The Economics of Land Use

Final Report

North Lake Tahoe Town Centers—Economic Development Incentive Program and Implementation Plan

Prepared for:

Placer County

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Table of Contents

List of Tables

1. INTRODUCTION AND OVERVIEW

Introduction

Placer County has engaged Economic & Planning Systems, Inc. (EPS) to prepare this report as a follow up to the EPS Economic Development Incentives for North Lake Tahoe Town Centers report dated February 2015 (EPS Report). This report outlines a proposed economic incentive program (Incentive Program) designed to encourage private investment in the North Lake Tahoe Town Centers of Kings Beach and Tahoe City, which will also result in attainment of desired environmental goals.

The EPS Report identified several key reasons for a lack of investment and redevelopment in Placer County's North Lake Tahoe Town Centers, including extraordinarily high development costs, uncertain timeframes for project approval, and the overlay of a unique development commodities system set in place by the Tahoe Regional Planning Agency in order to achieve important environmental protections. The elimination of redevelopment agencies by the State of California in 2011 has had a further negative impact on investment potential, as it also eliminated available public revenue streams to offset extraordinary costs characteristic of desired environmental redevelopment. To address these challenges, the County is taking a more proactive role in identifying and facilitating economic development opportunities. The former Placer County Redevelopment Agency had an active area boundary in North Lake Tahoe, which included Tahoe City and Kings Beach. This report proposes an economic incentive program designed to fill the vacuum left by the former Redevelopment Agency, to continue and achieve planned environmental redevelopment goals.

To further economic development initiatives and to implement the findings documented in the EPS Report, this report recommends that the County establish an economic incentive program comprising two components designed to facilitate reinvestment in North Lake Tahoe Town Centers:

1. The **Tourist Accommodation Units (TAU) Cost Offset** component will fund and acquire commodities required to develop overnight visitor accommodations, as well as establish a program to bank acquired TAUs and issue them to projects that meet established criteria.

2. The **Infrastructure Cost Offset** component will provide mechanisms to fund extraordinary infrastructure costs for an individual project or infrastructure improvements needed to encourage new development on a broader scale. The Infrastructure Cost Offset component Program also includes a Development Fee Deferral element that would allow eligible developers to defer fee payments until certificate of occupancy.

This report offers administration guidelines, as well as funding, implementation, and management strategies describing the manner in which County investment in this economic incentive program could be recouped and monitored. The report is intended to offer a roadmap for how the economic incentive program will be implemented, while maintaining sufficient flexibility for the County to adjust the components as necessary to meet the varying needs of individual Projects and respond to changing circumstances.[1]

Purpose and Need

Placer County is interested in establishing an economic incentive program to encourage Town Center redevelopment/development that achieves environmental goals outlined in the Tahoe Regional Planning Agency's 2012 Regional Plan Update (RPU). The County is currently in the process of updating its Area Plan, as required by the TRPA RPU, which together aim to achieve the goals and objectives for long term environmental and economic sustainability of North Lake Tahoe's Town Centers of Tahoe City and Kings Beach. In order to realize these goals and objectives, additional and redeveloped hospitality and commercial projects must be achieved. According to TRPA, approximately 72 percent of the sediment polluting Lake Tahoe originates from developed areas.[2] It is well documented by TRPA and numerous studies that environmentally sensitive redevelopment is the path to improve lake clarity, air quality, retain and create new jobs, increase full-time residency, encourage walkable and pedestrian friendly business downtowns, and beautify and strengthen the Town Centers and region.

The EPS Report outlined the primary impediments to private development in North Lake Tahoe's Town Centers of Tahoe City and Kings Beach. These impediments are all directly related to feasibility/cost factors:

1. **Regulatory and entitlement processes have too much uncertainty, take too long, and create an atmosphere of impractical business risk.** Disconnects and lack of process clarity between the County, TRPA, and other jurisdictional agencies has led to a protracted and "subjective" project approval process.

2. **Extraordinary costs of needed Tourist Accommodation Units negatively impact project feasibility.** TAUs are a commodity for hotel development in the Tahoe Basin that are in very short supply in the Placer County. In addition, they are hard to identify and/or access throughout the entire Basin, with essentially no open market for their exchange. The EPS Report identified 300-500 net new TAUs as an appropriate 20 year target for the Town Centers of Tahoe City and Kings Beach.

3. **High costs for parking and other required infrastructure renders projects financially infeasible in many cases.** Parking infrastructure in appropriate quantities and locations for significant accommodation and mixed-use projects is as much as twice the cost of similar projects outside the Basin. The EPS Report estimated the cost per space in the Tahoe Basin ranges from $30,000 to $70,000, depending on circumstances. Without identified funding sources, such as that of the former redevelopment agency, this issue persists as one of the most challenging impediments to Town Center redevelopment, and near term solutions are limited. The complexity of land coverage restraints (often set at a maximum of 30 percent), coupled with typically narrow and deep parcel, further exacerbate this issue.

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[1] It should be noted that participation in the proposed economic incentive program may trigger prevailing wage requirements.

[2] A summary of environmental sustainability goals is provided here: http://www.trpa.org/regional-plan/

4. **Development impact and other fees** add to the infrastructure cost burden for certain projects, and in some cases, drive them to locations outside the Basin.

Table 1 illustrates how the costs of TAU acquisition and infrastructure negatively impact the financial feasibility of a hypothetical development project in North Lake Tahoe.

