# SOBOBA SPRINGS: A DEVELOPMENT ANALYSIS

by

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William Henry Johnson

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ABSTRACT

This thesis reviews the development options for a specific site, Soboba Springs, in San Jacinto, California. The developer's current plans as well as alternate development scenarios are reviewed, and proformas that reflect phasing in response to anticipated absorption rates are used to select scenarios.

The use of the site is shaped by existing easements, environmental constraints, market trends, zoning regulations, and the political structure of the community. There are significant off-site infrastructure costs associated with the project, and the section on uses and sources of funds looks at the method of public financing for these costs.

Finally, the benefits and risks to the participants of the proposed development plan are analyzed, and an outline for a written understanding between the City and developer is recommended.

Thesis Supervisor: Gary Hack
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## I. INTRODUCTION

### A. General Statement

The instigation for the thesis topic came as a result of conversations in Los Angeles in late March 1986 with D & S Company and The Irvine Company. D & S Company is in the process of initiating a mixed-use development on a site in the City of San Jacinto, Riverside County, California, and wanted an independent assessment of appropriate development options. The project requires public/private negotiations to determine financing of off-site infrastructure and project use. The City of San Jacinto is supportive of development that will increase City revenues and needed infrastructure.

The Irvine Company suggested that the method of financing infrastructure for real estate development in California covered several important topics including the impact of Proposition 13 on the ways in which cities and developers approach projects. Thus, this thesis represents an independent view of the opportunities, risks, and rewards presented by development on a particular site to the city, developer, and community-at-large.

The specific project examined by this thesis is a 462 acre site with an existing 18-hole golf course in the City of San Jacinto, California. The project consists of three parcels separated by the San Jacinto River. The developer, Soboba Associates (a development entity including D & S

Company), is proposing a variety of uses on the site including residential, commercial, retail, and recreational components. The developer is experienced in various forms of residential construction, however, this project represents a departure from previous projects both in scale and in length of involvement.

The City of San Jacinto, California, will be instrumental in determining what gets built on the site. The City evaluated the options of either restraining growth or encouraging it within its boundaries and determined no action would lead to decline due to the low income level of the populace and the increasing costs of maintaining city services. Growth is occuring in the San Jacinto Valley, and the City determined it should encourage this growth to avoid decline and guide the growth by determining what they want and who they will support to develop it. The City of San Jacinto is supportive of development as a means to revitalize the community.

One major component of the development process for this project is the financing of the infrastructure required to support this project on the periphery of the city. Infrastructure includes all of the supporting services needed for a project and is composed of on-site and off-site categories. On-site infrastructure includes utilities and roads. Off-site infrastructure includes utilities, roads, civil works, and public services needed to support development, including schools, sewage treatment plants, etc.

Off-site infrastructure needed for the Soboba Associates project includes a bridge, fire station, and extension of sewer, water, power, and telephone lines to the site. The infrastructure costs for this project have been estimated at $8 million in 1982, and were too costly for the previous developer to bear, thus the site has remained undeveloped. This paper looks at what is suitable development for the site, alternative site plans, phasing of development, and methods of financing construction costs.

The infrastructure needed to serve this development will also serve other users. The City does not have the general funds to construct a bridge for a road that crosses a river bed and has a current daily traffic volume of 3,000 trips per day unless the construction is linked to new development.

B. Summary of Major Issues

1. Earthquake and flood zones

Is the site suitable for residential development? The presence of an active earthquake zone across the site (The Claremont Fault Zone) requires that no residential unit be placed within fifty feet of a fault. This restraint has been addressed by realigning open space (the golf course) into areas unsuitable for buildings. Structures designed for earthquake-prone areas reduce the anticipated risk to "acceptable" levels.

The San Jacinto River is restrained from flooding portions of the site by levees. The northern end (down slope end) of the site is open to the stream bed and a flood easement exists over this area. It is not practical to construct a levee to close this portion of the site unless there is provision for pumping water that collects behind the levee during a rain storm, primarily from off-site flows. The solution suggested is to fill areas planned for residential use to elevations that will provide safety from flooding.

2. Existing easements

Numerous existing easements restrain development and shape the site plan alternatives. The existing sewer and water easements provide restraint as well as opportunity since they identify utilities already in place. Flood control easements can be modified in response to a final grading plan and will have to be negotiated with the County of Riverside. Easements for access to property located between the golf course and the levee can be extinguished by acquisition of the property.

3. Identity of market

Demographic trends indicate the Hemet/San Jacinto area consists largely of a retirement population. If the project is developed as an adult community, it will meet the preferences of the occupants, as well as avoid expenditures for school facilities estimated at $1.2 million by the San Jacinto school district.

4. Existing trailer park

The existing trailer park, which is surrounded by the proposed development, was constructed in conjunction with the private golf course twenty years ago. The occupants of the trailer park perceive additional development as diluting their amenity. They are unwilling to support additional costs for a bridge or other infrastructure that may benefit them as well as the new development, since they have lived without the bridge for a long time, and perceive the bridge as a requirement for additional development. The trailer park also exists as an island of county land within city boundaries, and this leaves the annexation of Soboba Associates land in question. The City is currently in the process of annexing the trailer park, and there has been no opposition to date. In addition, the existence of the trailer park limits the quality of adjacent development since it is a "disamenity."

5. Phasing of development

Although the Hemet/San Jacinto area is expanding in population at an annual rate greater than 7%, competition for housing development could expand at a greater rate. Phasing of development will permit construction to match absorption rates and avoid costly carrying costs of construction loans. Phasing also provides an opportunity to test the market, adjust product to meet revised demand, and minimize the risk of developing for the wrong market.

6. Risk of delays

The schedule for land acquisition and ongoing operation of the golf course results in substantial cash outflows by the developer. If the property development schedule is extended by regulatory delays or community opposition, the carrying costs to the developer could make the project uneconomic, and the city would lose creation of the infrastructure as well as revenues generated by new development. To minimize this risk, a cooperative approach between the developer, city, and community is called for.

C. Opportunities for Development

1. The current plan

The current plan by the developer is to build the first two phases (called Villages) around the golf course and sell land to builders for the remainder of the development. The plan is to sell the golf course to the city since it is not self-supporting. A Scripps Clinic has been built on the parcel on the opposite side of the river from the golf course and future plans call for development of an adjacent congregate care center for the elderly. The third parcel is zoned for commercial and residential uses, and the plan is to sell the commercial portion for a shopping center and the residential portion for an apartment complex. No master planning of the project is anticipated since it may delay the initiation of development and restrict future development options.

2. An alternate proposal: Master plan

By master planning the entire development, greater value may be imputed to the project than if each component were done separately. The City of San Jacinto zoning designation for the site is R-1 and options are available that will permit greater densities on certain areas than would be realized if each area were developed individually. An R-1 zone requires minimum lot sizes of 6,000 square feet and an overall density of 3.1 to 6.0 dwelling units per acre. By obtaining a Cluster Home Overlay Zone (C-H Zone) for the site, the net density can be raised to a maximum of ten units per acre, however, occupancy must be restricted to adults over 55 years of age, and a homeowners' association is required to maintain all common areas.

If a Planned Unit Development Overlay District (PUD) is established, the permitted density is raised to 7.3 dwelling units per net acre with an increase to 8.0 allowable by the Planning Commission if additional common open space is provided or dwelling units are clustered. The common open space under a PUD can be dedicated to the City (subject to establishment of a lighting and landscape assessment district to finance maintenance), maintained by a property owners' association, or retained and maintained by the developer.

The absorption characteristics of the region suggest the first parcels be developed at less than their maximum density, and this surplus density be utilized for a concentrated development on one site.

The Soboba Springs site has been divided into 6 areas or Villages, and the mainly residential development options for each village are reviewed in detail in later sections of this paper. The two parcels on the other side of the river are also described in greater detail, and the choices center on retail/commercial uses or medical uses.

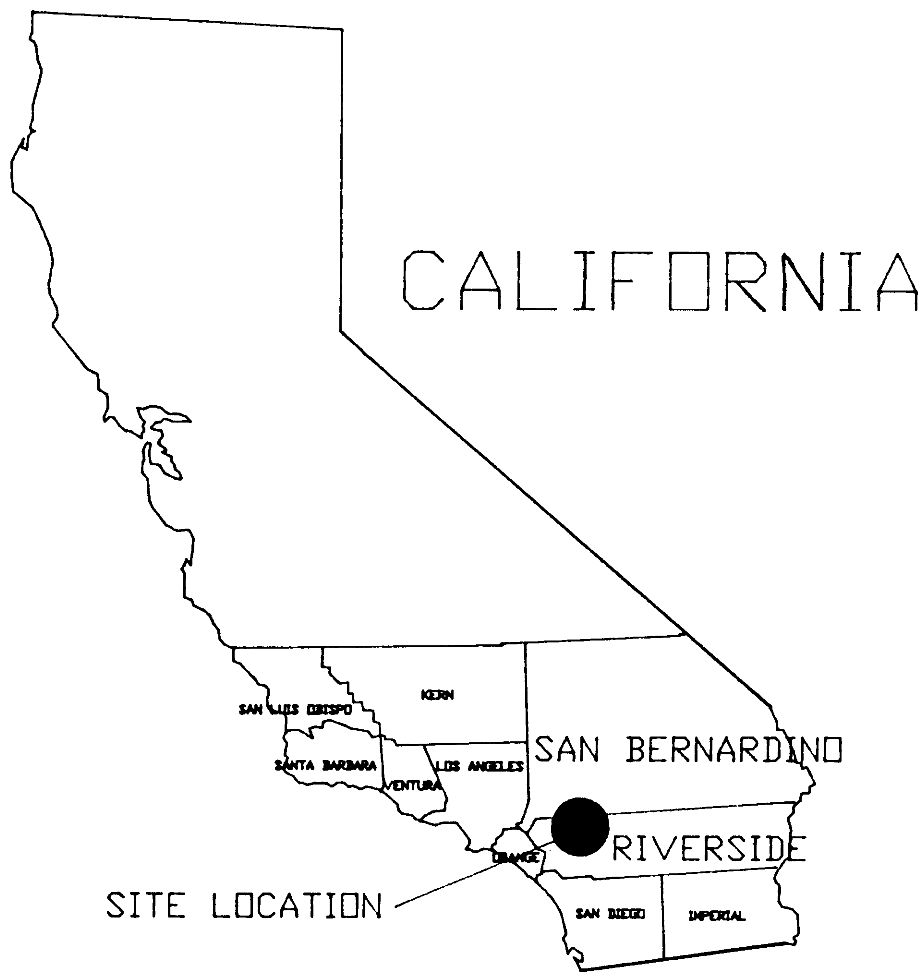

CALIFORNIA
KERN
SAN LUIS OBISPO
SAN BERNARDINO
SANTA BARBARA
LOS ANGELES
VENTURA
RIVERSIDE
ORANGE
SITE LOCATION
SAN DIEGO
IMPERIAL

**Figure 1**

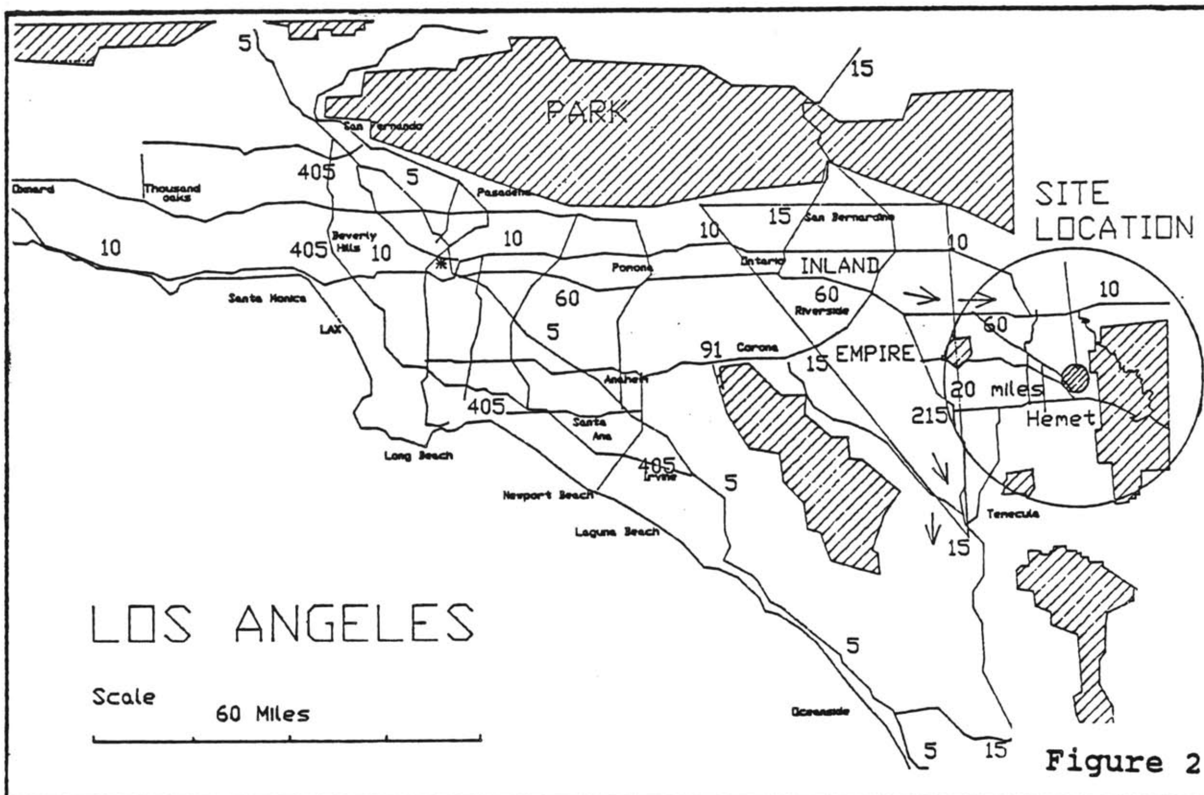



Figure 2

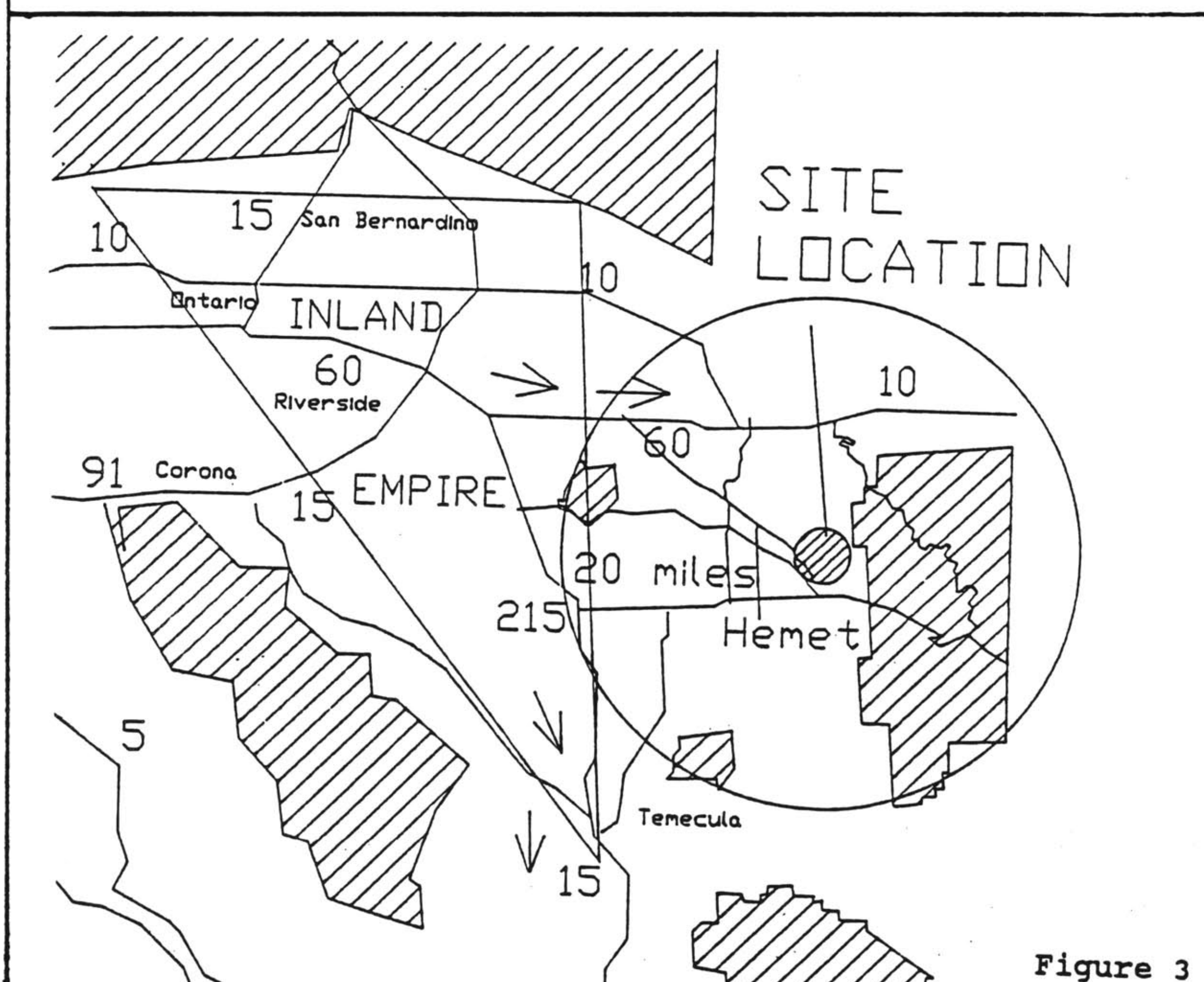



Figure 3

## II. BACKGROUND ON PROJECT

### A. The Site Context

#### 1. Location

##### a. Riverside and San Bernardino Counties

Riverside and San Bernardino Counties are located east of Los Angeles as shown in Figures 1, 2, and 3. National Real Estate Investor magazine considers the Inland Empire, a key site at the convergence of San Bernardino and Riverside counties, to be one of the nation's burgeoning areas.

While loosely defined, it is generally agreed that the Inland Empire encompasses the cities of Riverside, San Bernardino and Ontario and the land between them. It is here that explosive growth has been occuring in recent years, and the continued growth is spreading eastward into the Hemet/San Jacinto Valley.

A few years ago, Chase Econometrics predicted the two-county area would experience the highest percentage change in population growth in the nation and, while that trend may have responded to the ups and downs of the economy, the boom has continued.

While containing 12% of southern California's population, the region has been responsible for nearly 27% of the area's home building activity in the last three years, with commercial, industrial and retail construction keeping the same furious pace. The area is being fueled by local governments aggressively pursuing industrial development, and a growing labor pool.

County and city governments have accelerated permit processing and provided tax incentives and infrastructure through various financing strategies such as industrial development bonds, tax increment financing and special assessment districts.

The Inland Empire seems to be enjoying the same skyrocketing growth and good times that its neighbor, Orange County, experienced 15 years ago. The area has low land prices, abundant water, adequate sewage facilities, infrastructure and a network of interlacing freeways and railroads.

San Bernardino and Riverside counties have benefitted from economic pressures and higher land costs in the neighboring counties of Orange, Los Angeles and San Diego.

In March, 1986, National Real Estate Investor magazine found land prices for office development range from $40 to $150 per sq. ft. in Los Angeles County; $16 to $24 per sq. ft. in Orange County; and $6 to $15 per sq. ft. in San Bernardino and Riverside counties. For retail development, land costs are $10 to $60 per sq. ft. in Los Angeles County; $9 to $15 per sq. ft. in Orange County; and $3.50 to $ 10 in San Bernardino and Riverside Counties. For industrial development, land costs are $6 to $12 per sq. ft. in Los Angeles County; nearly the same in Orange County; and $2.75 to $5 per sq. ft. in the twin-county area.

Despite the cyclical nature of housing, the population of San Bernardino and Riverside counties jumped 20% between

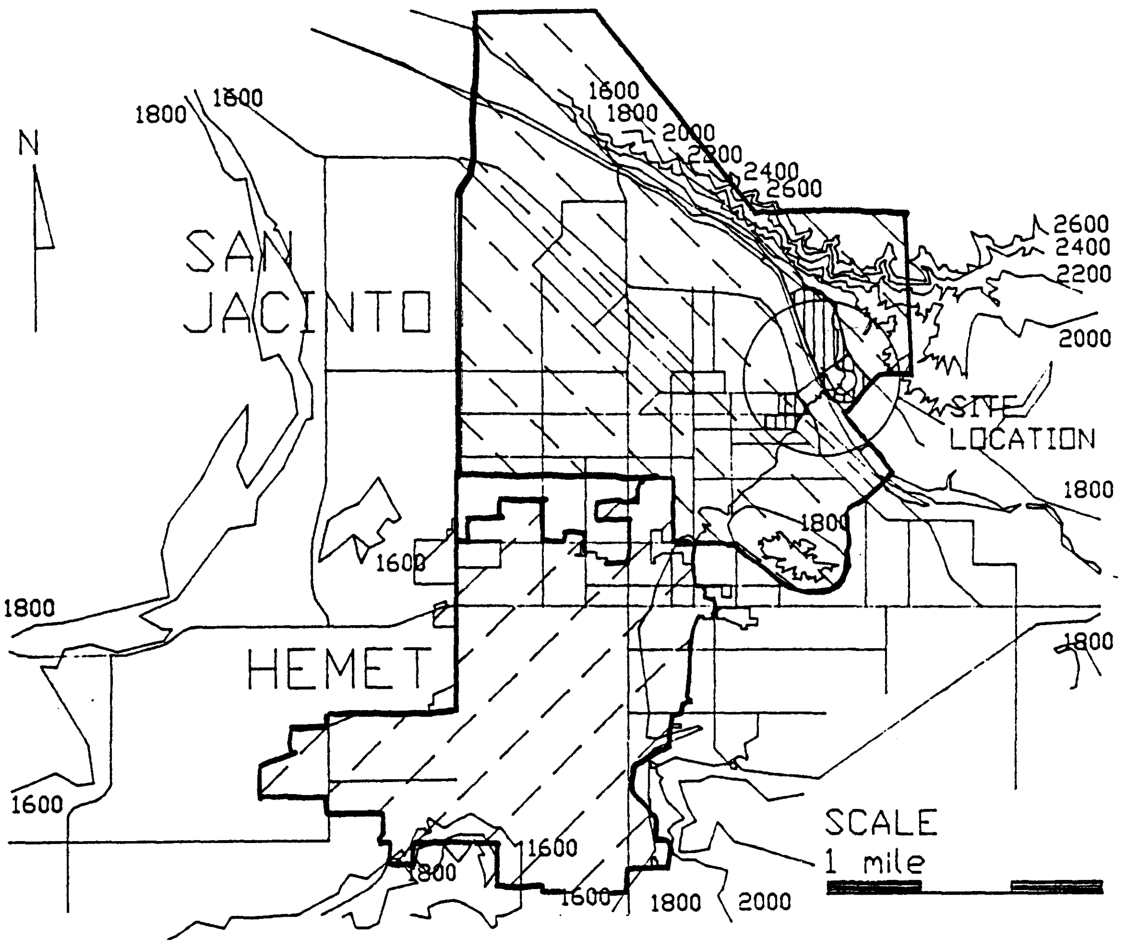

N
SAN
JACINTO
HEMET
SITE
LOCATION
SCALE
1 mile
1600
1800
2000
2200
2400
2600

Figure 4

1980 and 1985, faster than the rate of Phoenix, Dallas or Houston during the same period. The two-county estimated area population now stands at 1.85 million, with total employment at 630,400. Of those jobs, 112,300 fall in the service sector, 110,800 in retail and 103,200 in government.

b. A Tale of Two Cities: Hemet and San Jacinto

The Cities of Hemet and San Jacinto are located in the San Jacinto Valley of Riverside County, approximately 35 miles southeast of the City of San Bernardino and the City of Riverside as shown in Figures 3 and 4. This location is just outside of the Inland Empire, however, spill over of development is occuring, and growth will continue as the Inland Empire fills in. Within 18 miles of Hemet, there are currently over 200,000 residents. These people make Hemet the market center for central Riverside County. People come to Hemet to bank, shop, obtain medical attention, and while in town, eat at least lunch or dinner.

The City of San Jacinto and Soboba Associates project area enjoy close proximity to major regional recreation areas and have convenient access to Interstate Highway 15E and State Highway 10. Both of these highways are located within 10 to 15 minutes from the City's downtown area. Major recreation opportunities include the Idyllwild Recreational area approximately 15 miles to the east, Palm Springs 43 miles to the east, San Bernardino Mountains to the north, and beach areas such as Newport and Laguna within a one-hour drive to the west. The City is also served by the Atchison, Topeka, and Santa Fe Railroad (A.T.&S.F).

