Van de Water, Adam (ECN)

From:	Allersma, Michelle (CON)
Sent:	Tuesday, November 03, 2015 9:15 AM
To:	Bohee, Tiffany (CII); Oerth, Sally (CII)
Cc:	Jamie Whitaker (jamiewhitaker@gmail.com); Sesay, Nadia (CON); Van de Water, Adam (ECN); Rosenfield, Ben (CON)
Subject:	tax increment and bonding effects of reduced development density

Good morning, Ms. Bohee,

Below are some observations on the October 13, 2015 letter sent to Strada Investment Group's Clarke Miller from Mission Bay Development Group's (MBDG) Managing Principal Seth Hamalian regarding the estimated impacts on the property tax base and bonding capacity of the reduced density alternative to the proposed Golden State Warriors Event Center and Mixed-Use Development.

Taxable Value Assumptions
The taxable value of a new structure is generally driven by the costs of construction. The letter's construction cost assumptions for office space and retail of $500 per square foot may be reasonable based upon information our office has received from real estate industry professionals. Construction costs of $60,000 per parking stall within the Mission Bay South Redevelopment Project may also be reasonable. We do note these assumed construction costs are higher than those assumed in the September 25, 2015 Fiscal Impact Analysis prepared by Economic and Planning Systems, Inc. (EPS) and peer reviewed by Keyser Marsten Associates, which estimated assessable values of $580 per square foot for office, $368 per square foot for retail, and $45,000 per stall for parking, inclusive of the $180.6 million taxable value of the land (FY 2014-15). Given the volatility of construction costs, they may be higher or lower than estimated either by EPS or MBDG at the time of actual construction, thereby increasing or decreasing tax increment and related bonding capacity.

Tax Increment and Allocations Assumptions
The estimated allocations of the 1% property tax increment for pass-throughs to affected taxing entities of 25.95%, affordable housing funding of 20%, and the tax pledge for Mission Bay infrastructure buildout at 54.05% are excellent approximations for years up until Tier III pass-throughs becoming effective, at which time additional AB1290 pass-through amounts will go to entities other than the City and County of San Francisco. Using MBDG's estimated construction costs, the reduced density alternative would reduce affordable housing tax increment by approximately $9.0 million over a 25 year period, and parks and infrastructure tax increment by $24.3 million, for a total of $33.3 million over the 25 year horizon.

Tax Increment Bonding Capacity Assumptions
Assuming a 25 year term at 6.5%, capitalized interest for one year and a reserve fund, a $33.3 million reduction in tax increment would result in a loss of approximately $15.3 million in gross bonding capacity, or approximately $12.2 million net of issuance and reserve costs. This $12.2 million includes approximately $3.3 million for affordable housing and $8.9 million for all other uses.

Please let me know if you have any questions,
Michelle Allersma