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R. JAMES DIEPENBROCK
[1929-2002]

October 3, 2005

Via U.S. Mail and E-mail to: Peter.Brundage@SacLAFCo.org

Mr. Peter Brundage
Executive Officer
Sacramento Local Agency Formation Commission
1121 L Street, Suite 100
Sacramento, CA 95814

RE: Notice of Preparation of a Program Environmental Impact Report for the Amendment of the Sphere of Influence for the Sacramento Municipal Utility District (SMUD) and Annexation by SMUD of the Cities of West Sacramento, Davis and Woodland, and portions of Unincorporated Areas of Yolo County project.

Dear Mr. Brundage:

I understand that the Sacramento Local Agency Formation Commission (LAFCO) is preparing an Environmental Impact Report for the Amendment of the Sphere of Influence for the Sacramento Municipal Utility District (SMUD) and Annexation by SMUD of the Cities of West Sacramento, Davis and Woodland, and portions of Unincorporated Areas of Yolo County Project.

I have reviewed the Notice of Preparation your Commission has prepared for the project and I would like to suggest that you consider the following issues as you prepare that Report, all of which relate to a proposal to consider locating a new double circuit line connecting Elverta Substation to Woodland Substation along Elverta Road. I appreciate that LAFCO is preparing a Program EIR only, but because the issues are so significant, I believe they should be considered in light of the Study Area within which SMUD is proposing to place certain power lines.

For the reasons discussed below, on behalf of Brookfield Land Company and the owners of more than 1,800 acres which border or are in the immediate vicinity of Elverta Road, we ask that SMUD select (and LAFCO recommend) an alternative which does not impact Elverta Road.

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DIEPENBROCK HARRISON

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- 1. Negative Impacts on Joint Vision Development Area.** The Elverta Road alignment will adversely impact the Joint Vision Development Area. The Joint Vision Development Area is an area designated by the City of Sacramento and the County of Sacramento as a future development area serving not just the City and County but the broader region. The Joint Vision concept is memorialized in a Memorandum of Understanding adopted by Resolutions of the County of Sacramento and the City of Sacramento on December 10, 2002 (copy enclosed). The Joint Vision calls for a major growth area close to the City's urban core, extending from Elkhorn Boulevard to one mile north of Elverta Road. SMUD's double circuit line will severely impact this proposed development along Elverta Road in that (i) the number of homes which can be built will be reduced due to loss of developable acreage and setbacks; (ii) circulation to the Joint Vision area will be impaired north of Elverta Road; (iii) the value of remaining land will be reduced; and (iv) urban sprawl will be encouraged by reducing developable land and necessitating substantial buffers. We ask that LAFCO consider the importance of the Joint Vision area to the region and avoid any impacts.
- 2. Negative Impacts on "Blueprint" Policies.** In December 2004, the Sacramento Area Council of Governments ("SACOG") Board of Directors adopted the "Preferred Blueprint Alternative", which adopted broad ranging regional policies for the greater Sacramento region. Preparatory to adopting the "Blueprint", SACOG completed a major planning effort involving citizens throughout the region, in an effort to help shape the urban development process in accordance with "smart growth" principles. Critical "Blueprint" principles include compact development, much higher densities, avoidance of sprawl by developing maximum densities close to urban cores, and transit-oriented development. Under "Blueprint" principles the Natomas Joint Vision area is slated for major residential development that will serve to improve the job/housing balance in the City of Sacramento, aid regional economic development, and provide dense urban development in accordance with "smart growth" principles. Extending overhead power lines through a proposed dense development area will conflict with "Blueprint" principles seeking to maximize development close to urban centers where jobs are plentiful and transit available.
- 3. Negative Impacts on Light Rail Extension.** Both the Joint Vision and the SACOG "Blueprint" acknowledge the importance of public transportation and the opportunity the Joint Vision will provide to add

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additional ridership to Regional Transit's proposed light rail extension to Sacramento International Airport. This potential additional ridership resulting from high residential densities in this region could be a critical element in obtaining federal support for the light rail extension.

4. **The proposed Elverta Road alignment interferes with the proposed new runway** at Sacramento International Airport as it would place structures within the required buffer zone. The Airport is a major SMUD client and important to the entire region and alternatives which severely impact the Airport should not be selected.
5. **Loss of Economic Potential.** As to the economic importance of the Joint Vision area, I enclose a copy of Dr. J. Robert Fountain's recent report which highlights Natomas's crucial regional economic role. For example, on page 19 of the report, Dr. Fountain reports that the adjacent North Natomas Community Plan produces a total output of \$145 million and supports 1,138 jobs in the City of Sacramento. The City and County hope for a similar economic impact from the Joint Vision. We believe that by reducing densities and developable acreage, the Elverta Road alignment adversely impacts a crucial regional economic engine. We ask that LAFCO give careful consideration to these concerns.
6. **Adverse Impacts on Interchange.** In order to accommodate the Joint Vision there will be a new interchange at SR 99 and Elverta Road. The new interchange will require a minimum of 35 acres for a 6-lane overpass, 2-lane on-off ramps at each quadrant. As we see it, the SMUD power lines and the new interchange are incompatible in all respects.
7. **School Siting Issues.** As you are aware, State of California standards preclude locating public schools within a substantial distance of any parcel containing high voltage power lines. By extending the SMUD lines along the north side of Elverta Road, substantial areas of proposed development will be off limits for schools, notwithstanding that these may be the preferred locations.
8. **Additional Costs.** We respectfully ask that LAFCO and SMUD take into the account the very high value of this development land. In its cost analysis and budget planning, SMUD will want to plan on significant acquisition costs, as the supply of development land within the Sacramento urban core is growing very scarce and exceedingly valuable. In addition, there will be additional costs for severance damages to

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adjacent land and for setbacks. While we appreciate that cost is not the only consideration SMUD (or LAFCO) will need to take into account, we believe very high land acquisition costs are a valid concern and should play a role in the decision-making process.

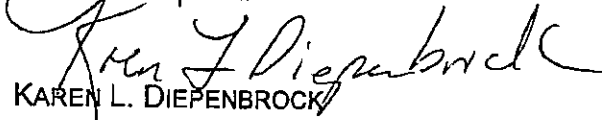
9. **Community Opposition.** Because the SMUD lines are incompatible with the proposed high density residential and commercial development in this location, we believe there will be significant landowner, community and governmental opposition to the Elverta Road alignment. The City of Sacramento has already expressed its opposition to this location to SMUD. While we appreciate that opposition alone cannot be a reason to eliminate this alternative, the likelihood of strong community opposition based on legitimate planning principles and long adopted plans strongly suggests that the Elverta Road alignment should not be selected.

We respectfully ask that LAFCO consider the issues we have identified and recommend against the Elverta Road location.

Very truly yours,

Diepenbrock Harrison

A Professional Corporation



KAREN L. DIEPENBROCK

KLD:nvl
enclosures

RESOLUTION NO. 2002-830

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON THE DATE OF DEC 10 2002

A RESOLUTION AUTHORIZING THE CITY MANAGER TO EXECUTE A MEMORANDUM OF UNDERSTANDING BETWEEN THE CITY AND COUNTY OF SACRAMENTO REGARDING PRINCIPLES OF LAND USE AND REVENUE SHARING FOR THE NATOMAS AREA (JOINT VISION). (M02-014)

CERTIFIED AS TRUE COPY

OF Resolution 2002-830

DATE CERTIFIED January 13, 2003

Valerie C. Burrowes

CITY CLERK, CITY OF SACRAMENTO

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO THAT:

WHEREAS, the County and the City have mutual policy and economic interests in the long term development and permanent preservation of open space within that area of the County known as Natomas, which area is generally depicted on Exhibit A of the Memorandum of Understanding (MOU); and

WHEREAS, cooperation between the County and the City is an opportunity to develop a vision for Natomas which reflects areas of collective interest. This Shared Policy Vision is contained in Exhibit B to this memo; and

WHEREAS, the County and City desire to establish principles to form the parameters of a future agreement or agreements encompassing the manner in which the County and City share revenue and land use decisions within the Natomas area.

NOW THEREFORE, be it resolved by the City Council of the City of Sacramento, as follows:

The City Manager is authorized to execute on behalf of the City the Memorandum of Understanding between the City and County of Sacramento regarding principles of land use and revenue sharing for the Natomas area (Joint Vision) on file with the City Clerk.

HEATHER FARGO

MAYOR

ATTEST:

VALERIE BURROWES
CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: 2002-830
DATE ADOPTED: DEC 10 2002

WHEREAS, the County and the City have mutual policy and economic interests in the long term development and permanent preservation of open space within that area of the County known as Natomas, which area is generally depicted on Exhibit A of the Memorandum of Understanding (MOU); and

WHEREAS, cooperation between the County and the City is an opportunity to develop a vision for Natomas which reflects areas of collective interest. This Shared Policy Vision is contained in Exhibit B to this memo; and

WHEREAS, the County and City desire to establish principles to form the parameters of a future agreement or agreements encompassing the manner in which the County and City share revenue and land use decisions within the Natomas area.

NOW, THEREFORE, BE IT RESOLVED that the Board of Supervisors Authorizes the County Executive to execute on behalf of the County the Memorandum of Understanding between the City and County of Sacramento regarding principles of land use and revenue sharing for the Natomas area (Joint Vision) on file with the City Clerk.

