

Project Report

**Elk Grove Civic Center Market and Financial
Planning: Phase II – Financial Evaluation
and Development Recommendations**

Prepared for

**The City of Elk Grove
Elk Grove, CA**

Submitted by

**AECOM Technical Services
Davis Langdon – AECOM
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I. Introduction

Successful development of the new Elk Grove Civic Center will depend upon the integration of the aspirations of the community with market economics, excellence in design, and careful financial planning. This *Phase II – Financial Evaluation and Development Recommendations* report builds upon the *Phase I - Market Report and Program Recommendations*, completed by ERA AECOM in March of 2010, which identified the program elements that would be supported in the Elk Grove market place. This report examines the revenues available from municipal sources as well as potentially available from new private development induced by the Civic Center and recreation facilities. It also reviews the cost of comparable facilities in other cities to arrive at a development strategy for Elk Grove.

As part of the approval for the Laguna Ridge Specific Plan in June 2004, the Elk Grove City Council established a new Civic Center for the community. This Civic Center is to be constructed on a 21 acre parcel on the south side of Elk Grove Boulevard, between Big Horn Boulevard and Laguna Springs Drive (see **Figure I-1**). It would be adjacent to a 56 acre Community Park, providing a total 77-acre Civic Center and Community Park complex. Given this outstanding opportunity, the City Council has indicated the following goals for this Civic Center:

- Reflect Community Interests
- Create a New Image for the 21st Century
- Generate Economic Activity and Tax Revenue
- Use Municipal Fiscal Resources Efficiently

This Phase II work, intended to serve the fiscal and economic objectives of the City, was led by William “Bill” Lee of ERA AECOM, serving as Project Manager. James Edison of Urban Community Economics (UCE) provided the municipal revenue analysis; and Gary Holland of Davis Langdon, also an AECOM company, provided the preliminary cost estimates.

II. Executive Summary

Revenue and Cost Comparison

Our team understands that the City has placed the ball fields and aquatic center at the top of the priority list of projects to be funded. If we assume that the \$8.0 million currently available and the \$7.4 million in excess reserves are used to construct the ball fields and aquatic center, which is approximately the cost of these facilities at \$15.4 million, construction of significant Civic Center elements will likely be delayed for approximately seven to eight years. The revenue forecast for the Civic Center indicates that the cumulative revenue will rebuild to \$14.7 million by 2018 and \$23.3 million by 2019 with a new Laguna Ridge CFD bond issuance (see Table II-1). The exact length of delay will depend upon the vigorousness of the economic recovery, the briskness of the housing market rebound in Elk Grove, and how the City decides to priorities the use of bond proceeds. According to the current forecasts, the City using the initial \$15.4 million for ball field and aquatic center development implies that insufficient revenue will be available to construct the initial signature pieces of the new Civic Center (the Civic Plaza and the iconic library) until 2019.

Excluding the \$15.4 million currently available, our projections indicate that approximately \$49 million accumulated from impact fees and communities facilities district (CFD) sources will be available for the construction of the Civic Center over the next 20 years. This includes \$24 million in the next ten years and an additional \$25 million between the 10th and the 20th year¹. This \$49 million over 20 years is sufficient to cover the Phase I components of the Civic Center, including Civic Plaza and parking at \$7.1 million, the library at \$17.8 and the community center at \$12.9 million. However, the remaining balance of \$11.3 million is not sufficient to cover the cost of the Phase II program of new City Hall at \$20.6 million, a performing arts center at \$29.3 million and the necessary parking garage at \$15.0 million. A summary of the Civic Center components and their current construction cost are shown below in Table II-2.

¹ All dollars in this report are constant 2011 dollars

Table II-1 Annual and Cumulative Revenue Forecast for Civic Center¹

Year	Annual	Cumulative Total
2011	1,360,595	1,360,595
2012	1,360,595	2,721,190
2013	1,360,595	4,081,785
2014	1,360,595	5,442,380
2015	1,360,595	6,802,975
2016	5,817,639	12,620,614
2017	1,052,639	13,673,253
2018	1,052,639	14,725,892
2019	8,543,639	23,269,531
2020	1,052,639	24,322,170
2021	1,144,576	25,466,746
2022	1,144,576	26,611,322
2023	1,144,576	27,755,898
2024	1,144,576	28,900,474
2025	1,144,576	30,045,050
2026	833,270	30,878,320
2027	833,270	31,711,590
2028	833,270	32,544,860
2029	8,324,270	40,869,130
2030	8,324,270	49,193,400

¹ Assumes no police facilities at new civic center

Source: Urban Community Economics, Inc.

This information indicates an overall City cost of \$103 million or about double the projected revenue amount of \$49 million. Clearly, in order to construction all program elements the City will need to phase the project and use the investment in public facilities during the initial phases to attract private development that will generate revenue to help construct the later phases. Because of the disparity between estimated cost and projected revenue, ERA AECOM has reduced the size of the library from the 80,000 to 100,000 square feet suggested in Phase I to 50,000 square feet in this report. The Children’s Discovery Center is assumed to be built by a non-profit organization with City encouragement in the form of a favorable land lease and possibly grant revenue for construction

and/or operations. Using suggestions provided by City staff, the new City Hall is assumed to be 50,000 square feet. This size implies that the City will retain many of its current facilities.

