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Edward Henning &

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Noe Valley Community Benefit District

**CITY AND COUNTY OF SAN FRANCISCO
CALIFORNIA**

DISTRICT ASSESSMENT ENGINEER'S REPORT

*Prepared by
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May 2005

DISTRICT ASSESSMENT ENGINEER'S REPORT

To Whom It May Concern:

I hereby certify to the best of my professional knowledge and experience that each of the identified benefiting properties located within the proposed Noe Valley Community Benefit District will receive a special benefit over and above the benefits conferred on the public at large and that the amount of the proposed assessment is proportional to, and no greater than the benefits conferred on each respective property.

Prepared by Edward V. Henning, California Registered Professional Engineer # 26549

Edward V. Henning

RPE #26549

May 17, 2005

Edward V. Henning

Date

(NOT VALID WITHOUT EMBOSSED CERTIFICATION SEAL AND SIGNATURE HERE)

Introduction

This report shall serve as the “detailed engineer’s report” required by Section 4(b) of Article XIIID of the California Constitution (Proposition 218) to support the benefit property assessments proposed to be levied within the Noe Valley Community Benefit District (Noe Valley CBD) in the City and County of San Francisco, California being established for a 15 year period. The discussion and analysis contained within constitutes the required “nexus” of rationale between assessment amounts levied and special benefits derived by properties within the Noe Valley CBD.

NOTE 1: The terminology “identified benefiting parcel” or “property” is used throughout this report pursuant to SB 919 - “Proposition 218 Omnibus Implementation Act” which clarified portions of Prop 218. It provides the Engineer with the obligation to actually identify individual parcels which will benefit directly either in whole or in part from the proposed District funded programs and improvements and does not imply that all parcels receive assessable benefits .

Background

The Noe Valley Community Benefit District (“CBD”) is a property-based benefit assessment type district being established pursuant to Section 36600 et seq. of the California Streets and Highways Code, also known as the Property and Business Improvement District Law of 1994 (the “Act”), augmented by Article 15 of the San Francisco Business and Tax Regulations Code. Due to the benefit assessment nature of assessments levied within a CBD, district program costs are to be distributed amongst all identified benefiting properties based on the proportional amount of program benefit each property is expected to derive from the assessments collected. Within the Act, frequent references are made to the concept of relative “benefit” received from CBD programs and activities versus amount of assessment paid. Only those properties expected to derive special benefits from the programs and activities may be assessed and for each assessed property only in an amount proportional to that parcel’s share of the reasonable costs and relative benefits expected to be received.

The method used to determine benefits derived by each identified property within a CBD begins with the selection of a suitable and tangible basic benefit unit. For property related services, such as those proposed in the Noe Valley CBD, the benefit unit may be measured in linear feet of primary street frontage or parcel size in square feet or building size in square feet or number of building floors or proximity to major corridors in average linear feet, or any combination of these factors. Quantity takeoffs for each parcel are then measured or otherwise ascertained. From these figures, the amount of benefit units to be assigned to each property can be calculated. Special circumstances such as unique geography, land uses, development constraints etc. are carefully reviewed relative to specific programs and improvements to be funded by the CBD in order to determine any levels of diminished benefit which may apply on a parcel by parcel or categorical basis.

Based on the factors described above such as geography and nature of programs and activities proposed, an assessment formula is developed which is derived from a singular or composite basic benefit unit factor or factors. Within the assessment formula, different factors may be assigned different “weights” or percentage of values.

Next, all program and activity costs, including incidental costs, district administration, ancillary programs, and volunteer and comped resource and material credits are estimated. It is noted, as stipulated in Proposition 218, and now required of all property based assessment districts, indirect and general benefits may not be incorporated into the assessment formula and levied on the district properties; only the reasonable costs of direct or “special” benefits may be assessed. Indirect or “general” benefit costs must be calculated and factored out of the full cost of the proposed property-related services, activities and improvement to produce the “net” costs that may be funded by assessments. In

addition, Proposition 218 prohibits the exemption of government owned property from paying benefit assessments and these properties must be factored into the assessment roll if special benefits are conferred upon such properties.

From this, the value of a basic benefit unit or “basic net unit cost” can be computed by dividing the total amount of estimated net program costs by the total number of benefit units. The amount of assessment for each parcel can be computed at this time by multiplying the Net Unit Cost times the number of Basic Benefit Units per parcel. This is known as “spreading the assessment” or the “assessment spread” in that all costs are allocated proportionally or “spread” amongst all properties within the CBD.

The method and basis of spreading program costs varies from one assessment district to another based on local geographic conditions, types of programs and activities proposed, and size and development complexity of the district. CBDs may require multiple benefit zones to be identified to allow for a tiered assessment formula for variable or “stepped-down” benefits derived.