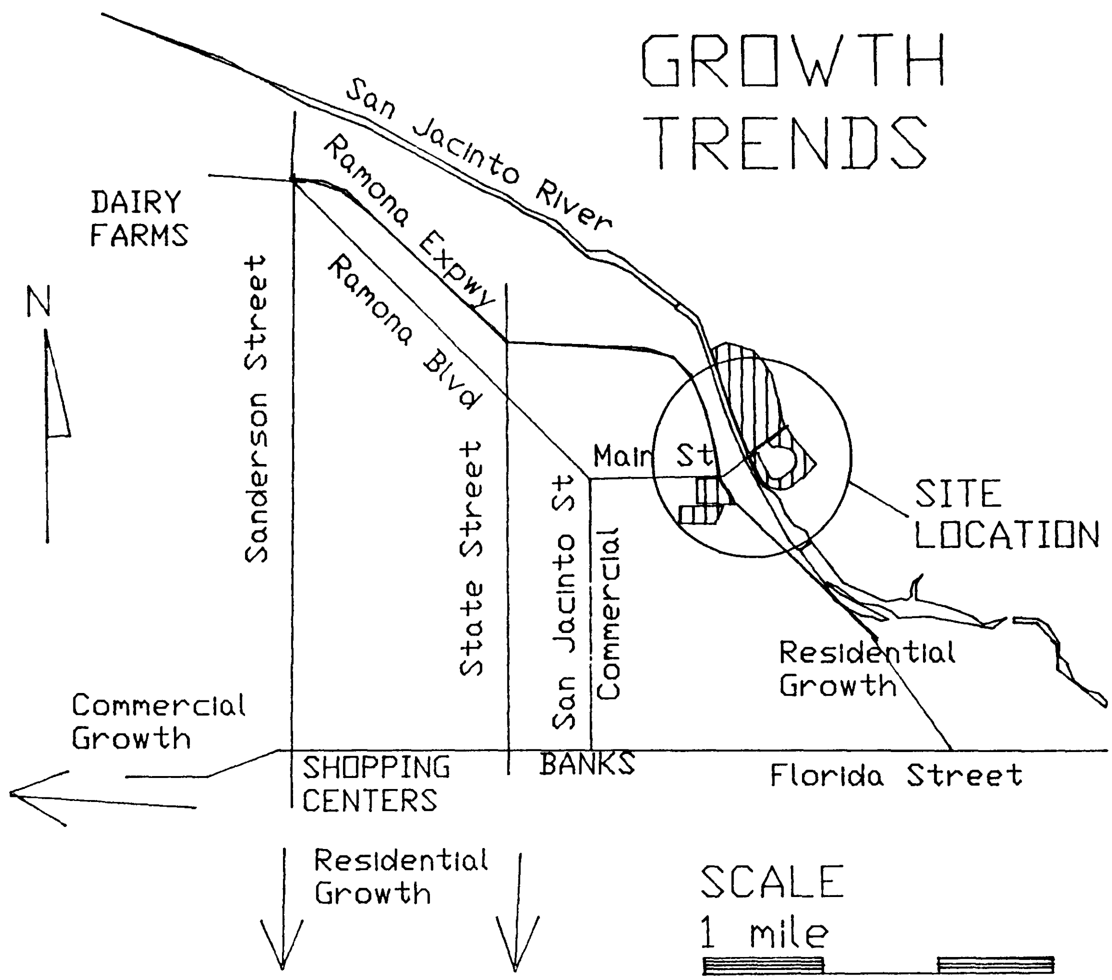

GROWTH TRENDS
San Jacinto River
Ramona Expwy
Ramona Blvd
DAIRY FARMS
N
Sanderson Street
State Street
San Jacinto St
Commercial
Main St
SITE LOCATION
Residential Growth
Commercial Growth
SHOPPING CENTERS
BANKS
Florida Street
Residential Growth
SCALE
1 mile

Figure 5

The City is bounded by the transportation routes of Sanderson Street, Ramona Expressway, and Florida Street. The City generally lies along three major axes: San Jacinto Street oriented north/south, Main Street oriented east/west, and Ramona Boulevard oriented northwest/southeast. The Ramona Expressway is being extended, and the new section shown in Figure 5 will be under construction by the end of 1986.

The City of San Jacinto, founded in 1870, is the oldest incorporated community in Riverside County. The community is surrounded by farm and agricultural lands with the San Jacinto Mountains to the east and other mountainous terrain to the west and south. The City remained a stable insulated small town for many years. During the last 30 years, there have been several rapid growth periods. San Jacinto is now in the process of transition from an agricultural community to more urban uses. Despite the changes of the last several years, and the increased development which is expected to continue, large portions of San Jacinto are likely to remain rural over the next 20 years. This is particularly true of the hillside in the northern portion of the City.

The City of Hemet was founded in 1895 after water was available from the man-made Lake Hemet. Hemet fared better in the earthquakes of 1899 and 1918 than San Jacinto (which was all but levelled twice) and outgrew its neighbor. Retirees have flocked to Hemet due to its weather and cheap land prices, and they have deposited their savings locally to

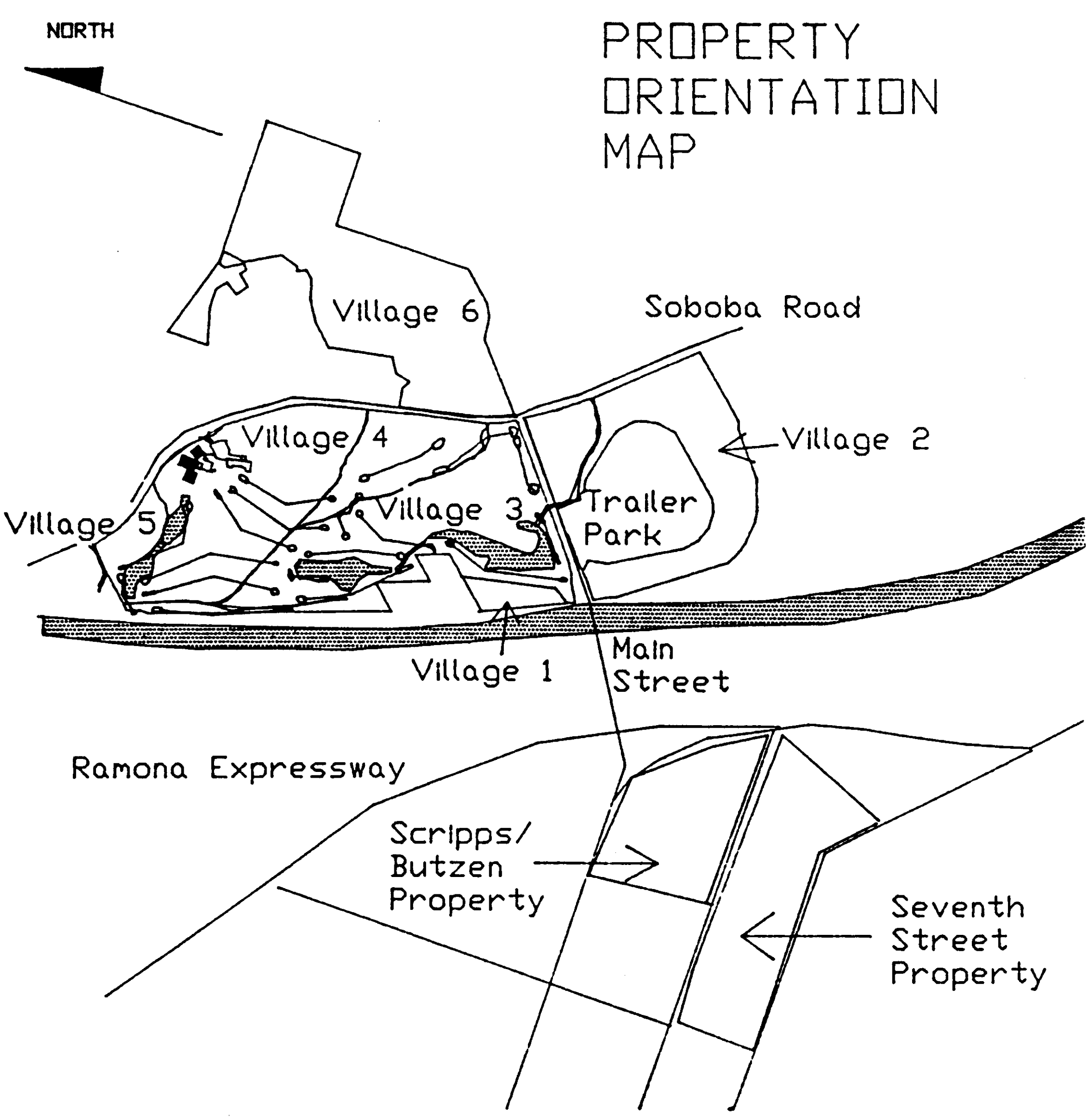

NORTH
PROPERTY
ORIENTATION
MAP
Village 6
Soboba Road
Village 4
Village 2
Village 5
Village 3
Trailer
Park
Village 1
Main
Street
Ramona Expressway
Scripps/
Butzen
Property
Seventh
Street
Property

**Figure 6**

make Florida Avenue one of the richest streets in the country in terms of bank deposits per resident of the city.

2. Description of the project -- The three parcels.

The project site is composed of three parcels totalling 462 acres separated by the San Jacinto River as shown in Figure 6. The eastern parcel, known as Soboba Springs, consists of 396 acres of which 114 acres are mountainous and 123 acres is for the 18-hole golf course. The two western parcels, the former Butzen property (23 acres) and the Seventh Street property (43 acres) are between the existing city of San Jacinto and the river. These two parcels are zoned for commercial use and 20 acres of the Seventh Street property is zoned for residential use.

The Soboba Springs parcel contains an existing recreational facility and 18-hole championship golf course. A manufactured housing complex owned by others is within the boundaries of the parcel. The hillside area is adjacent to the former Soboba Hot Springs Resort ( a celebrity attraction in the 1940's that was abandoned after a fire eight years ago), a partially completed subdivision of hillside custom homes, two ranches owned by long time residents of the area, and an Indian reservation. This parcel has been recently annexed into the City and is designated for residential development, 3 to 6 dwelling units per acre. The Soboba Springs parcel is crossed by the Clarement Fault Zone (earthquake) and protected from the San Jacinto River by a fifteen foot high levee.

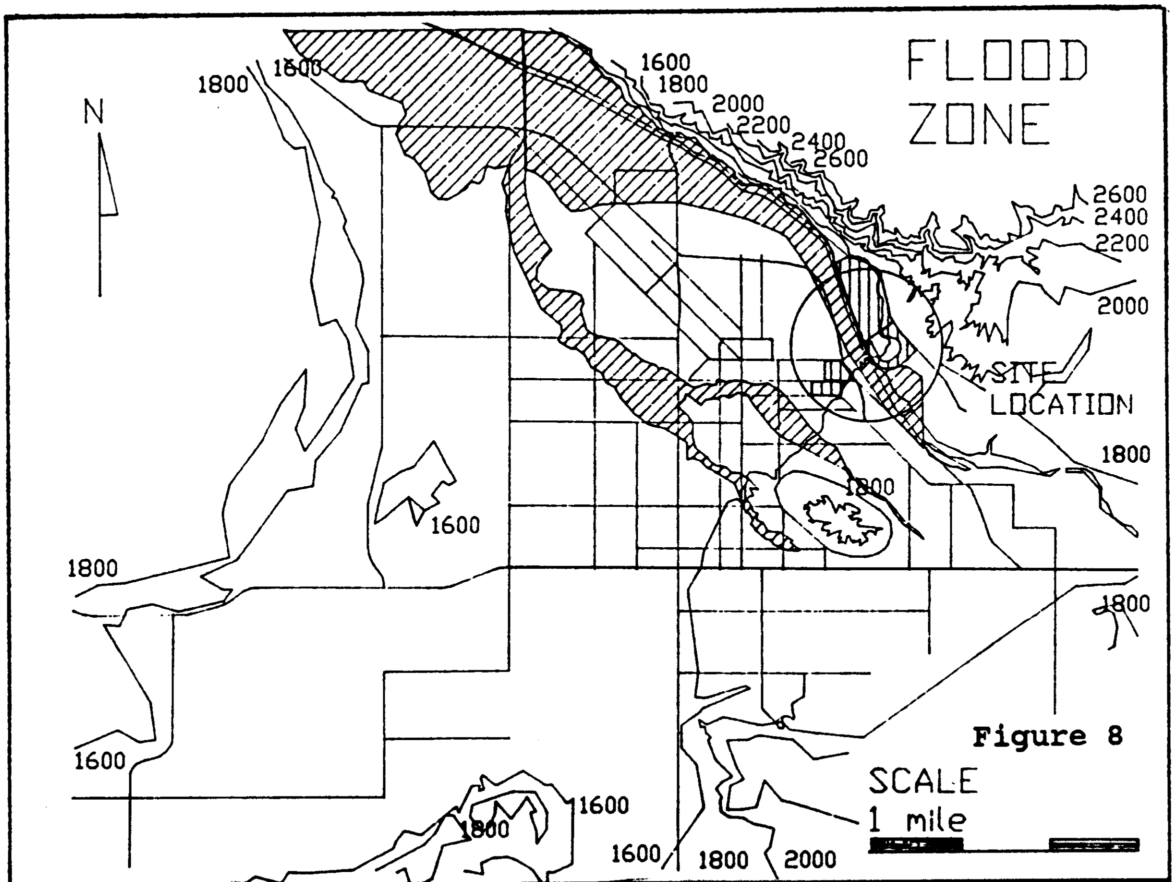


Figure 8

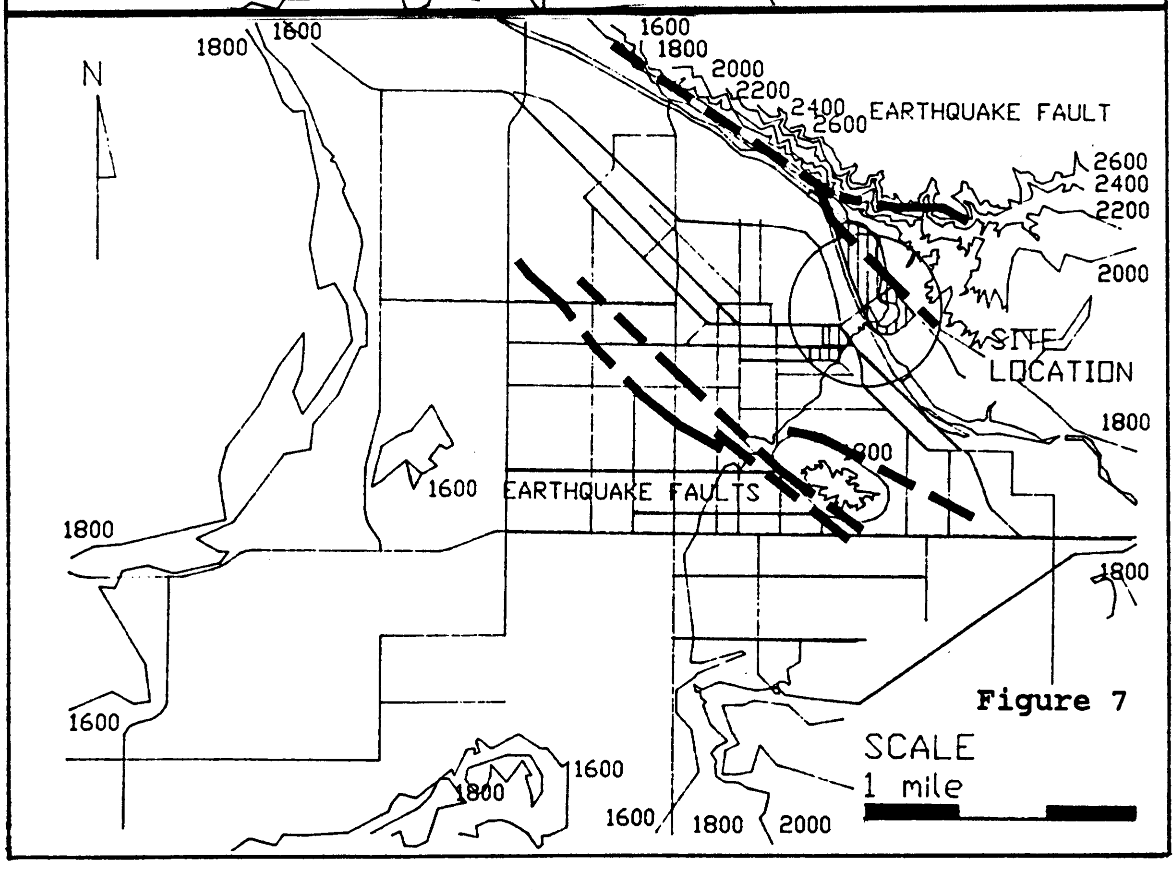


Figure 7

3. Environmental setting

a. Land forms

The geologic setting of the Hemet/San Jacinto area is characterized by a broad, relatively flat valley with mountains to the east, south and north, and isolated island-like hills to the west. Mountains and hills are generally composed of granite with the exception of Park Hill in the south eastern portion of San Jacinto which is composed of much younger and softer sedimentary material. The valley is filled with rock, sand and gravel material, known as alluvium, that has eroded and washed down from the surrounding mountains. In the central portion of the valley this alluvium material is 5,000 to 7,000 feet thick.

A topographic map of the region is included in Figures 7 and 8. This map clearly shows the two basic land form zones within the study area; i.e., the steep hillside and mountainous area of the San Jacinto Mountains to the north and the broad, flat San Jacinto valley area to the south. The San Jacinto River follows the line of contact between the mountains and the valley. The elevation varies from a maximum of 3,400 feet in the mountains to approximately 1,500 feet in the valley.

b. Seismic zone

San Jacinto is located within one of the most seismically active regions of California. There are a number of active fault zones in the area, any one of which could produce a potentially damaging earthquake. The Claremont

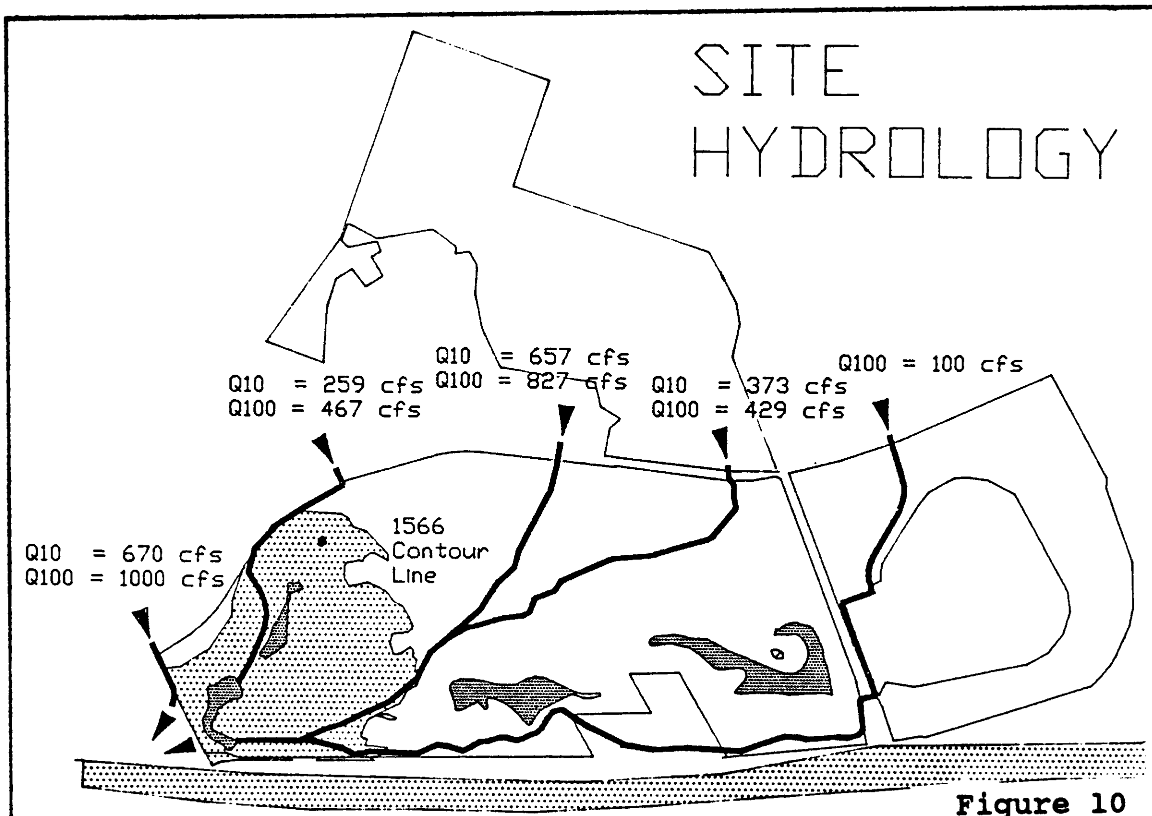


**Figure 10**

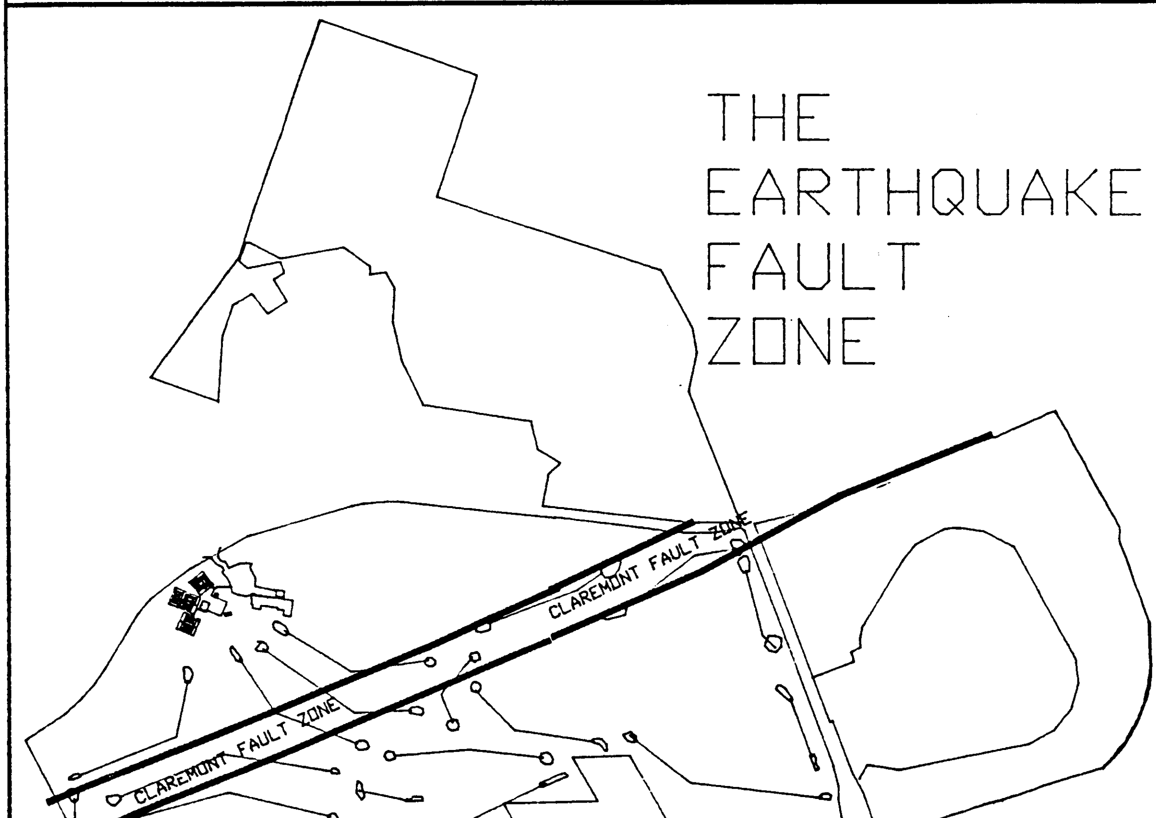


**Figure 9**

Fault Zone crosses the project area as shown in Figures 7 and 9. The main San Jacinto Fault runs along the edge of the mountains and is responsible for creation of the Soboba Hot Springs. Structures can be designed to withstand earthquakes of a given magnitude. As structures are designed to withstand larger earthquakes, the level of risk decreases, but the cost of construction increases. This has lead to the concept of an "acceptable risk". Acceptable risk is a subjective decision based on a balancing of the increased cost and the reduced risk. Specific earthquake related hazards include the following: ground shaking and movement; liquifaction; ground settlement; and, land slides and slope instability.

During a site investigation in July, 1986, an earthquake of magnitude 5.9 on the Richter scale with an epicenter 40 miles to the east of the site took place. Although there was considerable ground shaking, no significant damage occurred. Geotechnical investigations are in progress using ground penetrating radar, and results to date confirm the existence of the fault within the area of the Claremont Fault Zone and no where else on the site.

c. Hydrologic conditions

The San Jacinto area is drained by the headwaters of the San Jacinto River in the mountains to the east. This drainage system eventually empties into Lake Elsinore. Much of the San Jacinto Valley is situated at the elevations below the San Jacinto River and overflows may remain for weeks or months after the flood stage. Eight significant floods have occurred along the San Jacinto River since 1931. Levees have been constructed along the banks of the San Jacinto River by the Army Corps of Engineers and the County Flood Control District. In 1980, a portion of the levee on the city side of the river was breached. Recent studies by the U.S. Corps of Engineers have indicated the levees are able to contain a 100 year flood. The limits of the flood prone area are shown in Figure 8. The Project area is outside of the flood prone area due to the presence of the levees that line both sides of the river as it crosses the project area.

There are four points at which off-site flows enter the project area during rain storms as shown in Figure 10. Box culvert systems and drainage swales can be incorporated into the landscaping plan to handle these flows and safeguard areas for development. Box culverts are expensive, and are only recommended where they must cross roadways. The off-site flow which starts in Village 2 and runs through Village 1 along the back of the levee should be diverted into the large artificial lake by a new culvert under Main Street. The existing culvert under Main Street is inadequate, and there have been frequent reports of flooding of Main Street in front of the trailer park during rainstorms. Although this culvert will create additional expense, it will make more land available for use in Village 1.

The northern end of the golf course is at the lowest elevation of the project, and the levee ends without closing off the northern edge. A flood easement to elevation 1566 has been placed on this portion of the site. Due to the on site flows, it has not been practical to close the northern edge of the site. To provide usable building pads, approximately 5 to 8 feet of fill is required in this area for Village 5.

d. Brush fire potential

Due to the arid conditions, the mountains to the northeast of the project area are covered with dry grasses during most of the summer months. During a site investigation in July, a brush fire started adjacent to Soboba Road on the Hot Springs property and spread up the nearby North Mountain. The brush fire was contained by 250 fire fighters after 15 hours of effort. The lakes on the golf course were used as a source of water in fighting the blaze, and airplanes dropping fire retardent also assisted.

