

**THE GATEWAY COMMUNITY DEVELOPMENT PROJECT:
Socioeconomic and Fiscal Impact Report**



A Report to the
CITY OF OAKLAND
COMMUNITY AND ECONOMIC DEVELOPMENT AGENCY

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CHAPTER 1

EXECUTIVE SUMMARY

THE GATEWAY COMMUNITY PROJECT

The Gateway Community project is a proposal to change the land use designation of a site located in the Fruitvale district of Oakland, near (just west of) the Fruitvale BART station.

The project site is bounded by East 12th Street on the north, Derby Avenue on the east, the Union Pacific railroad tracks on the south, and a property line situated between the imaginary extensions of 25th Avenue and 26th Avenue on the west.

The project would include mixed residential and commercial development: 810 condominiums, approximately 26,000 square feet of commercial space, and approximately 1,131 parking spaces. These uses would be located on six building sites, containing buildings ranging in height from 3 to 16 stories: the four sites west of 29th Avenue would include three-story townhouses along the East 12th Street frontage with 8- to 12-story buildings behind, and the two building sites east of 29th Avenue would range in height from three stories along 12th Street to 15 and 16 stories behind. Commercial space would be divided evenly between locations west and east of 29th Avenue. The commercial space would be primarily designed to accommodate neighborhood- and project-serving businesses.

PURPOSE OF THIS REPORT

Beyond the environmental impacts of the Gateway Community, the City of Oakland is interested in the collateral, or indirect, effects of residential development on this site. These concerns focus on the project's potential impacts on (1) neighborhood change in the Fruitvale area and (2) the City's fiscal condition. Each of these areas of concern has several aspects of interest.

Questions about neighborhood change themselves focus on two issues: effects on housing affordability and effects on commercial uses that serve the existing community.

Questions about the City's fiscal condition also focus on two issues: effects on the City's General Fund (operating budget) and amount of tax increment revenue collected by the Redevelopment Agency.

This report discusses these issues.

CONCLUSIONS ABOUT IMPACTS ON HOUSING AFFORDABILITY AND COMMERCIAL USES

The Gateway Community project would add to the recently-built inventory of relatively more expensive condominiums in the Fruitvale area. It would introduce these units to a site farther north, farther from the water, than they have previously been located. This location for substantial number of new housing units raises questions about their potential effect on the Fruitvale neighborhood:

- How would the type of housing proposed for the site affect housing prices and availability in the surrounding area? In particular, how would the project affect the affordability of housing to the income groups that currently live in the area?
- How would the population of the project affect the commercial uses that serve the Fruitvale district? Would their consumer preferences prompt a shift in the types of retail stores that are located in the area?

The analysis summarized in this report concludes that the effects of the Gateway Community project on housing affordability in the area will depend on (1) the visibility of the project, (2) access to and from the project site, and (3) neighborhood susceptibility to change. Susceptibility to change, in turn, is influenced by the extent to which households perceive that the project has changed socioeconomic conditions in the surrounding area (affected, in part, by the visibility of and access to/from the project) as well as the economics of existing uses (whether those uses create sufficient land value to inhibit further redevelopment).

Changes that may occur as a result of this project are:

- The introduction of new, higher-priced condominiums into the area around the BART station. (This is the direct result of the project.)
- Possible attraction of additional more affluent households to the area. These additional households would either buy existing units or stimulate the construction of more new units. If they are interested in existing units, they could push housing prices up far enough that current owner-occupants would find it attractive to cash out by selling their Fruitvale homes. An upward push in housing prices would continue a trend observed during the 1990s.

The number of housing units that could shift from occupancy by lower- and moderate-income households to occupancy by more affluent households cannot be estimated: too many factors (housing tenure, workplace location, ties to the community, affordable alternative locations) enter into each household's decision.

- If the project makes Fruitvale more attractive to additional more affluent households and, therefore, contributes to an upward trend in housing prices, then “exclusionary displacement” could occur. Exclusionary displacement occurs when an area that was previously available to low- and moderate-income households becomes unaffordable to them, forcing them to look elsewhere (possibly farther from their jobs and communities) for housing.
- Households living in the Gateway Community project will have more than enough purchasing power to support businesses that locate in the project's commercial space. The pressure that they bring for change in the businesses currently located on Interna-

tional Boulevard – which are presumed to serve the needs of the existing community – will depend on how attractive International Boulevard is to the new households and whether the existing businesses respond to their demands; whether other concentrations of commercial space in the area (including at Fruitvale Village, near the BART station, and Fruitvale Station, near I-880) accommodate businesses that capture their spending, and whether the buildings, parking supplies, and other physical arrangements on International Boulevard meet the requirements of stores that typically cater to more affluent households.

CONCLUSIONS ABOUT AFFORDABLE HOUSING STRATEGIES

Although housing supplied by the Gateway Community project will be more expensive, in general, than existing housing in the Fruitvale area, many of the units will meet the affordability requirements for low- and moderate-income households. This analysis concludes that, given income limits for households of different sizes and the prices posited for units in the project, as many as 94 percent of the units in the project would be affordable to moderate-income households.

Project sponsors have discussed with the City of Oakland the possibility of two different strategies intended specifically to provide housing within the project for low- and/or moderate-income households: (1) to place price restrictions on a percentage of units within the project to assure their affordability to moderate income households over time, or (2) to provide funding for purchase assistance to low- and/or moderate-income households. These strategies have different levels of impact on the initial and resale prices of the units, affordability of the units over time, and property tax (fiscal) impacts of the project.

Beyond onsite possibilities for affordable housing, the project will contribute property tax increments to the low- and moderate-income housing fund of the Coliseum Redevelopment Project Area. These funds, projected to total \$13.1 million through FY 2026, could most effectively be used in the following ways:¹

- Production assistance to (a) single family for-sale housing (15 units per acre) for moderate-income households, (b) higher-density for-sale housing (145+ units per acre) for low- and moderate-income households, and/or (c) medium-density rental housing (45 units per acre).
- Funding for the City's Affordable Housing Site Acquisition Program (currently unfunded).
- Additional funding for the City's Vacant Housing Acquisition and Rehabilitation Program.
- Supplemental funding for the Section 8 voucher program.

¹ These strategies were identified in conjunction with the socioeconomic report for the Wood Street project (*The Proposed Wood Street Project: Policy and Planning Framework*, available as Appendix C to the Final Environmental Impact Report on the Wood Street Project).

CONCLUSIONS ABOUT FISCAL IMPACTS

The fiscal impact analysis of the proposed Gateway Community project focuses on ongoing/recurring revenues collected in, and ongoing/recurring service costs incurred by, the City's General Fund. Revenues contributed by the project would include primarily property taxes, sales taxes, and utility consumption taxes. Costs would include primarily police services, fire services, and general government services.

The project is projected to generate a net cost to the City's General Fund: the net annual cost would increase from an estimated \$479,900 in FY 2014 (partial buildout) to \$931,200 in FY 2026 (after project completion), and the cumulative net cost would increase from \$1.4 million in FY 2014 to \$10.6 million for the 20 years through FY 2026.²

These estimates are considered to be conservatively weighted toward the cost side, because they assume that the costs of fire protection would increase even though no new fire stations would be required, and that the costs of public works (street maintenance) would increase even though no new public streets would be required. If the assumed increases in these two costs are eliminated, then the project would generate much smaller deficits: less than \$100,000 in FY 2014, increasing to less than \$200,000 in FY 2026, with a cumulative net cost of about \$2.1 million through FY 2026.

Because the project site is in a redevelopment project area, the entire increase in property taxes would be collected not by the General Fund (or other taxing entities, such as the County of Alameda or the Oakland Unified School District), but instead by the Redevelopment Agency. These funds are projected to total \$27.2 million through FY 2026. Of that total, \$13.0 million would go to the low- and moderate-income housing fund, and the remainder would be available for public improvements and agency support for new private projects (Fruitvale Village is an example of a past project that benefited from Agency assistance).³

² These amounts are expressed in constant dollars; that is, they do not include the effects of inflation. See Appendix B for a discussion of inflation.

³ A portion of the property tax increment is passed through to other agencies that would collect a portion of the property tax if the site were not in a redevelopment project area. This pass-through requirement (the amount of which is not reported in this study) makes the \$13.0 million of housing funds appear as if it accounted for more than 25 percent of the total property tax increment.

CHAPTER 2 INTRODUCTION

THE GATEWAY COMMUNITY PROJECT

The Gateway Community project is a proposal to change the land use designation of a site located in the Fruitvale district of Oakland, near (just west of) the Fruitvale BART station.

The project site is bounded by East 12th Street on the north, Derby Avenue on the east, the Union Pacific railroad tracks on the south, and a property line situated between the imaginary extensions of 25th Avenue and 26th Avenue on the west. The location is shown in Figure 1.

The site is near the northern end of the City of Oakland's Coliseum Redevelopment Project Area, which stretches from approximately 22nd Avenue on the west to Oakland's boundary with San Leandro on the east, and from the estuary and Oakland International Airport on the south to International Boulevard on the north. This area includes the Oakland Airport as well as the Coliseum and Arena.

The proposed change in the land use designation would ultimately permit the development of a mixed-use project that is currently planned to contain about 810 housing units (condominiums in multi-story buildings) with associated parking, along with about 26,000 square feet of ground floor commercial space.

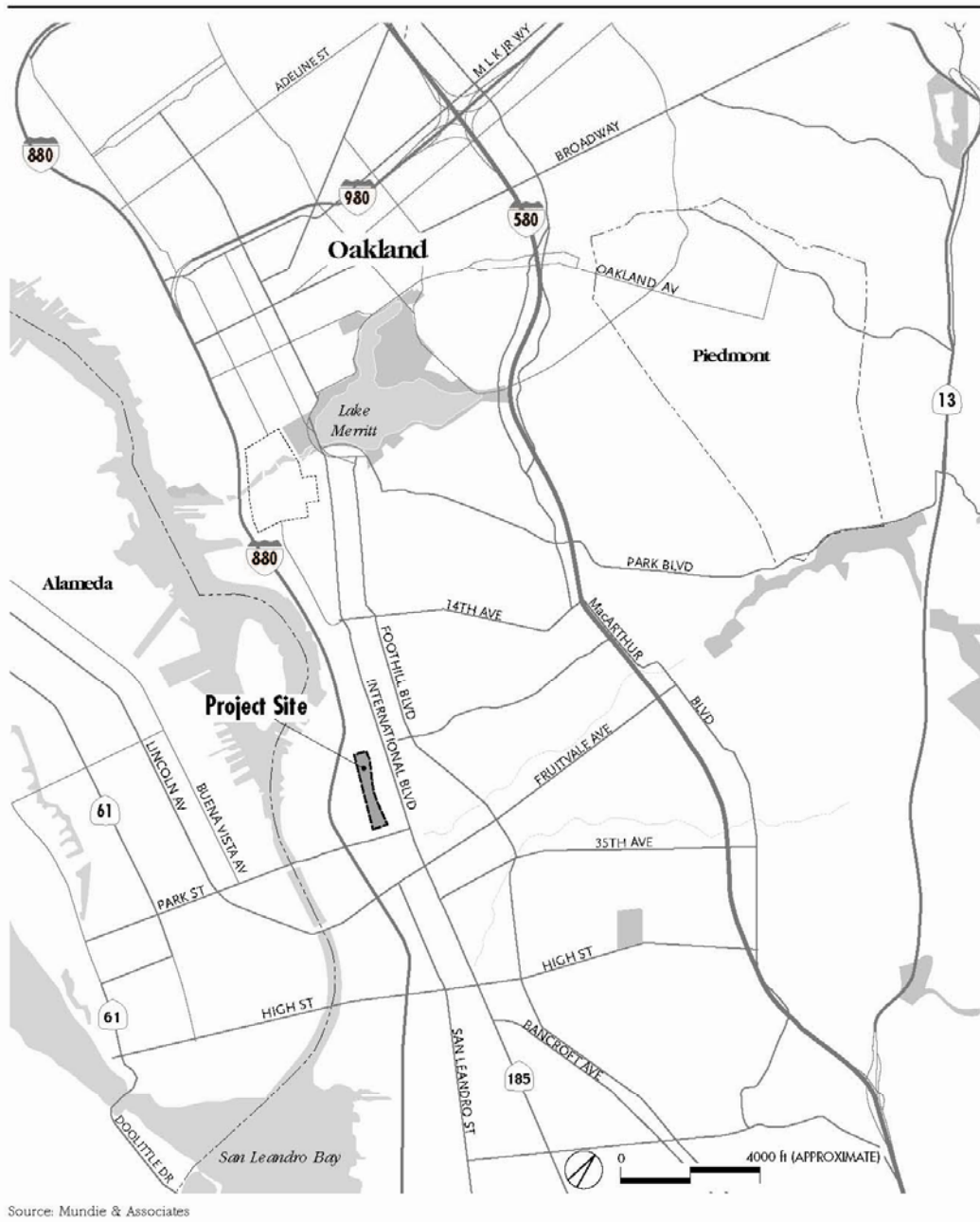
A more detailed description of the Gateway Community project is provided in Chapter 3.

ISSUES PRESENTED BY THE PROJECT

The proposed project would allow the conversion of low-intensity existing uses to a mixed-use residential and commercial project. The existing uses include a self-storage facility, a retail store (currently vacant, formerly occupied by a hardware store), auto repair businesses, and a Caltrans maintenance facility.

There is precedent for mixed-use development in the Fruitvale area: the Fruitvale Village project, which abuts the BART station, contains a mix of commercial, office, and residential uses in multi-story buildings situated around several courtyards. Other nearby residential buildings provide small amounts of ground floor office or commercial space.

The Gateway Community project would nevertheless be a new type of use for the Fruitvale area, because it would introduce more intensive development than currently exists in the neighborhood: housing in structures of up to 16 stories, at an overall density of between 80 and 85 units per acre.



Source: Mundie & Associates
7-11-07

Figure 1
Project Location
Gateway Community Development Plan

The proposed project is located within the Coliseum Redevelopment Project Area. A standard goal of redevelopment projects is to change the character of the area, by replacing blight with land uses and development patterns that will enhance the vitality of an area and stimulate economic activity. At the same time, however, revitalization may attract a different population both to the housing and the commercial enterprises in the area.

Because of its size and character, the project would have the potential to influence the market for both housing and commercial uses. The issues for the City of Oakland relate to the magnitude of the change that the Gateway Community project might stimulate and whether the benefits of the change would outweigh the costs.

In this light, this report considers the following key questions:

1. What changes would the project bring to the Fruitvale neighborhood? More specifically:

- How would the type of housing proposed for the site affect housing prices and availability in the surrounding area? In particular, how would the project affect the affordability of housing to the income groups that currently live in the area?
- How would the population of the project affect the commercial uses that serve the Fruitvale district? Would their consumer preferences prompt a shift in the types of retail stores that are located in the area?

The proposed project would bring a new land use – mixed housing/commercial, with the housing at higher densities than are typical of the neighborhood – to the Fruitvale district. With condominiums priced generally between \$400,000 and \$700,000 in today's dollars, the project would also be likely to introduce a new socioeconomic group into the Fruitvale neighborhood: by creating a new, attractive residential development (in what has to date been an area of relatively modestly-priced homes), it has the potential to be a “pioneering” location for more affluent households than have traditionally been attracted to the Fruitvale area.

The proposed project would increase the housing stock of the Fruitvale area⁴ by about 14 percent. The introduction of so large a number of more expensive new residential units into the area could have spillover effects: as new population segments are introduced to the area, households not accommodated by the Gateway Community project may seek to buy or rent housing near the project and the BART station. What would be the effect of such demand on housing prices in the area, and on the households that currently live there?

These new residents may also have different consumer preferences than the current residents of Fruitvale. Beyond the commercial space in the proposed project, will they patronize existing businesses on International Boulevard, or in the Fruitvale Village project near the BART station? Will their purchasing patterns push existing businesses – which serve current residents - out of the area, in favor of more upscale establishments?

⁴ The Fruitvale area is defined for purposes of this report as Census Tracts 4061, 4062.1, 4062.2, and 4072. These tracts occupy the area bounded generally by East 22nd Street on the north, 23rd Avenue on the west, the Estuary on the south, and High Street on the east.

2. What would be the most effective use of the housing set-aside portion of the property tax increment? And, what is the project’s responsibility for providing affordable housing (that is, housing that is affordable to low- and moderate-income households) onsite?

Recognizing that housing in the proposed Gateway Community project will carry price tags that are higher than have previously been seen in the Fruitvale area, what can the City of Oakland do to preserve housing opportunities for households who cannot afford new homes at prevailing market prices?

Because the project site is located within the Coliseum Redevelopment Project Area, 25 percent of its property tax increment will be automatically set aside for affordable housing projects and programs. The Redevelopment Agency must decide – within the context of the Redevelopment Plan for the project area and other City priorities – how best to use these funds.

Options include, for example, contributions to the construction of new housing, support for the continued affordability of privately-owned affordable units on which affordability contracts are due to expire, operating subsidies to existing or new units (or households), down payment assistance to first-time homebuyers, or a variety of other choices.

At the same time, the City must evaluate the appropriateness of requiring the proposed project to include some number of affordable housing units within the project itself. The project sponsors do not, to date, anticipate requesting any financial assistance from the City or Redevelopment Agency to develop the Gateway Community; consequently, they may not be required – according to existing City requirements – to provide units that are affordable to low- or moderate-income households. The City may nevertheless impose an inclusionary requirement as a condition of approval of the development. What would be a reasonable number of units, and at what level of affordability (that is, to households at which income level) should they be made available?

3. What effect will the project have on the City of Oakland’s fiscal condition? Will it generate more revenues than costs?

New development in Oakland will contribute new revenues to the City’s General Fund in the form of property taxes, sales taxes from purchases made by new residents and in new commercial space, and other sources. It will also increase the City’s costs of providing public services, such as police and fire protection, parks and recreation, library services, human services, and general government. At the bottom line, the project’s fiscal impacts will affect the City’s ability to provide ongoing services to all of its residents.

Because the project site is within a redevelopment project area, the property taxes generated by the site in its current condition are “frozen” at the amount paid when the project area was established. These taxes will continue to be collected by the City of Oakland in its General Fund. Increases in property taxes above the “frozen base,” paid by the new development on the site, will be collected by the Redevelopment Agency (see the next paragraph). Will the new revenue generated by the project (without the additional property taxes associated with new development) be sufficient to offset the City’s costs of providing services to the project and its residents? The balance between

new revenues collected in and new costs incurred by the City's General Fund is the project's fiscal impact, and the direction and magnitude of that impact are affected by the fact of the site's location in a redevelopment project area.

The property tax increments collected by the Redevelopment Agency will be available for capital improvements and programs in the Coliseum Redevelopment Project Area. Twenty-five percent of these property tax increment revenues are required to be spent on low- and moderate-income housing, as indicated above; the remainder will be available for other redevelopment projects and programs. How much revenue might the agency expect from this project?

These questions are considered in the remaining chapters of this report:

Chapter 3 provides a more detailed description of the development anticipated on the project site if the land use designation is changed as requested.

Chapter 4 considers the potential impacts of the project on housing affordability in the surrounding area and the implications of those impacts for the Fruitvale neighborhood and the City of Oakland.

Chapter 5 explores strategies that the City may use to leverage this project for the provision of affordable (low- and moderate-income) housing, including both the use of tax increment funds to pay for housing production/housing subsidies and other redevelopment/revitalization projects and programs.

Chapter 6 examines the fiscal impacts of the proposed project; that is, its expected effects on the City's General Fund.

CHAPTER 3

DESCRIPTION OF THE PROJECT

LOCATION

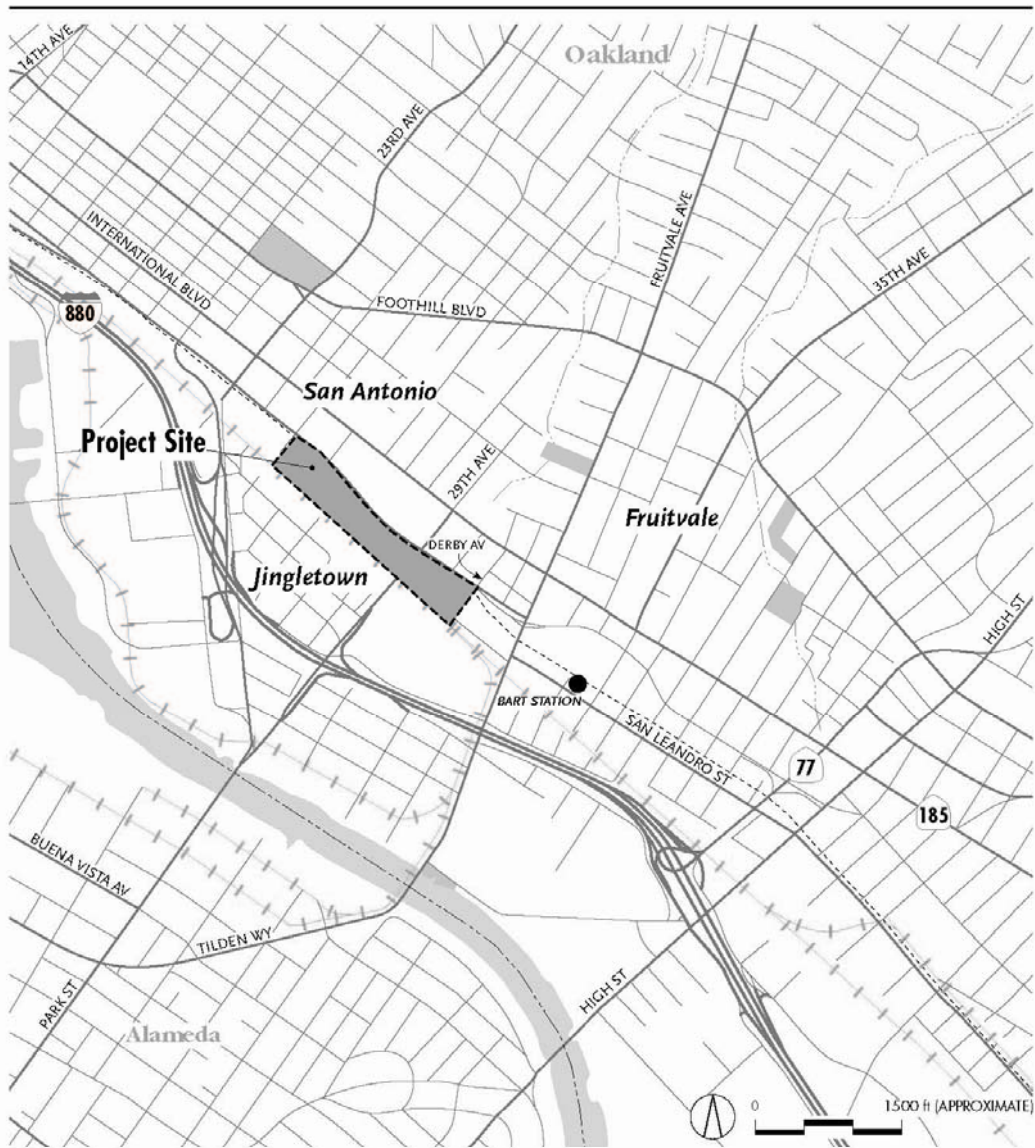
The proposed Gateway Community project would be located on a 9.7-acre site in the Fruitvale district of Oakland. The project site lies along the south side of East 12th Street, on both sides of 29th Avenue. It extends west to a point just west of 26th Avenue, south to the Union Pacific Railroad (UPRR) tracks, and east to Derby Avenue.

More generally, the project site is near the meeting point of the Fruitvale, San Antonio, and Jingtletown neighborhoods. The Fruitvale neighborhood is located generally between 29th Avenue/Fruitvale Avenue on the west and High Street on the east, and between Foothill Boulevard on the north and Interstate 880 on the south. Its commercial core is focused on International Boulevard, east and west of Fruitvale Avenue, extending south into the Fruitvale Transit Village at the Fruitvale BART station. The San Antonio neighborhood is generally west and north of the site, with commercial activity and community identity focused along 23rd Avenue and International Boulevard. The Jingtletown neighborhood is generally south of the site, between about the Union Pacific Railroad (UPRR) tracks and Interstate 880, and between 23rd Avenue on the west and 29th Avenue on the east. Jingtletown has no concentrated commercial district. Neighborhood locations are shown in Figure 2.

