THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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IBA Review of Proposed Midway Rising Development Project

OVERVIEW

On October 16, 2026, the Land Use and Housing Committee will consider a proposed agreement between the City and Midway Rising for the redevelopment of 48.5 acres of City-owned land at the existing Sports Arena site. The proposed development would include a new 16,000-seat entertainment arena, 2,000 affordable housing units, 2,254 market-rate housing units, approximately 130,000 square feet of retail and commercial space, parks and public spaces, and associated infrastructure improvements. The redevelopment would occur in multiple phases over approximately 20 years, with the City retaining ownership of the underlying land and entering into long-term ground leases for the various components of the development.

When the City Council authorized an Exclusive Negotiating Agreement (ENA) with Midway Rising in September 2022, then-Councilmember Monica Montgomery Steppe requested that the IBA be included in negotiations for the project. Since that time, our Office and our real estate consultant, Kosmont Companies, have participated in and observed negotiations between the City and the Developer. This involvement allowed our Office to remain informed of the evolving terms of the proposed transaction and to conduct ongoing independent analysis as negotiations progressed.

This report provides our Office's review and analysis of the proposed development agreement and associated financial arrangements being presented for consideration to the Land Use and Housing Committee and City Council. Given the size and complexity of the transaction, our report is organized into several sections, including a background and history, a fiscal and policy analysis of the four principal components of the project (infrastructure, entertainment center, market-rate housing and retail, and affordable housing), and an assessment of the overall economic feasibility of the proposed development. Our analysis represents a point-in-time assessment of the proposed

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transaction based on currently available information and may be updated with additional findings following Committee consideration and prior to the item being heard by the full City Council.

Under the proposed agreement, the Developer would be responsible for arranging financing and delivering approximately **$4.2 billion** in total development investments, including significant upfront investments in infrastructure.[1] In addition to the new development and other public benefits, our Office estimates that the City could receive approximately **$884 million to $1.23 billion in ticket fees and rental revenues** over the approximate 105-year duration of the various agreements.[2] Actual revenues will depend on the timing and financial performance of the project, including whether certain developer profitability thresholds are achieved.

While the Developer would be responsible for financing and constructing the project, the City would also be committing significant public resources to the redevelopment. Most notably, the City would be dedicating nearly 50 acres of publicly owned land to the development for approximately a century, limiting its ability to pursue alternative uses of the property during that period. Additionally, a proposed EIFD would dedicate a portion of future property tax growth generated by the development toward reimbursing eligible infrastructure costs, rather than allowing those revenues to flow to the City and County for other purposes. These commitments represent meaningful opportunity costs that should be weighed against the anticipated financial returns and public benefits of the project.

Overall, our Office believes the proposed agreement represents a fair and reasonable transaction for the City. The agreement requires the Developer to undertake a substantial financial investment to redevelop 48.5 acres of City-owned property that has remained largely unchanged since the 1960s, while providing significant new housing, entertainment, and commercial opportunities. The City would retain ownership of the land, receive revenue over the life of the agreements, and potentially benefit from additional economic activity and investment in surrounding areas resulting from the redevelopment. While the proposed agreement involves a significant commitment of public resources and carries financial, construction, and market risks that are discussed in greater detail throughout this report, we believe the proposed agreement provides a reasonable balance of risk, financial returns, and public benefits to the City.

[1] Of approximately $460 million in estimated upfront infrastructure costs, $378 million may be eligible for reimbursement over time through a proposed Enhanced Infrastructure Financing District (EIFD), funded through future property tax increment generated by the development. This is discussed in greater detail later in this report.
[2] The present value of these amounts, using a 4.5% discount rate, equates to $38.1 million to $68.5 million.

BACKGROUND

The Sports Arena, known as the Pechanga Arena since 2018, was built in 1965, opened in 1966, and has about 13,000 seats. At 60 years old, the Sports Arena is considered to be well past its useful life.

In 2008, the San Diego Redevelopment Agency adopted its Third Five-Year Implementation Plan for the North Bay Redevelopment Project Area for FY 2009 – 2013. The document stated that one of the Redevelopment Agency's goals for the area was to:

> *"Redevelop/rehabilitate the Sports Arena site to meet contemporary development standards and community needs and to alleviate the surrounding vacancies and crime caused by the lack of usage by the obsolete facility."*

The document went on to say that "No progress has been made. The Midway Pacific Highway Corridor Community Plan Update process will provide a planning and strategy for the Midway/Sports Arena District."

In September 2018, the Midway-Pacific Highway Community Plan amendments were adopted which included conceptual plans for a Sports Arena Community Village which would include a mix of uses.

In September 2021 the City Council declared the current Sports Arena property as surplus under the Surplus Land Act (SLA) and released the Notice of Availability (NOA) seeking redevelopment proposals from Developers.

In May 2022, City staff began evaluating three qualified proposals, and in September 2022 City Council authorized the City to enter into an Exclusive Negotiating Agreement (ENA) with the Master Developer (Developer), Midway Rising. The City and Developer have negotiated the economic terms and implementing contracts of this complex real estate transaction for the last four years.

FISCAL & POLICY ANALYSIS

The proposed Midway Rising development includes the construction of a new 16,000-seat arena and entertainment center, 2,254 units of market-rate housing, 130,000 square feet of commercial or retail space, and 2,000 units of affordable housing. Given the magnitude of the development and the site's current condition, a significant amount of up-front infrastructure work will be necessary for all phases of the project to be built.

The underground, surface level, and vertical infrastructure necessary to provide utilities, access, and amenities to the proposed Midway Rising project is currently expected to be built out over three phases and 12 years. The infrastructure will support about 16 Pad Sites that are currently expected to be built out over five phases and 20 years. Once the horizontal improvements on each Pad Site are completed, the Vertical Lease for each Pad Site will commence and last 85 years.

Given the phasing and duration of the project, it would be expected and reasonable to see multiple renegotiations and amendments to leases with the current or Successor Tenants.

This section of our report provides analysis of:

1. Up-front infrastructure improvements and investments necessary for vertical development of the site, including the proposed use of an Enhanced Infrastructure Financing District (EIFD) to partially reimburse the Developer for those infrastructure investments over time;
2. Entertainment Center and Arena development, including development costs and the anticipated revenue that will be paid to the City over time from a ticket-fee;
3. Market-Rate Housing and Retail development, including phasing, development costs, and anticipated revenue paid to the City over time from participation rent;
4. Affordable Housing development, including development costs, financing mechanisms, and phasing; and
5. A general assessment of the overall economic feasibility of the project's components, and risks associated with each.

Given that the project's construction and operation will occur over multiple decades during various economic and financial backdrops, the analysis and review conducted by our Office and our real estate consultant, Kosmont Companies, is a point-in-time review of the project.

Infrastructure

As of September 2024, the Developer's construction consultant, AECOM, estimated total infrastructure costs to be approximately $460.3 million. A line-item summary table of the infrastructure costs from the Developer's Proforma is included in *Attachment 4: Infrastructure & Site Development Costs*.[3]

The on-site and off-site infrastructure will be constructed over three phases, each spanning two to three years. On-site and off-site infrastructure includes, but is not limited to:

1. Bicycle and bus networks
2. Demolition, grading, and drainage
3. Parking garages
4. Parks and public space
5. Planting and irrigation
6. Resident and public amenities
7. Roads, sidewalks, and lighting
8. Traffic signals and crosswalks
9. Utilities
10. Financing costs and contingency

The upfront infrastructure costs will be privately financed at the Developer's expense. However, the City Council will be requested to authorize a Resolution of Intent (ROI) to form an Enhanced Infrastructure Financing District (EIFD) to repay eligible upfront expenses plus a mutually agreed

[3] Using the DGS California Construction Cost Index (CCCI), estimated infrastructure costs would total $505.9 million in today's dollars after accounting for 9.9% construction cost inflation over the last two years. The California Construction Cost Index (CCCI) is developed based upon Building Cost Index (BCI) cost indices average for San Francisco and Los Angeles ONLY as produced by Engineering News Record (ENR) and reported in the second issue each month.

upon Interest Rate due to a timing mismatch between when the infrastructure will need to be paid for upfront and when the EIFD will be able to reimburse the Developer. EIFD revenue to reimburse principal and interest expense will come from the Property Tax Increment (TI) that will be created by the new development over time, as well as EIFD bond proceeds. Additionally, the County of San Diego's Board of Supervisors will also be requested to join the EIFD and contribute their portion of Property Tax Increment to the EIFD as well.[4] If approved, tax increment revenue from both the City and the County would support long-term reimbursement of upfront infrastructure costs paid by the Developer.