Table II-1: Preliminary Construction Cost and Phasing

	Building Size	Phase	Common Area Cost Detail	Construction Cost
Common Areas		IA		\$7,072,280
Common Areas		IA	1,300,000	
Civic Plaza		IA	2,940,880	
Pedestrian Walkways		IA	653,400	
Parking Lot 1 - 500 Surface Spaces		IA	2,178,000	
Landmark Library	50,000	IA		\$17,826,700
Community Center & Garden	35,000	IB		\$12,856,800
Childrens' Discovery Center	25,000	IB	Non-profit developer	
Subtotal Phase I Cost				\$37,755,780
Hotel & Conference Center	136,000	II	For profit developer	
Destination Restaurant	9,000	II	For profit developer	
New City Hall	50,000	III		\$20,586,800
Performing Arts Center	36,000	III		\$29,306,800
Parking Lot 2 - 500 Stall Structure	175,000	III		\$15,050,000
Subtotal Phase II Cost				\$64,943,600
Total City Phase I & II Construction Cost ¹				\$102,699,380

¹ 2011 cost excluding soft cost and FF&E

Importance of Induced Private Hotel/Conference and Challenges

A full service hotel, conference center and restaurant complex would not only contribute to the vitality of this Civic Center campus but would generate \$2.2 to \$2.3 million per year for the General Fund with about 60% coming from the transient occupancy tax (TOT) and the balance from land lease revenue and sales tax. Over the course of 20 years, this commercial development has the potential to generate \$40 to \$45 million for the City's General Fund, sufficient to pay for a performing arts center and a substantial portion of a new City Hall. This amount is nearly comparable to the \$49 million projected for the total of impact fees and community facilities districts sources to be collected over 20 years.

The property designated for the Civic Center campus has essentially no chance of attracting a hotel and conference center complex without the City investment in the civic buildings, a central civic plaza, a park and a sports complex. Even with such investments, the likelihood of attracting such a commercial complex is far from certain. ERA AECOM would rate the probability of successfully attracting such a complex to be in the 50 to 80 percent range over the course of the next 15 years. The probability increases with a strong hotel market and the City adoption of a development master plan created for such attraction. Since the City is not able to meaningfully influence the hotel market, its best strategy is to create a Civic Center Development Master Plan to enhance its chances of attracting this hotel complex. The key elements of such a master plan would include the following:

- Use the initial investment in the Civic Plaza and first civic building, presumably an iconic library, to establish a high quality image, a sense of place and to create real estate value for the Elk Grove Boulevard frontage of the Civic Center campus. From a commercial real estate development perspective, the presence these elements create on Elk Grove Boulevard is more important than their linkage to the park and ball field complex.
- Locate the community center adjacent to the hotel/conference center and restaurant complex. This allows for the conference center and community center to function as an integrated venue for large community events. It also allows the restaurant in the commercial development to directly cater events at the community center.
- Locate at least one of the public parking facilities adjacent to or near this commercial complex so both the hotel/conference center and the restaurant are able to use the public facility to accommodate peak period parking needs. This allows the commercial developer to build less parking on-site, a significant financial incentive.

ERA AECOM recommends that the City prepare a detailed Development Master Plan to guide the development of the entire campus over the course of 20 years. Such a Master plan would serve the long term integrated interests of the entire site, balancing community design aspirations with the fiscal requirements of full implementation. A site plan prepared by a development team selected to design, build and finance one or two of the early project elements optimize the interests of those elements potentially at the expense of others elements that could come later. The Master Plan needs to guide Civic Center development spanning several different generations of Council representation, different developers, construction contractors and architects.

The Zaha Hadid inspired site plan places the library on the south side of Civic Center Drive where it does not create real estate value along the Elk Grove Boulevard frontage nor around the Civic Center Plaza. The community center is placed at the furthest corner away from the hotel/conference center making integrated operation for large community events much more challenging. It also makes catering for events at the community center from the restaurant on the commercial site more difficult. The result will be much lower probability of attracting a quality hotel/conference center/restaurant complex. In stark fiscal terms, the 20 year General Fund cost of the City not producing and implementing a Civic Center Master Development Plan that balances community aspirations with the project's fiscal requirements could easily be in the \$20 to \$40 million range.

Phasing and Implementation

ERA AECOM's recommended phasing was determined by the projected availability of funds. With the first \$15.4 million designated for the ball fields and aquatic center, it will require around nine years or 2020 for the City to accumulate \$24.3 million for Civic Center construction. This is sufficient to build the following (Phase IA):

- Civic Plaza–pedestrian walkway–Parking Lot 1 with 500 surface spaces: \$7.1 million
- Iconic library of 50,000 SF: \$17.8 million

According to the revenue forecast, Elk Grove would not have sufficient funds to pay for the community center (Phase IB) until 2029 when additional Laguna Ridge CBD bonds are issued. Since the actual flow of available revenue will depend on the strength of the housing market rebound in Elk Grove and since the City Council has ability to allocate bond proceeds in favor of certain projects in advance of others, there may be sufficient funds to start the community center before 2029. The Children's Discovery Center (also Phase IB) could proceed once the Civic Plaza and library are built because it requires only a favorable land lease to a non-profit developer

- Community Center of 35,000 SF \$12.9 million
- Children’s Discovery Center (Non-profit developer) City to provide land

Once the Phase IA has proceeded to construction and Phase IB clearly designated in an adopted Civic Center Development Master Plan, the City would be in position to move into Phase II – the solicitation of developer(s) for the hotel, conference center and restaurant complex. With this commercial complex completed and operating, the City would be in much stronger financial position to proceed with the public facilities scheduled for Phase III, the new City Hall and a performing arts center. The current revenue projections, which do not include the impact of private commercial development, suggest that the City will not have sufficient funds to construct either the City Hall or the performing arts center within the 20-year timeframe. However, since this decision is perhaps 15 years into the future, a reassessment is appropriate once Phases I is completed.