Supplemental Proposition 218 Procedures and Requirements

Proposition 218, approved by the voters of California in November of 1996, added new procedures and requirements to be carried out prior to levying a property-based assessment like the proposed Noe Valley CBD. These requirements are in addition to requirements imposed by State and local assessment enabling laws. These requirements were enacted as Article XIIIID of the California Constitution. The Legislature clarified the new assessment requirements by enacting section 53750 et seq. of the California Government Code; the Proposition 218 Omnibus Implementation Act.

Since Prop 218 provisions will affect all subsequent calculations to be made in laying out the final property assessment roll for the Noe Valley CBD, Prop 218 requirements will be taken into account first. The key provisions of Prop 218 along with a description of how the Noe Valley CBD complies with each of these provisions is delineated below.

(Note: All section references below pertain to Article XIIIID of the California Constitution):

Finding 1. From Section 4(a): “Identify all parcels which will have a special benefit conferred upon them and upon which an assessment will be imposed”

There are 168 “identified” individual parcels within the Noe Valley CBD which will all derive some level of special benefit from the proposed District programs and activities. These parcels are shown on the Boundary Map within the Management District Plan and are listed as an attachment to the Plan - identified by assessor parcel number. One

benefit zone has been identified within the District which includes all properties along 24th Street from Douglas to Church and along Castro Street from Elizabeth to 25th Street.

Finding 2. From Section 4(a): “Separate the general benefits from the special benefits conferred on parcel(s). Only special benefits are assessable. “

Assessment district programs and activities confer a combination of general and special benefits to district properties, but the only program benefits which can be funded through assessments are those attributed to special property related benefits. Thus, a portion of the program costs must be considered attributable to general benefits and assigned a value. Conventional assessment engineering experience has found that general benefits within a given district typically average 5% of the total adjusted costs. (Total adjusted costs include actual proposed assessment district program costs plus any additional supplemental or matching program costs as well as applied credits from sources such as start up grants, Board/Committee member service credits and specialized assessment reductions/adjustments.) There are three common methods for determining general and special benefit ratios within assessment districts:

- (1) The parcel by parcel allocation method
- (2) The program/activity line item allocation method, and
- (3) The composite district overlay determinant method.

The vast majority of districts in California have used Method #3, the composite district overlay determinant method which will be used for the Noe Valley CBD. Using empirical data from other districts, a focused range for general benefits from 2-8% is used. Based on a composite of district criteria such as the shape of the Noe Valley CBD, the existence of one benefit zone, a three-four element assessment formula, the proximity all of district properties to the applicable program benefit zones, and the nature of the proposed programs and activities, a specific “overlay” value of 5% is attributable to the general benefit portion of the total adjusted costs. This leaves a value of 95% attributable to special benefit related costs. Since the total program cost is estimated at \$230,128 (see Table 1 later in this Report), the maximum special benefit portion which can be funded through property assessments, is \$218,622. Remaining costs which are attributed to general benefits, will need to be derived from other sources. (e.g. public/private matching grants, startup grants, startup volunteer credits or ongoing board member volunteer credits).

Finding 3. From Section 4(a): “(Determine) the proportionate special benefit derived by each parcel in relationship to the entirety of the.....cost of public improvement(s) or the maintenance and operation expenses.....or the cost of the property related service being provided.

The proportionate special benefit cost for each parcel is listed in an attachment to the Management District Plan. The individual percentages (i.e. proportionate relationship to the total special benefit related program and activity costs) were computed by dividing the individual parcel assessment by the total program costs.

Finding 4. From Section 4(a): “No assessment..... shall exceed the reasonable cost of the proportional special benefit conferred on parcel(s).”

Not only are the proposed program costs reasonable due to the benefit of group purchasing and contracting which would be possible through the Noe Valley CBD, they are also considerably less than other options considered by groups like the Noe Valley CBD Formation Committee.

Finding 5. From Section 4(a): “Parcels.....that are owned or used by any (public) agency shall not be exempt from assessment.”

Any parcels within the District that are owned by public agencies would also be assessed and at rates equivalent to private sector owned parcels. The “fair market value” of such public properties is identical to surrounding privately owned parcels and any increased values and benefits derived from assessment district programs and services would be similar for either public or privately owned parcels, with or without improvements. Just as the costs and effects of blight are shared by both public and private properties, so are the rewards of clean and safe as well as district promotions and marketing programs. Since there is no compelling finding or evidence that such properties would receive less direct benefit from the proposed assessment district programs and services than surrounding private parcels, the same assessment rates would be levied.

Finding 6. From Section 4(b): “All assessments must be supported by a detailed engineer’s report prepared by a registered professional engineer certified by the State of California”.

This report shall serve as the “detailed engineer’s report” to support the benefit property assessments proposed to be

levied on properties within the Noe Valley CBD.

