup>
- 3) A special tax/assessment of up to 10% on the value of all new and existing commercial uses/development<sup>3</sup>
- 4) Public financing (through TIF financing or GO bonds) to cover financing gaps<sup>4</sup>

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<sup>1</sup> Impact fees or taxes are not ad valorem, and thus have the advantage of not being subject to limitations on increasing property taxes.

<sup>2</sup> It is envisioned that the commercial impact taxes would be eliminated.

<sup>3</sup> In some other jurisdictions, “Transportation Improvement Districts” (TIDs) have been used to finance major roadway improvements. Generally, TIDs are funded through a special assessment on affected properties. TIDs were profiled as a “best practice” in a recent report by the Office of Legislative Oversight (Report Number 2009-6, Transportation Demand Management Implementation, Funding, and Governance, pp. 48-49).

<sup>4</sup> The idea of capturing and reinvesting a portion of the incremental taxes generated by new, transit-oriented development, is becoming increasingly popular. For example, a continuing education training session offered by the American Institute of Certified Planners (“Transit District Investment”) discusses Pennsylvania’s approach to capturing and reinvesting incremental revenues.

The proposed financing mechanism does not contemplate any increased tax burden on residential development. Rather, the increased burden would fall entirely on commercial development. This concession is consistent with the County’s housing affordability goals, especially in transit-served locations, and is consistent with the Sector Plan objective to add residential density.

## **1.2 CAVEATS**

- This analysis assumes an even pace of development until build-out. The nation’s economy is in an economic downturn that will likely be both long and severe. It is difficult at this stage to speculate on the extent to which this economic downturn will affect future development activity in Montgomery County.
- This analysis does not include the cost of acquiring rights-of-way for District infrastructure projects. It is assumed that all ROW is dedicated or acquired using other sources of funds. While the Sector Plan recommends that the Authority have power of eminent domain, the cost of wielding that power (by the Authority or by the public sector) is not a part of this analysis.
- This report does not include an analysis of the ongoing (operation and maintenance) costs of any Sector Plan facilities, nor does it address the capital costs of non-transportation facilities (e.g. urban library, fire substation, etc.).
- This is not an omnibus “economic issues” report, but is instead an analysis of the performance of the proposed financing mechanism under specified assumptions. This report does not include analysis of development feasibility, or analysis of realistic short-term or mid-term absorption rates. Similarly, this report does not contain economic analysis of the impact of the Sector Plan recommendations on certain geographic or interest-based communities. Additionally, this analysis does not contain an analysis of the costs of the County’s exactions, or the extent to which existing exactions have been internalized in land values.

## **1.3 SUMMARY OF FINDINGS**

### **Residential impact tax equivalent payments**

Capturing residential impact taxes for capital projects within the District is a current best practice in transit area redevelopment and reinvestment. In the White Flint Sector Plan, those captured impact taxes (or equivalents) would be directed to pay for District projects rather than public sector projects. Overall, the impact taxes pay for roughly 7% of the total cost of District infrastructure.

### **Elimination of commercial impact taxes**

The premise for eliminating or reducing the commercial impact taxes is that a special tax/assessment of 10% would generate more revenue than the transportation impact taxes charged at current rates. It is assumed that it would be difficult to impose an increase in taxes, or expect a voluntary increase, without offering a reduction or elimination of the impact taxes. The analysis shows the special tax/assessment will generate many times more revenue than would be generated by the impact tax.

### **Special tax/assessment**

Charging a special tax/assessment on all new and existing commercial uses in White Flint equal to 10% (ad valorem) above current property tax rates could pay for roughly 63% of the District transportation infrastructure. Those revenues would represent a dedicated source of revenues against which the District could borrow. Though ad valorem is an equitable manner to distribute the tax incidence, other methods capable of generating comparable revenues would be acceptable.

### **Public sector gap financing**

To finance the “District” infrastructure entirely with private money would result in a substantial increase in taxes/assessments or impact taxes. Assuming that those alternatives are too onerous, gap financing will be necessary to advance the staging plan. Given the current list of District projects, the public sector would need to provide gap financing to cover 30% of the cost of District infrastructure.

## 2.0 BUILD-OUT, ASSESSMENTS, AND REVENUES

Staff has presented to the Planning Board a staging capacity build-out density of nearly 30 million square feet. That total includes residential and non-residential uses. The build-out density is not equal to the total zoning capacity of the Sector Plan, but rather the total staging capacity of the Sector Plan. The splits between uses were determined in part by a desire to achieve greater potential density.

### *Residential*

- Existing: 2,259 dwelling units
- Pipeline: 2,220 dwelling units
- Net New: 9,800 dwelling units

### *Non-residential*

- Existing: 5.5 million square feet
- Pipeline: 1.79 million square feet
- Net New: 5.69 million square feet

The density numbers above (dwelling units and commercial square feet) ultimately drive the revenue assumptions and the subsequent analysis of the proposed financing mechanism.

## 2.1 BUILD-OUT

As presented, the Sector Plan will be “built out” when the net new development reaches the plan’s transportation capacity.

The following table represents the net new development by use under the transportation capacity of the Sector Plan as currently proposed.

*Table 1: New development, net of existing and pipeline (by use)*

| <b>TOTAL NET NEW DEVELOPMENT</b> |           |
|----------------------------------|-----------|
| Dwelling Units                   | 9,800     |
| Office                           | 2,831,746 |
| Retail                           | 1,887,830 |
| Industrial                       | 317,058   |
| Other                            | 0         |
| Hotel                            | 653,366   |

For purposes of this analysis, it is assumed that build-out of net new development occurs over a 30-year development timeline. The following additional assumptions were made in creating the build-out scenario:

- Pipeline development (residential and non-residential) is spread evenly over years 1 through 5.
- No pipeline development (residential and non-residential) is redeveloped during the 30 year build-out horizon.
- Net new development is spread evenly across years 6 through 30 for all uses. Put differently,  $1/25^{\text{th}}$  of all net new development for each use comes on line in each of those years.
- No existing residential development is redeveloped.
- All existing non-residential is redeveloped, with that redevelopment spread evenly over the 30-year build-out horizon. Put differently,  $1/30^{\text{th}}$  of all existing non-residential development is replaced every year (one square foot for one square foot) with new, higher value development.

Table 2: Cumulative residential units, by year

| <b>TOTAL RESIDENTIAL DEVELOPMENT ON THE GROUND (UNITS)</b> |          |          |       |        |
|--|----------|----------|-------|--------|
| Year   | Existing | Pipeline | New   | Total  |
| 0  | 2,259    | -        | -     | 2,259  |
| 1  | 2,259    | 444      | -     | 2,703  |
| 2  | 2,259    | 888      | -     | 3,147  |
| 3  | 2,259    | 1,332    | -     | 3,591  |
| 4  | 2,259    | 1,776    | -     | 4,035  |
| 5  | 2,259    | 2,220    | -     | 4,479  |
| 6  | 2,259    | 2,220    | 392   | 4,871  |
| 7  | 2,259    | 2,220    | 784   | 5,263  |
| 8  | 2,259    | 2,220    | 1,176 | 5,655  |
| 9  | 2,259    | 2,220    | 1,568 | 6,047  |
| 10   | 2,259    | 2,220    | 1,960 | 6,439  |
| 11   | 2,259    | 2,220    | 2,352 | 6,831  |
| 12   | 2,259    | 2,220    | 2,744 | 7,223  |
| 13   | 2,259    | 2,220    | 3,136 | 7,615  |
| 14   | 2,259    | 2,220    | 3,528 | 8,007  |
| 15   | 2,259    | 2,220    | 3,920 | 8,399  |
| 16   | 2,259    | 2,220    | 4,312 | 8,791  |
| 17   | 2,259    | 2,220    | 4,704 | 9,183  |
| 18   | 2,259    | 2,220    | 5,096 | 9,575  |
| 19   | 2,259    | 2,220    | 5,488 | 9,967  |
| 20   | 2,259    | 2,220    | 5,880 | 10,359 |
| 21   | 2,259    | 2,220    | 6,272 | 10,751 |
| 22   | 2,259    | 2,220    | 6,664 | 11,143 |
| 23   | 2,259    | 2,220    | 7,056 | 11,535 |
| 24   | 2,259    | 2,220    | 7,448 | 11,927 |
| 25   | 2,259    | 2,220    | 7,840 | 12,319 |
| 26   | 2,259    | 2,220    | 8,232 | 12,711 |
| 27   | 2,259    | 2,220    | 8,624 | 13,103 |
| 28   | 2,259    | 2,220    | 9,016 | 13,495 |
| 29   | 2,259    | 2,220    | 9,408 | 13,887 |
| 30   | 2,259    | 2,220    | 9,800 | 14,279 |

For purposes of this analysis it is assumed that in thirty years there will be 14,279 residential units within the boundaries of the White Flint Sector Plan. All pipeline development is spread evenly over the first five years, with all net new development spread evenly over the remaining twenty-five years.

Table 3: Cumulative non-residential square feet, by year

| TOTAL NON-RESIDENTIAL DEVELOPMENT ON THE GROUND (SQUARE FEET) |           |           |           |                 |            |
|---|-----------|-----------|-----------|-----------------|------------|
| Year  | Existing  | Pipeline  | Net New   | Replacement New | Total      |
| 0   | 5,500,000 | -         | -         | -               | 5,500,000  |
| 1   | 5,316,667 | 358,000   | -         | 183,333         | 5,858,000  |
| 2   | 5,133,333 | 716,000   | -         | 366,667         | 6,216,000  |
| 3   | 4,950,000 | 1,074,000 | -         | 550,000         | 6,574,000  |
| 4   | 4,766,667 | 1,432,000 | -         | 733,333         | 6,932,000  |
| 5   | 4,583,333 | 1,790,000 | -         | 916,667         | 7,290,000  |
| 6   | 4,400,000 | 1,790,000 | 227,600   | 1,100,000       | 7,517,600  |
| 7   | 4,216,667 | 1,790,000 | 455,200   | 1,283,333       | 7,745,200  |
| 8   | 4,033,333 | 1,790,000 | 682,800   | 1,466,667       | 7,972,800  |
| 9   | 3,850,000 | 1,790,000 | 910,400   | 1,650,000       | 8,200,400  |
| 10  | 3,666,667 | 1,790,000 | 1,138,000 | 1,833,333       | 8,428,000  |
| 11  | 3,483,333 | 1,790,000 | 1,365,600 | 2,016,667       | 8,655,600  |
| 12  | 3,300,000 | 1,790,000 | 1,593,200 | 2,200,000       | 8,883,200  |
| 13  | 3,116,667 | 1,790,000 | 1,820,800 | 2,383,333       | 9,110,800  |
| 14  | 2,933,333 | 1,790,000 | 2,048,400 | 2,566,667       | 9,338,400  |
| 15  | 2,750,000 | 1,790,000 | 2,276,000 | 2,750,000       | 9,566,000  |
| 16  | 2,566,667 | 1,790,000 | 2,503,600 | 2,933,333       | 9,793,600  |
| 17  | 2,383,333 | 1,790,000 | 2,731,200 | 3,116,667       | 10,021,200 |
| 18  | 2,200,000 | 1,790,000 | 2,958,800 | 3,300,000       | 10,248,800 |
| 19  | 2,016,667 | 1,790,000 | 3,186,400 | 3,483,333       | 10,476,400 |
| 20  | 1,833,333 | 1,790,000 | 3,414,000 | 3,666,667       | 10,704,000 |
| 21  | 1,650,000 | 1,790,000 | 3,641,600 | 3,850,000       | 10,931,600 |
| 22  | 1,466,667 | 1,790,000 | 3,869,200 | 4,033,333       | 11,159,200 |
| 23  | 1,283,333 | 1,790,000 | 4,096,800 | 4,216,667       | 11,386,800 |
| 24  | 1,100,000 | 1,790,000 | 4,324,400 | 4,400,000       | 11,614,400 |
| 25  | 916,667   | 1,790,000 | 4,552,000 | 4,583,333       | 11,842,000 |
| 26  | 733,333   | 1,790,000 | 4,779,600 | 4,766,667       | 12,069,600 |
| 27  | 550,000   | 1,790,000 | 5,007,200 | 4,950,000       | 12,297,200 |
| 28  | 366,667   | 1,790,000 | 5,234,800 | 5,133,333       | 12,524,800 |
| 29  | 183,333   | 1,790,000 | 5,462,400 | 5,316,667       | 12,752,400 |
| 30  | -         | 1,790,000 | 5,690,000 | 5,500,000       | 12,980,000 |

With non-residential development, all existing space is redeveloped over the course of the 30-year development timeline, with that redevelopment occurring at an even pace. As with net new residential, net new non-residential begins to come on line in the sixth year, with 1/25<sup>th</sup> of all net new development coming on-line in each year thereafter. It is assumed that in thirty years there will be a total of 12,980,000 total square feet of non-residential (i.e. commercial) use.



## 2.2 ASSESSMENT VALUE OF BUILD-OUT

The next step in Staff’s analysis was to translate build-out into assessment values over time. Assessments occur every three years. During the first three year cycle after construction, assessments are based on development costs of the improvements. When the next cycle begins, the improvements are assessed based on market value.

*Table 4: Development cost and market value assumptions<sup>5</sup>*

| Development Cost and Market Value (Per Square Foot), by Use |                  |              |
|---|------------------|--------------|
|   | Development Cost | Market Value |
| Residential   | \$300.00         | \$500.00     |
| Office  | \$300.00         | \$425.00     |
| Retail  | \$275.00         | \$400.00     |
| Industrial  | \$100.00         | \$150.00     |
| Hotel   | \$300.00         | \$425.00     |

Table 4 shows assessed values are shown at two levels—development cost and market value. Assessment of real property is based on development cost during the first 3-year tax assessment cycle and at market value thereafter. For this reason, over time the assessments (on a per square foot basis) are likely to be much closer to the market value assessments. In the remainder of this analysis, it is assumed that all development is assessed at market value.

The following assumptions were used in calculating the assessment and revenue implications of build out:

- All assessments in this analysis are assumed to be at market value.
- All non-residential uses develop evenly (i.e. 1/25<sup>th</sup> of each use develops in Years 6 through 30).
- The weighted average market value of all non-residential uses is \$401.38.
- All numbers hereafter are expressed in 2008\$, and there is no inflation of costs or values assumed.