- New City hall of 50,000 SF \$20.6 million
- Performing Arts Center of 36,000 SF \$29.3 million
- Parking Lot 2 – structure with 500 spaces \$15.1 million

In summary, assuming that the initial \$15.4 million is used for the ball fields and aquatic center, the City will not have sufficient funds to complete construction of the project elements identified in Phase IA, which is the Civic Plaza and library, until 2020. In addition, unless the City uses the investment in Phase IA and an adopted Civic Center master Plan to induce the development of hotel/conference center/restaurant complex identified as Phase II, it likely will not have sufficient funds to construct much of Phase III, which includes the new City Hall, a performing arts center and the required new parking structure within the 20-year time horizon.

III. Funds Available for Civic Center

The City of Elk Grove experienced significant housing development from the 1990s through 2007, accompanied by the implementation of a number of funding mechanisms to support public facilities and amenities. The proposed Civic Center was included in this planning process, and therefore has a number of funding sources to draw from over the next two or three decades. The funding of the Civic Center facilities will come from three primary sources:

- Impact Fee Revenue
- Community Facilities Districts (CFD) Bond Proceeds
- Elk Grove General Fund

As shown in Table III-1, the revenue projections use very rough assumptions in order to get an overall picture of available resources and timing. They do not take into account the individual dynamics of each Mello Roos district, or make detailed projections regarding absorption of new homes in individual areas. Instead, they rely on overall growth trends and existing capacity. For the impact fee projections, the model uses current fees and growth projections prepared earlier to estimate fee revenue.

Table III-1 Key Revenue Assumptions

Item	Assumption
CFD Financing	Assumes Full Capacity Issuance by 2030 Evenly distributed with Start of 2015 (1)
Impact Fees	Based on Projected Household Growth
Population	Based on Demographic Study

(1) CFD 2005-1 is further delayed to account for "Designated Developed" parcels.

Source: Urban Community Economics, Inc.

Table III-2 details the identified funding sources for the Civic Center, along with a preliminary assessment of the current funding available, future potential, and any other details that affect funding

capacity. As shown on Table III-2, several of the CFDs have significant current fund balances, as do the impact fee programs. The table also includes a total available capital reserve of \$7.4 million, which City staff has identified as being in excess of legal requirements and therefore potentially available to fund improvements at the Civic Center, either on a permanent basis or as interim funding until reimbursement from other sources. The funds available currently total \$21.3 million, excluding the capital facilities fund balance; however, not of all of these funds are available for all of the proposed uses at the Civic Center.

The Poppy Ridge CFD was formed to finance infrastructure on land within the Poppy Ridge CFD. The initial bond issue in 2003 totaled \$24.8 million in net proceeds, with \$5 million set aside for the construction of “other public facilities”, including a traffic operations center, corporation yard, parks, a community center and recreation facilities. None of these funds have been expended, so up to \$5 million would be available to fund facilities at the Civic Center.

The Laguna Ridge CFD was formed to fund infrastructure necessary for the first phase of the Laguna Ridge Specific Plan. The first bond issue, in 2007, totaled \$67.7 million. The financing for the total specific plan contemplated \$335.8 million in public facilities, with \$25 million provided for a “Community/Recreation/Aquatics Center”, \$7.8 million estimated for the first phase.

The Civic Center, Library, and Police Impact Fees are citywide, and currently show an available balance that can be used for specific purposes. In addition, these programs will generate revenue as development occurs in the City, which is estimated in Table III-4, below. Currently the Civic Center Impact fee program is paying \$500,000 annually for existing debt and the Police Impact Fee program is paying \$300,000 per year. If the General Fund were to take over this burden, additional funds would be available from these programs to pay for improvements.²

The City also has capital reserves available that could be used for the construction of the Civic Center. These monies can be used as an interim financing mechanism, loaned out for construction that is paid back when additional funding becomes available, or they can be simply expended. Whether and how to use these funds is a policy decision that rests with the City Council. Table III-2 summarizes the current fund balance of each source (some of which is available for the Civic Center), the total future funding for the contemplated Civic Center Improvements, the amount available for the ball fields, and the amount remaining for other facilities (after funding the ball fields). With the capital reserves the monies available to fund ball field improvements could be as much as \$15.4 million, but

² It is important to note, however, that such General Funds could be used for facilities directly.

paying back the capital reserves would require payment from future revenue sources, reducing their availability for other projects. The total amount potentially available through 2030 for improvements at the Civic Center, excluding the capital reserve, is \$47.8 million.

Table III-2 Potential Funding Sources

Source	Fund Balance	Total Future Funding	Civic Center Future Potential	Immediately Avail. For Ball Fields I	Remaining CC Funding
Poppy Ridge CFD (3)	\$7,886,000	\$4,765,000	\$5,000,000	\$2,315,000	\$2,685,000
Laguna Ridge CFD (3)	\$2,527,000	\$22,473,000	\$25,000,000	\$2,527,000	\$22,473,000
Civic Center Impact Fee (1)	\$3,249,000	\$5,100,000	\$5,349,000	\$705,000	\$4,644,000
Police Impact Fee (2)	\$4,155,000	\$9,068,220	\$0	\$0	\$0
Library Impact Fee	\$688,000	\$14,964,438	\$15,652,438	\$0	\$15,652,438
Laguna Ridge Parks Impact Fee	<u>\$2,843,000</u>	<u>\$1,890,960</u>	<u>\$4,733,960</u>	<u>\$2,417,000</u>	<u>\$2,316,960</u>
Total	\$21,348,000	\$58,261,618	\$55,735,399	\$7,964,000	\$47,771,399
Capital Reserves	<u>\$7,429,000</u>	<u>\$0</u>	<u>\$7,429,000</u>	<u>\$7,429,000</u>	<u>0</u>
Total with Capital Reserves	\$28,777,000	\$58,261,618	\$63,164,399	\$15,393,000	\$47,771,399

(1) Currently paying \$500,000 annually for debt service on existing obligations, until 2017
 (2) Currently paying \$300,000 annually for debt service on existing obligations, until 2024.
 (3) Bond proceeds.