Development of the hillside area should consider creation of a fire zone between buildings and the mountains (i.e., a 100 foot band of access road and low vegetation such as ice plant that is kept well watered. In addition, palm trees should be regularly trimmed of dead fronds, emergency ingress and egress should be considered, as well as fire hydrants along the mountain boundary.

4. Climate

The climate in the Hemet/San Jacinto area tends to be warm and dry, and recently smog has spilled over from the adjoining areas in Los Angeles.

| Period | AVERAGE TEMPERATURE F Min | Mean | Max | RAIN Inches | HUMIDITY 4 A.M. | Noon | 4 P.M. |
|---|---|---|---|---|---|---|---|
| January | 34.5 | 49.2 | 64.2 | 2.15 | 87 | 55 | 67 |
| April | 44.1 | 59.2 | 75.9 | 1.15 | 76 | 51 | 52 |
| July | 56.1 | 77.5 | 98.4 | .10 | 81 | 31 | 35 |
| October | 46.7 | 64.8 | 83.4 | .69 | 59 | 30 | 38 |
| Year | 45.1 | 62.4 | 80.2 | 12.51 | 76 | 40 | 48 |

5. Economic growth and trends

San Jacinto has traditionally been a rural community with agriculture being a major economic pursuit. Dairies, fruit orchards, and small ranches have provided a major source of employment. This has resulted in a preponderance of unskilled workers and lower socio-economic groups in the community. However, the composition of the Valley's economic base is moving away from agriculture. Six years ago, water cost $68/acre-foot, today it costs $309/acre-foot. A few years ago, unionization of farm workers occurred. In one case, the Howard Rose Company, the company permanently closed its nursery after unionization occurred because increased labor costs made production uneconomic. These trends lead to the conversion of large tracts of farm land into mobile home parks and residential developments.

The local economy is currently based on agriculture, trade and services primarily geared to the needs of a growing population of retired citizens with above average retirement incomes and manufacturing -- especially mobile homes and recreational vehicles. An abundant supply of labor is usually available, particularly for unskilled and semiskilled jobs.

ECONOMIC GROWTH AND TRENDS

| Year | 1960 | 1970 | 1980 | 1984 | 1985 |
|---|---|---|---|---|---|
| Population | | | | | |
| County | 306,191 | 456,914 | 663,923 | 757,500 | 794,774 |
| Hemet | 5,416 | 12,252 | 23,211 | 26,350 | 28,074 |
| San Jacinto | 2,553 | 4,385 | 7,098 | 8,900 | 9,907 |
| Taxable Sales | | | | | |
| County | 356,225 | 828,578 | 3,274,017 | 4,088,525 | N.A. |
| Hemet | 12,013 | 39,920 | 148,251 | 238,614 | N.A. |
| San Jacinto | 2,556 | 4,613 | 15,223 | 29,934 | N.A. |

Note: Sales are in $000s

THE HEMET-SAN JACINTO LABOR MARKET AREA 1980:

Area consists of Hemet, San Jacinto, Gilman Hot Springs and Idyllwild.

Area population: 68,437 Total employment: 19,945

| | | | |
|---|---|---|---|
| Agriculture, Forestry | 1,123 | Wholesale Trade | 541 |
| Construction | 1,903 | Retail Trade | 3,784 |
| Manufacturing | 2,386 | Fin., Ins., Real Estate | 1,809 |
| Transp/Comm/Utilities | 1,355 | Services | 5,441 |
| | | Government | 1,603 |

Source: U.S. Census 1980

Hemet is a well-known Southern California growth and retirement community and a West Coast center for mobile home and recreational vehicle manufacturing. It is located in the middle of a productive agricultural area and is one of the principal gateways to the San Jacinto Mountains recreational area. The community has an active and growing retail sector. At present, there are three major shopping malls in Hemet, along with significant industrial development activity in the Hemet-Ryan Airport area. Hemet is also home for the Ramona Pageant, a yearly cultural event depicting the early life of the Hemet Valley. Ideal weather, location and excellent services help make Hemet one of the fastest growing cities in Riverside County and well-suited to the retired as well as the active business or professional person. Along with other western Riverside County cities, Hemet is attracting many younger families from the counties to the north, due mainly to more reasonable housing costs there.

While the employment base has been limited, population growth has continued since the majority of retirees do not seek further employment. Instead, the influx of retirees creates demand for services (especially those that are medical related) and, jobs for the younger individuals in the population.

In the larger region of Riverside County, population has been increasing faster than job creation which, according to Dennis Macheski, manager of the Southern California Association of Governments' (SCAG) development guide program, means the county is "moving in the direction of greater commutes and more of a dependence on Orange and Los Angeles counties."

6. Demographics

Senior citizens range from wealthy retired people to those on fixed income with governmental support and many in between. Over the last 30 years, the average annual population growth rate in San Jacinto has been between 3.7% and 5.8% with the higher rates associated with more recent years. Over that same thirty year period, the in-migration has largely been of older individuals, and it is only in the last few years that younger families are on the increase.

Based on Riverside County population estimates for January 1, 1985:

| | Hemet | San Jacinto |
|---|---|---|
| Population | 28,074 | 9,907 |
| Ethnic Background | | |
| Anglo | 84% | 66% |
| Hispanic | 6% | 30% |
| Other | 10% | 4% |
| Age Grouping | | |
| 0 - 24 | 7% | 39% |
| 25 - 34 | 17% | 12% |
| 35 - 44 | 13% | 8% |
| 45 - 54 | 12% | 8% |
| 55 - 64 | 17% | 10% |
| 65 and Over | 34% | 23% |
| Sex | | |
| Male | 44% | N.A. |
| Female | 56% | N.A. |
| Income | | |
| Under $25,000 | 87% | 99% |
| $25,000 to $49,999 | 11% | 1% |
| $50,000 and Over | 2% | 0% |

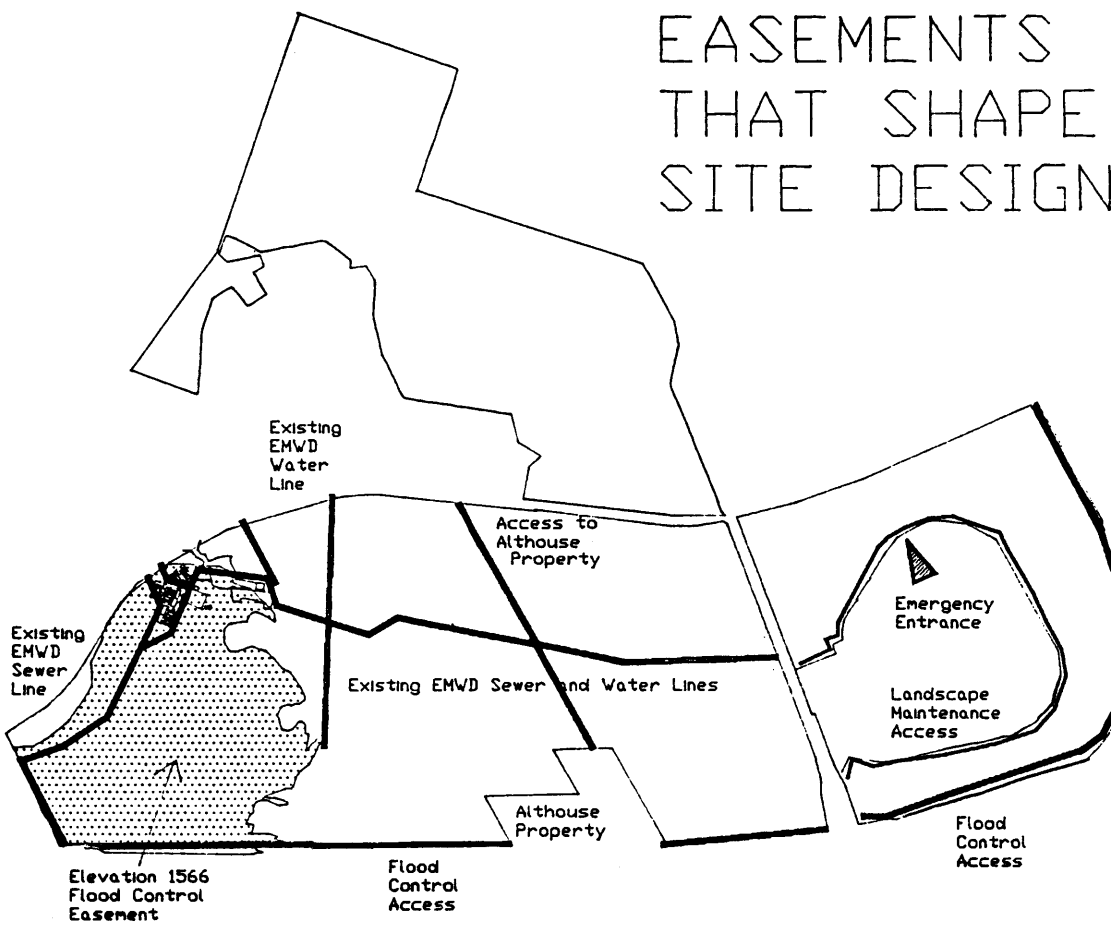

EASEMENTS THAT SHAPE SITE DESIGN
Existing EMWD Water Line
Access to Althouse Property
Existing EMWD Sewer Line
Existing EMWD Sewer and Water Lines
Emergency Entrance
Landscape Maintenance Access
Althouse Property
Flood Control Access
Elevation 1566 Flood Control Easement
Flood Control Access

Figure 11

7. Transportation

AIR: Ontario International Airport (owned and operated by Los Angeles International Airport) 45 miles northwest, is served by AirCal, Air Cortez, Alaska Airlines, American, Continental, Imperial, Inland Empire, PSA, Republic, Sun Aire, TWA, United, Western Airlines. Hemet-Ryan Airport (County owned) has general aviation facilities, 4,300 foot runway.

BUS: RTA bus to Riverside, Sun City and Perris.

HIGHWAYS: California 74 east-west, California 79 north-south, connections 12 miles west to I-215 north-south and 13 miles north to California 60 west and I-10 east-west.

8. Easements that shape the site design

There are numerous easements affecting the site as shown in Figure 11, and the easements that restrict the project's development potential or have been considered in preparing the alternate site plans are as follows:

Riverside County Flood Control

The existing levee was constructed in two phases. Prior to 1960, the levee protected only the existing trailer park, and a county flood control easement was placed on the area which gives the Flood Control Department the right to restrict development. Later, when the levee was extended, the easement was not removed, apparently due to the County wanting to be reimbursed for funds expended to obtain the easement. Access easements exist along the backs of the levees on both sides of Main Street, and this thesis proposes site roads be oriented to follow these easements to provide paved access as well as site circulation. The construction of the Main Street Bridge will require Flood Control approval, and this also creates an opportunity to redesign the bridge to allow for an underpass between Villages 1 and 2 where access is blocked by the existing trailer park. An easement No. 20 (1566 Contour Line) exists that requires all building pads be constructed at least at an elevation of 1567 for safety from flooding, and this will primarily affect Village 5 which will require up to eight feet of fill in some areas.

Althouse Property

A ten acre parcel of land between the golf course and the levee is owned by a local resident, Mrs. Van Looten. Mrs. Van Looten is in her late eighties and has no desire to sell the property or the access rights to it that cross Villages 3 and 4 to Soboba Road. She has previously rejected an offer to purchase the property which included a new house for her on the site. Site circulation must be designed around this piece of property with provision for future expansion if the property becomes available. Two alternate proformas are included in Appendix 5 which estimate the residual land value of the property to range from $1.2 million to $1.4 million due to its vital location in blocking development of other units to the north of it.

Eastern Municipal Water District

Sewer and water easements exist across the property that connect the existing trailer park and hillside properties to

City or EMWD systems. A well for EMWD water supply and a sewage lift station also exist on the golf course site. The infrastructure and associated costs have already been determined for an 800 unit development, and an increase to double that density is expected to require an additional 500,000 gallon water storage tank. The water tanks would be sited on the hillside area, even though there is some concern regarding proximity to the earthquake fault zone.

EPM Soboba

This entity controls easements relating to the existing trailer park that call for a ten foot landscape easement around the perimeter of the park, access to mobile home storage areas, and a reciprocal easement to use paved streets on each others' property in the event the main entrance to either property is blocked.

9. Politics

Due to Proposition 13, which cut back public revenue from property taxes, cities in California have had to find other sources to pay for services and expansion of infrastructure. One of the ways to do this has been through the annexation of land and the placement of the responsibility for all development costs, both on- and off-site, on the developers of the land. Thus, the Cities of Hemet and San Jacinto compete for the land that is around them and unincorporated in the County of Riverside. The Soboba Associates project site is on the side of the City away from Hemet and not in an area of competing claims. Park

Hill, on the other hand, is between the two cities and a law suit is currently in progress over which city will annex this parcel.

"Movers and Shakers: The Study of Community Power" by Philip Trounstine and Terry Christensen suggests a reputational method of determining who "runs the show" in a given community. This technique requires about three months' full-time work, and this paper covers only the beginning of such an analysis gained during a two week stay in the community. According to Trounstine and Christensen, "The object of a power structure analysis is to identify the most influential people in the community -- those who by reason of their wealth, position, charisma, heritage, or abilities establish local policies, define the political and economic agendas, institute and set in motion major projects, and otherwise lead or rule."

Preliminary discussions suggest the influential individuals in the Hemet/San Jacinto community belong to the following key organizations:

The Hemet/San Jacinto Exchange Club
San Jacinto City Council
San Jacinto Planning Commission
Hemet City Council
Hemet Planning Commission
Riverside County Board of Supervisors
Morning Kiwanis Club
Eastern Municipal Water District
Ramona Pageant Club
Bank of Hemet
Nestee, Brudin, and Stone (Engineering and Planning)
Hemet Federal Savings and Loan
Security Pacific Bank
Inland Savings and Loan
Valley Economic Development Council

A list of individuals considered influential in the

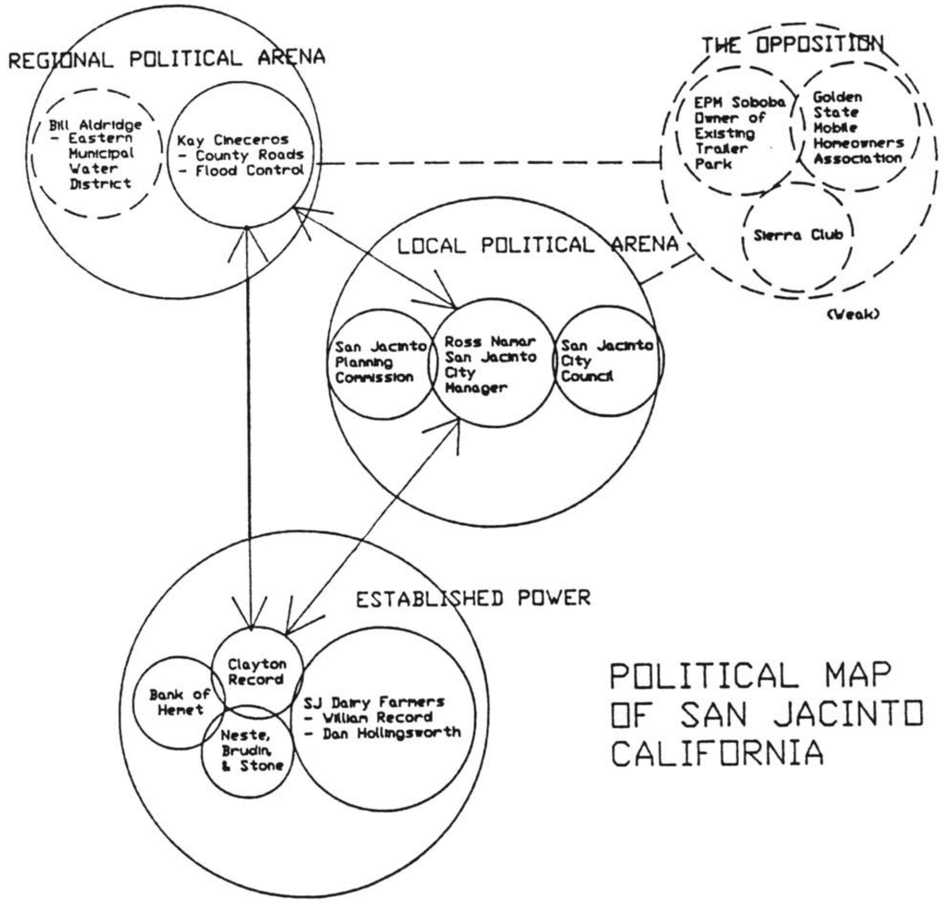

REGIONAL POLITICAL ARENA
Bill Aldridge - Eastern Municipal Water District
Kay Cineceros - County Roads - Flood Control
THE OPPOSITION
EPM Soboba Owner of Existing Trailer Park
Golden State Mobile Homeowners Association
Sierra Club
(Weak)
LOCAL POLITICAL ARENA
San Jacinto Planning Commission
Ross Namar San Jacinto City Manager
San Jacinto City Council
ESTABLISHED POWER
Clayton Record
Bank of Hemet
SJ Dairy Farmers - William Record - Dan Hollingsworth
Neste, Brudin, & Stone
POLITICAL MAP OF SAN JACINTO CALIFORNIA

Figure 12

Hemet/San Jacinto Valley is included as Appendix 4.

A political map of the major parties expected to bear on this particular project is shown in Figure 12. The Local Political Arena consists of the City Manager (Ross Namar), San Jacinto Planning Commission, and San Jacinto City Council, and is the public forum for granting approvals and ratifying agreements concerning the project. The change of venue from the County of Riverside to the City of San Jacinto was gained by annexation. Considerable leg work had been done in getting County approvals for the project prior to the annexation, however, the project density was targeted at 800 units and the developer was to pay for the bridge. Now, the City has agreed to finance the bridge, and discussions are in progress to increase the project density.

The Regional Political Arena consists of the Riverside County agencies and Eastern Municipal Water District. An influential individual at the County level is Kay Cineceros, representative to the County Board of Supervisors for the area, and she has expressed interest toward limiting development densities and preserving open space. Cineceros may become active in opposing the project if densities exceed 800 units or there is local opposition.

While there is apparently no strong opposition to the project, The Opposition could come from three groups: EPM Soboba, the owner of the existing mobile home park; Golden State Mobile Homeowners' Association; and, the Sierra Club. The existing trailer park was bypassed in the original annexation of the site to avoid opposition to the annexation. Now, the annexation of the trailer park itself by the City is in progress. Historically, populated areas within the Valley have resisted annexation (i.e., East Hemet). Annexation of the trailer park is a mixed blessing for Soboba Associates. Annexation will remove any doubt regarding the legality of the annexation of the Soboba Associates land since the island of County land that is against policy would be removed, however, the City is considering rent control ordinances that would be opposed by the land owner of the trailer park. If the tenants of the trailer park want support, they can look to a regional organization, the Golden State Mobile Homeowners' Association for support, and this organization can pressure to shift arenas for decision making back to the Regional Political Arena. In addition, if the project attempts to exceed the 800 units previously under discussion at the Regional Level, it may draw fire from the Sierra Club. Since County approvals are needed by the Flood Control and Roads Departments, and these groups listen to the County Supervisor for the area, Kay Cineceros, care must be exercised when exceeding previous approvals and raising local opposition.

One individual representing Established Power in the area, Clayton Record, may be able to assist. Record is influential with both Cineceros and Namar and is widely respected in the Valley. Record represents the major financial interests in the Valley (Bank of Hemet), the wealthy dairy farmers of San Jacinto, and has joined the major land planning organization in the Valley (Neste, Brudin, and Stone) because of his experience in the local and regional political process. Soboba Associates has taken the right step in retaining Neste, Brudin, and Stone to handle development approvals.

B. History of ownership

The golf course and trailer park were developed twenty years ago by Jim Miner (see Appendix 4) on land outside the City of San Jacinto and in the County of Riverside. The property around the golf course and trailer park was sold to an eager Canadian investor, Daon Company. The golf course was sold to an organization called the Diet Center.

Daon invested heavily in real estate throughout Southern California and found itself stretched thin during the economic down turn in 1982-1984. At the time, key approvals were needed from the County of Riverside Board of Supervisors. The Board included Record and Cineceros. Cineceros was instrumental in limiting the number of units on the site and in requiring that the developer pay for the bridge worth $2 million to $3 million as well as other infrastructure costs estimated at $8 million. Daon was unwilling to absorb these heavy front end costs during the period when interest rates were high and the market for housing depressed. Daon decided the project was not economically viable when designed for 800 housing units, the limit set by the County of Riverside. The cost of infrastructure and land for the 800 units required prices in

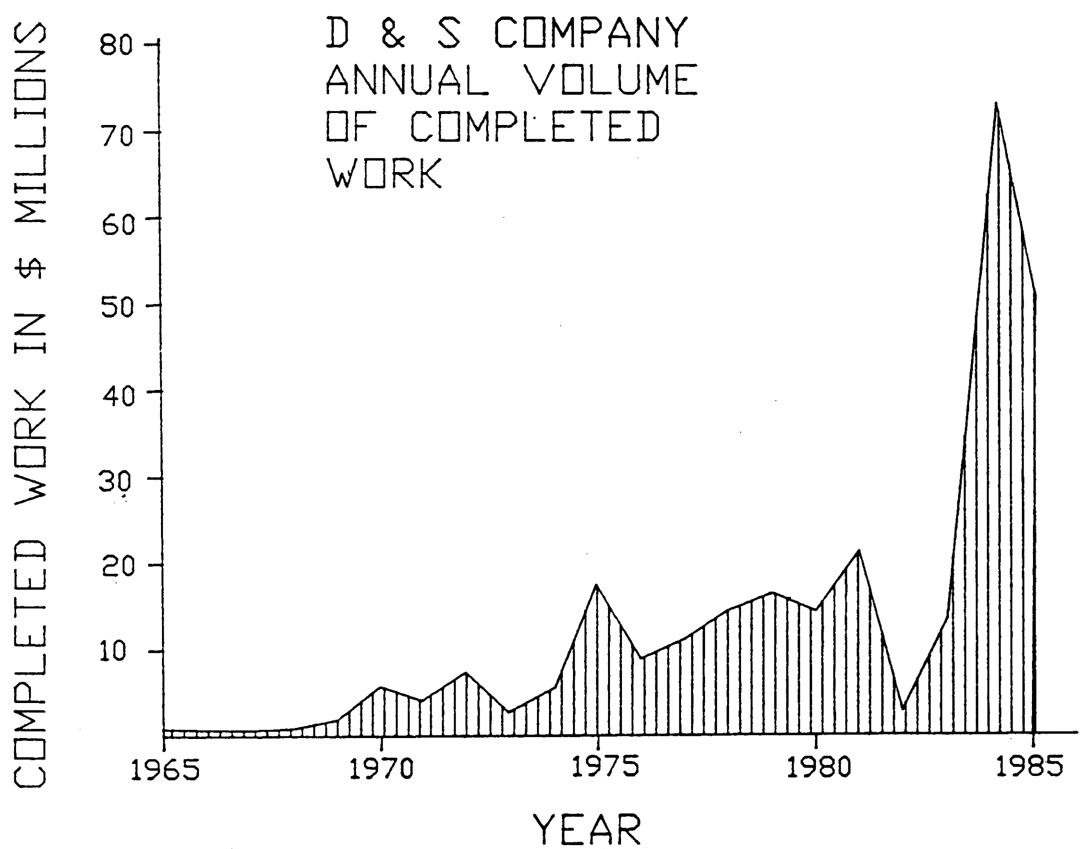

D & S COMPANY
ANNUAL VOLUME
OF COMPLETED
WORK
COMPLETED WORK IN $ MILLIONS
80
70
60
50
40
30
20
10
1965
1970
1975
1980
1985
YEAR

Figure 13

the $180,000 range. Since the local market is for retirees willing to pay $80,000 to $110,000, the project did not proceed.

Without the surrounding development, the golf course memberships did not fill, and the Diet Center could not operate to golf course profitably.

Since 1966, D & S Company, with Peter Sidlow as President, has been one of the nation's largest developers of affordable housing. The annual value of completed work is shown in Figure 13. The type of projects undertaken has progressed from apartments to condominiums to single family subdivisions. D&S Company was owned by Rather Corporation until two years ago when Sidlow bought out their interest.