Although total upfront infrastructure costs are estimated to be approximately $460.3 million, only $378.3 million is anticipated to be eligible for reimbursement through the EIFD. The remaining $82.0 million in ineligible costs would not be repaid to the Developer by the EIFD.

Enhanced Infrastructure Financing District (EIFD)

Shortly following the dissolution of Redevelopment Agencies in California in 2012, the State legislature created a suite of Tax Increment Financing (TIF) tools, including EIFDs in 2014, to allow municipalities to fund eligible infrastructure and revitalization projects.

Although other tools may have existed to reimburse the Developer for eligible upfront infrastructure costs, given actual circumstances over the last four years they have been determined unavailable or infeasible for this project, leaving the formation of an EIFD as a reasonable approach.[5]

An EIFD is a tool that allows a municipality, or municipalities, to finance infrastructure from future property tax growth that would not exist otherwise if not for the project being financed, and therefore an EIFD does not increase taxes or create a new tax. The boundaries of the proposed EIFD would be slightly larger than the project site, and would be bound by Kurtz St. to the north, private property to the east, Sports Arena Blvd. to the south, and Hancock St. to the west, which is approximately 70 acres.

[4] The ratio of the 1.0% Proposition 13 Property Tax Increment that the City and County could contribute to an EIFD after statutory distributions to the Redevelopment Property Tax Trust Fund (RPTTF) and the Educational Revenue Augmentation Fund (ERAF) is 17.1% and 15.7%, respectively. Therefore, for every dollar of Property Tax Increment, the EIFD would receive about $0.33.

[5] Other tools could have included direct State infrastructure grants, the voluntary creation of a Community Facilities District (CFD) to partially offset costs with additional non-Ad Valorem property tax apportionments, project economics that would incentivize a Developer to cover the cost of infrastructure at its sole expense, or the City directly covering infrastructure costs through a General Obligation Bond or lease-revenue bonds. Current circumstances make these alternatives unlikely and/or infeasible.

Figure 1

Additional detail on the formation and mechanics of EIFDs, as well as further analysis of the EIFD being proposed for the Midway Rising development and revenues anticipated to be contributed to it by the City and County, is included in Attachment 3 to this report.

EIFD Risks

In the absence of the previously listed alternatives or supplements to an EIFD to finance infrastructure, our Office believes that an EIFD is a reasonable financial tool to reimburse capital expenses. However, they do have risks and considerations that should be evaluated and addressed during the IFP creation phase. Potential risks include:

1. *Unrealistic Carrying Cost*: If a carrying cost is incorporated into the IFP, the rate should be conservatively fixed at a reasonable rate that could be supported by the EIFD. If the EIFD cannot support a carrying cost that is established, any outstanding interest should not be a liability against the City, County, or EIFD assets. Analysis indicates that the proposed EIFD may only be able to support a carrying cost of approximately 3.0% annually, which is below current market financing rates and could affect the amount of infrastructure expenses ultimately reimbursed to the Developer. In an alternate case of the Tax Increment (TI) growing significantly more than forecasted, the EIFD carrying cost should not entirely consume any extraordinary TI beyond a reasonable carrying cost.
2. *Optimistic Assessed Value Growth Rate*: EIFD projections currently assume a 4.0% annual growth in Assessed Value (AV). That rate of growth is slightly conservative for the entire City's AV but may be optimistic for a 70-acre site where the main driver of AV growth is the same asset class, multi-family housing. The EIFD projection already considered the AV growth from the initial new construction, so under Proposition 13, any growth over 2.0% would have to be the result of a change in ownership or major improvements to bring the AV up to market. For example, reducing the annual growth factor to 3.5% would decrease the City's and County's combined TI by about 17.2% to $965.3 million, and therefore also reduce the net bond and TI proceeds by 14.5% to $846.8 million.
3. *Market Rate Construction Delays*: Over the potential two-decade build out of the market rate housing and retail, it would be reasonable for there to be pauses in development to

fully finance each Pad Site in the best economic environment possible. However, during those pauses, the carrying cost incurred by the EIFD would grow while at the same time the primary driver of EIFD revenue, market rate construction, was slowed.

4. *Credit Quality of TI Bonds*: While the assumptions for the Coupon Rate and Debt Service Coverage Ratio (DSCR) are informed by reasonable economic assumptions at this time, the final bond rating for each issuance in the future will vary and may necessitate a higher Coupon Rate and DSCR, thereby reducing the bond proceeds and increasing the debt service which would reduce the overall revenue of the EIFD.

Entertainment Center

Arena Development and Construction

As part of the Midway Rising redevelopment, the Developer will construct a new multipurpose entertainment arena, which is anticipated to be one of the first major vertical components of the project to be developed. The new arena will contain at least 380,000 square feet and accommodate approximately 16,000 spectators, although the agreement permits a reduction in seating capacity to no fewer than 15,200 seats, subject to corresponding adjustments to the City's ticket fee revenues. The arena will accommodate concerts, sporting events, and other entertainment and community activities.

Construction of the new arena is anticipated to occur during the early phases of the larger redevelopment project. Under the proposed development approach, the existing Pechanga Arena would continue operating while site preparation, infrastructure improvements, and construction of the new arena are underway, allowing for an overlap between construction activity and existing arena operations. The existing arena would subsequently be decommissioned and demolished as part of the redevelopment. The specific timing of this transition will depend on the project's construction schedule and progress toward completion of the new facility.

The total estimated development cost of the new arena is $526.4 million, including construction and associated development costs. These costs will be borne entirely by the Developer, with no City funding contribution anticipated for the vertical construction of the arena.

Arena Ticket Fee Revenue

Under the proposed Entertainment Center Ground Lease, the City will receive revenue generated through a ticket fee assessed on paid admissions to the new arena. The lease establishes a maximum 85-year term and provides for the following ticket fee arrangement:

- First 10 Years: No ticket fees will accrue or be paid to the City during the first 10 years following issuance of the arena's final certificate of occupancy.
- Beginning in Year 11: A ticket fee of $1.50 per paid admission will be established. The fee will increase by 3.0% annually in subsequent years.

City Revenue Participation: The City will receive 25.0% of ticket fee revenues annually, regardless of the Developer's profitability. The remaining 75.0% will accrue as a deferred

payment obligation to the City, without interest, and will become payable if or when the Developer achieves a 16.5% Levered Internal Rate of Return (IRR) on its investment in the arena.[6]

Once the Developer achieves the 16.5% IRR threshold, the lease requires that 100% of the arena's annual net cash flow, after accounting for the amount necessary to achieve the threshold, be directed toward payment of accrued ticket fees until the outstanding balance is retired. Thereafter, the City would receive the full amount of ticket fees generated each year.

Whether and when the Developer achieves the 16.5% IRR threshold is uncertain. There are reasonable scenarios in which the threshold could be achieved, as well as scenarios in which it may never be achieved during the lease term. Achievement of the threshold may be more likely if the Developer sells its interest in the arena at some point in the future, as proceeds from a sale could contribute toward meeting the required return. However, the likelihood and timing of such a transaction are unknown, and a potential sale could occur several decades after the arena begins operations. Accordingly, the timing and ultimate amount of the City's deferred ticket fee revenues cannot be determined with certainty.