Source: Urban Community Economics, Inc., 2011

In order to project impact fee revenue, we have adopted the growth projections in the *Elk Grove Market Study*, dated December 29, 2010 prepared by the Center for Strategic Economic Research and Economic & Planning Systems, Inc. Those projections are identical to the population forecasts prepared by ERA AECOM in its *Elk Grove Civic Center Phase I: Market Analysis and Program Recommendations* completed in March of 2010 and summarized in Table III-3. As shown, the total population of Elk Grove is expected to increase from 146,900 in 2010 to 210,900 in 2030, with an increase in households from 48,500 to 69,600, an increase of 21,000. For the purposes of this

analysis, we have assumed that net household growth will correspond with new homes. UCE has also estimated household growth for the area of the Laguna Ridge Specific Plan. Based on an examination of mapping data, the growth potential in the area, and the growth projected for Elk Grove more broadly, UCE estimated that the Laguna Ridge Specific Plan will experience a net increase in households of 30 annually over the course of the next twenty years. This is a fairly conservative estimate, if the area outperforms then additional revenue will be available to fund infrastructure and facilities at the Civic Center.

Table III-3 Elk Grove Population Projections

Category	%	2005	2010	2015	2020	2025	2030
<i>Overall</i>							
Population		121,611	146,935	168,280	184,433	202,136	210,874
Households		40,136	48,493	55,538	60,869	66,712	69,595
SF	80.00%	32,109	38,795	44,430	48,695	53,369	55,676
MF	20.00%	8,027	9,699	11,108	12,174	13,342	13,919
<i>Laguna Ridge SP</i>							
Households		500	650	800	950	1,100	1,250
SF		500	1,000	2,000	3,000	4,000	5,000
MF		0	0	200	400	600	800
Age Restricted		0	0	100	200	300	400

Source: ERA AECOM

Based on the City’s existing impact fee program and the household growth projected in Table III-3, UCE has prepared an estimate of impact fee revenue over the next 20 years. As shown on Table III-4, UCE estimates that the City’s impact fee program will generate a total of \$25.6 million over the next twenty years, with the largest share generated by the Library and Police Impact Fees. It is important to note, however, that the calculation for the Laguna Ridge Park Impact Fee reflects only the 15% of total fees collected that the Laguna Ridge CSD has agreed to set aside for the City.

Table III-4 Impact Fee Projections

Item	Fee Amount	2010	2015	2020	2025	2030	Total
Civic Center Total			\$1,608,976	\$1,217,606	\$1,334,444	\$938,975	\$5,100,000
SF	\$245	0	\$1,380,733	\$1,044,881	\$1,145,145	\$565,230	
MF	\$162	0	\$228,244	\$172,725	\$189,299	\$373,744	
Police Impact Fee			\$2,861,498	\$2,165,462	\$2,373,254	\$1,668,006	\$9,068,220
SF	\$436	0	\$2,457,141	\$1,859,461	\$2,037,890	\$1,005,879	
MF	\$287	0	\$404,357	\$306,001	\$335,364	\$662,127	
Library Impact Fee			\$4,721,260	\$3,572,852	\$3,915,693	\$2,754,633	\$14,964,438
SF	\$719	0	\$4,052,028	\$3,066,404	\$3,360,649	\$1,658,778	
MF	\$475	0	\$669,233	\$506,447	\$555,045	\$1,095,855	
Laguna Ridge Park Impact Fee (1)			\$472,740	\$472,740	\$472,740	\$472,740	\$1,890,960
SF	\$2,892	0	\$433,800	\$433,800	\$433,800	\$433,800	
MF	\$1,298	0	\$38,940	\$38,940	\$38,940	\$38,940	
Total							\$31,023,618

(1) 15% of revenue pursuant to an agreement between the City and CSD.

Source: City of Elk Grove, Urban Community Economics, Inc.

In Table III- we combined the estimates of current and future CFD capacity, along with current balances for impact fees and projected revenues over the next twenty years. This data is drawn from the analysis above, along with a rough estimate of future bond issuances by the CFDs. UCE has assumed that the Poppy Ridge CFD will be able to issue bonds between six and ten years from today, and that the Laguna Ridge CFD will issue bonds in three tranches in five-year intervals, beginning between six and ten years from the current date.

As shown on Table III-, UCE estimates that approximately \$8.0 million is currently available for construction of the ball fields, and approximately \$17.2 million in fund balances are potentially available for Civic Center improvements (including the \$8.0 million). In addition to these amounts, \$7.4 million could be drawn from the capital reserves to fund facilities. Over the next twenty years, UCE estimates that an additional \$49.2 million will be available for Civic Center facilities, with the bulk of this funding coming from the Laguna Ridge CFD and the Library Impact Fee. In addition, it appears that certain fund balances may be available to fund Civic Center improvements over and

above those committed to the construction of the sports complex, but the exact amount available will require further analysis.