PROPOSED LAND USES

The project would include mixed residential and commercial development: 810 condominiums, 26,000 square feet of commercial space, and approximately 1,131 parking spaces. These uses would be located on six building sites, containing buildings ranging in height from 3 to 16 stories: the four sites west of 29th Avenue would include three-story townhouses along the East 12th Street frontage with 8- to 12-story buildings behind, and the two building sites east of 29th Avenue would range in height from three stories along 12th Street to 15 and 16 stories behind. Commercial space would be divided evenly between locations west and east of 29th Avenue. The commercial space would be primarily designed to accommodate neighborhood- and project-serving businesses.

Table 1 summarizes the characteristics of the proposed project by identifying the number of housing units, amount of commercial space, and number of parking spaces on each development site.



Source: Mundie Associates, ESA Associates, Thomas Brothers Guide

7-11-07

Figure 2
Neighborhood Context
 Gateway Community Development Plan

**Table 1
Proposed Land Uses**

Site	Housing (Units)	Commercial (Sq. Ft.)	Parking Spaces		
			Residential	Commercial	Total
1	180	0	220	0	220
2	130	2,900	143	0	143
3	100	2,900	154	0	154
4	100	7,110	138	24	162
5	145	13,040	205	41	246
6	155	0	206	0	206
Total	810	25,950	1,066	65	1,131

Source: Pacific Thomas Capital

Housing Units

The housing units are planned to range in size from one bedroom/one bath to three bedrooms/three baths, and from 912 to 2,081 square feet. The distribution of units by type on each development site are shown in Table 2.

**Table 2
Distribution of Housing Units by Type by Site**

Unit Type	Townhouses		Flats			Total
	2/2.5	3/2.5	1/1	2/2	3/3	
Number of Units						
Site 1	6	9	78	69	18	180
Site 2	0	9	69	39	13	130
Site 3	0	9	46	35	10	100
Site 4	0	6	48	35	11	100
Sites 5 and 6	1	3	149	116	31	300
Total	7	36	390	294	83	810
<i>Average Unit Size (sq. ft.)</i>	<i>1,667</i>	<i>2,081</i>	<i>912</i>	<i>1,588</i>	<i>1,997</i>	<i>1,349</i>

Source: Pacific Thomas Capital

The housing units would be condominiums, priced at market rates. Sales prices anticipated as of the date of this analysis are summarized in Table 3.

**Table 3
Anticipated Housing Prices
(2006 Dollar Values)**

	Units	Price
Townhouse: 2 bedroom, 2.5 baths	7	\$645,000
Townhouse: 3 bedroom, 2.5 baths	36	\$700,000
Flat: 1 bedroom, 1 bath	390	\$405,000
Flat: 2 bedroom, 2 bath	294	\$475,000
Flat: 3 bedroom, 3 bath	83	\$565,000
Total/Average	810	\$465,475

Source: Mundie & Associates, based on information from Pacific Thomas Capital.

DEVELOPMENT SCHEDULE

For the purposes of fiscal analysis, it is important to consider the expected development schedule for the project. The assumption used in this analysis is that the project would be built in phases: the first phase would begin in spring, 2008; the final phase would be completed by fall, 2021. Table 4 provides more specific assumptions about the timing of development.⁵

**Table 4
Assumed Development Schedule***

Development Site	Stories	Commence Construction Month	Complete Construction Month
1	3–12	April, 2008	March, 2010
2	3–10	October, 2010	September, 2012
3	3–7	January, 2012	December, 2013
4	3–8	July, 2015	December, 2016
5	3–15	January, 2017	December, 2018
6	3–16	October, 2019	September, 2021

* Assumes that phases with buildings of eight stories or less are completed in 18 months and phases with taller buildings are completed in 24 months.

Source: Pacific Thomas Capital; Mundie & Associates

⁵ For purposes of the fiscal analysis, it is assumed that Site 1 would be developed first, Site 2 second, and so on. This assumption should not be interpreted as an indication of the project sponsor's intention with regard to the sequence of construction.

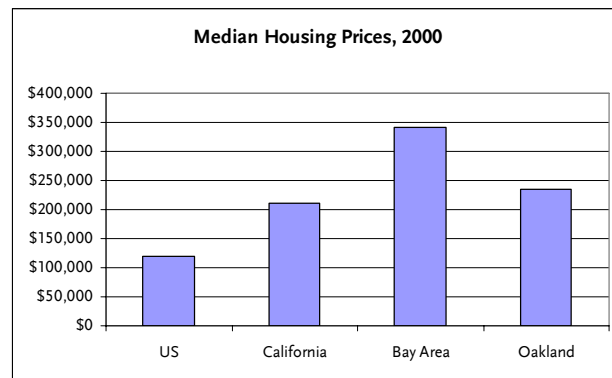
CHAPTER 4

POTENTIAL EFFECTS OF THE PROPOSED PROJECT ON RESIDENTIAL AND COMMERCIAL USES IN THE SURROUNDING AREA

BACKGROUND: HOUSING PRICES AND INCOMES

That the San Francisco Bay Area is a high-cost housing area is well-known: in 2000, the median cost of a home in the United States was \$119,600; in California, it was \$211,500; in the Bay Area, it was \$340,800.

Housing in Oakland is more reasonably priced than housing in some other Bay Area locations: in 2000, the median value was \$235,500, or about 60 percent of the Bay Area median. To afford a house priced at \$235,500 requires an annual income of more than \$41,000.⁶



The median price of owner-occupied housing units in 2000, in four census tracts that comprise the Fruitvale district, was \$112,000, or about 48 percent of the Oakland median.⁷ To purchase a house priced at \$112,000 requires an annual income of about \$19,500.

Based on these figures, it appears that, in 2000, Fruitvale provided housing opportunities for an income group (generally, households with incomes between \$19,500 and \$41,000 per year) for which housing opportunities elsewhere in the city were less available. Of the nearly 151,000 households in Oakland counted by the Census, about 25 percent (about 37,800 households) were in this income group. Of the nearly 5,600 households in Fruitvale, about 33 percent (an estimated 1,850 households) were in this income group; of the 1,190 households in Tract 4061, 34 percent were in this group.

⁶ Median home prices cited here are from the 2000 U.S. Census (median value of owner-occupied housing units). The income calculation assumes a 20 percent down payment and a 30-year mortgage with a fixed interest rate of 6.0 percent, and allows 33 percent of income to cover principal and interest payments (but not property taxes or insurance). The same assumptions about mortgage terms (down payment, number of years, interest rate, and percent of income devoted to the mortgage payment) are used in all "required income" calculations in this report. Note that a higher interest rate or a smaller down payment would increase the income requirement for a home at the specified price.

⁷ The Fruitvale census tracts included in the calculations presented in this report are Tract 4061, Tract 4062.1, Tract 4062.2, and Tract 4072. These tracts encompass an area bounded generally by East 22nd Street on the north, 23rd Avenue on the west, the Estuary on the south, and High Street on the east. (See Figure 2, p. 12.)

In fact, the 2000 Census reported that the median household income in Oakland was \$40,055, while the median in the Fruitvale district was about \$29,100. Fruitvale clearly provided homeownership opportunities for households that could not afford to live in other, more expensive parts of Oakland (or whose decisions not to live in those more expensive areas is not explained by economic constraints).

By 2005, the median home price in Oakland had risen to \$465,000.⁸ To afford a house in this price range requires an annual income of nearly \$81,000. In the Fruitvale census tracts, the median price of all homes had risen to \$439,000, requiring an annual income of almost \$77,000. New homes were more expensive than existing units: the median price of the 37 new units sold in 2005 (all condominiums) was \$602,000, while the median for resales (111 single family homes and condominiums) was \$420,000.⁹ Table 5 summarizes the incomes required to purchase homes in Oakland and Fruitvale at these prices.

Table 5
Housing Prices and Incomes Required for Housing Purchases
Oakland and Fruitvale, 2005

Location		Median Price	Income Requirement*
Oakland	All units	\$465,000	\$81,100
Fruitvale	All units	\$439,000	\$76,570
	New units	\$602,000	\$105,000
	Existing units	\$420,000	\$73,250

* Assumes a 20 percent down payment and a 30-year mortgage with a fixed interest rate of 6.0 percent, and allows 33 percent of income to cover principal and interest payments (but not property taxes or insurance). Note that a higher interest rate or a smaller down payment would increase the income requirement for a home at the specified price.

Sources: DataQuick, custom report; Mundie & Associates

According to these data, the income required to buy a home in Oakland increased from about \$41,000 in 2000 to \$81,100 in 2005, or about 97 percent. In Fruitvale, the required income increased from \$19,500 in 2000 to about \$76,600 in 2005, or about 290 percent.

⁸ This figure is not strictly comparable to the Census figures cited in the previous paragraph: the source is DataQuick, which reports the actual sales prices of “all types of home sales – new and existing, condos and single-family.” (Census figures are estimates of current value provided by owner-occupants.) DataQuick notes, “Movements in sales prices should not be interpreted as changes in the cost of a standard home. Median prices can be influenced by changes in cost, as well as changes in the characteristics and size of homes sold. Due to the low sales volume in some cities or areas, median price changes may exhibit unusual fluctuation.” Although the figures are not strictly comparable, the DataQuick median price for 2005 provides an indication of the current cost of homeownership in Oakland and the Fruitvale district.

⁹ Of the resale units, the condominiums carried higher prices, suggesting that they are among the newer units in the area. Eight condominiums carried an average price of nearly \$518,00, while 103 single family homes commanded an average price of \$393,400.

Information from the Bureau of the Census indicates that the median household income in Oakland increased from about \$40,100 in 2000 to \$44,100 in 2005 (the most recent year for which data are available).¹⁰ Income figures for 2004 for the Fruitvale area are not available, but the trend in housing prices suggests strongly that they have increased at least as much as incomes throughout Oakland – or, at least, that buyers of new homes have substantially higher incomes than long-time residents.

As housing prices increase, and the incomes required to purchase housing increase commensurately, fewer households that have historically looked to Fruitvale as a potential place to live are able to afford it. Clearly, the Gateway Community project – with prices expected to range from \$405,000 to \$700,000 in today’s dollars – will reflect current prices in the area. Homes offered at these prices, however, will need to attract households with incomes higher than those that are currently typical in Fruitvale.

Because the project would not replace any existing housing on the site, it will not directly displace current residents.

It is the potential indirect impact of the Gateway Community project on housing affordability in the Fruitvale area that is the focus of this chapter. Assuming that the project is successful, it will establish a new socioeconomic group in the area: 810 households that are more affluent than most of the current residents. Along with the existing projects in the area around Fruitvale – e.g., on Ford and Glascock, and in the Harbor Walk and Estuary projects closer to the water – will they make the Fruitvale district a new, desirable location in which similar households might purchase existing housing units?

To examine this issue, this chapter provides an overview of existing socioeconomic conditions in the Fruitvale area and changes in those conditions that occurred during the 1990s. This information is provided for three geographic areas: (1) Census Tract 4061, in which the project site is located; (2) the four census tracts that make up the greater Fruitvale neighborhood; and (3) the City of Oakland.¹¹ Data for 1990 and 2000 are provided to enable comparisons of the types of changes that occurred during the decade of the 1990s in Fruitvale as compared to the rest of Oakland.¹² Changes that have occurred since 2000 are described here where possible, but comparisons across geographic areas are seldom possible because the data are not similar for different areas. Changes in the characteristics reported in this section – including presence of children in the household, educational attainment, housing tenure, and household incomes – are sometimes cited in discussions of the degree to which neighborhood change has already begun to occur.

Following the description of existing conditions and recent changes, this chapter goes on to discuss the factors that would affect how great or small the project’s impact on housing affordability in the area would be, and then estimates the impact of the project in light of

¹⁰ U.S. Department of Commerce, Bureau of the Census, 2005 American Community Survey: Data Profile Highlights, Oakland, CA.

¹¹ The four census tracts are mapped in Figure 3, p. 20.

¹² Changes during the decade of the 1990s are described because Census data, collected decennially, are the most comprehensive consistent data set available.

these factors. Finally, it presents a discussion of the benefits and costs of a change in neighborhood character that could evolve if the proposed project is built.

CHARACTERISTICS OF THE FRUITVALE DISTRICT: EARLY INDICATIONS OF NEIGHBORHOOD CHANGE?

Before considering the potential impact of the proposed Gateway Community project on the Fruitvale area, it is important to observe whether change has already begun in the neighborhood. If it has, it is possible that not all of the future change would be a direct result of the proposed project; instead, it would be more likely that emerging changes attract the interest of property owners and other investors, who conclude that these changes enhance the attractiveness of new investment in the neighborhood.

The fact that the site – along with the rest of the Fruitvale district considered in this report – is located within the Coliseum Redevelopment Project Area suggests that some sort of neighborhood change has been sought. Evidence of that change would be evidence of some measure of success in the redevelopment effort.

How should neighborhood change be measured? Commonly-accepted indicators include new construction, increases in household incomes, and increases in housing values and rents.¹³

¹³ The City of Oakland has previously considered projects with the potential to continue or create change in neighborhood character. Such change has sometimes faced opposition. In 2004, for example, when the Central Station (later to become Wood Street) project was proposed for the West Oakland neighborhood, some observers objected to that proposal on the grounds that it had the potential to induce neighborhood change. To support their position, they identified a series of characteristics that they suggested indicate that gentrification of the neighborhood had begun to occur in advance of the proposed project. Those characteristics (as set forth in a memo from Jeremy Hays, Program Coordinator, Urban Strategies Council, to City of Oakland Planning Commissioners, City Council Members, and Planning Director re: West Oakland Vulnerability to Gentrification – The Conley Consulting Group Report, November 12, 2004) are declining percent of households with children, increasing percent of population with college and graduate degrees, increasing average household income, increasing value of owner-occupied housing, and increasing average value of mortgages originated and average income of borrowers.

In each case, the trend indicated would suggest that gentrification is occurring if it is more accentuated than the trend for the city as a whole; e.g., increase in the percent of population with college and graduate degrees greater than the increase in the city as a whole.

Four of these characteristics – average household income, value of owner-occupied housing, educational attainment, and presence of children – are included among the indicators referenced in the analysis that follows to assist in evaluating whether neighborhood change has begun to occur in the Fruitvale area. (Data describing the other two indicators – mortgages and the incomes of borrowers – were not available in a timely manner.)

Socioeconomic Characteristics

Population and Households

Population characteristics of the project census tract (Tract 4061), the four Fruitvale census tracts (Tracts 4061, 4062.1, 4062.2, and 4072), and the City of Oakland are presented in Table 6. The census tracts are mapped in Figure 3.

Table 6
Population and Households, 1990 and 2000

Tract 4061

	1990	2000	Change	
			Number	Percent
Population	3,407	4,301	894	26%
Households	937	1,193	256	27%
Average Household Size	3.6	3.6	0.0	

Fruitvale

	1990	2000	Change	
			Number	Percent
Population	18,949	22,319	3,370	18%
Households	5,132	5,595	463	9%
Average Household Size	3.7	4.0	0.3	

Oakland

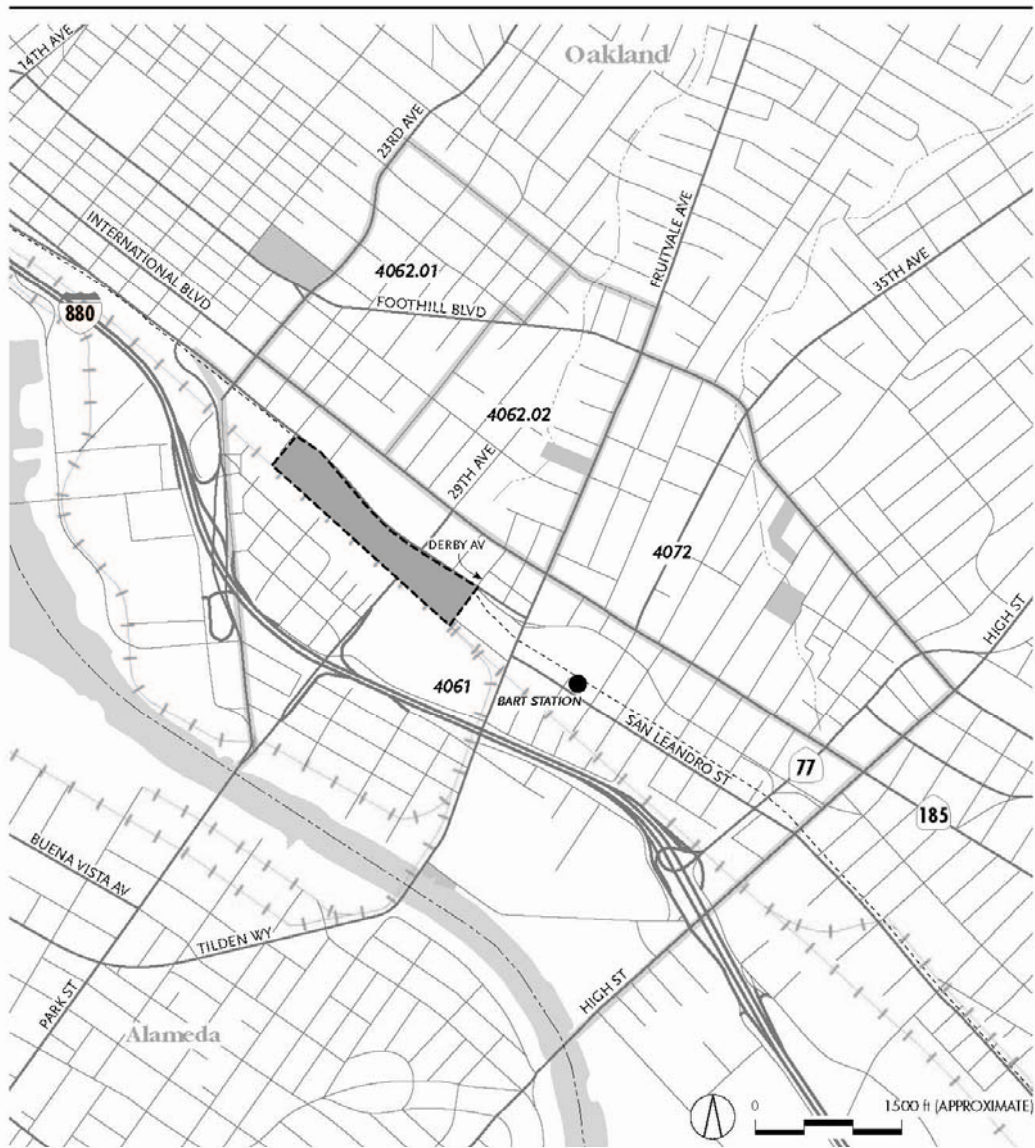
	1990	2000	Change	
			Number	Percent
Population	372,242	399,484	27,242	7%
Households	144,521	150,790	6,269	4%
Average Household Size	2.6	2.6	0.0	

Source: U.S. Department of Commerce, Bureau of the Census, online at www.census.gov.

The table reveals the following relationships:

- The population of Tract 4061 grew by a greater percentage than the Fruitvale area as a whole between 1990 and 2000, and Fruitvale grew by a greater percentage than the City of Oakland.

(Tract 4061 accounted for about three percent of Oakland's population growth during the 1990s; Fruitvale accounted for about 12 percent. Each area increased its share of Oakland's population by a slight percentage during the decade.)



Source: Mundie Associates, ESA Associates, Thomas Brothers Guide

7-11-07

Project site
 Census tract boundary

Figure 3
Census Tracts
 Gateway Community Development Plan

Between 1990 and 2000, the number of households in Tract 4061 increased by about the same percentage as the population. The number of households in Fruitvale increased at a slower rate than the population as the average household size increased. The number of households in Oakland also increased at a slower rate than the population, commensurate with a slight increase in the average household size.

Children

A decline in the percentage of households with children suggests that a neighborhood is becoming less affordable or less desirable to families with children. Reasons could include the increasing cost of housing, unsuitable design of new housing units (e.g., too small or too high density), or similarly-priced housing opportunities in neighborhoods that have with better schools or better neighborhood amenities (whether real or perceived).

Table 7 summarizes the change between 1990 and 2000 in the number of households with children in the three areas.

Table 7
Households with Children, 1990 and 2000

Tract 4061

	1990	2000	Change	
			Number	Percent
Households with Children	421	463	42	10%
% of households with children	45%	39%		

Fruitvale

	1990	2000	Change	
			Number	Percent
Households with Children	2,627	2,689	62	2%
% of households with children	51%	48%		

Oakland

	1990	2000	Change	
			Number	Percent
Households with Children	47,562	50,511	2,949	6%
% of households with children	33%	33%		

Source: U.S. Department of Commerce, Bureau of the Census, online at www.census.gov.

The table indicates that

- Households in Tract 4061 were more likely than households throughout Oakland to have children under the age of 18 in both 1990 and 2000, and households in Fruitvale were more likely to have children under the age of 18 than households in Tract 4061.
- While the percentage of households in Oakland with children under the age of 18 stayed about the same throughout the decade, the percentage in both Fruitvale and Tract 4061 declined.

Education

An increase in the percentage of residents with college and graduate degrees suggests that an area is becoming more attractive to a more educated population (assumed to have higher earning power).

Table 8 compares the levels of educational attainment by residents at least 25 years old in the three areas.

Table 8
Education, 1990 and 2000

Tract 4061

	1990	2000	Change	
			Number	Percent
Residents Aged 25+	223	271	48	22%
With College or Graduate Degrees	12%	11%	-1%	-8%
% with College or Graduate Degrees	12%	11%	-1%	-8%

Fruitvale

	1990	2000	Change	
			Number	Percent
Residents Aged 25+	9,836	12,028	2,192	22%
With College or Graduate Degrees	884	966	82	9%
% with College or Graduate Degrees	9%	8%	-1%	-11%

Oakland

	1990	2000	Change	
			Number	Percent
Residents Aged 25+	240,255	260,934	20,679	9%
With College or Graduate Degrees	65,800	80,777	14,977	23%
% with College or Graduate Degrees	27%	31%	4%	13%

Source: U.S. Department of Commerce, Bureau of the Census, online at www.census.gov.

This table indicates that:

- Fewer Fruitvale residents have earned college or graduate degrees than residents of the City of Oakland, but slightly more residents of Tract 4061 have earned degrees than residents of the larger Fruitvale area.
- Between 1990 and 2000, the proportion of Oakland residents who had earned college degrees increased (from 27 percent to 31 percent), while the proportion in Fruitvale and Tract 4061 decreased slightly.

Household Incomes

Rising household incomes in an area suggest that the area has become more attractive to a population with a wider array of choices in selecting a residential location than was available to the past population, and/or that housing prices have risen to an extent that the traditional resident population groups can no longer afford to live there. In other words, households with higher incomes may be moving in; area households with rising incomes may be staying (instead of moving out, to more expensive neighborhoods).

Median household incomes in Tract 4061, Fruitvale, and the City of Oakland are compared in Table 9.

Table 9
Median Household Income, 1990 and 2000

	1990	2000	% Change
Tract 4061	\$26,142	\$34,363	31%
Fruitvale	\$18,000	\$29,100	62%
City of Oakland	\$27,095	\$40,055	48%
<i>Tract 4061 as % of Oakland</i>	96%	86%	
<i>Fruitvale as % of Oakland</i>	66%	73%	

Source: U.S. Department of Commerce, Bureau of the Census, online at www.census.gov.
Median income for Fruitvale calculated by Mundie & Associates

The table indicates that:

- In 2000, the median household income in Tract 4061 was approximately \$34,400, equal to about 86 percent of the citywide median. The median income in Fruitvale was \$29,100, or about 73 percent of the citywide median.
- Between 1990 and 2000, the median household income in Tract 4061 declined relative to the citywide median. The median income in the Fruitvale area increased relative to the citywide median.