On a motion by Supervisor Dickinson, Seconded by Supervisor Collin, the foregoing resolution was passed and adopted by the Board of Supervisors of the County of Sacramento, State of California, at a regular meeting thereof this 10th day of December, 2002 by the following vote, to wit:

AYES:	Supervisors:	Collin, Dickinson, Johnson, Niello, Nottoli
NOES:	Supervisors:	None
ABSENT:	Supervisors:	None
ABSTAIN:	Supervisors:	None



In accordance with Section 25103 of the Government Code of the State of California a copy of the document has been delivered to the Chairman of the Board of Supervisors, County of Sacramento on

Don Nottoli
Chair, Board of Supervisors

By Kay F. Johnson
Deputy Clerk, Board of Supervisors

The foregoing is a correct copy of a resolution adopted by the Board of Supervisors, Sacramento County, California

on 12-10-2002
Dated 12-17-2002
Clerk of said Board of Supervisors
By Kay F. Johnson Deputy

FILED

DEC 10 2002

BOARD OF SUPERVISORS
Andy H. Turner
CLERK OF THE BOARD

ATTEST: Sandra Leahy
Deputy Clerk, Board Of Supervisors

Attachment A
**MEMORANDUM OF UNDERSTANDING BETWEEN
THE COUNTY OF SACRAMENTO AND
THE CITY OF SACRAMENTO
REGARDING PRINCIPLES OF LAND USE AND REVENUE SHARING
FOR NATOMAS AREA**

This Memorandum of Understanding (MOU) is entered into this 10th day of December 2002, by and between the County of Sacramento, a political subdivision of the State of California (hereinafter referred to as "County") and the City of Sacramento, a chartered, California municipal corporation (hereinafter referred to as "City");

WHEREAS, the intent of the MOU and Joint City and County Natomas Vision is to reach a formal conceptual agreement for broad collaboration between the City and County regarding principles for growth, revenue sharing, and permanent open space preservation in the unincorporated portion of the Natomas Basin within Sacramento County.

WHEREAS, the County and the City have mutual policy and economic interests in accommodating long term development while securing permanent preservation of open space within that area of the County known as Natomas, which area is generally depicted on Exhibit A to this MOU; and

WHEREAS, cooperation between the County and the City is an opportunity to develop a vision for Natomas which reflects areas of collective interest. Protecting and maximizing existing, and future, airport operations, open space preservation, and fair distribution of revenue are shared core values. There is a common stake in pro-actively influencing the emerging urban form, by guiding inevitable growth to provide for residential and employment opportunities close to the region's urban core. This promotes improved air quality through trip reductions, and distance traveled, and maximizes the return on existing and future public infrastructure investment in Natomas, this Shared Policy Vision is contained in Exhibit B to this memo; and

WHEREAS, together, the City and County can forge a leadership role on a regional scale for growth management. Such a cooperative effort can address land use, economic development, and environmental opportunities and challenges in Natomas. The result can be quality development balanced with permanent open space preservation systems; and

WHEREAS, Cities and counties are dependent upon tax revenues generated by continued commercial and industrial growth. The tax system creates intense competition between jurisdictions and can lead to economic development at the expense of good land use planning. Such competition between the City and County can be reduced or eliminated by establishing a revenue sharing agreement. In this way, each jurisdiction can benefit from economic development through cooperation rather than competition; and

WHEREAS, the County and City desire to establish principles to form the parameters of a future agreement or agreements encompassing the manner in which the County and City share revenue and land use decisions within the Natomas area; and

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WHEREAS, the County and the City desire to pursue jointly proposed common principles to define the parameters of a future agreement or agreements encompassing the manner in which the County and City share revenue and land use decisions within the Natomas area; and

WHEREAS, should the County and the City wish to adopt and implement the proposed common principles set forth in the MOU, each will be required to undertake a series of discretionary legislative actions, including but not limited to amendments of their respective general plans and agreements concerning revenue sharing, all of which will require the exercise of legislative discretion, and all of which will require compliance with CEQA, notice and public hearings, and satisfaction of all other applicable requirements of federal, state and local law.

WHEREAS, the County and the City recognize that, pursuant to the California Environmental Quality Act (CEQA) and other state and federal statutes, additional environmental analysis will be required for any development beyond that contemplated by the current land use plans of the jurisdictions, including the current North Natomas Community Plan (NNCP) of the City of Sacramento; and

WHEREAS, the County and City recognize that, should the governmental entities interested in, or involved with, any further development of the North Natomas Basin wish to pursue such development, they will necessarily have to propose and consider a new, separate or enhanced Habitat Conservation Plan (HCP) to address development impacts to protected species under federal and state endangered species laws; and

WHEREAS, the County and City recognize that, the proposed HCP currently under consideration by the City, Sutter county and the relevant federal (U.S. Fish & Wildlife Service) and state (Department of Fish and Game) agencies deals solely with the mitigation requirements for development under the current land use plans for those jurisdictions, including the current NNCP of the City, and that any further Natomas Basin development plans for these jurisdictions and the County, including future development pursuant to the proposed principles set forth in this MOU, will require additional or alternative mitigation, and additional environmental analysis.

WHEREAS, the County and the City acknowledge that approval of this MOU changes no existing land uses approved by either the County or the City nor commits the County or the City to specific land uses or to agreement on any specific annexations to the City. Approvals necessary for such commitments have not been considered by either the County, the City or any other appropriate authority.

NOW, THEREFORE, the County and City agree as follows:

Purpose of MOU: The purpose of this MOU is to define a mutually acceptable set of proposed principles that the City and the County are prepared to consider when considering the future land use planning and revenue sharing in the Natomas area. This MOU reflects the parties' definition of a proposed set of principles to govern future development in the Natomas areas that they are interested in studying and analyzing for possible future adoption and implementation upon completion of all necessary studies and work, including but not limited to the completion of all necessary environmental analyses under CEQA and other federal and state statutes.

I. Land use and revenue sharing within the Natomas areas should be guided as follows:

A. Open Space.

- (1) Open space planning will rely on, and coordinate with, existing open space programs, and will address linkage issues. Some specific areas will be designated for preservation as permanent open space to provide assurance that community separators are implemented. Other areas may not require active preservation.
- (2) Open space mitigation may be in conjunction with or distinct from any applicable criteria of the Natomas Basin Habitat Conservation Plan (HCP) and may, depending upon circumstances, exceed that of the HCP. Any new development beyond that analyzed in the Natomas Basin HCP shall be required, subject to state and federal laws and regulations, adequate habitat and buffer areas sufficient to protect impacted endangered species. A joint funding mechanism will provide funding for land and easement acquisitions.
- (3) Land to be preserved as farmland must not be restricted by nearby development and needs to have a secure supply of affordable water. Buffer areas will be derived from developing lands.
- (4) An airport protection plan will protect the airport by preserving open space around it and keeping noise-sensitive development and waterfowl attractors in relatively distant areas. An emphasis on open space will also lend permanence to any buffers that are established. Such a plan may be achieved through a multi-jurisdictional agreement as to land uses designed to maximize airport protection.

B. Future Growth.

- (1) Consideration of new growth should be done in partnership with the preservation of open space. The urban form should include a well integrated mixture of residential, employment, commercial, and civic uses, interdependent on quality transit service with connections linking activity centers with streets, transit routes, and linear parkways with ped/bike trails.
- (2) The City, rather than the County, is the appropriate agent for planning new growth in Natomas and can better provide a full range of municipal services. The County is the appropriate agent for preserving open space, agricultural and rural land uses.
- (3) The County will preserve its interest in the planning and development of Sacramento International Airport and Metro AirPark.
- (4) New growth will be supportive of the City's Infill Strategy. It will contribute to the sustainability of established neighborhoods/ commercial corridors/business districts.
- (5) Development in Natomas will build on the vision of the currently planned growth in North Natomas, including the application of the City Council adopted (Resolution No. 2001-805) Smart Growth Principles.
- (6) Future Growth areas shall foster development patterns which achieve a whole and complete, mixed-use community.
- (7) The City, as the agent of development, will apply the adopted Smart Growth Principles to any new development in Natomas. Smart Growth Principles emphasize pedestrian and

transit orientation by addressing density, efficient design, and urban open space to provide sustainable, livable communities with fewer impacts than standard development.

- (8) The City and County will develop a joint planning process for major uses in Natomas that are likely to have important economic impacts to existing commercial facilities in the city or county. Among the goals of that process will be to avoid competition for tax revenues, in favor of balanced regional planning.

C. Economic Development.

- (1) The area subject to revenue sharing between the County and the City shall include all that area depicted on Exhibit A except for those areas designated as Metro Air Park and the grounds of Sacramento International Airport, excepting those Airport properties currently used as buffer lands for Airport operations. If retail or commercial development other than Airport-related operations is permitted on such buffer lands, revenues derived from such development shall be subject to this MOU. For purposes of this section, airport-related operations are defined as airport support services such as terminal expansion, aviation fuel sales, aircraft maintenance and support; and hotel motel uses, to the extent such uses are existing or are relocated from existing premises.
- (2) The one percent, general ad valorem tax levy on all property within defined area, which is annexed to the City, shall be distributed, from the effective date of annexation, equally between the County and the City prior to accounting for the impact of distribution of such taxes to the Education Revenue Augmentation Fund.
- (3) It is generally intended that all other revenues from the area be shared as follows subject to an agreed upon projection of need for County or City services:
 - (a) Upon the effective date of the annexation of undeveloped property for single-purpose/regional tax generating land use the County and City will share the 1% Bradley-Burns sales tax and City General Fund share of transient occupancy tax equally.
 - (b) Upon issuance of certificates of occupancy, or their equivalent, property within the unincorporated area, except as excluded in Section C (1), which is approved for single-purpose/regional tax generating land use by County, the County and City will share the 1% Bradley-Burns sales tax and County General Fund share of transient occupancy tax equally.
 - (c) Upon the effective date of the annexation of undeveloped property for a Multi-Purpose/Master Planned Community Area but prior to commencement of development beginning, revenues (including the general ad valorem property tax but excluding special taxes, fees or assessments) shall be shared by comparing the projected City municipal revenues to projected City municipal expenses including capital/development costs funded by the City.