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<sup>5</sup> The development cost and market value assumptions are based upon reasonable expectations of the market for new development under the White Flint plan. In general these figures are above the values of existing space within the metro area. New development will be of a high quality, will support an ample public benefits package, and will place White Flint among the premier locations in the region. Even still, some of these assumptions are well below the assumptions put forth by the Developer’s Collaborative; for example, the Developer’s Collaborative assumes retail market values of \$600 per square foot, which is 50% above Staff’s assumed market value.

Table 5: New residential assessments

| Assessed Value of New Residential Development |                 |                 |                 |
|---|-----------------|-----------------|-----------------|
| Year  | Pipeline        | Net New         | Total           |
| 0   | \$0             | \$0             | \$0             |
| 1   | \$266,400,000   | \$0             | \$266,400,000   |
| 2   | \$532,800,000   | \$0             | \$532,800,000   |
| 3   | \$799,200,000   | \$0             | \$799,200,000   |
| 4   | \$1,065,600,000 | \$0             | \$1,065,600,000 |
| 5   | \$1,332,000,000 | \$0             | \$1,332,000,000 |
| 6   | \$1,332,000,000 | \$235,200,000   | \$1,567,200,000 |
| 7   | \$1,332,000,000 | \$470,400,000   | \$1,802,400,000 |
| 8   | \$1,332,000,000 | \$705,600,000   | \$2,037,600,000 |
| 9   | \$1,332,000,000 | \$940,800,000   | \$2,272,800,000 |
| 10  | \$1,332,000,000 | \$1,176,000,000 | \$2,508,000,000 |
| 11  | \$1,332,000,000 | \$1,411,200,000 | \$2,743,200,000 |
| 12  | \$1,332,000,000 | \$1,646,400,000 | \$2,978,400,000 |
| 13  | \$1,332,000,000 | \$1,881,600,000 | \$3,213,600,000 |
| 14  | \$1,332,000,000 | \$2,116,800,000 | \$3,448,800,000 |
| 15  | \$1,332,000,000 | \$2,352,000,000 | \$3,684,000,000 |
| 16  | \$1,332,000,000 | \$2,587,200,000 | \$3,919,200,000 |
| 17  | \$1,332,000,000 | \$2,822,400,000 | \$4,154,400,000 |
| 18  | \$1,332,000,000 | \$3,057,600,000 | \$4,389,600,000 |
| 19  | \$1,332,000,000 | \$3,292,800,000 | \$4,624,800,000 |
| 20  | \$1,332,000,000 | \$3,528,000,000 | \$4,860,000,000 |
| 21  | \$1,332,000,000 | \$3,763,200,000 | \$5,095,200,000 |
| 22  | \$1,332,000,000 | \$3,998,400,000 | \$5,330,400,000 |
| 23  | \$1,332,000,000 | \$4,233,600,000 | \$5,565,600,000 |
| 24  | \$1,332,000,000 | \$4,468,800,000 | \$5,800,800,000 |
| 25  | \$1,332,000,000 | \$4,704,000,000 | \$6,036,000,000 |
| 26  | \$1,332,000,000 | \$4,939,200,000 | \$6,271,200,000 |
| 27  | \$1,332,000,000 | \$5,174,400,000 | \$6,506,400,000 |
| 28  | \$1,332,000,000 | \$5,409,600,000 | \$6,741,600,000 |
| 29  | \$1,332,000,000 | \$5,644,800,000 | \$6,976,800,000 |
| 30  | \$1,332,000,000 | \$5,880,000,000 | \$7,212,000,000 |

At build-out, assessments of new residential development will be roughly \$7.2 billion (in 2008\$). This figure represents only assessments of new residential improvements, and does not include any increase in the assessed value of residential land or of existing residential improvements.<sup>6</sup>

<sup>6</sup> While the value of residential land and existing residential units may both increase over the build-out horizon, that increase is not a part of this analysis.

Table 6: New non-residential assessments

| Assessed Value of Non-Residential Space |               |                 |                 |                 |
|---|---------------|-----------------|-----------------|-----------------|
| Year                                    | Pipeline      | Net New         | Replacement New | Total           |
| 0                                       | \$0           | \$0             | \$0             | \$0             |
| 1                                       | \$143,694,739 | \$0             | \$23,170,024    | \$166,864,763   |
| 2                                       | \$287,389,477 | \$0             | \$46,340,049    | \$333,729,526   |
| 3                                       | \$431,084,216 | \$0             | \$69,510,073    | \$500,594,289   |
| 4                                       | \$574,778,955 | \$0             | \$92,680,098    | \$667,459,053   |
| 5                                       | \$718,473,693 | \$0             | \$115,850,122   | \$834,323,816   |
| 6                                       | \$662,366,979 | \$91,354,532    | \$139,020,147   | \$892,741,658   |
| 7                                       | \$662,366,979 | \$182,709,064   | \$162,190,171   | \$1,007,266,215 |
| 8                                       | \$662,366,979 | \$274,063,597   | \$185,360,196   | \$1,121,790,771 |
| 9                                       | \$662,366,979 | \$365,418,129   | \$208,530,220   | \$1,236,315,328 |
| 10                                      | \$662,366,979 | \$456,772,661   | \$231,700,245   | \$1,350,839,885 |
| 11                                      | \$662,366,979 | \$548,127,193   | \$254,870,269   | \$1,465,364,441 |
| 12                                      | \$662,366,979 | \$639,481,725   | \$278,040,294   | \$1,579,888,998 |
| 13                                      | \$662,366,979 | \$730,836,257   | \$301,210,318   | \$1,694,413,555 |
| 14                                      | \$662,366,979 | \$822,190,790   | \$324,380,342   | \$1,808,938,111 |
| 15                                      | \$662,366,979 | \$913,545,322   | \$347,550,367   | \$1,923,462,668 |
| 16                                      | \$662,366,979 | \$1,004,899,854 | \$370,720,391   | \$2,037,987,225 |
| 17                                      | \$662,366,979 | \$1,096,254,386 | \$393,890,416   | \$2,152,511,781 |
| 18                                      | \$662,366,979 | \$1,187,608,918 | \$417,060,440   | \$2,267,036,338 |
| 19                                      | \$662,366,979 | \$1,278,963,451 | \$440,230,465   | \$2,381,560,895 |
| 20                                      | \$662,366,979 | \$1,370,317,983 | \$463,400,489   | \$2,496,085,451 |
| 21                                      | \$662,366,979 | \$1,461,672,515 | \$486,570,514   | \$2,610,610,008 |
| 22                                      | \$662,366,979 | \$1,553,027,047 | \$509,740,538   | \$2,725,134,565 |
| 23                                      | \$662,366,979 | \$1,644,381,579 | \$532,910,563   | \$2,839,659,121 |
| 24                                      | \$662,366,979 | \$1,735,736,112 | \$556,080,587   | \$2,954,183,678 |
| 25                                      | \$662,366,979 | \$1,827,090,644 | \$579,250,612   | \$3,068,708,234 |
| 26                                      | \$662,366,979 | \$1,918,445,176 | \$602,420,636   | \$3,183,232,791 |
| 27                                      | \$662,366,979 | \$2,009,799,708 | \$625,590,660   | \$3,297,757,348 |
| 28                                      | \$662,366,979 | \$2,101,154,240 | \$648,760,685   | \$3,412,281,904 |
| 29                                      | \$662,366,979 | \$2,192,508,772 | \$671,930,709   | \$3,526,806,461 |
| 30                                      | \$662,366,979 | \$2,283,863,305 | \$695,100,734   | \$3,641,331,018 |

Table 6 shows values of non-residential development. The table includes pipeline development, net new development, and increases in value based on redevelopment of existing space into higher value new space. Together these tables indicate that there will be additional residential value of \$7.2 billion at build-out, and total new commercial value is of \$3.6 billion. At build-out, the plan will generate roughly \$10.8 billion (2008\$) in new assessed improvement value.

## 2.3 REVENUE IMPLICATIONS OF BUILD-OUT

Staff applied the FY09 overall countywide property tax rate of \$0.978 per \$100 of assessed value, and the FY09 General Fund tax rate of \$0.74 per \$100 of assessed value.

*Table 7: Overall property tax revenue from new residential*

| <b>Net New Overall Property Tax Revenue From Residential</b> |                 |                |                        |
|--|-----------------|----------------|------------------------|
| <b>Year</b>  | <b>Pipeline</b> | <b>Net New</b> | <b>Total</b>           |
| 0  | \$0             | \$0            | \$0                    |
| 1  | \$2,605,392     | \$0            | \$2,605,392            |
| 2  | \$5,210,784     | \$0            | \$5,210,784            |
| 3  | \$7,816,176     | \$0            | \$7,816,176            |
| 4  | \$10,421,568    | \$0            | \$10,421,568           |
| 5  | \$13,026,960    | \$0            | \$13,026,960           |
| 6  | \$13,026,960    | \$2,300,256    | \$15,327,216           |
| 7  | \$13,026,960    | \$4,600,512    | \$17,627,472           |
| 8  | \$13,026,960    | \$6,900,768    | \$19,927,728           |
| 9  | \$13,026,960    | \$9,201,024    | \$22,227,984           |
| 10   | \$13,026,960    | \$11,501,280   | \$24,528,240           |
| 11   | \$13,026,960    | \$13,801,536   | \$26,828,496           |
| 12   | \$13,026,960    | \$16,101,792   | \$29,128,752           |
| 13   | \$13,026,960    | \$18,402,048   | \$31,429,008           |
| 14   | \$13,026,960    | \$20,702,304   | \$33,729,264           |
| 15   | \$13,026,960    | \$23,002,560   | \$36,029,520           |
| 16   | \$13,026,960    | \$25,302,816   | \$38,329,776           |
| 17   | \$13,026,960    | \$27,603,072   | \$40,630,032           |
| 18   | \$13,026,960    | \$29,903,328   | \$42,930,288           |
| 19   | \$13,026,960    | \$32,203,584   | \$45,230,544           |
| 20   | \$13,026,960    | \$34,503,840   | \$47,530,800           |
| 21   | \$13,026,960    | \$36,804,096   | \$49,831,056           |
| 22   | \$13,026,960    | \$39,104,352   | \$52,131,312           |
| 23   | \$13,026,960    | \$41,404,608   | \$54,431,568           |
| 24   | \$13,026,960    | \$43,704,864   | \$56,731,824           |
| 25   | \$13,026,960    | \$46,005,120   | \$59,032,080           |
| 26   | \$13,026,960    | \$48,305,376   | \$61,332,336           |
| 27   | \$13,026,960    | \$50,605,632   | \$63,632,592           |
| 28   | \$13,026,960    | \$52,905,888   | \$65,932,848           |
| 29   | \$13,026,960    | \$55,206,144   | \$68,233,104           |
| 30   | \$13,026,960    | \$57,506,400   | \$70,533,360           |
| <i>Total</i>   |                 |                | <i>\$1,112,338,080</i> |

Table 8: Overall property tax revenues from new commercial development

| Net New Overall Property Tax Revenue From Non-Residential |                           |             |              |                 |                      |
|---|---------------------------|-------------|--------------|-----------------|----------------------|
| Year  | Existing                  | Pipeline    | Net New      | Replacement New | Total                |
| 0   | \$14,792,250 <sup>7</sup> | \$0         | \$0          | \$0             | \$0                  |
| 1   | \$14,299,175              | \$1,405,335 | \$0          | \$226,603       | \$1,631,937          |
| 2   | \$13,806,100              | \$2,810,669 | \$0          | \$453,206       | \$3,263,875          |
| 3   | \$13,313,025              | \$4,216,004 | \$0          | \$679,809       | \$4,895,812          |
| 4   | \$12,819,950              | \$5,621,338 | \$0          | \$906,411       | \$6,527,750          |
| 5   | \$12,326,875              | \$7,026,673 | \$0          | \$1,133,014     | \$8,159,687          |
| 6   | \$11,833,800              | \$6,477,949 | \$893,447    | \$1,359,617     | \$8,731,013          |
| 7   | \$11,340,725              | \$6,477,949 | \$1,786,895  | \$1,586,220     | \$9,851,064          |
| 8   | \$10,847,650              | \$6,477,949 | \$2,680,342  | \$1,812,823     | \$10,971,114         |
| 9   | \$10,354,575              | \$6,477,949 | \$3,573,789  | \$2,039,426     | \$12,091,164         |
| 10  | \$9,861,500               | \$6,477,949 | \$4,467,237  | \$2,266,028     | \$13,211,214         |
| 11  | \$9,368,425               | \$6,477,949 | \$5,360,684  | \$2,492,631     | \$14,331,264         |
| 12  | \$8,875,350               | \$6,477,949 | \$6,254,131  | \$2,719,234     | \$15,451,314         |
| 13  | \$8,382,275               | \$6,477,949 | \$7,147,579  | \$2,945,837     | \$16,571,365         |
| 14  | \$7,889,200               | \$6,477,949 | \$8,041,026  | \$3,172,440     | \$17,691,415         |
| 15  | \$7,396,125               | \$6,477,949 | \$8,934,473  | \$3,399,043     | \$18,811,465         |
| 16  | \$6,903,050               | \$6,477,949 | \$9,827,921  | \$3,625,645     | \$19,931,515         |
| 17  | \$6,409,975               | \$6,477,949 | \$10,721,368 | \$3,852,248     | \$21,051,565         |
| 18  | \$5,916,900               | \$6,477,949 | \$11,614,815 | \$4,078,851     | \$22,171,615         |
| 19  | \$5,423,825               | \$6,477,949 | \$12,508,263 | \$4,305,454     | \$23,291,666         |
| 20  | \$4,930,750               | \$6,477,949 | \$13,401,710 | \$4,532,057     | \$24,411,716         |
| 21  | \$4,437,675               | \$6,477,949 | \$14,295,157 | \$4,758,660     | \$25,531,766         |
| 22  | \$3,944,600               | \$6,477,949 | \$15,188,605 | \$4,985,262     | \$26,651,816         |
| 23  | \$3,451,525               | \$6,477,949 | \$16,082,052 | \$5,211,865     | \$27,771,866         |
| 24  | \$2,958,450               | \$6,477,949 | \$16,975,499 | \$5,438,468     | \$28,891,916         |
| 25  | \$2,465,375               | \$6,477,949 | \$17,868,946 | \$5,665,071     | \$30,011,967         |
| 26  | \$1,972,300               | \$6,477,949 | \$18,762,394 | \$5,891,674     | \$31,132,017         |
| 27  | \$1,479,225               | \$6,477,949 | \$19,655,841 | \$6,118,277     | \$32,252,067         |
| 28  | \$986,150                 | \$6,477,949 | \$20,549,288 | \$6,344,879     | \$33,372,117         |
| 29  | \$493,075                 | \$6,477,949 | \$21,442,736 | \$6,571,482     | \$34,492,167         |
| 30  | \$0                       | \$6,477,949 | \$22,336,183 | \$6,798,085     | \$35,612,217         |
| <b>Total</b>  |                           |             |              |                 | <b>\$578,769,445</b> |

<sup>7</sup> Existing assessed value in this case is derived by multiplying the estimated total square feet of non-residential in the Sector Plan (5,500,000) by \$275 per square foot. The \$275 figure is based on a review of the assessment value of improvements for most non-residential parcel file data for the Sector Plan area. This method was used in order to smooth out data discrepancies pertaining to both the total number of commercial square feet and the total value of commercial improvements.