Estimated Ticket Fee Revenues

Our Office evaluated potential ticket fee revenues to the City under two scenarios: one in which the Developer achieves the 16.5% IRR threshold and the City receives its full share of ticket fee revenues, and another in which the threshold is not achieved, and the City receives only its guaranteed 25.0% share. Based on assumptions regarding the number of events held at the arena and associated paid attendance, we estimate the following revenues over the 85-year lease term:

Figure 2

City Ticket Fee Revenue in FV and PV
($ in Millions)

Ticket Fee Type	Future Value (FV)		Present Value (PV)(1)	
	Scenario 1	Scenario 2	Scenario 1	Scenario 2
	IRR Hurdle Never Met	*IRR Hurdle Met*(2)	*IRR Hurdle Never Met*	*IRR Hurdle Met*(2)
25.0% Payment	$ 114.5	$ 114.5	$ 10.5	$ 10.5
75.0% Accrual	0.0	343.5	0.0	30.4
TOTAL	**$ 114.5**	**$ 458.0**	**$ 10.5**	**$ 40.9**

Note: Totals may not sum due to rounding.

(1) Present Value (PV) calculated using a 4.5% discount rate.

(2) Assumes investors achieve a 16.5% annual return on their equity investment over 20 years including the sale of the project in year 20 at an estimated market value (based on a 4.5% capitalization rate)

[6] A levered internal rate of return measures the annualized return on an investor's equity investment after accounting for the use of debt financing. In this agreement, the 16.5% levered IRR serves as a profitability threshold that the Developer must achieve before the deferred portion of the City's ticket fees becomes payable. A higher IRR generally indicates a greater financial return to the investor relative to the equity invested.

These estimates assume approximately 1.12 million paid admissions across 178 events annually. Actual revenues will vary depending on event attendance, the timing of the arena's opening, the Developer's financial performance, and when or if the IRR threshold is achieved. The guaranteed 25% share of ticket fees is not a guarantee of a specific dollar amount, as payments remain dependent on tickets sold.

IBA Assessment and Council Considerations

We believe the proposed ticket fee arrangement represents a reasonable approach to balancing the City's interest in receiving revenue from the arena with the financial risks associated with its development and operation. The arrangement ensures that the City will receive a portion of ticket fee revenues regardless of the Developer's financial returns, while also providing an opportunity to receive significantly greater revenues if the arena performs sufficiently well to meet the established profitability threshold.

From the City's perspective, the most favorable arrangement would be to receive the full ticket fee directly each year, without a portion being deferred or conditioned on the Developer's financial performance. However, the proposed arrangement may also provide an additional long-term benefit to the City.

Major entertainment facilities typically require substantial capital reinvestment over their operating lives, including significant modernization or renovation after several decades of use. At that point, an arena operator may seek modifications to its ground lease or other financial concessions from the City to support a major capital investment. Under the proposed arrangement, a substantial balance of accrued but unpaid ticket fees could provide the City with additional negotiating leverage in such discussions. For example, the City could potentially consider modifications to the treatment of accrued payments as part of a broader agreement to secure reinvestment in the arena, continued operation of the facility, or other public benefits.

Although such future negotiations are speculative, the value of an accrued ticket fee balance may provide the City with a useful financial interest in future negotiations that would not otherwise exist.

On balance, we believe the proposed arrangement for the entertainment center provides the City with a reasonable combination of ongoing revenue participation and potential long-term financial upside, while placing the initial construction costs and principal operating risks of the arena on the Developer. In effect, the City would receive a new arena constructed entirely at the Developer's expense, a contractual share of ticket revenues regardless of the Developer's profitability, and the opportunity to share in the arena's long-term financial success, without assuming the upfront cost of building the facility.

Market Rate Multi-Family & Retail or Commercial Space

The proposed redevelopment project includes 2,254 units of market rate housing and 130,000 sq. ft. of retail or commercial space. The market rate units can be reduced by 4 units, and the retail space can be reduced or increased by 5.0% to 123,500 sq. ft. or 136,500 sq. ft., respectively.

Market Rate Development

The market rate housing is projected to be built out over about 15 years and five phases, with the first phase starting shortly after the start of construction of the Entertainment Center. Total project costs, including acquisition, construction costs, and financing costs, are estimated to be $1.54 billion for the market rate housing and $111.9 million for the retail.[7] The construction will be financed with debt and equity, but the exact ratios will be determined at the time of construction closing of each Pad Site and be based on the economic factors at the time of each closing. Currently, the Developer estimates an average Loan-to-Cost (LTC) ratio of about 62.0%, which is considered a low-leverage deal compared to other ground-up new construction. With nearly 40.0% of funding from the Developer's equity, the vast majority of which is from the Limited Partner (LP) Stan Kroenke, each phase of construction will likely get access to lower interest rates and have stronger protection for the borrower and lenders, particularly in down markets.

Some of the individual buildings on each Pad Site will be built around parking structures, which is called a "wrap" or "Texas Donut" configuration. This hides the parking structures, helps activate the ground floor more than podium style parking, and is more efficient and cost effective than underground garages, but does require a larger footprint. The development is required to contain a minimum of 6,688 and a maximum of 7,392 vehicle parking spaces, but this may be reduced at the sole discretion of the City. Of the vehicle parking spaces, 3,031 would be for zero emission vehicles and 355 would have EV chargers. The development agreement does not require each parking structure to contain spaces for each type of user (resident, event, and retail), with current estimates from the Developer distributing parking stalls as:

- 2,771 stalls for market rate units (1.23 stalls per unit);
- 2,100 stalls for event parking;
- 1,779 stalls for affordable units (0.89 stalls per unit); and
- 390 stalls for retail parking.

City Participation Rent Structure

Once the market rate housing and retail space begin operation, the City will collect a Participation Rent from the Developer or Successor Tenant equal to 0.5% of Modified Gross Revenue (MGR) in years 0 – 55 and 2.5% thereafter. Modified Gross Revenue is gross revenue (before operating expenses) minus taxes, insurance, capital reserves, and the amortized cost of capital expenditures.

[7] While construction costs figures are in future dollars using a 2.0% annual construction cost escalator, this may be an underestimate due to the average annual construction cost inflation over the last 25 years being 4.0% and the existing prolonged inflationary environment.

However, the Participation Rent will not be due until the Developer has a return of their equity investment in each Vertical Lease. This means, for a simple example, if the first phase of market rate housing costs $200.0 million to construct, was financed with 40.0% equity ($80.0 million), and the phase's net cashflow after expenses and debt service was $16.0 million per year, then the equity investment would be repaid in five years, and the City's 0.5% participation rent would start thereafter.

The Developer's substantial equity investment reduces financing risk and provides additional protection during periods of economic weakness. However, because participation rent does not begin until the Developer recovers its equity investment, a larger equity contribution could also delay the commencement of rent payments to the City. The upside of the rent structure is that when Participation Rent starts, the City will get a small piece of the success of the project, but the downside is that the City also participates in the risk.

However, the Participation Rent has four Minimum Rent floors that once achieved, the total Participation Rent across the entire project cannot go below. The floors are $500,000, then $1.0 million, then $1.5 million, and lastly $2.0 million. The annual rent will be the greater of the Participation Rent amount or the Minimum Rent amount. For example:

1. If in 2060, the 0.5% Participation Rent amount is $600,000 (i.e. above the $500,000 Minimum Rent floor), then the rent payment would be $600,000.
2. Then, in 2061, the 0.5% Participation Rent amount is $450,000 (i.e. below the $500,000 Minimum Rent floor), then the rent payment would be $500,000.

Estimated Participation Rent Revenue

The time between when the first phase 85-year Vertical Lease starts to when the last phase Vertical Lease ends is likely to be greater than 100 years. Figure 3 below is an estimate of the Future Value (FV) and Present Value (PV) of the City's revenue from Participation Rent based on estimates we believe to be reasonable over a long timeframe.