Table III-5 Financing Sources and Amounts

Item	Current Fund Balance	Total Remaining Funding	Immediate Ball Field	Civic Center Funding			
				Phase I (1-5)	Phase II (6-10)	Phase III (11-15)	Phase IV (16-20)
Poppy Ridge CFD (2)	\$7,886,000	\$4,765,000	\$2,315,000	\$0	\$4,765,000	\$0	\$0
Laguna Ridge CFD (2)	\$2,527,000	\$22,473,000	\$2,527,000	\$0	\$7,491,000	\$7,491,000	\$7,491,000
Civic Center Impact Fee	\$3,249,000	\$5,100,000	\$705,000	\$1,608,976	\$1,217,606	\$1,334,444	\$938,975
Police Impact Fee (1)	\$0	\$0		\$0	\$0	\$0	\$0
Library Impact Fee	\$688,000	\$14,964,438		\$4,721,260	\$3,572,852	\$3,915,693	\$2,754,633
Laguna Ridge Park Impact Fee	<u>\$2,843,000</u>	<u>\$1,890,960</u>	<u>\$2,417,000</u>	<u>\$472,740</u>	<u>\$472,740</u>	<u>\$472,740</u>	<u>\$472,740</u>
Total Cumulative	\$17,193,000	\$49,193,399	\$7,964,000	\$6,802,977	\$17,519,197	\$13,213,877	\$11,657,347
				\$6,802,977	\$24,322,174	\$37,536,051	\$49,193,399
Current Excess Reserves	<u>\$7,429,000</u>		<u>\$7,429,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Resources Cumulative	\$24,622,000		\$15,393,000	\$6,802,977	\$17,519,197	\$13,213,877	\$11,657,347
	\$24,622,000			\$6,802,977	\$24,322,174	\$37,536,051	\$49,193,399

(1) Assumes that Civic Center does not include police facilities.
(2) Bond proceeds

Source: Urban Community Economics, 2011

The new Civic Center will have five primary sources of revenue. They are Poppy Ridge CFD bond proceeds, Laguna CFD bond proceeds, the Civic Center Impact Fee, the Library Impact Fee and the Laguna Ridge Park Impact Fee. The Police Impact Fee revenue has not been included because no new police facility is assumed for this complex. The annual and cumulative flows of these five projected revenue streams are displayed in Table III-6 below. As shown, by 2020 this account will have accumulated \$24.3 million, sufficient to construct the Central Plaza and library. By 2030, this account is projected to accumulate a total of \$49.2 million.

Table III-6 Annual and Cumulative Revenue Projections for the Civic Center

Year	Poppy Ridge CFD Bond Proceeds	Laguna Ridge CFD Bond Proceeds	Civic Center Impact Fee ¹	Library Impact Fee	Laguna Ridge Park Impact Fee	Total	Cumulative Total
2011	0	0	321,795	944,252	94,548	1,360,595	1,360,595
2012	0	0	321,795	944,252	94,548	1,360,595	2,721,190
2013	0	0	321,795	944,252	94,548	1,360,595	4,081,785
2014	0	0	321,795	944,252	94,548	1,360,595	5,442,380
2015	0	0	321,795	944,252	94,548	1,360,595	6,802,975
2016	4,765,000	0	243,521	714,570	94,548	5,817,639	12,620,614
2017	0	0	243,521	714,570	94,548	1,052,639	13,673,253
2018	0	0	243,521	714,570	94,548	1,052,639	14,725,892
2019	0	7,491,000	243,521	714,570	94,548	8,543,639	23,269,531
2020	0	0	243,521	714,570	94,548	1,052,639	24,322,170
2021	0	0	266,889	783,139	94,548	1,144,576	25,466,746
2022	0	0	266,889	783,139	94,548	1,144,576	26,611,322
2023	0	0	266,889	783,139	94,548	1,144,576	27,755,898
2024	0	0	266,889	783,139	94,548	1,144,576	28,900,474
2025	0	0	266,889	783,139	94,548	1,144,576	30,045,050
2026	0	0	187,795	550,927	94,548	833,270	30,878,320
2027	0	0	187,795	550,927	94,548	833,270	31,711,590
2028	0	0	187,795	550,927	94,548	833,270	32,544,860
2029	0	7,491,000	187,795	550,927	94,548	8,324,270	40,869,130
2030	0	7,491,000	187,795	550,927	94,548	8,324,270	49,193,400

¹ Assumes no police facilities at new civic center

Source: Urban Community Economics, Inc.

IV. Importance of the Hotel and Conference Complex

In the Phase I report, ERA AECOM identified a strategy of using the activities, buildings and public amenities of the Civic Center complex to create an attractive five acre site to induce the private development of a hotel, conference center and restaurant complex. The market analysis indicated that although the Sacramento region hotel market was very weak during the recession years of 2009 and 2010, the longer term hotel demand outlook for Elk Grove was strong due to expected growth in population, employment and overall economic activity. Interviews with major local employers, many of which are hospitals and medical clinics, identified considerable interest in a high quality conference center able to accommodate conferences for medical personnel.

Use Civic Buildings and Plaza to Create Hotel Site

Since Elk Grove currently has only limited or select service hotels, the portion of the Civic Center campus that is closest to the SR-99 freeway on and off ramps is well suited for Elk Grove to attract a signature full service hotel. The disadvantage of the northeastern five acres of the Civic Center campus is limited visibility from the freeway and not integrated with numerous restaurants and shops like the hotel sites proposed for the partially constructed shopping center located just off Grant Line Road. The advantages of this site for hotel development are numerous and cited below:

- It would be part of integrated and well designed Civic Center campus with guest rooms overlooking the active Central Civic Center Plaza and the elegant new library.
- Hotel guests would be able to enjoy a campus and park environment with paths designed for walking or jogging.
- The hotel and conference center could book larger overflow events into the community center's banquet hall or its meeting rooms, allowing the two facilities to function as an integrated venue when necessary.
- The community center and attractive outdoor garden would be designed to be the most preferred wedding venue in the Sacramento region, and out of town guests attending wedding functions at the community center would likely be guests at this hotel.
- The sports complex and its weekend tournaments will generate some demand for this full service hotel, although much of that demand is likely oriented to the limited service hotels in town.

- Since the City owns the land debt free, it is in position to reduce the hotel's front end development risk by leasing the site on a long term participation basis and discount the land lease payments during the construction period.

A hotel, conference center and restaurant complex would contribute to the vitality of this Civic Center campus. Examples of hotels that could be appropriate for this location range from the Hyatt Place Hotel and Conference Center in Davis to the City Center Marriott overlooking Gallivan Plaza, which turns into a skating rink in winter, in downtown Salt Lake City.