In the event of a projected City surplus (revenues exceed expenses), 50% of such surplus shall be allocated to the County by adjusting the County's property tax share for the area.

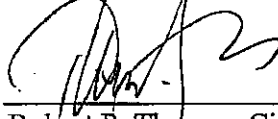
- (d) Upon the effective date of Annexation of any area developed for urban purposes as of the date of this MOU, the County municipal revenues transferred with the area shall be calculated against the costs of municipal services being transferred. The County's property tax share will be increased in the case of a surplus (i.e. County revenues transferred exceed County expenses transferred), and the City's share will be increased in case of a deficit (i.e. County revenues transferred are less than County expenses transferred). The County will consider a one-time contribution to the City upon annexation of any such area calculated on the basis of avoided, near-term capital maintenance costs together with a one-time contribution for the costs of necessary, significant infrastructure repairs which are identified prior to completion of annexation.
- (e) In the event either the County or the City approve development in a fashion which would require payment pursuant to Government Code Section 53084, the County or the City, as the case may be, should be entitled to the greater of the revenue calculated pursuant to either that section or the ultimate provisions of a revenue sharing agreement.
- (f) Should legislation be enacted which alters the manner in which local agencies are allocated revenue derived from property or sales taxes, any agreement shall be subject to good faith renegotiations.

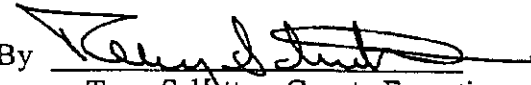
II. The principles set forth are intended to guide further discussions and the ultimate negotiation of an agreement between the County and the City. It is recognized that certain of the terms used are subject to further definition and refined during the process of negotiation. It is the intent of the County and the City to work cooperatively to establish a review process, by agreement, to evaluate the likely impacts of large-scale commercial uses in Natomas on competing uses in the County and City. The goals of such a process will be to avoid competition for tax revenues, in favor of balanced regional planning and to assure that proposed land uses conform to the principles articulated in this MOU. It is further the intent of the County and the City that the revenue sharing principles set forth in this MOU shall govern the adoption of a Master Tax Sharing and Land Use Agreement for annexations.

Nevertheless, this Memorandum of Understanding is a good faith expression of the intent of the County and the City to cooperatively approach development and revenue within the Natomas area of our regional community.

CITY OF SACRAMENTO
A Municipal Corporation

COUNTY OF SACRAMENTO

By  Thomas V. Lee
Deputy City Manager
For: Robert P. Thomas, City Manager

By 
Terry Schotten, County Executive

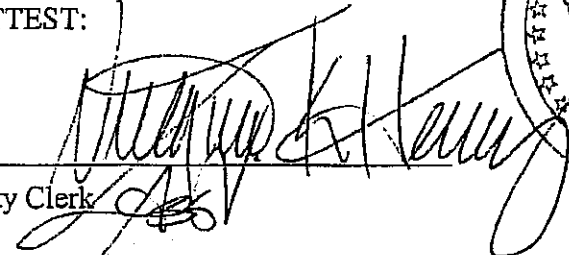
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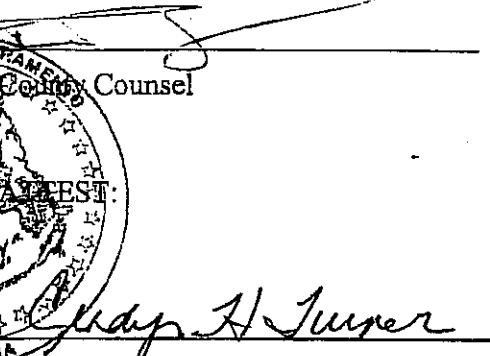
APPROVED AS TO FORM:

Robert E. Archbold 12-23-02
City Attorney



ATTEST:

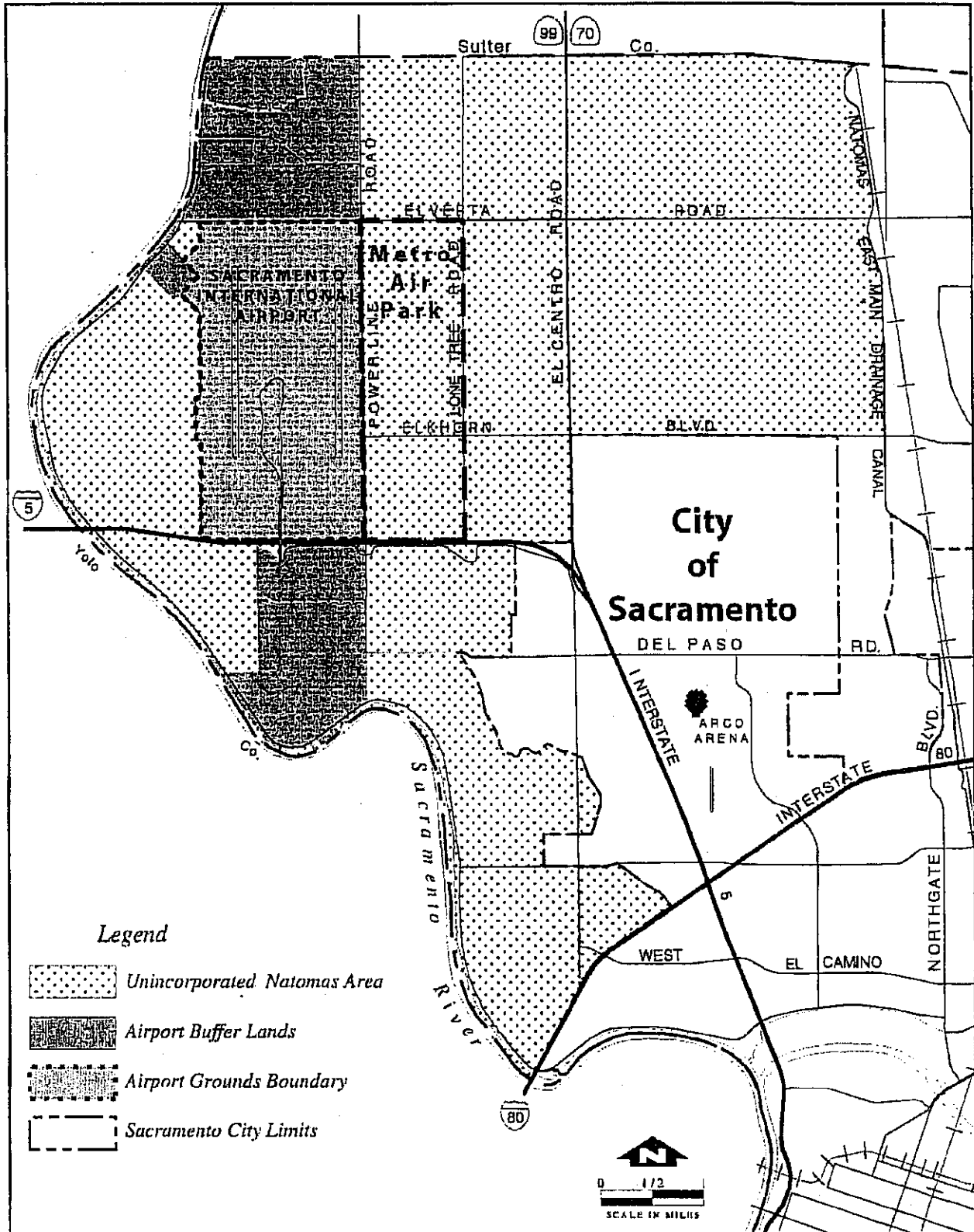

City Clerk


Clerk of the Board

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Sacramento City-County MOU for the Natomas Area on
Principles of Land Use and Revenue Sharing

Exhibit A
Natomas Area Map



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AGREEMENT NO. 2002-224

EXHIBIT B
Joint City-County Shared Policy Vision in Natomas

I. Statement of Intent

The intent of this joint City and County Planning exercise is that both the City Council and Board of Supervisors will reach a formal agreement regarding growth, economic development and permanent open space preservation in the unincorporated portion of the Natomas Basin within Sacramento County. The agreement will be adopted by Sacramento County and the City of Sacramento.

1. Introduction

A. Background

A preliminary set of planning principles for Natomas was presented to the Board of Supervisors at a public workshop in May 2001. Before that, in June 2000, the City Council held a public hearing to consider goals and policies to modify the City Sphere of Influence for several study areas, including Natomas.

Subsequent discussions among City and County management and staff have fostered a spirit of mutual gain. There is opportunity to develop a vision for Natomas, which reflects areas of collective interest. Protecting and maximizing existing, and future, airport operations, open space preservation, and fair distribution of revenue are shared core values. There is a common stake in pro-actively influencing the emerging urban form, by guiding inevitable growth to provide for residential and employment opportunities in close to the regions urban core. This promotes air quality measures through trip reductions, and distance traveled, and maximizes the return on existing and future public infrastructure investment.

Together, the City and County will forge a leadership role on a regional scale for growth management. The cooperative effort addresses land use, economic development, and environmental opportunities and challenges in Natomas. The result will be quality development balanced with permanent open space preservation systems.

B. Vision - Cooperative Land Use Planning

The best way to insure sustainable community building in Natomas is for the City and County to plan jointly. Such an effort will provide opportunity to focus more on sound long-term planning principles, and less on quick return revenue generation. Such a planning policy foundation may be without precedent, however, the highly regarded American River Parkway Plan (ARP) stands as an excellent result of City-County cooperation. That plan also provides an example of an administrative structure that involves third-party ratification of any amendments to the plan.