Figure 3

City's Participation Rent Revenue from Market Rate Housing & Retail by Phase
($ in Millions)

Market Phase	Future Value (FV)			Present Value (PV)[1]		
	Years 1 - 55	Years 56 - 85	**Total**	Years 1 - 55	Years 56 - 85	**Total**
Phase 1	$ 10.0	$ 91.5	**$ 101.5**	$ 1.9	$ 3.1	**$ 5.0**
Phase 2	9.0	82.5	**91.5**	1.5	2.4	**3.9**
Phase 3	22.1	204.1	**226.1**	3.0	5.0	**8.1**
Phase 4	14.6	131.8	**146.3**	1.8	2.7	**4.5**
Phase 5	16.2	150.2	**166.5**	1.6	2.7	**4.4**
Retail	3.4	33.9	**37.3**	0.6	1.2	**1.8**
TOTAL	$ 75.3	$ 693.9	**$ 769.2**	$ 10.4	$ 17.2	**$ 27.6**

Note: Totals may not sum due to rounding.

(1) Present Value (PV) calculated using a 4.5% discount rate.

Based on these assumptions, the City is projected to receive approximately $769.2 million in nominal participation rent over the life of the various ground leases, equivalent to approximately $27.6 million in present value using a 4.5% discount rate.

Affordable Housing

The affordable housing component of the redevelopment includes 2,000 units of housing for individuals and families making at or below 80% of the Area Median Income (AMI) which would be built out over 15 years in five phases. The affordability covenants would be for a minimum of 55 years. The average Area Median Income (AMI) for each building on each Pad Site would vary depending on the sources of funding for the site and the populations served, but the average AMI across the entire site is projected to be slightly less than 50% which is less than the 60% required by the Disposition and Development Agreement (DDA). The project currently contemplates the tenant population served in the affordable housing buildings to be families, seniors, and veterans, with 200 units set aside for Permanent Supportive Housing (PSH). The table below is an illustrative example of what 50% Area Median Income (AMI) means for income and rent at different household sizes and unit sizes.

Figure 4

Income & Rent at 50% AMI *Median Income is $130,900*[1]					
Family Size	**Unit Size**	**Household Income**		**Monthly Rent**	
One Person	Studio	$	61,250	$	1,531
Two People	One-Bedroom	$	70,000	$	1,640
Three People	Two-Bedroom	$	78,750	$	1,968
Four People	Three-Bedroom	$	87,450	$	2,186

(1) Median Income is based on HUD Formula Income Limits Adjusted for High Housing Cost Area

Additionally, the Disposition and Development Agreement (DDA) contains an initial Affordable Unit Matrix that shows the targeted unit mix by Area Median Income Level, but this is not a binding mix and will be periodically updated.

Figure 5

Initial Affordable Unit Matrix *Median Income is $130,900*[1]				
Area Median Income (AMI)	**Studio or One-Bedroom**	**Two-Bedroom**	**Three-Bedroom**	**Total**
80% - 61%	70	60	50	180
60% - 51%	180	100	100	380
50% - 31%	560	240	170	970
30% or less	240	120	90	450
Manager Units	-	20	-	20
Total	1,050	540	410	2,000

(1) Median Income is based on HUD Formula Income Limits Adjusted for High Housing Cost Area

Affordable Housing Development

The total development cost for the affordable housing is currently estimated to be about $1.59 billion – of that, about 8.5% is for the acquisition of infrastructure, 85.6% is for hard costs, soft costs, and contingency, and 5.9% is for financing costs. The City will not be collecting rent from the affordable units.

The sources of funding for each phase vary, but include a mix of permanent loans, Low Income Housing Tax Credit (LIHTC) equity from 4.0% and 9.0% tax credits, project-based vouchers, deferred developer fee, developer financing (General Partner loan), private funds, acquisition discounts, and gap financing that would need to be secured at a later date (ex. City Bridge to Home loan, San Diego Housing Commission loan, State Housing and Community Development (HCD) Multi-Family Housing Program, HCD Affordable Housing and Sustainable Communities, and HCD Veterans Housing and Homelessness Prevention Program).

The construction of the affordable housing will occur concurrently with the development of the market rate housing so as not to back-load its development in later phases. Section 15.3 of the Disposition and Development Agreement (DDA) describes and illustrates the required minimum inclusion of affordable housing units per phase, treatment of more units constructed in a phase than the phase minimum, and treatment of changes to the overall phasing schedule. Additionally, if financing is not able to be secured for affordable housing Phase 2 or 3, the corresponding market rate phase can proceed after written notice and proof of inability to finance the affordable phase after two years of timely funding cycle attempts. There can be only one phase delay gap between the corresponding market rate and affordable phase, so for Phase 4 of market rate development to commence, Phases 2 and 3 need to be completed.

Economic Feasibility

The proposed redevelopment project is an enormous undertaking that will occur over multiple decades where the future cost of materials, interest rates for short- and long-term debt, real estate

market strength, and consumer demand are unknown and will change. These represent noteworthy risks to the Developer, and by extension, the City's interest in the redevelopment. Therefore, underwriting the basic feasibility of each project component and primary economic assumptions for plausibility is critical.

Infrastructure Feasibility

- Upfront Costs: The $460.3 million total infrastructure cost is based on September 2024 figures but did include contingency and escalators. The detailed cost assessment was conducted by AECOM, a reputable engineering and construction company, that may have already incorporated contingency into individual line-items.
- Assessed Value Growth: The Developer's model assumes 4.0% annual Assessed Value growth. Our Office recommends testing multiple different Assessed Value growth rates and modeling future Pad Site sales impact on Assessed Value to determine a conservative and optimistic range of tax increment and net bond revenue for the Enhanced Infrastructure Financing District (EIFD).
- Tax Increment Bonds: Similarly, when developing the Infrastructure Financing Plan (IFP), staff should develop conservative and optimistic ranges for the Debt-Service Coverage Ratio (DSCR) and coupon rate for bonding at each bond issuance.
- Eligible Costs and Maintenance: The Infrastructure Financing Plan (IFP) that will need to be approved by the Public Financing Authority (PFA) and City Council will explicitly detail what costs will and will not be eligible for reimbursement. Currently, only the park and open space maintenance is included as Capitalizable Maintenance Costs. Our Office recommends that staff from the City and County determine if additional future Capitalizable Maintenance Costs can or should be included in the Infrastructure Financing Plan to reduce any potential future City General Fund infrastructure costs that may be required by the project during the EIFD's existence.

Entertainment Center Feasibility

- Anchor Tenant: The Developer's proforma does not currently account for a potential future "anchor tenant" either purchasing the arena or renting it. An anchor tenant, like an NHL, NBA, or WNBA team, would increase overall revenue for the Developer from ticket sales, rent, sponsorships, and merchandise. Not factoring in an anchor tenant is a conservative and reasonable assumption at this time.
- Capitalization Rate: If the arena is sold, the Developer is currently modeling a sale at a 4.5% Capitalization Rate (Cap Rate). Cap Rate is calculated by dividing Net Operating Income (NOI) by market value or sales price. When NOI is fixed, a lower Cap Rate means a higher purchase price. Therefore, a 4.5% Cap Rate at a future sale may be optimistic without the sale being to an anchor tenant with a large incentive to secure control of its own venue.
- Schedule of Events & Seating: The Developer's model assumes about 178 events per year, with significant variations in attendance per event, with the largest number of events being

attributable to Gulls games and concerts. The figures in the proforma were developed by professional entertainment center operators, so while reasonable, future tenants may need additional events per year and may attract additional paid attendance per event.