Taken together, these numbers indicate roughly \$1.7 billion (2008\$) over 30 years in overall property taxes from the assessment of new improvements.<sup>8</sup>

Of course, overall property tax revenue includes funds designated for specific purposes. Only a portion of overall revenues are available to pay for infrastructure. The portion that is available is the portion of overall revenues that go to the General Fund. The revenues to the General Fund represent roughly  $\frac{3}{4}$  of the overall property tax revenues.

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<sup>8</sup> This is not the same as incremental revenues, which will be addressed later. These figures are improvements only and do not include land assessments, which are assumed to remain constant.

Table 9: General Fund property tax revenues, residential development

| Net New General Fund Property Tax Revenue From Residential |             |              |                      |
|--|-------------|--------------|----------------------|
| Year   | Pipeline    | Net New      | Total                |
| 0  | \$0         | \$0          | \$0                  |
| 1  | \$1,971,360 | \$0          | \$1,971,360          |
| 2  | \$3,942,720 | \$0          | \$3,942,720          |
| 3  | \$5,914,080 | \$0          | \$5,914,080          |
| 4  | \$7,885,440 | \$0          | \$7,885,440          |
| 5  | \$9,856,800 | \$0          | \$9,856,800          |
| 6  | \$9,856,800 | \$1,740,480  | \$11,597,280         |
| 7  | \$9,856,800 | \$3,480,960  | \$13,337,760         |
| 8  | \$9,856,800 | \$5,221,440  | \$15,078,240         |
| 9  | \$9,856,800 | \$6,961,920  | \$16,818,720         |
| 10   | \$9,856,800 | \$8,702,400  | \$18,559,200         |
| 11   | \$9,856,800 | \$10,442,880 | \$20,299,680         |
| 12   | \$9,856,800 | \$12,183,360 | \$22,040,160         |
| 13   | \$9,856,800 | \$13,923,840 | \$23,780,640         |
| 14   | \$9,856,800 | \$15,664,320 | \$25,521,120         |
| 15   | \$9,856,800 | \$17,404,800 | \$27,261,600         |
| 16   | \$9,856,800 | \$19,145,280 | \$29,002,080         |
| 17   | \$9,856,800 | \$20,885,760 | \$30,742,560         |
| 18   | \$9,856,800 | \$22,626,240 | \$32,483,040         |
| 19   | \$9,856,800 | \$24,366,720 | \$34,223,520         |
| 20   | \$9,856,800 | \$26,107,200 | \$35,964,000         |
| 21   | \$9,856,800 | \$27,847,680 | \$37,704,480         |
| 22   | \$9,856,800 | \$29,588,160 | \$39,444,960         |
| 23   | \$9,856,800 | \$31,328,640 | \$41,185,440         |
| 24   | \$9,856,800 | \$33,069,120 | \$42,925,920         |
| 25   | \$9,856,800 | \$34,809,600 | \$44,666,400         |
| 26   | \$9,856,800 | \$36,550,080 | \$46,406,880         |
| 27   | \$9,856,800 | \$38,290,560 | \$48,147,360         |
| 28   | \$9,856,800 | \$40,031,040 | \$49,887,840         |
| 29   | \$9,856,800 | \$41,771,520 | \$51,628,320         |
| 30   | \$9,856,800 | \$43,512,000 | \$53,368,800         |
| <b>Total</b>   |             |              | <b>\$841,646,400</b> |

New residential development will generate roughly \$840 million (2008\$) in General Fund revenues over the 30 year build-out horizon.

Table 10: General Fund property tax revenues, non-residential development

| Net New General Fund Property Tax Revenue From Non-Residential |               |              |               |                 |                      |
|--|---------------|--------------|---------------|-----------------|----------------------|
| Year   | Existing      | Pipeline     | Net New       | Replacement New | Total                |
| 0  | \$ 11,192,500 | \$ -         | \$ -          | \$ -            | \$ -                 |
| 1  | \$ 10,819,417 | \$ 1,063,341 | \$ -          | \$ 171,458      | \$ 1,234,799         |
| 2  | \$ 10,446,333 | \$ 2,126,682 | \$ -          | \$ 342,916      | \$ 2,469,598         |
| 3  | \$ 10,073,250 | \$ 3,190,023 | \$ -          | \$ 514,375      | \$ 3,704,398         |
| 4  | \$ 9,700,167  | \$ 4,253,364 | \$ -          | \$ 685,833      | \$ 4,939,197         |
| 5  | \$ 9,327,083  | \$ 5,316,705 | \$ -          | \$ 857,291      | \$ 6,173,996         |
| 6  | \$ 8,954,000  | \$ 4,901,516 | \$ 676,024    | \$ 1,028,749    | \$ 6,606,288         |
| 7  | \$ 8,580,917  | \$ 4,901,516 | \$ 1,352,047  | \$ 1,200,207    | \$ 7,453,770         |
| 8  | \$ 8,207,833  | \$ 4,901,516 | \$ 2,028,071  | \$ 1,371,665    | \$ 8,301,252         |
| 9  | \$ 7,834,750  | \$ 4,901,516 | \$ 2,704,094  | \$ 1,543,124    | \$ 9,148,733         |
| 10   | \$ 7,461,667  | \$ 4,901,516 | \$ 3,380,118  | \$ 1,714,582    | \$ 9,996,215         |
| 11   | \$ 7,088,583  | \$ 4,901,516 | \$ 4,056,141  | \$ 1,886,040    | \$ 10,843,697        |
| 12   | \$ 6,715,500  | \$ 4,901,516 | \$ 4,732,165  | \$ 2,057,498    | \$ 11,691,179        |
| 13   | \$ 6,342,417  | \$ 4,901,516 | \$ 5,408,188  | \$ 2,228,956    | \$ 12,538,660        |
| 14   | \$ 5,969,333  | \$ 4,901,516 | \$ 6,084,212  | \$ 2,400,415    | \$ 13,386,142        |
| 15   | \$ 5,596,250  | \$ 4,901,516 | \$ 6,760,235  | \$ 2,571,873    | \$ 14,233,624        |
| 16   | \$ 5,223,167  | \$ 4,901,516 | \$ 7,436,259  | \$ 2,743,331    | \$ 15,081,105        |
| 17   | \$ 4,850,083  | \$ 4,901,516 | \$ 8,112,282  | \$ 2,914,789    | \$ 15,928,587        |
| 18   | \$ 4,477,000  | \$ 4,901,516 | \$ 8,788,306  | \$ 3,086,247    | \$ 16,776,069        |
| 19   | \$ 4,103,917  | \$ 4,901,516 | \$ 9,464,330  | \$ 3,257,705    | \$ 17,623,551        |
| 20   | \$ 3,730,833  | \$ 4,901,516 | \$ 10,140,353 | \$ 3,429,164    | \$ 18,471,032        |
| 21   | \$ 3,357,750  | \$ 4,901,516 | \$ 10,816,377 | \$ 3,600,622    | \$ 19,318,514        |
| 22   | \$ 2,984,667  | \$ 4,901,516 | \$ 11,492,400 | \$ 3,772,080    | \$ 20,165,996        |
| 23   | \$ 2,611,583  | \$ 4,901,516 | \$ 12,168,424 | \$ 3,943,538    | \$ 21,013,477        |
| 24   | \$ 2,238,500  | \$ 4,901,516 | \$ 12,844,447 | \$ 4,114,996    | \$ 21,860,959        |
| 25   | \$ 1,865,417  | \$ 4,901,516 | \$ 13,520,471 | \$ 4,286,455    | \$ 22,708,441        |
| 26   | \$ 1,492,333  | \$ 4,901,516 | \$ 14,196,494 | \$ 4,457,913    | \$ 23,555,923        |
| 27   | \$ 1,119,250  | \$ 4,901,516 | \$ 14,872,518 | \$ 4,629,371    | \$ 24,403,404        |
| 28   | \$ 746,167    | \$ 4,901,516 | \$ 15,548,541 | \$ 4,800,829    | \$ 25,250,886        |
| 29   | \$ 373,083    | \$ 4,901,516 | \$ 16,224,565 | \$ 4,972,287    | \$ 26,098,368        |
| 30   | \$ -          | \$ 4,901,516 | \$ 16,900,588 | \$ 5,143,745    | \$ 26,945,850        |
| <b>Total</b>   |               |              |               |                 | <b>\$437,923,711</b> |

Non-residential development could generate roughly \$440 million (2008\$) in General Fund revenue. Total General Fund revenues from all residential and non-residential improvements would be roughly \$1.3 billion over the 30-year build-out horizon.



## 2.4 ANALYSIS OF INCREMENTAL REVENUES

In determining the incremental revenues generated by the new development, a critical step is making a determination of baseline property tax revenues. Staff calculated the tax increment on assessed improvements only, and assumed that land values will remain at current levels.<sup>9</sup>

In estimating total current revenues, Staff made the following assumptions in an effort to in order to address inconsistencies in the parcel file data:

- Based on a review of parcel file data of existing commercial properties within the Sector Plan, an average assessed value of \$275 per improved square foot was assumed for all existing commercial development
- Based on a review of existing parcel (condo) file data, an average assessed value of \$235 per improved square foot was applied to existing residential development
- It was assumed that there are 5,500,000 square feet of existing non-residential uses
- It was assumed that there are 2,259 residential units at an average of 1,200 square feet per unit
- It was assumed that all square feet of residential and non-residential uses are taxable

*Table 11: Estimated existing property tax revenues, improvements, by use*

|                                  | Improvements-Overall<br>Prop Tax Revenue | Improvements-General<br>Fund Prop Tax Revenues |
|----------------------------------|--|--|
| Commercial Existing Assessment   | \$ 14,792,250                            | \$ 11,192,500                                  |
| Residential Existing Assessment  | \$ 6,230,232                             | \$ 4,714,081                                   |
| <i>Total Existing Assessment</i> | <i>\$ 21,022,482</i>                     | <i>\$ 15,906,581</i>                           |

The total General Fund revenue from existing improvements (“baseline”) is approximately \$16 million per annum. The current assessments are predominantly commercial, reflecting the existing land use patterns within the Sector Plan boundary.

The tables that follow illustrate the General Fund portion of the incremental ad valorem property taxes. In each year, the incremental property taxes are the taxes above the baseline property taxes. Looking at incremental revenues is different than looking at the revenues generated by new development because incremental revenues include the difference between the revenue generated by each square foot of existing commercial at its current assessed value and its assessed value after redevelopment.

<sup>9</sup> For purposes of this analysis, Staff is not addressing the question of whether the assessed value of land will increase following the adoption of the Sector Plan.

Table 12: Baseline and incremental revenues

| Incremental General Fund Revenues |                                     |                                |                               |                                |                                    |
|-----------------------------------|-------------------------------------|--------------------------------|-------------------------------|--------------------------------|------------------------------------|
| Yr                                | GF Revenue All Existing Assessments | GF Revenue-All New Assessments | GF Revenue-All New & Existing | Annual Incremental GF Revenues | Cumulative Incremental GF Revenues |
| 0                                 | <b>\$15,906,581</b>                 |                                |                               |                                |                                    |
| 1                                 | \$15,533,498                        | \$3,206,159                    | \$18,739,657                  | \$2,833,076                    | \$2,833,076                        |
| 2                                 | \$15,160,415                        | \$6,412,318                    | \$21,572,733                  | \$5,666,152                    | \$8,499,228                        |
| 3                                 | \$14,787,331                        | \$9,618,478                    | \$24,405,809                  | \$8,499,228                    | \$16,998,455                       |
| 4                                 | \$14,414,248                        | \$12,824,637                   | \$27,238,885                  | \$11,332,304                   | \$28,330,759                       |
| 5                                 | \$14,041,165                        | \$16,030,796                   | \$30,071,961                  | \$14,165,380                   | \$42,496,139                       |
| 6                                 | \$13,668,081                        | \$18,203,568                   | \$31,871,649                  | \$15,965,068                   | \$58,461,207                       |
| 7                                 | \$13,294,998                        | \$20,791,530                   | \$34,086,528                  | \$18,179,947                   | \$76,641,154                       |
| 8                                 | \$12,921,915                        | \$23,379,492                   | \$36,301,406                  | \$20,394,825                   | \$97,035,979                       |
| 9                                 | \$12,548,831                        | \$25,967,453                   | \$38,516,285                  | \$22,609,703                   | \$119,645,682                      |
| 10                                | \$12,175,748                        | \$28,555,415                   | \$40,731,163                  | \$24,824,582                   | \$144,470,264                      |
| 11                                | \$11,802,665                        | \$31,143,377                   | \$42,946,041                  | \$27,039,460                   | \$171,509,724                      |
| 12                                | \$11,429,581                        | \$33,731,339                   | \$45,160,920                  | \$29,254,339                   | \$200,764,063                      |
| 13                                | \$11,056,498                        | \$36,319,300                   | \$47,375,798                  | \$31,469,217                   | \$232,233,280                      |
| 14                                | \$10,683,415                        | \$38,907,262                   | \$49,590,677                  | \$33,684,095                   | \$265,917,375                      |
| 15                                | \$10,310,331                        | \$41,495,224                   | \$51,805,555                  | \$35,898,974                   | \$301,816,349                      |
| 16                                | \$9,937,248                         | \$44,083,185                   | \$54,020,433                  | \$38,113,852                   | \$339,930,201                      |
| 17                                | \$9,564,165                         | \$46,671,147                   | \$56,235,312                  | \$40,328,731                   | \$380,258,931                      |
| 18                                | \$9,191,081                         | \$49,259,109                   | \$58,450,190                  | \$42,543,609                   | \$422,802,540                      |
| 19                                | \$8,817,998                         | \$51,847,071                   | \$60,665,068                  | \$44,758,487                   | \$467,561,028                      |
| 20                                | \$8,444,915                         | \$54,435,032                   | \$62,879,947                  | \$46,973,366                   | \$514,534,393                      |
| 21                                | \$8,071,831                         | \$57,022,994                   | \$65,094,825                  | \$49,188,244                   | \$563,722,637                      |
| 22                                | \$7,698,748                         | \$59,610,956                   | \$67,309,704                  | \$51,403,122                   | \$615,125,760                      |
| 23                                | \$7,325,665                         | \$62,198,917                   | \$69,524,582                  | \$53,618,001                   | \$668,743,761                      |
| 24                                | \$6,952,581                         | \$64,786,879                   | \$71,739,460                  | \$55,832,879                   | \$724,576,640                      |
| 25                                | \$6,579,498                         | \$67,374,841                   | \$73,954,339                  | \$58,047,758                   | \$782,624,397                      |
| 26                                | \$6,206,415                         | \$69,962,803                   | \$76,169,217                  | \$60,262,636                   | \$842,887,033                      |
| 27                                | \$5,833,331                         | \$72,550,764                   | \$78,384,096                  | \$62,477,514                   | \$905,364,548                      |
| 28                                | \$5,460,248                         | \$75,138,726                   | \$80,598,974                  | \$64,692,393                   | \$970,056,941                      |
| 29                                | \$5,087,165                         | \$77,726,688                   | \$82,813,852                  | \$66,907,271                   | \$1,036,964,212                    |
| 30                                | \$4,714,081                         | \$80,314,650                   | \$85,028,731                  | \$69,122,150                   | \$1,106,086,361                    |