Table 1
Summary of Preliminary Kings Beach Center Feasibility Analysis

	80 Room Condo-Hotel 21,000 SF Commercial 240 Spaces Structured Parking
Hotel Room Average Daily Rate	$195-$225
Hotel Occupancy	55%-65%
Condo Price/SF	$625-$675
Commercial Lease Rate (NNN)	$2.00/mo/SF
Overall Capitalization Rate	8.5%-10%
Parking Type	Structured
Cost per Parking Space	$35,000-$70,000
Vertical Development Cost/Square Foot [1]	$210-$250
Baseline Return (Cash on Cost)	< 0%
Return with Parking Structure Cost Offset	**7%-9%**
Return with TAU Cost Offset plus Parking Structure Cost Offset (if applicable)	**12%-15%**

feasibility

Source: EPS.

General Note: projects are proxies for planned projects, however, pro forma results are illustrative and not intended to reflect confidential details. It should be noted that permit costs are approximations, given uncertainty in calculations in lieu of substantial project detail.

[1] Vertical development cost reflects hard and soft costs (ranging from 20 to 27 percent). Excludes land, site work, commodities acquisition, developer fee, and contingency (ranging from 10 to 12 percent), which are accounted for in other cost items informing the pro forma analysis and resulting developer returns.

Without a strategic and targeted approach to alleviate the above issues, significant mixed-use redevelopment in the North Lake Tahoe Basin will likely remain infeasible and will ultimately lead to further decay of the Town Centers' economic vitality and ability to retain existing businesses and jobs, and further exacerbate deteriorating environmental conditions.

The County is taking actions to address the need to streamline regulatory and entitlement processes and is working closely with TRPA and the other jurisdictional agencies to ensure improved coordination. The County's goal for project entitlement and improvement plan approval, including TRPA and other agency approval, is 2 years. While this is a challenging goal in today's complex regulatory environment, the shorter timeline markedly increases liklihood of attracting investment. As the EPS Study confirmed, longer processes result in excessive cost and risk. In addition, the County recently hired a Lake Tahoe Special Projects Manager who will monitor and manage processes to help improve efficiencies and ultimately reduce entitlement processing time, thereby helping to reduce risk.

This report therefore focuses on establishing an economic incentive program to mitigate the other identified issues related to TAU acquisition and other extraordinary infrastructure costs.

Economic Incentive Program Goals and Benefits

A primary focus of the proposed economic development programs is increasing overnight visitor accomodations in the Town Centers, generating fewer environmental impacts and substantially increasing the long term sustainability of the Tahoe Basin. Overnight hotel/motel stays generate nearly twice the daily spending per visitor as the day visitor. While visitors staying in hotels, motels and B&B's make up only 28 percent of the total visitor days, they comprise 42 percent of all visitor spending.[3]

In both Kings Beach and Tahoe City, removal of blighted and outdated commercial properties in conjunction with increasing and improving lodging product to create more complete packages of integrated uses will also assist in developing significant town center hubs. For example, in Kings Beach there may be an opportunity to integrate assets such as the State Beach, the Event Center and the ongoing construction of a complete street concept on SR 28 with a well-conceived mixed-use development concept. A comprehensive initial mixed-use project could fill several obvious gaps including hotel, housing, retail, commercial/office, and community serving space.

The introduction of mixed-use projects designed with leading sustainability features can produce a number of environmental benefits. At the same time, such projects are very attractive to national and international tourists that are potential sources of increased travel spending and increased prosperity in the Basin. Benefits expected to result from these projects include, but are not limited to the following environmental and economic gains:

- Provide state-of-the-art storm water treatment, reducing sediment to the Lake.
- Enhance Town Center walkability and pedestrian friendly atmosphere.

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[3] According to the September 2013 report, "Economic Significance of Travel to the North Lake Tahoe Area," by Dean Runyan Associates.

- Improve overall regional air quality via higher use of alternate transit modes and less reliance on individual auto day trips and shifting travel behavior to encourage more place-based pedestrian activity and local recreational options.
- Provide new jobs for the residents and neighboring communities.
- Strengthen existing businesses as well as attract new ones by adding more accommodations and synergistic commercial uses to encourage longer stays and associated visitor expenditures.
- Improve general aesthetics and commercial core/Town Center appeal.

Example Projects

Two prospective projects are used for illustrative purposes, one in each Placer County Tahoe Basin Town Center:

- **Tahoe City Lodge**—a proposed 120 unit condo-hotel currently in the entitlement process.
- **Kings Beach Center**—a “conceptual” mixed-use project ranging from 80 to 110 accommodation units and from 30,000 to 50,000 square feet of commercial and community serving space.

Each of these prospective projects is included in the Proposed Area Plan Update documents. To the extent the County can incent one or two development projects like these, multiple benefits to the environment, economy and social fabric of the community are expected, and other projects will likely be encouraged to proceed. Specific project benefits are further detailed in **Chapter 2**.

Tahoe City Lodge

The Tahoe City Lodge project proposes to redevelop a blighted commercial complex into a 120-unit lodge that would include a mix of hotel rooms and one and two bedroom suites, conference facilities, activity center, roof-top swimming pool and hot tub, food and beverage facilities and parking. The project would operate as a “condo hotel,” meaning that the one and two bedroom suites would be sold to private individuals, but available for short-term overnight visitor accommodations.

Redevelopment of the former Henrikson site offers a unique opportunity to act as a catalyst for future infill, environmentally focused redevelopment in the Tahoe City Town Center. It is being analyzed as a stand-alone project as part of the Tahoe Basin Area Plan environmental document. This is undertaken to initiate opportunities to use the Tahoe City Golf Course property to meet communitywide goals related to recreation; sensitive land restoration; facilitating development of new lodging and other commercial redevelopment opportunities; and improved parking, traffic, and circulation; as well as to meet County goals to assist in reducing project development costs. This project demonstrates the need for readily accessible TAUs that do not increase project costs above that for similar projects in the region and the need to address the significant on-site parking requirements.