Finding 7. From Section 4(c): “The amount of the proposed assessment for each parcel shall be calculated (along with) the total amount thereof chargeable to the entire district, the duration of such payments, the reason for such assessment and the basis upon which the amount of the proposed assessment was calculated.”

The individual and total parcel assessments attributable to special property benefits are shown on an attachment to the Management District Plan. The district and resultant assessment payments will continue for 15 years and may be renewed again at that time. The reasons (purposes) for the proposed assessments are outlined in the Management District Plan. The calculation basis of the proposed assessment for the CBD is attributed in part to the specific amount of property size, building size and street frontage and land use.

Special Benefit and Assessment Analysis

Step 1. Select “Basic Benefit Unit(s)”

Assessment formulas typically are based on either property street frontage or parcel and building size or location, all which can affect the amount of benefit conferred on a particular parcel and the proportionate assessment to be paid. The formula may base assessments on a single factor or a combination of factors.

Based on the nature of the program activities to be funded by the Noe Valley CBD, which relate to the proportionate amount of land area, building area property street frontage and land use, it has been determined that the assessments for the district will be based proportionately on a combination of parcel size, street frontage and building size, with further modifications based on land use.

The “Basic Benefit Unit” will be expressed as a function of land square footage (Basic Benefit “A” Units), linear feet of property frontage (Basic Benefit “B” Units) and building area (Basic Benefit “C” Units). Based on the shape of the Noe Valley CBD, as well as the nature of the District program elements, it is determined that one benefit zone exists in which identified properties will gain a direct, albeit, proportionate degree of benefit based on the respective amount of parcel size, street frontage and building size. The targeted revenue is to be weighted 42% on land area, 33% on street frontage and 25% on building area.

It is noted that Benefit C Units shall be further differentiated as follows: Retail, hotels/motels = “C-A”; Office/Commercial = “C-B”; Industrial/manufacturing = “C-C”; Institutional = “C-D”; Church/non-profit = “C-E”; Multi-unit housing = “C-F”; SFR = “C-G”; Condos = “C-H”; Non-functional structures/parking garages = “C-I”.

The program costs are apportioned as follows: A. Maintenance Services 50% on Lot Size and 50% on Street Frontage; B. Identity based 100% on building size for retail, office and commercial uses only; C. Administration based 100% on building size for retail, office and commercial uses only; D. Contingency/Reserve 100% on lot size.

Step 2. Quantify Total Basic Benefit Units

Taking into account all identified benefiting properties, there are 560,915 square feet of assessable parcel land area within the District, 8,232 linear feet of assessable property street frontage and 319,453 square feet of assessable building area. Since the selected Basic Benefit Unit is based on a combination of parcel area, street frontage and building area, there are, in turn, corresponding amounts of Basic Benefit Units in the district as shown in Step 7 herein.

Step 3. Calculate Benefit Units for Each Property.

The number of Benefit Units for each identified benefiting parcel within the Noe Valley CBD was computed from data extracted from the City and County of San Francisco and third party real estate data services property and land use records. These data sources delineate current land uses, property areas and dimensions of record for each tax parcel and are listed as an attachment to the Management District Plan. While it is understood that this data does not represent legal field survey measurements or detailed title search of recorded land subdivision maps or building records, it does provide an acceptable basis for the purpose of calculating property based assessments. All respective property data being used for assessment computations has been provided to each property owner in the district for their review. All known or reported discrepancies or errors have been corrected.

Step 4. Determine Assessment Formula

For a District with a single Basic Benefit Unit with one Benefit Zone, the assessment formula would be the same for each identified benefiting property as follows:

$$\text{Number of Basic Benefit Units} \times \text{Basic Unit Cost} = \text{Assessment}$$

The Noe Valley assessment district is to be based on three Basic Benefit Unit factors; land square footage (Basic Benefit “A” Units), linear feet of property frontage (Basic Benefit “B” Units) and building area (Basic Benefit “C” Units). It has been determined that the assessment should be based partially on parcel size, street frontage and building size as follows:

$$\text{Assessment} = [(\text{No. of Benefit “A” Units} \times \text{Basic “A” Unit Cost})] +$$

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[(No. of Benefit “B” Units x Basic “B” Unit Cost)] +
[(No. of Benefit “C” Units x Basic “C” Unit Cost)]

Step 5. Estimate Total Program and Activity Costs

Total estimated proposed program and activity costs are shown below in Table 1. These costs include expenses for general as well as special benefits and related programs/activities.