II. Basic Issues

There are three main areas where the City and County will come to agreement, each comprised of several sub-issues.

1. Open Space

The planning principles offer agreement regarding the size, location, and nature of open space preservation areas in the Natomas area. The location of open space areas will be based in part on the natural value of the land (e.g. habitat value, community separators), but also on constraints to development (e.g. airport protection or flood-prone areas). This agreement will ultimately designate the location of open space and provide principles for its permanent preservation. Ideally, the County will be the agent for maintaining rural and agricultural land uses, and permanent open space preservation.

Open Space systems provide multiple values/ benefits for human needs (health, public safety, cultural, recreational, economic prosperity, and civic identity), for wildlife, for productive agriculture, and for a healthy, sustainable built environment. Open Space also contributes to the provision of clean air and water for the region. Open Space systems must be of adequate size to support their intended purpose, e.g., agricultural areas must be large enough to maintain the agricultural economy; regional recreation facilities must be diverse enough to accommodate multiple passive and active uses; habitat areas must be large enough to support the requirements of native species; vistas/viewsheds should be sufficient to provide a sense of place. Open Space systems should be linked by trails, act as community separators, and accommodate habitat conservation plan requirements.

2. Economic Development

Cities and counties are dependent upon tax revenues generated by continued commercial and industrial growth. The tax system creates intense competition between jurisdictions and can lead to economic development at the expense of good land use planning. This joint agreement will lessen competition between the City and County by establishing a revenue sharing agreement. In this way, each jurisdiction stands to benefit from economic development, without becoming subject to the forces of competition.

New development will be consistent with the City's Smart Growth Principles, by supporting reinvestment in existing communities, particularly designated infill areas, as an alternative to greenfield development. New growth will not detract from the sustainability of established neighborhoods, commercial corridors, and business districts in the city and county.

Sacramento International Airport is recognized as a regional asset for economic development. The vision will incorporate effective measures for protection of airport operations and expansion, such as where residential development will not be considered.

The Natomas Mutual Water District and Rio Linda/Elverta Parks and Recreation District currently provide services to the Natomas area and are, therefore, stakeholders in the economic development of the area. The City and County will cooperate with the districts to address their unique circumstances prior to the LAFCo process. The LAFCo process required for consideration of amendments to spheres of influence and annexation proposals will determine the appropriate roles for these districts.

3. Future Growth

The vision will provide the acreage and location for future growth, and identify principles to define the nature of growth appropriate for Natomas. Constraints and opportunities inherent in the land (e.g. habitat values) or its location (e.g. proximity to existing urbanization) will help define where growth is desired. The City will be the agent for growth, by planning areas to be developed.

Conclusion. Now is the time to seize the opportunity to craft the common vision for Natomas. This is best addressed through a cooperative planning effort between Sacramento City and County. This will curb land speculation, competition between jurisdictions and establish planning principles to guide growth in concert with permanent open space preservation.

III. Planning Issues and Principles

The City and County discussions regarding Natomas identified seven primary issues areas related to possible development in Natomas. Those issues areas are listed below along with principles that address the general concerns of the City or County. These principles will constitute the basis of an agreement between the City and County for making decisions regarding land uses.

1. Open Space
 - A. Open Space Preservation
 - B. Farmland Preservation
 - C. Airport Protection
2. Economic Development
 - A. Fiscal Collaboration
3. Future Growth
 - A. Jurisdictional Roles
 - B. Infill Linkages

1. Open Space

A. Open Space Preservation

1. Permanent Protection of Open Space. Achieve a permanent open space by acquiring land or easements. A variety of funding sources will be used to make land and easement acquisitions. Open Space encompasses lands that essentially are unimproved and that have limited development potential due to the physical characteristics of the land, due to value as a drainage or habitat corridor, due to land being restricted to agricultural production, due to location of the land as a community separator/ buffer between developed areas, or due to the scenic value of the land and its role in maintaining a community's sense of place or heritage.

2. Community Separators. Provide community separators at the Sutter/ Sacramento County line, by using open space that defines urban shape by providing gateways, landscaped freeway corridors, defined edges and view sheds. The community separator is land designated as permanent open space, by both the City and County General Plans, in order to avoid an uninterrupted pattern of urbanization, and to retain the character of distinct communities.

3. Open Space Linkages. Coordinate and connect permanent open space in Natomas with the larger open space systems to provide linkages for trail extensions and biological connectivity.

4. Mitigation Ratio. Require development to provide permanent open space, preserved in the Natomas area, at a mitigation ratio of at least one-to-one.

Implementation. The agreement will establish a policy framework for open space planning in Natomas which will rely on, and coordinate with, existing open space programs, and will address linkage issues. Some specific areas will be designated for preservation as permanent open space to provide assurance that community separators are implemented. Other areas, such as west of Sacramento International Airport, may not require active preservation because of specific constraints related to inadequate infrastructure or public ownership.

This mitigation may be in conjunction with or distinct from any applicable criteria of the Natomas Basin Habitat Conservation Plan (HCP). A minimum one-to-one mitigation ratio within the Sacramento unincorporated area of Natomas will exceed that of the HCP by one-half acre of mitigation per acre of development. A joint funding mechanism will provide funding for land and easement acquisitions.

B. Farmland Preservation

1. Require Mitigation for Losses. Plan land use in Natomas in a manner that minimizes and mitigates loss of overall agricultural productivity.

Implementation. Identify areas of Natomas that are to be developed or remain in general agriculture. Land to be preserved as farmland must not be restricted by nearby development and needs to have a secure supply of affordable water. Buffer areas will be derived from developing lands. The City and County shall work jointly with agricultural interests to develop a comprehensive program to assist in farmland viability.

C. Airport Protection

1. Protect Future Airport Operations. Plan land use in Natomas in a manner that will protect Sacramento International Airport from complaints originating from encroaching uses that might eventually limit its operations or future expansion.

2. Coordinate long range land use planning. The various affected jurisdictions will coordinate planning efforts to ensure the continued viable operations and expansion of Sacramento International Airport

3. Maintain Airport Safety Related to Habitat. Avoid compromising airplane safety when establishing open space by keeping waterfowl habitat at safe distances from the airport.

Implementation. A multi-jurisdictional airport protection plan will protect the airport by preserving open space around it and keeping noise-sensitive development and waterfowl attractors in relatively distant areas. An emphasis on open space will also lend permanence to any buffers that are established.

2. Economic Development

A. Fiscal Collaboration

1. Revenue Agreement. Adopt a Revenue Exchange Agreement.

Implementation. The City and County will negotiate an agreement that defines, and provides for, revenue exchange for development that occurs within the agreement area.

3. Future Growth

A. Jurisdictional Roles

1. City and County Roles. The City is the appropriate agent for planning new growth in Natomas. The County is the appropriate agent for preserving open space, agricultural and rural land uses.

2. Maintain County Interests. The County will preserve its interest in the planning and development of Sacramento International Airport and Metro AirPark.

Implementation. Define the roles of each jurisdiction in the agreement.

B. Infill Linkage

1. Support City Infill Strategy. New growth will be supportive of the City's Infill Strategy. It will contribute to the sustainability of established neighborhoods/ commercial corridors/ business districts.

Implementation. Create a linkage program between new growth and the City's Infill Strategy, extension of the Downtown/Natomas/Airport transit line and implementation of the North Natomas Community Plan goals and objectives as a part of the General Plan amendment process.

4. Urban Growth Principles

1. Smart Growth. Development in Natomas will build on the vision of the currently planned growth in North Natomas, including the application of Smart Growth Principles.

2. Regionally Significant Land Uses. The City and County will develop a joint planning process for major uses in Natomas that are likely to have important economic impacts to existing commercial facilities in the city or county.

3. Balanced Communities. Undeveloped areas shall foster development patterns which achieve a whole and complete, mixed-use community.

Implementation. The City, as the agent of development, will apply Smart Growth Principles to any new development in Natomas. Smart Growth Principles emphasize pedestrian and transit orientation by addressing density, efficient design, and urban open space to provide sustainable, livable communities with fewer impacts than standard development.

Establish a review committee, by agreement, to evaluate the likely impacts of large scale commercial uses in Natomas on competing uses in the county and city. The committee's goal will be to avoid competition for tax revenues, in favor of balanced regional planning.

IV. Identify Areas for Growth and Permanent Open Space Preservation

Consideration of new growth should be done in partnership with the preservation of open space. The urban form should include a well integrated mixture of residential, employment, commercial, and civic uses, interdependent on quality transit service with connections linking activity centers with streets, transit routes, and linear parkways with ped/bike trails.

V. Plan Administration and Agreement

The agreement will be adopted by Sacramento County and the City of Sacramento. It may also be desirable to have the agreement adopted by an outside party, e.g. the State Legislature (similar to the American River Parkway Plan) to provide additional strength to the agreement, and to require inter-jurisdictional coordination on agreement implementation.

The means to implement this common vision is yet to be defined. There are various instruments available for the legislative bodies of the City and County, such as a Joint Resolution, or a Memorandum of Understanding.

The agreement will consist of:

- A map clearly delineating the areas for growth and for permanent open space and agricultural preservation.
- The Planning Principles.
- The implementation program including adoption of permanent open space and agricultural preservation strategies.

The implementation includes:

- A third party agreement
- Amendments to both General Plans to incorporate the common vision
- Adoption of a Revenue Sharing Agreement
- Define Goals, Roles and Responsibilities for the respective jurisdictions, and a mechanism for future, regional scale participation.