Summary of Changes in Socioeconomic Characteristics

The foregoing discussion, along with the information presented in Tables 6 through 9, indicate that the Fruitvale district underwent some changes during the 1990s:

- The population of the area grew, reflecting both construction of new housing (described below) and an increase in household size.
- The number of households with children grew in Census Tract 4061, probably a reflection of the construction of new low- and moderate-income housing in that location. The number of households with children in the larger Fruitvale area also increased. In both areas, however, the percentage of households with children declined.
- Educational achievement declined, in opposition to the trend of rising educational achievement in the City of Oakland as a whole.
- Median incomes increased: in the four Fruitvale census tracts, they increased by a greater percentage than the citywide median; in Census Tract 4061, they grew more slowly than the Citywide figure.

Together, these indicators suggest that the character of the Fruitvale neighborhood did not change consistently in one direction during the 1990s: the changes in households with children (increase in number, decrease in percent), educational achievement (decrease), and median household income (increase) offer inconsistent evidence about the character of change.

Housing Characteristics

Number of Housing Units

An increase in the number of housing units in an area generally indicates that the area has attracted new investment: it is perceived as a stable or improving neighborhood, with the potential to provide a safe place to live and/or a competitive return on investment. In some cases, new housing construction is a result not of private investment but of public or publicly-assisted projects, intended to provide low- and moderate-income housing for households who cannot afford the market price for new units.

According to the Census, Tract 4061 gained an 275 housing units during the 1990s. This growth increased the housing inventory in Tract 4061 by 28 percent. By way of comparison, Fruitvale gained 326 units (that is, the other three census tracts that comprise the Fruitvale district gained 51 units, or about six percent): in other words, Tract 4061 captured nearly 90 percent of the new construction in Fruitvale. During the same decade, the City of Oakland gained nearly 2,800 units, increasing the citywide housing stock by about two percent. Table 10 inventories the housing stock of Tract 4061, Fruitvale, and the City of Oakland in 1990 and 2000.

**Table 10
Housing Inventory: Units, 1990 and 2000**

	1990	2000	Change	% Change
Tract 4061	996	1,271	275	28%
Fruitvale	5,506	5,832	326	6%
Oakland	154,737	157,505	2,768	2%

Source: U.S. Department of Commerce, Bureau of the Census, online at www.census.gov.

Of the 275 housing units added in Tract 4061 and the Fruitvale district during the 1990s, 241 were publicly-assisted, subsidized units. About one-half of these units (121) are designed for families; 67 are reserved for seniors; and the target population for 53 is unknown.

Size of Unit: Number of Bedrooms

Existing housing units in the Fruitvale area range in size from studios (no bedrooms) to five or more bedrooms. The median number of bedrooms in the area, however, is one, compared to two throughout the City of Oakland. Table 11 compares the sizes of units (expressed in terms of bedrooms) in Tract 4061, the Fruitvale area, and the City of Oakland.

**Table 11
Housing Size: Number of Bedrooms, 2000**

	Tract 4061	Fruitvale	City of Oakland
Total units	1,271	2,916	157,505
Number of Bedrooms			
0	214	1,453	19,251
1	454	3,205	42,461
2	323	4,673	48,575
3	184	5,435	33,171
4	51	5,680	10,852
5+	45	5,832	3,195
Median	1	1	2
Percent with 2+ bedrooms	47%	45%	61%
Percent with 3+ bedrooms	22%	20%	30%

Source: U.S. Department of Commerce, Bureau of the Census, online at www.census.gov.

Housing Tenure

Table 12 compares housing tenure – that is, owner occupancy vs. renter occupancy – in Tract 4061, the Fruitvale area, and the City of Oakland.

Table 12
Housing Tenure: Owners and Renters, 1990 and 2000

Tract 4061

	1990	2000
% Owner Occupied	25%	25%
% Renter Occupied	67%	69%
% Vacant	8%	5%

Fruitvale

	1990	2000
% Owner Occupied	22%	24%
% Renter Occupied	70%	72%
% Vacant	7%	4%

Oakland

	1990	2000
% Owner Occupied	39%	40%
% Renter Occupied	55%	56%
% Vacant	7%	4%

Source: U.S. Department of Commerce, Bureau of the Census, online at www.census.gov.

The table indicates:

- The proportion of renter-occupied housing units in all three areas – Tract 4061, Fruitvale, and Oakland – increased slightly during the decade of the 1990s.
- The proportion of units that were owner-occupied was virtually the same in Tract 4061 and the greater Fruitvale area. Oakland had a greater proportion of homeowners: about 60 percent higher than the proportion in Tract 4061 and the Fruitvale area.
- The percentage of units occupied (both owner-occupied and renter-occupied) increased in Fruitvale and the City of Oakland between 1990 and 2000, yielding a decrease in the overall vacancy rate. In Tract 4061, the entire decrease in vacancy was accounted for by an increase in the percentage of renter-occupied units.

Table 13 summarizes information about when households moved into the units they occupied at the time of the Census.

The table shows that:

- In all three areas, smaller proportions of households moved into their units during the year preceding the 2000 Census than in the year preceding the 1990 Census. In Tract 4061 and Fruitvale, the declines were more dramatic than in the City of Oakland as a whole.

Although the proportion of households in Tract 4061 and Fruitvale that moved into their units in the year preceding the 1990 Census was substantially (about 30 percent)

higher than the proportion in the City of Oakland, the proportions were comparable for the year preceding the 2000 Census. In other words, there was less housing turnover in the Fruitvale area in 1999 than in 1989.

- About two-thirds as many households in Fruitvale (including Tract 4061) as in the City of Oakland had lived in their units for more than 10 years prior to the Census date.
- More Fruitvale households moved into their current units during the period between one and five years before the 2000 Census than was the case throughout the City of Oakland.

Table 13
Housing Tenure: Year Moved Into Unit, 1990 and 2000

Tract 4061

	1990	2000
Year before Census	31%	20%
1-5 years before Census	28%	46%
6-10 years before Census	16%	14%
More than 10 years before Census	25%	20%

Fruitvale

	1990	2000
Year before Census	32%	17%
1-5 years before Census	31%	43%
6-10 years before Census	13%	15%
More than 10 years before Census	24%	24%

Oakland

	1990	2000
Year before Census	24%	20%
1-5 years before Census	29%	34%
6-10 years before Census	13%	16%
More than 10 years before Census	33%	31%

Source: U.S. Department of Commerce, Bureau of the Census, online at www.census.gov.

Value of Owner-occupied Homes

As indicated in the introduction to this chapter, the value of housing throughout Oakland increased during the 1990s. Rising housing values may indicate that an area is attracting new housing construction, which is likely to be more expensive than existing housing, and/or that it is attracting a more affluent set of residents that it previously did. More affluent residents may come to an area because other areas have become too expensive, or because the area itself is perceived more favorably than it was in the past.

Table 14 reports values of owner-occupied units in Tract 4061, Fruitvale, and the City of Oakland in 1990 and 2000.

The table shows:

- The reported median value of owner-occupied units increased by 77 percent in Tract 4061, more than twice the percentage increase reported citywide. This increase is likely related in part to the large increase in the number of units added in this tract during the 1990s (see Table 10), although most of those new units were in projects that had at least some subsidized units.
- The median value in Fruitvale increased by only 10 percent.
- The median value throughout Oakland increased by 33 percent.

Table 14
Median Value of Owner-Occupied Homes, 1990 and 2000

	1990	2000	% Change
Tract 4061	\$74,100	\$130,800	77%
Fruitvale	101,750	112,000	10%
City of Oakland	177,400	235,500	33%
<i>Tract 4061 as % of Oakland</i>	42%	56%	
<i>Fruitvale as % of Oakland</i>	57%	48%	

Source: U.S. Department of Commerce, Bureau of the Census, online at www.census.gov.

Rents

Like housing values, rising rents may indicate that an area is attracting more affluent residents. The reasons are likely to be the same: either a supply of new, more expensive housing has been added to the market, or other areas have become too expensive for this income group, or the area is perceived more favorably than it was in the past.

Table 15 compares the median gross rent in Tract 4061, Fruitvale, and the City of Oakland in 1990 and 2000.

Table 15
Median Gross Monthly Rent, 1990 and 2000

	1990	2000	% Change
Tract 4061	\$497	\$690	39%
Fruitvale	473	576	22%
City of Oakland	538	696	29%
<i>Tract 4061 as % of Oakland</i>	92%	99%	
<i>Fruitvale as % of Oakland</i>	88%	83%	

Source: U.S. Department of Commerce, Bureau of the Census, online at www.census.gov.

The table shows that:

- The median gross rent in Tract 4061 increased more rapidly than the citywide median during the 1990s, and by 2000 was approximately the same as the citywide figure. This relative increase occurred despite the fact that a substantial number of new rental units – 241, equal to more than one-third of the rental housing units that existed in 1990 – were subsidized to make them affordable to low- and moderate-income households.
- The median gross rent in the Fruitvale district increased less rapidly than the citywide median during the 1990s, and was lower relative to the citywide figure in 2000 than it was in 1990.

Note, however, that the maximum rent allowed for a one-bedroom unit for low-income households (those with incomes equal to no more than 60 percent of the median) in 2002 was \$760, and the maximum rent allowed for a two-bedroom unit was \$912. Both of these maximums are more than the median in Tract 4061, the Fruitvale district, or the City of Oakland, which suggests that rental housing was relatively affordable in all three areas throughout the decade.

Affordability

Perhaps the most immediately recognizable indicator of neighborhood change is the percentage of households who can afford the median-priced home. This analysis considers the percentage of Oakland households and the percentage of Fruitvale households who could afford the median-priced home in Fruitvale.

Table 16 indicates that the percentage of all Oakland households who could afford the median-priced home in the Fruitvale area declined between 1990 and 2000. Since 2000, it has declined even further: with a 2005 median sale price of \$439,000 for all units (new and existing), only 23 percent of Oakland households had the income required to qualify for purchase. For comparison, an estimated 22 percent of Oakland households had the income required to qualify for purchase of the median-priced house in Oakland in 2005 (compared to 52 percent who could qualify in 2000).¹⁴

¹⁴ In 2005, the median-priced home, priced at \$465,000, required an annual income of \$81,000 (see Table 5); in 2000, the median-priced home cost \$235,500, and required an annual income of \$41,075.

Table 16
Percent of Oakland Households with Incomes Required to
Purchase the Median-Priced Home in Fruitvale

	1990	2000	2005		
			All	Existing	New
Median house price in Fruitvale	\$101,750	\$112,000	\$439,000	\$420,000	\$602,000
Income Required	\$17,750	\$19,530	\$76,570	\$73,250	\$105,000
<i>Percent of households with required income</i>					
<i>Living in Oakland</i>	66%	75%	23%	25%	14%
<i>Living in Fruitvale</i>	54%	71%	13%	14%	11%

Note: Estimates for 2005 use 2005 housing prices but 2000 incomes; as a result, the percentages shown may be low.

Source: Mundie & Associates, based on Table 5 and U.S. Department of Commerce, Bureau of the Census, online at www.census.gov.

For Fruitvale households, the affordability numbers in 2005 are lower. Only 13 percent of households living in the area could afford the median-priced house in 2005, compared to 71 percent in 2000.

Information about the full range of housing prices/values in Fruitvale today (comparable to the information provided by the decennial US Census) is not available. The information that is available about today's median prices, however, suggests that the district has more higher-priced units now than it had in the past, and is gradually becoming less affordable to Oakland's households.

New Construction

As noted above (Table 10, p. 24), Tract 4061 gained 275 housing units between 1990 and 2000, increasing the inventory of the area by 28 percent. The remainder of the Fruitvale area (defined in this study as encompassing four census tracts; see Figure 3, p. 20) gained an additional 51 units. Tract 4061 thus accounted for 85 percent of new housing construction in Fruitvale between 1990 and 2000. (As indicated on p. 31, 241 of the 275 new housing units in Tract 4061 – 87 percent – were publicly-assisted rental units.)

More recent construction and pre-construction activity in the Fruitvale area is summarized in Table 17. The table includes major projects (defined by the City as projects with more than 50 housing units or 50,000 square feet of nonresidential building space) that were included on the City's active project lists for February-March, 2006 and March-April, 2007. It may, therefore, omit projects that are smaller than the "major projects" threshold or that were completed too early to be included in this inventory.

**Table 17
Major Development Projects in the Fruitvale Area**

Project Name	Location	Housing Units	Commercial Space (SF)	Office Space (SF)
<i>Completed Projects</i>				
Cotton Mill Studios	1091 Calcot Place	74		
Glascock Residential Project ("The Estuary")	2893 Glascock at Derby	100		
Fruitvale Transit Village PUD	Fruitvale BART Station	47	38,000	114,500
61 Ford Street Lofts	3041/3061/3065 Ford St.	81		
<i>Subtotal</i>		302	38,000	
<i>Projects in Pre-Application or Application Process</i>				
Wattling Street	3927 Wattling Street	80		
4021 International Blvd	4021 International Blvd.	60	20,000	
Gateway Community ^a	East 12th St. between 26th Ave. and Derby Ave.	810	30,000	
<i>Subtotal</i>		950	50,000	
Total		1,252	88,000	114,500

^a Gateway Community is the subject of this report.

Source: City of Oakland - Active Major Development Projects, February-March, 2006 and March-April, 2007

All of the projects listed in Table 17 are located in Tract 4061: this subarea will, over the next few years at least, continue to be the principal location for the new housing in Fruitvale. Together, all of the projects – including those that have already been completed, those currently under construction, and those that are still in the application or pre-application process – would more than double the number of units in this tract as enumerated in the 2000 U.S. Census.

Assisted Housing Units

The City of Oakland inventories 217 assisted rental housing units in the Fruitvale area. These units are listed in Table 18. All but 19 of the units listed are in Tract 4061.

According to "Publicly Assisted Rental Units in the City of Oakland," available from the Community Economic Development Agency, Oakland has a total of 7,412 assisted housing units. Table 19 compares the percentage of all Oakland housing units that are located in Tract 4061 to the percentage of assisted rental units that are located in the tract, and finds that Tract 4061 has less than one percent of all housing units in the city, about one percent of all renter-occupied housing units, and between three and four percent of assisted rental units. The larger (four-tract) Fruitvale area has about the same proportion of assisted rental units as it does all housing units (between three and four percent).

Table 18
Assisted Rental Housing Projects in the Fruitvale Area

Property Name Address	Total Units	Total Subsidized Units	Population Served
Casa Velasco 3430 Foothill Blvd.	20	19	Seniors
Fruitvale Transit Village 3301 and 3411 E 12th St	47	10	Families
Hismen Hin-nu Terrace 2555 International Blvd	92	92	Families
Las Bougainvilleas 1231-7 37th Ave	67	67	Seniors
Nueva Vista 3700 International Blvd	30	29	Families
Total	256	217	

Source: Publicly Assisted Rental Units in the City of Oakland

Table 19
Shares of Citywide Housing Units, Rental Units, and Assisted Rental Units*

	Tract 4061	Fruitvale
Percent of all Oakland housing units	0.8%	3.7%
Percent of all Oakland renter-occupied housing units	1.0%	4.8%
Percent of all Oakland assisted rental housing units	2.7%	2.7%

* Based on 251 assisted rental units in the Fruitvale area, all of which are in Tract 4061, and 7,412 assisted units in the City of Oakland.

Source: Tables 10, 12, and 18.

Rent Controlled Units

In Oakland, rental units that were in existence at the end of 1982 (and any units that replaced units that were in existence at the end of 1982) are subject to rent control, unless they are in a building of three or fewer units in which one of the units is occupied by the owner of the structure. Published data from the Census do not provide sufficient information to calculate how many of the rental units in Tract 4061 or the Fruitvale district satisfy these criteria (and are therefore subject to rent control). Even if the data were available, the price protection provided by rent-controlled status would be open to question, because the Oakland ordinance allows for the re-establishment of rents at the market price when a unit is vacated.

Summary of Changes in Housing Characteristics

The foregoing discussion, along with the information presented in Tables 10 through 19, indicate that the Fruitvale district underwent some changes during the 1990s. Most important for the consideration of neighborhood change are:

- The median price of owner-occupied housing units in Census Tract 4061 increased by a greater amount than the citywide value during the 1990s. The median price in the greater Fruitvale area also increased during the 1990s, but not as rapidly as the citywide increase. In both areas (Census Tract 4061 and the larger Fruitvale district), the median price in 2000 remained substantially below the citywide median.
- The median rent increased in Census Tract 4061 by a greater amount than the citywide rent, and was approximately the same as the citywide median rent by 2000. The median rent in the greater Fruitvale area increased, but at a slower rate than the citywide increase.
- Between 1990 and 2005, the proportion of Oakland households who could afford to buy a house in Fruitvale declined from 66 percent to 23 percent.
- New residential construction in the Fruitvale area is concentrated in Census Tract 4061, which includes the BART station area and extends south to the estuary.

Together, these indicators suggest that Fruitvale was subject to some degree of neighborhood change during the 1990s.

Conclusions about Recent Trends and Existing Conditions

The information presented here about the existing socioeconomic and housing characteristics of the project area (Tract 4061 and vicinity) provide a mixed picture of trends in the area during the 1990s. At the bottom line, however, three findings stand out:

- The percentage of Oakland households who could afford a median-priced home in the Fruitvale area declined significantly between 1990 and 2005. By 2005, affordability in Fruitvale was comparable to affordability throughout the City of Oakland; that is, the percentage of the city's households who could afford to purchase a median-priced unit in Fruitvale was the same as the percentage who could afford to purchase a median-priced unit throughout the city.
- Like the median price of ownership housing, the median rents in Tract 4016 rose more rapidly than the citywide median during the 1990s, until in 2000 it was approximately the same as the citywide median.
- Tract 4061 had about one percent of all housing units and all renter-occupied in 2000, but had between three and four percent of assisted rental units.

These characteristics appear to indicate that changes occurred in the Fruitvale area during the 1990s and into the current decade, as housing prices and rents increased relative to prices and rents throughout Oakland. The fact that median incomes in Tract 4061 did not increase relative to the rest of the city, however, suggests that existing residents in the immediate vicinity of the Gateway Community project were not being pushed out; rather, it is possible that the income distribution was becoming broader, with more higher-income

(above-median-income) households offsetting the low- and moderate-income households that have historically lived in this area. (It is also possible that lower interest rates that prevailed through much of that time period, in combination with creative mortgage formats,¹⁵ made it possible for some households – with lower incomes than would otherwise have been required – to purchase homes at the evolving higher prices.) The divergent trends shown by the information reflect the diversity of the Fruitvale district, and particularly of Tract 4061, which is characterized by a wide variety of land uses, housing types, and income groups.

In this context, what is the potential for the proposed Gateway Community project to contribute to further change in the Fruitvale neighborhood? How would it affect housing prices and the affordability of housing to income groups that currently live in the area? And how would it affect the businesses that serve the households that currently make up the Fruitvale community?

The answers to these questions depend on a variety of factors, which are discussed in the next section of this chapter.

POTENTIAL EFFECTS OF THE GATEWAY COMMUNITY

Factors that Would Affect the Occurrence and Magnitude of Impacts

The 810 residential units to be included in the Gateway Community project are expected to be priced at \$400,000 to \$700,000. These prices are similar to those reported during the past several years for new condominiums in the same census tract (but closer to, and some with views of, the water).

These units will be affordable to households with incomes of at least \$70,000. In 2000, approximately 17 percent of Oakland households had incomes in this range, compared to 7 percent of the residents of Tract 4061 and 8 percent of residents in the four Fruitvale census tracts. As is suggested elsewhere in this report, then, the residents of the Gateway Community will add a new demographic cluster – or increase the size of a nascent existing cluster – to the Fruitvale area, moving that cluster farther from the estuary and closer to International Boulevard.

Further, the proposed Gateway Community will be different from virtually all of the development that exists today in the area that surrounds the project site: although the uses it contains (commercial and residential) will be similar to those in the Fruitvale Village complex, its buildings will be much taller, ranging in height from 3 stories to 16. Residential uses will occupy the vast majority of the building space. The ground floor will accommodate only a modest amount of commercial space, intended to satisfy the immediate needs of the building's residents.

¹⁵ Creative mortgage formats include, for example, interest-only loans, balloon loans, and “two-step loans.”

A key question for the City of Oakland is whether a project of the character proposed will have an impact on the surrounding area: whether it will introduce a new socioeconomic cluster into Fruitvale – or increase the size of an emerging cluster – that will affect nearby residential and commercial development.

The potential for the project to influence change in the surrounding area is affected critically by several factors, discussed below.

Visibility

A highly visible project can become a landmark in its area, and create a new image for that area by the sheer fact of its landmark function.

The Gateway Community project will include buildings that are taller than any of the buildings currently located in the immediate area. Views of these buildings will, however, be obstructed by surrounding development: the taller building elements will be set back from the roadway (East 12th Street), and unobstructed views of the site are likely to be generally unavailable from nearby locations. The best views will probably be from the passing BART trains and possibly from the BART platform at the Fruitvale station, about three blocks east of the project. Views will also be available from the yard of the Cesar Chavez Education Center and nearby streets, but they will be obstructed by the BART tracks.

As a result, even if the 15-and 16-story buildings scheduled for construction in 2017 and 2019 are built as proposed and are, upon completion by 2021, still the tallest buildings in the area, the location they establish visually from a distance (including from the elevated BART tracks along East 12th Street) may not be apparent from the ground in the immediate area.

Access To and From the Site

The project site is located within easy walking distance of the Fruitvale BART station. The location may be attractive to households in which one or more people can commute via BART (people with places of work in downtown Oakland, San Francisco, Walnut Creek, or elsewhere along the BART network). Housing in the price range offered by the Gateway Community will be relatively affordable compared to housing in other locations with similar commute times/distances to these work destinations.

In a more local context, the project site is bordered by East 12th Street, with elevated BART tracks, on its long northern side and the Union Pacific Railroad tracks on its long southern side. No access will be available from the south (across the UPRR railroad tracks).

Across East 12th Street from most of the site (west of 29th Avenue) is the Cesar Chavez Education Center, a complex that provides an attractive neighboring land use, but that does not provide a pedestrian connection from East 12th Street to the commercial uses on International Boulevard. East of 29th Avenue, the Goodwill store occupies most of the block on the north side of East 12th Street.

The result of this land use pattern is that residents of the Gateway Community will have few pedestrian routes to International Boulevard: they will have to walk as much as 800 feet (about 0.15 mile) along East 12th Street to reach 29th Avenue, and then another 500 feet

(0.1 mile) to International Boulevard to reach the neighborhood commercial uses that are not within the project itself. (A shorter route to International Boulevard for residents of the western development sites would be available via 26th Avenue, at the western edge of the project; a shorter route for residents of the eastern sites would be via Derby Avenue, at the eastern edge.) Project residents' propensity to walk to the International Boulevard commercial district would be affected by their perceptions of safety in the intervening blocks, the attractiveness of the walk itself as well as the destinations along International Boulevard, and the availability of parking closer to the commercial uses (if parking supplies are ample, then they create an incentive to drive rather than walk).

Context: Neighborhood Susceptibility to Change

The likelihood that an area will change in response to a new source of demand – for additional housing or different commercial uses, for example – depends on the nature of existing development and the types of new development that are permitted. From an economic perspective, the new development must be able to afford to acquire a site – which may be occupied by existing buildings, which in turn may be occupied by viable businesses that serve the existing population – and then adapt the existing use to its needs or replace it with a new structure. If the existing businesses are viable, then it is difficult for new development to replace them unless the scale of new development is significantly greater than the existing use.¹⁶ Sites that are currently in use may simply be too expensive to be redeveloped, especially if the new development would require the provision of offstreet parking where none is currently available.

On sites near the Gateway Community project, then, the potential for new development or redevelopment depends critically on the intensity and viability of existing uses, and on the regulations that would govern new development.

The area surrounding the project site is characterized by a diversity of land uses: residential development is located on the north-south avenues between East 12th Street and International Boulevard; a mix of commercial and residential uses (and some institutional establishments, such as the Cesar Chavez Education Center) lines International Boulevard. The south side of East 12th Street east and west of the project site has single- or two-story industrial buildings, while the north side has the rear yards of the Cesar Chavez Educational Center, the Goodwill store, and, closer to the BART station and Fruitvale Village, some smaller-scale residential uses.