A local resident, Bob Petkin, identified three parcels known as Soboba Springs, Parcel 20795, and 7th Street as available for acquisition and formed a partnership with Sidlow to develop the property. D & S Company gained control of the property in 1985 by agreeing to phased purchase of the land from Dayon Corporation. The golf course was purchased outright from the Diet Center. The city has subsequently annexed the property and doubled the number of housing units allowed on the site. Sidlow felt he had insufficient financial resources to carry the project during the development phase and brought in a private investor, Byron Lasky, and the ownership was split 1/3, 1/3, 1/3. Subsequently, Petkin withdrew from the partnership and his share was acquired by Lasky. Lasky is now a 50% equity partner in D&S Company as well as a 2/3 partner in Soboba

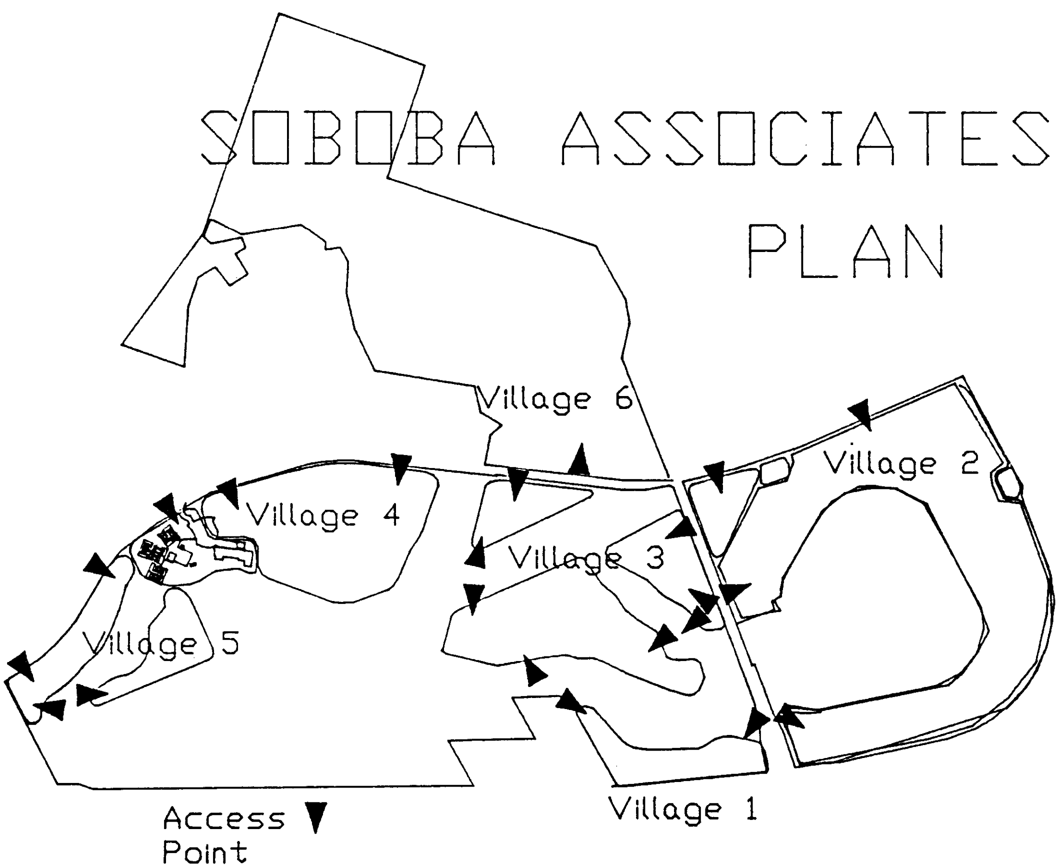

SOBOBA ASSOCIATES
PLAN
Village 6
Village 2
Village 4
Village 3
Village 5
Village 1
Access Point

**Figure 14**

Associates.

Byron Lasky has been a successful real estate developer in California since 1958. His projects include the first co-op housing project developed under Section 221 (d)(3) of the National Housing Act, development and sales of several thousand homes in the award-winning community of Tierrasanta in San Diego, California, development of a 110-acre tract for Sierra Point fronting on the San Francisco Bay to include 1.7 million square feet of office buildings, two major hotels and related facilities including a marina. Lasky has also raised over $100 million in equity capital through syndication and owns three television stations in different regions of the U.S.

Negotiations are currently in progress between the developer and the community to mitigate the environmental impacts of the project and improve off-site infrastructure.

C. The Developer's Plan

D & S Company is currently reviewing options to place approximately 1600 dwelling units on the site, as well as a medical center, and hotel. The D & S development plan of March 1986 is summarized as shown in Figure 14 and as follows:

| | |
|---|---|
| Village 1 | Build 70 duplex units at 900 sf each. |
| Village 2 | Sell 445 lots at $5,000 per lot. |
| Village 3 | Build 100 duplexes and single family homes (900 sf to 1000 sf) and sell 230 lots at $8,000 per lot. |

| | |
|---|---|
| Village 4 | Sell 250 lots at $6,500 per lot. |
| Village 5 | Sell 130 lots at $8,000 per lot. |
| Village 6 | Sell 25 buildable acres for hotel site at $150,000 per acre after using as a source for fill in other villages. |
| Butzen Property | Build Scripps Clinic and congregate care facility and sell other parcels. |
| 7th Street | Sell 20 acre section that is commercially zoned for $100,000 per acre. After rezoning 18 acres currently in R-1, R-2, and R-3 zones, sell at $40,000 per acre for apartments. |
| Golf Course | Realign three holes for $300,000 and sell the golf course to the City for $3,000,000. |

To support this development plan, mitigation costs and off-site improvements include:

1. Bridge (by the City)
2. Fire station
3. Schools
4. Flood control facilities
5. Police protection
6. Water Storage facilities, pumping plants and distribution systems
7. Sewer interceptor system and treatment facility
8. Road improvements
9. Signalized intersections

Soboba Associates allowed $340,000 to cover the costs of these infrastructure-related items, and this may be optimistic. Using the developer's financial assumptions and release schedule for lots to merchant builders, the developer is able to exceed an internal rate of return of 20%. However, this level of return requires selling over 230 lots per year for the next five years. Also, there is no expense indicated for buying back the existing memberships to the golf course if it is converted to public ownership.

## III. ALTERNATE DEVELOPMENT PLANS

### A. Market Analysis

#### 1. User profiles

Based on the demographics and economic trends discussed in sections II.A.3 and II.A.6 and a preliminary market study by Soboba Associates (see Appendix 1), the typical user of the development is expected to be:

- Retired Anglo couple who want to own a single family home (2 bedroom/2 bath) as their primary home. They are willing to pay more than $76,000 for a basic unit, and one quarter of the couples are willing to pay over $100,000 to live at Soboba Springs. The home will be financed out of savings or sale of their current residence, and the couple will additionally have a savings of $25,000 or more, plus retirement income. They will own a late model automobile.

In addition to demographic research that statistically identifies the predominant groups in the market, a softer approach to determining the needs of these groups is called for.

One approach is to build consumer profiles through phone surveys or focus groups (groups that you get together with to informally review product). Try to identify who might not use development and why?

Get in touch with what the community is looking for -- communalness or nostalgia. Check with the local historical society/museum -- San Jacinto has several historical buildings -- obtain or sponsor a city-wide study. Hold wine and cheese parties for residents of at least ten years in the city. Talk to them and get an understanding of the city "back when". Take lots of notes when asking questions such as, "What are your favorite memories about the city with regard to shopping, eating, etc." Also, "What do you like about living here?" Create the "best of San Jacinto" development that includes selection of favorites. This gives you a chance to create a project that is unique, built out of local history and images. Use famous names out of the past such as "Ramona" (why not locate a romantic restaurant, motel, boutique, local history museum, on Ramona Boulevard with the same name?). There is a good start in this direction using a book prepared based on oral histories taken from long-time residents of the area -- copy in the Hemet library.

2. Housing inventory

The inventory of housing units, both single and multi-family, increased by 2,579 units during the period from 1982 through 1985 in San Jacinto and Hemet. During the same period, the population increased by 7,672 persons. Since the average household number in the area is 2.16, there should be a pent up demand for approximately 970 more units assuming there was no housing surplus to start with. Population pressures are expected to continue at the same rate as the Inland Empire fills in. The Inland Empire has been creating over 6,000 new housing units per year.

The current inventory of 16,241 units in Hemet and 4,511 units in San Jacinto is composed of the following types of dwellings:

| | Existing | New Construction |
|---|---|---|
| Single Family | 53 % | 62 % |
| Multi-family | 21 % | 27 % |
| Mobile Homes | 26 % | 11% |

As of January 1, 1986, 11% of these units were vacant, however, this is an ambiguous statistic due to the presence of a vacation or second-home market estimated at 15% based on the Soboba Associates survey (see Appendix 1).

Sales prices for existing homes are from $55,000 to $60,000 for two bedroom homes in San Jacinto and from $55,000 to $130,000 in Hemet. In Hemet, there are suburban residential areas offering homes priced from $125,000 to $250,000 featuring view lots from the hills south of the city.

3. Retail Inventory

A review of sales data in Hemet and San Jacinto shows that Hemet receives a disproportionate amount of sales:

| | | Number of Stores | Total Sales | Sales per Capita |
|---|---|---|---|---|
| 1984 | Hemet | 712 | $238,614,000 | $9,056 |
| | San Jacinto | 224 | $ 29,934,000 | $3,363 |

Although the sales per capita in Hemet may be higher due to higher income levels of Hemet residents, the more likely explanation is that the shopping opportunities in Hemet are greater and they draw shoppers from the surrounding areas. The three major shopping malls in Hemet along Florida Avenue attract business from all over the Valley, and there are no comparable retail centers in San Jacinto.

4. Hotel/Motel Inventory

In Hemet, there are 2 hotels (25 rooms) and 17 motels (132 rooms). In San Jacinto, there are 2 hotels (60 rooms) and 2 motels (57 rooms). A new Travel Lodge with 100 rooms recently opened in west Hemet on Florida Avenue with nightly rates of $50, and it has had 90% occupancy for its first four months.

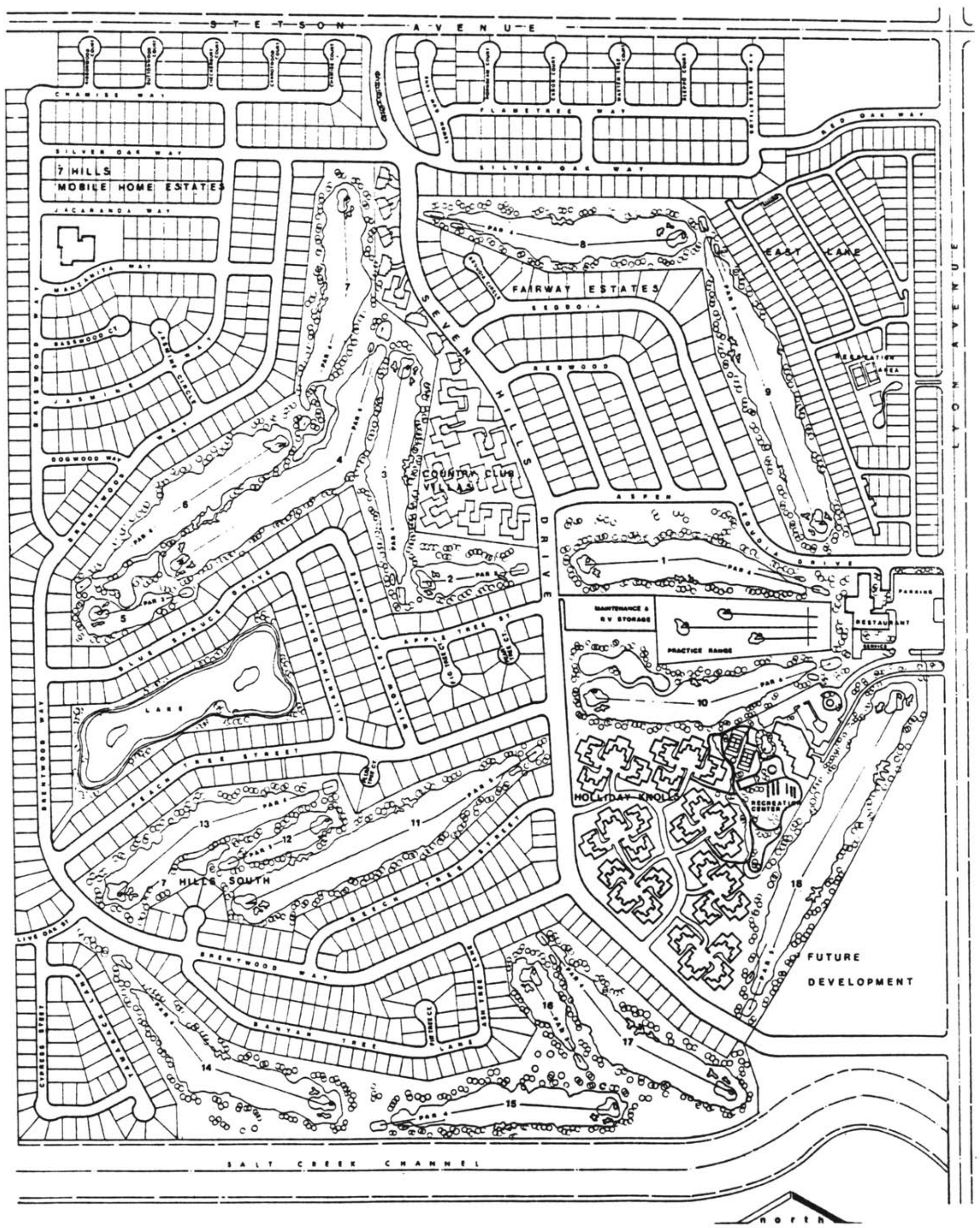
5. Medical Services Inventory

Due to the older population, medical services are expected to play a major role in new developments. Hemet Valley Hospital is adding 101 beds by 1987 and planning a 100-room satellite facility in Sun City (in the Inland Empire) where about a fifth of their present patients emanate. Scripps Institute is now building a facility in San Jacinto on the Soboba Associates site, with two other private convalescent buildings nearby. Hemet has two congregate care centers coming aboard shortly. One will offer a vacation plan, caring for homebound patients for a week or more while the rest of the family can vacation, take a business trip or whatever -- very successful in Maryland and Pennsylvania . Also, Mt. San Jacinto College is now offering a full RN training program, in addition to its already successful LVN programs. It appears to be the beginning of a new, clean industry for the Valley -- health care. The Valley would be an ideal area, climatewise, especially for geriatric care which requires many of the new medical specialties. The County's Hemet-Ryan Field can be used for medical cases coming and going by air ambulance. This may attract professional and semi-professional employment, generating custom housing on view-lot hillsides and good local sales and service.

6. Competition

The ten residential housing projects covered by a Comarc Systems survey in March, 1986, and summarized in Appendix 1, represent 294 units out of the 400 single family dwellings constructed during the period from January 1985 through March 1986. All of the developments surveyed are on the floor of the San Jacinto Valley, and none of them offer an amenity such as an 18-hole golf course. The units currently selling at the greatest rate (11 units per month at Mirador Pointe) are mostly three bedroom homes with two bathrooms selling for $85,000 to $95,000 and a square footage range of 1500 to 1700 sf. This isolated development has no common areas or nearby amenities, and plans to construct an additional 311 dwelling units. The popularity of Mirador Points stems largely from its low price per square foot range ($53 to $59/sf) reputedly due to low initial land costs.

Two developments which have completed 92 homes to date with 150 more planned (Bel Air Estates and Fairview) have sold a combined average of 3.3 units per month. Their homes are two and three bedroom/two bathroom dwellings ranging from




SEVEN HILLS

MASTER PLANNED DEVELOPMENT

Figure 15

962 sf to 1428 sf with sales prices of $72,000 to $90,000. Price per square foot range is $58 to $74/sf. Again, no amenities are offered.

In aggregate, the top ten developments have sold 21 homes/month with plans remaining for 587 more dwelling units.

One development not included in the Comarc survey, Soboba Heights, is on the mountain slopes immediately adjacent to Soboba Springs and is characterized by 2600 to 2800 square foot custom home construction (18 houses have been built to date, and two were for sale during site visits in May and July).

Another development not included in the Comarc survey is Seven Hills. Seven Hills is in Hemet, and the master planned community contains an 18-hole golf course of lesser quality, in terms of landscaping intricacy, maturity of vegetation, and degree of difficulty, than Soboba Springs. While no data is available on Seven Hills, it is believed development is hampered by the image of a trailer park since the first phase of development was based on mobile homes. One area of the development contains unfinished homes by a builder who bought lots from the original developer and was unable to complete the effort. Seven Hills does have the advantage of having been designed from the start to take advantage of the golf course view, and a copy of the site layout is shown as Figure 15.

A review of golf course competition is summarized below:

| Club | Initiation Fee | Monthly Dues | Distance | Other |
|---|---|---|---|---|
| Soboba | $5,000 | $125 | -0- | Very good course |
| Seven Hills | $1,750 | $140 | 15 min | Adequate course |
| Cherry Hills | $2,400 | $ 80 | 20 min | Fair course |
| Redlands | $6,000 | $150 | 30 min | Very good course |
| Singing Hills | $4,000 | $140 | 45 min | Good course |
| Victoria | $8,600 | $145 | 45 min | Very good course |
| Lake Arrowhead | $17,500 | $125 | 50 min | Very good course |
| Ojai Valley | $1,500 | $ 75 | 120 min | Very good course |

In Palm Springs, 30 minutes away, the golf course initiation fees range from $5,000 to $50,000 and the monthly dues average $180.

7. Summary Conclusions

Based on demographics, population pressures create a demand for almost 1,000 new dwelling units per year of all types in the San Jacinto Valley. Builders have responded to this demand by creating up to 917 units in 1985. Still, the construction rate of new housing has not kept up with the influx of population. There is room for additional development of at least 100 units per year to meet new demand, and possibly more as the Inland Empire reaches the San Jacinto Valley. By aggressively marketing the unique characteristics of the Soboba Springs Golf Course, it may be possible to capture a greater share of the existing market and sell as many as 160 units per year. The absorption rate of 160 units per year is a critical assumption the author is making, and the developer should place great emphasis both on monitoring overall absorption in the Valley and in improving capture of the market.

But, what to sell? Almost 40% of the market surveyed by Soboba Associates was willing to pay more than $90,000 for a two or three bedroom house with two bathrooms. While no data existed in the Comarc survey to identify absorption rate as a function of total home price, it did appear that dwellings with a price per square foot less than $65 and of at least 1200 square foot in area sold more quickly. Thus, one product mix used for this analysis is a premium product consisting of 2 bed/2 bathroom single family home or condominium of 1200 square feet with a base price of $80,000, and a 3 bedroom/2-1/2 bathroom single family home of 1350 square feet with a base price of $90,000. The mix should be 2/3 of the two bedroom units, and 1/3 of the three bedroom units. In addition, view premiums for lots adjacent to the golf course and landscaped parkways of $30,000 and $15,000 should be charged.

Another product tested in the following proformas is the moderate cost product preferred by Soboba Associates consisting of a 2 bedroom/2 bath single family home of 945 square feet and a base price of $65,000 with golf course premiums of $20,000 and parkway premiums of $10,000.

Absorption of housing units is expected to run at 160 dwelling units per year, thus, by selling fewer, more expensive homes the project may be completed more quickly and carrying costs minimized. Since no data exists to support different absorption rates for different sizes of housing units, the proformas in Appendix 5 assume a uniform absorption rate of 40 units per 3 months. More field survey work is needed in this area.

B. Alternate Development Strategies

1. The importance of the golf course

The private golf course covers a total of 123 acres of which 8.3 acres includes the club house, parking lots, swimming pool, and eight tennis courts. Currently there are 270 members for golf and 65 for tennis/swimming. Members have paid increasing initiation fees which are currently at $5,000 with $100/month dues. The maximum capacity of the facility is variously estimated at 500 to 1000 members for golf and 165 members for tennis/swim. The range of estimates for the golf course are considerations of the frequency of use by the members. The higher capacity occurs on courses where membership is composed of working families in Riverside. The lower estimate reflects the more frequent play expected in the retirement community of San Jacinto.

Approximate monthly finances are currently as follows:

| | | |
|---|---|---|
| Golf course fees/dues/pro shop | $30,000 | |
| Administration | (10,000) | |
| Restaurant | ( 5,000) | |
| Swim/Tennis | ( 4,000) | |
| Miscellaneous | (10,000) | |
| Interest Expense | (18,000) | |
| Taxes, Depreciation, Amortization | (13,000) | |
| | ======== | |
| Total | (30,000) | per month |

The positive cash flow from golf fees is largely due to tournaments. If the golf course is reduced in size to 9 holes, then tournament play will go elsewhere.

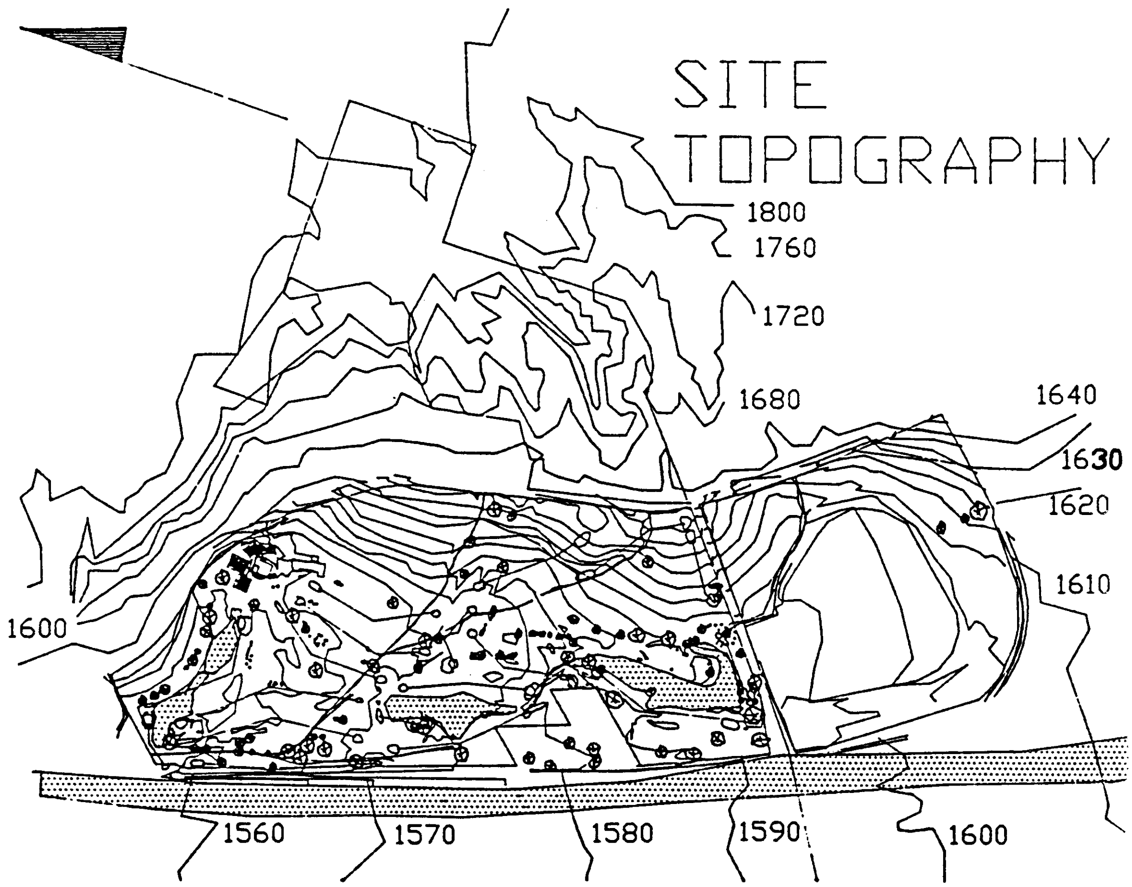

SITE
TOPOGRAPHY
1800
1760
1720
1680
1640
1630
1620
1610
1600
1560
1570
1580
1590
1600

Figure 16

As a golf course, there is a negative return on investment, thus the investment must be recouped either through lot premiums for views, higher lot prices generally, recreation club fees, or sale to the city. The initiation fee of $5,000 can be increased as development creates a captive market. If the membership is increased by 200 members paying an average of $20,000/each, the land cost will be quickly retired. To attract members willing to pay higher fees, the club needs to be closed to members only (rather than allowing guest rates) and the facilities upgraded.

The Soboba Springs 18-hole golf course with its mature vegetation and gentle topography as shown in Figure 16 represents a unique amenity in the Valley. If complementing amenities such as a full health/recreation center and nearby resort hotel are constructed, then a market exists for housing in excess of $100,000 per unit. The amenity value of the golf course comes in two forms: a) access for use, and b) access for views. Soboba Associates estimates that one out of every four home owners will want to play on the course, and a limit of 200 additional memberships indicates development of more than 800 units may lose this amenity value. The view premium, on the other hand, may be proportional to the frontage along the golf course, and is linked to the quality of maintenance of the course. Increasing memberhsip beyond 500 will create greater wear and tear on the course and lower its amenity value for both players and viewers. If the golf course were sold to the city

# PROPOSED SITE PLAN

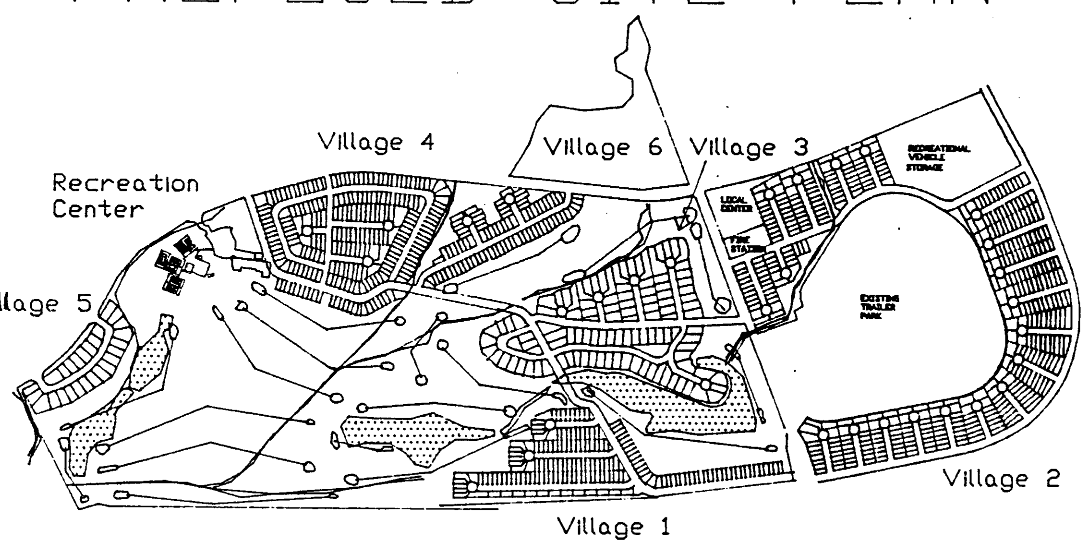



Figure 17

as proposed by the developer, not only would the existing members have to be reimbursed for their membership fees, but there would be a loss of control of its use and maintenance which could detract from its amenity value to the remaining development.