Market Rate and Retail Feasibility

- Capitalization Rate: The Developer's proforma assumes a 4.25% Capitalization Rate at future pad site sales, which is reasonable for ground-up new construction in this area.
- Monthly Rent: The Developer's proforma assumes an average monthly rent for all unit types (studio, one-bedroom, two-bedroom, and three-bedroom) to be $3,740 in 2035 dollars with an annual rent escalator of 3.0%. These are reasonable assumptions given unit mix, new construction, future amenities, and current market conditions.
- Yield on Cost: The current estimated untended Yield on Cost (Y-o-C) is around 5.70%, meaning the Developer's Net Operating Income (NOI) is about 5.70% of the market rate component's total development costs. The spread between the Capitalization Rate (4.25%) and Yield on Cost (5.70%) is called the Developer Spread and is about 145 basis points. This is on the lower range of a reasonable spread, but this does not account for the fact that some costs to the Master Developer could also be considered revenue to the Master Developer after accounting for the fact that the Master Developer will collect reasonable construction fees, pad sale fees, and other fees during the development.

Affordable Housing Feasibility

- Tax Credit Pricing: The Developer's model currently assumes that 4.0% Low Income Housing Tax Credits (LIHTC) can be sold at 90 cents on the dollar. That pricing is likely above current market conditions, so if trended down to 85 cents on the dollar, each affordable housing phase would lose about $500,000 of tax credit equity for every $10.0 million in total 10-year tax credit awards. Since all the affordable housing phases currently project $715.9 million in 4% and 9% tax credit awards over all phases (at 90 cents on the dollar, this is about $644.4 million in tax credit equity), if a $0.85 tax credit price was used, total equity would drop by about $35.8 million to $608.6 million in total tax credit equity. While this hypothetical additional gap financing needed is not of great concern at this time, it should be considered as part of the larger softening in the affordable housing development market that is making it harder for projects to become fully financed in a timely fashion.

CONCLUSION

The proposed Midway Rising development represents a significant opportunity to transform nearly 50 acres of City-owned property that has remained largely unchanged since the construction of the Sports Arena in the 1960s. If completed as proposed, the project would provide a new 16,000-seat entertainment arena, more than 4,200 housing units, including 2,000 affordable units, new commercial and retail space, parks, public spaces, and substantial infrastructure improvements. The project is anticipated to result in the Developer investing approximately $4.2 billion in total development costs, representing one of the largest redevelopment efforts in the City's history.

While the Developer would be responsible for arranging financing and constructing the project, the City would also be making significant commitments. Most notably, the City would dedicate nearly 50 acres of publicly owned land to the development through long-term ground leases extending approximately a century, limiting its ability to pursue alternative uses of the property during that period. Additionally, a portion of the future property tax growth generated by the development would be committed to reimbursing eligible infrastructure costs through a proposed EIFD. These commitments represent meaningful opportunity costs that should be weighed against anticipated public benefits and financial returns.

In exchange, the City would receive substantial new housing, infrastructure, and public amenities, while retaining ownership of the underlying land and participating in revenues generated by the development. Based on our analysis, we estimate that the City could receive approximately $883.7 million to $1.23 billion in nominal ticket fee and rental revenues over the life of the agreements. The project could also generate additional economic activity, private investment, and increased property values in surrounding areas, providing benefits to the City beyond those directly required under the proposed agreements.

Although our Office believes the proposed financial terms are reasonable, this does not guarantee that the development will be completed as currently contemplated. The project will be constructed over multiple phases and decades, during which financing conditions, construction costs, real estate markets, and other economic factors will change. The Developer's ability to secure financing and proceed with each phase, particularly the affordable housing, will be critical to the project's ultimate success. Similarly, the proposed EIFD will require additional analysis and future approvals to ensure that infrastructure reimbursements and associated financing costs remain supportable under reasonable economic assumptions. These uncertainties underscore the importance of continued City oversight and periodic review as the project progresses.

On balance, our Office believes the proposed agreement represents a fair and reasonable transaction for the City and an important opportunity to achieve the long-sought redevelopment of the Sports Arena property. The agreement would facilitate billions of dollars in new investment, deliver significant housing and public amenities, and provide the City with meaningful long-term financial returns while preserving public ownership of the land. Although the City would be committing valuable public resources and the development carries substantial

implementation risks – and continued oversight of the project and an associated EIFD will be critical if the project advances – we believe the anticipated benefits provide reasonable consideration for those commitments. Further, while the ultimate success of the development will depend on economic conditions and the Developer's ability to deliver the project over time, the proposed agreement establishes a reasonable financial and contractual framework for that redevelopment to occur.

Our Office remains available to assist Council in its deliberations.

Noah Fleishman
Senior Fiscal & Policy Analyst

Charles Modica
Independent Budget Analyst

Attachments:

1. Glossary of Terms
2. Horizontal Phasing Plan
3. EIFD Formation, Mechanics, and Finances
4. Infrastructure & Site Development Costs
5. How to Create an Enhanced Infrastructure Financing District

ATTACHMENT 1: GLOSSARY OF TERMS

Term	Definition
Ad valorem	Latin for "according to value" is a tax based on the assessed value or fair market value of an asset like property.
Annual Percentage Yield (APY)	The annualized rate of return on an investment, reflecting the effect of compounding over a one-year period. APY allows comparison of yields across financial products with different compounding frequencies.
Area Median Income (AMI)	The midpoint of household income in a geographic area, where half of households earn more and half earn less. AMI is used to determine eligibility and affordability levels for housing programs and income-restricted units.
Assessed Value (AV)	The value assigned to real property by a county assessor for purposes of calculating property taxes. AV may differ from market value and is determined according to state assessment rules.
California Consumer Price Index (CCPI)	A measure of inflation in California based on changes in the cost of a representative basket of goods and services. CCPI is often used to index fees, rents, or tax-related limits.
Capital Improvements Program (CIP)	A multi-year planning and budgeting framework for major public infrastructure projects. The CIP outlines project costs, funding sources, and implementation timelines.
Capitalizable Maintenance Costs	Expenditures for maintenance activities that extend an asset's useful life or improve its value and therefore can be recorded as capital assets rather than operating expenses. These costs increase the asset's book value and are depreciated over time.
Carrying Cost	The total cost of holding an asset or property over time, including taxes, insurance, maintenance, and financing costs. Carrying cost affects project feasibility and investment returns.
Community Facilities District (CFD)	A special district formed under the Mello-Roos Act to finance public infrastructure and services through special taxes. CFDs commonly issue bonds repaid by property owners within the district.
Coupon Rate	The coupon rate is the fixed annual interest rate a bond issuer agrees to pay bondholders, expressed as a percentage of the bond's face value. It determines the periodic interest payments investors receive over the life of the bond.
Credit Quality	An evaluation of the likelihood that a borrower or bond issuer will meet its financial obligations. Higher credit quality indicates lower risk to investors and typically results in lower borrowing costs.

Term	Definition
Debt-Service Coverage Ratio (DSCR)	A measure of a project's or issuer's ability to repay debt, calculated as net operating income divided by annual debt service. A DSCR above 1.0 indicates sufficient income to cover scheduled debt payments.
Discount Rate	The interest rate used in a Net Present Value calculation to convert future cash flows into their present value, reflecting the time value of money and the risk or opportunity cost associated with the investment.
Disposition and Development Agreement (DDA)	A Disposition and Development Agreement is a legally binding contract between a public agency and a developer that outlines the terms for transferring public property and the requirements for designing, financing, and constructing a development project. It specifies each party's obligations, project milestones, and enforcement mechanisms to ensure successful project delivery.
Enhanced Infrastructure Financing District (EIFD)	A California tax-increment district that lets cities and counties dedicate property tax growth above a base year to eligible public facilities under an Infrastructure Financing Plan governed by a Public Financing Authority; it does not raise tax rates or divert school shares.
Future Value (FV)	Future value is the amount a present sum grows to at a specified rate over a set time. For the purposes of this report, this is also equal to the nominal/aggregate value of future amounts.
General Obligation (GO) Bonds	Municipal bonds backed by the full faith and credit of the issuing government, typically supported by property tax revenues. GO bonds generally carry lower risk because they rely on broad taxing authority.
General Partner (GP)	The managing partner in a partnership responsible for making operational and investment decisions. GPs have fiduciary duties to the partnership and typically hold unlimited liability for its obligations.
Horizontal Lease	A master ground lease covering site-wide horizontal improvements (grading, utilities, streets, parks, garages) executed prior to vertical building leases, with the public owner retaining the fee.
Infrastructure Financing Plan (IFP)	A required plan for Enhanced Infrastructure Financing Districts (EIFDs) that specifies proposed projects, financing strategies, tax increment projections, and governance structure. The IFP guides long-term investment and establishes the basis for bond issuance.
Interest Rate	The price of borrowing capital expressed as a percentage per period used to calculate compounding, discounting, and debt service.
Internal Rate of Return (IRR)	A measure of the annual percentage return an investor earns on an investment over time, taking into account both the amount invested and the timing of money received. "Levered" IRR considers returns after debt payments and "unlevered" IRR considers returns before debt payments.