- Benchmarks for performance
- A funding program for permanent open space and agricultural preservation.

This cooperative planning effort is consistent with the Capitol Regional Compact, endorsed by both jurisdictions recently. Developed by Valley Vision, it promotes regional coordination, cooperation and collaboration. The compact defines four goals for future collaboration:

- Create Regional Growth and Development Patterns
- Coordinate Land Use, Infrastructure, Public Services and Transportation
- Reinforce our Community Identities and Sense of Place
- Protect and Enhance Open Space and Recreational Opportunities.

Economic Impacts of Natomas Area Housing for the City of Sacramento

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May 23, 2005

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Economic Impacts of Natomas Area Housing for the City of Sacramento

Introduction

This report is an analysis of the economic functions and the absorption potential of the Natomas area. The report is based on economic rather than planning considerations, and contains a view of the region-wide importance of the area, which encompasses many considerations not explicit in the plan's initial design and implementation.

Once viewed as a greenfield project at the periphery of the Sacramento urbanized area, and a "permanent" boundary between urbanized and agricultural areas, North Natomas has now become a center of regional economic development, including the following projects which were probably not even envisioned during the North Natomas planning process:

- Continuing expansion of the Sacramento International Airport, assuring that it will become the national and international travel hub of the Central Valley over the long term.
- The Metro Air Park project, a 1,880-acre project adjacent to the plan area, with extensive commercial, industrial, and office space.
- Natomas MarketPlace and other proposed regional retail centers within the plan area which may become the largest contiguous retail concentration in the City of Sacramento.
- The possibility of a new arena to house the Sacramento Kings and other entertainment venues, which would make the area an entertainment center of the region and the Central Valley.
- The adjacent Sutter County Measure M project, which approved:
 - 1) 4,600 acres of commercial, industrial, retail, and community facilities which may employ about 79,000 on site at buildout.
 - 2) Residential construction to house an estimated population of 39,000

The residential areas of the Natomas project have met with great market success, and are being absorbed at a rate several times that which was anticipated when the project was planned. The construction process has created very large economic benefits for both the City of Sacramento and the region. Even more important in the long run is the effect of the incomes of the residents of the new housing, and the stream of benefits which their household consumption will bring to the City. The ultimate economic benefits, however,

have yet to be achieved, and will occur only when the employment areas within and adjacent to the project are developed to their full potential.

It is a concern that the housing component of the plan area is rapidly approaching full absorption, far ahead of initial projections, but in a manner which may ultimately prevent the overall Natomas area from achieving its full potential. Both the residential and employment benefits of the Natomas area to the City of Sacramento, and even to the overall Sacramento region, require an abundant and ongoing supply of new housing in the Natomas area to achieve its full economic potential.

The employment-generation areas along I-5 and I-80 are widely viewed as among the most promising sites remaining in Northern California, and may hold the region's greatest opportunities as sites for national or statewide corporate headquarters. The potential for the City of Sacramento to capture this quality of corporate development provides one of the City's prime opportunities to retain its position as the employment and economic core of the region. The attractiveness of the employment-generating sites includes not only the extraordinary access to freeways, downtown, the International Airport, and public transportation, but also the access to nearby communities which fill the full range of housing and community amenities needed by corporate employers.

The employment-generating areas of the plan area are currently essentially undeveloped, or are being diverted to retail and other uses which may not create the greatest long-term benefits to the City of Sacramento and the region. Some of this delay in market acceptance of the employment-generating areas is a function of the current business cycle, but there may also be opportunities for more vigorous marketing, pre-development, and economic development activity to accelerate this process.

The full economic potential of the Natomas area employment-generation areas will probably not be realized if the current trend of early residential build out occurs, and especially if the existing pattern of residential composition continues. Large developing projects like the Natomas area achieve an image as a progressive, entrepreneurial environment with high levels of opportunities. This is attractive to businesses because it reflects their views of their own companies, which are also in an expansive and entrepreneurial phase. As a result, a market momentum is generated in which the residential and the commercial developments are mutually supportive. Examples of this relationship have been seen in the Bishop Ranch Business Park development in San Ramon (Contra Costa County), and a number of similar projects in Orange and San Diego Counties, which were able to attract some of the nation's leading companies to locations with less transportation and market access than the Natomas area but with a superior housing mix for the corporate decision makers who located their firms there.

There is also the consideration of sustaining housing market momentum in the Natomas area to attract the highest level of housing quality and consumer demand. New housing project areas achieve a high level of public awareness and interest while in the development and absorption stages which allows them to attract a high level of interest from both builders and new home buyers. If the rate of new home construction slows as

the final parcels are developed, or if delays occur in the final planning and development process, this loss of momentum typically shifts the market attention to newer projects starting up elsewhere in the region, and it is seldom possible for the now slowly-growing project to regain its previous market position. The proximity of the Natomas area to large potentially developable areas in other nearby local jurisdictions makes it increasingly vulnerable to this market diversion risk.

The housing mix of the Natomas area project is also an issue in the overall economic potential. The current residential composition of the Natomas area contains primarily middle-ranges of home prices and community amenities, with virtually no areas which offer the housing qualities and community amenities desired by executive and professional corporate leaders. Community areas with larger homes, a higher level of open space and manmade amenities, and a higher degree of privacy would be an asset in reaching this market segment. The Joint Vision area is a likely location for this type of development.

There are therefore two issues facing the economic optimization of the Natomas area in terms of its ultimate value to the City of Sacramento and to the Sacramento Region.

1. The timing of build out of the residential areas in respect to the development of the employment-generating areas.
2. The mix of housing and community amenities within the Natomas area, and the effect on the potential uses of the employment-generating areas.

In both cases, the economic optimization to the City of Sacramento can be improved by three actions:

- (1) Expanding the ultimate quantity of housing in order to extend the project development horizon.
- (2) Providing a way to create additional communities with higher levels of housing and community amenities which fit the demands of executive and professional households.
- (3) Accelerating the market acceptance of the employment-generating areas.

This report will focus on the data and analysis related to the first two actions above, which are primarily housing quantity and quality issues. The continuation of new housing availability and opportunities for higher quality neighborhoods for executive and professional households in the Natomas area are important to achieving the City's ultimate benefits from the Natomas project.

It is time to review the initial limits of the project area and consider moving rapidly toward expanding the housing opportunities, including accelerating the planning of the Joint Vision area.

Synopsis

The North Natomas Community Plan was conceived as a model community plan incorporating the principles of neoclassical neighborhoods, pedestrian-friendly developments, and Smart Growth. Its elements include community-level retail within the residential boundaries, jobs-housing balance with large amounts of surrounding employment-generating land, and light rail service to downtown Sacramento.

For the City of Sacramento, there is another aspect to The North Natomas Community Plan. In some aspects, North Natomas may represent the City's last frontier for attracting a large number of higher-income professional and executive households, and the cultural, intellectual, and leadership potential which accompanies this population. North Natomas has served as a market test of the City's ability to attract high quality single-family residential development to a location near the downtown employment and retail center, in competition with low density development in distant suburban locations.

The Natomas area employment-generating areas will also test the ability of the City of Sacramento to participate in the expansion of the region's private-sector corporate and financial services development, which have otherwise been viewed as primarily concentrating in southern Placer County and along the Highway 50 corridor in Sacramento County. Many development experts think of North Natomas as the jewel of the Sacramento Region, likely to play a key role in the attraction of financial and corporate headquarters activities to the region.

Despite the great initial successes of the North Natomas residential development, there are problems which are likely to result in the project not meeting its key goals.

1. The plan focused on internal community design issues and its relationship with downtown Sacramento, but failed to fully consider its relationship to the rest of the region. In fact, the Natomas residential development has emerged as a regional housing asset for many middle-to-higher income households whose employment is not primarily located downtown or in the North Natomas Community Plan employment-creating area, defeating the jobs-housing balance goals of the plan.
2. North Natomas housing is likely to become absorbed due to region-wide demand well before the employment-generating areas are developed, which will in turn decrease the attractiveness to potential North Natomas employers and the jobs-housing match benefits to the region.

It is appropriate to revisit the implementation process of the North Natomas Community Plan in the context of its unique role in the region and in the City of Sacramento. This requires a fresh look at the number, type, and timing of its housing component. This is necessary to assure that the area meets the City of Sacramento's higher regional goals of retaining its position as the regional center, and supports its objectives to attract key employers to the Natomas employment areas.

Summary of the Data Analysis

Absorption.

The overview of Natomas area single family residential absorption is shown in the table below. The actual absorption by the end of 2002, estimated by Sedway, was 9,790 units, or about three times that which had been projected a few years earlier by the City Finance Department and The Meyers Group. The factors affecting this extraordinary absorption included a high rate of overall home construction in the region, but also the effect of a unique project and location, and the acceptance of its superior community design by the home-buying public.

The project reached 53% of planned units within about 3 years of market exposure. Note that these estimates are based on permits, not construction or sales.

Natomas Single Family Units Projected and Actual Absorption				
Period of Data or Projection	Source	Accumulated Absorption	Percentage of Planned Total	
2002	City Finance Department (1)	3,131	17%	
2002	Meyers (2)	3,401	18%	
2002	Sedway Estimate of Actual Absorption (3)	9,790	53%	
2003	Sedway Projection (3)	10,443	57%	
2003	Actual Absorption, Gregory (4)	9,343	51%	
2004	Sedway Projection (3)	11,515	62%	
2004	Actual Absorption, Gregory (4)	11,656	63%	

Sources:

- (1) City of Sacramento Planning and Building Department, North Natomas Financing Plan, August 17, 1999
- (2) The Meyers Group, North Natomas Absorption Study, reported in Sedway.
- (3) The Sedway Group, North Natomas Community Plan Area Absorption Study 2003 through 2007, July 2003.
- (4) The Gregory Group, North Natomas Sales and Inventory by Project, May 2005. Sales plus net changes in inventory of entitled lots are used to approximate the absorption based on permits definition used by Sedway.