TABLE 1**Estimated Total Year 1 Program & Activity Costs (Special+General Benefits)**

Program/Activity	Year 1	%
Public Rights of Way & Sidewalk Operations	\$160,000.00	70%
District Identity/Streetscape Improvements	\$22,000.00	9%
Administration/Corporate Operations	\$32,000.00	14%
Contingency/Reserve	\$16,128.00	7%
Total	\$230,128.00	100.00%

Step 6. Separate General Benefits from Special Benefits and Related Costs (Prop 218)

Total program and activity costs are estimated at \$230,128 (see Table 1 above). General benefits are factored at 5% of total (see Finding 2 on page 5 of this report) with special benefits set at 95%. Prop 218 limits the levy of property assessments to costs attributed to special benefits only. The 5% general benefit cost is computed to be \$11,506 with a resultant 95% special benefit limit computed at \$218,622. *This is the maximum amount of revenue that can be derived from property assessments from the subject district.* The total amount of revenue proposed to be derived from district assessments is \$218,622 for Year 1, which does not exceed the special benefit limit of \$218,622. Therefore, no Prop 218 adjustments need to be made to the proposed assessment formula. All program costs associated with general benefits will be derived from sources or credits other than assessments as shown below in Table 2.

TABLE 2**Total Adjusted Year 1 Revenue (For Special + General Benefit Programs/Activities)**

Funding Source	Subtotal Revenue	% of Total
Assessments	\$218,622.00	95.0%
Other fund sources/credits	\$11,506.00	5.0%
TOTAL ADJUSTED REVENUE	\$230,128.00	100.0%

Step 7. Calculate “Basic Unit Cost” (Special Benefits Only)

With a Year 1 budget of \$218,622 (special benefit only), the Basic Unit Costs (“A”, “B” and “C”) would be:

Basic Unit “A” Cost = \$0.163566/unit

Basic Unit “B” Cost = \$8.8343/unit

Basic Unit “C-A” Cost = \$0.169514/unit

Basic Unit “C-B” Cost = \$0.169514/unit

Note: Benefit “C” Unit Costs are only applied to retail, office and commercial land uses. Other uses are exempt.

Since the CBD is planned for a 15 year term, maximum assessments for future years (Years 2 through 15) must be set at the inception of the CBD. A maximum annual CPI indexed increase of 5% may be imposed each year, subject to approval by the district Board.

Step 8. Spread the Assessments

The resultant assessment spread calculations for each parcel within the assessment district are shown in an attachment to the District Management Plan and were determined by applying the District assessment formula to each identified benefiting property.

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Edward Henning and Associates is a multi-disciplined consulting firm offering a diverse range of community development and funding services focusing on downtown business districts and the unique problems and opportunities associated with center city areas.

Types of services provided

- Business Improvement District (BID & PBID) Formations, Modifications, Expansions, Updates
- Prop 218 Assessment Engineering Analyses and Reports (Licensed Engineer)
- Downtown Revitalization Plans/Redevelopment Planning and Implementation
- Establish/Administer/Field Supervision for Rehabilitation Programs and Projects
- Architectural Design Guidelines/ Sign Ordinances

Partial list of agencies and clients represented

- | | |
|------------------------------------|--|
| • Town of Apple Valley | PBID Formation (Village) |
| • City of Berkeley | BID Formation (Downtown) |
| • City of Buena Park | BID Formation Analysis (Auto Row & Entertainment Corridor) |
| • City of Culver City | BID Formation (Downtown) |
| • City of Huntington Park | BID Formation (Pacific Blvd.) |
| • City of Huntington Beach | BID Formation (Auto Row District) |
| • City of Los Angeles | |
| - Gateway to LAX | PBID Formation & Renewal (Prop 218 Compliance) |
| - Historic Downtown Core | PBID Formation (Prop 218 Compliance) |
| - Hollywood District | PBID Formation (Prop 218 Compliance) |
| - Melrose/Fairfax | PBID Formation (Prop 218 Compliance) |
| - Larchmont | PBID Formation & Renewal |
| - Los Feliz | BID Formation |
| - San Fernando Valley (6 areas) | PBID Formation (Prop 218 Compliance) |
| - San Vicente | Private Sector PBID Formation |
| - Wilshire Center | Hybrid BID/ PBID Formation |
| • City of Monterey Park | BID Modification (Downtown) |
| • City of Newport Beach | BID Advising |
| • City of Ontario (Downtown) | BID Modification |
| • City of Oxnard | PBID Formation (Downtown) |
| • City of Pasadena | PBID Formation & Renewal (Playhouse District) |
| | PBID Formation (South Lake Business District) |
| | Citywide Tourist Improvement District (TID) |
| • Placer County (Tahoe City) | PBID Formation (Downtown) |
| • City and County of San Francisco | PBID Formation & Renewal (Prop 218 Compliance) |
| • City of Vacaville | BID Formation (Downtown) |
| | Citywide Tourist Improvement District Evaluation (TID) |
| • City of Whittier | BID Modification (Uptown) |
| • City of Yucaipa | PBID Formation & Renewal (Uptown) |