The existing businesses include a mix of “national” tenants, such as Washington Mutual, and local businesses including retail stores and restaurants. There are also some medical offices, churches, and social service agencies. Commercial uses do not generally have offstreet parking. There are few commercial vacancies in the immediate area.

Even if sites are not redeveloped, however, is there a potential for existing commercial tenants to be replaced by new ones, more responsive to the demands of the new population group? That possibility will be affected by the willingness of the new residents to frequent

¹⁶ In this case, the proposed project is of significantly greater scale and value than the existing onsite uses.

local commercial outlets, which in turn will be affected by their willingness to walk (or drive) to International Boulevard and the other nearby retail destinations. That willingness will be determined by the attractiveness of both the destination and the journey to the destination (especially for pedestrians), and ultimately by their ability to find a sufficient number and variety of outlets that meet their needs clustered at the destination point.

What Could Happen? Expected Impacts

Additional Housing in the District for More Affluent Households

The types of changes that have so far occurred close to the estuary would be extended north and west, toward International Boulevard, by the households that move into the Gateway Community. The previous developments (Harbor Walk, The Estuary, and the Ford Street Lofts, for example) are located between I-880 and the Oakland estuary, apparently relying at least in part on the water amenity to attract households who can afford prices as high as \$700,000 and \$800,000. This project would be, in effect, enabled by the earlier developments: it would introduce a similar (perhaps not quite as affluent) socioeconomic group into the neighborhood immediately surrounding the Fruitvale BART station. The housing in the Gateway Community could also provide Fruitvale district opportunities for Fruitvale households who would otherwise moved out of the area to more expensive locations.

Part of the price difference between existing housing in the Fruitvale area and housing in the proposed project may be attributable not only to the age and type of construction (units in the project will be new, and of a more expensive construction type) but also because the units in the project will be larger – in terms of number of bedrooms – than the existing housing stock. Table 11 indicates that the median number of bedrooms in Fruitvale housing units is one, and that fewer than 50 percent of the units have two or more bedrooms. The proposed project would have a median unit size of two bedrooms, and 57 percent of the units would have two or more bedrooms. This comparison is summarized in Table 20.

Table 20
Unit Sizes (Number of Bedrooms) in Fruitvale and the Proposed Project

	Tract 4061	Fruitvale	Proposed Project
Total units	1,271	2,916	810
Number of Bedrooms			
0	214	1,453	0
1	454	3,205	372
2	323	4,673	305
3	184	5,435	133
4	51	5,680	0
5+	45	5,832	0
Median	1	1	2
% with 2+ bedrooms	47%	45%	54%
% with 3+ bedrooms	22%	20%	16%

Potential Spillover Effects on the Housing Market

If housing prices throughout Oakland and the inner Bay Area remain at their current levels or continue to rise *and* the project is perceived to be an integral part of the Fruitvale district rather than – as a result of its location between the BART tracks and the UPRR tracks – a separate complex that happens to be located there, then the Gateway Community could induce additional households to move into existing residential units in the area.

In this case, it is likely some lower- and moderate-income households would be prompted to move out of the area: some owners would find it attractive to sell their homes for newly-achievable prices. Rising real estate values may be seen by landlords as presenting an opportunity to increase rent rolls by means of various strategies. If that should happen, then the units that may previously have been affordable to low- and moderate-income households are likely to become less available as households with higher incomes move into the area.

The number of housing units that could shift from occupancy by lower- and moderate-income households to occupancy by more affluent households cannot be estimated: too many factors (housing tenure, workplace location, ties to the community, affordable alternative locations) enter into each household's decision. Unlike commercial uses, however (discussed below), residential uses do not typically require the assembly of multiple small parcels for change to occur. New households may occupy older units just as they are; they may renovate, rehabilitate, or redevelop those units on their existing sites, with no additional lot area; they may also (depending on zoning) be able to replace a single unit with multiple units on an existing lot.

Beyond the relocation of some existing households, if the Gateway Community has a spillover effect that prompts a more general increase in housing prices in Fruitvale (e.g., because more affluent households purchase or rent existing units as the neighborhood becomes more suitable to their preferences), the change that occurs in the neighborhood could have the effect that housing advocates call “exclusionary displacement”: that is, lower- and moderate-income households that previously counted Fruitvale among the districts where they might be able to find (non-assisted) residential units within their price range will no longer be able to afford this area, and will be forced to look for housing elsewhere, at greater distances from their jobs and their communities. This effect is already evident in the housing price trend discussed earlier in this chapter, which indicates that, by 2000, the median home price and rent in Fruitvale were similar to the medians for the City of Oakland. With the introduction of additional new housing, this trend of increasing home prices and rents is likely to continue.

Potential Effects on the Market for Commercial Space

If project residents find that International Boulevard, Fruitvale Village, and other nearby commercial destinations are attractive, they could also bring enough purchasing power to the area to prompt a shift in the types of commercial tenants that occupy those areas.

The Gateway Community project would include about 26,000 square feet of commercial space, intended to serve the needs of the residents.

Using consumer expenditure information published by the Bureau of Labor Statistics, the 810 resident households could be expected to spend about \$14 million per year on purchases typically made in retail stores and another \$3.5 million per year in restaurants. This estimate of expenditures is summarized in Table 21.

The Draft Environmental Impact Report for the Gateway Community project assumes a housing vacancy rate of four percent. For completeness, Table 21 also includes an estimate of expenditures assuming this four percent vacancy rate.

Typical retail space in a shopping center captures purchases averaging about \$270 per year. This sales volume may be assumed to be required by space in the Gateway Community project as well: although this space will not have some of the expenses of a shopping center (such as extensive common area maintenance and promotional programming charges), it will have to achieve sufficient sales volume to cover rents that will be set high enough to cover the cost of new construction in a multi-story, mixed-use building.

**Table 21
Projected Retail Expenditures by Gateway Community Households**

	Spending Per Household Per Year*	Total	
		Assuming No Vacancy	Assuming 4% Vacancy
Food at home	\$4,734	\$3,834,500	\$3,681,120
Alcoholic beverages	824	667,400	640,704
Housekeeping Supplies	948	767,900	737,184
Household furnishings/equipment	3,306	2,677,900	2,570,784
Apparel	3,349	2,712,700	2,604,192
Entertainment (home equipment, toys, etc.)	1,917	1,552,800	1,490,688
Personal care products/services	985	797,900	765,984
Reading	985	797,900	765,984
Tobacco products/smoking supplies	285	230,900	221,664
Total	\$17,333	\$14,039,900	\$13,478,304
Food away from home	\$4,308	\$3,489,500	\$3,349,920
Total	\$21,926	\$17,760,300	\$17,049,888

* Data for households with incomes of \$70,000 and more.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Income Before Taxes: Average Annual Expenditures and Characteristics, Consumer Expenditure Survey, 2004

If commercial space in the Gateway Community structures is to capture average sales of \$270 per square foot, then it would absorb about \$7.0 million of spending by the project residents (assuming that the tenancies match the demands of the residents), or about 40 percent of project residents' spending. To achieve this sales volume would require the proper mix of tenancies.

If the project's commercial space were indeed to maximize its capture of spending by project residents, by providing precisely the optimal mix of tenants to attract \$7.0 million in retail spending, then \$9.8 million (with four percent vacancy) to \$10.5 million (no vacancy) would be left to be spent by project residents on retail goods and food away from home elsewhere in the Fruitvale district, the City of Oakland, and the remainder of the Bay Area.

Where might this additional spending be captured, and how much space would it support?

- If all of the additional purchases were captured on International Boulevard, it is estimated that they would support between 65,000 and 70,000 square feet of retail and restaurant space. This estimate is based on the assumption that businesses on International Boulevard capture sales of about \$150 per square foot per year (lower than the estimate of \$270 per square foot used above, for new retail space). This amount of space is equivalent in size to a large supermarket, or about one-half the size of a large general merchandise store. It is a little more than one and a half times as large as the 40,000 square feet of retail space included in the Fruitvale Village project.

For a variety of reasons, some of which are described earlier in this chapter – the attractiveness (and perceived safety) of the walk to International Boulevard stores, the convenience of parking there for those who drive, and the responsiveness of the goods and services offered there to the new households' consumer preferences – International Boulevard may not capture all of these purchases. Therefore, the amount of space supported there is likely to be less than the 65,000 to 70,000 square feet estimated here.

- Fruitvale Station, located south of the project near I-880, is likely to capture some of the “spillover” purchases. Tenants at Fruitvale Station currently include Albertson, Sav-On, Office Depot, and other chain retailers. These stores are likely to achieve the average shopping center sales level of \$270 per square foot. At that level, the “spillover” purchases would support between about 35,000 and 40,000 square feet of space (at four percent vacancy and full occupancy, respectively), which is less than the amount in the Fruitvale Village project.
- Fruitvale Village is also likely to capture some purchases made by Gateway Community households if appropriate tenants could be attracted. To do so, it would have to attract more tenants (to date, it has typically had some commercial vacancies). Because the proposed Gateway Community project is expected to be especially attractive to households with at least one worker who commutes on BART, it is reasonable to expect Fruitvale Village to respond to new demand by seeking tenants responsive to this new, more affluent consumer group.
- It is unlikely that 100 percent of residents' spending that is not captured within the project will be captured in the Fruitvale district: some items, such as home furnishings and some apparel, for example, are likely to be purchased in downtown Oakland, other shopping areas in the East Bay, or San Francisco.

Spending by Gateway Community households that is captured within the Fruitvale district could either support existing businesses or attract new ones. Especially if additional new market-rate residential projects are built in the area, increasing the number of more affluent

households within the Fruitvale market area, it is possible that perceptions of consumer preferences will shift and new businesses will replace the existing outlets.¹⁷

To some degree, changes in the array of retail stores will be inhibited by physical conditions in the area: the existing stores are relatively small and offer no off-street parking. A new outlet interested in the area would have to be willing to fit into an urban environment, and probably into an existing structure that may not accommodate the store's current standard format. Proximity to a higher-density cluster of more affluent households will be an attraction, but the distance from those households – as much as one-quarter mile from some Gateway Community residents – may be too great to satisfy chain stores' location criteria.

Perspectives on the Desirability of Revitalization/Gentrification¹⁸

The discussion of existing conditions and recent trends presented earlier in this chapter suggests that some degree of neighborhood change occurred in the Fruitvale district during the 1990s, continuing into this decade as (median) housing prices and rents in the area “caught up” with (median) housing prices and rents throughout the City of Oakland.

It further suggests that the Gateway Community project will continue the trend that has recently been evidenced by other residential projects, such as Harbor Walk and The Estuary, extending the cluster of more affluent households that have begun to move into the Fruitvale area and bringing that cluster northward, closer to the BART station and the commercial activity of International Boulevard.

Finally, the foregoing discussion suggests that demand for retail goods and services, including restaurant meals, from the Gateway Community residents is likely to support the commercial space planned for the project (assuming that the appropriate tenants can be attracted to the space) as well as some additional space beyond the project, and that the additional support could be captured on International Boulevard, in the Fruitvale Station Shopping Center on East 9th Street, in other Oakland locations, or beyond Oakland elsewhere in the Bay Area. To the extent that the spillover demand is attracted to International Boulevard, it could exert pressure for a shift in commercial tenancies, but the most likely candidates for new tenancies are businesses that can work within existing physical structures, which are generally small buildings with no off-street parking.

¹⁷ At the same time, the fact that no existing housing units would be removed – and, therefore, no households would be directly displaced – by the project means that the project would cause no direct reduction in market support for existing businesses.

¹⁸ Revitalization is defined by the City of Oakland as the “transform[ation of] older neighborhood commercial areas into viable and vital shopping districts” (from a description of the City's Neighborhood Commercial Revitalization Program at <http://www.oaklandnet.com/business/smallbus/ncrp.html>). Gentrification is defined as “the arrival of wealthier people in an existing urban district, a related increase in rents and property values, and changes in the district's character and culture” (from Benjamin Grant at http://www.pbs.org/pov/pov2003/flagwars/special_gentrification.html, a web page about “Flag Wars,” a PBS broadcast about change in the Old Towne East community of Columbus, OH that premiered on June 17, 2003). A similar definition of gentrification, from the West Oakland Data Book, is “the process of higher-income households moving into low-income neighborhoods and driving up the area's property values and rents, which then leads to the displacement of low-income residents to other more affordable neighborhoods.” (The West Oakland Data Book was prepared for the 16th and Wood Train Station Coalition by InfoOakland, October 20, 2004, and submitted as a comment on the Wood Street Project DEIR.)

Would these changes be beneficial or adverse for the Fruitvale district? Would the changes represent revitalization, which is the stated goal of the Coliseum Redevelopment Project Area, or gentrification, a term that implies the dislocation of households that have historically found a home in the Fruitvale area but will be unable to afford the new housing prices and whose commercial needs may not be met by new businesses that cater to the new clientele?

There is no simple, straightforward answer to this question. Perspectives on the issue of revitalization and gentrification include:

Revitalization

The project site is included in a redevelopment project area, which indicates that the City has been seeking some improvement on the site and/or its vicinity – with the potential for some catalytic effect – for some time. In fact, the Redevelopment Agency has invested in numerous projects in the vicinity of the project site, including the mixed-use Fruitvale Transit Village, streetscape improvements on International Boulevard, and residential projects at Hismen Hin-nu Terrace, Las Bougainvilleas, Nueva Vista, and the Villas at Jingtowntown.

As revitalization occurs, current residents of the Fruitvale neighborhood may benefit from generally improved conditions, such as safer streets and a more attractive environment (exemplified by the recently improved International Boulevard corridor in the vicinity of the BART station). They may also benefit from a greater array of commercial offerings that are attracted by a more economically diverse community. A safer, more attractive, more vital neighborhood may induce households who would previously have moved away from the area as their incomes increase to stay.

Owner-occupant households living in the area may have the ability to increase their equity positions in the properties they own, if housing values continue to rise. These increases may not be immediately realized, but they become useful resources for households who may seek to refinance their properties, who need to move to a new unit for any reason, or who intend to sell their units to finance their retirement. Under California law, rising market values will not trigger increased property taxes for current homeowners, so the equity gain has no adverse consequences until it is converted (e.g., by sale of the unit) into a taxable event.

Additional households – and rising incomes – have the potential to bolster market support for existing businesses. Spending by both Gateway Community residents and residents of the other 330 housing units currently in the process of development¹⁹ could increase consumer activity at existing outlets if those outlets offer the types of goods and services desired.

Gentrification

Revitalization in an area may bring with it gentrification: the shifting of uses to serve more upscale markets than were served by the previous uses. In the case of the Gateway Com-

¹⁹ See Table 16.

munity, these impacts would be indirect: there are no existing residential units on the project site, so no households would be directly displaced by higher-income households on the project site.

If the Gateway Community project and other projects in the area have spillover effects on the housing market, as described above, then renter households currently living in the Fruitvale area may be forced to move when rents for their existing housing units in the vicinity of a project (but not on the project site itself) are increased beyond their ability to pay. Although Oakland has strong eviction controls for rental housing, housing advocates have noted that three types of evictions have been known to increase dramatically as gentrification begins to affect a neighborhood: (1) owner move-in (OMI) evictions, (2) Ellis Act evictions (units are removed from the rental market for at least three years; sometimes they are converted to owner occupancy), and (3) Just Cause evictions (renters are evicted for behaviors that might have been overlooked in weaker housing markets). Advocates further note that households periodically move even when they are not evicted; for example, because they add (or lose) household members and the current unit no longer meets their needs, or their financial situation changes (for better or worse), or their place of work changes and the commute from the current unit is unworkable, or they acquire a pet that is not allowed in their current unit, or for any number of other reasons.

Finally, if the Gateway Community project and other projects have spillover effects on the housing market, households who would previously have been able to obtain housing in this area find that they can no longer afford to do so, and find that they must seek housing in other neighborhoods. This effect applies both to prospective homeowners and prospective renters, whether or not they currently live in the Fruitvale area.

Beyond the effects on the housing market, the types of spillover effects on the commercial market noted earlier in this report could occur: Residents in a new, higher-income socioeconomic group would be expected to seek retail outlets that are different from those already in the neighborhood; those new outlets may be able to pay more rent than the existing stores; as a result, those stores that serve current residents could be forced out. The discussion presented on page 39 suggests that some of the needs of the new Gateway Community residents will be met in the project itself. Others will be met in the existing stores on International Boulevard, in the Fruitvale Transit Village, and the Fruitvale Station Shopping Center. Still others will be met in larger shopping areas, such as downtown Oakland, Emeryville, Berkeley, Hayward, and San Francisco. But, if Gateway Community residents and residents of other new residential projects in the vicinity find that International Boulevard is an attractive destination, they may focus sufficient buying power in that area to stimulate a shift in the types of retail stores located there.

Conclusions about Potential Effects of the Project on Neighborhood Change

Based on the discussion in this chapter, it is reasonable to conclude that the Gateway Community project would continue the process of neighborhood change that is observable in the change in area housing prices during the 1990s, and that more recently been evident in the new condominium projects located south of Interstate 880. This process has

included investment in new housing, rising housing prices and rents, and rising incomes (see Tables 5, 9, 14, 15, and 16).

The proposed project would both reflect and contribute to this trend. The influence of the project and its residents will be stronger if the project is physically interactive with the surrounding area, rather than establishing itself as a separate node whose residents have little interaction with the neighborhood.

The continuation of this process of change will concomitantly continue the upward pressure on housing prices in Oakland that was evidenced during the 1990s and through the present time, making it more and more difficult for households with low and moderate incomes to afford decent housing in locations that are close to their jobs and communities. This effect – the decreasing availability of affordable housing – is the real issue in neighborhood change.

Based on this conclusion, the answer to the first question posed in Chapter 2 is that if the Gateway Community is successful, it will contribute to the ongoing increase in housing prices in the area surrounding the project site by providing units that are more expensive than most of the housing currently available. While the project itself would have no direct impact on the prices of existing uses in the surrounding neighborhood, it would contribute to the trend of rising housing prices and household incomes that has already been observed.

Further, the households living in the Gateway Community will have sufficient purchasing power to support all of the commercial space included within the project and between about 30,000 and 60,000 square feet of space beyond the project:

- Whether all of the commercial space included in the project is indeed supported will depend on whether the project sponsors can attract the optimal mix of tenants to capture the maximum level of purchases by Gateway Community households.
- The amount of space supported beyond the project will depend on the vacancy rate in the housing portion of the project (which affects the total amount of purchasing power) and the level of sales per square foot in the commercial space outside the project (higher sales per square foot translates into a smaller amount of space supported).
- Whether the purchasing power of the Gateway Community residents has the effect of prompting a shift in the existing commercial occupancies on International Boulevard will depend on how attractive International Boulevard is to the new households and whether the existing businesses respond to their demands; whether other commercial space in the area (including at Fruitvale Village, near the BART station, and Fruitvale Station, near I-880) provides space for businesses that capture their spending, and whether the buildings, parking supplies, and other physical arrangements on International Boulevard meet the requirements of stores that more typically cater to more affluent households.

CHAPTER 5 USING THE PROJECT TO CREATE AFFORDABLE HOUSING

Recognizing that the Gateway Community project has the potential to contribute to the upward push of prices and rents of existing housing in the Fruitvale district, even while it contributes to the revitalization of the district, is to recognize at the same a larger trend in the City of Oakland: the threat to Oakland's supply of housing that is affordable to low- and moderate-income housing. This project is not unique: as new, previously-overlooked areas of the city attract new residential investment, the new units have the potential to alter general perceptions of those areas, making them more acceptable to a more affluent population. That population occupies housing not only in the new projects, but around it as well, and housing throughout Oakland becomes more expensive.

In light of this widespread phenomenon, what is the responsibility of this project to that supply of affordable housing? And, what effect might it have on that supply?

As noted elsewhere in this paper, the project is located in a redevelopment project area. To compensate for the potential for direct, indirect, and exclusionary displacement of low- and moderate-income households and housing supplies that may result from redevelopment in adopted project areas, state redevelopment law requires:

- The replacement of units that are removed from a project site.

Because no housing units are currently located on the site of the Gateway Community project, this requirement does not apply and is not discussed here.

- Allocation of 20 percent of the property tax increment revenue generated by a redevelopment area “for the purposes of increasing, improving, and preserving the community's supply of low- and moderate-income housing available at affordable housing cost,”²⁰ regardless of whether any housing would be removed from the project site (Oakland has increased this set-aside to 25 percent).²¹ Housing set-aside funds may be spent within or beyond the boundaries of a redevelopment project area.

The Gateway Community project will generate property tax increments – that is, increases in property tax revenue above the amount paid when the redevelopment project area was adopted in 1995 – as new development is completed. The housing set-aside funds, estimated to amount to \$13.0 million (in constant 2007 dollars) through 2026, will be available for housing production and assistance programs in the City of Oakland.

Beyond the state redevelopment law, the City of Oakland has adopted a series of policies that commit the City to providing for housing that is affordable to all income groups.

²⁰ California Health & Safety Code §33334.2.

²¹ City of Oakland Programs, Policies and New Initiatives for Housing. From the web at http://www.oaklandnet.com/government/hcd/policy/docs/Programs_strategies.pdf

A socioeconomic report prepared in 2004 for the proposed Wood Street Project provided a discussion of various approaches to providing housing for all income groups, and particularly for low- and moderate-income households.²² In sum, that report noted:

- Housing prices may be too high for a number of reasons. For example, the supply may be constrained by physical conditions or by public policy (zoning controls, growth limits, political opposition, etc.), or production costs may be too high, or the number of households seeking units may be growing more rapidly than the number of units. Some of these conditions are beyond the control of local governments. Strategies to create and maintain a supply of affordable housing may focus on any of these conditions.
- The affordability of new housing may be enhanced by reducing the price of the units or by improving the ability of households to pay for them.
 - Strategies available to local governments for reducing the price of new housing include reducing the price of land (e.g., through subsidies or density increases), reducing the price of permits and processing, reducing the cost of housing production (e.g., through construction of required offsite improvements, interest subsidies on construction loans, or reductions in parking requirements), or directly reducing the cost to purchasers (e.g., through down payment assistance or interest subsidies on mortgages).
 - Strategies that are available to improve households' ability to pay for housing are limited, but one good example is Section 8 certificates and vouchers for rental units. These certificates supplement household incomes by making up the difference between 30 percent of income (the amount a household is expected to pay for rent) and the fair market rent of a housing unit. The direct subsidies identified in the previous paragraph (down payment assistance and mortgage interest subsidies) may also be considered to improve households' ability to pay for housing.
- Preserving/maintaining existing affordable housing resources is an alternative to creating new low- and moderate-income housing. Existing housing, built at lower costs in earlier times, is likely to be less expensive than new construction. Some existing housing in the Fruitvale district was created with public subsidies: Table 18 identifies 251 housing units in Tract 4061 that were built with public subsidies during the 1990s, and at least 10 additional subsidized units have been built since then. Another 450 subsidized units exist in the greater Fruitvale area.
 - All of the renter-occupied subsidized units are subject to contracts that will expire at some time in the future, generally 30 or 50 years after the completion of construction.
 - Subsidized ownership units are at risk of conversion to market-rate units if the affordability contract is not enforced when the unit is sold.
 - Both renter- and owner-occupied units are subject to the risk of deterioration over time.

²² See *The Proposed Wood Street Project: Policy and Planning Framework*, available as Appendix C to the Final Environmental Impact Report on the Wood Street Project.

The study prepared for the Wood Street project inventories housing programs that are currently available in the City of Oakland. That inventory is provided for convenience in Appendix A to this report.

This report focuses on two programs: (1) the use of property tax increments – and particularly housing set-aside funds – to pay for offsite housing subsidies and (2) the project's responsibility to include affordable housing onsite.

USING TAX INCREMENTS TO PAY FOR OFFSITE HOUSING SUBSIDIES

Chapter 6 of this report provides an estimate of the property tax increments, and particularly of the housing set-aside funds, that the Gateway Community would generate. As shown in Table 39 (p. 74), the housing set-aside funds would amount to an estimated \$13.0 million (in constant FY 2007 dollars) through 2026.²³ These funds would become available over time, as each phase of the project is completed and sold.