The annual increment above baseline revenues would rise to \$69 million. Over the thirty year build-out horizon, the cumulative incremental revenues could rise to \$1.1 billion, i.e. the total General Fund revenues over thirty years could be up to \$1.1 billion above the cumulative General Fund revenues over that same time period if current revenues remained unchanged.

### 3.0 MASTER PLAN TRANSPORTATION INFRASTRUCTURE COSTS

Staff currently estimates total master planned transportation capital costs of \$319,050,000. Some of that money is associated with projects for which funds are already committed or proposed (e.g. State costs associated with the Montrose Parkway interchange, and local funds associated with Chapman and Citadel Avenues).

For purposes of this analysis, it was assumed that the financing mechanism would finance all of the costs categorized as “district” costs (see Table 1, below, and Appendix A). The \$171,250,000 in “district” infrastructure projects would be financed by a combination of public and private revenues.

*Table 13: Summary of transportation infrastructure costs (2008\$)*

| Transportation Infrastructure Costs, by stage |              |              |              |                      |               |
|---|--------------|--------------|--------------|----------------------|---------------|
|   | State        | Local        | Private      | District             | TOTAL         |
| <b>Total Transportation Network Elements</b>  |              |              |              |                      |               |
| Stage One                                     | \$47,200,000 | \$20,100,000 | \$7,500,000  | \$54,000,000         | \$128,800,000 |
| Stage Two                                     | \$20,000,000 | \$0          | \$43,750,000 | \$35,750,000         | \$99,500,000  |
| Stage Three                                   | \$0          | \$0          | \$9,250,000  | \$81,500,000         | \$90,750,000  |
| TOTAL   | \$67,200,000 | \$20,100,000 | \$60,500,000 | <b>\$171,250,000</b> | \$319,050,000 |

In later discussions of the financing mechanism, costs will come to include the cost of borrowing. It is assumed for purposes of this analysis that borrowing will occur only as necessary, and that the infrastructure bonds will be issued at 5% over 20 years.

#### 4.0 “DISTRICT” FINANCING MECHANISM

The “District” financing mechanism receives funding from multiple sources. Together these sources would cover the cost of all master-planned infrastructure identified in the Sector Plan which is not assumed to be a pure “state” or “local” cost. Those sources are:

- 1) Residential transportation impact taxes (or equivalent)
- 2) 10% ad valorem special assessment on new and existing commercial uses (including both improvements and land)
- 3) Public sector gap financing from incremental revenues

The three funding sources would work together in the following manner:

- *Residential impact taxes* accumulate during each stage of development and are then applied to reduce necessary borrowing in the subsequent bond issuance. It is assumed that residential impact taxes from pipeline development will not be available to supplement the revenues. It is assumed that the impact taxes are \$2420 per dwelling unit (i.e. that no developments opt to use the Alternative Review Procedure).
- *Special Assessment revenues* are collected beginning in Year 1. The Special Assessments in the years before the first bond is issued accumulate; subsequently, those revenues are used to reduce the required amount of the first bond. In the year the bond is issued is a bondable income stream, i.e. it is assumed that the Special Assessment in subsequent years will not be less than the Special Assessment in the year the bond is issued. Any excess Special Assessment accumulates and reduces the amount of the subsequent bond.
- *Public sector gap financing* is assumed to cover the remaining gap between the necessary bond payments and the bondable revenue stream from special assessments.

It is assumed that a set portion of the General Fund increment in each year could be directed towards the District. In each year, some of that amount would be applied to the current bond obligations, while the remainder would accumulate. Accumulated incremental revenues would then be applied to reduce the amount of borrowing necessary in the subsequent infrastructure phase.

Obviously, there are alternative ways to structure the incremental revenue portion of the financing mechanism. For example, the incremental revenue captured in each year could simply be the amount of incremental revenue necessary to close the financing gap in that year. This alternative is easy to model, but lacks predictability.

#### 4.1 THE NEED FOR PUBLIC-PRIVATE FINANCING

Impact tax revenues alone fall far short of generating sufficient revenue to match the costs of infrastructure in the White Flint Sector Plan.

*Table 14: Total Transportation Impact Tax Potential*

| Total Transportation Impact Tax Revenue Potential |                    |                 |                     |
|---|--------------------|-----------------|---------------------|
| Use   | D/U or Square Feet | Impact Tax Rate | Impact Tax Revenue  |
| Dwelling Units                                    | 9,800              | \$2,420         | \$23,716,000        |
| Office  | 2,831,746          | \$4.85          | \$13,733,966        |
| Retail  | 1,887,830          | \$4.34          | \$8,193,184         |
| Industrial  | 317,058            | \$2.43          | \$770,451           |
| Other   | 0                  |                 | \$0                 |
| Hotel   | 653,366            | \$2.43          | \$1,587,680         |
| <i>Total</i>                                      |                    |                 | <i>\$48,001,281</i> |

At current rates, the total transportation impact tax potential would not generate sufficient revenue to pay for either Rockville Pike or for the various mobility projects that have been designated as District projects.

Alternatively, if all infrastructure designated as District infrastructure were to be financed using special assessments (no captured impact taxes or incremental tax revenues), the assessment rate would be significantly higher. Holding the other assumptions in this analysis constant, the rate would need to be set at 25%, i.e. a 25% increase in the property tax bill for all commercial properties within the Sector Plan.

#### 4.2 A NOTE ON INFRASTRUCTURE STAGING

The infrastructure staging plan calls for three stages. For purposes of this analysis it is assumed that the first two infrastructure stages are eight years long, and that the third is nine years. With the five year period for pipeline development, this results in a build-out horizon of thirty years.

These assumptions do not line up perfectly with the plan, which assumes infrastructure phases set by metered development (i.e. the next stage of infrastructure is funded when a certain number of residential units and non-residential square feet have been developed). However, it does approximate the Sector Plan’s staging mechanism while avoiding the complexity of partial years.

#### **4.3 PIPELINE DEVELOPMENT AND ITS RELATIONSHIP TO THE FINANCING MECHANISM**

The development pipeline for the White Flint Sector Plan Area includes substantial approved-but-not-completed development.

- *Residential pipeline: 2,220 dwelling units*
- *Non-residential pipeline: 1.79 million square feet*

It is assumed that all pipeline development occurs, and build-out of the pipeline is spread evenly over years one through five. It is not assumed that impact taxes from pipeline development can be applied to pay for “District” transportation projects. In every other way, however, pipeline development is treated the same way that new development is treated through each of the Sector Plan’s defined “stages.”

The 10% special assessment on commercial uses applies to all existing and new commercial, and thus also applies to pipeline development. Special assessments on pipeline development accumulate in years the first five years and are then applied to reduce the amount of borrowing necessary to pay for Stage One infrastructure.

As with later development and redevelopment, a portion of the General Fund increment generated by pipeline development is captured and accumulates to reduce necessary borrowing for Stage One infrastructure bonds.

#### **4.4 FINANCING MECHANISM: STAGE ONE INFRASTRUCTURE BOND**

The first bond is issued on the basis of the Year 5 special assessment and tax increment and repayment would begin in Year 6. The bond has a repayment period of 20 years and an interest rate of 5%. The total “District” obligation under the Stage 1 master plan transportation infrastructure cost is \$54,000,000.

When the accumulated tax increment (10%<sup>10</sup> of the increment from Years 1 through 5) and accumulated assessment (10% special assessment from Years 1 to 5) are applied, the amount to borrow is reduced.<sup>11</sup>

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<sup>10</sup> 10% is the portion of the increment necessary to cover the financing gaps for all three stages of infrastructure, assuming that there is a point in time at which all three bonds will be in repayment.

<sup>11</sup> Of course, we could also apply any residential impact taxes that will be paid on pipeline projects to reduce the amount needed to borrow, but to do this would involve distinguishing between pipeline projects that have already gone to building permit and those that have not.

- \$54,000,000 in “District” master planned transportation infrastructure
- Less the \$11,427,169 accumulated special assessment on commercial uses<sup>12</sup>,
- Less \$4,249,614 from accumulated 10% of general fund tax increment
- Equals \$38,323,218
- At 5% over 20 years equals \$58,442,907 in principal and interest
- Equals level annual payment of \$2,922,145

In Year 6, repayment begins with the first of 20 annual payments in the amount of \$2,922,145. The security for those annual payments would be current levels of revenue (bondable streams of income). Put differently, it is assumed that beginning in Year 6 our income will never fall below Year 5 levels.

The Year 5 special assessment is \$2,513,206, so that is the amount that is “bondable.” That leaves the remainder to be paid for by the captured General Fund tax increment.

- \$2,922,145 level annual payment
- Less \$2,513,206 from special assessment
- Equals \$408,939 gap to be filled by tax increment

The annual GF tax increment that year is \$14,165,380. Only \$408,939, or 2.89% of the total Year 5 annual increment, is needed to cover the Stage 1 bond payments.

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<sup>12</sup> The 10% special assessment applies to all commercial uses. The special assessment is applied to commercial improvements and land. Based on a review of parcel file data, it is assumed that the total annual (overall) property tax revenue from commercial land is roughly \$4.6 million, 10% of which comes to \$464,550.

Table 15: Stage One financing mechanism

| Year | Special Assessment Revenue | Accumulated Special Assessment | Annual Net GF Increment | Captured Net GF Increment | Accumulated Captured Net GF Increment | Infrastructure Cost | Infrastructure Cost Less Accumulated Special Assessment and Captured Increment | Stage 1 balance (w/ interest @ 5% over 20 years) | Portion of Stage 1 bond from special assessment | Portion of Stage 1 bond from captured increment | Remaining Balance Stage 1 Bonds |
|------|----------------------------|--------------------------------|-------------------------|---------------------------|---------------------------------------|---------------------|--|--|---|---|---------------------------------|
| 0    | \$1,943,775                |                                |                         |                           |                                       |                     |  |  |   |   |                                 |
| 1    | \$2,057,661                | \$2,057,661                    | \$2,833,076             | \$283,308                 | \$283,308                             |                     |  |  |   |   |                                 |
| 2    | \$2,171,547                | \$4,229,209                    | \$5,666,152             | \$566,615                 | \$849,923                             |                     |  |  |   |   |                                 |
| 3    | \$2,285,434                | \$6,514,642                    | \$8,499,228             | \$849,923                 | \$1,699,846                           |                     |  |  |   |   |                                 |
| 4    | \$2,399,320                | \$8,913,962                    | \$11,332,304            | \$1,133,230               | \$2,833,076                           |                     |  |  |   |   |                                 |
| 5    | <b>\$2,513,206</b>         | <b>\$11,427,169</b>            | \$14,165,380            | \$1,416,538               | <b>\$4,249,614</b>                    | \$54,000,000        | <b>\$38,323,218</b>  | <b>\$58,442,907</b>                              |   |   |                                 |
| 6    | \$2,521,031                |                                | \$15,965,068            | \$1,596,507               |                                       |                     |  |  | <b>\$2,513,206</b>                              | \$408,939                                       | \$55,520,761                    |
| 7    | \$2,583,729                |                                | \$18,179,947            | \$1,817,995               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$52,598,616                    |
| 8    | \$2,646,426                |                                | \$20,394,825            | \$2,039,483               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$49,676,471                    |
| 9    | \$2,709,124                |                                | \$22,609,703            | \$2,260,970               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$46,754,325                    |
| 10   | \$2,771,821                |                                | \$24,824,582            | \$2,482,458               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$43,832,180                    |
| 11   | \$2,834,519                |                                | \$27,039,460            | \$2,703,946               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$40,910,035                    |
| 12   | \$2,897,216                |                                | \$29,254,339            | \$2,925,434               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$37,987,889                    |
| 13   | \$2,959,914                |                                | \$31,469,217            | \$3,146,922               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$35,065,744                    |
| 14   | \$3,022,611                |                                | \$33,684,095            | \$3,368,410               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$32,143,599                    |
| 15   | \$3,085,309                |                                | \$35,898,974            | \$3,589,897               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$29,221,453                    |
| 16   | \$3,148,007                |                                | \$38,113,852            | \$3,811,385               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$26,299,308                    |
| 17   | \$3,210,704                |                                | \$40,328,731            | \$4,032,873               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$23,377,163                    |
| 18   | \$3,273,402                |                                | \$42,543,609            | \$4,254,361               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$20,455,017                    |
| 19   | \$3,336,099                |                                | \$44,758,487            | \$4,475,849               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$17,532,872                    |
| 20   | \$3,398,797                |                                | \$46,973,366            | \$4,697,337               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$14,610,727                    |
| 21   | \$3,461,494                |                                | \$49,188,244            | \$4,918,824               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$11,688,581                    |
| 22   | \$3,524,192                |                                | \$51,403,122            | \$5,140,312               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$8,766,436                     |
| 23   | \$3,586,889                |                                | \$53,618,001            | \$5,361,800               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$5,844,291                     |
| 24   | \$3,649,587                |                                | \$55,832,879            | \$5,583,288               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$2,922,145                     |
| 25   | \$3,712,284                |                                | \$58,047,758            | \$5,804,776               |                                       |                     |  |  | \$2,513,206                                     | \$408,939                                       | \$0                             |



#### **4.5 FINANCING MECHANISM: STAGE TWO INFRASTRUCTURE BOND**

Once the Stage 1 infrastructure bonds have been issued, any special assessment revenues in excess of the Year 5 revenues (\$2,513,206) will accumulate and ultimately will be applied to reduce the necessary borrowing for Stage 2 infrastructure. Incremental General Fund revenues will also accumulate (difference between 10% of General Fund increment and the \$408,939 required to close the Stage 1 financing gap). In addition, residential impact taxes paid by Stage 1 development will accumulate and be applied to reduce the borrowing required for Stage 2.