Steps Essential to Induce Hotel Development

Based upon past experience with real estate cycles, our expectation is that the Sacramento regional hotel market will improve over the next few years as the state economy rebounds from the recent recession. A good time relative to the hotel market to solicit this hotel development will likely be in the 2017 to 2018 timeframe. However, unless substantial elements of the Civic Center are under construction and other elements firmly committed to in an adopted Development Master Plan, this site will not be attractive to hotel developers. For the site to be attractive, our opinion is that the following steps needs to have been taken by the City:

- The creation of a detailed Civic Center Development Master Plan that clearly accomplishes the following:
 - ✓ Delineates the commercial development parcel and the project components desired – 200 room conference hotel, 16,000 square feet conference center and destination restaurant/sports bar.
 - ✓ Spells out the parking that the hotel complex must provide on its site (e.g. 60% to 80% of normal requirement) and under what conditions it is able to use the public lots and structures in the Civic Center complex. Being able to use shared public parking to satisfy peak period demand provides a financial incentive to the hotelier.
 - ✓ Locates all the public buildings in the Civic Center complex with the first initial plaza and library development framing the site to provide assurance that the hotel complex will enjoy well designed and high quality neighboring buildings and public spaces.
 - ✓ Provides illustrations of design concept for the public facilities and clear design guidelines to the developer to ensure compatibility with the Civic Center and to minimize the amount of time the developer will need to spend negotiating design issues.

- ✓ Clearly identifies pedestrian walkways and jogging paths through the Civic Center and park areas that will serve as amenities for the hotel guests.
- ✓ Indicate an area near the conference center and community center that is able to accommodate a temporary tent structure to house larger events as needed.
- Completed construction of the Civic Plaza which will function as the focal point for the community and the campus.
- Completed construction the pedestrian improvements around this Plaza linking to the hotel site.
- Started construction of the first Civic Center building presumed to be the iconic library to establish a sense of place.
- Having the second public building, presumed to be the community center, designed in concept and clearly sited near the hotel/conference center in the Master Plan. The community center should be located adjacent to the hotel/conference so that the integrated complex can serve to accommodate larger public assembly events. The restaurant that is part of the commercial development would then be able to generate additional revenue by providing catering services for events in the community center.

General Fund Impact of Hotel Complex

ERA AECOM has prepared a detailed financial pro forma for the this proposed hotel/conference project assuming that the City has accomplished all of the above tasks designed to maximize its chances of attracting such a project. The key assumptions are as follows with the detailed pro forma attached in Appendix A:

- The hotel/conference center is developed on 3.8 acres with the restaurant on the remaining 1.2 acres.
- The hotel is 200 rooms in a likely mid-rise building and the conference center is 16,000 square feet. Including common areas, circulation and pre-function space, the hotel/conference center is 136,000 square feet with a free-standing restaurant of 9,000 square feet on its own parcel. This allows the City the flexibility to solicit the restaurant separately from the hotel/conference center if it is advantageous to do so.

- The direct construction cost of the hotel/conference center project is \$275 per square feet not including parking.
- The hotel/conference center is assumed to provide 160 at grade parking spaces at a cost of \$5,500 per space to allow for landscaping and sustainable design. Additional parking for peak periods is assumed to be in the shared public facilities.
- Including indirect costs, furniture, fixtures and equipment (FF&E), parking and interest during construction, the project is estimated to cost \$51.6 million in 2011 dollars which amounts to \$258,500 per room.
- The effective room rate is \$209 and increases by one percent per year in real terms as the location solidifies.
- Initial year occupancy is 58% with steady state occupancy of 70% achieved in year three and beyond.
- Rather than selling the site to the developer, the City negotiates a land lease that is attractive to the developer and hotelier – security deposit or performance bond only during construction and participation lease of 5% of gross room revenue and 2% of gross food, beverage and retail revenue paid during each year of operation.

The annual return to the City's General Fund from the hotel/conference center is over \$2.0 million of which \$1.3 million is due to the City's TOT. When the restaurant is included, the annual revenue impact on the City's General Fund is approximately \$2.2 to \$2.3 million. This total is from land lease revenue, sales tax and TOT. Over the course of 20 years, this commercial development has the potential to generate \$40 to \$45 million for the City's General Fund, sufficient to pay for a performing arts center or a substantial portion of a new City Hall. This amount is nearly comparable to the \$49 million projected for the total of impact fees and community facilities districts sources.

Importance of Strong Development Master Plan

The property designated for the Civic Center campus has essentially no chance of attracting a hotel and conference center complex without the City's investment in the civic buildings, a central civic plaza, a park and a sports complex. Even with such investments, the probability of attracting such a complex is far from certain. ERA AECOM would rate the probability of successfully attracting such a complex to be in the 50 to 80 percent range over the course of the next 15 years. The probability increases with a strong hotel market and a development master plan created for such attraction.

Since the City is not able to meaningfully influence the hotel market, its best strategy is to create a Civic Center Development Master Plan that enhances its chances of attracting this hotel complex. The key elements of such a master plan would include the following:

- Use the initial investment in the Civic Plaza and first Civic Building, presumably an iconic library, to establish a high quality image, a sense of place and to create real estate value for the front portion of the Civic Center campus that is clearly visible from Elk Grove Boulevard. From a real estate development perspective, presence on Elk Grove Boulevard is more important than linkage to the park and ball field complex.
- Locate the community center adjacent to the hotel/conference center and restaurant complex. This allows for the conference center and community center to function as an integrated venue for large community events. It also allows the restaurant in the commercial development to directly cater events at the community center.
- Locate at least one of the public parking facilities adjacent to or near this commercial complex so both the hotel/conference center and the restaurant are able to use the facility to accommodate peak period parking needs. This allows the commercial developer to build less parking on-site, a significant financial incentive.
- Create multiple smaller parking facilities rather than a large one that is efficient to construct. This strategy facilitates the phasing of parking construction with actual need and avoids the most dominant feature of the campus being a large multi-level parking structure.