These housing set-aside funds are required to be used for the provision of low- and moderate-income housing within the Coliseum Redevelopment Project Area. The Coliseum Redevelopment Area Plan (Section 330) states that at least 30 percent of all new and substantially rehabilitated units developed by the Redevelopment Agency shall be available at affordable housing cost to persons and families of low or moderate income, and not less than 50 percent of those affordable dwelling units shall be available at affordable housing cost to, and occupied by, very low income households. The project itself would not be subject to these requirements, however, because no Agency funding would be contributed to its development. Therefore, the low- and moderate- income housing requirement would apply to units elsewhere in the project area that are assisted by money from the housing set-aside fund.²⁴

Background: Current Definitions of Low and Moderate Income

The income limits for households of very low, low, and moderate income in Oakland in 2006 are summarized in Table 22.

²³ FY 2007 is the 12-month period that begins on July 1, 2006 and ends on June 30, 2007. Most government agencies in California, including the City of Oakland, use the July-June fiscal year.

²⁴ Because the housing set-aside funds become available as each phase is completed, they would not be available to assist housing purchases in the first phase of the Gateway Community project. As portions of the project are completed and tax increment funds accrue, however, assistance could be available for low- and moderate-income households to purchase units in later phases.

Table 22
Income Limits for Households of Very Low, Low, and Moderate Income

	Persons per Household		
	2	3	4
Very low income (50% of area median)	\$33,500	\$37,700	\$41,900
Low income (80% of area median)	\$53,000	\$59,600	\$66,250
Moderate income (120% of area median)	\$80,400	\$90,480	\$100,560

Source: City of Oakland, Income Limits Under Federal, State and City/Agency Housing Programs, Oakland, California, Effective May 3, 2006.

To allow for housing subsidies to households with incomes that are less than the extreme upper limit of each income category, these income limits are adjusted in this analysis. For purposes of calculating the needed subsidies:

- The income limit for very low income households is set at 40 percent of the area median.
- The income limit for low income households is set at 70 percent of the area median.
- The income limit for moderate income households is set at 110 percent of the area median.

Table 23 calculates the maximum housing payment and the maximum house price that would be affordable to very low income, low income, and moderate income households based on these “adjusted” income limits.

Subsidies Required at the Gateway Community Project for Low- and Moderate-Income Households

Table 24 calculates the housing subsidy that would be needed for the households included in Tables 22 and 23, assuming four different home prices: (1) the lowest-priced unit in the Gateway Community project (\$405,000 for a one-bedroom, one-bath unit), suitable for a household of two persons; (2) the lower-priced two-bedroom unit at the Gateway Community (\$475,000), suitable for a household of three persons; (3) the lower-priced three-bedroom unit at the Gateway Community (\$565,000), suitable for a household of four persons; and (4) the median-priced existing unit in the Fruitvale area in 2005 (\$393,400), assuming a household of three persons.

Table 24 indicates that, with the assumptions used in Table 23 to calculate maximum affordable prices, the median-priced existing unit in the Fruitvale area in 2005 was affordable to a moderate-income household, and that some of the units in the Gateway Community project (one-bedroom units priced no higher than about \$422,000) would be affordable with no subsidies to moderate income two-person households. (See Table 26, below, and the text associated with that table for an estimate of the proportion of units in the project that

**Table 23
Maximum Affordable Home Price**

Very Low Income Households

Household Size	2	3	4
Income Limit (50% of median)	\$33,500	\$37,700	\$41,900
Adjusted Income Limit (40% of median)	\$26,800	\$30,160	\$33,520
Maximum Monthly Payment ^a	\$737	\$829	\$922
Maximum Loan Amount ^b	\$145,744	\$164,016	\$182,289
Maximum Home Purchase Price ^c	\$153,415	\$172,649	\$191,883

Low Income Households

Household Size	2	3	4
Income Limit (80% of median)	\$53,000	\$59,600	\$66,250
Adjusted Income Limit (70% of median)	\$46,900	\$52,150	\$58,660
Maximum Monthly Payment ^a	\$1,290	\$1,434	\$1,613
Maximum Loan Amount ^b	\$255,052	\$283,603	\$319,005
Maximum Home Purchase Price ^c	\$268,476	\$298,529	\$335,795

Moderate Income Households

Household Size	2	3	4
Income Limit (120% of median)	\$80,400	\$90,480	\$100,560
Adjusted Income Limit (110% of median)	\$73,700	\$82,940	\$92,180
Maximum Monthly Payment ^a	\$2,027	\$2,281	\$2,535
Maximum Loan Amount ^b	\$400,796	\$451,045	\$501,294
Maximum Home Purchase Price ^c	\$421,891	\$474,784	\$527,678

^a Assumes monthly income is no less than 33 percent of maximum payment.

^b Assumes interest rate = 6 percent, term = 30 years.

^c Assumes 5 percent down payment.

Source: Mundie & Associates

Table 24
Subsidies Required for Very Low-, Low-, and Moderate-Income Households to Purchase
Units at the Gateway Community and in the Fruitvale District

Very Low Income Households

Household Size	2	3	4
Maximum Home Purchase Price	\$153,415	\$172,649	\$191,883
Subsidy Required for a Unit Priced at:			
\$405,000 (Gateway 1 BR unit)	\$251,585		
\$475,000 (Gateway 2 BR unit)		\$302,351	
\$565,000 (Gateway 3 BR unit)			\$373,117
\$393,400 (Fruitvale median price)		\$220,751	

Low Income Households

Household Size	2	3	4
Maximum Home Purchase Price	268,476	298,529	335,795
Subsidy Required for a Unit Priced at:			
\$405,000 (Gateway 1 BR unit)	\$136,524		
\$475,000 (Gateway 2 BR unit)		\$176,471	
\$565,000 (Gateway 3 BR unit)			\$229,205
\$393,400 (Fruitvale median price)		\$94,871	

Moderate Income Households

Household Size	2	3	4
Maximum Home Purchase Price	\$421,891	\$474,784	\$527,678
Subsidy Required for a Unit Priced at:			
\$405,000 (Gateway 1 BR unit)	None		
\$475,000 (Gateway 2 BR unit)		\$216	
\$565,000 (Gateway 3 BR unit)			\$37,322
\$393,400 (Fruitvale median price)		None	

Source: Mundie & Associates

would be affordable to moderate-income households.) At the lower end of the income scale, however, very low income households would require subsidies of nearly \$220,000 to afford the median-priced existing unit (assuming a household of three) and between \$221,000 and \$373,000 (depending on household size) to afford a unit in the Gateway Community project.

These subsidy amounts represent one-time payments. If they were awarded in a form that is paid out over time (such as interest rate subsidies, for example), then the nominal amount would be different from that shown, but the net present value would be similar.

Table 25 calculates the number of households that could be subsidized by the housing set-aside funds generated by the Gateway Community project through 2026, assuming that the subsidies are as calculated in Table 24.

Table 25
Number of Housing Purchase Subsidies Funded by Projected Housing Set-Aside Funds (through 2026)^a

Number of households subsidized if average subsidy is: ^b	Number of Households	% of Units at Gateway Community ^c
\$216 (moderate income hh, 2 BR unit)	60,323	7447%
\$37,322 (moderate income hh, 3 BR unit)	348	43%
\$94,871 (low income hh, 2 BR unit)	137	17%
\$136,524 (low-income hh, 1 BR unit)	95	12%
\$176,471 (low-income hh, 2 BR unit)	74	9%
\$220,751 (very low income hh, 2 BR unit)	59	7%
\$229,205 (low income hh, 3 BR unit)	57	7%
\$251,585 (very low-income hh, 1 BR unit)	52	6%
\$302,351 (very low-income hh, 2 BR unit)	43	5%
\$373,117 (very low-income hh, 3 BR unit)	35	4%

^a Total value of \$13.0 million in constant 2006 dollars.

^b Subsidy amounts correspond to amounts calculated in Table 24.

^c For reference only; does not imply that these units in the Gateway Community would be subsidized.

Source: Mundie & Associates

The figures in Table 25 indicate that the housing set-aside funds generated by the Gateway Community project could be expected to subsidize more than 60,000 three-person moderate-income households, or about 350 four-person moderate-income households, or nearly 140 three-person low-income households given the income limits in 2006. Larger subsidies could be made to as many as 52 two-person very low-income households seeking a unit priced at the same level as the lowest-priced unit expected in the Gateway Community, or about 60 three-person very low-income households seeking a unit priced at the 2005 median in the Fruitvale area.

Alternative Strategies for Effective Use of Housing Set-Aside Funds

The Wood Street *Policy and Planning Framework* report provided a comprehensive review of strategies that might be used to assure the ongoing provision of housing affordable to low- and moderate-income households in Oakland. In brief, that analysis covered the following array of strategies:

- Reducing the production cost of housing by reducing the cost of land, reducing the cost of the approval process, reducing the cost of housing production (typically by forgiving some fees or subsidizing interest payments on construction loans).
- Reducing the sales price of the completed housing unit; e.g., by providing down payment assistance or subsidizing interest payments on a mortgage.
- Enhancing demand; e.g., by providing rental assistance to tenant households.

The Wood Street report provided an inventory of programs currently in use by the City of Oakland as well as a suggested list of additional programs that the City might pursue to preserve and expand its supply of affordable housing in the face of rising housing prices throughout the city, but especially in neighborhoods that have historically provided housing resources priced at a level affordable to low- and moderate-income households.

That analysis reached the following conclusions:

The most effective use of capital contribution funds for housing production would be:

- For moderate-income households, production of single family detached housing at a density of 15 units per acre. Note, however, that – given the assumptions used in this analysis – the production of high-density housing (146 units per acre) affordable to moderate income households may be achievable with no subsidy.
- For low-income households and very-low income households, high density housing (146 units per acre) offered for sale, particularly in configurations that would accommodate larger households (in this example, a household of four, which requires three bedrooms).
- The production of rental units at a density of 45 units per acre, which is slightly more cost-effective than rental units at a density of 30 units per acre.

Because funds that become available from tax increments accrue to the Redevelopment Agency over time, rather than as a lump sum, the Wood Street analysis also considered the effectiveness of applying the revenue stream in alternative ways. It concluded that:

- Applying the tax increment housing set-aside funds to programs that reduce housing production costs could provide potential assistance to between 53 and 716 units through the year 2012, depending on the density of the development and the target household income.²⁵

²⁵ Numbers of subsidies/subsidized units shown in this section refer to the Wood Street project, not the Gateway Community project.

- Applying the funds to cost reductions for rental housing could assist in the production of between 49 and 599 units through the year 2012, depending on the density of development and the target household income (rent) level.
- Applying the funds to rent subsidies on the model of Section 8 vouchers (using the funds on a pay-as-you-go basis) could assist between 42 and 506 households. These figures mask an annual increase in the number of households that could be included in a subsidy program: for example, if all assistance were to be given to moderate-income two-person households, it could cover 22 households in 2004, increasing to 24 in 2005, 25 in 2006, 220 in 2008, 334 in 2010, and 506 in 2012 as the tax increment grows.

The City should consider adding several additional tools to its inventory of housing assistance programs, including:

- Reviving the Affordable Housing Site Acquisition Program.
- Expanding the Vacant Housing Acquisition and Rehabilitation Program.
- Supplementing the Section 8 voucher program.
- Expanding/modifying current restrictions on the conversion of rental units to condominiums.

These strategies are also applicable to the proposed Gateway Community project. Although the specific numbers of units assisted would be different (because of differences in the scale and product mix of the proposed project as well as changes in housing production costs, housing prices, and income limits for low- and moderate- income households since the Wood Street analysis was prepared in late 2004), the principles are the same. In short, using the funds to reduce the costs of housing production would appear to be the most cost-effective strategy, but the differences in effectiveness among the three approaches are not significant.

Conclusions about the Use of Housing Funds from Tax Increments

Based on the analysis presented in this chapter and the review of findings from the Wood Street *Policy and Planning Framework* report, it appears that:

- The property tax increments generated by the proposed Gateway Community project and dedicated to the Low and Moderate Income Housing Fund will be sufficient to subsidize housing for up to 295 moderate-income households, or about 36 percent of the number of households that would occupy the project.
- The most cost-effective use of these funds would be the production of moderate-income housing at a density of about 15 units per acre (but note that these units may not require subsidies to make them affordable to moderate-income households), low-income housing at a density of about 146 units per acre, or rental units at densities ranging from 30 to 45 units per acre.
- Additional cost-effective strategies (listed above) for strengthening low- and moderate-income housing resources in neighborhoods (including Fruitvale) undergoing change, focus on assisting site acquisition for affordable housing projects, rehabilitating existing units that are vacant or dilapidated, supplementing the Section 8 voucher system,

and expanding/modifying the City's program restricting the conversion of rental units to condominiums.

RESPONSIBILITY OF THE PROJECT TO PROVIDE AFFORDABLE HOUSING ONSITE

Affordability of Units in the Project to Low- and Moderate-Income Households

The Coliseum Redevelopment Area Plan (Section 330) states that at least 15 percent of all new and substantially rehabilitated units developed within the Coliseum project area under the jurisdiction of the Agency *by public or private entities or persons other than the Agency* shall be available at affordable housing cost to persons and families of low or moderate income, and not less than 40 percent of those affordable units (6 percent of the total) shall be available at affordable housing cost to, and occupied by, very low income households. According to City staff, a sufficient number of affordable housing units are being produced in the Coliseum Redevelopment Project Area to meet this 15 percent requirement for the entire area even if no affordable units are included in the Gateway Community project. The question of whether the project should include affordable units, however, is a policy issue for the City.

Table 26 summarizes the number and percent of units currently planned for the Gateway Community by price.

**Table 26
Number and Percent of Proposed Gateway Community Units, by Price**

Price	Number of Units	% of Units
\$405,000	372	46%
\$475,000	297	37%
\$565,000	96	12%
\$645,000	8	1%
\$700,000	37	5%
Total	810	100%

Source: Pacific Thomas Capital

Together, the calculations in Tables 24 through 26 suggest that:

- As many as 94 percent of the units in the Gateway Community would be affordable to moderate income households with no purchase subsidy.
- The housing set-aside funds generated by the project through the year 2026 would be sufficient to provide purchase subsidies for as many as 47 very low-income four-person households, or as many as 60 very low-income three-person households, or 74 two-

person low-income households. Subsidy of these numbers of households would satisfy the requirements of the Coliseum Redevelopment Area Plan.

Alternative Strategies for Enhancing the Affordability of Housing Units in the Gateway Community Project

The project sponsors have discussed with the City several alternative approaches to providing affordable housing units on the site (beyond the possibility that some market-priced units will fall within the price range that is considered affordable to moderate-income households). One approach would be place formal price restrictions on a percentage of the units in the project, so that those units will be affordable to moderate income households not only when the project is first offered on the market but also in the future, as resales occur. Another approach is to provide a specific amount of funding for purchasing assistance, to help moderate-income households buy units in the project.

These two approaches would have different effects on housing affordability:

Type of Impact	Price Restrictions	Purchasing Assistance
Housing price	<ul style="list-style-type: none"> ▪ Limits initial prices of specified units ▪ Limits prices of the specified units on resale for the duration of the project (or affordability agreement; typically, 30 to 50 years) 	No effect on housing price
Affordability	Reserves specific units for households of moderate income throughout the life of the project (or affordability agreement)	<ul style="list-style-type: none"> ▪ Enhances affordability for initial buyers by supplementing funds available for down payment or for mortgage payments, or by reducing mortgage interest costs ▪ No effect for resale buyers unless funds remain available from the initial program for subsequent purchasers
Other effects	<ul style="list-style-type: none"> ▪ May inhibit resales, because owners' ability to "move up" by capturing the gain in unit value would be limited, and finding interested buyers who meet the income criteria may be difficult ▪ May limit property tax revenue appreciation (fiscal impact; see Chapter 6) 	

CHAPTER 6

FISCAL IMPACTS OF THE PROPOSED PROJECT

BACKGROUND: WHY A FISCAL ANALYSIS?

Oakland, like all California cities, is required to approve appropriations to cover operating and capital expenditures each year. Unlike the federal government, the City cannot issue debt to cover operating expenditures. Therefore, revenues collected each year must be equal to or greater than the amount needed to cover expected costs.

If the budget must balance each year, then no amount or type of aggregated future change in land use can result in operating deficits: service levels must be adjusted, or new revenues must be secured, to achieve the required balance. In this context, what is gained from making projections of future changes in costs and revenues?

Fiscal impact analysis can, in fact, provide insights into the fiscal conditions that the city may confront as it moves ahead; more specifically, it provides a preview of whether Oakland will have sufficient funds to continue to deliver the array and quality of services it currently delivers. Fiscal analysis typically assumes that services will be maintained at their current levels, and evaluates the City's ability to continue to sustain those levels given expected future revenues.

For a particular development project, the key questions addressed by fiscal analysis are:

- What impact will the proposed project have on the City's costs of delivering ongoing services and the revenues available to cover those costs?
- Could factors beyond the City's control affect the project's fiscal impacts to a degree that the conclusions of the analysis would change?
- If the project would not be fiscally beneficial, would it provide other (non-fiscal) benefits that make it attractive to the City?

BRIEF OVERVIEW OF FISCAL ANALYSIS

Fiscal analysis is an examination of the revenues, costs, and fiscal balance associated with public agency activities. It provides a reasonable planning-level estimate of fiscal impacts, useful for anticipating whether a new project will pay its own way, generate surplus revenues that can be used by the City to improve services, or generate deficits that will require the City to reduce services or find offsetting sources of funds. These projections are not appropriate for budgeting purposes – that is, estimating actual revenues and costs – because the number of assumptions and estimates that must be made render long-term fiscal predictions uncertain at best. They are nevertheless useful in assessing whether a proposed plan or project is likely to exert pressure on the operating budget of a government agency; in this case, the City of Oakland.

This fiscal analysis has the following key characteristics:

- **Focus on one public agency.** In this analysis for the Gateway Community project, the fiscal analysis focuses on the City of Oakland. *It does not, therefore, consider revenues and costs of other agencies that deliver services to city residents, such as Alameda County or the Oakland Unified School District.*
- **Focus on operating costs and revenues.** Operating costs are the annually-recurring costs of providing public services, such as police services, public works, parks & recreation, and general city administration. Typically, they cover staff salaries and benefits, office supplies, vehicle operating expenses (fuel, insurance, maintenance), maintenance of city facilities and infrastructure, and smaller items of equipment (those intended to be used for up to three years).

Operating revenues are the funds that are collected on an ongoing or recurring basis; they include taxes, license and permit fees, funds the City receives from the state and federal government, and others. These funds are not earmarked for any particular use; instead, they are collected in the General Fund, and the City allocates them as it sees fit to cover the operating costs of public safety, public works, general government, recreation, and other services.

These ongoing/recurring costs of providing services and sources of revenue are the focus of the fiscal analysis.

- **Exclusion of capital costs.** Capital costs are the one-time costs that are incurred to buy or improve land, buildings, infrastructure, and major pieces of equipment. They are typically covered by development impact fees or major grants from the state and/or federal government. In some cases, a city or other public agency will borrow money (in the form of bonds) to pay for a major improvement, and repay that loan with impact fees, revenues from a service that is related to the improvement, special taxes, property tax increments (in the case of redevelopment projects), or other earmarked sources of funds.

Expenditures made for the infrastructure and other public improvements needed specifically to serve the proposed Gateway Community project, if any, will be paid for by the developers, as part of the project. These expenditures are developer costs, not public costs, and consequently are not addressed in this study.

- **Focus on the General Fund.** The General Fund of a city's budget receives the greatest portion of revenues that are available for discretionary appropriation, and is used to fund the day-to-day operations of the city. Therefore, fiscal analysis focuses on the revenues that accrue to and the costs incurred by this fund.

Other funds in a city's budget are "special funds," which collect revenues that are designated for specific uses – which may be capital costs or operating costs – and distribute the money to pay for those uses. To the extent that other funds are linked directly to the General Fund, however, they are considered in this analysis.

The focus on the General Fund is particularly important in this analysis, which considers a project that is located in a redevelopment project area. Redevelopment projects are funded by allocating most of the increases in property tax in the project area to the Redevelopment Agency. Most of this "tax increment revenue" is money that would otherwise have gone to other taxing entities (e.g., Alameda County or the Oakland Unified School District), but

some would have gone to the Oakland General Fund. The diversion of the property tax increment reduces the amount of money available for ongoing general-purpose, citywide expenditures; the diverted funds are earmarked for public improvements within the redevelopment project area (in this case, the Coliseum Redevelopment Area). The impact of this revenue diversion on the fiscal analysis is discussed further on pp. 75-76.

This analysis excludes some General Fund revenues and costs; generally, those that are (1) not expected to be affected by the proposed project, (2) cannot be predicted with reasonable certainty, or (3) are expected to be discontinued. These excluded revenues and costs are identified below.

- **Focus on direct costs and revenues.** Fiscal analysis considers the revenue and cost changes that result directly from actions or changes that occur within the city; for example, new property or sales tax revenues that may be generated by new development, or the cost of new demands for police services. *It does not consider the indirect impacts, such as an increase in property taxes in neighboring areas of the Fruitvale district, that may result from price pressures consequent to the proposed project.*

PREDICTING FUTURE REVENUES AND COSTS

Methodology

Predicting future revenues and costs requires identifying the existing relationships between revenues and development characteristics (including population and employment) and between costs and development characteristics, and then applying these relationships to future development characteristics. This process may be summarized as a sequence of four steps, which are described below.

Step 1: Identify Existing Revenue and Cost Relationships

Identifying existing revenue and cost relationships requires examining the effects that particular development characteristics have on specific General Fund revenues and costs. For example, because the site is located in a redevelopment project area, little revenue from property taxes will be available to the General Fund. Revenue from sales taxes and from fines (e.g., parking tickets) may be estimated based on average current revenue per Oakland resident; revenue from utility user taxes on the average current revenue per Oakland household; and revenue from real estate transfer taxes from the expected value of the residential units and the expected average frequency of sale.

To define revenue and cost relationships for the City of Oakland, Mundie & Associates staff reviewed the City's adopted operating budget for 2005-2007 and formulated hypotheses about how revenues and costs would be likely to change in response to new development. The relationships identified through this process for Oakland are summarized in Table 27.

**Table 27
Assumptions about Revenues and Costs**

	Basis for Projection
Source of Funds (Revenue)	
Property Tax	Amount of new development, by type; estimated value of new development (adjusted for inflation); estimated frequency of property sales; property tax rate (one percent); and City's share of total tax (25.17 percent of the frozen base plus required pass-throughs in the relevant tax code area).
Sales and Use Tax	Average sales tax revenue per resident budgeted in 2006-07; number of residents. ^a
Motor Vehicle In Lieu Tax	Average revenue per resident budgeted in 2006-07; number of residents.
Business License Tax	Not expected to be significant; not included.
Utility Consumption Tax	Estimated average bill for electricity & gas, telecommunications, and cable television per housing unit; tax rate (7.5%); number of housing units.
Real Estate Transfer Tax	Estimated value of new development sold for the first time and property resales; City property transfer tax rate (\$1.50 per \$1,000 of new value)
Transient Occupancy Tax	Not significant (no hotel in the project); not included.
Parking Tax	Not significant (assume no pay parking facilities in the project); not included.
Licenses & Permits	Most revenues are one-time construction-related revenues; not included.
Fines & Penalties	Average revenue budgeted in 2006-07 per resident from fines & penalties; number of residents.
Interest Income	Not included.
Service Charges	Not included; an amount of service costs estimated to be applicable to the project is deducted from costs.
Grants & Subsidies	Average revenue budgeted in 2006-07 per resident from grants & subsidies; number of residents.
Miscellaneous Revenues	Not predictable and not directly related to the project; not included.
Use of Funds (Cost)	
General Government ^b	Average cost per resident of all functions budgeted in 2006-07; number of residents.
Police Services	Average cost per resident budgeted in 2006-07; number of residents.
Fire Services ^c	Average cost per resident budgeted in 2006-07; number of residents.
Public Works ^d	Average cost per resident budgeted in 2006-07; number of residents.
Parks & Recreation	Average cost per resident budgeted in 2006-07; number of residents.
Library Services	Average cost per resident budgeted in 2006-07; number of residents.
Cultural Arts	Average cost per resident budgeted in 2006-07; number of residents.
Human Services	Average cost per resident budgeted in 2006-07; number of residents.
Comm. Econ. Dev't Ag'cy	Average cost per resident budgeted in 2006-07; number of residents.
Non-Departmental	Citywide Activities and Community Promotion: average cost per resident budgeted in 2006-07, number of residents; all other costs: excluded.