Realignment of the golf course is estimated at $100,000 per hole, and this cost has been considered in alternative site plans.

2. Specific development alternatives

Specific development alternatives for each Village or parcel are as follows, and the selected alternate is shown in Figure 17.

Village 1 — Located along the levee, this parcel has good golf course views, but is hampered by difficult access. Alternatives considered for this area include moderate and premium single family housing, and condominium apartments in three and four story buildings. Without relocation of the drainage system through the area, development is severly limited.

Village 2 — Adjacent to the trailer park and without golf course views, the most appropriate use may be for low and moderate income housing and recreational vehicle storage. Landscaping a parkway along the drainage system is recommended. Along Main Street locate the fire station and 5,000 sf local commercial goods store. This area can be used to fulfill the 20% low and moderate income requirement associated with Redevelopment Agency financing of the bridge.

Village 3 — This is a choice location surrounded on three sides by the golf course. Use premium housing on larger lots.

Village 4 — This is a good location up slope from the golf course. Moderate or premium housing could go here, and the amenity value enhanced by landscaping along the drainage parkway.

Village 5 — This area must be built partially on five to eight feet of fill. Views of the golf course will be excellent, as will access to the recreational facilities. Use either type of housing.

Village 6 — Outstanding long views over the golf course and Valley. Transfer densities from the other areas allowed by zoning densities and go vertical with hotel or premium condominium apartments. A resort hotel here would have to be self supporting since it couldn't count on using the golf course or recreation club due to saturation of memberships. Donate the unusable (too steep) portions of the hillside area to a non-profit organization such as the Boy Scouts to create a tax write-off.

Butzen Property Adjacent to Scripps, carry through the health care theme with out-patient services, optometrists, dentists, medical supply stores, drug store, elderly housing facilities, etc.

Seventh Street For the commercial section close to the Ramona Expressway, build a shopping center to draw people from the east and north of the Valley. On Ramona Expressway, leave room for a motel. For the residential portion, build high density apartment complexes. Investigate public funding for subsidized units, however, recent federal tax legislation is expected to curtail this option which was popular with syndicators.

C. Design Criteria

1. Site Design Criteria

The site plan proposed in the thesis was guided by an image of the site: a liesure community in a park-like setting. Following methods suggested in "Site Planning" by Kevin Lynch and Gary Hack, a computer design program was used to pile up a series of overlays that blocked off those regions of the site unacceptable for development for reasons such as excessive grade or cost, difficulty in acquisition, existing easements, small or irregular size, poor ground, vulnerability to flooding or storm flows, incompatible development, lack of access, seismic zones, and so on.

Several site visits were made at different times of the day over a one month period to gain a personal sense of the site. Aerial photos were taken that showed the health and species of plants, building location and repair, activity traces, traffic flow, erosion, and adjoining land uses. The compiling of information and images about the site lead to a sense of the site character, views, unique locations, problems, and potential paths.

Circulation, environmental restraints and views played a dominant role in the site design. The numerous easements were dealt with by aligning circulation routes along them. The Claremont Fault Zone was filled by the realignment of two golf fairways to create a view corridor from the intersection of Soboba Road and Main Street into the green interior of the site. The on-site storm flows have been incorporated into a stream system that provides opportunity for additional landscaped parkways.

The lush vegetation of the golf course stands out in stark contrast to the arid mountains and dry flood plain along its edges. To emphasize and take advantage of this uniqueness, the realignment of the golf course creates a greeen edge along Main Street with a low site perimeter fence that permits views of the golf course and lakes.

The Irvine Company uses the name "Village" because historically villages have tended to be the most enduring, most stable, most easily identifiable kind of human settlement. A village includes the support uses and services for daily and weekly use for residents in a given geographic area. The proposed site plan includes a variety of uses, with a local market or commercial center at the intersection of Main Street and Soboba Road, a recreation center and restaurant between Villages 4 and 5, a medical center with supporting services at the Scripps site, and an apartment complex and shopping center on the Seventh Street parcel. In addition, there is potential for a resort complex on the hillside (Village 6) that can increase the entertainment, shopping, and dining resources of the area.

Each component of the site plan looks outward to its neighbors, and yet is self contained to the point it can be constructed in discrete phases.

Michael Buckley suggests master planned districts provide a sense of security and identity, which are clearly preferred physiological influences on human activity. A cohesive theme projected by a master planned project can create a strong marketing image. Specific suggestions to be included in the site design are:

- o Coordinate master plan to provide continuity of design areas.
- o Use tall fan palms and view corridors to link the site from the Club house.
- o Provide night lighting on the golf course to provide both security and advertise the beauty of the area.
- o Minimize public open spaces that have to be maintained by a homeowners association. The developer has had negative experiences in setting

up homeowners' associations. There is a tendency for the associations to hold the developer responsible for any difficulty in maintaining common areas or facilities, thus the developer finds himself involved in a project much longer that anticipated. Since development is to be phased in over several years, homeowners associations can become focal points for opposition to subsequent development.

- Maximize number of units on golf course edge.
- Reduce lawn areas and add arid planting to reduce water required for planting.
- Fill low lying area to be built on to a minimum elevation of 1567 to get buildings above the flood plain. Don't expand Village 5 further into the golf course because it would create an island of housing sticking up ten to thirty feet above the level of the golf course and block views from the club house.
- Develop a project plant list that includes the following species with lesser water demands:

  Flowering plants: Lemon bottlebrush, Lantana, Nerium oleander.

  Foliage plants: Hopseed bush, Yucca.

  Vines: Bougainvillea, Cape honeysuckle.

  Trees: Olive, Palms, Pines.

  Ground cover: Rosemary, Ice plant.

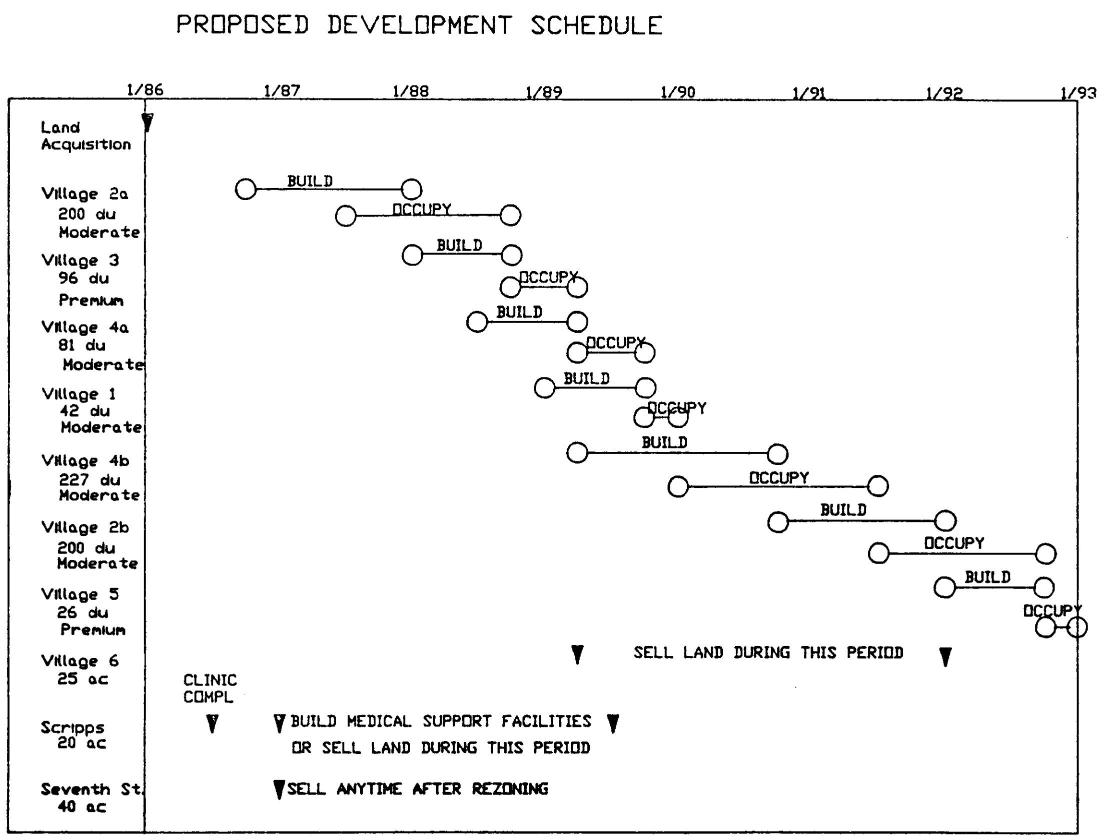
2. Architectural design criteria

A sense of cohesiveness can be developed if common architectural themes are used. Specific suggestions include:

- o Design for hot climate -- wide covered walkways, southeast building orientations.
- o Use Spanish theme of red tile roofs, light tan stucco walls, balconies, open beam ceilings, interior courtyards in public buildings with fountains. An excellent building to use as an example is the Pacific Savings Bank headquarters at 19th and Newport Beach Boulevard in Costa Mesa, California.
- o Seismic design criteria -- design for worst case required by building codes.

D. Phasing of Development

From the very start it is important to develop a master plan for the total project with specific site plans for each area. If land is sold to builders or other developers during the course of build out, require the builders to follow the established plan unless they buy the entire development. Constantly test the market for all types of product, and be ready to revise the program before initiating a new phase. If absorption is slow and carry costs become excessive, sell land for development by others -- always compare land residual value to phase build out value, and either sell to other builders for build-out and early cash flow or hold and build directly. The choice between moderate or premium units for the following phases has been made based on anticipated



PROPOSED DEVELOPMENT SCHEDULE
1/86
1/87
1/88
1/89
1/90
1/91
1/92
1/93
Land Acquisition
Village 2a 200 du Moderate
Village 3 96 du Premium
Village 4a 81 du Moderate
Village 1 42 du Moderate
Village 4b 227 du Moderate
Village 2b 200 du Moderate
Village 5 26 du Premium
Village 6 25 ac
Scripps 20 ac
Seventh St. 40 ac
BUILD
OCCUPY
SELL LAND DURING THIS PERIOD
CLINIC COMPL
BUILD MEDICAL SUPPORT FACILITIES
OR SELL LAND DURING THIS PERIOD
SELL ANYTIME AFTER REZONING


Figure 18

profits (see Appendix 5). Figure 18 shows the sequence graphically.

The Scripps Clinic has been built as the first phase.

The City will permit 200 residential units to be constructed before a bridge is built. The portion of the site requiring the least site preparation is Village 2. Build the first 200 moderate dwelling units in this area as the second phase starting along Soboba Road and progressing around toward the river. This will increase population while realignment of the golf course and site preparation around the golf course is initiated. The first two hundred units will permit the City to issue tax-increment bonds and begin bridge construction. At the same time, build congregate care facility adjacent to Scripps Clinic.

The third phase is Village 3 composed of 90 units of premium single family dwellings next to the lake. Realignment of the golf course holes is completed during this phase, as is rough grading of the hillside area and placement of fill for Villages 4 and 5. The fire station and local market on Main Street are also completed.

The fourth phase is Village 4a with 81 moderate units across the realigned fairways from Village 3. The Scripps shopping center first phase goes in now as does the completion of medical related offices adjacent to the Scripps clinic.

The fifth phase is 42 units of moderate housing in Village 1 adjacent to the levee. This phase is not started earlier to allow for acquisition of the Althouse property, installation of the drainage culvert across Main Street, and construction of the bridge over the San Jacinto River with an underpass to Village 2.

The sixth phase is for the 227 moderate single family dwellings along Soboba Road in Village 4b. The new recreation center and club house should be completed by the end of this phase.

The seventh phase is the remaining 200 moderate housing units in Village 2.

The eighth phase is the 26 high end units in Village 5.

The last phase is the resort hotel or condominium apartment complex development on Village 6 (the Hillside area). Assume a density of 8 du/ac times 25 acres is allowed for a total of 200 dwelling units or rooms in a hotel in Village 6. The Scripps shopping center second phase is completed at this time along with the low to moderate income apartments adjoining the center. Assume a density of 10 du/ac times 20 acres for a total of 200 apartments is allowable on the Seventh Street site due to inclusion in a PUD designation.

At the final build out, approximately 1266 dwelling units will have been created on the three parcels, along with a medical center and shopping center.

## IV. SOURCES AND USES OF FUNDS

### A. The impact of Proposition 13

In 1978, California voters approved Proposition 13 (now Article XIII A of the State Constitution), which places a statewide limitation on property tax revenues in the following ways:

- o The property tax rate is limited to an overall maximum of one percent of full cash value (market value) of land and improvements to the land. The amount raised by this tax rate is allocated among all taxing agencies as prescribed by law.
- o The only tax rate that may be applied to the value of property in addition to the one percent rate, is a rate approved by two-thirds of a taxing entity's voters and/or a rate sufficient to cover a taxing entity's voter-approved bond indebtedness obligations that existed prior to June 6, 1978.
- o The property values to which the maximum rate is applied are limited to the full cash value (market value) as of the 1975-76 base year, plus annual increases only for: A maximum two percent adjustment for inflation in value of property; the value of any improvements to property; reassessment to current full market value when property changes ownership (is sold).

Prior to the passage of Proposition 13, cities had greater revenues and were more willing to provide infrastructure for new developments. After Proposition 13, cities expect developers to pick up much more of the front end costs and also charge increased fees to the developer for city services including plan check fees, sewer connection fees, etc. For example, The Irvine Company estimates that in the City of Irvine the regulatory processing fees often exceed the cost to plan and design a development.

In the City of Irvine prior to Proposition 13, infrastructure was paid for by the city and 10 to 15% of the home cost was in the improved land. Now, the improved land cost is 30 to 35% of the home cost. This increase in the land component is due to inflation of land values as well as the shift in infrastructure costs to the developer. As a result, builders' profit margins have been reduced from 10 to 20% down to 6 to 8%.

The impact of shifting infrastructure costs to developers is to lower their profit margins in the short run since they cannot pass on the cost to homebuyers -- the market determines the price for units, not the cost of construction. If the developer is in the process of acquiring land and knows of the infrastructure costs, then he will be willing to pay less for the land, and it is the land owner who will ultimately be called on to pay for infrastructure.

If a project is not economically feasible for a developer, lowering the capital costs to a level where reasonably available revenues will support the project is often the first point of attack. The project's capital costs can be lowered by reducing the size, scope, and amenities of the project or by using less expensive materials and finishes. However, when conventional approaches to reducing costs will not close the financial gap, other alternatives may be available to reduce capital cost. One of these alternatives is to reallocate the costs to the parties that will benefit from the development, such as the community-at-large and the future users of the development.

B. Public Financing Incentives

One of the affects of Proposition 13 was to effectively prevent the authorization and sale of new general obligation debt secured by property taxes. Additionally, Proposition 13 affected the ability of local governments to provide services financed by what are now reduced property tax revenues. California cities have had to find other ways to support community growth. Prior to Proposition 13, cities weighed the value of increased property taxes against the cost of developing and maintaining infrastructure when considering annexation of unincorporated county land into their boundaries. After Proposition 13, cities look to developers to finance infrastructure costs and see annexation as a tool for generating additional revenue.

Annexation is initiated by a city or landowners in a two step process: First, a submittal is made to the Local Agency Formation Commission (LAFCO). This independent county agency evaluates whether annexation makes sense for the city in terms of contiguous land areas and ability to service the site, and makes a recommendation to the commission board composed of two county supervisors, two elected city officials, two special district representatives, and one at-large representative. The decision is very political.

The second step is made at the city level. If there is 100% support for the annexation by the land owners and inhabitants (required if more than 12 voters reside on the property), then the city adopts a resolution annexing the property without a public hearing. If there is not 100% support and the property has less than 12 voters, then a resolution is adopted if less than 26% of the ownership interests are opposed at a public hearing. If 26% to 51% of the ownership interests are opposed, then an election of all property owners within the effected area is called for and a simple majority is needed for annexation. When the property is inhabited by 12 or more voters, a similar procedure is followed.

In the case of Soboba Springs, the property was annexed exclusive of the existing trailer park. This means it was an uninhabited annexation approved by the land owner. Recent legal rulings leave this annexation in question, however, since it creates an island of County land, and this has been determined to be against policy for annexation. The City has recogized this and is currently in the process of annexing the trailer park with no opposition from the residents to date. If the residents of the trailer park oppose annexation, then the annexation of Soboba Springs could be challenged as well. If this were to occur, then the voters within the trailer park could become a strong voice in determining what could be developed on the site. Since the existing residents view the golf course as their private amenity, this could result in lengthy court battles contesting annexation, loss of the favorable change in density allowance gained by changing venue from the County to the City, loss of City support to build the bridge, and consequently, termination of the development. Fortunately, no opposition has appeared.

The primary public financing vehicles considered applicable for this project include the use of a redevelopment project financed by tax increment bonds, creation of a special assessment district, and/or establishment of a Mello-Roos district. Other forms of public financing are discussed in Appendix 3.

1. The Redevelopment Authority

One of the tools for assisting the development of specific areas in a city is the establishment of a redevelopment authority. A redevelopment authority is public agency established to remove "blighted" areas from a community and can assist development by taking advantage of its tax-exempt status and assisting in public approvals.

In 1980, the San Jacinto Redevelopment Agency was formed pursuant to the Community Redevelopment Law of the State of California (Health and Safety Code Section 33000 et. seq.). The City of San Jacinto on May 3, 1983 requested the Board of Supervisors of the County of Riverside to designate and authorize the San Jacinto Redevelopment Agency to undertake the redevelopment of the area around the golf course and trailer park. This area is not blighted, however, its development is anticipated to increase revenues for the "blighted" city as a whole. Soboba Springs is contiguous to the City of San Jacinto and within the territorial limits of the County of Riverside. On May 17, 1983, the County authorized the City of San Jacinto and the San Jacinto Redevelopment Agency to undertake the Soboba Springs Redevelopment Project.

Provisions of the Community Redevelopment Law require using a minimum of 20% of the funds raised for affordable housing for very low-, low-, and moderate income families through lowering the house price, funding infrastructure, or lowering the rents of rental units. Thus, the use of public financing requires setting aside at least 20 % of the housing units for affordable housing.

The Redevelopment Authority can raise funds by tax increment financing, creation of Mello-Roos districts, or special assessments.

2. Tax increment financing

The San Jacinto Redevelopment Agency intends to use tax increment financing as its primary source of revenue. Tax increment financing allocates the future increase in property tax revenues due to increased property values in a specific area to pay for bonds to assist the area's development.

Cities with statutory powers to form tax increment

ILLUSTRATION OF TAX INCREMENT FINANCING

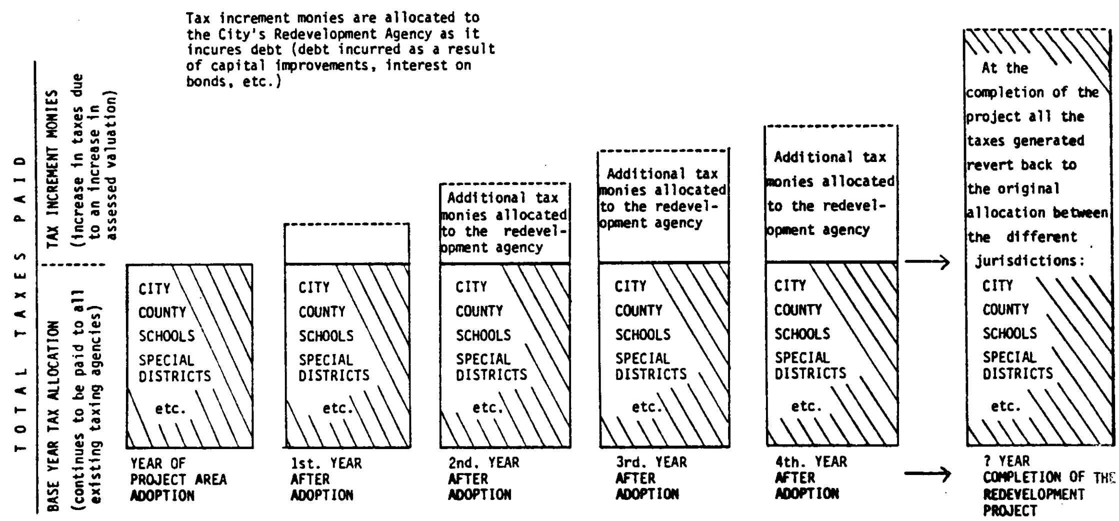



Figure 19

districts have the capability of using their tax-exempt status to support development. When redevelopment activities are successful the property values within, as well as around, the Redevelopment Project Area will increase. Tax increment financing allocates to the city or redevelopment agency all property taxes resulting from increased assessments generated within a project area as illustrated in Figure 19, including tax increases that would otherwise go to county government and school districts. This revenue stream can then be pledged to finance interest and principle repayment of tax-exempt bonds. These bonds finance public investments which can include land acquisition, building demolition, relocation, site improvements, and various public improvements within the area.

An independent appraisal determines the maximum amount of financing that will be available. Underwriters of bonds set a limit on the bond issue equal to one third of the total asset value of the encumbered property. An area of dispute over the appraisal lies in whether the appraisal is based on the future value of the fully improved lots, land value after infrastructure completion, or unimproved land. Tax increment bonds are treated like other kinds of bonds by being rated (Moody's), insured (Ambac), and issued by underwriters (Dean Whitter).

As a financing tool, tax increment financing has been available to cities and counties in California since 1952. The basic authority that is provided to cities and counties is provided for in the State Constitution and is contained in Sections 33000 et. seq. of the Health and Safety Code. These provisions permit the agency to borrow money, allow a city or county to advance funds, and authorize the issuance of bonds for redevelopment purposeds.

The principle provision, however, is contained in Section 33670 of the Health and Safety Code. This provision implements Article XVI, Section 16 of the California Constitution which permits the Legislature to provide, in a specific way, for the allocation of property taxes for purposes of financing local redevelopment activities. The authority contained in Section 33670 makes most projects economically feasible in that it freezes the assessed value within the Project Area at the time the redevelopment Plan is adopted and provides that any property tax revenue produced by an increase in assessed value over the frozen base may be utilized by the agency to repay indebtedness it incurs in conjunction with redeveloping the area. When all indebtedness is repaid, the base is unfrozen and this tax increment thereafter is paid to all of the local taxing entities within the Project Area.

As an example, if a project area was assessed at $10,000,000 and as a result of development the Project Area increased to an assessed value of $15,000,000, the taxes received on the $10,000,000 would continue to flow to the various taxing entities and the taxes resulting from the $5,000,000 would flow to the Agency.

At the end of the redevelopment project life, the taxing agencies will receive tax revenues based on the new, higher assessed value in the Redevelopment Project area. The tax increment which was flowing to the Redevelopment Agency will now flow to all the other taxing agencies. Thus, in the final analysis, the other taxing agencies will reap the revenue benefits of the redeveloped and revitalized Project Area. It is true that in the short term, taxing agencies lose the tax revenue above the base value; however, as previously stated, they do gain the long-term benefit of a higher assessed valuation of the area which may not have occurred without the efforts of redevelopment or the catalyst of reinvestment of these revenues into the Project Area.

City funding is usually split between various groups or programs on a percentage basis. When a tax increment district is created, the increase in revenue from that district due to inflation is not passed on to the programs. The city programs include funding for the local school district, county flood control district, etc. If these programs anticipate an increase in operating costs that will not be covered by increased operating funds (due to a ceiling on revenues from the tax increment district), they may sue to preserve their tax increment and block the establishment of the new tax increment district.

Initial economic impact and projections relative to tax increment financing revenue for the Soboba Redevelopment Area is difficult to determine without having conclusive knowledge with regard to: 1) negotiated agreements with taxing agencies; 2) Project Area rate of growth; 3) assessed valuation trends; and 4) future legislation.

3. Special assessment districts

Financing infrastructure through a new tax requires approval of two-thirds of the voting public within the district to bear the tax. By comparison, an assessment can be established by an agency subject to a protest of a majority of the voting population or land owners within the proposed district. The use of benefit assessments involves the establishment of an area or district which encompasses all parcels of land that will be benefited by the accomplishment of some specific public improvement. Each parcel so benefited is assessed for a portion of the estimated costs and expenses involved for an established length of time, and in an amount proportional to the parcel's relative benefit as compared to the other parcels in the district.

An independent third party, the assessment engineer, starts out with the simplest assessment spread and sees why it doesn't work. The assessments are in the form of a matrix of relative value of improvement between pieces of property and do not represent an estimate of the incremental value gained by each piece of property for the development. The allocation of benefits is an art subject to interpretation, that is why an impartial third party is required. Property owners have the right to protest the method and formula of the assessment engineer, with the legislative body then having the ability to make certain modifications or amendments to the assessment at the public hearing.

Sometimes it is necessary to include properties within an assessment district which are benefitted but, for some reason, the assessment district cannot proceed if such properties must pay assessments. For example, although the existing trailer park will receive benefits from installation of a bridge, the boundaries of an assessment district could not include these properties for fear of rejection of the assessment district creation. In such cases, the district may still proceed if those supporters of the district (the developer, the city, or some other agency) are willing to pay the assessment upon those properties. The trailer park has existed for many years without a bridge (the asphalt road runs across the river bed), and the construction of a bridge appears to benefit the new development (it is a condition for going forward), so why should the long-time residents pay for it now?

Public agencies will support the establishment of an assessment district because it benefits the community in the following ways:

- Provides timely completion of needed infrastructure.
- Certainty of completion (must be done within 3 years).
- City will manage development of infrastructure through their own staff.
- Requires payment of future improvements by other than existing residents.