Dr. Robert Fountain, May 2005

Sedway projections for 2003 would have raised absorption to 57%, but this was not achieved, despite a record year for sales in the region. The reason absorption fell despite record sales is that the inventory of permitted (but not yet constructed or sold) units fell sharply, from almost 300 at the end of 2002 to a total of 79 at the end of 2004. Thus

2003 and 2004 were years of building out the supply of entitled land, not matched by permitting of new lots, which is the definition of absorption in this table.

In summary, the North Natomas housing has reached 63% of its planned total by the end of its 5th year, and appears poised to reach full absorption in an astonishingly rapid time for such a large and innovative project. This indicates that some of the assumptions and limitations of the project's design should be reconsidered in light of the unexpected regional acceptance of the project and its potential long-term benefits to the City of Sacramento.

Economic Impacts of Construction

The construction of new single family homes in the Natomas area has produced over 11,600 sold units valued at about \$3.6 billion over the 5 year period since January 2000. The total level of business activity within the City created by the home construction, plus the revenues to companies and local government which supply and service the construction, plus the expenditures of both the construction workers and the employees of the supplier firms, adds up to a total business activity of about \$6 billion over this period. Single-year levels of economic activity generated by the construction have ranged from about \$730 million in 2000 to \$956 million in 2004. That revenue has supported a total of over 55,000 annual equivalent full time jobs earning a total of \$1.8 billion over the period. In addition, about \$285 million in State & Local taxes have been generated through the construction, not including project-specific permits and fees.

Demographic Analysis

The Natomas area is emerging as a market area different from the City of Sacramento as a whole (but more like Sacramento County). Comparing Natomas area residents to those of the City of Sacramento, Natomas residents have a higher average household income, a higher percentage of families with children, and a higher percentage with bachelor's degrees (but lower levels of advanced degrees).

Estimated household income based on home price data shows new Natomas area homeowners with mean household income rising from around \$58,000 in 2000 to about \$76,000 in 2004. In addition, North Natomas includes an increasing number of households with income in the \$75,000 to \$100,000 category (with about 35% more of its population in this income range than in the overall City of Sacramento).

Natomas area homes have a higher average price than the region (\$376,000 vs. \$353,000 in early 2004) and are very concentrated into a narrow range of prices. The two price ranges \$300,000-\$350,000 and \$350,000-\$400,000 contain 67% of Natomas homes, but only 50% of the region's homes.

The Natomas area is not serving solely as a housing resource for the downtown Sacramento area, but is playing a more extensive role as a regional housing resource for

younger families which may ultimately rise into the executive and professional ranks in the future.

The Economic Impacts of North Natomas Resident Incomes

The economic impact created by the incomes of Natomas area residents provides a benefit to the City beyond the one-time economic benefits of new construction, and is a benefit flow that extends to perpetuity. It stands to reason that the introduction of over 11,600 new home-owner households with the incomes to buy new homes whose prices now (early 2005) average nearly \$401,000 will create an enormous economic impact for the City of Sacramento.

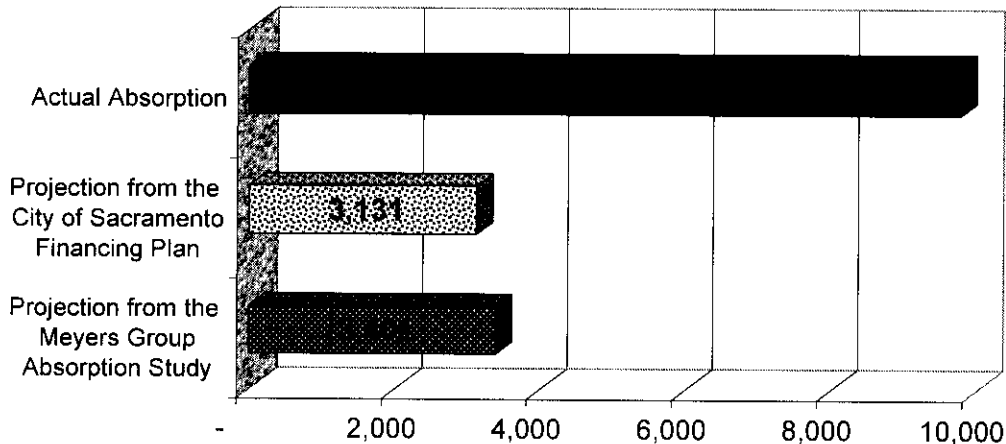
The economic analysis of the resident incomes shows that the household incomes of new Natomas area households reached an annual amount of \$768 million in 2004, which generates about \$1.015 billion per year in total business activity in the City. That in turn supports about 7,957 full-time equivalent jobs and about \$54.4 million per year in State & Local taxes.

Over the history of Natomas area absorption, the accumulative total of income of Natomas households totals nearly \$2.1 billion, and has generated over \$2.75 billion in total business activity, \$599.7 million in employee compensation, and over 21,500 job-years.

Natomas Area Absorption History and Outlook

A key element in the analysis of Natomas area development and build-out horizon is the history of absorption over the years since project inception, and that relationship to current market trends. There is a problem in this data, in that different definitions of absorption are often used. To the land planner, absorption may be defined as approval of a subdivision map or other preliminary entitlement process. To a land developer, absorption may be the issuance of final entitlements. Economists view absorption as the final sale and occupancy of a completed structure.

SEDWAY Report North Natomas Projected vs Actual Units Single Family Absorption for 1999 - 2002



Source: North Natomas Community Plan Area Absorption Study, SEDWAY GROUP.
Dr. Robert Fountain, April 2004

The most extensive data based on the entitlement definition was completed by the Sedway Group. The results, shown in the graph above, indicate that 9,790 single family residential lots had been absorbed by the end of 2002. This compares with the projected absorption of 3,131 for that period by the City of Sacramento Financing Plan and the projection of 3,401 in the Myers Group Absorption Study.

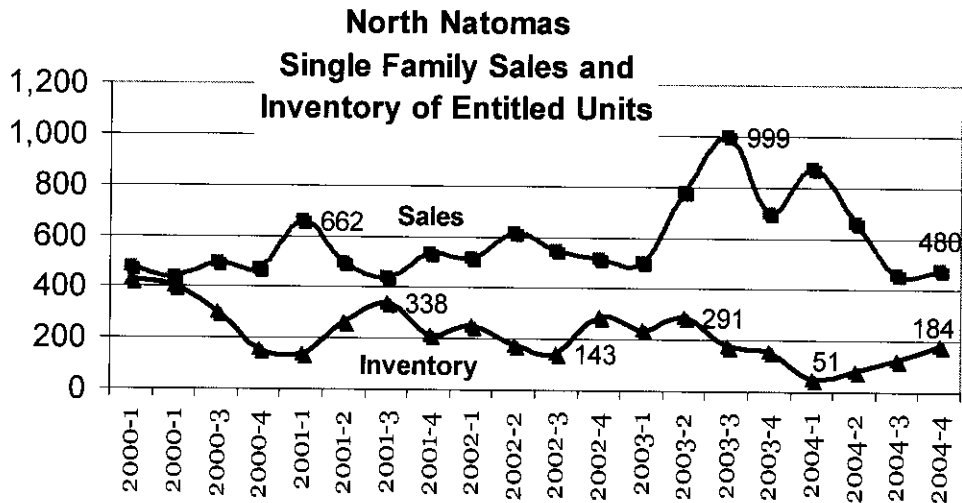
The conclusion is that single family housing absorption in the Natomas area occurred at a rate of about three times that which had been expected through 2002.

Recent data from the Gregory Group, based on new home sales, not permits, shows that a total of 11,657 units have been sold from January 2000 through 2004. This data does not include any sales activity during 1999, but includes units permitted during 1999 and sold in 2000. The data also does not include permits which have been issued recently for units not yet sold.

Cumulative New Single Family Home Sales and Resident Incomes						
Year	2000	2001	2002	2003	2004	Cumulative Since January 2000
Total Value	\$ 434,423,999	\$ 564,876,756	\$ 685,256,784	\$ 952,864,119	\$ 955,714,032	\$ 3,593,135,690
Number of Units	1,883	2,134	2,193	2,978	2,468	11,656
Increase in Annual Resident Incomes	\$109,809,975	\$128,460,721	\$149,119,708	\$192,313,026	\$188,110,735	\$ 767,814,165

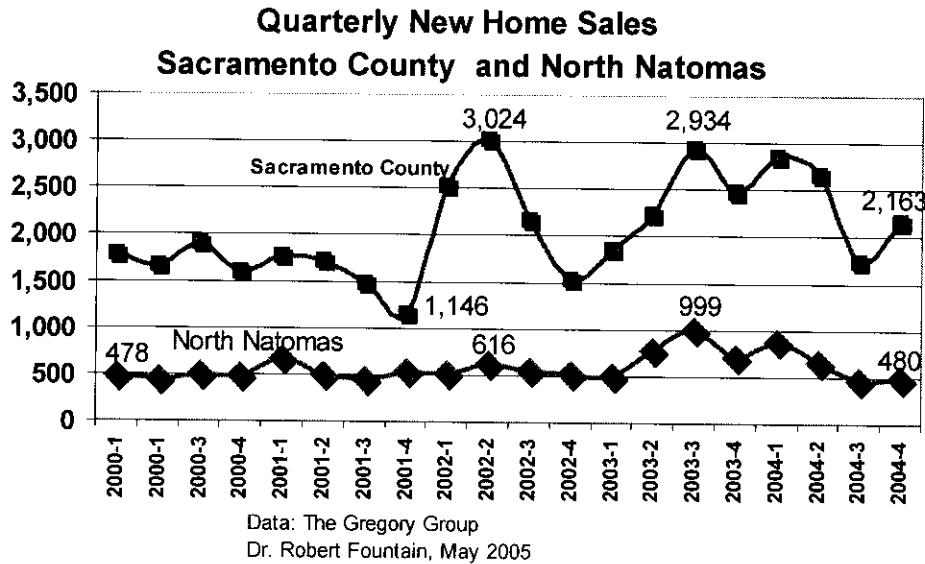
Source: The Gregory Group; US Census Bureau; Claritas Data Services.
Household income based on qualifying income for home sales price using standard secondary market discount assumptions.
Dr. Robert Fountain, May 2005

The graph below shows the quarterly rate of sales and the remaining inventory of entitled units in active projects (those with units for sale). In 2000, the number of entitled lots was about equal to the number of units sold, indicating that the approval and land development process was keeping up with sales. Since that time, the number of sales has exceeded the number of available lots during all quarters, indicating that the units were being built and sold as fast as they were being approved.