Tahoe City Lodge project objectives include:

- Continuing to achieve environmental thresholds as required in the TRPA Regional Plan.
- Eliminating blight in Tahoe City that negatively impacts scenic quality.
- Upgrading the Tahoe City western gateway.
- Developing new, high quality tourist accommodations and amenities.
- Providing new jobs, increased property and transient occupancy taxes, and visitation.
- Creating connections to pedestrian, bicycle, and multi-modal transportation networks.
- Building an energy-efficient, environmentally sensitive project using green building design.
- Connecting the site to recreation opportunities.
- Providing for opportunities to restore sensitive lands and improving water quality.

Kings Beach Center

The Kings Beach Center is a full square block of blighted commercial development fronting the highway and side streets. The property was acquired by Placer County from the former Redevelopment Agency. During public visioning sessions held in preparation of the Tahoe Basin Area Plan, the community stated a preference for mixed-use overnight visitor lodging accommodations, coupled with public parking, retail and other community uses. A conceptual project using those criteria is being analyzed in the Area Plan environmental document at the programmatic level. The conceptual project being analyzed also is used in this report for illustrative purposes.

The project concept provides an example of the opportunity to implement TRPA, Placer County, and community goals, while also incentivizing investment to attain a transformative mixed use development.

2. INCENTIVE PROGRAM

As discussed in **Chapter 1**, the County took immediate action to address issues around entitlement processing and will continue process improvement and related efforts as an ongoing operational function. The proposed Incentive Program seeks to complement these current efforts by establishing a program to help incentivize Town Center redevelopment/development. As outlined in the Introduction, the Incentive Program will comprise the following two program components:

- TAU Cost Offset.
- Infrastructure Cost Offset—focusing primarily on parking but with flexibility to incorporate other project development infrastructure costs on an "as needed basis," including development fee deferral.

These economic incentive programs can be implemented to provide a type of "market intervention" that allows well-conceived projects to meet necessary profit margins and achieve financial feasibility. The fundamental rationale for the programs is that the net benefits accruing to the public sector would meet or exceed the desired environmental and economic impacts sought by TRPA, Placer County, and the community.

In addition to the proposed Incentive Program components, other, more specific deal points could be established as part of development agreement negotiations with a Project Applicant. For example, the County could agree to participate financially in a project by pledging TOT or other project-generated revenues as a repayment source for revenue bonds or other debt financing mechanism. Nothing in this program is intended to preclude the County from establishing such provisions for alternative public participation through the direct negotiations.

Program Guidelines

This Incentive Program relies on the notion that redevelopment/development projects of a certain size and scale will produce meaningful environmental and economic "ripple" impacts and catalyze additional investment. Because of the need for such catalysts in Town Centers, where new projects of such benefit have been nonexistent for many decades, it is recommended that Placer County target stand-alone lodging or mixed-use projects with a minimum of 40 to 60 accommodation units for the TAU component of the program. It is further recommended that a portion of TAUs banked by Placer County (perhaps ranging from 10 to 15 percent of total public participation) be reserved for smaller projects that may not meet all of the desired attributes described below but that demonstrate enough of the desired attributes, in addition to other mutually beneficial outcomes, to warrant participation in the Plan. It is further recommended that County staff remain engaged in and aware of market trends, especially in the constantly-evolving lodging market, in order to attract desired projects that are also consistent with what can realistically be financed and meets current product demand. This could result in regular program guideline amendments to minimum sizes or project types, including possible future consideration of program expansion to include rehabilitation of existing lodging stock.

For mixed-use projects including both lodging and a commercial component, the size of the commercial component should be established based on considerations such as site characteristics and what the site can accommodate. This Incentive Program therefore does not recommend a minimum commercial size for lodging projects that include a commercial component.

Although this Program is targeted at redevelopment/development projects that catalyze further environmental and economic improvements in Town Centers, there may be opportunities for smaller projects outside the Town Center boundaries that also meet cost offset standards. Similar to smaller projects outside the Town Centers, it is recognized that these projects will be required to meet some, but perhaps not all, desired attributes. As an initial program guideline, the Program will plan to allocate no more than 10 percent of the TAU Program assets to projects outside of the Town Centers in any given fiscal year. Infrastructure Program applications will be considered on a case-by-case basis.

Application Process and Eligibility Criteria

Because development projects pose unique challenges and needs, projects may apply to participate in one or both program components. Participation in the proposed incentive program would be initiated in the land development application to the Community Development Resource Agency, where the Applicant could indicate interest in the economic incentive program. The Applicant then would submit a formal application to participate in the economic incentive program to the County Executive Office Economic Development Division, Lake Tahoe Office.

Applications will include the following elements:

- Applicant's Project Application with Placer County's Community Development Resource Agency.
- A written summary of the project, including a proposed project type, number of hotel and condo units, commercial floor area, retail and community uses:
  - Type and amount of commodities needed.
  - Fee estimates (provided by Placer County CDRA).
  - Parking estimates.
  - Projected values (room rates, condo values, commercial space rents, projected project value at completion). It is important to note that condo-hotel projects will require a determination of how the condo units will be included in the hotel operations in order to inform TOT estimates.
- Documentation of how Project and Project Applicant meet the project eligibility and developer qualifications criteria enumerated below.

Eligibility Criteria

The application will be evaluated based on the degree to which the proposed project meets economic incentive program goals and the qualifications of the Project Applicant.