- ^a Sales tax revenue could alternatively be estimated based on the amount of retail space in the proposed project. Because that space is expected to serve a local population, however, it is not expected to attract retail purchases to Oakland from outside the city. The approach used here "captures" all retail purchases by project residents, not just those made within the retail space on the project site.
- ^b General Government includes City Administrator, City Clerk, City Attorney, City Auditor, Finance & Management
- ^c Because no new fire station is expected to be needed, a sensitivity analysis assuming no increase in the cost of fire services is included.
- ^d Because no new streets, street lights, or signals are included, a sensitivity analysis assuming no increase in the cost of public works services is included.

Source: Mundie & Associates

Step 2: Adjust the Cost and Revenue Relationships to Account for Inflation

Once existing revenue and cost relationships have been defined, adjustment factors are applied where appropriate in order to account for the effects of inflation in future years. Applying an inflation factor to both revenues and costs effectively holds the current value of the relationship constant over time.

Because this analysis involves a projection of future conditions, the actual rate of inflation during the forecast period is not known. The consumer price index (CPI), which is often used as an approximation of the general inflation rate, is a reasonable basis for estimating future changes in costs and revenues. This analysis applies the historical experience of the CPI over the past 15 years to most of the costs and many of the revenues covered in the forecast. That change has averaged approximately three percent per year.²⁶

Experience has shown that some revenues are likely to change at rates that are different from the general inflation rate. Historically, housing prices have risen more rapidly than the CPI; in recent years, utility rates have risen more rapidly as well. At the same time, revenues that rely on local governments' ability to raise existing taxes and fees, or revenues that come from the state government, have not always increased at the general inflation rate.

The assumptions about inflation used in this analysis are summarized in Table 28. This analysis uses a conservatively low rate of increase for housing prices, equal to the general inflation rate. (A higher rate of increase would generate greater tax increment revenues to the Redevelopment Agency.

The effects of differential rates of inflation on constant dollar calculations are described in Appendix B.

Table 28
Assumptions about Inflation Rates

Price, Revenue, or Cost Affected	Average Annual Increase
General	3.00%
Utilities	5.00%
Fines & Penalties ^a	1.50%
Grants & Subsidies	1.50%
Housing	3.00%
Private Nonresidential Building Space ^b	3.00%

^a Equivalent to an assumption that the City may raise locally-imposed taxes, fees, and charges less often than every year, and possibly by less than would be required to keep up with cost inflation.

^b Private nonresidential building space is assumed not to be sold, so this assumption is inoperative.

Source: Mundie & Associates

²⁶ CPI for 1995 (annual average, all urban consumers, San Francisco Bay Area) = 151.6; CPI for 2005 = 202.7. Average annual (compound) change = 2.95 percent.

Adjusting costs and revenues allows the analysis to take explicit account of revenues and costs that behave differently, by applying different adjustment rates. For example, increases in assessed values of properties not sold are limited by the California constitution (the outcome of Proposition 13, adopted by voters in 1978) to a maximum of two percent per year no matter how much the CPI increases; at the same time, changes in market values may be greater or less than the overall inflation rate during “hot” or “cold” market conditions.

Similarly, some municipal revenues, such as fines and penalties, may not change unless the City Council specifically adjusts its fee schedule. Others, such as grants and subsidies, depend on the amount of money available from the granting/subsidizing agencies.

Table 29 describes how the inflation rates itemized in Table 28 affect the various revenues and costs included in the fiscal analysis.

Table 29
Application of Assumptions about Inflation

	How Inflation Affects Revenue/Cost	Annual Inflation Rate
Source of Funds (Revenue)		
Property Tax	(1) Property values increase each year; increased value becomes assessed value when property is sold; (2) Proposition 13 limits increase in assessed value of properties not sold.	Housing: 3.0% Private nonresidential building space (not sold): 3.0% Proposition 13 limit on assessed value increase of properties not sold: 2.0%
Sales and Use Tax	Increase in price of retail goods	General: 3.0%
Utility Consumption Tax	Annual increase in cost of utilities	Utilities: 5.0%
Real Estate Transfer Tax	Based on value of assessed value of property sold each year	Derived in model ^a
Motor Vehicle In Lieu Tax	Increase in price of cars	General: 3.0%
Fines and Penalties	Assumed increases imposed by City	Locally-imposed taxes, fees, and charges: 1.5%
Use of Funds (Cost)		
General Government Police Services Fire Services Cultural Arts Library Services Public Works Parks & Recreation Human Services Comm. Econ. Dev't Agency Non-departmental	Assumed cost of living adjustment	General: 3.0%
Services Offset by Service Charges	Assumed cost of living adjustment	General: 3.0%

^a See text below for a description of the computer-assisted model used for this fiscal analysis.

Source: Mundie & Associates

Step 3: Articulate Assumptions about the Characteristics of Future Development

The fiscal analysis presented in this report considers development proposed for the Gateway Community project. To project the revenue and cost characteristics of the proposed project requires not only that the amount of development be identified, but that some assumptions about other characteristics – such as population, employment, value of new development, frequency of property sales – be articulated, because these characteristics are among the determinants of project revenues and costs. These assumptions are summarized briefly in the next part of this chapter.

Step 4: Project Future Revenues and Costs

The adjusted revenue or cost relationships calculated in Step 2 are applied to the future development characteristics projected in Step 3 to predict the impacts of new development on City revenues and costs.

Using a “Model” to Perform Calculations

The four-step process outlined above requires a large number of calculations to project future revenues and costs over an extended period of time. This study uses a computer-assisted model to make these calculations. The model contains a series of equations that apply the inflation adjustments described in Step 2 to the revenue and cost relationships identified in Step 1, and then applies the characteristics of the project identified in Step 3 to project future revenues and costs (Step 4).

The model produces a series of spreadsheets, each of which either (1) projects a single revenue or cost for each year of the study period, (2) combines the individual revenues or costs into totals, or (3) calculates the net fiscal balance for each year.

Reporting the Fiscal Results

This analysis considers a period of 20 years, beginning in 2006-2007 (“FY 2007”²⁷). This starting year was chosen because it is the beginning year for which the most recent City of Oakland operating budget was available when the work was begun (and, therefore, is considered to provide the best indication of expected revenues and costs).

The 20-year study period was chosen to allow analysis of fiscal results for a period equal to the 20-year period of the proposed Development Agreement between the Gateway Community project sponsor and the City.²⁸ As indicated in Table 4, development of the project – if approved – is currently expected to begin in calendar year 2008; the final phase is projected for completion in 2021.

In this study, the results of the fiscal analysis are reported for three “indicator” years: FY 2014 (after about one-half of the housing units have been built), FY 2022 (approximately the

²⁷ See footnote 23 for an explanation of FY 2007.

²⁸ The Development Agreement would govern the development of the project.

year after development is completed), and FY 2026 (roughly five years after completion). These three years are intended to provide snapshots of the proposed development project at three different points in its development timeline: points in time at which the percent of project buildout, inflation, and other factors that affect the revenue and cost projections in different ways may have had differing impacts on its fiscal outcomes.

ASSUMPTIONS ABOUT THE CHARACTERISTICS OF THE PROPOSED GATEWAY COMMUNITY PROJECT

As indicated in the description of Step 3, above, it is necessary to formulate assumptions about the characteristics of new development that affect City revenues and costs.

Population

One characteristic of development in the proposed project is the number of residents that will live in the area. (Population is the basis for a number of revenue and cost estimates; see Table 27.) Population is estimated based on the average number of people in each housing unit.

For this analysis, the average population per household is estimated to be 2.63 residents. This estimate is consistent with the average used for the Draft Environmental Impact Report for the project.

Based on these assumptions, the project would accommodate a population of approximately 2,130 residents.²⁹

For comparison, Oakland had approximately 415,500 residents at the beginning of 2007,³⁰ so the projected increases in residents would equal about 0.5 percent of the existing city population.

Financial Characteristics

Table 30 summarizes the key assumptions about the financial characteristics of the proposed development. These characteristics include the value of new development of various types, and the frequency with which various types of development are sold (important for property tax calculations).

²⁹ The Draft Environmental Impact Report (DEIR) for the Gateway Community Project incorporates a vacancy rate of four percent in calculating the total population of the project. This analysis assumes no vacancy rate; as a result, the population estimate is higher than the estimate in the DEIR.

³⁰ California Department of Finance estimate for January 1, 2007.

Table 30
Key Assumptions about Development: Financial Characteristics
(2006 Dollar Values)

	Units	Price (Residential) or Value (Commercial)	Percent Resold Each Year (After Initial Sale)
Residential (Housing Units)			
Townhouse: 2 bedroom, 2.5 baths	8	\$645,000	10%
Townhouse: 3 bedroom, 2.5 baths	37	\$700,000	10%
Flat: 1 bedroom, 1 bath	372	\$405,000	10%
Flat: 2 bedroom, 2 bath	297	\$475,000	10%
Flat: 3 bedroom, 3 bath	96	\$565,000	10%
Total/Average	810	\$465,475	
Commercial (Sq. Ft.)	30,000	\$175	0% ^a

^a No sale assumed during the study period.

Source: Mundie & Associates, based on information from Pacific Thomas Capital.

CONTEXT: OAKLAND'S SOURCES AND USES OF FUNDS

The Fiscal Year

Cities observe fiscal years that may differ from calendar years. Typically, the municipal fiscal year begins on July 1 of one calendar year and ends on June 30 of the following year. Oakland follows this convention.

The City of Oakland adopts an operating budget that covers two years: the budget in effect at the time this analysis was prepared applied to 2005-06 (FY 2006) and 2006-07 (FY 2007). This fiscal analysis is based on FY 2007, because the fiscal model was developed based on cost and revenue factors that were budgeted for that year.

Fiscal Year 2007: Revenues and Costs

The Adopted Policy Budget for FY 2007 anticipated that the General Fund would collect revenues of approximately \$525 million and spend approximately \$574 million to provide services throughout the city. The difference (deficit) would be made up by transfers from other funds and the City's reserve fund.³¹

Table 31 summarizes budgeted revenues by general source. The majority of Oakland's General Fund revenues (66 percent) in FY 2007 were expected to come from taxes, with about

³¹ The City's Reserve Fund gets its money from annual surpluses, should they occur, in other funds.

one-half of that amount (32 percent of all revenues) coming from local taxes other than the property tax and another 27 percent of all revenues from property taxes.

Table 31
Budgeted Revenues, FY 2007, by Source:
General Fund

Source	Amount	Percent of Total
Property Tax	\$153,977,160	29%
State Taxes (Sales Tax, Motor Vehicle In Lieu)	45,954,393	9%
Local Taxes (Business License, Utility Consumption, Real Estate Transfer, Transient Occupancy, Parking Tax)	181,492,784	35%
Licenses & Permits	17,452,970	3%
Fines & Penalties	26,822,137	5%
Service Charges	95,479,823	18%
Grants & Subsidies	1,395,966	0%
Internal Service	1,662,528	0%
Miscellaneous Revenue	1,031,148	0%
Total Revenue	\$525,268,909	100%

Source: City of Oakland Adopted Policy Budget FY 2005-2007

Table 32 summarizes budgeted costs by type of service. The greatest proportion of City expenditures from the General Fund (32 percent) is devoted to police protection.

Revenues Included in This Analysis

As noted on p. 56, this analysis considers only those ongoing and recurring revenues collected by the General Fund, and only those ongoing and recurring costs incurred by the General Fund. Table 33 details the sources of funds (revenues) in the FY 2007 budget and indicates how each of these sources is treated in the fiscal analysis of the proposed project.

Table 32
Budgeted Costs, FY 2007, by Service:
General Fund

Service	Amount	Percent of Total
General Government ^a	\$66,651,774	12%
Police Services	181,531,735	32%
Fire Services	109,223,503	19%
Public Works	38,102,861	7%
Parks & Recreation	15,179,803	3%
Library Services	12,017,580	2%
Cultural Arts	6,258,318	1%
Human Services	15,083,683	3%
Community Economic Development Agency	25,162,022	4%
Non-Departmental	104,695,333	18%
Total Service Costs	\$573,906,612	100%

^a Mayor, City Council, City Manager, Administration, Citywide Support, City Clerk, City Attorney, City Auditor, and Finance & Management.

Source: City of Oakland Adopted Policy Budget FY 2005-2007

Just over 60 percent of General Fund revenues are explicitly included in the fiscal analysis. The remaining budgeted revenues are excluded from the analysis, either because they are expected not to be affected by the proposed project (e.g., transient occupancy taxes) or because they are not expected to be materially affected by the project (e.g., business license taxes, parking taxes, miscellaneous revenues).³²

Costs Included in This Analysis

The treatment of costs in the fiscal model is detailed in Table 34. Only two costs are entirely excluded from the model:

- Costs covered by service charges. (Revenues from service charges are not included on the revenue side of the model, as indicated above.)
- Non-departmental costs that are allocated for debt/lease payments and fiscal management. These costs account for about 96 percent of total non-departmental costs. The remaining non-departmental costs – allocated for citywide activities and community promotions – are included in the model.

³² In this analysis, service charges are not included on the revenue side of the analysis. To account for this exclusion, the amount of costs they are intended to cover is deducted as a lump sum on the costs side.

Table 33
Treatment of Budgeted Revenues in the Fiscal Analysis

Source of Funds	Adopted Budget	Treatment in Fiscal Analysis	
		Included	Excluded
Taxes			
Property Tax	\$153,977,160	\$153,977,160	\$0
State Taxes			
Sales Tax	43,820,215	43,820,215	
Motor Vehicle In Lieu	2,134,178	2,134,178	
Subtotal	45,954,393	45,954,393	0
Local Taxes			
Business License	47,795,442		47,795,442
Utility Consumption	51,457,110	26,913,393	24,543,717
Real Estate Transfer	63,231,000	63,231,000	
Transient Occupancy	10,013,469		10,013,469
Parking Tax	8,995,763		8,995,763
Subtotal	181,492,784	90,144,393	91,348,391
Total Taxes	381,424,337	290,075,946	91,348,391
Licenses & Permits	17,452,970		17,452,970
Fines & Penalties	26,822,137	26,822,137	
Service Charges ^a	95,479,823		95,479,823
Grants & Subsidies	1,395,966	1,395,966	
Internal Service	1,662,528		1,662,528
Miscellaneous Revenue	1,031,148		1,031,148
Total Revenue ^b	\$525,268,909	\$318,294,049	\$206,974,860
<i>Percent of Total</i>	<i>100%</i>	<i>61%</i>	<i>39%</i>

^a Treated as a deduction from costs.

^b Excludes transfers in.

Source: Mundie & Associates

The model includes approximately 83 percent of all General Fund costs and 99 percent of General Fund costs net of service charges.

Considering the Fiscal Impacts of the Proposed Project

The summaries of FY 2007 revenues and costs presented in Tables 31 and 32 establish a framework for consideration of the fiscal impacts of the proposed Gateway Community project. The remainder of this chapter considers the fiscal impacts of the project, based on the physical characteristics of the project and timing of development described in Chapter 1 and the other pertinent characteristics described in this chapter.

**Table 34
Treatment of Budgeted Costs in the Fiscal Analysis**

Source of Funds	Adopted Budget	Treatment in Fiscal Analysis	
		Included	Excluded
General Government			
Mayor	\$2,304,195	\$2,304,195	
City Council	2,902,108	2,902,108	
City Administrator	10,136,491	10,136,491	
City Clerk	2,335,421	2,335,421	
City Attorney	9,684,504	9,684,504	
City Auditor	1,374,735	1,374,735	
Finance & Management	37,914,320	37,914,320	
Total General Government	66,651,774	66,651,774	
Police Services	181,531,735	181,531,735	
Fire Services	109,223,503	109,223,503	
Public Works	38,102,861	38,102,861	
Parks & Recreation	15,179,803	15,179,803	
Library Services	12,017,580	12,017,580	
Cultural Arts	6,258,318	6,258,318	
Human Services	15,083,683	15,083,683	
Community & Economic Dev't	25,162,022	25,162,022	
Non-Departmental	104,695,333	5,903,896	\$98,791,437
Total Operating Budget	\$573,906,612	\$475,115,175	\$98,791,437
Less Costs Covered by Service Charges	95,479,823		95,479,823
Net Operating Budget	\$478,426,789	\$475,115,175	\$3,311,614
<i>Percent of Total Operating Budget</i>	<i>100%</i>	<i>83%</i>	<i>17%</i>
<i>Percent of Net Operating Budget</i>	<i>100%</i>	<i>99%</i>	<i>1%</i>

Source: Mundie & Associates; City staff

In considering the fiscal impacts of a proposed project, it is useful first to pose questions that the analysis should answer. For this analysis of the proposed Gateway Community project, it is reasonable to pose the following questions:

- What impact will the proposed project have on the City's costs of delivering ongoing services and the revenues available to cover those costs?
- What effect does the project's location within a redevelopment project area have on its expected fiscal impact?
- Could circumstances beyond the City's control affect the project's fiscal impacts to a degree that the conclusions of the analysis would change?

Responses to these questions, based on the fiscal analysis of the proposed project, are presented beginning on page 70.

FISCAL IMPACT OF THE PROPOSED PROJECT ON THE CITY'S GENERAL FUND

The results of the fiscal analysis presented here are presented in constant dollars; that is, they are adjusted to remove the effects of inflation. In this case, the dollars are tied to FY 2007, which is the budget year that is used as the basis for the revenue and cost inputs to the analysis.

Constant dollars are used in preference to “current” (or “nominal”) dollars because they express amounts of revenues and costs in terms that we understand today. For example, with an assumed inflation rate of three percent per year, \$1.00 in FY 2007 would be worth \$1.23 in FY 2014 and \$1.75 in FY 2026. As a result, projected revenues and costs that are the same as today’s revenues and costs would appear to be much higher, just because of inflation. Using constant dollars eliminates this distortion.

To calculate amounts in constant dollars, the respective revenues are projected for future years in inflated dollars, and then discounted back to FY 2007 using a standardized discount rate. Inflation and discounting are discussed in Appendix B. Detailed assumptions about the various inflation rates that are applied to different revenue sources (or their determinants) are provided in Tables 28 and 29.

Revenues

The proposed Gateway Community project will generate revenues for the City of Oakland from the sources indicated in Table 31 and, more specifically, in Table 33. Assuming that the proposed development schedule (shown in Table 4) is met, City revenues from new development would begin to flow from the project in FY 2010.³³

Table 35 summarizes the amounts of revenue, by source, in the three key indicator years (FY 2014, midway through completion of the residential units; FY 2022, when development is completed; and FY 2026, five years after completion). All revenues in Table 35 are shown in constant (FY 2007) dollars.

Costs

Along with the revenues discussed above, the proposed project would generate a variety of costs for the City of Oakland (see Tables 32 and 34). Again, assuming that the proposed development schedule (shown in Table 4) is met, costs would be incurred beginning in FY 2010.

Table 36 summarizes the estimated costs, by type, in the three indicator years. Like the revenue estimates shown in Table 35, the costs are shown in constant (FY 2007) dollars.

³³ Property taxes from existing development would be generated prior to the commencement of new development.

Table 35
Gateway Community Project: Projected Revenues**
(Constant FY 2007 Dollars)

Source	FY 2014		FY 2022		FY 2026	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Property Taxes	\$231,831	44%	\$485,798	44%	\$509,132	45%
Sales & Use Taxes	113,692	21%	224,642	20%	224,642	20%
Motor Vehicle In Lieu Fee	5,703	1%	11,269	1%	11,269	1%
Utility Consumption Tax	78,102	15%	179,962	16%	194,352	17%
Real Estate Transfer Tax	34,868	7%	78,886	7%	85,193	8%
Fines & Penalties	62,799	12%	110,342	10%	104,054	9%
Grants & Subsidies	3,268	1%	5,743	1%	5,416	0%
Total ^a	\$530,264	100%	\$1,096,642	100%	\$1,134,058	100%

* Included sources only; see Table 33.

Note: Detail and totals may not agree because of independent rounding.

Source: Mundie & Associates

Table 36
Gateway Community Project: Projected Costs**
(Constant FY 2007 Dollars)

Use	FY 2014		FY 2022		FY 2026	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
General Government	\$172,929	17%	\$341,687	17%	\$341,687	17%
Police Services	470,987	47%	930,614	46%	930,614	45%
Fire Services	283,382	28%	559,929	27%	559,929	27%
Public Works	98,858	10%	195,333	10%	195,333	9%
Parks & Recreation	39,384	4%	77,819	4%	77,819	4%
Library Services	31,180	3%	61,608	3%	61,608	3%
Cultural Arts	16,237	2%	32,083	2%	32,083	2%
Human Services	39,135	4%	77,326	4%	77,326	4%
Comm. Econ. Dev't Ag'cy	65,283	6%	128,992	6%	128,992	6%
Non-Departmental	15,318	2%	30,266	1%	30,266	1%
Less Costs Covered by Service Charges	-223,547	-22%	-392,790	-19%	-370,404	-18%
Total	\$1,009,146	100%	\$2,042,865	100%	\$2,065,251	100%

* Included uses only; see Table 34.

Note: Detail and totals may not agree because of independent rounding.

Source: Mundie & Associates

Table 36 shows that, once project development is completed, the constant-dollar costs of providing services are thereafter expected to remain unchanged. The only exception to this general statement is that the cost of services covered by service charges is expected to decline, because service charges are expected to increase more slowly than inflation. (The effects of inflation on these costs are shown in Appendix B.)

Net Balance

The revenue and cost calculations presented in Tables 35 and 36 yield a negative fiscal impact on the City of Oakland. This impact, the net fiscal balance, is summarized for the three indicator years in Table 37.

The table indicates that – if the assumptions used in the analysis are reasonably accurate – the proposed project would generate a deficit in each of the indicator years; more broadly, deficits are projected for every year beginning with the completion of development on Site 1. This deficit is expected to increase over time (in FY 2007 dollars), from about \$197,000 in FY 2010 (not shown in the table) to about \$478,900 in FY 2014, and \$946,200 in FY 2022, and then decrease slightly to about \$931,200 in FY 2026. The cumulative deficit would increase each year: as shown in Table 37, this analysis estimates a cumulative deficit of about \$1.4 million in FY 2014, increasing to \$6.8 million for the 16-year period ending in FY 2022 and \$10.5 million for the 20-year period ending in FY 2026.

Table 37
Projected Net Fiscal Balance of the Gateway Community Project
(Constant FY 2007 Dollars)

<i>For fiscal year shown:</i>	FY 2014	FY 2022	FY 2026
Revenues	\$530,264	\$1,096,642	\$1,134,058
Costs	1,009,146	2,042,865	2,065,251
Balance	-\$478,882	-\$946,223	-\$931,193
Cumulative Balance	-\$1,399,661	-\$6,831,416	-\$10,596,126

Source: Mundie & Associates

With this cumulative net deficit projected for 2026 in mind, it is appropriate to consider the questions posed at the beginning of this chapter:

- **What impact will the proposed project have on the City’s costs of delivering ongoing services and the revenues available to cover those costs?**

The project is projected not to be fiscally beneficial for the City of Oakland’s General Fund: under the assumptions identified and applied in this chapter, the annual costs of providing City services to the site are expected to exceed the annual revenues contributed to the General Fund by a substantial amount over time.

The projected costs shown in Table 36 incorporate a conservative approach to fiscal analysis, by assuming that all costs included in the model would increase with popula-

tion growth. This approach may *overstate* actual cost increases. In reality, the costs of fire protection and public works are unlikely to increase at the projected pace: no new fire stations would be required, and no substantial new streets, street lights, traffic signals, median strips, or parks would be added to those already maintained by the City. If these costs were omitted, the net fiscal balance would still be negative, but less so than shown in Table 37. The net balance with and without these costs is shown in Table 38.