The total cost of the District's obligations for Stage 2 master plan transportation infrastructure is \$35,750,000. This amount will be reduced by the amount of the accumulated Stage 1 impact taxes, as well as the accumulated 10% commercial special assessment and the accumulated 10% General Fund tax increment.

- \$35,750,000 in total "District" master planned transportation infrastructure
- Less Stage 1 accumulated residential impact tax equivalency of \$7,589,120<sup>13</sup>
- Less accumulated special assessment of \$1,818,132
- Less accumulated 10% GF increment of \$15,702,201
- Equals \$10,640,547
- At 5% over 20 years is \$16,226,835 in principal and interest
- Equals level annual payment of \$811,342

In Year 14, repayment of the Stage 2 bond begins with the first of 20 annual payments in the amount of \$811,342. The total Year 13 special assessment is \$2,959,914. Of that amount, the first \$2,513,206 is dedicated to paying off the Stage 1 bond. As such, the bondable special assessment revenue stream for Stage 2 is only \$446,708. That leaves the remaining \$364,634 to be filled by public sector gap financing.

- \$811,342 in level payment
- Less \$446,708 bondable from 10% special assessment on commercial
- Equals \$364,634 gap to be filled by tax increment

The \$364,634 for Stage 2 bonds is 2.11% of the Year 13 General Fund increment (\$17,303,837). An additional portion of the captured 10% tax increment is applied to the continuing obligations on Stage 1 bonds, with the remainder accumulating to reduce Stage 3 borrowing.

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<sup>13</sup> Total impact tax revenue is calculated on the basis of units at a particular point in time, rather than based on the 3,000 units in the staging plan. This was done to eliminate the need to go build the model using months rather than just years. The staging plan described in the Sector Plan is modified for the purposes of this analysis. For example, Stage 1 in the staging plan ends when 3,000 dwelling units and 2.0 million square feet of non-residential uses have been built. For purposes of this analysis, Stage 2 begins in the first full year after the 3,000<sup>th</sup> unit is built.

Table 16: Stage Two financing mechanism

| Year | Special Assessment Revenue | Special Assessment Dedicated to Stage 1 Bonds | Amount Available for Stage 2 | Special Assessment Dedicated to Stage 2 Bonds | Excess Accumulated Special Assessment | Accumulated Impact Tax Revenue | Annual Net GF Increment | Captured Net GF Increment | Accumulated Captured Net GF Increment | Infrastructure Cost | Infrastructure Cost Less Accumulated Revenues | Portion of Stage 2 bond from special assessment | Portion of Stage 2 bond from captured increment | Remaining Balance Stage 2 Bonds @ 5% over 20 years |
|------|----------------------------|---|------------------------------|---|---------------------------------------|--------------------------------|-------------------------|---------------------------|---------------------------------------|---------------------|---|---|---|--|
| 13   | \$2,959,914                | \$2,513,206                                   | <b>\$446,708</b>             | \$0   | <b>\$1,818,132</b>                    | <b>\$7,589,120</b>             |                         |                           | <b>\$15,702,201</b>                   | \$35,750,000        | <b>\$10,640,547</b>                           |   |   | <b>\$16,226,835</b>                                |
| 14   | \$3,022,611                | \$2,513,206                                   |                              | <b>\$446,708</b>                              | \$62,698                              |                                | \$33,684,095            | \$3,368,410               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$15,415,493                                       |
| 15   | \$3,085,309                | \$2,513,206                                   |                              | \$446,708                                     | \$125,395                             |                                | \$35,898,974            | \$3,589,897               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$14,604,151                                       |
| 16   | \$3,148,007                | \$2,513,206                                   |                              | \$446,708                                     | \$188,093                             |                                | \$38,113,852            | \$3,811,385               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$13,792,810                                       |
| 17   | \$3,210,704                | \$2,513,206                                   |                              | \$446,708                                     | \$250,790                             |                                | \$40,328,731            | \$4,032,873               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$12,981,468                                       |
| 18   | \$3,273,402                | \$2,513,206                                   |                              | \$446,708                                     | \$313,488                             |                                | \$42,543,609            | \$4,254,361               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$12,170,126                                       |
| 19   | \$3,336,099                | \$2,513,206                                   |                              | \$446,708                                     | \$376,185                             |                                | \$44,758,487            | \$4,475,849               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$11,358,784                                       |
| 20   | \$3,398,797                | \$2,513,206                                   |                              | \$446,708                                     | \$438,883                             |                                | \$46,973,366            | \$4,697,337               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$10,547,443                                       |
| 21   | \$3,461,494                | \$2,513,206                                   |                              | \$446,708                                     | \$501,580                             |                                | \$49,188,244            | \$4,918,824               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$9,736,101  |
| 22   | \$3,524,192                | \$2,513,206                                   |                              | \$446,708                                     | \$564,278                             |                                | \$51,403,122            | \$5,140,312               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$8,924,759  |
| 23   | \$3,586,889                | \$2,513,206                                   |                              | \$446,708                                     | \$626,975                             |                                | \$53,618,001            | \$5,361,800               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$8,113,417  |
| 24   | \$3,649,587                | \$2,513,206                                   |                              | \$446,708                                     | \$689,673                             |                                | \$55,832,879            | \$5,583,288               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$7,302,076  |
| 25   | \$3,712,284                | \$2,513,206                                   |                              | \$446,708                                     | \$752,370                             |                                | \$58,047,758            | \$5,804,776               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$6,490,734  |
| 26   | \$3,774,982                | \$0   |                              | \$446,708                                     | \$3,328,274                           |                                | \$60,262,636            | \$6,026,264               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$5,679,392  |
| 27   | \$3,837,679                | \$0   |                              | \$446,708                                     | \$3,390,971                           |                                | \$62,477,514            | \$6,247,751               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$4,868,050  |
| 28   | \$3,900,377                | \$0   |                              | \$446,708                                     | \$3,453,669                           |                                | \$64,692,393            | \$6,469,239               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$4,056,709  |
| 29   | \$3,963,074                | \$0   |                              | \$446,708                                     | \$3,516,366                           |                                | \$66,907,271            | \$6,690,727               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$3,245,367  |
| 30   | \$4,025,772                | \$0   |                              | \$446,708                                     | \$3,579,064                           |                                | \$69,122,150            | \$6,912,215               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$2,434,025  |
| 31   | \$4,025,772                | \$0   |                              | \$446,708                                     | \$3,579,064                           |                                | \$69,122,150            | \$6,912,215               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$1,622,683  |
| 32   | \$4,025,772                | \$0   |                              | \$446,708                                     | \$3,579,064                           |                                | \$69,122,150            | \$6,912,215               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$811,342  |
| 33   | \$4,025,772                | \$0   |                              | \$446,708                                     | \$3,579,064                           |                                | \$69,122,150            | \$6,912,215               |                                       |                     |   | \$446,708                                       | \$364,634                                       | \$0  |

#### **4.6 FINANCING MECHANISM: STAGE THREE INFRASTRUCTURE BOND**

Once the Stage 2 infrastructure bonds have been issued, any special assessment revenues in excess of those necessary to cover the private portion of the Stage 1 and Stage 2 bonds will accumulate and ultimately will be applied to reduce the necessary borrowing for Stage 3 infrastructure. Incremental General Fund revenues will also accumulate (difference between 10% of General Fund increment and the continuing gap finance obligations for Stage 1 and Stage 2 infrastructure) to reduce necessary borrowing. Residential impact taxes paid by Stage 2 development will accumulate and be applied to reduce the borrowing required for Stage 3.

The total cost of the District's obligations for Stage 3 master plan transportation infrastructure is \$81,500,000. This amount will be reduced by the amount of the accumulated Stage 2 impact taxes, as well as the accumulated 10% commercial special assessment and the accumulated 10% General Fund tax increment.

- \$81,500,000 in total "District" master planned transportation infrastructure
- Less Stage 2 accumulated residential impact tax equivalency of \$7,589,120
- Less accumulated special assessment of \$2,257,111
- Less accumulated 10% GF increment of \$29,877,423
- Equals \$41,776,347
- At 5% over 20 years is \$63,708,929 in principal and interest
- Equals level annual payment of \$3,185,466

Starting in Year 22, repayment of the Stage 3 bond begins with the first of 20 annual payments in the amount of \$3,185,466. The total Year 21 special assessment is \$3,461,494. Of that amount, the first \$2,513,206 is dedicated to paying off the Stage 1 bond, with \$446,708 dedicated to paying off the Stage 2 bond. As such, the remaining bondable special assessment revenue stream for Stage 3 is only \$501,580. That leaves a gap of \$2,683,866 to be filled by public sector gap financing.

- \$3,185,466 in level payment
- Less \$501,580 bondable from 10% special assessment on commercial
- Equals \$2,683,866 gap to be filled by tax increment

The public obligation of \$2,683,866 for Stage 3 bonds is 7.70% of the Year 21 General Fund increment (\$34,869,073). No excess increment accumulates in Stage 3. It is further assumed that excess special assessments in Stage 3 are applied to repay the public sector for the Stage 3 gap financing. It is assumed that Stage 3 impact taxes are no longer captured by the District, but instead accrue to the County.

Table 17: Stage Three financing mechanism

| Year | Special Assessment Revenue | Special Assessment Dedicated to Stage 1 Bonds | Special Assessment Dedicated to Stage 2 Bonds | Amount Available for Stage 3 | Excess Accumulated Special Assessment | Accumulated Impact Tax Revenue | Annual Net GF Increment | Captured Net GF Increment | Accumulated Captured Net GF Increment | Infrastructure Cost | Infrastructure Cost Less Accumulated Revenues | Portion of Stage 3 bond from special assessment | Portion of Stage 3 bond from captured increment | Remaining Balance Stage 3 Bonds @ 5% over 20 years |
|------|----------------------------|---|---|------------------------------|---------------------------------------|--------------------------------|-------------------------|---------------------------|---------------------------------------|---------------------|---|---|---|--|
| 21   | \$3,461,494                | \$2,513,206                                   | \$446,708                                     | <b>\$501,580</b>             | <b>\$2,257,111</b>                    | <b>\$7,589,120</b>             |                         |                           | <b>\$29,877,423</b>                   | \$81,500,000        | <b>\$41,776,347</b>                           |   |   | <b>\$63,708,929</b>                                |
| 22   | \$3,524,192                | \$2,513,206                                   | \$446,708                                     |                              | \$62,698                              |                                | \$51,403,122            | \$5,140,312               |                                       |                     |   | <b>\$501,580</b>                                | \$2,683,866                                     | \$60,523,482                                       |
| 23   | \$3,586,889                | \$2,513,206                                   | \$446,708                                     |                              | \$180,267                             |                                | \$53,618,001            | \$5,361,800               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$57,338,036                                       |
| 24   | \$3,649,587                | \$2,513,206                                   | \$446,708                                     |                              | \$242,965                             |                                | \$55,832,879            | \$5,583,288               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$54,152,590                                       |
| 25   | \$3,712,284                | \$2,513,206                                   | \$446,708                                     |                              | \$305,662                             |                                | \$58,047,758            | \$5,804,776               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$50,967,143                                       |
| 26   | \$3,774,982                | \$0   | \$446,708                                     |                              | \$2,881,566                           |                                | \$60,262,636            | \$6,026,264               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$47,781,697                                       |
| 27   | \$3,837,679                | \$0   | \$446,708                                     |                              | \$2,944,264                           |                                | \$62,477,514            | \$6,247,751               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$44,596,250                                       |
| 28   | \$3,900,377                | \$0   | \$446,708                                     |                              | \$3,006,961                           |                                | \$64,692,393            | \$6,469,239               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$41,410,804                                       |
| 29   | \$3,963,074                | \$0   | \$446,708                                     |                              | \$3,069,659                           |                                | \$66,907,271            | \$6,690,727               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$38,225,357                                       |
| 30   | \$4,025,772                | \$0   | \$446,708                                     |                              | \$3,132,356                           |                                | \$69,122,150            | \$6,912,215               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$35,039,911                                       |
| 31   | \$4,025,772                | \$0   | \$446,708                                     |                              | \$3,132,356                           |                                | \$69,122,150            | \$6,912,215               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$31,854,464                                       |
| 32   | \$4,025,772                | \$0   | \$446,708                                     |                              | \$3,132,356                           |                                | \$69,122,150            | \$6,912,215               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$28,669,018                                       |
| 33   | \$4,025,772                | \$0   | \$446,708                                     |                              | \$3,132,356                           |                                | \$69,122,150            | \$6,912,215               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$25,483,572                                       |
| 34   | \$4,025,772                | \$0   | \$0   |                              | \$3,579,064                           |                                | \$69,122,150            | \$6,912,215               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$22,298,125                                       |
| 35   | \$4,025,772                | \$0   | \$0   |                              | \$3,579,064                           |                                | \$69,122,150            | \$6,912,215               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$19,112,679                                       |
| 36   | \$4,025,772                | \$0   | \$0   |                              | \$3,579,064                           |                                | \$69,122,150            | \$6,912,215               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$15,927,232                                       |
| 37   | \$4,025,772                | \$0   | \$0   |                              | \$3,579,064                           |                                | \$69,122,150            | \$6,912,215               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$12,741,786                                       |
| 38   | \$4,025,772                | \$0   | \$0   |                              | \$3,579,064                           |                                | \$69,122,150            | \$6,912,215               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$9,556,339  |
| 39   | \$4,025,772                | \$0   | \$0   |                              | \$3,579,064                           |                                | \$69,122,150            | \$6,912,215               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$6,370,893  |
| 40   | \$4,025,772                | \$0   | \$0   |                              | \$3,579,064                           |                                | \$69,122,150            | \$6,912,215               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$3,185,446  |
| 41   | \$4,025,772                | \$0   | \$0   |                              | \$3,579,064                           |                                | \$69,122,150            | \$6,912,215               |                                       |                     |   | \$501,580                                       | \$2,683,866                                     | \$0  |

Table 16 shows that Stage 3 bonds are largely financed by the public sector. In fact, the private sector would pay only \$10,031,603 in Stage 3 compared to the public sector's \$53,677,326. However, by continuing to assess the special assessment on commercial uses, much of the public sector's Stage 3 obligations (not including the accumulated excess tax increment) could be repaid.