Project Eligibility Criteria

To be eligible for the Incentive Program, Project applicants must document the environmental and economic benefits anticipated to result from Project development. Specific metrics and measurements (which may be qualitative or quantitative) by which benefits may be documented will be established as part of the Incentive Program implementation. In general, findings regarding the following items will be required:

1. Alignment with the Proposed Area Plan vision, goals, and targets, including achievement of green building standards.

2. Scale of environmental improvements, consistent with proposed Area Plan. Environmental improvements could include the following categories:

    a. Water Quality

    b. Air Quality, including Complete Streets[4]

    c. Scenic Resources

    d. Soil Conservation, including relocation of development from sensitive land outside Town Centers

    e. Fish Habitat

    f. Vegetation

    g. Wildlife Habitat

    h. Noise

    i. Recreation

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[4] There is not a standard definition of "Complete Streets." Generally, complete streets reference roadways designed for all users. In a presentation to the Sacramento Area Council of Governments, Fehr and Peers offered the following, more specific definition:

"Complete streets are those that adequately provide for all roadway users, including bicyclists, pedestrians, transit riders, and motorists, to the extent appropriate to the function and context of the street.

- *Acknowledges that streets have more than one set of users and more than one function*
- *Acknowledges the importance of function and context"*

http://www.sacog.org/complete-streets/toolkit/files/docs/Fehr%20&%20Peers_Complete%20Streets.pdf

Smart Growth America provides the following, similar definition: "Complete Streets are streets for everyone. They are designed and operated to enable safe access for all users. People of all ages and abilities are able to safely move along and across streets in a community, regardless of how they are traveling. Complete Streets make it easy to cross the street, walk to shops, and bicycle to work. They allow buses to run on time and make it safe for people to walk to and from train stations." http://www.smartgrowthamerica.org/complete-streets/complete-streets-fundamentals#presentation

The Project Applicant will not be required to document environmental benefits in all of the above areas, but may instead address all of those areas where the Project will generate substantial environmental improvements, in conformance with the acceptable measures of benefit to be established as part of the implementation process.

3. Scale of economic and fiscal impacts:

   a. Job creation potential (direct—construction impacts and ongoing operations employment—and indirect [see **Table 2**, Tahoe City Lodge Example]).

   b. Growth in public revenue sources such as property tax, sales tax and Transient Occupancy Tax (TOT).

   c. Improvement of public infrastructure, including, but not limited to public safety, sewer water, and drainage systems, recreation, public spaces, transportation and civic uses.

Table 2
Summary of Economic Impacts—Tahoe City Lodge Example

Prototypical Hospitality Project	Impact
One-Time Construction Impacts [1]	*One -Time*
Total Output	$43.4 M
Total Jobs	317
Ongoing Annual Impacts	*Annual*
Total Output	$8.6 M
Total Jobs	76

econ

Source: Jones, Lang, and LaSalle.
[1] Occurs over course of the 3 year construction timeframe.

Developer Qualifications Criteria

To demonstrate the requisite experience and capacity to implement the proposed development project, the application also will require that the applicant demonstrate their expertise and financial resources, including documentation of the following qualifications:

- Applicant's experience with similar projects and understanding of the unique challenges of Tahoe Basin development (or applicant's project team experience).
- Applicant's financial capacity, including historical and current banking references.

Each application will be evaluated to determine whether the proposed project is likely to achieve desired environmental and economic development outcomes and whether or not the applicant (or applicant's team) has the sufficient expertise and experience to execute the project as proposed. Placer County will develop an evaluation point system based on a combination of the

Project Eligibility Criteria and the Developer Qualifications Criteria discussed above. Points will be associated with each category in the environmental, economic, and applicant criteria, and then summed for a total score. The system will detail minimum thresholds needed to participate in the Program and how multiple projects are evaluated, in the event they should apply at the same time.

Upon approval, the applicant may be eligible for funding from one or both economic incentive program components. At that time, TAUs can be reserved for a specified term, which would be established in a memorandum of agreement between the County and the Project Applicant. Final incentive funding provisions and details would be memorialized in a Development Agreement subject to Board of Supervisors approval that establishes infrastructure requirements and development commodity allocations, amongst other entitlement requirements.

Program Funding Strategy

The strategy to capitalize the economic development incentives will vary for each program. Key elements of each program are described in the sections to follow. Note that this discussion offers a funding strategy only, and does not preclude the County from seeking or using other funding sources (e.g., Community Development Block Grants or other grant funding programs).

TAU Cost Offset Funding

General Fund capital and TOT reserves are being used to acquire TAUs that will be banked by Placer County and deployed to assist qualifying development projects. **Table 3** is a conceptual illustration of a cash flow analysis for the purchase and banking of 200 TAUs by Placer County. Initial capital costs would be recouped through TOT revenues generated by participating projects. This analysis is based on the assumption that 50 percent of TOT revenues generated by participating projects would be eligible to reimburse the County's initial capital investment. Although this example is for only half the target amount of TAUs suggested in the EPS Report, it would make a significant impact for the two example projects in each Town Center over the short term (10 or fewer years).

As shown in the illustration, the estimated financial calculation of Net Present Value is positive, meaning it exceeds the target cost of capital, and has an estimated internal rate of return (IRR) of approximately 2 percent. It is important to note that these returns are based solely on estimated financial returns and do not take into account the additional benefits of environmental and community returns discussed throughout this Plan. Furthermore, after the initial 15-year term is completed, annual cash flows then could be placed into a specified reserve account in the County Treasury to fund additional commodity acquisition, as needed.