Term	Definition
Lease Revenue Bonds	Bonds issued by a public agency and secured by lease payments from a governmental tenant occupying a facility. These bonds do not require voter approval and rely on annual appropriation of lease payments.
Limited Partner (LP)	A passive investor in a partnership who contributes capital but does not participate in day-to-day management. LPs have limited liability, meaning their financial risk is generally capped at the amount of their investment.
Loan-to-Cost (LTC)	A financing metric that compares the amount of a loan to the total cost of a development or construction project, expressed as a percentage. Lenders use LTC to assess risk and determine how much of the project cost they are willing to finance.
Minimum Rent	Minimum Rent is the baseline payment the tenant must make to the City under a Disposition and Development Agreement once the Minimum Rent Threshold is achieved, regardless of project performance or revenue.
Net Operating Income (NOI)	The income a property generates after deducting all operating expenses from gross revenue, excluding debt service, capital expenditures, depreciation, and income taxes. NOI is a key measure of a property's financial performance and its ability to support financing.
Pad Site	A small, standalone parcel within a larger development that has been prepared for construction, often with utilities and site improvements already in place.
Participation Rent	A percentage-based rent paid annually by the tenant. For the Midway Rising proposal, this is set to 0.5% of Modified Gross Revenue in years 0–55 and 2.5% thereafter, and payable only after the developer has fully recouped its equity investment for the applicable Vertical Ground Lease.
Permanent Supportive Housing (PSH)	Permanent Supportive Housing combines long-term, affordable housing with voluntary supportive services to help people experiencing homelessness—particularly those with disabilities—achieve housing stability. PSH is designed as a permanent solution, offering both rental assistance and wraparound services to support residents' long-term well-being.
Possessory Interest	A taxable private right to use publicly owned real property for personal or commercial benefit. Examples include leases, permits, and concessions on government land.
Present Value (PV)	The current worth of future cash flows discounted at a specified rate reflecting time value and risk.
Proforma	A forward-looking development finance model forecasting costs, revenues, financing, and returns.
Property Tax Increment	The increase in property tax revenue above the base-year assessment that participating agencies may dedicate to district projects under EIFD law.

Term	Definition
Proposition 13	California's property tax framework capping ad valorem rates at 1% of assessed value and limiting annual assessed value growth to no more than 2% until a change in ownership or new construction.
Public Financing Authority (PFA)	The governing body responsible for administering an EIFD, including adopting the IFP, issuing bonds, and overseeing district operations. PFAs consist of representatives from participating agencies and public members.
Redevelopment Agencies (RDAs)	Former local agencies that used tax increment financing to revitalize areas until they were dissolved by the state in 2012. Their remaining obligations are now managed by successor agencies.
Reimbursement Agreement	A contract under which a developer or entity funds certain public improvements upfront and is later repaid from designated revenue sources, such as tax increment. These agreements help advance projects before long-term financing is secured.
Reserve Fund	A dedicated account established to ensure timely payment of bond debt service or cover unexpected costs. Reserve funds enhance credit quality and provide security to investors.
Resolution of Intent (ROI)	A legislative action by a city or county initiating EIFD formation, confirming PFA participation, and directing preparation of the Infrastructure Financing Plan and hearings.
Successor Tenant	A tenant that assumes a lease via assignment with landlord consent.
Tax Increment Financing	A value-capture tool that dedicates tax growth above a base year to a special fund used to deliver eligible public improvements or repay bonds.
Vertical Lease	A long-term ground lease governing the construction, operation, and maintenance of a particular development parcel or building within the larger project.

ATTACHMENT 2: HORIZONTAL PHASING SCHEDULE

*This map is conceptual and is shown for illustrative purposes only

*This image is conceptual and is shown for illustrative purposes only

ATTACHMENT 3: EIFD FORMATION, MECHANICS, AND FINANCES

EIFD Formation Process

The multi-step process to form an EIFD is governed by Chapter 2.99 of the California Government Code, beginning with Section 53398.50. The process is also well illustrated on the "How to Create an Enhanced Infrastructure Financing District (EIFD)" website created by the California Association for Local Economic Development (CALED) – that illustration is duplicated as Attachment 5 of this report.

The actions that City Council will be asked to authorize in November 2026 related to the EIFD are considered Step #4 of Attachment 4: How to Create an EIFD:

1. Adopt a Resolution of Intent (ROI) to form the proposed EIFD; and
2. Establish a Public Financing Authority (PFA) to govern the future EIFD.

The PFA is proposed to be comprised of two elected representatives from the City, two elected representatives from the County, and three appointed public representatives with qualifying expertise.

Should Council approve the above actions, the City, County, and PFA would need to create an Infrastructure Financing Plan (IFP) which is the principal governing document of the EIFD. Attachment 5: Infrastructure & Site Development Costs is a small representation of what our Office believes may and may not be considered eligible infrastructure to be included as part of the IFP, but this is a very preliminary estimate of scope and cost, not a legal finding of eligibility.

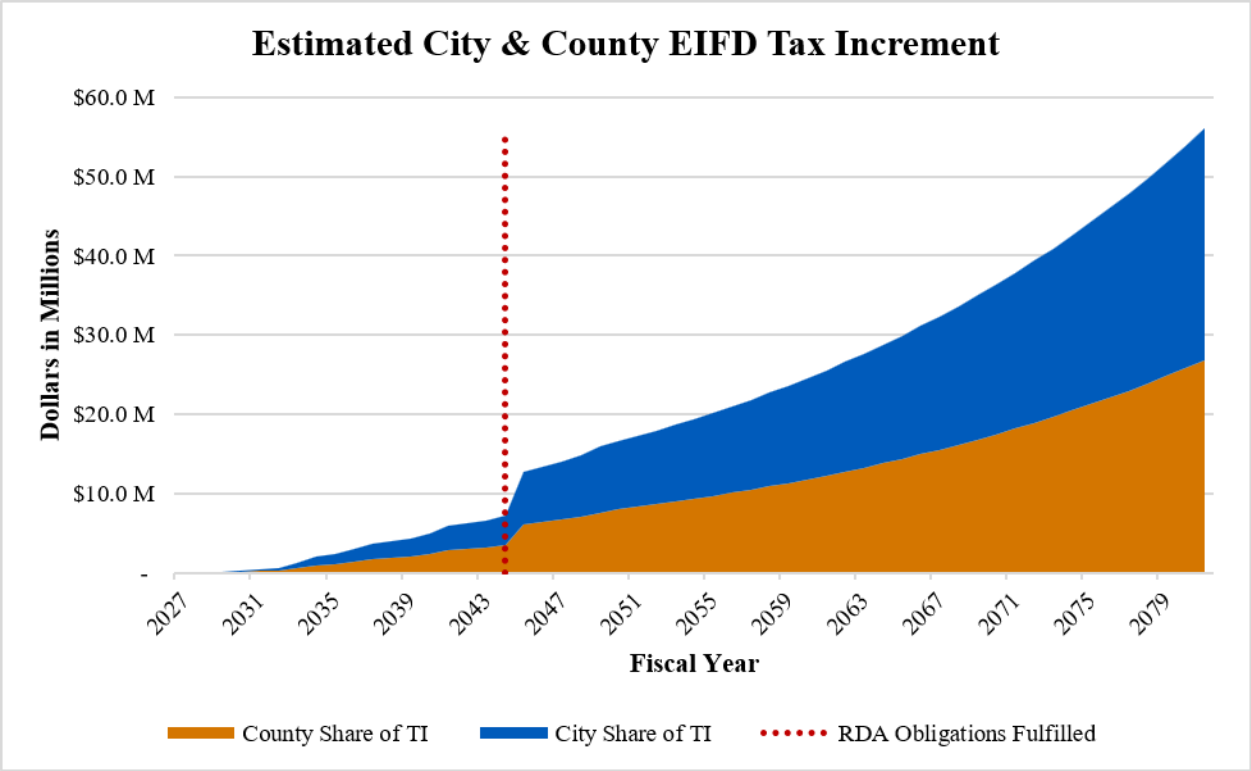
EIFD Mechanics

Once an EIFD and PFA are formed, a base year will need to be established. The Assessed Value (AV) of all property within the EIFD boundary in that base year will become the base AV. The 1.0% property tax revenue of that base AV that goes to the City and County will not increase above that base amount during the existence of the EIFD.