Assuming, as this analysis does, that private development continues in Stage 3, at the end of the repayment period for the Stage 3 bonds, all of the public sector's Stage 3 bond payments would have been repaid through excess special assessments.

Even assuming (worst case scenario) that no new development occurs in Stage 3, excess accumulated revenues could repay the public sector for all but \$8,794,918 of the gap financing paid during the life of the Stage 3 bond. This is the case because the full repayment of Stage 1 and Stage 2 bonds will occur, freeing up all remaining special assessment revenues to be applied to repay the public sector for Stage 3 gap financing.

Table 18: Stage Three repayment of gap financing

| Year | Special Assessment Revenue | Special Assessment Dedicated to Stage 1 Bonds | Special Assessment Dedicated to Stage 2 Bonds | Amount Available for Stage 3 | Excess Accumulated Special Assessment | Portion of Stage 3 bond from special assessment | Portion of Stage 3 bond from captured increment | Remaining Balance Stage 3 Bonds @ 5% over 20 years | Repayment from Excess Accumulated Special Assessment | Total Stage 3 Public Sector Obligation |
|------|----------------------------|---|---|------------------------------|---------------------------------------|---|---|--|--|--|
| 21   | \$3,461,494                | \$2,513,206                                   | \$446,708                                     | <b>\$501,580</b>             | \$2,257,111                           |   |   | <b>\$63,708,929</b>                                |  | <b>\$53,677,326</b>                    |
| 22   | \$3,524,192                | \$2,513,206                                   | \$446,708                                     |                              | \$62,698                              | <b>\$501,580</b>                                | \$2,683,866                                     | \$60,523,482                                       | -\$62,698  | \$53,614,629                           |
| 23   | \$3,586,889                | \$2,513,206                                   | \$446,708                                     |                              | \$180,267                             | \$501,580                                       | \$2,683,866                                     | \$57,338,036                                       | -\$180,267   | \$53,434,361                           |
| 24   | \$3,649,587                | \$2,513,206                                   | \$446,708                                     |                              | \$242,965                             | \$501,580                                       | \$2,683,866                                     | \$54,152,590                                       | -\$242,965   | \$53,191,396                           |
| 25   | \$3,712,284                | \$2,513,206                                   | \$446,708                                     |                              | \$305,662                             | \$501,580                                       | \$2,683,866                                     | \$50,967,143                                       | -\$305,662   | \$52,885,734                           |
| 26   | \$3,774,982                | \$0   | \$446,708                                     |                              | \$2,881,566                           | \$501,580                                       | \$2,683,866                                     | \$47,781,697                                       | -\$2,881,566   | \$50,004,168                           |
| 27   | \$3,837,679                | \$0   | \$446,708                                     |                              | \$2,944,264                           | \$501,580                                       | \$2,683,866                                     | \$44,596,250                                       | -\$2,944,264   | \$47,059,904                           |
| 28   | \$3,900,377                | \$0   | \$446,708                                     |                              | \$3,006,961                           | \$501,580                                       | \$2,683,866                                     | \$41,410,804                                       | -\$3,006,961   | \$44,052,943                           |
| 29   | \$3,963,074                | \$0   | \$446,708                                     |                              | \$3,069,659                           | \$501,580                                       | \$2,683,866                                     | \$38,225,357                                       | -\$3,069,659   | \$40,983,284                           |
| 30   | \$4,025,772                | \$0   | \$446,708                                     |                              | \$3,132,356                           | \$501,580                                       | \$2,683,866                                     | \$35,039,911                                       | -\$3,132,356   | \$37,850,928                           |
| 31   | \$4,025,772                | \$0   | \$446,708                                     |                              | \$3,132,356                           | \$501,580                                       | \$2,683,866                                     | \$31,854,464                                       | -\$3,132,356   | \$34,718,572                           |
| 32   | \$4,025,772                | \$0   | \$446,708                                     |                              | \$3,132,356                           | \$501,580                                       | \$2,683,866                                     | \$28,669,018                                       | -\$3,132,356   | \$31,586,216                           |
| 33   | \$4,025,772                | \$0   | \$446,708                                     |                              | \$3,132,356                           | \$501,580                                       | \$2,683,866                                     | \$25,483,572                                       | -\$3,132,356   | \$28,453,860                           |
| 34   | \$4,025,772                | \$0   | \$0   |                              | \$3,579,064                           | \$501,580                                       | \$2,683,866                                     | \$22,298,125                                       | -\$3,579,064   | \$24,874,796                           |
| 35   | \$4,025,772                | \$0   | \$0   |                              | \$3,579,064                           | \$501,580                                       | \$2,683,866                                     | \$19,112,679                                       | -\$3,579,064   | \$21,295,732                           |
| 36   | \$4,025,772                | \$0   | \$0   |                              | \$3,579,064                           | \$501,580                                       | \$2,683,866                                     | \$15,927,232                                       | -\$3,579,064   | \$17,716,668                           |
| 37   | \$4,025,772                | \$0   | \$0   |                              | \$3,579,064                           | \$501,580                                       | \$2,683,866                                     | \$12,741,786                                       | -\$3,579,064   | \$14,137,604                           |
| 38   | \$4,025,772                | \$0   | \$0   |                              | \$3,579,064                           | \$501,580                                       | \$2,683,866                                     | \$9,556,339  | -\$3,579,064   | \$10,558,540                           |
| 39   | \$4,025,772                | \$0   | \$0   |                              | \$3,579,064                           | \$501,580                                       | \$2,683,866                                     | \$6,370,893  | -\$3,579,064   | \$6,979,476                            |
| 40   | \$4,025,772                | \$0   | \$0   |                              | \$3,579,064                           | \$501,580                                       | \$2,683,866                                     | \$3,185,446  | -\$3,579,064   | \$3,400,412                            |
| 41   | \$4,025,772                | \$0   | \$0   |                              | \$3,579,064                           | \$501,580                                       | \$2,683,866                                     | \$0  | -\$3,579,064   | <b>-\$178,652</b>                      |

Table 19: Stage Three repayment of gap financing, special assessment revenues frozen

| Year | Special Assessment Revenue | Special Assessment Dedicated to Stage 1 Bonds | Special Assessment Dedicated to Stage 2 Bonds | Amount Available for Stage 3 | Excess Accumulated Special Assessment | Portion of Stage 3 bond from special assessment | Portion of Stage 3 bond from captured increment | Remaining Balance Stage 3 Bonds @ 5% over 20 years | Repayment from Excess Accumulated Special Assessment | Total Stage 3 Public Sector Obligation |
|------|----------------------------|---|---|------------------------------|---------------------------------------|---|---|--|--|--|
| 21   | \$3,461,494                | \$2,513,206                                   | \$446,708                                     | <b>\$501,580</b>             | \$2,257,111                           |   |   | <b>\$63,708,929</b>                                |  | <b>\$53,677,326</b>                    |
| 22   | \$3,461,494                | \$2,513,206                                   | \$446,708                                     |                              | \$54,872                              | <b>\$501,580</b>                                | \$2,683,866                                     | \$60,523,482                                       | -\$54,872  | \$53,622,454                           |
| 23   | \$3,461,494                | \$2,513,206                                   | \$446,708                                     |                              | \$54,872                              | \$501,580                                       | \$2,683,866                                     | \$57,338,036                                       | -\$54,872  | \$53,567,582                           |
| 24   | \$3,461,494                | \$2,513,206                                   | \$446,708                                     |                              | \$54,872                              | \$501,580                                       | \$2,683,866                                     | \$54,152,590                                       | -\$54,872  | \$53,512,709                           |
| 25   | \$3,461,494                | \$2,513,206                                   | \$446,708                                     |                              | \$54,872                              | \$501,580                                       | \$2,683,866                                     | \$50,967,143                                       | -\$54,872  | \$53,457,837                           |
| 26   | \$3,461,494                | \$0   | \$446,708                                     |                              | \$2,568,079                           | \$501,580                                       | \$2,683,866                                     | \$47,781,697                                       | -\$2,568,079   | \$50,889,758                           |
| 27   | \$3,461,494                | \$0   | \$446,708                                     |                              | \$2,568,079                           | \$501,580                                       | \$2,683,866                                     | \$44,596,250                                       | -\$2,568,079   | \$48,321,680                           |
| 28   | \$3,461,494                | \$0   | \$446,708                                     |                              | \$2,568,079                           | \$501,580                                       | \$2,683,866                                     | \$41,410,804                                       | -\$2,568,079   | \$45,753,601                           |
| 29   | \$3,461,494                | \$0   | \$446,708                                     |                              | \$2,568,079                           | \$501,580                                       | \$2,683,866                                     | \$38,225,357                                       | -\$2,568,079   | \$43,185,523                           |
| 30   | \$3,461,494                | \$0   | \$446,708                                     |                              | \$2,568,079                           | \$501,580                                       | \$2,683,866                                     | \$35,039,911                                       | -\$2,568,079   | \$40,617,444                           |
| 31   | \$3,461,494                | \$0   | \$446,708                                     |                              | \$2,568,079                           | \$501,580                                       | \$2,683,866                                     | \$31,854,464                                       | -\$2,568,079   | \$38,049,365                           |
| 32   | \$3,461,494                | \$0   | \$446,708                                     |                              | \$2,568,079                           | \$501,580                                       | \$2,683,866                                     | \$28,669,018                                       | -\$2,568,079   | \$35,481,287                           |
| 33   | \$3,461,494                | \$0   | \$446,708                                     |                              | \$2,568,079                           | \$501,580                                       | \$2,683,866                                     | \$25,483,572                                       | -\$2,568,079   | \$32,913,208                           |
| 34   | \$3,461,494                | \$0   | \$0   |                              | \$3,014,786                           | \$501,580                                       | \$2,683,866                                     | \$22,298,125                                       | -\$3,014,786   | \$29,898,422                           |
| 35   | \$3,461,494                | \$0   | \$0   |                              | \$3,014,786                           | \$501,580                                       | \$2,683,866                                     | \$19,112,679                                       | -\$3,014,786   | \$26,883,636                           |
| 36   | \$3,461,494                | \$0   | \$0   |                              | \$3,014,786                           | \$501,580                                       | \$2,683,866                                     | \$15,927,232                                       | -\$3,014,786   | \$23,868,849                           |
| 37   | \$3,461,494                | \$0   | \$0   |                              | \$3,014,786                           | \$501,580                                       | \$2,683,866                                     | \$12,741,786                                       | -\$3,014,786   | \$20,854,063                           |
| 38   | \$3,461,494                | \$0   | \$0   |                              | \$3,014,786                           | \$501,580                                       | \$2,683,866                                     | \$9,556,339  | -\$3,014,786   | \$17,839,277                           |
| 39   | \$3,461,494                | \$0   | \$0   |                              | \$3,014,786                           | \$501,580                                       | \$2,683,866                                     | \$6,370,893  | -\$3,014,786   | \$14,824,490                           |
| 40   | \$3,461,494                | \$0   | \$0   |                              | \$3,014,786                           | \$501,580                                       | \$2,683,866                                     | \$3,185,446  | -\$3,014,786   | \$11,809,704                           |
| 41   | \$3,461,494                | \$0   | \$0   |                              | \$3,014,786                           | \$501,580                                       | \$2,683,866                                     | \$0  | -\$3,014,786   | <b>\$8,794,918</b>                     |

#### 4.7 ASSESSING THE PUBLIC AND PRIVATE OBLIGATIONS UNDER THE PROPOSED FINANCING MECHANISM

The total costs of each stage are dependent upon the District’s total infrastructure bill in the stage, and upon the availability of accumulated revenues to reduce the required borrowing.

Table 21: “District” infrastructure finance, by stage by source

| Infrastructure Financing, by Stage and by Source    |                     |                     |                      |                      |
|---|---------------------|---------------------|----------------------|----------------------|
|   | Stage 1             | Stage 2             | Stage 3              | Total                |
| Impact Tax  | \$0                 | \$7,589,120         | \$7,589,120          | <b>\$15,178,240</b>  |
| Accumulated 10% Special Assessment                  | \$11,427,169        | \$1,818,132         | \$2,257,111          |                      |
| Special Assessment for Bond Payment                 | \$50,264,124        | \$8,934,155         | \$10,031,603         |                      |
| Accumulated Special Assessment Repayment Adjustment | \$0                 | \$0                 | \$53,855,979         |                      |
| <b>Total Special Assessment</b>                     | <b>\$61,691,292</b> | <b>\$10,752,287</b> | <b>\$66,144,692</b>  | <b>\$138,588,271</b> |
| Accumulated 10% Tax Increment                       | \$4,249,614         | \$15,702,201        | \$29,877,423         |                      |
| Tax Increment for Bond Payment                      | \$8,178,783         | \$7,292,680         | \$53,677,326         |                      |
| Tax Increment Repayment Adjustment                  | \$0                 | \$0                 | -\$53,855,979        |                      |
| <b>Total Tax Increment</b>                          | <b>\$12,428,397</b> | <b>\$22,994,880</b> | <b>\$29,698,770</b>  | <b>\$65,122,048</b>  |
| <b>Total</b>  | <b>\$74,119,689</b> | <b>\$41,336,287</b> | <b>\$103,432,582</b> | <b>\$218,888,559</b> |

Including when interest and prepayment through accumulated revenues are both included, the total costs to the District are \$218,888,559. The financing mechanism described in the Sector Plan and analyzed in this memorandum would place most of the burden of the cost of “District” infrastructure on the private sector (via special assessments).