When districts are formed to build public capital improvements, bonds are usually sold and their proceeds used to pay the cost of construction, right of way acquisition, and incidental expenses. The debt service is paid over the term of the bonds from the annual installments of principal and interest received from the assessments levied. In most cases the assessment against each parcel is secured by a fixed lien similar to an amortized mortgage, with approximately level annual payments of principal and interest. The assessment liens, then, are financed through the issuance of bonds payable over a period of years, thus providing the advantage to the property owners of deferred funding for the improvements.

Assessment district financing has several attractive features. These may include some or all of the following:

- Financing costs are relatively low compared to private financing.
- Larger construction projects may be feasible, possibly resulting in lower unit prices and the spreading of fixed costs over several owners.
- Each benefited party pays his fair share of the costs.
- Each property owner can decide if he is willing to incur the cost in return for the benefit he will receive. If there isn't adequate support by the owners the project can be abandoned.
- Piecemeal construction can be avoided. For example, an entire street can be improved under a single contract rather than relying on each owner

to improve his own frontage over a long period of time.

There are also some possible negative factors that should be considered:

- Some projects, such as those that provide primarily a general public benefit rather than a special benefit to the immediate vicinity, may not easily lend themselves to benefit assessment financing.
- Many assessment districts are hard to "put together". If several owners and/or more than one public agency are involved in the project, a considerable time may be required to reach sufficient consensus to proceed.
- Some additional costs are involved which may or may not be offset by the savings mentioned above. These include costs of preparing the required report, special legal counsel, cost of issuing the bonds, and additional public agency administrative effort.
- The inherent drawbacks are that assessment practice is not altogether streamlined, requiring complex administrative choreography down to minute detail. Assessment bonds are often in small amounts and are sold to specialized buyers, and are somewhat expensive compared to other kinds of public bond issues. Assessments have a bad public

image. The constituents find something suspicious in the legalistic notion that special assessments are not taxes even though they feel the same. Therefore elected officials run the risk of attack.

- The boundaries of the political jurisdiction conducting the proceedings automatically limit the boundaries of the assessment district unless consent and jurisdiction can be obtained from the other political jurisdictions.

Improvements that can be financed through assessment districts include the following:

Grading
Sidewalks
Sanitary sewers
Storm drains
Street lighting
Streets
Curbs and gutters
Fire protection
Flood protection
Water supply
Gas supply
Retaining walls
Ornamental vegetation
Parks
Parkways
Stabilization of land
Off-street parking facilities

The evolutionary edge is assessments for fire stations, police stations, libraries, schools, and transit systems. Assessment districts have also been used to acquire existing improvements and, where authorized, to pay the annual operation and maintenance costs of certain public facilities.

The district is created by act or vote of residents for a specific purpose with the power to levy taxes and float bonds for improvements. The special assessments for improvements represents a long-term loan from the municipality to the developer at interest rates below those found in the conventional market. Merchants can also use special assessment districts to pay for private improvements and services, such as increased police protection or trash removal, the development of a pedestrian mall, and improved lighting.

Although tax increment is intended to be the primary financing resource to retire the debt of the Soboba Redevelopment Agency, it is their intent to use assessment district vehicles authorized under California Law (inlieu of tax allocation bonds) as the debt instrument to finance a majority of the improvements required in the Project Area, and to use tax increment revenue to retire the annual debt of the assesment district bonds. This approach is advantageous for several reasons:

- The liability of the debt is placed on the present or future property owners within the district instead of property owners-at-large, unless tax increment is available to retire the annual debt liability.
- It provides an incentive for the property owners to proceed with development at an accelerated rate in order to assume tax increment flow to the Agency and to minimize their annual debt liability.

- It provides the Redevelopment Agency with a financing vehicle which is readily marketable in today's economy.
- It insures that the major project improvements are constructed at the earliest possible time.

Inasmuch as the security for the bonds is based upon the security of the land being assessed, the price or value of the bonds will somewhat vary according to the extent of the security. Underwriters generally will take into consideration the following items in determing their pricing:

- Improved versus unimproved parcels.
- Second home and resort home versus primary residence.
- Growth pattern of area.
- Size of parcels and number of property owners.
- Term of bonds.
- Zoning, land use and governmental restrictions.
- Terrain and topography.
- Land-locked parcels.
- Slide protection improvements.

It is estimated that the bridge will have a cost of $2,000,000 to $2,500,000 and that other infrastructure improvements associated with the specific plan have an estimated cost of $8,000,000. Financing of the improvements using tax exempt assessment district financing would result in savings over conventional financing by a developer. The Redevelopment Authority's authorization to issue bonds is in place, and bonds will be issued after the first two hundred housing units are in place. The wait until development is in progress is expected to result in lower bond costs and also provides time for a redesign of the bridge to provide through access between Villages 1 and 2.

A special landscape and lighting assessment district is also anticipated to pay for maintenance of the public right of ways. Special assessments are a desirable financing vehicle. They are exempt from Proposition 13, no 2/3's vote is required, and they are not subject to the 1% property tax limit or the GANN spending limit.

The use of the 1913 Act procedures with 1915 Act bonds is coming into more frequent use in the southern California area. This procedure requires establishment of a reserve fund which the assessment engineer must estimate and structure into his engineer's report and into the assessments on the various properties.

There are two broad categories by which assessment districts are initiated. The first being by public agencies, either on their own initiative, or in response to property owners petitions of public deficiencies and the other category being by one or more developers, seeking to meet a portion of their improvement requirements by the assessment district process.

It is possible for the developer to install the improvements with the assessment district subsequently 'buying' the public improvements, if the developer can handle the cash flow.

As a general rule, the property should increase in value at least the amount of the assessment levied because the assessment represents a specific capital improvement beneficial to that property; for this reason, the principal portion of an assessment is not deductable from the income taxes of the property's owner, even though that assessment may be collected on his tax bill. In practice, assessment engineers do not evaluate the benefit-cost ratio for the improvement on any particular property.

4. Mello-Roos Districts

On January 2, 1983, the "Mello-Roos Comunity Facilities Act of 1982" became effective. This statute authorizes formation of community facilities districts, which districts are authorized to provide certain additional public services or facilities to be financed through elector-approved special taxes or funded through special taxes securing long-term debt for construction of public facilities. Mello-Roos districts are not financed by property taxes.

This District can be formed by any local agency (City, County, School District, Special District) for the purpose of providing additional services or facilities secured by annual special taxes or facilities secured by special taxes to pay for long-term debt. The District is formed either by a written request signed by two members of the legislative body, or a petition submitted by not less than 10% of the registered voters within the proposed District boundary.

After initiation, the legislative body adopts a

Resolution of Intention stating their intent to proceed, describing the facilities or services to be provided, indicating the need for a special tax to pay for the costs and expenses, and fixing a time and place for a public hearing on the establishment of the District. At the public hearing, if fifty percent (50%) or more of the registered voters within the proposed District or the owners of one-half (1/2) or more of the area file written protests against the establishment of the District, the proceedings shall be abandonded. If, upon conclusion of the public hearing, the legislative body determines to proceed, a Resolution establishing the District is adopted. Since the Mello-Roos District requires additional expenditures by property owners, it is limited by the ability of the homeowners to pay. Payments made for a Mello-Roos assessment are considered a local tax and currently are deductible for income tax purposes.

C. Private financing sources

D&S Company has no specific hurdle rate (desired rate of return on investment) which it uses in evaluating prospective projects. To obtain construction financing, D&S must show an anticipated profit margin of 15 to 20%. The profit margin is calculated as follows:

Profit/Costs = (Income - Costs)/Costs

There is no adjustment for the time value of money since their projects to date have been of short duration (one year or less). The current plan for Soboba Springs is to seek construction lending village by village that they plan to construct, and to sell off land for other sites for others to develop.

1. Construction lending

Loan amounts cover 80% of the total income anticipated from the sale of the units. Interest rates are typically at prime plus 1-1/2% or 2%. The developer applies for the loan 90 to 120 days prior to the start of construction when tentative map approval has been granted by the City (approved with conditions). The loan is made on recording of the map (vested rights), and funds are released against progress payments. Although a land draw charge can be made during the first period, no significant mobilization funds are available. The lender deducts interest earned against funds loaned from the progress payments. The developer is required to pay back the principal on the sale of each house in a formula calculated as 110% of the release price for each unit, where the release price equals the total loan value prorated per housing unit.

While banks such as Wells Fargo are known for their astute construction lending, the developer should also consider utilizing financial institutions in the Valley. Hemet has over a billion dollars in savings accounts concentrated in banks located on Florida Avenue. There are almost three times as many bank accounts as there are people in Hemet, suggesting that Hemet is a regional banking center. Local banks with significant resources and a real estate development department include Hemet Federal Savings and Loan and Inland Savings and Loan. Other banks with considerable resources in the community include Bank of Hemet, American Savings and Loan, Home Savings of America, and Great Western Savings.

2. Developer equity

It is not anticipated debt equity can be used for land acquisition, thus, the front-end acquisition costs must be borne by the developer and any investors. Acquisition of the land is covered under several agreements with Butzen and Daon. For example, the Daon note is at 12% with separate release prices for individual parcels requiring payment of principal at fixed times. In addition, there is a question on whether the Daon note can be subordinated, that is, is full paydown for a Village required before construction funding can be obtained? Lasky was brought into the partnership because of his experience and financial resources. Based on the developer's schedule, equity of up to $7 million will need to be invested in the project by the end of 1986 to cover initial land and development costs.

3. Investor equity -- syndication

Sidlow's previous experience with small scale syndications was negative. Too little flexibility in changing development plans, and how do you let somebody out of the deal when they have their own financial emergency?

4. Investor equity -- joint venture

A joint venture with a medical partner such as Scripps could be created that balanced the homeowner's housing investment with reserves for medical expenses, i.e., provide discounted medical service for residents of the development.

As an alternate, joint venture with local banks to provide reverse mortgages. The banks would obtain increasing equity position over time in the residential units in exchange for lower debt service payments.

5. Private contributions -- foundations

Solicit contributions to studies on aging from national health organizations or private trusts. Assist in the formation of a local citizens' group to continue to solicit for those funds to support a public facility for elderly citizens. The development of a congregate care center next to the Scripps Clinic is the start of a medical center for the aging.

6. Land sales

Soboba Associates plans to create value for their investment by converting the land use from desert living to more intensive uses, obtain necessary entitlement to do so, create a master plan, develop infrastructure, construct the first two phases of housing, and sell land. The land values will have greatly increased over their initial values due to adjoining development. By selling land, Soboba Associates can shorten their length of involvement in the project and minimize risk of hitting a downturn in the market. Land can be sold to match cash flow needs, or retained to participate in increased futures value.

Land can be sold to other developers with restrictions to follow master plan and design guidelines. The Irvine

Company uses the technique of land sale; however, they carefully control the end product and profit range achieved by builders. The Irvine Company issues requests for proposals to builders and specifies the planning and design guidelines and the sales price range of the target product. The builder's proposal includes a proforma with a target profit margin of 8%. If the builder raises the prices of his units over the value set in the agreement, then The Irvine Company shares in the increased price in proportion to the value of the land in the base price. The land price is paid by the builder as soon as there is a recorded subdivision map, plus a 1% marketing fee at the time of sale (the marketing fee goes toward financing marketing by The Irvine Company of the total development project). In addition, the Irvine Company shares in builder profit in excess of the proforma profit. The Irvine Company shares 50% of the profit in excess of 8% and less than 10%, and 60% of the profit in excess of 10%. If the developers do not go forward with development within a specific time, i.e., five years, then Soboba Associates has an option to get ownership back for an established price. Soboba Associates should retain first right of refusal to control other developers coming in to "flip" ownership to a third developer.

# V. ALLOCATION OF COSTS AND BENEFITS TO THE PARTIES

## A. Proforma/Cost Estimate

### 1. The developer's proforma

The developer, Soboba Associates, is familiar with short term projects such as acting as a builder where site preparation has been done by others. These projects are of a one or two year duration, and the timing of cash flows has not been as important as the overall profit to be realized. The Soboba project is different. From the start of land acquisition to the completion of build out may take eight years, and the timing of the front end infrastructure costs versus tail end housing sales revenue is critical. Static proformas for each component (or Village) have been prepared that include an estimate of "carrying costs" for financing development that must wait to match the absorption schedule for each phase. Starting a phase before there is enough demand to purchase the units will increase total costs due to the relatively high costs for carrying construction financing.

The estimates of revenue, costs and profits for each component are summarized as follows:

SUMMARY OF DEVELOPER'S PROFORMA

| Phase | Type | Anticipated Profit | Selected | Number of Dwelling Units |
|---|---|---|---|---|
| Village 1 | Moderate | $ 895,000 | Yes | 42 |
| Village 1 | Premium | 725,000 | | 24 |
| Village 2a | Moderate | 970,000 | Yes | 200 |
| Village 2b | Moderate | 570,000 | Yes | 200 |
| Village 3 | Moderate | 995,000 | | 215 |
| Village 3 | Premium | 1,095,000 | Yes | 90 |
| Village 4a | Moderate | 1,350,000 | Yes | 81 |
| Village 4a | Premium | 955,000 | | 45 |
| Village 4b | Moderate | 1,255,000 | Yes | 227 |
| Village 4b | Premium | 1,070,000 | | 103 |
| Village 5 | Moderate | 205,000 | | 37 |
| Village 5 | Premium | 245,000 | Yes | 26 |
| Village 6 | Premium | 300,000 | Yes | 200 |
| Golf Course | N.A. | -0- | Yes | -0- |
| Scripps/Butzen | N.A. | 50,000 | Yes | -0- |
| Seventh Street | Moderate | 1,340,000 | Yes | 200 |
| TOTAL | | $ 8,070,000 * | | 1266 ** |

* Total includes only selected alternates.
** Total includes 950 moderate units and 316 premium units.

2. The City's proforma

There are several areas in which it is desirous that the City take an active role in supporting this project, thus it is important to estimate what the City of San Jacinto will gain by doing so in economic terms.

"The New Practitioner's Guide to Fiscal Impact Analysis" by Robert Burchell, David Listokin, and William Dolphin defines fiscal impact analysis as:

> "A projection of the direct, current, public costs and revenues associated with residential or non-residential growth to the local jurisdiction(s) in which this growth is taking place."

There are several different methods which can be used to analyze cost-revenue impact. The Case Study Method is the most appropriate for small rapid growth cities faced with large complex developments. The Case Study approach requires estimates of excess or deficient service capacities and expected local service responses. That is, specific estimates are made of how the new development will impact the expenditures of each governmental department. This method provides the greatest detail of analysis, however, it is time consuming and expensive.

The City of San Jacinto contracted with Ultrasystems, Inc. to provide a less costly analysis largely based on the Per Capita Multiplier method. The following analysis is based on preliminary information received on the study currently in progress and has been adjusted to reflect the development scenarios described above.

The results of the City's proforma are:

Revenues

| | |
|---|---|
| Property Taxes | $ 104,000 |
| Other Taxes | 274,000 |
| Licenses and Permits | 0 * |
| Intergov't Revenues | 68,000 |
| Charges for Services | 29,000 |
| Use of Money and Property | 0 |
| Fines and Forfeits | 1,000 |
| Miscellaneous (EMWD) | 202,000 |
| | ======= |
| Total Revenue | $678,000 |

Expenditures

| | |
|---|---|
| General Gov't--Departmental | $ 46,000 |
| General Gov't--Non-Dept. | INCL |
| Public Safety | 148,000 |
| Public Works | 11,000 |
| Parks, Recreation, Culture | 80,000 |
| Sewer | 11,000 |
| Capital Outlay | 69,000 |
| Miscellaneous (EMWD) | 204,000 |
| Debt Service--Principal | 10,000 |
| Debt Service--Interest | 7,000 |
| | ======= |
| Total Expenditures | $586,000 |
| Expected Annual Increase In City Cash Flow Due to This Project | $ 92,000 |

* In addition to the annual increase in cash flow, there are also one-time fees generated by the project as follows:

| | |
|---|---|
| Property transfer tax on initial sale | $ 80,000 |
| Permit and Processing fees | 7,260,000 |
| | ========= |
| Total One-Time Revenue | $7,340,000 |

The Fiscal Impact Analysis is based on the method of calculation shown in detail in Appendix 6.

B. Benefits and risks of development to city

The City of San Jacinto evaluated its projected financial capability to meet the funding requirements of its

CITY OF SAN JACINTO REVENUES AND EXPENDITURES

| | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|---|---|---|---|---|
| REVENUES | | | | | | | | | | |
| Property Taxes | $104,296 | $127,141 | $184,783 | $85,814 | $163,363 | $190,615 | $227,376 | $230,442 | $266,686 | $378,694 |
| Other Taxes | 104,319 | 130,599 | 191,172 | 304,070 | 356,369 | 286,515 | 380,737 | 453,401 | 511,667 | 571,956 |
| Licenses and Permits | 16,414 | 20,577 | 42,122 | 41,926 | 40,242 | 60,758 | 73,498 | 57,750 | 245,939 | 268,357 |
| Intergov't Revenues | 348,962 | 388,650 | 408,432 | 511,667 | 511,216 | 924,717 | 476,657 | 796,044 | 918,729 | 696,787 |
| Charges for Services | 37,450 | 45,092 | 99,713 | 133,372 | 151,589 | 179,801 | 254,814 | 179,625 | 182,525 | 222,298 |
| Use of Money & Property | 11,059 | 25,966 | 29,468 | 47,847 | 48,897 | 78,750 | 117,869 | 109,682 | 159,153 | 238,725 |
| Fines and Forfeits | 11,668 | 6,003 | 10,435 | 13,369 | 15,324 | 23,970 | 20,651 | 19,179 | 22,881 | 12,385 |
| Miscellaneous | 431,711 | 581,314 | 491,679 | 687,308 | 454,233 | 94,710 | 45,768 | 97,461 | 52,515 | 58,200 |
| TOTAL REVENUES | $1,065,879 | $1,325,342 | $1,457,804 | $1,825,373 | $1,741,233 | $1,839,836 | $1,597,370 | $1,943,584 | $2,360,095 | $2,447,402 |
| EXPENDITURES | | | | | | | | | | |
| Current | | | | | | | | | | |
| Gen'l Gov't - Dept | $140,998 | $130,238 | $222,701 | $239,035 | $231,414 | $199,809 | $183,307 | $142,103 | $147,445 | $169,741 |
| Gen'l Gov't - Non-Dept | 92,029 | 143,497 | 136,451 | 109,998 | 71,099 | 171,165 | 15,658 | 79,486 | 90,932 | 125,345 |
| Public Safety | 243,600 | 321,431 | 447,900 | 455,697 | 650,418 | 608,066 | 642,578 | 555,540 | 634,969 | 821,951 |
| Public Works | 145,358 | 137,996 | 194,404 | 154,800 | 264,034 | 332,814 | 305,845 | 364,702 | 320,472 | 242,755 |
| Parks, Rec, Culture | 86,464 | 64,581 | 108,477 | 66,003 | 67,403 | 71,321 | 118,559 | 71,457 | 69,133 | 93,279 |
| Sewer | 0 | 10,380 | 4,622 | 4,104 | 43,026 | 21,419 | 49,552 | 45,972 | 65,084 | 56,833 |
| Capital Outlay | 0 | 255,778 | 0 | 117,888 | 92,292 | 62,647 | 182,670 | 197,081 | 474,791 | 257,865 |
| Miscellaneous | 314,133 | 386,928 | 274,458 | 609,552 | 310,734 | 0 | 0 | 0 | 53,615 | 0 |
| Debt Service | | | | | | | | | | |
| Principal Repayment | 10,000 | 14,000 | 25,938 | 17,100 | 16,500 | 15,000 | 15,000 | 0 | 0 | 39,800 |
| Interest and Charges | 3,938 | 3,580 | 0 | 0 | 0 | 900 | 300 | 1,186 | 0 | 24,000 |
| TOTAL EXPENDITURES | $1,036,520 | $1,468,409 | $1,414,951 | $1,774,177 | $1,746,920 | $1,483,141 | $1,513,469 | $1,457,527 | $1,856,441 | $1,831,569 |
| NET CHANGE TO CITY BALANCE SHEET | $29,359 | ($143,067) | $42,853 | $51,196 | ($5,687) | $356,695 | $83,901 | $486,057 | $503,654 | $615,833 |

Note: Data after 1980 do not include Eastern Municipal Water District under Miscellaneous.

Figure 20

population as it currently exists, and determined that a "no growth" posture would lead to stagnation and a decline in services. Therefore, the city is interested in developments which can provide a net economic benefit to the city.

In addition to the direct benefits of development, there are other benefits that ripple through the community. For example, increased retail sales due to a revitalized retail area and new stores will mean more sales tax revenues for the City. New residents in the Project Area will result in increased population-based revenues. New job opportunities mean less people receiving unemployment subsidies.

The impact of this development on the cities finances is significant. Figure 20 shows the City revenue and expenditure data for the period 1978 through 1985. This project will provide net positive cash flow to the City of $ 92,000 per year in addition to the one-time fees of $7.3 million. This compares to recent City net cash flows of approximately $500,000 per year.

The risk to the City is that the developer will not carry through as planned, especially after financing and construction of the bridge has occurred. To mitigate this risk, the City can delay construction of the bridge until a master plan has been approved and significant housing construction started. Although the Soboba Springs Redevelopment Project has been established, no bonds have been issued to date. Since the area itself is not blighted, the Redevelopment Project could be the object of a legal challenge from a disgruntled group (such as an under-funded school board) based on being an inappropriate use of funds. It is suggested the developer have his legal counsel review this risk with the city attorney.

Another impact on the City will be the change in demographics brought on by the addition of a new group of people to the community. The new group, probably retirees, will tend to make San Jacinto more like Hemet. An increase of 25% in the City's population due to this development could lead to changes in the community power structure, even though the retirees are not as politically active in the Valley as younger individuals.

C. Benefits and risks of development to developer

The golf course loses money when carry costs are included and the continued ownership and operation of the golf course will be a drain on resources unless memberships are sold to recoup the investment. Soboba Associates assumes the golf course can be sold to the City, however, the City may not have the funds for the purchase and it would be unwise for the developer to lose control of its major amenity.

If the houses don't sell as quickly as anticipated (absorption risk) then financing costs will be compounded, especially if the units have been built and remain unsold. Return of housing units or land sales during escrow or from purchasers who default on seller financing is usually a relatively small risk. If the developed land sales are slow, then a primary source of raising revenue will be delayed.

The depth of the partners pockets (Sidlow and Lasky) is not known, however, staying power is assumed.

This type of project is different than the projects D&S Company is usually involved in. Instead of one project which can be completed within 12 months, Soboba Springs is a long term development project that can go through two or three economic cycles.

If the project is not master planned, the developer runs the risk of a change in City policy at any time that could restrict further development. Early zoning approval for all phases of the development can lock the developer into a product that cannot change to meet market conditions. By master planning, detailed design for each phase can be approved as required, however, increases in density at a later date are subject to opposition. Thus, for Conceptual Plan Approval for the PUD, it may be wiser to show all moderate units for a total unit count of 1400, with subsequent downward modification with specific Subdivision Map approval at a later date. By pursuing a diverse set of options for individual parcels, Soboba Associates can spread their risks.

The environmental impact report implies there will be an impact on the educational system requiring $1.2 million for schools and buses. If a covenant is placed on the deeds for the development of an adults only community in accordance with City zoning ordinances for a Senior Overlay District -- no school age children allowed -- then there is no impact on the school system. Although City zoning ordinances indicate it is possible to limit ages within a district and two of the comparable housing subdivisions surveyed in Appendix 1 have such restrictions, there is a question whether such districts can stand a legal challenge based on age discrimination. This thesis does not delve into the legality of City of San Jacinto zoning ordinances, however, it is suggested the developer have his legal counsel review this issue. The use of a PUD designation instead of Senior Overlay District will avoid the legal issues and require negotiation of the $1.2 million requested by the school board (headed by Clayton Record -- see Appendix 4). In negotiating with the school board, the developer can point out that the development will annually provide about $340,000 to the school board through distribution of property taxes collected by the County of Riverside ($68.0 million x 1% of property valuation x 50% of funds generated) even if there are no school age children in the development.

To minimize risk, the developer wants to position itself to be able to get in and out quickly by minimizing up front costs and being prepared to sell off improved lots. The developer will be best positioned with a detailed master plan and estimate of residual land value for each Village.

D. Distribution of costs and returns

The build out of the project area as proposed in this thesis could lead to increased property values of $68 million, not counting the Seventh Street Shopping Center or the hillside resort in Village 6. To achieve this goal, on-site and off-site infrastructure costs are paid for directly by the developer ($5.2 million), indirectly by the developer through fees ($7.3 million), and by the City through a bond issue for the bridge ($5 million). In many instances, the fees appear to be a duplication of charges when the developer is installing the infrastructure. No project of this magnitude has been built in the City of San Jacinto to date, and the creation of a master planned community provides an opportunity for the City and developer to sit down and negotiate the magnitude of fees charged, credits for off-site infrastructure installed by the developer, and specific use of the fees generated by the project. For example, fees can be used to widen Main Street and install a signalized intersection at Main Street and San Jacinto Street that will benefit the entire community as well as the residents of the new development. The developer, due to construction expertise, may be the most appropriate entity to build a new fire station on Main Street on land donated in Village 2, if the costs can be credited toward fees.

Similarly, negotiations are required with Eastern Municipal Water District to finalize the magnitude of fees and off-site infrastructure required.

The details of land use, infrastructure requirements, and allocation of costs should be worked out in detail between the City, EMWD, and the developer, and formalized in a written understanding.

## VI. CONCLUSIONS

As noted in "Managing Development through Public/Private

Negotiations" by Rachelle Levitt and John Kirlin, the growing practice of public/private bargaining raises four key issues:

- Striking an acceptable, enduring bargain that is realistic and has the approval of key parties in the political arena.
- Satisfying norms of equity and political legitimacy that permit all affected individuals and groups (stakeholders) to participate in decision making through representation at public meetings.
- Ensuring political accountability that lets bargaining be perceived as an appropriate exercise of political decision making and not as inappropriate "zoning for sale."
- Creating value for both the private and public sectors is the key to successful bargaining.