All of the 1.0% property tax revenue created by the increased AV above the base, also known as the tax increment, that would have gone to the City's General Fund ($0.17 of every dollar of property tax) and County ($0.16 of every dollar of property tax) would now instead go to the EIFD.[8]

[8] The only caveat being that the EIFD is located inside the North Bay Redevelopment Project Area of the former Redevelopment Agency. Due to the dissolution of Redevelopment Agencies in 2012, the property tax revenue is first deposited into the Redevelopment Property Tax Trust Fund (RPTTF) to make passthrough payments to taxing entities, then make Recognized Obligation Payments (ROPS) (i.e. payments on old debts) of the former Redevelopment Agency, then lastly make residual payments to taxing entities. Only the City's and County's ratios of the residual payments that can be attributed to AV growth in the EIFD will be remitted to the EIFD so long as the City's Successor Agency continues to need to make ROPS payments. The City's final ROPS payment is currently expected to be completed in 2045.

Figure 6



The incremental AV would first and foremost be created by the construction of the project, future sales of properties greater than the AV, and the annual allowable increase in AV under Proposition 13 which is the lesser of 2.0% or the percentage change in the California Consumer Price Index (CCPI). Since much of the incremental AV will be created by the construction of the project, which will be completed in phases over 20 years, the incremental AV will be created slowly. Because the affordable housing component is anticipated to qualify for property-tax exemptions, our projections assume that the 2,000 units of affordable housing proposed for the site will not generate additional property-tax increment for the EIFD.

The EIFD can collect property tax increment until a predetermined date or 45 years after the first bond or debt issuance. The EIFD can bond against its projected future tax increment revenue and use the proceeds of a bond sale on eligible costs in the IFP. However, tax increment revenue bonds are generally considered lower Credit Quality, i.e. higher risk, compared to the City's own borrowing capacity. Therefore, they will likely need to have a Debt-Service Coverage Ratio (DSCR), higher interest rates, and a Reserve Fund to access the bond market.

EIFD Finances

If the EIFD Resolution of Intent and Public Financing Authority formation are approved by City Council, specifics like the eligible facilities and programs, financial plan, revenue projections, and tax increment limitations will be determined by the PFA in the IFP which would still need future approval from the City Council at a later date. The following estimates are a summary of the

projected tax increment created by the EIFD and the bonding capacity overtime that would result in the net revenue the EIFD could generate. These are preliminary estimates and will likely change as the IFP is developed before being brought back to City Council for final approval, which would be Step #8 of Attachment 5: How to Create an EIFD.

Figure 7

EIFD Tax Increment (TI) and Bonding Capacity Over Time ($ in Millions)								
Fiscal Year	Incremental AV(1)	1.0% Tax	City TI(2)	County TI(2)	Combined TI	Annual Debt Service(3)	Gross Bond Proceeds(4)	Net Bonds + TI(5)
2028 (Base Year)	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
2038 (Bond #1)	2,034.6	20.3	2.1	1.9	4.0	(2.7)	41.8	39.7
2041 (Bond #2)	2,897.6	29.0	3.1	2.8	5.9	(1.2)	19.1	19.5
2044 (Bond #3)	3,515.5	35.2	3.8	3.5	7.3	(0.9)	14.3	15.5
2047 (Bond #4)	4,254.4	42.5	7.3	6.7	14.0	(4.5)	69.1	67.9
2050 (Bond #5)	5,064.6	50.6	8.6	8.0	16.6	(1.8)	27.5	30.7
2081 (End Year)	17,083.5	170.8	29.2	26.9	56.0	$ 0.0	$ 0.0	56.0
TOTAL	**$ 365,543.8**	**$ 3,655.4**	**$ 606.4**	**$ 558.9**	**$ 1,165.4**	**$ (332.2)**	**$ 171.9**	**$ 990.5**
TOTAL (NPV)(6)	**$ 75,527.7**	**$ 755.3**	**$ 119.2**	**$ 109.8**	**$ 229.0**	**$ (85.6)**	**$ 78.0**	**$ 214.9**

Note: Totals will not sum due to the Assessed Value (AV) and Tax Increment (TI) increases between bonding years not illustrated in the table.
(1) Assumes an annual Assessed Value growth rate of 4.0%
(2) City and County Tax Increment are 17.1% and 15.7%, respectively.
(3) Assumes a Debt-Service Coverage Ratio (DSCR) of 1.5x.
(4) Assume a 30-year term and a 5.0% coupon rate.
(5) These figures include the cost of the Interest Reserve Fund which is equal to one debt service payment per bond issuance.
(6) The discount rate used to determine Net Present Value (NPV) for the City is 4.5%. NPV discounts future cashflows back to today's dollar value to the City.

Figure 7 above shows that in the assumed EIFD base year, 2028, all incremental Assessed Value (AV) is set to zero to only account for the AV growth attributable to properties within the EIFD boundaries.[9] Since the EIFD would likely exist for about 54 years, depending on when the first bonds are issued, the table above summarizes the annual status of the EIFD just in the base year, each estimated bond issuance year, and the end year – so the white rows are seven point-in-time snapshots of the EIFD. The second to last light blue row totals all 54 years of the EIFD, not just the seven white rows, to illustrate the cumulative total Future Value (FV) of the EIFD. Lastly, the final light blue row totals all 54 years of the EIFD, but in Present Value (PV) terms with a 4.5% Discount Rate to give a better understanding of the EIFD's value in today's dollars since a dollar earned 54 years from now will be significantly less than a dollar earned today. We note that this differs from the Department of Finance's present value estimate of tax increment revenues, which is based on a 6% Discount Rate.

While growth in the City's and County's ratio of the 1.0% tax increment created within the EIFD boundary by the project will go to financing the project's eligible infrastructure, it would be reasonable to assume a certain level of "spillover" Assessed Value growth outside of the EIFD boundary as a direct or indirect result of the project. Growth outside of the EIFD boundary would go to the City's General Fund, not the EIFD.

[9] The approximate AV of the properties and Possessory Interest in 2027, before the assumed base year, is $37.0 million, which means that the 1.0% property tax is about $370,000, and the combined City and County share of that is about $121,000, not accounting for the North Bay Redevelopment Project Area.

Additional On-Going EIFD Costs

In addition to the estimated one-time, upfront infrastructure costs that are summarized in Attachment 2, the EIFD's relatively slow repayment of those costs in early years will incur additional costs to the EIFD. The repayment of all eligible costs in the IFP would be memorialized in a Reimbursement Agreement that the PFA would determine; the IFP and Reimbursement Agreement would need approval from City Council at a later date.

Financing costs for the future bond issuance costs and Carrying Costs to repay the construction loan or other debt vehicles are not illustrated in Attachment 4, but would be included in the IFP if they are determined to be eligible expenses.