By proceeding quickly to a design/build/finance solicitation for Civic Center public buildings, the City introduces the risk of having the selected development team prepares a development plan that serve the initial public facilities well but sub-optimizes the chances of attracting the commercial complex. The fiscal implication is the loss of \$40 to \$45 million over the course of 20 years. For this reason, it is ERA AECOM's recommendation that the City of Elk Grove first spend around \$200,000 to create a strong Civic Center Development Master Plan that balances the expression of community aspirations with the long term fiscal interest of the City. Such a master plan would protect and enhance the value of all of the property in the Civic Center campus, and we believe the potential benefit versus cost relationship to be compelling. In any event, with the available initial funds designated for ball fields and aquatic center, the City does not have the financial capacity to proceed immediately to a design/build/finance decision for the initial phase of the Civic Center.

V. Cost and Development Strategy

Construction Cost and Phasing

Since no detailed land development plan or conceptual building design has been produced at this early feasibility stage, the AECOM team has based its cost estimate on experience with comparable facilities. Davis Langdon, the cost consultants on the team, has provided the construction cost of 42 different buildings covering the array of build types in the Civic Center. These were adjusted for geographic and time differences to arrive at unit cost estimates for the Elk Grove Civic Center. The per square foot costs shown are direct construction costs assuming bids submitted in 2011; and indirect construction cost (soft cost) and furniture, fixtures and equipment (FF&E) are not included. Because of the recession, the recent construction cost trend has been downward. The operating cost estimates are based upon the combined experience of ERA AECOM and Davis Langdon, and they are shown net of expected income.

The cost estimate has three elements, site or horizontal cost, vertical or building cost and then operating and maintenance cost. In order to estimate these costs, it was necessary to make assumptions about site usage and building footprint. These assumptions are detailed in Table V-1.

Table V-1: Elk Grove Civic Center Land Allocation – Phasing – Development Strategy

	Land Area		Development	
	Acres	Square Feet	Phase	Entity
Common Areas	10.4	453,024	1A & 3	City
Civic Plaza	2.4	104,544	1A	
Pedestrian Walkways	1.0	43,560	1A	
Parking Lot 1	5.0	217,800	1A	
Parking Lot 2	2.0	87,120	3	
Landmarker Library	1.0	43,560	1A	City
Building Footprint	0.5	21,780		
Site Development	0.5	21,780		
Community Center & Garden	1.5	65,340	1B	City
Building Footprint	0.8	35,000		
Site Development	0.7	30,340		
Childrens' Discovery Center	1.2	52,272	1B	Non-profit
Building Footprint	0.6	25,000		
Site Development	0.6	27,272		
Hotel & Conference Center	3.8	165,528	2	For Profit
Building Footprint	1.0	42,000		
Site & Parking	2.8	123,528		
Destination Restaurant	1.2	52,272	2	For Profit
Building Footprint	0.2	9,000		
Parking & Site Work	1.0	43,272		
New City Hall	1.5	65,340	3	City
Building Footprint	0.8	36,000		
Site Work	0.7	29,340		
Performing Arts Center	1.5	65,340	3	City or Non-profit
Building	0.9	40,000		
Site Work	0.6	25,340		
Total Site Area	20.6	897,336		

Source: Estimated by ERA AECOM

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The phasing was determined by the projected availability of funds previously shown in Table III-4. With the first \$15.4 million designated for the ball fields and aquatic center, it will require around nine years for the City to accumulate \$24.3 million for Civic Center construction. This is sufficient to build the following (Phase IA):

- Civic Plaza–pedestrian walkway–Parking Lot 1 with 500 surface spaces: \$7.1 million
- Iconic library of 50,000 SF: \$17.8 million

Since the actual flow of available revenue will depend on the strength of the housing market rebound in Elk Grove and since the City council has ability to allocate bond proceeds in favor of certain projects in advance of others, there may be sufficient funds to also start the community center and the Children’s Discovery Center (Phase IB):

- Community Center of 35,000 SF \$12.9 million
- Children’s Discovery Center (Non-profit developer) City to provide land

Once the Phase IA has proceeded to construction and Phase IB clearly designated in an adopted Civic Center Development Master Plan, the City would be in position to move into Phase II – the solicitation of developer(s) for the hotel, conference center and restaurant complex. With this commercial complex completed and operating, the City would be in much stronger financial position to proceed with the public facilities scheduled for Phase III, the new City Hall and a performing arts center. The current revenue projections, which do not include the impact of private commercial development, suggest that the City will not have sufficient funds to construct either the City Hall or the performing arts center within the 20-year timeframe. However, since this decision need not be made until perhaps 15 years into the future, a reassessment is appropriate once Phases I is completed.

- New City hall of 50,000 SF \$20.6 million
- Performing Arts Center of 36,000 SF \$29.3 million
- Parking Lot 2 – structure with 500 spaces \$15.1 million

In summary, assuming that the initial \$15.4 million is used for the ball fields and aquatic center, the City will not have sufficient funds to complete construction of the project elements identified in Phase IA until 2020. In addition, unless the City uses the investment in Phase IA and an adopted Civic

Center Master Plan to induce the development of hotel/conference center/restaurant complex identified as Phase II, it likely will not have sufficient funds to construct much of Phase III, which includes the new City Hall, a performing arts center and the required new parking structure within the 20-year time horizon.

While the library and community center are clearly City funded projects, the Children's Discovery Center should be a City encouraged project built and operated by a non-profit group. The encouragement could include a highly favorable land lease, an initial capital grant for construction, and possibly a limited operating subsidy that could be phased out over time (see Table V-2 for details on construction cost).