Table 3
Development Commodity Program Cash Flow—Example

Item	Year 1 Investment	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31
TAUs in Use		**0**	**0**	**0**	**0**	**100**	**100**	**100**	**100**	**200**	**200**	**200**	**200**	**200**	**200**	**200**
Expenditures																
Initial Investment (TAUs acquired) [1]	($2,500,000)															
Program Set-Up [2]		($100,000)	($25,000)	($25,000)	($25,000)	($25,000)	($25,000)	($25,000)	($25,000)	($25,000)	($25,000)	($25,000)	($25,000)	($25,000)	($25,000)	($25,000)
Holding Cost [3]		($50,000)	($50,000)	($50,000)	($50,000)	($25,000)	($25,000)	($25,000)	($25,000)	-	-	-	-	-	-	-
Total Expenditures	**($2,500,000)**	**($150,000)**	**($75,000)**	**($75,000)**	**($75,000)**	**($50,000)**	**($50,000)**	**($50,000)**	**($50,000)**	**($25,000)**	**($25,000)**	**($25,000)**	**($25,000)**	**($25,000)**	**($25,000)**	**($25,000)**
Revenues																
TOT Revenue Available for TAU Program [4]		-	-	-	-	$219,000	$219,000	$219,000	$219,000	$438,000	$438,000	$438,000	$438,000	$438,000	$438,000	$438,000
Total Annual Surplus/(Deficit)	**($2,500,000)**	**($150,000)**	**($75,000)**	**($75,000)**	**($75,000)**	**$169,000**	**$169,000**	**$169,000**	**$169,000**	**$413,000**	**$413,000**	**$413,000**	**$413,000**	**$413,000**	**$413,000**	**$413,000**
Cumulative Surplus/(Deficit)	**($2,500,000)**	**($2,650,000)**	**($2,725,000)**	**($2,800,000)**	**($2,875,000)**	**($2,706,000)**	**($2,537,000)**	**($2,368,000)**	**($2,199,000)**	**($1,786,000)**	**($1,373,000)**	**($960,000)**	**($547,000)**	**($134,000)**	**$279,000**	**$692,000**
Net Present Value at 2% [5]	**$16,713**															
IRR [5]	**2.1%**															

TAU

Source: Placer County; EPS.

[1] Initial investment includes the acquisition of 200 TAUs at $12,500/TAU.
[2] Program set-up expenditure for FY 16/17 includes a one time set-up cost.
[3] Holding cost is calculated as 2% of unused TAUs.
[4] See Table A-1 for a calculation of TOT revenue. Assumes 50% of TOT revenue is used for the program and the remainder is used for other discretionary purposes.
[5] Assumes a 2% cost of funds.

Infrastructure Cost Offset Funding

As previously mentioned, infrastructure funding tends to be more complex because of the scale of investment often needed. Likely candidates for near-term infrastructure funding are limited to the Infrastructure State Revolving Fund Program administered by the California Infrastructure and Economic Development Bank. An EIFD and other land-secured financing mechanisms also may be deployed (subject to the Rules and Procedures adopted by the Board of Supervisors for the Placer County Bond Screening Committee), but substantive revenue generation to support infrastructure investments is contingent on sufficient scale of redevelopment activity. While an EIFD cannot be employed to provide immediate infusions of capital, it is one tool that can be employed to provide the County with a return on its investment into public parking and other infrastructure development that also serves private projects. **Table 4** summarizes the available infrastructure funding sources, which are detailed in the following sections.

Table 4
Summary of Available Infrastructure Cost Offset Funding Sources

Item	Timing
Near Term Funding Sources	
ISRF Funding	5-6 month application process.
Land Secured Mechanisms/Funding Sources	
EIFD	5-6 months to form. Tax increment generated in concert with project development 4-6 years from groundbreaking to stabilized tax increment revenue stream +/- 10 years until sufficient funds available to issue debt.
CFD	5-6 months to form and issue debt.

timing

Source: EPS.

California Infrastructure and Economic Development Bank

The California Infrastructure and Economic Development Bank (I-Bank) provides accessible, low-cost financing options to eligible applicants for a wide range of infrastructure projects through the Infrastructure State Revolving Fund (ISRF program). Applications for loan funds are accepted on a continuous basis but are subject to fairly stringent lending criteria, including a 5-year history of stable property tax collection for land secured debt. Other loan repayment options include Enterprise Fund Revenues, General Fund lease revenues, and other voter-approved General Fund debt. I-Bank loan proceeds may be a viable option to fund parking-related infrastructure requirements, as well as other infrastructure and vertical construction costs for projects meeting eligibility criteria. Timing for the receipt of loan proceeds could be as little as 6 months between application and funding but depends on several factors related to the execution of financing documents and is contingent on project readiness.

As a seed funding mechanism, ISRF funding could provide initial capital to defray parking and other extraordinary costs, with project-generated revenues providing backfill for General Fund debt service requirements.

Tax Increment and Land Secured Financing Mechanisms

The primary candidate in this regard is formation of an Enhanced Infrastructure Financing District (EIFD), potentially layered with a more traditional land secured financing mechanism[5] that would accelerate the ability to issue debt secured by Project-generated revenue streams.

Enhanced Infrastructure Finance Districts

Formation of an EIFD can provide for a longer term source of revenue to capitalize the project development fund. The EIFD captures incremental increases in property tax revenue from future development otherwise accruing to the taxing entity's General Fund that can be used for financing bonded debt for project-related infrastructure. **Table 5** demonstrates the projected tax increment revenue generated by one Town Center development scenario, which includes the aforementioned Tahoe City Lodge, Kings Beach Center, and other small commercial projects. As additional projects come on line, the revenue capacity of the EIFD will expand commensurately.

This tax increment can be used to support issuance of debt or pay-as-you-go expenditures, although under current statutes, debt issuance options are limited. Generally, a targeted tax increment revenue stream approaching or exceeding $500,000 would be ideal to support the issuance of bonds. Net property tax increment revenues also may provide an appropriate source of funds to replenish General Fund allocations or replace General Fund ISRF repayment streams.

The primary limitation of EIFD formation is that dedication of the net property tax increment may have other fiscal implications in that it reduces the availability of local property tax available to fund public service costs associated with new development. However, this mechanism does allow for long-term financing of upfront costs that do not further burden projects already struggling with extraordinary development costs and can be readily layered with other land secured financing mechanisms and easily expanded to include noncontiguous boundaries in adjacent communities. For reference, **Table B-1** identifies the steps required to implement an EIFD based on current statutes and proposed legislative updates.