This thesis has focused on determining the appropriate use for a specific site, however, the process outlined is applicable to many other large scale projects where the public and private sectors interact to determine the final outcome.

Projects can survive the problems of implementation if city negotiators learn about development economics and finance and temper regulatory policies in the light of what they learn, and developers learn to operate in the fishbowl of local politics and adjust their plans and negotiating positions to cope with political realities. Success can be achieved for both parties if:

- The city and developer work together to establish project feasibility in the early stages.
- Both parties are willing to consult and revise agreements when circumstances change.
- Both become increasingly committed to having a project as they get deeper and deeper.
- Both show great flexibility and ingenuity in coming up with solutions to unexpected problems.

The Soboba Springs development is an opportunity to create value for the developer, the users of the site, the City government, and the community as a whole. By cooperating in working out a master plan for development, value can be enhanced for all parties.

## APPENDIX 1 MARKET ANALYSIS

Soboba Associates conducted a preliminary market study by placing a questionaire in the golf course restaurant. The results of the study (based on 78 completed forms) are:

1) What is your current residence location?

| | |
|---|---|
| San Jacinto | 32 % |
| Hemet | 38 % |
| Other | 30 % |

2) What is your employment status?

| | |
|---|---|
| Retired | 64 % |
| Employed | 36 % |

3) Where is your employment located?

| | |
|---|---|
| Hemet/San Jacinto | 40 % |
| Riverside County | 17 % |
| Other | 43 % |

4) Current residence:

| | |
|---|---|
| Own | 91 % |
| Rent | 9 % |

5) How would your home be utilized?

| | |
|---|---|
| Primary home | 85 % |
| Vacation home | 15 % |

6) What type of home do you currently have?

| | |
|---|---|
| Condominium | 13 % |
| Single family home | 51 % |
| Mobile home | 36 % |

7) How many people live in your home?

| | |
|---|---|
| One | 6 % |
| Two | 86 % |
| Three or more | 8 % |

8) Size of home desired?

| | |
|---|---|
| 1 bed/1 bath | 4 % |
| 1 bed/2 bath | 1 % |
| 2 bed/2 bath | 60 % |
| 3 bed/2-1/2 bath | 35 % |

9) Price of home desired?

| | |
|---|---|
| Under $60,000 | 9 % |
| $61,000 to $75,000 | 24 % |
| $76,000 to 90,000 | 28 % |
| $91,000 to 100,000 | 15 % |
| Over $100,000 | 23 % |

10) When would you be interested in purchasing?

| | |
|---|---|
| Within six months | 33 % |
| Six months to one year | 45 % |
| One to two years | 22 % |

A survey of building permits in the Hemet/San Jacinto area gave the following data:

| Single Family Housing | | | Multi-family Housing | | | |
|---|---|---|---|---|---|---|
| No. of Units | Value (000's) | Cost/ Unit | No. of Units | Value (000's) | Cost/ Unit | Year |
| San Jacinto | | | | | | |
| 102 | 5,558 | 54 | 171 | 4,784 | 28 | 1985 |
| 101 | 5,184 | 51 | 36 | 1,000 | 28 | 1984 |
| 121 | 4,833 | 40 | 0 | 0 | 0 | 1983 |
| 14 | 504 | 36 | 27 | 973 | 36 | 1982 |
| Hemet | | | | | | |
| 71 | 4,404 | 62 | 573 | 18,011 | 31 | 1985 |
| 333 | 19,173 | 58 | 218 | 5,042 | 23 | 1984 |
| 266 | 13,670 | 51 | 359 | 7,445 | 21 | 1983 |
| 173 | 6,998 | 40 | 14 | 544 | 39 | 1982 |

A survey of comparable development projects in the Hemet/San Jacinto area gave the following data:

| Project Name | Price per Sq Ft | Cummulative Sales 1 | 2 | 3 | 4 | 5 | Unit Size | Remaining Units |
|---|---|---|---|---|---|---|---|---|
| Single Family Detached | | | | | | | | |
| Bel Air Estates | 64/70 | 21 | 28 | 32 | 40 | 45 | 1150/1400 | 97 |
| Fairview | 58/74 | 25 | 30 | 39 | 40 | 47 | 962/1428 | 53 |
| Jacinto West | 51/55 | 38 | 59 | 84 | 83 | 72 | 1375/1628 | 33 |
| Mirador Pointe | 53/59 | 0 | 0 | 0 | 51 | 89 | 1431/1918 | 311 |
| Olive Meadows | 50/69 | 0 | 9 | 14 | 0 | 0 | 980/1766 | 0 |
| Sanderson Est. | 58/68 | 55 | 63 | 67 | 78 | 87 | 1042/1644 | 32 |
| The Groves | 57/70 | 0 | 0 | 0 | 4 | 13 | 992/1500 | 59 |
| Visalia Vistas | 58/63 | 0 | 0 | 0 | 4 | 10 | 1096/1490 | 2 |
| TOTALS | 50/74 | 139 | 189 | 236 | 300 | 363 | 962/1918 | 587 |
| Incremental Sales | | -- | 50 | 47 | 64 | 63 | | |

| Project Name | Price per Sq Ft | Cummulative Sales 1 | 2 | 3 | 4 | 5 | Unit Size | Remaining Units |
|---|---|---|---|---|---|---|---|---|
| Attached/Townhouses | | | | | | | | |
| Lincoln View | 55/65 | 0 | 0 | 0 | 13 | 28 | 1140/1628 | 188 |
| Sunrise | 57/59 | 33 | 49 | 58 | 61 | 75 | 1030/1075 | 1 |
| TOTALS | 55/65 | 33 | 49 | 58 | 74 | 103 | 1030/1628 | 189 |
| Incremental Sales | | -- | 16 | 9 | 16 | 29 | | |

Note: Cummulative sales were monitered at the ends of the month with 1 = January 1985, 2 = April 1985, 3 = July 1985, 4 = December 1985, and 5 = March 1986.

Two of the developments have age restrictions: one allows no one under 18 years of age, and the other requires one owner to be older than 41. None of the developments have an amenity such as a golf course or view. For single family homes, lot sizes range from 3500 sf to 8000 sf. The Olive Meadows project has ceased marketing and been unable to get suitable financing. The Jacinto West project had taken reservations for its fourth phase which is currently being revised.

## APPENDIX 2 -- DEVELOPMENT FEES

The City of San Jacinto charges the following fees for the Soboba Springs Project:

| | |
|---|---|
| Tentative Tract Map | 13,300 |
| Checking Final Tract Map | 16,650 |
| Off-Site Improvement Plan Check Fee | 1-1/2% of installation cost |
| Off-Site Improvement Inspection Fee | 3-1/2% of installation cost |
| General Plan Amendment | 5,650 |
| Environmental Impact Report | contract cost + 25% |

In addition to City fees, the Eastern Municipal Water District charges fees of up to $2,000 per unit which are partially offset by specific developer payments for infrastructure needed for the project, i.e., new pump for the sewage lift station, extension of water mains, and an additional 500,000 gallon water tank to be sited on the developer's hillside property.

The total estimated value for fees is roughly $5,000 per unit for a $65,000 dwelling and $7,000 for a $90,000 dwelling.

APPENDIX 3 -- OTHER METHODS OF PUBLIC ASSISTANCE

1. Federal Programs -- Housing and Urban Development

Federal funding is not frequently used because there are too many regulations and processing is too time consuming. In cities like Irvine, there may be difficulty in qualifying for funds due to the relative prosperity of the community. In San Jacinto, a city that needs the funds, there may not be enough funds for staffing to go through the application procedures.

o Community Development Block Grants

Construction financing costs can be reduced by advancing CDBG funds to a developer for a low- or zero-interest construction mortgage when the city has a relatively low expenditure rate for CDBGs and when many projects budgeted for CDBG expenditures will not be constructed for several months (thereby freeing the CDBG funds for "interim" expenditure). Because construction loans are normally pegged to the prime rate, which has been high and uncertain in recent years, the interest paid for construction financing is a significant capital cost. Therefore, provision of lower than market-rate interim financing can be a significant subsidy.

Based on current population levels, the county gets funds. The cities or districts compete for these funds by submitting proposals that are ranked based on a scoring system. Anybody can compete for funds. The City has successfully obtained $200,000 in CDBG funds for a sewer extension to an affordable housing complex elsewhere in the city.

o Urban Development Action Grants

The UDAG program is used to fund local construction projects that stimulate private investment to create jobs and improve the tax base.

o Investment tax credit (Federal)

Investment tax credits (ITCs) are available for certain expenses of renovation and rehabilitation and are not applicable to new construction projects.

2. Eminent domain

Eminent domain by public authorities has been most commonly used for urban renewal and community development. Under this procedure, local public agencies or authorities, operating under state statutes, assemble land for development. The public agency purchases land at its fair market value and sells it to private developers for use under a publicly approved development plan.

Eminent domain is the authority to acquire property for a public purpose in the public interest. It is not used lightly. Even if eminent domain is exercised, the public agency is required by law to hold public hearings on the action, to pay the owner fair market value, and to give to the occupant all relocation benefits and allowances to which he or she is entitled. Once the city has obtained the property, it can dispose of it through land lease, shared land costs, or land write-down.

3. Land lease

Land or air rights leases require less initial capital than outright purchase by the developer. A land lease reduces the amount of debt that a project must support as a portion of the project cost as the land does not need to be financed. The equity needed for the project is reduced, thereby reducing the developer's risk. In addition, a land lease enables investment in aspects of the development that have favorable tax consequences -- for example, in the structure, which can be depreciated over 15 years, rather than in land, which is a deductible business expense and in nondepreciable.

Cities can require that land leases escalate over the years on a reasonable and predictable basis. In additon to conventional leases, a city can lease land with an option for the developer to purchase at a later date based on a fair market appraisal.

Leasing potentially offers the city two main advantages: the ability to control the site through continual ownership, and a share in future profits through rental income and appreciation of the property value. In the case of Soboba Springs, the golf course could be sold to the City and the club facilities leased back to Soboba Associates.

4. Shared land costs

Shared land costs result in savings to the developer and the city. For example, the costs of land and site preparation can be shared by the public and private partners where the developer gains a site of prime location that could not be purchased on the open market, and the city obtains much needed housing and an increased tax base.

5. Land cost write down

Land write-downs reduce the front-end capital costs of a project by subsidizing the difference between the actual cost of acqusition and clearance and the cost to the developer. General revenues, general obligation bonds, Community Development Block Grant (CDBG) funds, and other local funds might be a source of financing.

6. Tax abatement

Tax abatement can provide relief for overall financing cost of a project because a reduction in local property taxes will reduce operating expenses and result in an increase in net operating income (NOI). Because the financing of a project is directly related to NOI, an increase in the amount of cash equity can be obtained through the use of this incentive. Tax abatement could be used for commercial developments, however, it is not a popular form of assistance.

7. Industrial revenue bonds

Industrial revenue bonds (IRBs) are extremely helpful to businesses that need assistance in financing the acquisition of land, the construction of buildings, and the purchase of equipment. Normally, the power to issue IRBs is vested in a local development authority. The authority assumes no financial obligation for repayment, so that a company must have sufficient financial resources to ensure prompt payment of principal and interest over the life of the loan.

Companies derive several advantages from the use of IRBs. The cost of funds provided by IRBs is significantly below that of other alternatives because the interest paid to holders of such bonds is exempt from federal and state income taxes. This exemption is technically a loan to the government that is reloaned to the company. When long-term private financing is around 12 percent, it is not unusual to find IRB rates of roughly 9 percent.

8. Mortgage revenue bonds

Mortgage revenue bonds (MRBs) provide initial capital for housing and reduce debt service obligations to targeted groups through a form of interest subsidy. Local governments, through lending institutions, issue tax-exempt MRBs, which like IRBs take advantage of lower interest rates. State housing finance agencies have also used MRBs. Although some issues have been used to facilitate home ownership for moderate-and middle-income households, thereby encouraging the stabilization of population and in-migration in cities. Funds can be precommitted to builders and lending institutions and designated for new construction or rehabilitation. Municipalities have a moral obligation to repay holders of MRBs, in contrast with the municipality's legal obligation to repay general obligation bonds.

The City of San Jacinto General Plan is currently being revised in accordance with State of California guidelines. The State requires housing for all sectors of the community. Other cities in Riverside County have not followed the State guidelines to provide 20% low and moderate income housing and the City of San Jacinto is experiencing pressure from the State to make up this deficit by providing 50% low and moderate income housing for new developments within their jurisdiction.

The median income for the City of San Jacinto is $22,125. To obtain mortgage revenue bond financing for moderate income housing requires pricing units such that a family of four making 80% of the median income ($17,700) can afford the units. If a limit of 35% of annual income for debt service is used, this works back to a housing price of approximately $60,000 for a 10% loan with 10% downpayment. However, these calculations do not apply for a retired couple who can afford an outright purchase and have minimal annual earnings.

9. General revenue

Cities are disinclined to use city general funds or special funds because:

- o General funds have been drastically reduced by proposition 13 due to the drop in property tax revenue -- there is less to go around, so allocation to a new use is resisted.
- o Contributions to the general funds come from existing property owners, and there is political pressure to return the benefits of those funds to the existing property owners, rather than new owners.

City councils are reluctant to use general revenues for land development projects for housing unless it results in affordable housing. The developer typically sets housing prices based on market demand. If housing prices won't change due to city participation, why lower the costs to the developer and allow windfall profits? Instead, cities are more willing to support commercial/retail development because it increases revenue through sales taxes while demanding less of city services.

10. General obligation bonds

Bonds which obligate all of the taxpayers in the city to pay for improvements targeted for a specific area are not likely to be passed.

11. Loan guarantees/subordinate financing

Loan guarantees/subordinate financing can be provided by the municipality to enable a developer to obtain beneficial financing terms -- e.g., extension of the amortization period of a loan and reduction of the interest rate. Sources of such financing include CDBG and UDAG funds, city revenues, foundations, tax increment financing, and UDAG repayments in cities that are receiving income from UDAFs. If income is pledged for a guarantee, it is important that some limitations be established on the amount and duration of the pledge. Otherwise, the entire amount of income could be pledged for one development, which might never make a claim against the income, and the city will have no flexibility to guarantee other projects.

12. Lease revenue bonds

Lease revenue bonds can be blocked by a referendum.

13. Tax allocation bonds

Tax allocation bonds are not subject to referendum. In California, public revenue bond finance legislation required cities to avoid sponsoring competitive projects.

14. Special Taxes

As an option, special taxes require a 2/3's vote and are authorized by Proposition 13. Although special taxes can provide the necessary revenues for various public facilities and improvements, the tough road to haul is the receipt of a favorable vote. Unless the voters want something very much that cannot be obtained any other way, or if the area is uninhabited and the land owner is anxious to develop, the likelihood of a 2/3's vote is slim. As an example, the County of Riverside Flood Control District recently (1983) solicitied the 2/3's vote for three service areas, the result was a defeat by a 2 to 1 margin.

15. Developer exactions and fees

Recently public agencies have broadened the extraction demand for the developer to provide funds for facilities which serve beyond the area of the subdivision, operation and maintenance payments, and such items conjectually related to the subdivisions, such as low income housing and other items which serve the general needs of the Community.

The private sector's motto is: "You get what you pay for." Increasingly popular among public officials, is the public sector analogue: "You pay for what you get." Paying for the infrastructure through development fees and user charges have long been used as a means for paying for infrastructure. Since Proposition 13, public agencies have substantially increased fees such as development and building permission fees, utility connection fees, user charges, and even questionable impact fees.

Developers fees drive down the value of the land on the open market. Fees can't be passed on to the homeowner (the market sets the price, not mark up over cost), therefore, the developer is willing to pay less for the land to maintain profit margin.

16. SB 1322 Rehabilitation Districts

A recently passed senate bill allows the formation of rehabilitation districts provided they do not overlap redevelopment districts. In a rehabilitation district, a majority of property owners (not 2/3) can set aside up to twenty-five percent of the property tax funds to go toward payments for a bond issue. This method does not raise new funds, rather it reallocates current use of property tax funds and establishes this use as a priority over other users of funds.

## APPENDIX 4 INFLUENTIAL PERSONS IN HEMET AND SAN JACINTO

The individuals vital to the success of a project in the San Jacinto area have been ranked into three tiers. The individuals with primary importance are:

Ross Namar, San Jacinto. SJ city manager and former city manager of Hemet. A dominant leader.

Trammel Ford, San Jacinto. New SJ city council member; realtor.

Les Redding, San Jacinto. New SJ city council member; School District member; consultant; member Soboba Springs Country Club.

Mark Devine, San Jacinto. SJ city council member; Friday for Lunch Bunch; follower - not initiator, son of Jeff Devine.

R.J. Stevens, San Jacinto. A long time member of the SJ city council.

Richard Hixson, San Jacinto. Chairman SJ planning commission.

Dave Ver Plank, San Jacinto. Vice chairman SJ planning commission.

Ed Westal, San Jacinto. SJ planning commissioner.

Herb Colbertson, San Jacinto. SJ planning commissioner.

Ray Carlson, San Jacinto. SJ planning commissioner.

Clayton Record, San Jacinto. Charter member and past president of Exchange Club; director Nestee, Brudin, and Stone; director Bank of Hemet; eight years on Board of Supervisors, County of Riverside; Chairman of San Jacinto School Board; owner of major SJ dairy; Friday for Lunch

Bunch; member Soboba Springs Country Club.

Kay Ceniceros, Riverside. County Board of Supervisors; recent president of SCAG (Southern California Association of Governments); former assistant to Clayton Record; responsible for limitations of Daon and requirement for bridge by developer; environmentally concerned proponent for agriculture preserves in county areas; influential with county departments.

Jeff Devine, San Jacinto. Father of Mark Devine; realtor and owner of subsidized apartment complexes in SJ; behind the scenes power.

Individuals with secondary importance to decision making in San Jacinto are:

John Brudin, Hemet. Civil engineer; member Exchange Club; director Bank of Hemet; Friday for Lunch Bunch; member Soboba Springs Country Club; quiet power.

David Kelley, Hemet. Member Exchange Club; citrus grower; state legislature assemblyman; Friday for Lunch Bunch.

John McDonough, Hemet. Past president Exchange Club; Chairman of the board Bank of Hemet; formerly with Security Pacific Bank; member Valley Economic Development Council; Friday for Lunch Bunch; member Soboba Springs Country Club; quiet power.

Dennis Mayer, San Jacinto. President SJ Junior College; member Economic Development Council; Friday for Lunch Bunch.

Jim Gill, Hemet. Owner of both newspapers in San Jacinto and

Hemet; member Morning Kiwanis Club; Friday for Lunch Bunch.

Don Baskett, Hemet. Previously no. 2 in Riverside County Development department; Hemet city council member; Hemet Mall manager; member Valley Economic Development Council; Friday for Lunch Bunch.

Bruce Wallis, Hemet. Attorney; Hemet School Board; President of YMCA; member of Morning Kiwanis Club; Friday for Lunch Bunch.

Bob Eichinger, Hemet. Member Valley Economic Development Council; director Hemet Valley Federal Savings and Loan; Friday for Lunch Bunch; member Soboba Springs Country Club.

Bill Aldridge, San Jacinto. President Eastern Municipal Water District; Friday for Lunch Bunch.

Jack Tangeman, Hemet. Hemet Casting president; member Valley Economic Development Council; Friday for Lunch Bunch.

William Record, San Jacinto. Past president Exchange Club; dairy rancher; cousin of Clayton Record; director Inland Savings and Loan.

Dan Hollingsworth, San Jacinto. Dairyman; member Exchange Club; active in fund raising for Republican congressional campaigns.

Jerry Uecker, Hemet. Past president Exchange Club; manager of only stock brokerage firm in the valley (Paine Weber); Republican fund raiser; director Bank of Hemet; director Inland Savings and Loan.

Kenneth Hyatt, Hemet. Past president Exchange Club; director Bank of Hemet; president Hemet Insurance Service; member Soboba Springs Country Club.

Jack Gosch, Hemet. Automobile dealer (Ford dealerships); director Bank of Hemet; Friday for Lunch Bunch; Non-governmental entrepreneur.

Individuals on a third tier of importance relative to projects in San Jacinto are:

James Agnew, Hemet. Head of major real estate brokerage firm; director Inland Savings and Loan; Friday for Lunch Bunch; member Exchange Club.

John Culton, East Hemet. Principal in Brubaker and Culton real estate brokers; member Exchange Club.

Jim Cox, Hemet. Partner in legal firm with Dan Donnelly; member Exchange Club.

Joe Pehl, Hemet. Past president Exchange Club; CPA for land deals and taxes of influential people in valley; Friday for Lunch Bunch.

Marvin DeBrask, Hemet. Member Exchange Club; director Hemet Savings and Loan.

Dan Donnelly, Hemet. Past president Exchange Club; partner in legal firm with Jim Cox.

Tom Broderick, Hemet. Hemet Valley Hospital administrator.

Ken Edwards, Riverside. Head of Riverside County Flood Control District.

Leo Flint, Riverside. Head of Riverside County Road Department; listens to Kay Cineceros.

An individual of considerable wealth but unknown importance due to lack of involvement in community organizations and lack of following is:

Jim Miner, East Hemet. Owner of 500,000 acres in Wyoming and Montana; major natioanl Democratic fund raiser (Ted Kennedy flew to Hemet to pick up a campaign contribution); head of Agra Empire which owns and leases extensive land holdings in valley; original developer of Soboba Springs Golf Course and Hot Springs; owns Park Hill - prominant location in the middle of the valley for siting water tanks; son is on state water district board.

APPENDIX 5 DEVELOPER'S PROFORMA

The following proformas have been adjusted to reflect the phasing of each component through the land cost financing duration. No guess has been made for the rates of inflation of either the sales price or the construction cost.

Village 1 - Moderate Housing

42 units; single family detached houses of 945 sf; price at $65,000 plus fairway premium of $20,000 for each unit.

| | |
|---|---|
| **Revenues** | |
| 42 units @ $65,000 base price | 2,730,000 |
| 42 units @ $20,000 fairway premium | 840,000 |
| less sales commission (2%) | (70,000) |
| less marketing (3%) | (110,000) |
| **Costs** | |
| Land | (200,000) |
| Construction<br>42 units x 945 sf x $35/sf | (1,390,000) |
| On-site/Off-site ($5,000/unit) | (210,000) |
| Architectural/Engineering | ( 30,000) |
| Fees/Bonds/Insurance/Permits ($5,000/unit) | (210,000) |
| Taxes/Title/Legal | ( 20,000) |
| Overhead (2-1/2% construction & site) | ( 40,000) |
| Indirect (2-1/2% construction & site) | ( 40,000) |
| Finance - Land (3-1/2 yrs @ 12%) | ( 85,000) |
| Finance - Construction<br>1/2 yr @ 12% x 80% of Revenue | (170,000) |
| Contingency (5% of construction cost) | ( 80,000) |
| Anticipated Profit | $ 895,000 |

Village 1 - Premium Housing

24 units; single family detached houses of which 8 units are 3 bedrooms/2-1/2 bathroom homes of 1350 sf with a base price of $90,000 and 16 units are 2 bedroom/2 bathroom homes of 1200 sf with a base price of $80,000. In addition, there is a fairway premium of $30,000 for each unit.

Revenues

| | |
|---|---|
| 8 units @ $90,000 base price | 720,000 |
| 16 units @ $80,000 base price | 1,280,000 |
| 24 units @ $30,000 fairway premium | 720,000 |
| less sales commission (2%) | (55,000) |
| less marketing (3%) | (80,000) |

Costs

| | |
|---|---|
| Land | (200,000) |
| Construction | |
| 8 units x 1350 sf x $32/sf | (345,000) |
| 16 units x 1200 sf x $32/sf | (615,000) |
| On-site/Off-site ($7,000/unit) | (170,000) |
| Architectural/Engineering | ( 20,000) |
| Fees/Bonds/Insurance/Permits ($7,000/unit) | (170,000) |
| Taxes/Title/Legal | ( 20,000) |
| Overhead (2-1/2% construction & site) | ( 25,000) |
| Indirect (2-1/2% construction & site) | ( 25,000) |
| Finance - Land (3-1/2 yrs @ 12%) | ( 85,000) |
| Finance - Construction 1/2 yr @ 12% x 80% of Revenue | (130,000) |
| Contingency (5% of construction cost) | ( 55,000) |
| Anticipated Profit | $ 725,000 |

Village 1 - Moderate Housing for the Althouse Property

115 units; single family detached houses of 945 sf; price at $65,000 plus fairway premium of $20,000 for 33 units.

Revenues

| | |
|---|---|
| 115 units @ $65,000 base price | 7,475,000 |
| 33 units @ $20,000 fairway premium | 660,000 |
| less sales commission (2%) | (160,000) |
| less marketing (3%) | (245,000) |

Costs

| | |
|---|---|
| Land | -0- |
| Construction | |
| 115 units x 945 sf x $35/sf | (3,805,000) |
| On-site/Off-site ($5,000/unit) | (575,000) |
| Architectural/Engineering | ( 75,000) |
| Fees/Bonds/Insurance/Permits ($5,000/unit) | (575,000) |
| Taxes/Title/Legal | ( 50,000) |
| Overhead (2-1/2% construction & site) | (110,000) |
| Indirect (2-1/2% construction & site) | (110,000) |
| Finance - Land | -0- |
| Finance - Construction 1 yr @ 12% x 80% of Revenue | (780,000) |
| Contingency (5% of construction cost) | (220,000) |
| Residual Land Value | $ 1,430,000 |

Residual land value includes price for land, profit, and carrying cost of land between time of land purchase and time when market will absorb additional 115 housing units.