Table V-2: Construction Cost for Phase I

	Land Area		Building Construction			Utilities & Site Cost	Special Features	Paving & Landscaping		Parking		Total Cost
	Acres	Square Feet	Size in SF	Cost/SF	Cost			Cost/SF	Cost	Cost/SF	Cost	
PHASE IA												
Common Areas	8.4	365,904										\$7,072,280
Common Areas	8.4	365,904				1,300,000						1,300,000
Civic Plaza	2.4	104,544					850,000	20.00	2,090,880			2,940,880
Pedestrian Walkways	1.0	43,560						15.00	653,400			653,400
Parking Lot 1	5.0	217,800								10.00	2,178,000	2,178,000
Landmark Library	1.0	43,560										\$17,826,700
Building Footprint & Size	0.5	21,780	50,000	350.00	17,500,000							17,500,000
Site Development	0.5	21,780		15.00	326,700							326,700
PHASE IB												
Community Center & Garden	1.5	65,340										\$12,856,800
Building Footprint & Size	0.8	35,000	35,000	350.00	12,250,000							12,250,000
Site Development	0.7	30,340		20.00	606,800							606,800
Children's' Discovery Center	1.2	52,272										\$9,295,440
Building Footprint & Size	0.6	25,000	25,000	350.00	8,750,000							8,750,000
Site Development	0.6	27,272		20.00	545,440							545,440
TOTAL CITY OF ELK GROVE COST FOR PHASE IA & IB												\$37,755,780

Note: Cost assumes 2011 bid and do not include soft cost or FF&E
Source: ERA AECOM and Davis Langdon

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Table V-3 Construction Cost for Phases II and III

	Land Area		Building Construction			Total Cost
	Acres	Square Feet	Size in SF	Cost/SF	Cost	
PHASE II						
Hotel & Conference Center	3.8	165,528	Private development on leased City land after Phase I is substantial completed			
Building Footprint & Size	1.0	42,000	151,000			
Site & Parking	2.8	123,528				
Destination Restaurant	1.2	52,272	Private development on leased City land after Phase I is substantial completed			
Building Footprint & Size	0.2	9,000	9,000			
Parking & Site Work	1.0	43,272				
PHASE III						
New City Hall	1.5	65,340				\$20,586,800
Building Footprint & Size	0.8	36,000	50,000	400.00	20,000,000	20,000,000
Site Work	0.7	29,340		20.00	586,800	586,800
Performing Arts Center	1.5	65,340				\$29,306,800
Building Footprint & Size	0.9	40,000	36,000	800.00	28,800,000	28,800,000
Site Work	0.6	25,340		20.00	506,800	506,800
Parking Lot 2 - 500 Stall Structure	2.0	87,120	175,000	86.00	15,050,000	\$15,050,000
TOTAL CITY OF ELK GROVE COST FOR PHASE II & III						\$64,943,600

Note: Cost assumes 2011 bid and do not include soft cost or FF&E
 Source: ERA AECOM and Davis Langdon

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Operating Cost

These new public facilities in addition to construction cost will cost money to maintain and operate. The library is a good project to construct in the initial phase because the operating obligation will be borne by the Sacramento County Library System. The Children's Discovery Center may generate sufficient earned income to cover most or all of its operating cost. The earned income comes from membership fees, entrance fee and birthday party rentals and services. The community center will also have earned income from rentals and classes; however, an operating subsidy of around \$500,000 in today's dollars is still expected. The new City Hall, which City staff has suggested to be 50,000 square feet, assuming many of the existing City space would be retained, could have an operating cost of \$500,000 annually for maintenance, utilities and security. Because its rental income is typically limited and operating cost substantial, the performing arts center could require a City operating subsidy of \$3 to \$4 million per year.

Table V-4 Estimated General Fund Operating Cost and Revenue Impact on Annual Basis

(In 2011 Dollars at Build Out)

	Cost	Revenue	Comments
Civic Plaza & Pedestrian Paths	(\$500,000)		Maintenance, utilities and security
Parking Lot 1 - 500 Surface Stalls	(\$300,000)		Maintenance, utilities and security assumes free parking
Parking Lot 2 - 500 Stall in Structure	(\$375,000)		Maintenance, utilities and security assumes free parking
Landmark Library			County library system to operate
Community Center & Garden	(\$500,000)		Maintenance, utilities and staff cost net of earned income
Children's' Discovery Center			Not profit to operate but may request subsidy
Hotel & Conference Center		\$2,100,000	Transient occupancy tax, sales tax and land lease
Destination Restaurant		\$150,000	Sales tax and land lease
New City Hall	(\$500,000)		Maintenance, utilities and security
Performing Arts Center	(\$3,500,000)		Maintenance, utilities, security and staff cost net of earned income

Source: Estimated by ERA AECOM

Project No. 60211273

Date: 11/7/2011

General & Limiting Conditions

Every reasonable effort has been made to ensure that the data contained in this report are accurate as of the date of this study; however, factors exist that are outside the control of ERA AECOM and may affect the estimates and/or projections noted herein. This study is based on estimates, assumptions and other information developed by ERA AECOM from its independent research effort, general knowledge of the industry, and information provided by and consultations with the client and the client's representatives. No responsibility is assumed for inaccuracies in reporting by the client, the client's agent and representatives, or any other data source used in preparing or presenting this study.

This report is based on information that was current as of July, 2010 and ERA AECOM has not undertaken any update of its research effort since such date.

Because future events and circumstances, many of which are not known as of the date of this study, may affect the estimates contained therein, no warranty or representation is made by Economics Research Associates that any of the projected values or results contained in this study will actually be achieved.

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This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.