[5] Any request for land secured debt financing is subject to the Rules and Procedures adopted by the Board of Supervisors for the Placer County Bond Screening Committee.

Table 5
Illustrative Enhanced Infrastructure Financing District Tax Increment Revenue Projection

Item	Beginning Assessed Value	Annual AV Growth [1]	New AV Added to Roll [2]	Ending Assessed Value	Cumulative Growth in AV	Gross Tax Increment [3]	Net Tax Increment [4]	Less County Admin. Fee [5]	IFD Project Tax Increment
Formula					*a*	*b = a * 1%*	*c = b * 20.16%*	*d*	*e = c - d*
Base AV (FY 16/17)	**$0**								
FY17/18	$0	$0	$0	$0	$0	$0	$0	($5,000)	$0
FY18/19	$0	$0	$0	$0	$0	$0	$0	($5,100)	$0
FY19/20	$0	$0	$0	$0	$0	$0	$0	($5,202)	$0
FY20/21	$0	$0	$66,300,000	$66,300,000	$66,300,000	$663,000	$133,643	($5,306)	$128,337
FY21/22	$66,300,000	$1,989,000	$0	$68,289,000	$68,289,000	$682,890	$137,652	($5,412)	$132,240
FY22/23	$68,289,000	$2,048,670	$0	$70,337,670	$70,337,670	$703,377	$141,781	($5,520)	$136,261
FY23/24	$70,337,670	$2,110,130	$0	$72,447,800	$72,447,800	$724,478	$146,035	($5,631)	$140,404
FY24/25	$72,447,800	$2,173,434	$52,700,000	$127,321,234	$127,321,234	$1,273,212	$256,645	($5,743)	$250,901
FY25/26	$127,321,234	$3,819,637	$0	$131,140,871	$131,140,871	$1,311,409	$264,344	($5,858)	$258,486
FY26/27	$131,140,871	$3,934,226	$4,700,000	$139,775,097	$139,775,097	$1,397,751	$281,748	($5,975)	$275,773
FY27/28	$139,775,097	$4,193,253	$0	$143,968,350	$143,968,350	$1,439,684	$290,201	($6,095)	$284,106
FY28/29	$143,968,350	$4,319,051	$2,725,000	$151,012,401	$151,012,401	$1,510,124	$304,399	($6,217)	$298,183
FY29/30	$151,012,401	$4,530,372	$0	$155,542,773	$155,542,773	$1,555,428	$313,531	($6,341)	$307,190
FY30/31	$155,542,773	$4,666,283	$1,400,000	$161,609,056	$161,609,056	$1,616,091	$325,759	($6,468)	$319,291
FY31/32	$161,609,056	$4,848,272	$0	$166,457,328	$166,457,328	$1,664,573	$335,532	($6,597)	$328,935
FY32/33	$166,457,328	$4,993,720	$0	$171,451,047	$171,451,047	$1,714,510	$345,598	($6,729)	$338,869
FY33/34	$171,451,047	$5,143,531	$0	$176,594,579	$176,594,579	$1,765,946	$355,966	($6,864)	$349,102
FY34/35	$176,594,579	$5,297,837	$0	$181,892,416	$181,892,416	$1,818,924	$366,645	($7,001)	$359,644
FY35/36	$181,892,416	$5,456,772	$0	$187,349,189	$187,349,189	$1,873,492	$377,644	($7,141)	$370,503
FY36/37	$187,349,189	$5,620,476	$0	$192,969,664	$192,969,664	$1,929,697	$388,974	($7,284)	$381,690
FY37/38	$192,969,664	$5,789,090	$0	$198,758,754	$198,758,754	$1,987,588	$400,643	($7,430)	$393,213
FY38/39	$198,758,754	$5,962,763	$0	$204,721,517	$204,721,517	$2,047,215	$412,662	($7,578)	$405,084
FY39/40	$204,721,517	$6,141,646	$0	$210,863,162	$210,863,162	$2,108,632	$425,042	($7,730)	$417,312
FY40/41	$210,863,162	$6,325,895	$0	$217,189,057	$217,189,057	$2,171,891	$437,793	($7,884)	$429,909
FY41/42	$217,189,057	$6,515,672	$0	$223,704,729	$223,704,729	$2,237,047	$450,927	($8,042)	$442,885
FY42/43	$223,704,729	$6,711,142	$0	$230,415,871	$230,415,871	$2,304,159	$464,455	($8,203)	$456,252
FY43/44	$230,415,871	$6,912,476	$0	$237,328,347	$237,328,347	$2,373,283	$478,389	($8,367)	$470,022
FY44/45	$237,328,347	$7,119,850	$0	$244,448,197	$244,448,197	$2,444,482	$492,740	($8,534)	$484,206
FY45/46	$244,448,197	$7,333,446	$0	$251,781,643	$251,781,643	$2,517,816	$507,523	($8,705)	$498,817
FY46/47	$251,781,643	$7,553,449	$0	$259,335,093	$259,335,093	$2,593,351	$522,748	($8,879)	$513,869
30-Year Total					**$4,643,004,846**	**$46,430,048**	**$9,359,021**	**($202,840)**	**$9,171,483**

ifd sum

Sources: Placer County Assessor; ParcelQuest; EPS.

[1] Assessed value estimated to increase by 3% annually, accounting for assumed legislated annual increase of 2% and additional property transactions within IFD boundary.
[2] See Table A-2.
[3] Gross Tax Increment is 1% of the difference between assessed values in current and base years.
[4] Net Tax Increment of 20.16% is the average estimated post-ERAF Placer County General Fund percentage of the 1% property tax revenue for Kings Beach and Tahoe City, which would be available for funding infrastructure, net of the percentage for all other taxing entities
[5] A placeholder administrative cost of $5,000 is anticipated to increase annually by 2%.