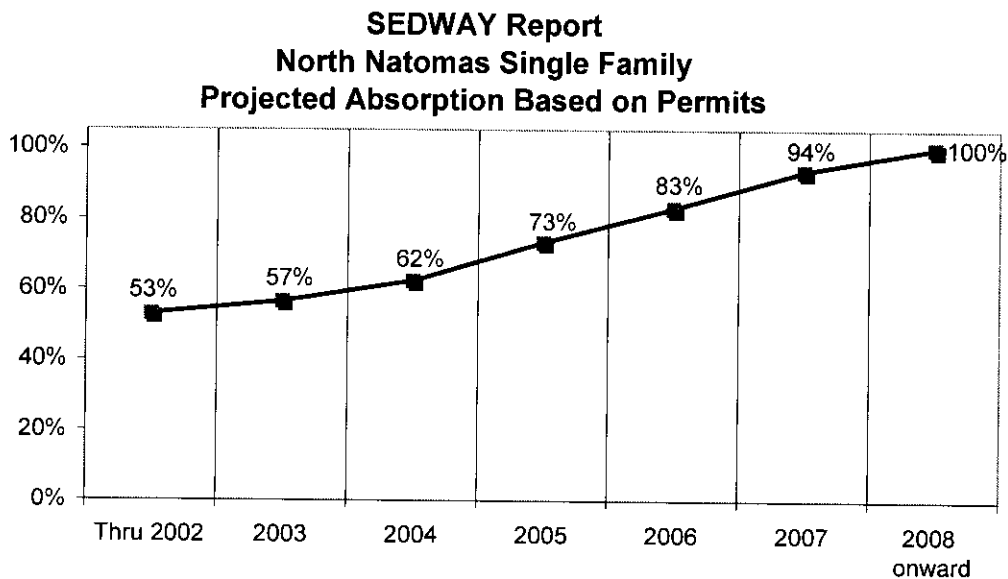


Data: The Gregory Group

The high rate of demand for Natomas area housing units is not just a reflection of region-wide trends. The graph below shows that North Natomas quarterly sales has been stable throughout a series of market-wide ups and downs, reflecting a stable demand based on location, quality, and pricing structure. Such a market niche usually has the characteristics for sustained long-term market position, and in Natomas that market characteristic is likely to result in exhaustion of the entitled and planned land supply in a relatively short time.



A projected absorption schedule for single family housing in the Natomas area was developed by the Sedway Group, based on historical (through 2002) permit data. That schedule is shown in the graph below. The Sedway projection shows 53% absorption through 2002 (actual data) with projections for absorption through 2008 and beyond.



Source: North Natomas Community Plan Area Absorption Study, SEDWAY, July 3, 2002, Exhibit 8. Absorption based on single family permits.
Dr. Robert Fountain, April 2004.

The Gregory Group new home sales data showed an absorption of 2,841 units during 2003, which indicates that project absorption actually reached 51.1% absorption during 2003. (Absorption is defined here as new home sales plus unsold inventory, to approximate the Sedway permit definition.) The reason absorption fell below the 57% Sedway projection despite record sales is that the inventory of permitted (but not yet constructed or sold) units fell sharply, from almost 300 at the end of 2002 to a total of 51 at the end of the first quarter of 2004. Thus 2003 was a year of building out the supply of entitled land, not matched by permitting of new lots, which is the definition of absorption in this analysis.

A similar pattern occurred in 2004. Sales of new units was 2,468, down 17% from the 2003 total of 2,978, but the value of the units sold increased by about 3%. Despite this decreasing volume and rising price trend, the available inventory of approved but not yet sold lots was below 100 for most of the year, only reaching a peak of 184 units briefly during the fourth quarter.

The conclusion from this analysis is that the Natomas project, now 63% absorbed in its 5th year, is still selling as fast as approvals (permits) are received, and is being limited in its absorption by the rate of new approvals.

The Economic Impacts of Natomas area Single Family Home Construction

The economic impact analysis of new home construction in the Natomas area is performed using the IMPLAN input-output model, which identifies all of the expenditures created in an area resulting from a major economic event. In this case, the economic event is the expenditures resulting from the construction and sale of new single family homes, and is based on the actual sales prices reported by the Gregory Group. Since the sales price of the home includes land costs, permits, and many others, the model encompasses all of these expenditures. The economic boundary of the analysis is the City of Sacramento; additional impacts accrue elsewhere in Sacramento County and the rest of the region, as well as some impacts which accrue through imports and exports from the region.

Economic Impacts of New Home Construction in Natomas During the Year 2004					
New Home Construction					
	Direct Impact	Indirect Impact	Induced Impact	Total Impact	
Output	\$ 955,714,032	\$ 384,583,243	\$ 265,265,673	\$	1,605,562,949
Employee Compensation	\$ 249,104,698	\$ 142,436,368	\$ 82,442,855	\$	473,983,920
Employment	7,214	4,574	2,962		14,750
State & Local Taxes	\$ -	\$ -	\$ -	\$	75,756,400

Source: IMPLAN model using North Natomas single family home sales data and income data from previous table.
Dr. Robert Fountain, May 2005

The table shows details of the impacts for 2004, and is intended to illustrate how the measurement of economic impacts works. The table is based on the \$955.7 million in new single family construction in North Natomas during this time period; additional analysis for other time periods is discussed later in this section of the report.

Types of Economic Impacts

The economic benefits from the construction expenditures occur in three general categories:

- Direct Impacts measure the level of economic activity created directly by the construction activities. This includes employee salaries, purchases of materials and equipment, utilities, financial and accounting operations, and all other expenditures. The Direct Impact of the 12 months of construction is the value of the new homes, \$955.7 million.
- Indirect Impacts (or supplier impacts) define the creation of economic activity from businesses which supply goods and services to the project. This includes subcontractors, purchases of materials and services, local government utilities and planning services, and all other inputs into the construction process. These supplier firms hire additional employees, purchase additional utilities and materials, and pay more taxes, and their expanded activity is dependent on the income generated

by the direct construction expenditures. The Indirect impact is \$384.6 million, and the largest impacts on indirect sectors are to Wholesale trade, Architectural and engineering services, Food and beverage stores, Building material and garden supply stores, and Truck transportation.

- Induced Impacts (or consumption impacts) measure the retail, housing, medical, and other consumer activities created by household expenditures of the employees of the construction firms and the increase in employees of the indirect (supplier) firms. Induced impacts total \$265.3 million. The largest impacts on the consumer sectors are expenditures on housing, Wholesale trade, Hospitals and medical services, real estate, and banking.

The amount of economic activity can be measured in a number of ways, each of which shows a different perspective on how the impacts affect the economy.

Total Industry Output measures the total sales, total expenditures, or other aggregate measure of activities which firms or industries use to indicate their total level of business activity. This 12 months of housing creates \$1.6 billion including the direct, indirect, and induced activities.

Employee Compensation is the total benefits to employees, and includes not only salary and wages but also benefits, taxes paid by employers, and other indirect compensation. Profits to owners and returns to investors are not included in this measure. This year of housing construction creates \$473.9 million in employee compensation.

Employment is the only measure not in dollar terms, and shows the number of full-time equivalent jobs created by the project, and by its indirect and induced impacts. This year of housing construction supports 14,750 full-time annual equivalent jobs.

State & Local Tax Revenues measures the generation of taxes based on model analysis over all industries, and should not be viewed as an actual accounting analysis of the revenues from this project. The actual tax revenues to local government cannot be accurately predicted in the current environment of rapid change in the local tax structure. This year of housing construction creates \$75.6 million in state and local tax revenues.

The table below shows the annual and cumulative economic impacts of new single family home construction in North Natomas since January 2000. The direct, indirect, and induced impacts are not displayed separately in this table in the interest of brevity. The data is based on the actual sales price of new homes reported by the Gregory Group, rather than the value of permits widely used.

In year 2000, the new single family homes constructed in the Natomas area sold for about \$434.4 million. This supported a total of \$729.8 million in total business activity in the City of Sacramento, including \$215.5 million in employee compensation for 6,705 annual equivalent jobs. State & Local tax revenues of \$34.4 million were generated.

By 2004, the construction activity had risen to \$955.7 million, generating \$1.6 billion in total business activity, 14,700 jobs, and \$76 million in tax revenues.