Additionally, as previously mentioned, since there will be a delay between when the infrastructure will need to be paid for upfront and when the EIFD will be able to reimburse the Developer, the future negotiated Reimbursement Agreement would in all likelihood include a mutually agreed-upon Interest Rate, also known as a Carrying Cost. Based on the timing of when the initial infrastructure costs will be incurred by the Developer and when the EIFD would be able to begin repaying those infrastructure costs, plus a Carrying Cost, it is currently estimated that the EIFD could support a maximum 3.0% Annual Percentage Yield (APY) Carrying Cost. However, a 3.0% rate is well below current market conditions and is even below the Federal Reserve's Overnight Bank Funding Rate (OBFR) for the last four years.

Lastly, ongoing Capitalizable Maintenance Costs (e.g. major park upgrades, sidewalk reconstruction, etc.) are an eligible EIFD expenditure that will occur over the life of the EIFD. At between $1.0 million to $2.0 million per year, the estimated future value of the Capitalizable Maintenance Costs is about $92.0 million, which is about $35.0 million in today's dollars.

ATTACHMENT 4: INFRASTRUCTURE & SITE DEVELOPMENT COSTS

On-Site Mobility Improvements	Total[1]	IFP Eligible[2]
Linear Park - Sports Arena Blvd	$ 4,032,432.00	$ 4,032,432.00
Linear Park - Kurtz St	$ 3,378,670.00	$ 3,378,670.00
Internal Streets	$ 22,271,053.00	$ 22,271,053.00
Subtotal	**$29,682,155.00**	**$29,682,155.00**
Off-Site Mobility Improvements		
Traffic Signal Improvements	$ 4,749,404.00	$ 4,749,404.00
Sports Arena Blvd Improvements	$ 2,819,252.00	$ 2,819,252.00
Kurtz St Improvements	$ 1,946,372.00	$ 1,946,372.00
Rosecrans St Improvements	$ 1,575,581.00	$ 1,575,581.00
Pacific Highway Bridge Enhancements	$ 2,169,902.00	$ 2,169,902.00
Intersection Improvements	$ 11,166,127.00	$ 11,166,127.00
Subtotal	**$24,426,638.00**	**$24,426,638.00**
Parks & Open Space Improvements		
Public Parks & Associated Improvements	$ 26,504,799.00	$ 26,504,799.00
Community Amenity Areas FF&E/Specialties	$ 8,431,097.00	$ 8,431,097.00
Subtotal	**$34,935,896.00**	**$34,935,896.00**
Other Horizontal Infrastructure		
Sitework (Demo, Excavation, Soil Export, Grading)	$ 52,687,277.00	$ 36,116,192.00
Utilities (On Site)	$ 42,326,350.00	$ 42,326,350.00
Utilities (Off Site)	$ 5,398,862.00	$ 5,398,862.00
Subtotal	**$100,412,489.00**	**$83,841,404.00**
Parking Infrastructure		
Soft Costs (A&E, Permits/Fees, Insurance)	$ 15,973,299.00	$ 15,973,299.00
Hard Costs	$ 162,107,235.00	$162,107,235.00
Subtotal	**$178,080,534.00**	**$178,080,534.00**
Other Infrastructure Costs		
Predevelopment & Entitlement Costs	$ 18,380,000.00	$ 12,599,163.00
Soft Costs (Horizontal Infrastructure A&E, Permits)	$ 14,500,000.00	$ 9,939,492.00
EIFD Bonding Costs & Fees	$ 4,788,200.00	$ 4,788,200.00
Loan Financing Costs & Interest Reserve	$ 55,092,885.00	
Subtotal	**$92,761,085.00**	**$27,326,855.00**
Total Infrastructure Costs	**$460,298,797.00**	**$378,293,482.00**

(1) Uses September 2024 construction estimate.
(2) Illustrative example of estimated IFP eligible costs that will be finalized in the adopted IFP.

ATTACHMENT 5: HOW TO CREATE AN EIFD[10]

MUNICIPALITY (CITY/COUNTY/DISTRICT)

1

Form Team
1. Municipality (city/county)
2. Legal Counsel
3. Economic Advisor

2

Evaluate EIFD Feasibility
1. Define/refine Boundaries
2. Estimate Base Year Assessed Property Values
3. Estimate Future Assessed Property Values
4. Estimate Increment for Potential Taxing Agencies
5. Identify Public Facilities and Programs
6. Identify Funding Sources in Addition to Tax Increment

Best Practices Tips
1. Focus on areas with significant growth potential
2. Maximize area
3. Explore available RPTTF and MVLF revenues to kick-start the EIFD
4. Consider establishing project areas to maximize EIFD revenue

3

Conduct Outreach
1. Electeds
2. Other Taxing Entities
3. Affected Residents and Property Owners

Best Practices Tips
1. Explore potential projects to be funded by the EIFD that would entice participation of the County or other taxing agencies
2. Educate stakeholders about EIFDs – not a new tax, not a lien on property
3. Identify property owners who will advocate for formation

[10] "How to Create an EIFD," CALED, January 18, 2025, www.caled.org/how-to-create-an-eifd.

Initiate Formal Process

1. Select members of Public Financing Authority (PFA)
2. Establish PFA and adopt Resolution of Intention to establish proposed EIFD
3. Mail Resolution of Intention (or alternate one-page notice) to PFA, each affected taxing entity, and property owners

4

You have now formed your PFA!
PUBLIC FINANCING AUTHORITY

5

Prepare Infrastructure Financing Plan (IFP)

1. Map and Legal Description
2. List of Facilities and Programs
3. Tax Increment Revenue Projections
4. Financing Plan
5. Fiscal Impacts on Affected Taxing Entities
6. Date District will Cease
7. Replacement Housing Plan
8. District Goals
9. Tax Increment Limits

Best Practices Tips

1. Provide comprehensive list of projects and programs
2. Projects listed in General Plan are good starting point
3. Tax increment limits should provide large buffer above projections to minimize risk of need to amend limits

6

Pre-Adoption

1. Post IFP on designated website and send IFP to all affected taxing entities, residents, and property owners (at least 30 days before first public hearing)
2. Notice initial PFA information meeting in English and other required languages (10 days before meeting) *
    - Present Draft IFP
    - Consider Comments

*Requires 10-day mailed notice but allows these notice requirements to be addressed via a consolidated notice provided 40 days prior to the initial PFA information meeting. This notice would be an alternative to providing mailed notices to:

i. Landowners re: the infrastructure finance plan and CEQA docs. Sec. 53398.64
ii.10-day mailed notices related to the two public hearings. Sec. 53398.66.
(See Sec.53398.72 for specifics of what should be included in the consolidated notice.)

7

Public Hearings and Protest Proceedings

1. Notice 1st Public Hearing (mail notice can be consolidated with initial PFA information meeting above, but still requires 4 weeks of newspaper noticing)
2. Hold 1st Public Hearing at least 30 days after information meeting – No action
3. Notice 2nd Public Hearing (mail notice can be consolidated with initial PFA information meeting above, but still requires 1 newspaper notice 10 days in advance)
4. Hold 2nd and final Public Hearing (at least 30 days after 1st hearing) – Consider all protests and proceed as follows:
    1. If majority protests, terminate EIFD proceedings
    2. If between 25% and 50% protest, then notice and hold Protest Election
    3. If less than 25% protest, the PFA may adopt the IFP at the close of the hearing
5. If Protest Election is held and majority votes against formation, then proceedings terminate. If majority does not vote against formation, the PFA may adopt the IFP and form the EIFD

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Approvals & Formation

1. All participating Taxing Entities must approve the IFP prior to PFA forming the EIFD (must be done before 2nd PFA Public Hearing)
2. PFA enacts resolution forming the EIFD at close of 2nd Public Hearing (if less than 25% protest) or at close of Protest Election (if less than majority votes against formation)

THE OVERALL ADOPTION PROCESS TYPICALLY TAKES 12-18 MONTHS, HOWEVER EVERY COMMUNITY WILL BE DIFFERENT BASED ON LOCAL POLITICAL CONSIDERATIONS AND RESOURCES