Table 38
Projected Net Fiscal Balance of the Gateway Community Project
Assuming No Change in Costs of Fire Protection or Public Works
(Constant FY 2007 Dollars)

	FY 2014	FY 2022	FY 2026
Revenues This Year	\$530,264	\$1,096,642	\$1,134,058
Costs This Year	626,906	1,287,603	1,309,989
Balance This Year	-96,641	-190,961	-175,931
Cumulative Balance	-\$225,282	-\$1,353,464	-\$2,097,128

Source: Mundie & Associates

These deficits are substantially lower than those shown in Table 37 (which projects cumulative balances of -\$1.4 million in FY 2014, -\$6.7 million in FY 2022, and -\$10.5 million in FY 2026).

▪ **Could factors beyond the City’s control affect the project’s fiscal impacts to a degree that the conclusions of the analysis would change?**

The fiscal balance projected by this analysis could be affected – either positively or negatively – by conditions beyond the City’s control.

Negative effects on the fiscal results, making the deficit even greater than anticipated, could follow from a variety of circumstances. A weak economy, for example, could:

- reduce the ultimate size of the project, which would reduce property taxes from the project itself and sales taxes from purchases by project residents. (A smaller project could also reduce the cost of providing City services, however.)
- extend the buildout schedule for the proposed project, which would slow the increase in population in the Fruitvale district, and in turn slow the increase sales taxes that result from purchases of retail goods and services.
- reduce the initial sales prices of homes, which would not affect the fiscal balance in the General Fund, but would reduce the amount of tax increment funding available to the Redevelopment Agency (including funding for affordable housing units).
- reduce the resale prices of homes and the frequency of resales, which would have the same effect as a reduction in the initial sales prices.
- reduce the amount of money that residents spend on taxable retail sales in Oakland, thereby reducing the City’s revenue from sales taxes.

Conversely, a strong economy – which could make the deficit smaller than anticipated – could:

- shorten the buildout schedule, adding the expected number of households (and support for retail sales, with corresponding sales tax revenues) earlier than expected.
- increase initial sales prices, which would not improve affordability or the condition of the General Fund but would increase the amount of funding available to the Redevelopment Agency, including funding for low- and moderate-income housing.
- increase the frequency of resale prices and resales (which would have the same effects as increased sales prices).
- increase the amount of money that residents spend on taxable retail sales in Oakland, thereby increasing City revenues from sales taxes.

The fiscal balance could also be affected by different rates of inflation. If the general inflation rate were higher than is assumed in this analysis, then it is likely that the inflation rate for housing prices and utilities would be higher as well. Some revenues and all costs would be altered by these conditions.

Impacts of Alternative Housing Affordability Programs on the Fiscal Impact of the Project

As noted in Chapter 5 (pp. 54-55), the project sponsors have discussed with the City several alternative approaches for providing affordable housing units on the project site. The two approaches most seriously considered – restricting the prices of some units or providing purchasing assistance for some units – would have different impacts on the fiscal analysis presented above:

- A program to provide price-restricted units would have the effect, over time, of limiting the increase in property tax revenues. This effect would result from the ceiling imposed on resale prices of the units to maintain their affordability to moderate-income households.
- A program to provide purchasing assistance would not affect property tax revenues, because the sales prices of the units would not be altered by the program. (Instead, purchasers' incomes available for housing payments would be supplemented.)

Other (non-fiscal) impacts of these two types of programs are discussed at the end of Chapter 5.

A NOTE ABOUT THE EFFECTS OF REDEVELOPMENT FINANCING

As suggested earlier in this report, the fiscal impacts of projects located in redevelopment areas will differ from the fiscal impacts of identical projects that are not in redevelopment areas, because redevelopment projects divert a portion of property tax revenues away from the General Fund. In the case of the Gateway Community project, the property tax increments that accrue to the Redevelopment Agency are projected to amount to \$14.2 million (FY 2007 dollars) between FY 2010 and FY 2026, with an additional \$13.0 million (FY 2007 dollars) set aside for housing. The cumulative contribution of property tax revenues to the General Fund (from the frozen assessment base and mandated pass-throughs) would amount to about \$5.4 million (FY 2007 dollars).

If the project site were not in a redevelopment project area, the property tax revenue from increases in assessed value would be divided among taxing entities in the same proportion as they are now. The project site is located in Tax Rate Area 17037: in this area, the City of Oakland collects 25.17 percent of the total property tax. Based on information about the current assessed value of the site and projections of the future assessed value, it is estimated that the General Fund would collect \$12.9 million through FY 2026 (in FY 2007 dollars).

This difference in property tax revenue would change the fiscal impact of the project: the cumulative deficit through FY 2026 would be reduced from \$10.5 million to \$3.1 million. With no increase in the costs of fire protection and public works, the project would generate a cumulative surplus through FY 2026 of \$5.4 million if it were not in a redevelopment project area.

Table 39 summarizes the impacts of location within a redevelopment project area on the fiscal balance of the Gateway Community project. The table provides two sets of comparisons: one assuming the “base case” projection of costs (Tables 36 and 37) and the other assuming no increases in the costs of fire protection and public works (Table 38). The table shows that in total – that is, considering both the General Fund and the Redevelopment Agency – the City would collect more property tax revenue if the proposed project is in a redevelopment project area than if it is not.³⁴ At the same time, the reduction in revenue to the General Fund with the project located in a redevelopment project area contributes substantially to the 20-year deficit generated by the project.

This condition – in which the diversion of property tax increments from the General Fund to the Redevelopment Fund substantially reduces the funding generated by a project for ongoing City services – is not unique to the Coliseum Redevelopment Project Area or to the City of Oakland: it is a fundamental fact that redevelopment efforts rely on tax increment financing to pay for the improvements and programs that are needed for revitalization. When a city adopts a redevelopment project area, it recognizes that the area in question will not become a fiscally contributing district unless the funds in question are explicitly desig-

³⁴ The difference – \$19.7 million – represents property tax revenues that would go to the City's General Fund, the County of Alameda, and the Oakland Unified School District if the site were not in a redevelopment project area.

nated, for a certain period of time, to fixing the conditions that contribute to blight. The point of redevelopment is to invest these funds in the area, so that conditions improve to a point where the district is physically – and, it is hoped, socially and fiscally – healthy. In the meantime, the diversion of property tax revenues has an adverse effect on the City’s General Fund.

**Table 39
Cumulative Fiscal Impact of the Gateway Community Project
With and Without Redevelopment
through FY 2026
(Constant FY 2007 Dollars)**

Base Case

	Project In a Redevelopment Area	Project Outside a Redevelopment Area
General Fund		
Cumulative Property Tax	\$5.4 million	\$12.9 million
Cumulative Total Revenues	\$12.3 million	\$19.8 million
Cumulative Costs	\$22.9 million	\$22.9 million
Cumulative Net Fiscal Balance	-\$10.6 million	-\$3.1 million
Redevelopment Agency		
Cum. Unrestricted Property Tax Increment	\$14.2 million	n.a.
Cumulative Housing Set-Aside	\$13.0 million	n.a.
Cumulative Total Revenue	\$27.2 million	n.a.
Sum of Cumulative Property Taxes to General Fund and Redevelopment Agency	\$32.6 million	\$12.9 million

Alternate Case: No Change in Costs of Fire Protection or Public Works

	Project In a Redevelopment Area	Project Outside a Redevelopment Area
General Fund		
Cumulative Property Tax	\$5.4 million	\$12.9 million
Cumulative Total Revenues	\$12.3 million	\$19.8 million
Cumulative Costs	\$14.4 million	\$14.4 million
Cumulative Net Fiscal Balance	-\$2.1 million	\$5.4 million
Redevelopment Agency		
Cum. Unrestricted Property Tax Increment	\$14.2 million	n.a.
Cumulative Housing Set-Aside	\$13.0 million	n.a.
Cumulative Total Revenue	\$27.2 million	n.a.
Sum of Cumulative Property Taxes to General Fund and Redevelopment Agency	\$32.6 million	\$12.9 million

Note: Detail and total may not agree because of independent rounding.

n.a.: not applicable (no revenue to Redevelopment Agency)

Source: Mundie & Associates

ESTIMATE OF FUTURE PROPERTY TAX INCREMENTS

How much property tax revenue would the Redevelopment Agency collect from the Gateway Community project?

In FY 2006, the assessed value of the site was approximately \$6.8 million. Allowing an increase of two percent during the past year (the maximum permitted by California law absent a change in ownership or development status), the value in FY 2007 is estimated at about \$7.0 million. This value generates a total tax increment of nearly \$15,000, of which the Redevelopment Agency collects about \$10,400. Of this amount, about \$3,700 is assigned to the Low- and Moderate Income Housing and the remaining \$6,700 is available for other uses. If these amounts were to increase at the rate of two percent per year through FY 2026, then the cumulative revenue collected in the Low- and Moderate Income Housing Fund would amount to about \$93,000 and the amount available for other uses would total about \$162,000.

Assuming that the project is completed with the characteristics assumed in this analysis, the Coliseum Redevelopment Project Area would collect total revenue from property tax equal to about \$27.2 million in FY 2007 dollars. Of that amount, about \$13.0 million would be designated for the Low and Moderate Income Housing Fund, to be used for the creation and preservation of low- and moderate-income housing units, or for housing subsidies to low- and moderate-income households. The remaining \$14.2 million would be available for capital improvement projects, revitalization programs, and other redevelopment projects in the Coliseum Redevelopment Project Area.

The following current public (non-housing-related) projects in the area, listed on the City's web site for the Coliseum Redevelopment Project Area, serve as examples of projects to which tax increment revenues might be applied:

- **Streetscape improvements**
 - Coliseum Transit Hub Streetscape Improvements: San Leandro Street between 73rd and 66th Avenues (completion in spring 2007).
 - Doolittle Drive and Airport Access Road Streetscape Improvements: part of the joint Airport Gateway Streetscape Project between the Cities of Oakland and San Leandro, the Port of Oakland and the Alameda County Transportation Authority (expected completion in December, 2007).
 - Hegenberger East Streetscape Improvements: Hegenberger Road east of Interstate 880 (expected completion by December, 2007).
 - Railroad Avenue Street Improvement: Railroad Avenue between 85th Avenue and Louisiana Street. (Completed in February 2006; a Phase 2 project to improve Railroad Avenue from Louisiana Street to 98th Avenue is in design development. Agency funding was approved in December 2006 for design of Phase 2.)
 - South Coliseum Way Streetscape Project: South Coliseum Way, primarily from Hegenberger to the south entrance of McAfee Coliseum. (Project design should be completed by November, 2007.)

- Edes Avenue Streetscape Project: Edes Avenue from 85th to Hegenberger Road. (Project design should be completed by November, 2007.)
 - 66th Avenue Streetscape Project: 66th Avenue between International Boulevard and San Leandro Street. (Project design is expected by March, 2008.)
- **Oakland Airport Connector:** a self-propelled automated aerial guideway system, traveling 3.2 miles along the median of Hegenberger Road from the Coliseum BART station to the Oakland International Airport, intended to support inter-regional linkages between national and international destinations and the Oakland International Airport.
- **Neighborhood Improvement Programs:**
 - Neighborhood Commercial Revitalization: efforts are focused along International Boulevard between 23rd Avenue and the San Leandro City border. Activities include the implementation of facade improvement projects and design and construction of streetscape improvements at four nodes along the corridor.
 - Neighborhood Project Initiative: intended to further blight reduction and beautification efforts through the funding of small-scale, community-initiated public/private improvement and infrastructure projects that currently have no other funding source. Seven neighborhood projects have been approved for the first round and are under implementation.
 - Infill Development Incentives Program: matching funds to developers and owners for predevelopment analysis; intended to encourage the exploration of residential and nonresidential development options for infill areas in the Coliseum Redevelopment Project Area.
 - Coliseum Tough on Blight Operation: an enhanced blight enforcement operation that monitors and aggressively pursues correction of blighting conditions within the Coliseum Project Area.

CONCLUSIONS ABOUT THE FISCAL IMPACTS OF GATEWAY COMMUNITY

Based on the analysis presented in this chapter, it appears that the Gateway Community project would have an adverse impact on the fiscal condition – that is, ongoing/recurring revenues and costs collected and incurred by the General Fund – of the City of Oakland. This conclusion is based on a set of assumptions that are likely to have overestimated costs (by including increases in the costs of fire protection and public works). An alternative set of assumptions (that the costs of fire protection and public works will not increase) also yields an adverse fiscal impact on the City’s General Fund, but at only a fraction of the “base case” projection.

This result is typical of new projects in redevelopment project areas, because the majority of new revenue, in the form of added property taxes, is collected by the Redevelopment Agency rather than the General Fund. The Redevelopment Agency uses these revenues to pay for capital improvements and other programs that will assist in the redevelopment/ revitalization of the project area, which are intended to provide a basis for long-term viability of the redevelopment project area.

In the specific case of Gateway Community:

- The “base case” analysis, which assumes increases in all City service costs covered by the General Fund, yields a cumulative deficit of \$106 million through FY 2026.
- The alternative analysis, which assumes no increases in the costs of fire protection or public works (because no fire stations or new streets would be added), yields a cumulative deficit of \$3.0 million through FY 2026.
- If the project were not located in a redevelopment project area, it would yield a cumulative deficit of about \$2.1 million in the base case and a surplus of about \$5.4 million in the alternative case.
- The project would generate a cumulative total of \$27.2 million in tax increment revenues to the Redevelopment Agency through FY 2026. Of this amount, about \$14.2 million would be available for general purposes and about \$13.0 million would be restricted to the Low and Moderate Income Housing Fund.
- Overall, the property taxes collected by the General Fund and the Redevelopment Agency would total about \$32.6 million. If the project were not located in a redevelopment project area, the property taxes collected by the General Fund would total \$13.0 million.

APPENDIX A

INVENTORY OF CITY OF OAKLAND HOUSING ASSISTANCE PROGRAMS

The Housing Element of the City of Oakland's General Plan (Chapter 7) describes the City's Affordable Housing Strategy, recapping the features of the Consolidated Plan for Housing and Community Development.³⁵ Key components of the strategy³⁶ are:

- **Preservation and expansion of the supply of affordable housing.** This component relies on the federal HOME program and the City's site acquisition and predevelopment loan programs (described in Part III.C.2.a of this chapter, below).
- **Creation of new opportunities for home ownership.** This component relies on the City's two first-time homebuyer programs (described in Part III.C.2.a of this chapter, below).
- **Expansion of rental assistance for very low income households.** Recognizing that production subsidies alone cannot bring housing prices within the reach of very low income households (especially those with less than 30 percent of the median income,³⁷ the City actively supports efforts by the Oakland Housing Authority to obtain additional Section 8 vouchers and to find new ways to make those vouchers more effective (including project-based assistance; in other words, reducing production costs). The Housing Element notes, however (p. 9), that the waiting list for Section 8 vouchers is three to five years, and the 2004 Consolidated Plan indicates that the City does not anticipate receiving any new Section 8 vouchers this year.³⁸
- **Conservation and rehabilitation of the existing housing stock.** This component relies on six programs identified in Appendix D (described in Part III.C.2.b of this chapter, below): four are for repairs to existing buildings and two are for improvements to existing buildings (removal of barriers to access and removal of lead-based paint).

More detail about the specific housing programs that comprise Oakland's affordable housing strategy follows:

³⁵ The Housing Element (pp. 7-4–7.6) summarizes the Consolidated Plan adopted in May, 2000; the most recent plan, available on the City's web site, was adopted in 2004. The summary that follows relies on the Housing Element for text but updates dollar figures and program information to reflect the current plan.

³⁶ This summary excludes components that address the housing needs of homeless families/individuals, seniors, and people with disabilities and programs to "promote fair housing and expanded housing choices" because they are more focused on population than on the housing stock.

³⁷ In 2004, 30 percent of median income for a four-person household was \$24,850 per year; for a two-person household, it was \$19,850 per year.

³⁸ See, for example, p. 27 of the 2004 Consolidated Plan.

a. Programs to Reduce Housing Prices

Appendix D of the Housing Element classifies four programs as housing development programs. These programs, which are intended to reduce housing development costs – and, consequently, housing prices – are:

- **Reducing the cost of land: Affordable Housing Site Acquisition Program.** If a developer of affordable housing cannot afford to purchase the site for a proposed project, the City purchases the site. The developer repays the purchase price and holding costs (insurance, property taxes, and maintenance) with interest within three years or when project construction starts, whichever comes first.

Proposed projects are eligible for this program if they contain at least 10 units, with at least 25 percent of the units affordable to low income households (households with no more than 80 percent of the median income). Eligible sites include vacant land and vacant buildings that are suitable for residential development; some sites with retail uses may be eligible as well.

Developers are eligible for this program if they meet the City's minimum developer qualifications, including successful prior development of at least three affordable housing projects.

This program is currently not operational because the available funding has been exhausted.

- **Reducing the cost of approvals/processing: Predevelopment Loan Program.** The City lends money – up to \$35,000 – to nonprofit organizations seeking to develop housing projects that have at least 20 percent of the units earmarked for lower income persons. These loans are intended to cover predevelopment costs, such as for feasibility analyses, loan applications, and preparation for syndication. Loans are made at an interest rate of six percent; they are repayable at the end of 18 months or when project financing is obtained, whichever comes first.

To be eligible for this program, developers must secure funding from other, non-City sources for an amount equal to one-half the requested loan amount.

- **Reducing the cost of production: Housing Development Program.** The City will lend eligible housing developers up to 40 percent of total development costs for new construction and substantial rehabilitation projects. Loans are for 30 to 55 years and carry an interest rate of three percent; payments are due if cash flow permits.

Proposed projects are eligible for this program if they contain at least 10 units. Rents and tenant incomes (for rental properties) and buyer incomes (for ownership properties) are restricted through regulatory agreements.

This program is used in part to extend the affordability restriction period for publicly-assisted affordable housing projects.

Developers are eligible for this program if they meet the City's minimum standards for experience and qualifications.

- **Reducing the cost of production: Vacant Housing Acquisition and Rehabilitation Program.** The City lends money – up to \$100,000 per unit – for the acquisition and rehabilitation of housing units that have been vacant for at least six months. These loans

are intended to serve as “gap financing” and may not exceed 40 percent of the total development cost for the affordable units.

For rental properties, the loan carries an interest rate of 3 percent and a term of 30 years, but if the cash flow is insufficient to make the payments, they may be deferred for the life of the loan.

For homeownership projects, the loan carries an interest rate of 0 percent if the units are sold to households with incomes no greater than 80 percent of the areawide median, and 10 percent if the units are sold to households with incomes between 81 percent and 120 percent of the median. Loans are repayable in 24 months or when the unit is sold, whichever comes first.

At least 40 percent of the units in rental projects must remain affordable for 55 years, and at least 40 percent of the units in homeownership projects must remain affordable for 45 years.

Eligible properties are vacant lots as well as single family homes and multi-family residential buildings in Oakland with up to 20 units that are blighted and have been vacant for at least six months prior to application. Scattered sites with up to 30 units may be assembled into one "project" to streamline the development process.

Eligible renters of affordable housing units in this program have incomes no greater than 80 percent of median. Eligible first-time homebuyers of affordable housing units have incomes no greater than 120 percent of median.

Eligible developers are non-profit and for-profit developers, contractors, and current property owners.

Appendix D of the Housing Element also includes two programs that provide assistance with down payments for owner-occupied units. These programs reduce the price of housing directly by providing subsidies to households:

- **Reducing the price of housing: First-time Homebuyers Mortgage Assistance Program (MAP).** The City lends up to \$50,000 to low-income households (households with no more than 80 percent of the median income) to purchase single family homes in the City of Oakland.

No repayment is required as long as the borrower occupies the unit that was purchased with this loan. If the borrower sells, refinances, or rents the property, then the entire amount must be repaid with interest (three percent simple interest).

- **Reducing the price of housing: Public Safety Employee and OUSD Teachers Down Payment Assistance Program.** The City lends up to \$20,000 to households of City public safety officials (sworn police officers, police dispatchers, sworn firefighters) and Oakland Unified School District certified K-12 teachers whose household incomes do not exceed 120 percent of the median income to purchase homes in the City of Oakland.

Eligible units include single-family homes, condominiums, townhomes, live/work units, and manufactured housing.

Loans are made for a term of 10 years. No payments are due during the first five years. Monthly payments of principal and interest (at a rate of six percent) must be made in years six through 10.

Appendix D includes a number of programs intended to maintain/preserve the existing supply of affordable housing:

- **Maintaining Existing Affordable Housing Units: HMIP Amortized Loan Program.** The City lends up to \$40,000 for a single-family unit plus \$5,000 for each additional unit up to four units to pay for rehabilitation of owner-occupied low- and moderate-income housing.

Eligible units are located in one of the seven Community Development Districts, which include West Oakland. The primary purpose of the loans is to correct code violations, but they may also be used for other maintenance needs.

Eligible borrowers are low- and moderate-income households meeting the program's income guidelines and demonstrating an ability to make the payments on the loan.

Loans are made for a term of up to 20 years, at a fixed interest rate of six percent.

- **Maintaining Existing Affordable Housing Units: HMIP Deferred Payment Loan Program.** The City lends up to \$40,000 for a single-family unit to pay for rehabilitation of owner-occupied low- and moderate-income housing.

Eligible units are located in one of the seven Community Development Districts. The only purpose of these loans is to correct code violations or repair major systems in danger of failure.

Eligible borrowers are low-income homeowners meeting the program's income guidelines.

Loans are made for an indefinite term: they are due and payable when the house is sold or title is transferred. For borrowers younger than 62 years of age, income is assessed every three years to determine ability to pay. No interest is charged, and no monthly payments are required.

- **Maintaining Existing Affordable Housing Units: Minor Home Repair Program.** Alameda County grants up to \$1,500 to pay for emergency repairs to owner-occupied housing units.

Eligible units are located in one of the seven Community Development Districts.

Eligible grantees are at least 62 years old or disabled, and meet program income guidelines.

- **Maintaining Existing Affordable Housing Units: Emergency Home Repair Program.** The City lends up to \$7,500 to pay for major emergency repairs – such as roof repairs, sewer repairs, or major mechanical systems – to owner-occupied housing units.

Eligible units are located in one of the seven Community Development Districts.

Eligible borrowers are owner-occupants and meet program income guidelines (income not exceeding 50 percent of area median income).

Loans carry no interest and require no monthly payments; they must be repaid when the home is sold or refinanced.

- **Maintaining Existing Affordable Housing Units: Other Programs.** The City of Oakland has two additional programs in this category: the Access Improvement Program and

the Lead Safe Homes Program. These two programs are designed to improve conditions in existing units:

- The **Access Improvement Program** provides grants of up to \$15,000 to remove architectural barriers, or grants of up to \$4,000 to construct new accessible units in buildings of three or fewer units. Owner-occupant grantees must agree to continue to live in the unit; owners of rental properties must agree to rent the property to a disabled tenant for five years. Eligible units are located in one of the seven Community Development Districts.
- The **Lead Safe Homes Program** provides grants to address lead paint hazards and code violations for deteriorated exterior paint on owner-occupied homes. The amount of the grant depends on the property. Eligible units are located in one of the seven Community Development Districts; eligible borrowers must meet program income guidelines (income not exceeding 80 percent of area median income).