<u>Other Land Secured Financing Mechanisms</u>

Several local jurisdictions considering implementation of EIFDs also are considering the parallel implementation of a more traditional land secured financing mechanism, such as a Community Facilities District (CFD). Property owners that agree to participate in a CFD may be able to accelerate debt issuance through the issuance of municipal bonds with debt repayment secured by special taxes imposed on the subject property(ies).

As sufficient tax increment revenues become available, those revenues would be available to replace debt service repayment revenue streams, either reducing the annual special tax burden on property owners or freeing up project-generated revenues for other uses. This approach has the advantage of circumventing existing limitations on the issuance of EIFD debt, which under current statute is constrained to short-term borrowings.

The viability of layering a land secured financing mechanism with formation of an EIFD to accelerate debt issuance will hinge upon property owner capacity for additional annual special tax burdens as well as the number of participating property owners, as a significant number of properties would need to participate in order to support the issuance of bonds. In addition, any request for land secured debt financing is subject to the Rules and Procedures adopted by the Board of Supervisors for the Placer County Bond Screening Committee.

Development Fee Deferral Implementation

The fee deferral component of the Infrastructure Financing component will not require an exogenous funding source, as fee payments would be deferred until a later stage of entitlement, but not waived in their entirety. The fee deferral program will be focused on two areas:

- Initial Project Fee Deferral—whereby projects can offset some/all of the initial project application fees until project completion and certificate of occupancy has been obtained.
- Mitigation Fee Deferral—whereby projects can amortize the costs of certain mitigation fees over a mutually agreed period of time.

Conclusion

Realization of progressive mixed use development in the Town Centers of Kings Beach and Tahoe City will require a means by which critical development rights and public infrastructure are available for qualified development projects capable of utilizing these assets to yield a positive return on investment to the public sector. A sustained long term commitment must be pursued to complement regulatory process improvements that are underway by giving qualified projects a path to feasibility, where these projects are shown to be potentially financially viable and possess the desired environmental goals appropriate for sensitive ecological areas.

3. INCENTIVE PROGRAM IMPLEMENTATION AND ADMINISTRATION

A Placer County staff team comprising Economic Development, CEO office, and Community Development Resource Agency members, should pursue the specific implementation measures outlined in this chapter.

Implementation Measures

Near Term (Initiated Immediately and Completed within 1 Year)

1. **Determine program administration procedures.** Determine composition of implementation team and role of individual County staff members, ascertain reporting requirements and structure, determine appropriate departmental and Placer County staff responsibilities. Develop a comprehensive land development process to assess, track, and suggest future refinement to the economic incentive program.

2. **Establish program criteria to acquire, manage, distribute and monetize TAU and other development commodities.** Develop bank for TAU and other development commodity assets and create mechanisms and criteria by which the Placer County may use said commodities to incentivize desired Town Center development. Establish procedures to value and track commodity acquisition and distribution.

3. **Determine availability of and criteria for use of General Fund resources as Project Development Fund seed capital.** Establish provisions for repayment of General Fund resources—these could hinge upon a dedicated percentage of project related revenues, County's desired timeframe and return on County investment, County's interest in maximizing availability of economic incentive fund capital or other considerations.

4. **Develop procedures to track project-generated public revenues and establish performance metrics.** Develop electronic tracking system to identify public revenues generated by participating in program. Determine criteria for program success and basis for extension of the program, identifying measurable outcomes based on development project eligibility criteria and other desired program outcomes. Performance metrics should be sufficiently flexible to allow County staff to accommodate temporal considerations and potential for future improved performance in the event that measureable outcomes have not yet materialized but are likely in the near to mid-term.

Mid-Term (Within 1 to 2 years, or as a demonstrated project need materializes)

5. **Establish strategy to fund eligible parking costs.** Eligible parking costs could be defrayed through the County led construction of a public parking facility. Under this course of action, the County would need to determine what projects would be able to take advantage of parking capacity created and how monetary participation from those projects would be secured—CFD, EIFD, COP, etc. [reference Parking Study, other]. An alternative approach would be to directly offset structured parking costs on an individual project basis, but this approach may miss opportunities to take advantage of economies of scale and the ability to pool taxing capacity from multiple resources.

6. **Initiate application process for exogenous funding sources** (i.e., State Infrastructure Bank, Strategic Growth Council, and Others). Establish prioritized and strategic approach to secure outside funds, taking into consideration capacity and sources of debt repayment, likelihood of successful outcomes, and resource allocation costs.

7. **Determine desired structure for debt issuance.** EIFD, CFD, or combination of both. Identify likely property owner participants and solicit private sector input regarding capacity for additional short term special tax burden and associated bonding capacity. Determine whether debt issuance can be used as an initial source of capital (e.g., CFD) or delayed until supported by sufficient project-related revenues (e.g., EIFD ~10 years).

8. **Explore CRIA Applicability and Opportunities/Shortcomings.** The Community Revitalization and Investment Authority Law (AB2), signed into law September 2015, allows a city, county, special district, or any combination of these to establish a Community Revitalization and Investment Authority (CRIA) in specified disadvantaged communities. The authority of the CRIA largely mirrors the authority of former redevelopment agencies outlined in the redevelopment law. As more details pertaining to how eligible communities are determined and the effectiveness of the program is made available, a CRIA may be determined to be an appropriate funding mechanism and may replace an EIFD for Incentive Program purposes.