Figure 1: Proportional breakdown of district financing, by source

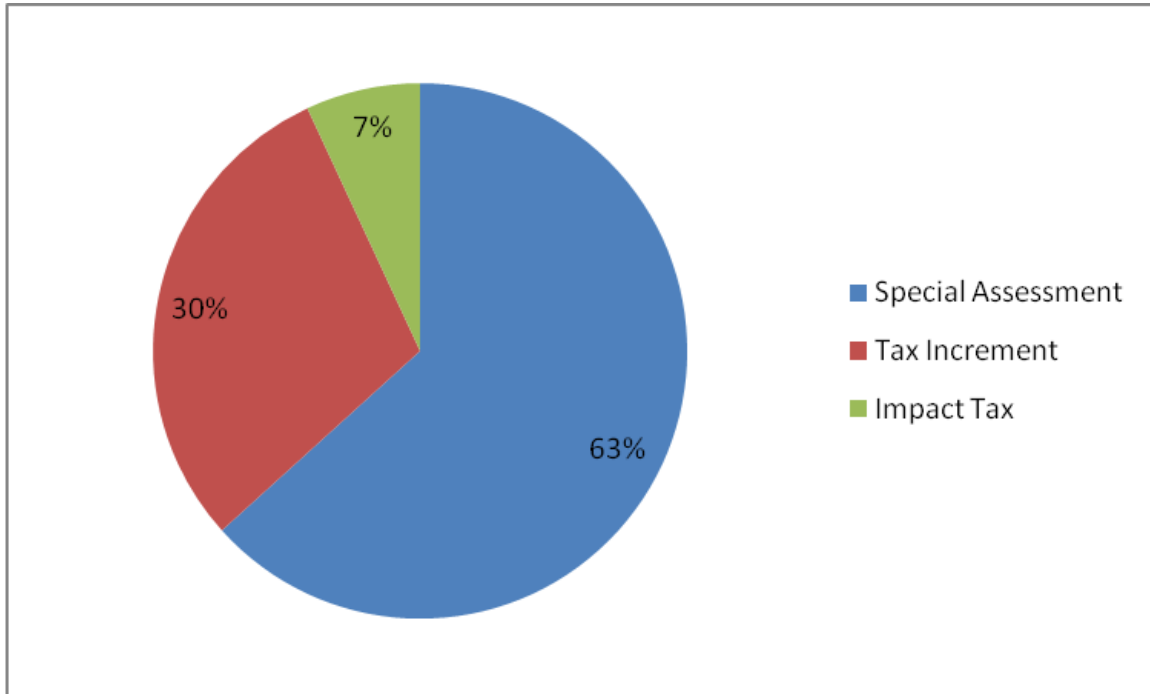
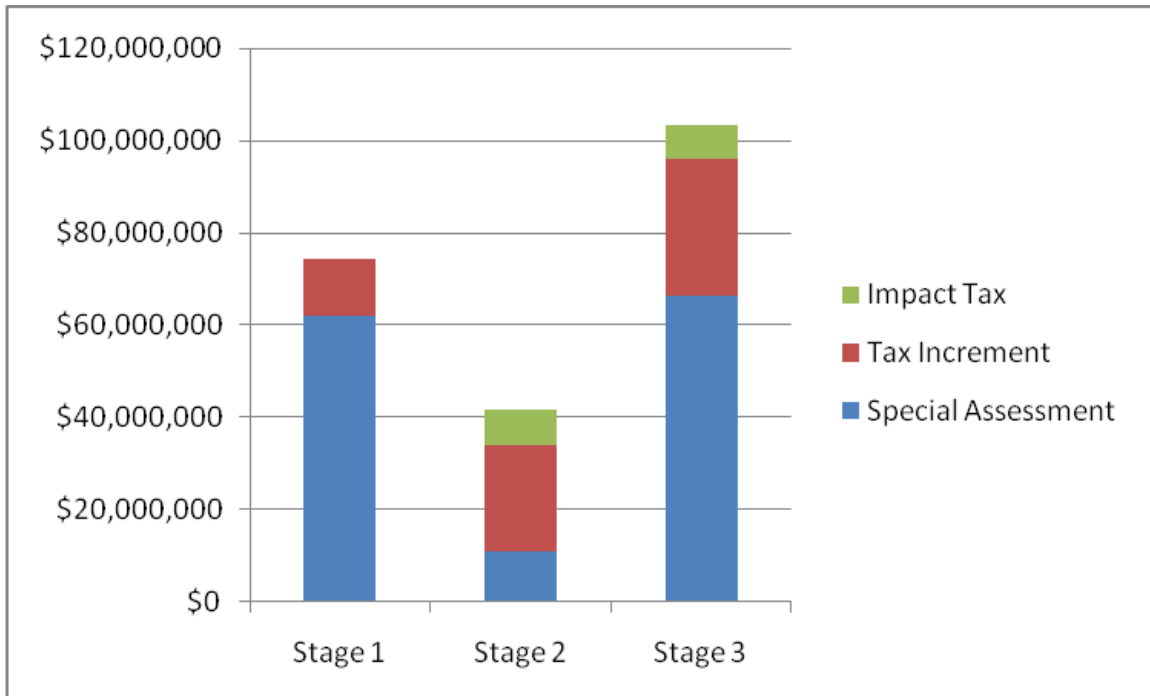


Figure 2: Financing by source and by stage



Public sector gap financing would play a relatively small role in the first stage of development, which is largely funded by the special assessments on existing and pipeline commercial development. In the second stage, the public sector could bear more than two-thirds of the total burden for “District” infrastructure. In the third stage, public sector gap financing would be critical; however, most of the public sector burden in the third stage could be repaid by excess “accumulated” special assessments generated in Stage 3 once the bonds for the first two stages have been retired.

The special assessment, including excess special assessment in Stage 3, covers 63% of the cost of “District” infrastructure, while captured tax increment covers only 30%. Captured residential impact taxes cover the remaining 7% of the District’s obligations.

Overall, the total public sector burden for gap financing (\$65,122,048) is roughly equal to the cost of the Rockville Pike improvements (without right-of-way acquisition costs), which is estimated to be roughly \$66 million. In essence, the effect of the financing mechanism is to take the financing gap created by the cost of the Rockville Pike improvements and spread that cost over all three stages of infrastructure development.

## 5.0 CONCLUSION

The proposed financing mechanism—as described generally in the Sector Plan and in greater detail in this memorandum—successfully pays for all district infrastructure projects if 10% of the total incremental General Fund revenues are captured by the District. Roughly two-thirds of the total cost of District infrastructure is borne by the private sector, with the remainder paid for by public sector gap financing.

The financing mechanism has three sources of revenue, each of which has unique characteristics.

- *Special assessment revenues* are most important in the first and last stage. In the first stage, the special assessments on existing and pipeline development allow the mechanism to pay for new infrastructure that could accelerate additional private development. In the last stage, the special assessment revenues could serve either to cover much of the cost of infrastructure or to repay the public sector for its contributions to the third stage of infrastructure projects. Because the special assessment draws revenue from existing uses it is also the most stable and reliable of the three.
- *Captured General Fund tax increment* is critical to the success of Stages 2 and 3. The tax increment is more dependent upon new development than is the special assessment revenue.
- *Captured residential impact taxes* reduce the risk in Stage 2 and Stage 3. This revenue is important because residential impact taxes in Stages 1 and 2 must occur in order for the staging mechanism to advance. While impact taxes are by far the smallest of the three sources of revenue, they do play an important role in that they reduce the amount of necessary borrowing.

Other potential structures of the financing mechanism may effectively achieve the objectives of the Sector Plan. Of those alternatives, the ones most likely to succeed will bear substantial similarity to the financing mechanism described in this memorandum.

## **APPENDIX A: TRANSPORTATION COSTS (EXCERPT)**

The White Flint Sector Plan proposes the establishment of the White Flint Redevelopment Implementation Authority, an innovative implementation program designed to accomplish two objectives:

- Ensure that the infrastructure required for the Plan is affordable and apportioned equitably among public and private stakeholders
- Manage infrastructure prioritization and delivery to avoid “lumpy” infrastructure delivery typical of the development review exaction process

Exhibit 7 summarizes the transportation infrastructure costs by Sector Plan stage and expected responsibility. The capital cost estimates reflect the following assumptions:

- State projects include the Montrose Parkway interchange and the extension of Montrose Parkway east to the CSX tracks (Phase II of the SHA project for Rockville Pike / Montrose Road interchange improvements). The \$20M estimated cost for the latter improvement is symbolic as there are no proposals to construct the roadway up to, but not across, the CSX tracks.
- Local projects include the portions of Nebel Street Extended (north of Randolph Road), Chapman Avenue, and Citadel Avenue already in the County’s implementation program.
- Private projects include those portions of the public street system described in Table 5 of the Public Hearing Draft Plan that are in control of individual property owners and would be required for internal site access and design (such as Mid Pike Plaza, North Bethesda Town Center, and White Flint Mall).
- District projects are those assumed to be the responsibility of the White Flint Redevelopment Implementation Authority, including the construction or reconstruction of:
  - Rockville Pike (\$66M),
  - Metrorail Station north entrance (\$25M)
  - MARC station and supporting access (\$13M)
  - Circulator shuttles (\$5M)
  - Local streets not required for site access and design (\$62M)
- Right-of-way costs are not included in the cost estimates. New streets in the network are located where redevelopment is expected to occur so that, in a typical development process, right-of-way dedication would generally be expected, with density calculated from the gross tract area prior to dedication. The White Flint Redevelopment Implementation Authority will have two options for addressing right-of-way acquisition:
  - establish an infrastructure delivery process by which right-of-way is acquired from its members without fee simple acquisition at a cost to the public sector, or
  - revision of financing schema to include right-of-way acquisition costs.
- Roadway capital costs are based on the following unit costs:

- \$50M per mile for Rockville Pike reconstruction based on cost estimates for similar portions of New York Avenue in Washington DC and US 1 in College Park, MD.
- \$25M per mile for local roadway construction, based on the County’s four-lane Nebel Street Extended project (CIP project 500401) at \$26M per mile and two-lane Citadel Avenue (CIP project 500310) at \$24M per mile

| Transportation Infrastructure Costs, by mode and by stage, (\$millions) |       |       |       |       |         |       |           |           |
|---|-------|-------|-------|-------|---------|-------|-----------|-----------|
|   | State |       | Local |       | Private |       | District  | TOTAL     |
| <b>Public Transit Elements</b>  |       |       |       |       |         |       |           |           |
| Stage One   | \$    | -     | \$    | -     | \$      | -     | \$ 26.50  | \$ 26.50  |
| Stage Two   | \$    | -     | \$    | -     | \$      | -     | \$ 3.00   | \$ 3.00   |
| Stage Three   | \$    | -     | \$    | -     | \$      | -     | \$ 13.00  | \$ 13.00  |
| TOTAL   | \$    | -     | \$    | -     | \$      | -     | \$ 42.50  | \$ 42.50  |
| <b>Streets and Bikeways</b>   |       |       |       |       |         |       |           |           |
| Stage One   | \$    | 47.20 | \$    | 20.10 | \$      | 7.50  | \$ 27.50  | \$ 102.30 |
| Stage Two   | \$    | 20.00 | \$    | -     | \$      | 43.75 | \$ 32.75  | \$ 96.50  |
| Stage Three   | \$    | -     | \$    | -     | \$      | 9.25  | \$ 68.50  | \$ 77.75  |
| TOTAL   | \$    | 67.20 | \$    | 20.10 | \$      | 60.50 | \$ 128.75 | \$ 276.55 |
| <b>Total Transportation Network Elements</b>                            |       |       |       |       |         |       |           |           |
| Stage One   | \$    | 47.20 | \$    | 20.10 | \$      | 7.50  | \$ 54.00  | \$ 128.80 |
| Stage Two   | \$    | 20.00 | \$    | -     | \$      | 43.75 | \$ 35.75  | \$ 99.50  |
| Stage Three   | \$    | -     | \$    | -     | \$      | 9.25  | \$ 81.50  | \$ 90.75  |
| TOTAL   | \$    | 67.20 | \$    | 20.10 | \$      | 60.50 | \$ 171.25 | \$ 319.05 |

**APPENDIX B: ANALYSIS OF SELECTED ALTERNATIVES**

**Alternative 1: No impact taxes captured by District**

In this alternative, transportation impact taxes generated by new development within the Sector Plan are not captured and applied to District infrastructure projects. This revenue would instead be available to fund public sector improvements under the rules established in the most recent Growth Policy. However, by removing these revenues from the District, the financing gap for the District is increased. That would result in higher public sector gap financing obligations, increased costs to the private sector, or delays moving through the staging plan.