Village 1 - Premium Housing for the Althouse Property

51 units; single family detached houses of which 17 units are 3 bedrooms for $90,000 base price and 34 units are 2 bedrooms for $80,000 base price. In addition, there are fairway premiums of $30,000 for 19 units.

Revenues

| | |
|---|---|
| 17 units @ $90,000 base price | 1,530,000 |
| 34 units @ $80,000 base price | 2,720,000 |
| 19 units @ $30,000 fairway premium | 570,000 |
| less sales commission (2%) | (95,000) |
| less marketing (3%) | (145,000) |

Costs

| | |
|---|---|
| Land | -0- |
| Construction | |
| 17 units x 1350 sf x $32/sf | (735,000) |
| 34 units x 1200 sf x $32/sf | (1,305,000) |
| On-site/Off-site ($7,000/unit) | ( 355,000) |
| Architectural/Engineering | ( 60,000) |
| Fees/Bonds/Insurance/Permits ($7,000/unit) | ( 355,000) |
| Taxes/Title/Legal | ( 40,000) |
| Overhead (2-1/2% construction & site) | ( 60,000) |
| Indirect (2-1/2% construction & site) | ( 60,000) |
| Finance - Land | -0- |
| Finance - Construction 1/2 yr @ 12% x 80% of Revenue | ( 230,000) |
| Contingency (5% of construction cost) | ( 120,000) |
| Residual Land Value | $1,260,000 |

Residual land value includes the price of the land, profit, and carrying cost of land between time of purchase and time when the market will absorb an additional 51 units.

Village 2a - Moderate Housing

200 units; single family detached houses of 945 sf; price at $65,000. Also includes 1 acre local commercial site.

| | |
|---|---|
| **Revenues** | |
| 200 units @ $65,000 base price | 13,000,000 |
| 1 acre @ $100,000 | 100,000 |
| less sales commission (2%) | (260,000) |
| less marketing (3%) | (390,000) |
| **Costs** | |
| Land (1/2 of $1,170,000) | (585,000) |
| Construction | |
| 200 units x 945 sf x $35/sf | (6,615,000) |
| On-site/Off-site ($5,000/unit) | (900,000) |
| Architectural/Engineering | (150,000) |
| Fees/Bonds/Insurance/Permits ($5,000/unit) | (1,000,000) |
| Taxes/Title/Legal | ( 50,000) |
| Overhead (2-1/2% construction & site) | ( 190,000) |
| Indirect (2-1/2% construction & site) | ( 190,000) |
| Finance - Land (2-1/2 yrs @ 12%) | ( 175,000) |
| Finance - Construction 1 yr @ 12% x 80% of Revenue | (1,250,000) |
| Contingency (5% of construction cost) | ( 375,000) |
| Anticipated Profit | $ 970,000 |

Village 2b - Moderate Housing

200 units; single family detached houses of 945 sf; price at $65,000.

| | |
|---|---|
| **Revenues** | |
| 200 units @ $65,000 base price | 13,000,000 |
| less sales commission (2%) | (260,000) |
| less marketing (3%) | (390,000) |
| **Costs** | |
| Land (1/2 of $1,170,000) | (585,000) |
| Construction | |
| 200 units x 945 sf x $35/sf | (6,615,000) |
| On-site/Off-site ($5,000/unit) | (1,000,000) |
| Architectural/Engineering | ( 150,000) |
| Fees/Bonds/Insurance/Permits ($5,000/unit) | (1,000,000) |
| Taxes/Title/Legal | ( 50,000) |
| Overhead (2-1/2% construction & site) | ( 190,000) |
| Indirect (2-1/2% construction & site) | ( 190,000) |
| Finance - Land (5-1/2 yrs @ 12%) | ( 385,000) |
| Finance - Construction 1 yr @ 12% x 80% of Revenue | (1,250,000) |
| Contingency (5% of construction cost) | ( 365,000) |
| Anticipated Profit | $ 570,000 |

Village 3 - Moderate Housing

215 units; single family detached houses of 945 sf; price at $65,000 plus fairway premium of $20,000 for 118 units and park premium of $10,000 for 30 units.

| | |
|---|---|
| **Revenues** | |
| 215 units @ $65,000 base price | 13,975,000 |
| 118 units @ $20,000 fairway premium | 2,360,000 |
| 30 units @ $10,000 park premium | 300,000 |
| less sales commission (2%) | (330,000) |
| less marketing (3%) | (500,000) |
| **Costs** | |
| Land | (1,500,000) |
| Construction | |
| 215 units x 945 sf x $35/sf | (7,110,000) |
| On-site/Off-site ($5,000/unit) | (1,075,000) |
| Landscaping of park | ( 50,000) |
| Architectural/Engineering | (150,000) |
| Fees/Bonds/Insurance/Permits ($5,000/unit) | (1,075,000) |
| Taxes/Title/Legal | (100,000) |
| Overhead (2-1/2% construction & site) | (205,000) |
| Indirect (2-1/2% construction & site) | (205,000) |
| Finance - Land (3 yrs @ 12%) | (540,000) |
| Finance - Construction 1-1/2 yr @ 12% x 80% of Revenue | (2,390,000) |
| Contingency (5% of construction cost) | ( 410,000) |
| Anticipated Profit | $ 995,000 |

Village 3 - Premium Housing

90 units; single family detached houses of which 30 units are 3 bedrooms for $90,000 base price and 60 units are 2 bedrooms for $80,000 base price. In addition, there are fairway premiums of $30,000 for 67 units.

| | |
|---|---|
| **Revenues** | |
| 30 units @ $90,000 base price | 2,700,000 |
| 60 units @ $80,000 base price | 4,800,000 |
| 67 units @ $30,000 fairway premium | 2,010,000 |
| less sales commission (2%) | (190,000) |
| less marketing (3%) | (285,000) |
| **Costs** | |
| Land | (1,500,000) |
| Construction | |
| 30 units x 1350 sf x $32/sf | (1,295,000) |
| 60 units x 1200 sf x $32/sf | (2,305,000) |
| On-site/Off-site ($7,000/unit) | ( 630,000) |
| Architectural/Engineering | ( 70,000) |
| Fees/Bonds/Insurance/Permits ($7,000/unit) | ( 630,000) |
| Taxes/Title/Legal | ( 50,000) |
| Overhead (2-1/2% construction & site) | ( 105,000) |
| Indirect (2-1/2% construction & site) | ( 105,000) |
| Finance - Land (3 yrs @ 12%) | ( 540,000) |
| Finance - Construction 1/2 yr @ 12% x 80% of Revenue | ( 500,000) |
| Contingency (5% of construction cost) | ( 210,000) |
| Anticipated Profit | $ 1,095,000 |

Village 4a - Moderate Housing

81 units; single family detached houses of 945 sf; price at $65,000 plus fairway premium of $20,000 for 36 units and park premium of $10,000 for 25 units.

| | |
|---|---|
| **Revenues** | |
| 81 units @ $65,000 base price | 5,265,000 |
| 36 units @ $20,000 fairway premium | 720,000 |
| 25 units @ $10,000 park premium | 250,000 |
| less sales commission (2%) | (125,000) |
| less marketing (3%) | (190,000) |
| **Costs** | |
| Land (81/308 x $900,000) | (240,000) |
| Construction | |
| 81 units x 945 sf x $35/sf | (2,680,000) |
| On-site/Off-site ($5,000/unit) | ( 405,000) |
| Park Landscaping | ( 50,000) |
| Architectural/Engineering | ( 60,000) |
| Fees/Bonds/Insurance/Permits ($5,000/unit) | ( 405,000) |
| Taxes/Title/Legal | ( 40,000) |
| Overhead (2-1/2% construction & site) | ( 75,000) |
| Indirect (2-1/2% construction & site) | ( 75,000) |
| Finance - Land (3 yrs @ 12%) | ( 85,000) |
| Finance - Construction 1/2 yr @ 12% x 80% of Revenue | ( 300,000) |
| Contingency (5% of construction cost) | ( 155,000) |
| Anticipated Profit | $ 1,350,000 |

Village 4a - Premium Housing

45 units; single family detached houses of which 15 units are 3 bedrooms for $90,000 base price and 30 units are 2 bedrooms for $80,000 base price. In addition, there are fairway premiums of $30,000 for 20 units plus park premiums of $15,000 for 9 units.

Revenues

| | |
|---|---|
| 15 units @ $90,000 base price | 1,350,000 |
| 30 units @ $80,000 base price | 2,400,000 |
| 20 units @ $30,000 fairway premium | 600,000 |
| 10 units @ $15,000 park premium | 150,000 |
| less sales commission (2%) | ( 90,000) |
| less marketing (3%) | (135,000) |

Costs

| | |
|---|---|
| Land (45/148 x $900,000) | (275,000) |
| Construction | |
| 15 units x 1350 sf x $32/sf | (650,000) |
| 30 units x 1200 sf x $32/sf | (1,150,000) |
| On-site/Off-site ($7,000/unit) | ( 315,000) |
| Park Landscaping | ( 30,000) |
| Architectural/Engineering | ( 40,000) |
| Fees/Bonds/Insurance/Permits ($7,000/unit) | ( 315,000) |
| Taxes/Title/Legal | ( 20,000) |
| Overhead (2-1/2% construction & site) | ( 55,000) |
| Indirect (2-1/2% construction & site) | ( 55,000) |
| Finance - Land (3 yrs @ 12%) | ( 100,000) |
| Finance - Construction 1/2 yr @ 12% x 80% of Revenue | ( 210,000) |
| Contingency (5% of construction cost) | ( 105,000) |
| Anticipated Profit | $ 955,000 |

Village 4b - Moderate Housing

227 units; single family detached houses of 945 sf; price at $65,000 plus fairway premium of $20,000 for 24 units and park premium of $10,000 for 21 units.

Revenues

| | |
|---|---|
| 227 units @ $65,000 base price | 14,755,000 |
| 24 units @ $20,000 fairway premium | 480,000 |
| 21 units @ $10,000 park premium | 210,000 |
| less sales commission (2%) | (310,000) |
| less marketing (3%) | (465,000) |

Costs

| | |
|---|---|
| Land ($900,000 - $240,000) | (660,000) |
| Construction | |
| 227 units x 945 sf x $35/sf | (7,510,000) |
| On-site/Off-site ($5,000/unit) | (1,135,000) |
| Park Landscaping | ( 50,000) |
| Architectural/Engineering | (150,000) |
| Fees/Bonds/Insurance/Permits ($5,000/unit) | (1,135,000) |
| Taxes/Title/Legal | (120,000) |
| Overhead (2-1/2% construction & site) | (215,000) |
| Indirect (2-1/2% construction & site) | (215,000) |
| Finance - Land (4 yrs @ 12%) | (315,000) |
| Finance - Construction 1 yr @ 12% x 80% of Revenue | (1,480,000) |
| Contingency (5% of construction cost) | (430,000) |
| Anticipated Profit | $1,255,000 |

Village 4b - Premium Housing

103 units; single family detached houses of which 34 units are 3 bedrooms for $90,000 base price and 69 units are 2 bedrooms for $80,000 base price. In addition, there are fairway premiums of $30,000 for 14 units and park premiums of $15,000 for 10 units.

Revenues

| | |
|---|---|
| 34 units @ $90,000 base price | $3,060,000 |
| 69 units @ $80,000 base price | 5,520,000 |
| 14 units @ $30,000 fairway premium | 420,000 |
| 10 units @ $15,000 park premium | 150,000 |
| less sales commission (2%) | (185,000) |
| less marketing (3%) | (275,000) |

Costs

| | |
|---|---|
| Land ($900,000 - 240,000) | (660,000) |
| Construction<br>34 units x 1350 sf x $32/sf | (1,470,000) |
| 69 units x 1200 sf x $32/sf | (2,650,000) |
| On-site/Off-site ($7,000/unit) | (720,000) |
| Park Landscaping | ( 30,000) |
| Architectural/Engineering | ( 75,000) |
| Fees/Bonds/Insurance/Permits ($7,000/unit) | (720,000) |
| Taxes/Title/Legal | ( 60,000) |
| Overhead (2-1/2% construction & site) | (120,000) |
| Indirect (2-1/2% construction & site) | (120,000) |
| Finance - Land (4 yrs @ 12%) | (315,000) |
| Finance - Construction<br>1/2 yr @ 12% x 80% of Revenue | (440,000) |
| Contingency (5% of construction cost) | (240,000) |
| Anticipated Profit | $1,070,000 |

Village 5 - Moderate Housing

37 units; single family detached houses of 945 sf; price at $65,000 plus fairway premium of $20,000 for 25 units.

Revenues

| | |
|---|---|
| 37 units @ $65,000 base price | 2,405,000 |
| 25 units @ $20,000 fairway premium | 500,000 |
| less sales commission (2%) | (60,000) |
| less marketing (3%) | (90,000) |

Costs

| | |
|---|---|
| Land | (350,000) |
| Construction | |
| 37 units x 945 sf x $35/sf | (1,225,000) |
| On-site/Off-site ($5,000/unit) | (185,000) |
| Architectural/Engineering | ( 30,000) |
| Fees/Bonds/Insurance/Permits ($5,000/unit) | (185,000) |
| Taxes/Title/Legal | ( 20,000) |
| Overhead (2-1/2% construction & site) | ( 35,000) |
| Indirect (2-1/2% construction & site) | ( 35,000) |
| Finance - Land (6-1/2 yrs @ 12%) | (275,000) |
| Finance - Construction 1/2 yr @ 12% x 80% of Revenue | (140,000) |
| Contingency (5% of construction cost) | ( 70,000) |
| Anticipated Profit | $ 205,000 |

Village 5 - Premium Housing

26 units; single family detached houses of which 9 are 3 bedrooms for $90,000 base price and 17 are 2 bedrooms for $80,000 base price. In addition, there are fairway premiums of $30,000 for 18 units.

| | |
|---|---|
| **Revenues** | |
| 9 units @ $90,000 base price | 810,000 |
| 17 units @ $80,000 base price | 1,360,000 |
| 18 units @ $30,000 fairway premium | 540,000 |
| less sales commission (2%) | (55,000) |
| less marketing (3%) | (80,000) |
| **Costs** | |
| Land | (350,000) |
| Construction | |
| 9 units x 1350 sf x $32/sf | (390,000) |
| 17 units x 1200 sf x $32/sf | (655,000) |
| On-site/Off-site ($7,000/unit) | (180,000) |
| Architectural/Engineering | ( 30,000) |
| Fees/Bonds/Insurance/Permits ($7,000/unit) | (180,000) |
| Taxes/Title/Legal | ( 20,000) |
| Overhead (2-1/2% construction & site) | ( 30,000) |
| Indirect (2-1/2% construction & site) | ( 30,000) |
| Finance - Land (6-1/2 yrs @ 12%) | (275,000) |
| Finance - Construction 1/2 yr @ 12% x 80% of Revenue | (130,000) |
| Contingency (5% of construction cost) | ( 60,000) |
| Anticipated Profit | $ 245,000 |

Village 6 - Hillside

Perform rough grading to create building pads and use fill for Village 5. Assume 25 buildable acres are created. Obtain zoning approval for 200 hotel/condo units under PUD designation and sell land.

Revenues

| | |
|---|---|
| 25 acres @ $150,000/ac | $3,750,000 |
| less sales commission (10%) | (380,000) |

Costs

| | |
|---|---|
| Land | (500,000) |
| Cut/Fill/Compact for Village 5 | (200,000) |
| On-site/Off-site ($4,000/unit) | (1,200,000) |
| Architectural/Engineering | ( 30,000) |
| Fees/Bonds/Insurance/Permits ($2,000/unit) | (600,000) |
| Taxes/Title/Legal | (100,000) |
| Overhead (2-1/2% construction & site) | ( 30,000) |
| Indirect (2-1/2% construction & site) | ( 30,000) |
| Finance - Land (3 yrs @ 12%) | (180,000) |
| Contingency (add'l 3 yrs land carry) | (200,000) |
| Anticipated Profit | $ 300,000 |

Golf Course - 18 hole championship course

Revenues

| | |
|---|---|
| 200 memberships @ $20,000 average | $4,000,000 |

Costs

| | |
|---|---|
| Land | (2,500,000) |
| Realignment of 4 holes | (500,000) |
| New Club House and Restaurant | (1,000,000) |
| Anticipated Profit | $ -0- |

The real value of golf course is in the $4,900,000 for fairway premiums accrued in Village housing prices. In addition, relieved of debt service and with greater usage due to build out of the development, the club house and restaurant will operate at a profit difficult to estimate at this time.

Scripps Clinic/Butzen Property

Accurate information on costs associated with the Scripps Clinic are unavailable and have been estimated.

Revenues

| | |
|---|---|
| Scripps Clinic<br>($300,000 annual rent capitalized @ 10%) | $3,000,000 |
| 15 Acres @ $100,000/ac | 1,500,000 |
| less sales commission (2%) | (60,000) |
| less marketing (3%) | (90,000) |

Costs

| | |
|---|---|
| Land | (2,000,000) |
| Construction | (1,500,000) |
| On-site/Off-site | ( 50,000) |
| Architectural/Engineering | ( 30,000) |
| Fees/Bonds/Insurance/Permits | ( 30,000) |
| Taxes/Title/Legal | ( 20,000) |
| Overhead (2-1/2% construction & site) | ( 40,000) |
| Indirect (2-1/2% construction & site) | ( 40,000) |
| Finance - Land (1 yrs @ 12%) | (240,000) |
| Finance - Construction<br>1 yr @ 12% x 80% of Revenue | (350,000) |
| Anticipated Profit | $ 50,000 |

Seventh Street

Sell land for 20 acre shopping center and 20 acre apartment complex.

Revenues

| | |
|---|---|
| 20 acres commercial @ $100,000 | 2,000,000 |
| 20 acres residential @ $40,000 | 800,000 |
| less sales commission (2%) | (55,000) |
| less marketing (3%) | (85,000) |

Costs

| | |
|---|---|
| Land | (1,070,000) |
| Finance - Land | (250,000) |
| Anticipated Profit | $1,340,000 |

## APPENDIX 6 THE CITY'S PROFORMA

### REVENUE SOURCES

- Property Taxes

Residential

```
(Number of DU's)(Average Market)(Property tax)(Fraction of   )
                (Value/DU      )(limitation  )(property tax )
                                (factor=0.01 )(revenue rec'd)
                                              (by City=0.14 )
```

($68.0 million)(0.01)(0.14) = $95,000/yr

Commercial

```
(Number of acres)(Average Market)(Property tax)(Fraction of )
                 (Value/acre    )(limitation  )(property tax)
                                 (factor=0.01 )(revenue recd)
                                               (by City=0.14)
```

($6.6 million)(0.01)(0.14) = $ 9,000/yr

Note: Other agencies receiving a portion of funds raised through property taxes include County of Riverside, the school district, and various special districts. Tax rate on existing property increases at a maximum rate of 2%/year.

- Other taxes

Sales and Use Tax

```
(Number of DU's)(Average number)(Sales Tax )
                (of people per )(revenue   )
                (DU = 2.1      )(per capita)
```

(1266 du)(2.1)($40/person) = $106,000/yr

Sales tax revenue per capita historically is about $40 in San Jacinto.

Southern California Edison

Based on historical trends the income generated by franchise fees is expected to be $1.10 per capita for residential uses and $9.10 per acre for commercial use.

```
(1266 du)(2.1)($1.10/person) = $ 2,924
(40 acres)($9.10/ac)         =     364
                               =======
                     Total     $ 3,288 say $ 3,000/yr
```

Cable TV Franchise fees

The fee for the city is approximately $7.00 per unit.

(1266 du)($7.00/du) = $ 9,000/yr

Real property transfer tax

Tax levied at the rate of $1.10 per $1,000 of sales value. The tax applies to the initial sale as well as resale of units.

($74.6 million)($1.10/1000) = $80,000 initial revenue

Approximately $10,000/yr if property is resold every seven to eight years.

Transient Occupancy Tax

The City of San Jacinto receives 8% of the total receipts for hotel and motel room occupancy. For order of magnitude estimate, assume a 200 room hotel with an average occupancy of 50% and an average room rate of $50 per night generates $146,000 in revenue per year.

- o Licenses and Permits

Permit and processing fees

The developer anticipates an average costs for permits of $5,000 per moderate housing units and $7,000 per premium housing unit. City permit fees average $1/sf of commercial space. This includes approximately $1,500 per unit for the Water District. The one-time revenue associated with this development is:

| | | |
|---|---|---|
| (950 du)($5,000/du) | = | $ 4,750,000 |
| (316 du)($7,000/du) | = | 2,210,000 |
| (300,000 sf)($1.00/sf) | = | 300,000 |
| | | ========= |
| Total | | $ 7,260,000 |

o Intergovernment Revenues

Motor Vehicle In-Lieu Fees

Historical trends indicate a rate of $22.00 per capita with a 5% annual increase is appropriate.

(1266 du)(2.1 persons/du)($22.00/person) = $58,000/yr

Gasoline Tax

Historical trends indicate a steady annual rate of $2.00 per capita is appropriate.

(1266 du)(2.1 persons/du)($2.00/person) = $5,000/yr

Cigarette Tax

Historical trends indicate a steady annual rate of $2.00 per capita is appropriate.

(1266 du)(2.1 persons/du)($2.00/person) = $5,000/yr

o Charges for Services

Refuse collection

Based on historical trends, residential users will bring in $8.50 per capita with an annual increase of 20%. For commercial properties the rate is $36.00 per acre.

| | | |
|---|---|---|
| (1266 du)(2.1 persons/du)($8.50/person) | = | $23,000 |
| (40 ac)($36.00/ac) | = | 1,000 |
| | | ====== |
| Total | | $24,000/yr |

Lighting and Landscape District

The City currently charges $4.00 per month for each dwelling to maintain street lighting and public parkways.

(1266 du)($4.00/du) = $5,000/yr

o Use of Money and Property

Not applicable.

o Fines and Forfeitures

Historical trends indicate a rate of $0.25 per capita is appropriate.

(1266 du)(2.1 persons/du)($0.25/person) = $1,000/yr

o Miscellaneous

Miscellaneous revenues include animal licenses, bicycle licenses, special police and fire fees, weed and lot cleaning, other charges for services and other revenue. Historical trends indicate a rate of $3.50 per capita.

(1266 du)(2.1 persons/du)($3.50/person) = $9,000/yr

o Special Development Oriented Charges

Park Fees

The fee is $120 per single family unit and $85 per multifamily unit. This one time fee is included in the estimate for all development fees.

o Water Sales (Miscellaneous)

For residential units, the average annual revenue is approximately $159 per dwelling unit. For commercial, revenue is $27 per acre. The applicability of charges for water service is questionable, since the water is furnished by Eastern Municipal Water District.

| | | |
|---|---|---|
| (1266 du)($159/du) | = | $201,000 |
| (40 ac)($27/ac) | = | 1,000 |
| | | ======= |
| Total | | $202,000/yr |

COST SOURCES

- General Government

Historical trends indicate a rate of $15.00 per capita for residential use, and $160.00 per acre for commercial use.

| | | |
|---|---|---|
| (1266 du)(2.1 persons/du)($15.00) | = | $40,000 |
| (40 ac)($160.00/ac) | = | 6,000 |
| | | ====== |
| Total | | $46,000/yr |

- Public Safety

Historical trends indicate the following:

| | |
|---|---|
| Police protection | $40/capita or $420/acre |
| Fire protection | $50/developed acre |
| Building regulation | $33/developed acre |
| Animal regulation | $1/capita |

| | | |
|---|---|---|
| (1266 du)(2.1 persons/du)($40.00/person) | = | $106,000 |
| (40 ac)($420.00/ac) | = | 17,000 |
| (268 ac)($50.00/ac) | = | 13,000 |
| (268 ac)($33.00/ac) | = | 9,000 |
| (1266 du)(2.1 persons/du)($1.00/person) | = | 3,000 |
| | | ======== |
| Total | | $148,000/yr |

- Public Works

Historical trends indicate the following:

| | |
|---|---|
| Shops and corporation yards | $13/acre |
| Streets (Maintenance, Cleaning, and Lighting) | $0.40/foot of road |

| | | |
|---|---|---|
| (268 ac)($13.00/ac) | = | $ 3,000 |
| (20,000 lf)($0.40/lf) | = | 8,000 |
| | | ====== |
| Total | | $11,000/yr |

- Parks, Recreation and Culture

Parks and parkways currently maintained by the city cost $8,000/acre annually.

(10 ac)($8,000/ac) = $80,000/yr

- Sewer

Maintenance of the city sewer systems historically costs

$40/acre with an annual increase of 25% in operating costs.

(268 ac)($40.00/ac) = $11,000/yr

- Capital Outlay

Historical trends indicate the City makes annual capital outlays for improvements of $26.00 per capita.

(1266 du)(2.1 persons/du)($26.00) = $69,000

- Water Service (EMWD)

For the city owned portion of the water system, historical trends indicate a 6% annual increase in costs of $160/residential unit and $27/acre of commercial development.

| | | |
|---|---|---|
| (1266 du)($160/du) | = | $203,000 |
| (40 ac)($27/ac) | = | 1,000 |
| | Total | $204,000 |

- Debt Service

The City currently makes principal and interest payments of $6.50 per person, of which 60% is toward principal.

(1266 du)(2.1 persons/du)($6.50) = $17,000

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LIST OF INTERVIEWEES

| | |
|---|---|
| Charles Howard | Howard Rose Company<br>San Jacinto, California. |
| Clayton Record | Neste, Brudin, and Stone<br>Hemet, California. |
| Peter Sidlow<br>Wayne Avrashow<br>Al Chamberlain | Soboba Associates<br>San Jacinto, California. |
| Brian McNabb | City Planning Director<br>San Jacinto, California |
| Gary Dysart | Willdan Associates<br>Anaheim, California. |
| Gerald Trimble | Centre City Development Corporation<br>San Diego, California. |
| Bradley Olson<br>Kieth Greer<br>Dan Tonini | The Irvine Company<br>Irvine, California. |