Long-Term (3 to 5 years, or as need materializes)

9. **Explore long term structure for legal entity such as Community Development Corporation (CDC), to oversee programs.** Although this approach brings the ability to coordinate public-private projects using an expanded range of revenue sources, there may also be substantial up-front time and cost implications related to the formation of the CDC and the drafting of its charter. To be effective, the CDC would require dedicated operating funds and staffing, as well as investment capital. Therefore it is recommended that Placer County conduct a more detailed analysis of pros and cons of CDC formation and its range of potential activities.

Table A-1
Potential Increases in Transient Occupancy Tax Revenue

Item	Formula/ Assumption	Annual Revenue (2015$)
Annual TOT Revenue		
Hotel Rooms	*a*	200
Annual Rooms Available	*b = a * 365*	73,000
Occupancy Rate	*c*	60.0%
Average Daily Room Rate	*d*	$200
Assumed Placer County TOT Rate	*e*	10.0%
Total Annual TOT Revenue (Rounded)	*f = (b * c * d * e)*	**$876,000**
TOT Revenue Available for Commodity Program	*50%*	**$438,000**
Annual Revenue Per Room		*$2,190*

tot

Source: Placer County; EPS.

Table A-2
Estimated New Assessed Value from Example Projects

Land Use	Value per Room/ Sq. Ft.	PROJECT #1: Tahoe City Rooms/ Sq. Ft.	PROJECT #1: Tahoe City Total New Assessed Value	PROJECT #2: Kings Beach Center Rooms/ Sq. Ft.	PROJECT #2: Kings Beach Center Total New Assessed Value	PROJECT #3: Eastern Gateway Rooms/ Sq. Ft.	PROJECT #3: Eastern Gateway Total New Assessed Value	PROJECT #4: Town Center South Rooms/ Sq. Ft.	PROJECT #4: Town Center South Total New Assessed Value	PROJECT #5: Swiss Mart Rooms/ Sq. Ft.	PROJECT #5: Swiss Mart Total New Assessed Value	TOTAL	
Hotel	*Per Room*	*Rooms*											
Traditional Rooms	$260,000	60	$15,600,000	40	$10,400,000	0	$0	0	$0	0	$0	100	$26,000,000
Condominium Units	$1,040,000	60	$62,400,000	40	$41,600,000	0	$0	0	$0	0	$0	100	$104,000,000
Total Hotel		**120**	**$78,000,000**	**80**	**$52,000,000**	**0**	**$0**	**0**	**$0**	**0**	**$0**	**200**	**$130,000,000**
	Per Sq. Ft.	*Sq. Ft.*											
New Commercial Uses	$200	0	**$0**	50,000	**$10,000,000**	32,000	**$6,400,000**	19,000	**$3,800,000**	10,000	**$2,000,000**	111,000	**$22,200,000**
Total			**$78,000,000**		**$62,000,000**		**$6,400,000**		**$3,800,000**		**$2,000,000**		**$152,200,000**
Less Estimated Assessed Value of Existing Uses			*($11,700,000)*		*($9,300,000)*		*($1,700,000)*		*($1,075,000)*		*($600,000)*		*($24,375,000)*
Net New Assessed Value			**$66,300,000**		**$52,700,000**		**$4,700,000**		**$2,725,000**		**$1,400,000**		**$127,825,000**

av1

Source: Placer County and EPS.

Table B-1
EIFD Formation Schedule

ACTIVITY	TIMING
Identify the area proposed to be included in the EIFD and the facilities to be financed; prepare the boundary map of the EIFD; identify the landowners; determine whether any other taxing entities will participate; preliminarily specify amount of tax increment to be committed to the EIFD	Before adoption of the Resolution of Intention
BOS adopts the Resolution of Intention (ROI) to establish the EIFD and calling a public hearing	
[AB 313 proposes that the BOS would establish the Public Financing Authority (which is the name of the governing body of the EIFD) following the ROI and that the Authority would handle the formation process from this point forward.]	
Clerk mails a copy of the ROI to each landowner in the EIFD and to each affected taxing entity	After adoption of ROI
BOS directs the preparation of an infrastructure plan	After adoption of ROI
Consultant prepares the infrastructure plan	After adoption of ROI *[may be started earlier, of course]*
Staff sends the EIFD Plan and any required CEQA documents to each affected taxing entity. Staff also consults with each affected taxing entity.	60 days before the public hearing
Staff publishes the Notice of Public Hearing in a newspaper of general circulation	Once a week for four weeks prior to hearing
Staff sends the EIFD Plan and any required CEQA documents to each landowner.	Before the public hearing
The EIFD Plan is also made available for public inspection and is sent to the Planning Commission and BOS.	Before the public hearing
Staff posts notice of vacancy for Public Financing Authority public membership	20 days before the public hearing
Governing body of any other affected taxing entity adopts a resolution approving the Infrastructure Financing Plan	Before the public hearing
BOS holds hearing	*[Not sooner than 60 days after plan is delivered to affected taxing entities. If the City is the only affected taxing entity, the requirement is four weeks after first publication.]*

ACTIVITY	TIMING
BOS adopts resolution establishing Public Financing Authority and appointing its members	Before adopting resolution approving the Infrastructure Financing Plan
BOS adopts the resolution proposing [sic] adoption of the Infrastructure Financing Plan and formation of the EIFD[6]	After the public hearing

[6] Government Code section 53398.69 provides that formation of the EIFD takes effect upon adoption of this resolution. AB 313 (in its current form) would delete the provision that the EIFD is formed then, but it does not provide an alternative formation provision. Section 53398.75(a) refers twice to the effective date of the ordinance adopted pursuant to Section 53398.69, while that section does not provide for an ordinance. (This is holdover language from the IFD statute, in which Section 53395.23 does provide for an ordinance to be adopted creating the IFD following a formation election, which is not required in the EIFD statute).