*Table B1: Infrastructure financing, by stage and by source, for Alternative 1*

| Infrastructure Financing, by Stage and by Source    |                     |                     |                      |                      |
|---|---------------------|---------------------|----------------------|----------------------|
|   | Stage 1             | Stage 2             | Stage 3              | Total                |
| Impact Tax  | \$0                 | \$0                 | \$0                  | <b>\$0</b>           |
| Accumulated 10% Special Assessment                  | \$11,427,169        | \$1,818,132         | \$2,257,111          |                      |
| Special Assessment for Bond Payment                 | \$50,264,124        | \$8,934,155         | \$10,031,603         |                      |
| Accumulated Special Assessment Repayment Adjustment | \$0                 | \$0                 | \$53,855,979         |                      |
| <b>Total Special Assessment</b>                     | <b>\$61,691,292</b> | <b>\$10,752,287</b> | <b>\$66,144,692</b>  | <b>\$138,588,271</b> |
| Accumulated 10% Tax Increment                       | \$4,249,614         | \$15,702,201        | \$29,877,423         |                      |
| Tax Increment for Bond Payment                      | \$8,178,783         | \$18,866,088        | \$65,250,734         |                      |
| Tax Increment Repayment Adjustment                  | \$0                 | \$0                 | -\$53,855,979        |                      |
| <b>Total Tax Increment</b>                          | <b>\$12,428,397</b> | <b>\$34,568,288</b> | <b>\$41,272,178</b>  | <b>\$88,268,864</b>  |
| <b>Total</b>  | <b>\$74,119,689</b> | <b>\$45,320,575</b> | <b>\$107,416,870</b> | <b>\$226,857,135</b> |

*Table B2: Stage 1 comparison of proposed financing mechanism to Alternative 1*

| Revenue Source                     | Stage 1      |               |
|------------------------------------|--------------|---------------|
|                                    | Proposed     | Alternative 1 |
| Impact Tax Revenue                 | \$0          | \$0           |
| Special Tax/Assessment Revenue     | \$61,691,292 | \$61,691,292  |
| Tax Increment Applied to Cover Gap | \$12,428,397 | \$12,428,397  |
| Total                              | \$74,119,689 | \$74,119,689  |

*Table B3: Stage 2 comparison of proposed financing mechanism to Alternative 1*

| Revenue Source                     | Stage 2      |               |
|------------------------------------|--------------|---------------|
|                                    | Proposed     | Alternative 1 |
| Impact Tax Revenue                 | \$7,589,120  | \$0           |
| Special Tax/Assessment Revenue     | \$10,752,287 | \$10,752,287  |
| Tax Increment Applied to Cover Gap | \$22,994,880 | \$34,568,288  |
| Total                              | \$41,336,287 | \$45,320,575  |

In this instance, the District loses revenue (\$7,589,120) from the residential impact tax equivalent. That money is not necessarily gained by the public sector, due to crediting allowed under the current system. The lost revenue translates into an increase in the financing gap from \$23 million to \$34.6 million. If that gap is to be filled by the public sector, it could end up being less costly to allow the District to capture the impact tax revenues (though all figures here are in 2008\$).

*Table B4: Stage 3 comparison of proposed financing mechanism to Alternative 1*

| Revenue Source                     | Stage 3       |               |
|------------------------------------|---------------|---------------|
|                                    | Proposed      | Alternative 1 |
| Impact Tax Revenue                 | \$7,589,120   | \$0           |
| Special Tax/Assessment Revenue     | \$66,144,692  | \$66,144,692  |
| Tax Increment Applied to Cover Gap | \$29,698,770  | \$41,272,178  |
| Total                              | \$103,432,582 | \$107,416,870 |

Again, the loss of revenue from the residential impact tax equivalent payment increases the financing gap, and thus potentially increases the cost to the public sector.

*Table B5: Total (all stages) comparison of proposed financing mechanism to Alternative 1*

| Revenue Source                     | Total         |               |
|------------------------------------|---------------|---------------|
|                                    | Proposed      | Alternative 1 |
| Impact Tax Revenue                 | \$15,178,240  | \$0           |
| Special Tax/Assessment Revenue     | \$138,588,271 | \$138,588,271 |
| Tax Increment Applied to Cover Gap | \$65,122,048  | \$88,268,864  |
| Total                              | \$218,888,559 | \$226,857,135 |

Alternative 1 results in an increase in the size of the financing gap from \$65.1 million to \$88.3 million, as well as an increase in the overall cost of District infrastructure.

Additional variations on this alternative include replacing the District’s revenue from residential impact taxes with other private money, either through the exaction process or through a higher special tax/assessment on commercial uses.



**Alternative 2: Reduce special tax/assessment from 10% to 5%**

**Alternative 2a: Difference made up by capturing commercial transportation impact taxes**

In this alternative, it is assumed that all new and existing commercial uses pay a special tax/assessment of 5% above their ad valorem real property tax bill. It is further assumed that new commercial development makes a payment to the District that is equivalent to the current transportation impact tax rates for commercial development in a metro station policy area. The revenues from commercial impact taxes were calculated by deriving a weighted average rate for commercial development by use. The total impact tax at build-out was spread evenly over 25 years.

*Table B6: Infrastructure financing, by stage and by source, for Alternative 2a*

| Infrastructure Financing, by Stage and by Source    |                     |                     |                     |                      |
|---|---------------------|---------------------|---------------------|----------------------|
|   | Stage 1             | Stage 2             | Stage 3             | Total                |
| Impact Tax  | \$0                 | \$15,360,410        | \$15,360,410        | <b>\$30,720,820</b>  |
| Accumulated 5% Special Assessment                   | \$5,713,584         | \$909,066           | \$1,128,555         |                      |
| Special Assessment for Bond Payment                 | \$25,132,062        | \$4,467,078         | \$5,015,801         |                      |
| Accumulated Special Assessment Repayment Adjustment | \$0                 | \$0                 | \$26,927,989        |                      |
| <b>Total Special Assessment</b>                     | <b>\$30,845,646</b> | <b>\$5,376,143</b>  | <b>\$33,072,346</b> | <b>\$69,294,136</b>  |
| Accumulated 15% Tax Increment                       | \$6,374,421         | \$12,947,079        | \$34,209,912        |                      |
| Tax Increment for Bond Payment                      | \$38,783,730        | \$5,496,426         | \$41,955,912        |                      |
| Tax Increment Repayment Adjustment                  | \$0                 | \$0                 | -\$26,927,989       |                      |
| <b>Total Tax Increment</b>                          | <b>\$45,158,151</b> | <b>\$18,443,505</b> | <b>\$49,237,834</b> | <b>\$112,839,491</b> |
| <b>Total</b>  | <b>\$76,003,797</b> | <b>\$39,180,059</b> | <b>\$97,670,590</b> | <b>\$212,854,446</b> |

This alternative results in a significant shift away from private financing of District infrastructure. If the increased gap is to be met by the public sector, the required public sector financing will be significantly higher than under the proposed financing mechanism.

*Table B7: Stage 1 comparison of proposed financing mechanism to Alternative 2a*

| Revenue Source                     | Stage 1      |                |
|------------------------------------|--------------|----------------|
|                                    | Proposed     | Alternative 2a |
| Impact Tax Revenue                 | \$0          | \$0            |
| Special Tax/Assessment Revenue     | \$61,691,292 | \$30,845,646   |
| Tax Increment Applied to Cover Gap | \$12,428,397 | \$45,158,151   |
| Total                              | \$74,119,689 | \$76,003,797   |

In Stage 1, Alternative 2a reduces the revenues from the special tax/assessment from \$61.7 million to \$30.8 million. The financing gap increases substantially, and the required portion of the general fund increment increases from 10% to 15%. The financing gap increases from \$12.4 million to \$45.2 million.

*Table B8: Stage 2 comparison of proposed financing mechanism to Alternative 2a*

| Revenue Source                     | Stage 2      |                |
|------------------------------------|--------------|----------------|
|                                    | Proposed     | Alternative 2a |
| Impact Tax Revenue                 | \$7,592,359  | \$15,360,410   |
| Special Tax/Assessment Revenue     | \$10,752,287 | \$5,376,143    |
| Tax Increment Applied to Cover Gap | \$22,994,880 | \$18,443,505   |
| Total                              | \$41,339,527 | \$39,180,059   |

In Stage 2, Alternative 2a performs similarly to the proposed financing mechanism. Commercial impact taxes paid by Stage 1 commercial development adds to the residential impact taxes, and together those impact taxes are applied to reduce the required borrowing for Stage 2 infrastructure. Revenues from the special tax/assessment on new and existing commercial uses drops, however the total commercial burden actually increases in this variation.

*Table B9: Stage 3 comparison of proposed financing mechanism to Alternative 2a*

| Revenue Source                     | Stage 3       |                |
|------------------------------------|---------------|----------------|
|                                    | Proposed      | Alternative 2a |
| Impact Tax Revenue                 | \$7,592,359   | \$15,360,410   |
| Special Tax/Assessment Revenue     | \$66,144,692  | \$33,072,346   |
| Tax Increment Applied to Cover Gap | \$29,698,770  | \$49,237,834   |
| Total                              | \$103,435,821 | \$97,670,590   |

Alternative 2a results in a significant shift from private to public financing for Stage 3 infrastructure. The gap is increased from \$29.7 million to \$49.2 million.

*Table B10: Total (all stages) comparison of proposed financing mechanism to Alternative 2a*

| Revenue Source                     | Total                |                      |
|------------------------------------|----------------------|----------------------|
|                                    | Proposed             | Variation 2a         |
| Impact Tax Revenue                 | \$15,184,718         | \$30,720,820         |
| Special Tax/Assessment Revenue     | \$138,588,271        | \$69,294,136         |
| Tax Increment Applied to Cover Gap | \$65,122,048         | \$112,839,491        |
| <b>Total</b>                       | <b>\$218,895,037</b> | <b>\$212,854,446</b> |

Though Alternative 2a results in a small decrease in the overall cost (because the accumulation of 15% of the general fund tax increment reduces borrowing), the total public sector burden increases from \$65.1 to \$112.8 million. Capturing commercial impact taxes and cutting in half the special tax/assessment results in a substantially greater financing gap.

Alternative 2b: Difference made up by increased public sector gap financing

As in the previous alternative, 2b requires that 15% of the general fund increment is captured in order to cover the Stage 1 bonds, and the special tax/assessment has been reduced from 10% to 5% above the ad valorem real property tax for all new and existing commercial uses. Unlike the previous variation, the District does not charge and capture transportation impact tax equivalent payments to new commercial development.

*Table B11: Infrastructure financing, by stage and by source, for Alternative 2b*

| Infrastructure Financing, by Stage and by Source    |                     |                     |                      |                      |
|---|---------------------|---------------------|----------------------|----------------------|
|   | Stage 1             | Stage 2             | Stage 3              | Total                |
| Impact Tax  | \$0                 | \$7,589,120         | \$7,589,120          | <b>\$15,178,240</b>  |
| Accumulated 5% Special Assessment                   | \$5,713,584         | \$909,066           | \$1,128,555          |                      |
| Special Assessment for Bond Payment                 | \$25,132,062        | \$4,467,078         | \$5,015,801          |                      |
| Accumulated Special Assessment Repayment Adjustment | \$0                 | \$0                 | \$26,927,989         |                      |
| <b>Total Special Assessment</b>                     | <b>\$30,845,646</b> | <b>\$5,376,143</b>  | <b>\$33,072,346</b>  | <b>\$69,294,136</b>  |
| Accumulated 15% Tax Increment                       | \$6,374,421         | \$12,947,079        | \$34,209,912         |                      |
| Tax Increment for Bond Payment                      | \$38,783,730        | \$17,347,643        | \$53,807,129         |                      |
| Tax Increment Repayment Adjustment                  | \$0                 | \$0                 | -\$26,927,989        |                      |
| <b>Total Tax Increment</b>                          | <b>\$45,158,151</b> | <b>\$30,294,722</b> | <b>\$61,089,051</b>  | <b>\$136,541,925</b> |
| <b>Total</b>  | <b>\$76,003,797</b> | <b>\$43,259,986</b> | <b>\$101,750,517</b> | <b>\$221,014,300</b> |

Reducing the special tax/assessment without any increases in revenue from other sources obviously results in a substantial shift away from private sector financing.

*Table B12: Stage 1 comparison of proposed financing mechanism to Alternative 2b*

| Revenue Source                     | Stage 1      |                |
|------------------------------------|--------------|----------------|
|                                    | Proposed     | Alternative 2b |
| Impact Tax Revenue                 | \$0          | \$0            |
| Special Tax/Assessment Revenue     | \$61,691,292 | \$30,845,646   |
| Tax Increment Applied to Cover Gap | \$12,428,397 | \$45,158,151   |
| Total                              | \$74,119,689 | \$76,003,797   |

As in Alternative 2a, the increased financing gap requires an increase in the portion of incremental general fund revenues captured by the District from 10% to 15%. This is necessary because a reduced special tax/assessment and 10% of the increment are not sufficient to cover the bond payments on Stage 1 infrastructure.

*Table B13: Stage 2 comparison of proposed financing mechanism to Alternative 2b*

| Revenue Source                     | Stage 2      |                |
|------------------------------------|--------------|----------------|
|                                    | Proposed     | Alternative 2b |
| Impact Tax Revenue                 | \$7,589,120  | \$7,589,120    |
| Special Tax/Assessment Revenue     | \$10,752,287 | \$5,376,143    |
| Tax Increment Applied to Cover Gap | \$22,994,880 | \$30,294,722   |
| Total                              | \$41,336,287 | \$43,259,986   |

The reduction in special tax/assessment rates results in an increase in the financing gap from \$23 million to \$30.3 million.

*Table B14: Stage 3 comparison of proposed financing mechanism to Alternative 2b*

| Revenue Source                     | Stage 3       |                |
|------------------------------------|---------------|----------------|
|                                    | Proposed      | Alternative 2b |
| Impact Tax Revenue                 | \$7,589,120   | \$7,589,120    |
| Special Tax/Assessment Revenue     | \$66,144,692  | \$33,072,346   |
| Tax Increment Applied to Cover Gap | \$29,698,770  | \$61,089,051   |
| Total                              | \$103,432,582 | \$101,750,517  |

The financing gap in Stage 3 increases from \$29.7 million to \$61.1 million.

*Table B15: Total (all stages) comparison of proposed financing mechanism to Alternative 2b*

| Revenue Source                     | Total                |                      |
|------------------------------------|----------------------|----------------------|
|                                    | Proposed             | Alternative 2b       |
| Impact Tax Revenue                 | \$15,178,240         | \$15,178,240         |
| Special Tax/Assessment Revenue     | \$138,588,271        | \$69,294,136         |
| Tax Increment Applied to Cover Gap | \$65,122,048         | \$136,541,925        |
| <b>Total</b>                       | <b>\$218,888,559</b> | <b>\$221,014,300</b> |

Overall, reducing the special tax/assessment rate from 10% to 5% above the overall ad valorem real property taxes results in a doubling of the financing gap for District infrastructure (from \$65.1 million to \$136.5 million).