URBAN VILLAGE INFRASTRUCTURE FINANCING: CHALLENGES & STRATEGIES

Presentation by:
Economic & Planning Systems
UP Urban

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WHY ARE URBAN VILLAGES IMPORTANT TO SAN JOSE?

- **Enhance Quality of Life**
  - More housing options
  - More urban services and amenities
  - Revitalize languishing areas

- **Enhance Fiscal Position**
  - Net fiscal benefit: Intensified development value with marginal increase to public services and facilities

- **Address Climate and Sustainability Goals**
  - Increased transit, bike and pedestrian viability
  - Decreased GHG emissions
  - Preserve open space
WHY ARE URBAN VILLAGES CHALLENGING?

• **High threshold for redeveloping existing uses/buildings**
  • Residual Land Value generated by new project must be greater than the capitalized value of the existing use

• **Higher density = Higher construction costs**
  • Construction type
  • Parking
  • Mixed-use may not enhance value
WHY ARE URBAN VILLAGES CHALLENGING?

• **Market Challenges**
  - Infill is often targeted to “under-performing” areas
  - Higher-density, mixed-use products may have finite appeal in conventionally suburban areas

• **Infrastructure Costs Can Be Higher than in Greenfield Areas**
  - Retrofitting while maintaining services
  - Higher cost of property acquisition
  - Can elicit high demands from local residents/expensive and risky entitlements
Where does the money for infrastructure come from?

- **Landowners** – city can capture excess value from up-zoning so long as residual value is greater than the existing use
- **Developers** – can absorb costs so long as risk-based returns are sufficient to attract equity investors
- **Occupants** – may absorb higher prices and/or fees so long as rents or sales prices are competitive & affordable
- **Utilities/Ratepayers** – may use revenues for capital and/or services
- **City** – may use general revenues for capital and/or services
- **Regional/State/Federal** – grant and loan programs
• No “magic bullets” or free money, just different ways to spread costs over time, space & ownership

• Directly & Immediately: Upfront Costs
  • Impact Fees, Exactions & Development Agreements
  • “Public Development Rights” – sellable dev. Rights

• Directly Over Time: Amortized Payments
  • BIDs
  • CFDs
  • Transfer Taxes/Benefit Covenants
  • Utility Revenue Bonds
• Indirectly Over Time: Future Value Capture
  • Infrastructure Financing Districts (IFD Bonds)
  • Certificates of Participation (COPs Bonds)

• Outside Sources (aka, “Free Money”):
  • Low-Interest Loans – SCIP, Infrastructure Bank, etc, subject to reimbursement
  • Grants – private, regional, state or federal
INFILL INFRASTRUCTURE
FINANCING CHALLENGES

• **Multiple parcels and owners**
  • Makes agreements unwieldy
  • Difficult to coordinate collectively beneficial investments
• **Over-sized infrastructure & fairness in reimbursement**
  • Difficult to increase capacity project-by-project
• **Existing deficiencies vs. growth-related impacts**
  • Must separate to allocate appropriately
• **Hidden Benefits vs. Amenity Creation**

Developers may not realize rent or price premiums if the benefits of their fees/assessments are “invisible”
WEST SAN CARLOS CASE STUDY

• **Current Draft Plan:**
  - 1,245 multifamily units & 295,000 SF commercial

• **Many Typical Challenges for Infill Areas**
  - Multiple parcels and owners
  - Few truly vacant parcels
  - Significant infrastructure upgrades required

• **Costs Greatly Exceed Supportable Levels**
  - Estimated public infrastructure costs > $100K/unit
  - Unit values estimated at $375K/unit
  - Commercial assumed to not support much infrastructure costs for policy and feasibility reasons
WEST SAN CARLOS CASE STUDY

WSC Estimated Infrastructure Costs

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
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<tbody>
<tr>
<td>Storm</td>
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<tr>
<td>Sewer</td>
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<tr>
<td>Roads</td>
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<td>Streetscape</td>
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<td>Parks (Quimby)</td>
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<td>Parks (Deficient)</td>
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<td>Public Art</td>
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<td><strong>Total</strong></td>
<td><strong>$124,738,175</strong></td>
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</tbody>
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Housing Units: 1,245

Cost/Unit: $100,191

*Not Included:*
- Affordable Housing
- Schools
- Others?
POTENTIAL FINANCING STRATEGY

1. Reassess “true” infrastructure needs/costs
   - Re-examine “existing deficiencies” in budget
   - Minimize over-sizing in early phases (explore “in-time” infrastructure deployment)
   - Prioritize WSC projects in Citywide spending plan

2. Prepare Fiscal Impact Analysis to confirm net revenues

3. Implement public outreach campaign to educate public & landowners on possible financing strategies for costs
3. Identify sources that do not impact developer costs or landowner values
   - City CIP funds
   - Infrastructure Bank loans repaid by IFD proceeds?
   - COP Bonds?
   - Regional IGS funds and other grants
   - Transfer Taxes/Benefit Covenants?

4. Allocate remainder of costs to development up to feasible levels
   - Enforce current impact fees: ~$20K/unit for rentals & ~$27K/unit for condos
   - Typically not more than 10% of unit value, or ~$40K
5. Propose area-specific financing mechanisms to fund this portion of costs
   • Area Impact Fees
   • CFDs
   • CBDs/BIDs
   • Transfer Taxes/Benefit Covenants
   • Public Development Rights

6. Educate and advocate for financing strategy
   • Need property owner agreement for most of the financing mechanisms cited above