Goal 5 of the Housing Element is the preservation of affordable rental housing. The supporting policies and actions include a variety of efforts to monitor the status of federally assisted projects and assist the owners of those projects in applying for funding to extend the affordability period. There are no programs focused on extending affordability contracts, although the Housing Development Program may be used for this purpose.

b. Other City Programs

The Housing Element (Chapter 7) also includes a variety of action programs to implement the City's housing goals and policies. Because these programs are more policy-based than project-based, they are described in more general terms than the programs detailed in Appendix D. Action programs relevant to the creation and maintenance/preservation of affordable housing supplies are summarized below, sorted (1) by whether they affect housing resources directly or indirectly and (2) by the mechanisms they employ to reducing housing costs or prices (based on the list above, in Part C.1.a of this chapter).³⁹

Programs with Indirect Effects on Housing Supply or Price

- **Programs to reduce the cost of land:** for example, make sites owned by the Redevelopment Agency available for residential development projects; increase allowable residential densities in strategic locations; make additional areas available live/work or residential mixed use projects; ease regulations governing second units in single-family zones; provide density bonuses for projects that provide threshold numbers of low-and/or moderate-income or senior units; develop a community land trust program to provide sites; and reviewing property development standards for small infill lots and mixed-use areas.
- **Programs to reduce the cost of approvals/processing:** for example, provide for expedited and/or streamlined environmental review of certain major housing development

³⁹ This list omits action programs that are implemented by one or more of the programs listed in Appendix D. For example, Action 1.1.2, Assist Developers with Site Assembly, is implemented by the Site Acquisition Program and the Predevelopment Loan Program.

projects in selected locations (e.g., downtown); allow multi-family housing as of right (no conditional use permit required) in specified residential zones, and by conditional use permit in specified commercial zones; (continue to) use objective and explicit approval criteria in the discretionary permit process for multifamily residential projects; implement a one-stop permit process for residential development applications; expedite review of affordable housing projects; and use Planned Unit Development zoning if necessary to enhance development feasibility;

- **Programs to reduce the cost of housing production:** for example, allow mobile homes and manufactured housing in single family residential districts consistent with adopted City regulations; allow the conversion of existing industrial and commercial buildings to joint work/live units in specific locations; allow the conversion of nonresidential downtown buildings to residentially-oriented joint living and working quarters; use flexible parking standards and open space standards in selected areas to enhance project feasibility; and require only those site improvements necessary to meet the needs of residential projects and to mitigate offsite environmental impacts.
- **Programs to reduce the price of housing:** for example, (continue to) operate a lease-purchase program (through the East Bay/Delta Housing and Finance Agency) to assist renters to transition to homeownership; work with the Oakland Housing Authority to develop an effective program to use Section 8 assistance for homeownership; seek voluntary agreements with developers to include affordable units in redevelopment areas and other large market-rate housing developments; and control the resale prices of units in assisted projects to assure that those units remain affordable.

Programs with Direct Effects on Housing Supply or Price

The following programs, which would increase the supply of affordable housing through production of new units or maintain the existing supply of publicly-assisted affordable units are considered in more detail:

- **Action 2.3.1: Density Bonus Ordinance**

Projects could obtain a 25 percent density bonus if at least 20 percent of the units in the project are affordable to low-income households, or 10 percent are affordable to very low-income households, or 50 percent are affordable to moderate-income households *and* 10 percent are affordable to low-income households, or 50 percent are designated for seniors, or, in a condominium project, 20 percent are affordable to moderate-income households.

In addition, the City may permit density bonuses of up to 100 percent for projects that provide additional affordable units, subject to a use permit.

This density bonus program effectively reduces the cost of land per housing unit, because it provides free land for the bonus units.

Whether this program is attractive to housing developers depends on a variety of factors, including, for example (1) whether the cost of building the additional housing units increases the cost of the project disproportionately (e.g., moves the project to a different type of construction with higher costs); (2) whether the cost of producing the additional units is lower than the affordable purchase price or value of the rental unit;

(3) whether the market will consume housing at the higher density; and (4) whether the higher-density project will face increased political opposition.

▪ **Action 2.4.2 Case-by-Case Negotiation**

Seek voluntary agreements with individual developers to include affordable units in redevelopment areas and other large market-rate housing developments.

This program reduces the price of housing to the consumer directly: no subsidies that would reduce production costs are involved.

This program would seem to be directly applicable to the Wood Street project; in fact, some commenters on the DEIR have called for an inclusionary requirement for the project.⁴⁰

Absent a density bonus as provided by Action 2.3.1, this program would shift the cost burden of the affordable units (that is, the difference between the obtainable market price of a unit and the price affordable to a low- or moderate-income household) to either (1) the landowner, assuming that the land is owned by a party other than the developer, or (2) the purchasers of market-rate units, or (3) the developer.

For projects where the land purchase price has not been set, the City may have some ability to negotiate the inclusion of affordable units, because the developer can still try to pass the cost of those units (that is, the foregone revenue) on to the landowner in the form of a reduced purchase price. In this case, the landowner effectively subsidizes the affordable units.

For projects where the land has already been purchased, the City may have some ability to negotiate *if* the prices of the market rate units can be increased to cover all or most of the cost (foregone revenue) of the affordable units. In this case, it is the purchasers of the market-rate units who subsidize the affordable units.

For projects where the land has been purchased and the prices of the market-rate units cannot be increased – either because of a goal to provide housing at a relatively low price or because production costs dictate a price at or near the top of the market – the City has little ability to negotiate for affordable units. The cost of affordable units would translate into a reduction in the developer's profit (or the financing entity's return on investment); if this reduction is too great, then the developer or financier will abandon the project.

Programs that Would Provide Funding for Housing Subsidies

Programs that would directly affect the production of new affordable housing or reduce the price of that housing rely critically on the availability of funding. The Housing Element contains a number of actions intended to increase funding:

- **Programs to generate funding for housing programs:** for example, increasing the proportion of tax increment revenue collected in redevelopment project areas that is set

⁴⁰ See, for example, comments from Margaretta Lin, Director of Community Economic Development, East Bay Community Law Center, October 21, 2004; Just Cause Oakland, Coalition for West Oakland Revitalization; East Bay Community Law Center, and Wilson Sonsini Goodrich and Rosati, November 15, 2004, p. 10-11 and 12; Oakland Tenants Union, November 5, 2004; Urban Ecology, November 12, 2004.

aside for housing projects/programs; adopting a jobs/housing impact fee, to be imposed on nonresidential development (this “linkage fee,” which applies to office and warehouse/distribution development, goes into effect on July 1, 2005).

3. Federal and State Programs Used by the City of Oakland

The City of Oakland relies on several federal and state housing programs to help fund production assistance for low- and moderate-income housing. In general, these programs are used to fund the City of Oakland housing programs described in Appendix D of the Housing Element.

APPENDIX B THE EFFECTS OF INFLATION

The regulations that govern public finance in California virtually dictate that costs and revenues will increase (inflate) at different rates in the future:

- A few revenues – most notably, sales tax – and virtually all costs (except those governed by contracts with no inflation adjustment) increase with the general rate of inflation.
- Locally-imposed taxes and fees cannot be changed without approval of the electorate. For this reason, they are expected to increase more slowly than the general inflation rate.
- Some conditions that contribute to revenues or costs are likely to grow more rapidly than the overall rate of inflation. These conditions include housing prices and utility prices.
- Some revenues – most notably, transfers from the state and federal government – are uncertain. For a conservative analysis, no increase (on a per capita basis) in these revenues is expected in the future.

This report provides revenue and cost estimates for the three indicator years – FY 2014, FY 2022, and FY 2026 – in constant FY 2007 dollars. To reflect the differential inflation rates, however, the model first inflates all dollar amounts to their future year values. Table B1 illustrates the effects of inflation on \$1 over time by reporting the future value of \$1 in the indicator years used in the report.

**Table B1
Effects of Inflation**

Inflation Rate	Model Applications	Dollars Needed in Future Years to Pay for Goods/Services Selling for \$1 in 2006			
		FY 2007	FY 2014	FY 2022	FY 2026
1.50%	Fines & penalties; grants & subsidies	\$1.00	\$1.11	\$1.25	\$1.33
3.00%	General inflation rate; price of housing, sale value of non-residential building space	\$1.00	\$1.23	\$1.56	\$1.75
5.00%	Utilities	\$1.00	\$1.41	\$2.08	\$2.53

After inflating revenue and costs estimates to future year prices, the model “discounts” those future, differently-inflated projections to today’s values. The discounting step is needed to reflect the fact that the utility of future dollars is not as great as that of dollars currently in hand. Just as it would require, for example, \$1.55 in the year 2015 to purchase goods that would cost \$1.00 today if the inflation rate were three percent per year (see Table B1), it would require less than \$1.00 today to purchase something that will cost \$1.00 in 2015.

In this analysis, a discount rate of 3.0 percent is used. This rate is the same as the general rate of inflation assumed in the analysis.

Because the methodology first inflates dollar amounts to future values at different inflation rates (shown in Table B1) and subsequently brings them back to them to current values all at the same discount rate, amounts expressed in constant dollars may vary in unexpected ways. For example:

- \$1 inflated at a rate of 3.0 percent per year (the assumed general inflation rate) and then discounted back to present value at the same rate has a value of \$1 in constant FY 2007 dollars.
- \$1 inflated at a rate of 5.0 percent per year (the assumed rate for utilities) and then discounted back to present value at a rate of 3.0 percent per year has a value greater than \$1 in constant FY 2007 dollars.
- \$1 inflated at a rate of 1.5 percent per year (the assumed rate for fines & penalties and for grants & subsidies) and then discounted back to present value at a rate of 3.0 percent per year has a value less than \$1 in constant FY 2007 dollars.

Table B2 illustrates the value in constant FY 2007 dollars of \$1 inflated at the various rates shown in Table B1 for different numbers of years and then discounted to back to present value.

**Table B2
Effects of Discounting**

Inflation Rate	Dollars Needed in 2006 to Pay for Goods/Services Selling for \$1 in Future Years*			
	FY 2007	FY 2014	FY 2022	FY 2026
1.5%	\$1.00	\$0.71	\$0.80	\$0.76
3.0%	\$1.00	\$0.79	\$1.00	\$1.00
5.0%	\$1.00	\$0.90	\$1.33	\$1.44

* Dollar amounts shown are inflated to the future year shown at the top of the column at the inflation rates shown and then discounted back to 2006 dollars at a rate of 3.0 percent per year.

APPENDIX C

CALCULATION OF PROPERTY TAX INCREMENTS

The estimate of property tax increments available to the Redevelopment Agency is calculated using the following steps:

1. Estimate “frozen base” assessed value

Property tax increments collected by the Redevelopment Agency represent the increase in property taxes in a project area compared to the property taxes paid at the time the subject redevelopment project area was established.

At the time a redevelopment project area is adopted, the assessed value of property within the area is “frozen” for the purposes of property taxes paid to all local taxing entities. Thereafter, the Redevelopment Agency collects the taxes on all increases in assessed value (except for certain pass-throughs to the other agencies that are specified in State law.⁴¹

The Gateway Community project site is located in the Coliseum Redevelopment Project Area, which was established in FY 1995. The “frozen base” value of the site used in this analysis has been estimated by deflating the current assessed value by two percent per year since FY 1995.⁴²

The current (FY 2006) assessed value of the site is approximately \$6.8 million, as shown in Table C1. Assuming increases in the assessed value of the site equal to two percent per year from that time, the “frozen base” value of the site is estimated at \$5,481,046.

Table C1
Current (FY 2006) Assessed Value of the Project Site

Parcel Number	Total Taxable Value
25-701-6-4	\$3,713,701
25-697-2	332,935
25-697-3-6	673,905
25-697-7-6	217,917
25-697-7-7	811,430
25-693-3-3	372,300
25-693-4	369,539
25-693-5	158,972
25-693-8	164,293
Total	\$6,814,992

Source: Alameda County Assessor’s Office

⁴¹ See California Health and Safety Code, Section 33607.5.

⁴² Two percent per year is the maximum increase in assessed value permitted in the absence of changes of ownership or modifications to the site. This calculation assumes, therefore, that no change has been made to the improvements on the property since 1995.

2. Estimate assessed value of new development

The first step is to project changes in assessed value of the project over time. This projection uses the development schedule and estimated market values provided by the project sponsor and estimates those values over a 15-year period assuming that 10 percent of the units will be sold each year, and that market values will increase by five percent each year.

The buildout schedule, by type of unit, is shown in Table C2. The estimated market values of the various development types are shown in Table C3, and the projected assessed value of the project is summarized in Table C4.

Table C2
Development Schedule, by Type

Fiscal Year	Residential (Units)						Commercial (Sq. Ft.)		
	Townhouses		Flats			Total		This Year	Cumulative
	2 BR, 2.5 BA	3 BR, 2.5 BA	1 BR, 1 BA	2 BR, 2 BA	3 BR, 3 BA	This Year	Cumulative		
2006	0	0	0	0	0	0	0	0	0
2007	0	0	0	0	0	0	0	0	0
2008	0	0	0	0	0	0	0	0	0
2009	0	0	0	0	0	0	0	0	0
2010	6	9	78	69	18	180	180	0	0
2011	0	0	0	0	0	0	180	0	0
2012	0	0	0	0	0	0	180	2,900	2,900
2013	0	9	69	39	13	130	310	2,900	5,800
2014	0	9	46	35	10	100	410	0	5,800
2015	0	0	0	0	0	0	410	0	5,800
2016	0	0	0	0	0	0	410	0	5,800
2017	0	6	48	35	11	100	510	7,100	12,910
2018	0	0	0	0	0	0	510	0	12,910
2019	0	0	75	55	15	145	655	13,040	25,950
2020	0	0	0	0	0	0	655	0	25,950
2021	0	0	0	0	0	0	655	0	25,950
2022	1	3	74	61	16	155	810	0	25,950
Total	7	36	390	294	83	810		25,950	

Source: Pacific Thomas Capital

**Table C3
Initial Market Values**

Type of Development			Value
Residential (value per unit)	Townhouses	2 BR, 2.5 BA	\$645,000
		3 BR, 2.5 BA	700,000
	Flats	1 BR, 1 BA	405,000
		2 BR, 2 BA	475,000
		3 BR, 3 BA	565,000
Commercial (value per square foot)			175

Source: Pacific Thomas Capital

**Table C4
Cumulative Assessed Value of the Proposed Project
(Current Dollars; 000s)**

Fiscal Year	Residential ^a					Commer cial	Total
	Townhouses		Flats				
	2 BR, 2.5 BA	3 BR, 2.5 BA	1 BR, 1 BA	2 BR, 2 BA	3 BR, 3 BA		
2006	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2007	0	0	0	0	0	0	0
2008	0	0	0	0	0	0	0
2009	0	0	0	0	0	0	0
2010	4,782	7,794	39,087	40,554	12,581	0	104,799
2011	4,888	7,960	39,915	41,412	12,849	0	107,025
2012	5,019	8,155	40,879	42,411	13,164	0	109,629
2013	5,174	17,401	82,005	70,085	24,035	637	199,338
2014	5,351	27,319	112,092	96,914	33,147	1,305	276,128
2015	5,549	28,027	115,015	99,491	34,017	1,331	283,431
2016	5,767	28,832	118,301	102,378	34,994	1,358	291,629
2017	6,005	36,988	155,811	134,559	46,893	3,142	383,398
2018	6,263	38,069	160,556	138,726	48,305	3,205	395,124
2019	6,540	39,260	224,128	193,421	66,179	6,687	536,214
2020	6,836	40,563	231,120	199,445	68,280	6,821	553,064
2021	7,151	41,978	238,812	206,065	70,592	6,957	571,556
2022	8,891	48,329	313,764	277,673	93,118	7,096	748,871
2023	9,252	50,236	324,238	286,861	96,185	7,238	774,011
2024	9,641	52,286	335,663	296,888	99,531	7,383	801,391
2025	10,059	54,481	348,052	307,764	103,158	7,531	831,044
2026	10,506	56,825	361,421	319,504	107,072	7,681	863,009

^a Assumes that 10 percent of existing housing units are sold each year; housing prices increase by five percent per year.

^b Assumes no sales of commercial space.

Source: Mundie & Associates

3. Subtract existing assessed value

The FY 2006 assessed value of the site, summarized in Table C1, is assigned to project phases as shown in Table C5.

The net increase in assessed value of the site is calculated by subtracting the current assessed value shown in Table C5 (adjusted over time for years before construction begins on each phase) from the project assessed value of the development. This calculation is shown in Table C6.

**Table C5
Assignment of Existing Assessed Value to Project Phases**

Phase	Assessor's Parcels	Assessed Value
Phase 1-2	25-701-6-4	\$3,713,701
Phase 3-4	25-697-2, 25-697-3-6, 25-697-7-6, 25-697-7-7	\$2,036,187
Phase 5-6	25-693-3-3, 25-693-4, 25-693-5, 25-693-8	\$1,065,104
Total		\$6,814,992

Source: Alameda County Assessor's Office

4. Calculate the total property tax increment

The total property tax increment is calculated by subtracting the value of the frozen base from the projected assessed value of the site, and then multiplying by the tax rate. The total tax rate is one percent.

The projected total tax increment for the Gateway Community site is shown in Table C7.

5. Allocate a Portion of Tax Increment Funds to the Low- and Moderate-Income Housing Fund

In Oakland, 25 percent of tax increments collected in redevelopment project areas are allocated to the Low- and Moderate-Income Housing Fund. This allocation is shown in Table C8.

Table C6
Total Projected Assessed Value on the Project Site
(Current Dollars; 000s)

Fiscal Year	Project (from Table C4)	Pre-Project Condition			Total
		Phase 1-2	Phase 3-4	Phase 5-6	
2006	\$0	\$3,714	\$2,036	\$1,065	\$6,815
2007	0	3,788	2,077	1,086	6,951
2008	0	3,864	2,118	1,108	7,090
2009	0	3,941	2,161	1,130	7,232
2010	104,799	4,020	2,204	1,153	112,176
2011	107,025	0	2,248	1,176	110,449
2012	109,629	0	2,293	1,199	113,122
2013	199,338	0	2,339	1,223	202,900
2014	276,128	0	0	1,248	277,376
2015	283,431	0	0	0	283,431
2016	291,629	0	0	0	291,629
2017	383,398	0	0	0	383,398
2018	395,124	0	0	0	395,124
2019	536,214	0	0	0	536,214
2020	553,064	0	0	0	553,064
2021	571,556	0	0	0	571,556
2022	748,871	0	0	0	748,871
2023	774,011	0	0	0	774,011
2024	801,391	0	0	0	801,391
2025	831,044	0	0	0	831,044
2026	863,009	0	0	0	863,009

Source: Mundie & Associates

Table C7
Projected Total Property Tax Increment
(Current Dollars; 000s)^a

Fiscal Year	Base Year Assessed Value^b	Assessed Value (from Table C6)	Assessed Value Increase	Increment^c
2006	\$5,481	\$6,815	\$1,334	\$13
2007	5,481	6,951	1,470	15
2008	5,481	7,090	1,609	16
2009	5,481	7,232	1,751	18
2010	5,481	112,176	106,695	1,067
2011	5,481	110,449	104,968	1,050
2012	5,481	113,122	107,641	1,076
2013	5,481	202,900	197,419	1,974
2014	5,481	277,376	271,895	2,719
2015	5,481	283,431	277,950	2,779
2016	5,481	291,629	286,148	2,861
2017	5,481	383,398	377,917	3,779
2018	5,481	395,124	389,643	3,896
2019	5,481	536,214	530,733	5,307
2020	5,481	553,064	547,583	5,476
2021	5,481	571,556	566,075	5,661
2022	5,481	748,871	743,390	7,434
2023	5,481	774,011	768,530	7,685
2024	5,481	801,391	795,910	7,959
2025	5,481	831,044	825,563	8,256
2026	5,481	863,009	857,528	8,575

^a Revenues attributable to the project begin in FY 2010, with completion of Phase 1.

^b See discussion in Step 1.

^c Tax increment is one percent of the increase in assessed value over the frozen base.

Source: Mundie & Associates

Table C8
Allocation of Tax Increments to the Low- and Moderate-Income Housing Fund
(Current Dollars; 000s)^a

Fiscal Year	Total Tax Increment (from Table C7)	Housing Set-Aside (25% of Total)	Increment Net of Housing Set-Aside
2006	\$13	\$3	\$10
2007	15	4	11
2008	16	4	12
2009	18	4	13
2010	1,067	267	800
2011	1,050	262	787
2012	1,076	269	807
2013	1,974	494	1,481
2014	2,719	680	2,039
2015	2,779	695	2,085
2016	2,861	715	2,146
2017	3,779	945	2,834
2018	3,896	974	2,922
2019	5,307	1,327	3,980
2020	5,476	1,369	4,107
2021	5,661	1,415	4,246
2022	7,434	1,858	5,575
2023	7,685	1,921	5,764
2024	7,959	1,990	5,969
2025	8,256	2,064	6,192
2026	8,575	2,144	6,431

^a Revenues attributable to the project begin in FY 2010, with completion of Phase 1.

Source: Mundie & Associates

6. Calculate Additional Deductions from Revenue to Redevelopment Agency

After funds are set aside for the Low- and Moderate-Income Housing Fund, other deductions from the total property tax increment that must be made before the Agency receives the remainder are:

- Pass-throughs to other taxing entities. California Redevelopment Law requires that a portion of the tax increment be passed along to other entities that would have received a portion of the tax increment in the absence of a redevelopment project area. These statutory pass-throughs replace the previous arrangement, in which the entities negotiated pass-throughs each time a redevelopment project area was adopted. The amount of the pass-through increases in years 11 and 31 of the redevelopment project.

- ERAF shifts. The Educational Revenue Augmentation Fund (ERAF) was first established in 1992 to enhance the amount of funding available for education (to conform to the mandate of Proposition 98). The ERAF shift reassigns property taxes from local government to school funding. For this analysis, ERAF shifts are assumed to continue at their FY 2006 levels.

After the pass-throughs to other agencies (including the City of Oakland) and ERAF shifts are deducted, the net tax increment revenue is collected by the Redevelopment Agency for general permitted uses. The revenue stream is summarized in Table C9.

Table C9
Net Tax Increment Revenue Collected by the Redevelopment Agency
(Current Dollars; 000s)^a

Fiscal Year	Increment Net of Housing Set-Aside	Distributions to Other Agencies	ERAF Payment (Calculated)^b	Available to Agency
2006	\$10	\$3	\$1	\$6
2007	11	3	1	7
2008	12	4	1	7
2009	13	4	2	7
2010	800	421	85	294
2011	787	414	84	289
2012	807	425	86	297
2013	1,481	782	157	542
2014	2,039	1,078	216	745
2015	2,085	1,102	221	762
2016	2,146	1,135	227	784
2017	2,834	1,499	300	1,035
2018	2,922	1,546	310	1,067
2019	3,980	2,107	422	1,452
2020	4,107	2,174	435	1,498
2021	4,246	2,247	450	1,549
2022	5,575	2,952	591	2,033
2023	5,764	3,052	610	2,101
2024	5,969	3,161	632	2,176
2025	6,192	3,320	654	2,218
2026	6,431	3,492	677	2,263

^a Revenues attributable to the project begin in FY 2010, with completion of Phase 1.

^b ERAF shift on gross tax increment: 5.12%
ERAF shift on net tax increment: 4.86%

Source: Mundie & Associates

7. Convert Revenue Streams to Constant Dollars

The projections of tax increment revenue shown in Tables C6 through C9 are shown in current dollars; that is, they include the effects of inflation over time. The figures reported in the main text of the report are expressed in constant FY 2007 dollars; that is, they remove the effects of inflation over time. The use of constant dollars is advantageous because it expresses amounts in terms that make sense today (e.g., in comparison to current costs and revenue).

Table C10 converts the projections of revenues that will accrue to the Low- and Moderate-Income Housing Fund and the Redevelopment Agency to constant dollars, using a discount rate of three percent per year.

Table C10
Housing Set-Aside Funds and Net Tax Increment Revenue
Generated by the Proposed Gateway Community Project^a
(Current Dollars and Constant Dollars; 000s)

Year	Current Dollars		Constant Dollars		
	Housing	Other	Housing	Other	Total
2010	\$267	\$294	\$244	\$269	\$513
2011	262	289	233	257	490
2012	269	297	232	256	488
2013	494	542	413	454	867
2014	680	745	553	606	1,159
2015	695	762	549	601	1,150
2016	715	784	548	601	1,149
2017	945	1,035	703	770	1,473
2018	974	1,067	704	771	1,474
2019	1,327	1,452	931	1,018	1,949
2020	1,369	1,498	932	1,020	1,952
2021	1,415	1,549	936	1,024	1,959
2022	1,858	2,033	1,193	1,305	2,498
2023	1,921	2,101	1,197	1,310	2,507
2024	1,990	2,176	1,204	1,317	2,520
2025	2,064	2,218	1,212	1,303	2,515
2026	2,144	2,263	1,223	1,290	2,513
Total			\$13,006	\$14,170	\$27,177

^a Revenues attributable to the project begin in FY 2010, with completion of Phase 1.

Source: Mundie & Associates