The right column of the table shows the cumulative totals from January 2000 through 2004 from Natomas area single family development, without inflation or discounting. The 5-year total in new construction valued at about \$3.6 billion has generated over \$6.03 billion in economic activity in the City of Sacramento, supported 55,454 annual equivalent jobs, and generated \$284.8 million in State & Local taxes.

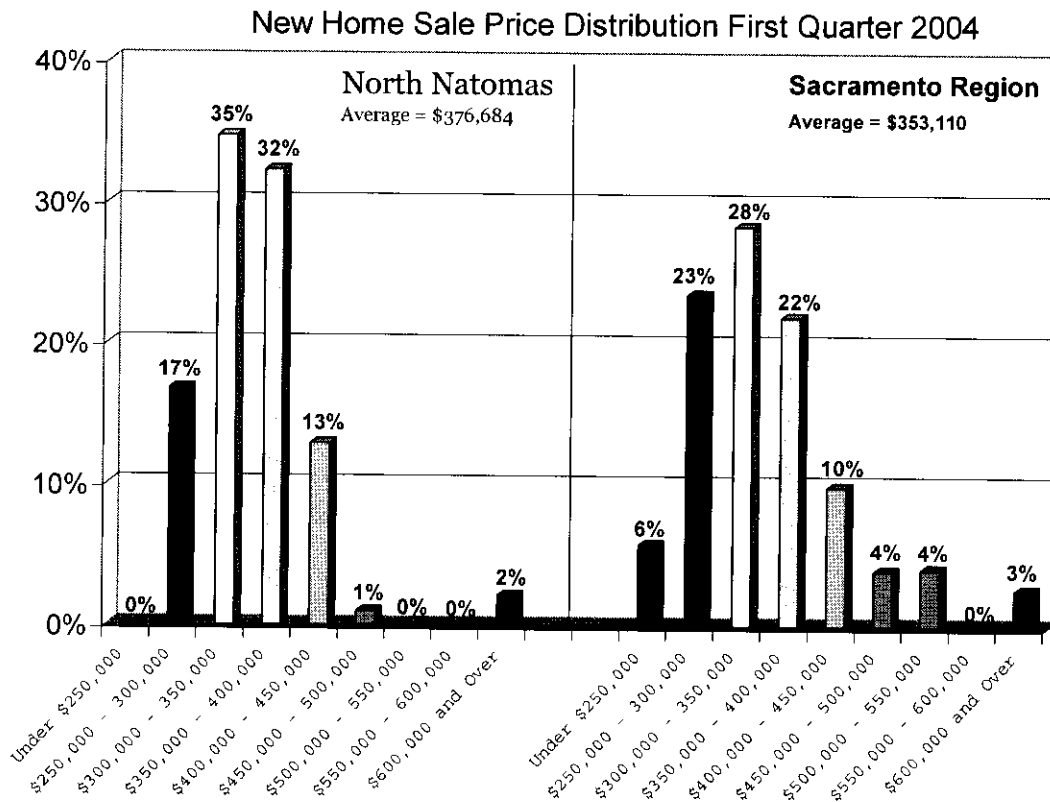
Annual and Cumulative Impacts of New Home Construction in North Natomas						
Year	2000	2001	2002	2003	2004	Total Since January 2000
Value of New Homes Sold	\$ 434,423,999	\$ 564,876,756	\$ 685,256,784	\$ 952,864,119	\$ 955,714,032	\$ 3,593,135,690
Output	\$ 729,815,670	\$ 948,971,303	\$ 1,151,205,137	\$ 1,600,775,204	\$ 1,605,562,949	\$ 6,036,330,262
Employee Compensation	\$ 215,451,467	\$ 280,149,176	\$ 339,851,342	\$ 472,570,513	\$ 473,983,920	\$ 1,782,006,418
Employment	6,705	8,718	10,576	14,706	14,750	55,454
State & Local Taxes	\$ 34,435,404	\$ 44,775,977	\$ 54,318,118	\$ 75,530,497	\$ 75,756,400	\$ 284,816,396

Sources: Previous tables.
Dr. Robert Fountain, May 2005.

Demographic Analysis of Natomas Area Households

Households which purchase new Natomas area single family homes are different from the existing population of the City of Sacramento and Sacramento County, as is always the trend in newly-developing areas. Part of the difference results from the unique locational attributes of Natomas (near the center of the region and the large downtown Sacramento employment center; other differences result from the project design and the mix of housing types and prices.

The graph below shows the price distribution of Natomas area homes relative to data for the entire Sacramento region. North Natomas homes have a higher average price than the region (\$376,000 vs. \$353,000) and are very concentrated into a narrow range of prices. The two price ranges \$300,000-\$350,000 and \$350,000-\$400,000 contain 67% of North Natomas homes, but only 50% of the region's homes. North Natomas has far fewer homes in the price ranges below \$300,000 (only 17%, vs. 29% for the region) and contains fewer units in price ranges above \$450,000 (about 3%, vs. 11% for the region).



Data sources: Building Industry Association of Superior California; The Gregory Group.
 Dr. Robert Fountain, April 2004.

Estimated household income based on home price data shows new Natomas area homeowners with mean household income rising from around \$58,000 in 2000 to about \$69,300 in 2004. In addition, the Natomas area includes an increasing number of

households with income in the \$75,000 to \$100,000 category (with about 35% more of its population in this income range than the overall City of Sacramento). Comparable average household income for the City of Sacramento was \$48,300 in 2000, and is estimated to have increased to \$53,129 by 2003.

A review of data on occupations, family structure, and other variables indicates that the Natomas area is emerging as a market area different from the City of Sacramento (but more like Sacramento County). The Natomas area has a higher average household income, a higher percentage of families with children, but lower levels of college degree holders than the City.

In terms of commute to work, Natomas has a higher percent who commute less than 15 minutes (30%, higher than the average for the City and the County) but also has a higher percent who work more than 30 minutes from their homes (higher than the City average but lower than the County average). This indicates a dichotomized population: those who work downtown or in nearby South Natomas, and those who work elsewhere in the region; about 20% of Natomas residents fall into this latter category.

The occupational status of Natomas area residents shows a population with a lower percentage in top Management and Executive categories than the City, but also a lower percentage in the lowest skilled levels. Likewise, the Natomas population has lower percentages with graduate and professional degrees than the City, but higher percentage with bachelors' degrees.

The Natomas area is not serving solely as a housing resource for the downtown Sacramento area, but is playing a more extensive role as a regional housing resource for younger families likely to rise into the professional and executive ranks in the future.

The Economic Impacts of Natomas Area Resident Incomes

A major factor in the impact of the Natomas area on the City of Sacramento is the economic activity generated by the expenditures of the households of the new Natomas housing units. The economic value of this activity is initially less than that of new housing construction but since the household expenditures occur in perpetuity, the economic effects in the long run will far exceed that of the one-time construction activity.

Year	2000	2001	2002	2003	2004	Total Since January 2000
Cumulative number of new North Natomas households	1,883	4,017	6,210	9,188	11,656	11,656
Average Household Income for New Residents This Year	\$ 58,317	\$ 60,197	\$ 67,998	\$ 64,578	\$ 76,220	
Cumulative Annual Household Incomes	\$ 109,809,975	\$238,270,696	\$387,390,404	\$579,703,430	\$767,814,165	\$ 2,082,988,669
Annual Total Output Generated	\$ 145,164,833	\$314,985,281	\$ 512,116,165	\$ 766,347,061	\$ 1,015,022,679	\$ 2,753,636,018
Employee Compensation	\$ 31,615,204	\$68,600,113	\$ 111,532,915	\$ 166,901,433	\$ 221,060,076	\$ 599,709,741
Annual Employment Generated	1,138	2,469	4,015	6,008	7,957	21,587
Annual State & Local Tax Generation	\$ 7,786,652	\$16,895,833	\$ 27,469,948	\$ 41,106,911	\$ 54,445,889	\$ 147,705,232

Sources: Income estimated from new home sales price, current mortgage rates, and prevailing loan ratios on national secondary markets. Other data from previous tables.
Dr. Robert Fountain, May 2005.

The table above shows the cumulative economic impacts of the expenditures by Natomas area residents on the City of Sacramento. In 2000, 1,883 new households in North Natomas had average annual household income estimated at \$58,317 based on established relationships between home purchase prices and income. This income totals \$109.8 million for 2000. The additional spending and employment effects generated by the expenditures of this group raises the total output generated to about \$145 million, employee compensation to \$31.6 million, and supports 1,138 jobs in the City of Sacramento. About \$7.8 million in State & Local taxes are generated.

In 2001, the following year, an additional increment of income is generated by the occupancy of additional houses, while another year of income is generated by the households who located there in 2000. The cumulative 2001 household income from Natomas area development equals the income from the cumulative number of households, totaling \$238.3 million in 2001. The table continues to show for each year the household income from all residents of Natomas homes sold through the year 2004.

Thus the cumulative effect of household expenditures by buyers of new homes in North Natomas reaches about \$767.8 million per year in 2004, generating about \$1.02 billion this year in total expenditures in the City of Sacramento, supporting 7,957 annual full time equivalent jobs, and generating about \$54.4 million per year in State & Local tax revenues.

The right column of the table shows the cumulative totals generated since 2000, which are not discounted for inflation or present value discounting. The overall conclusion is that the residents of new Natomas area homes have spent about \$2.08 billion since 2000, have supported 21,587 job-years of employment, and have paid \$147.7 million in State & Local Taxes.

Researcher Qualifications

J. ROBERT FOUNTAIN

EDUCATION

Ph.D., Graduate School of Management, University of California, Los Angeles (UCLA), June 1977.

Major Fields: Housing, Real Estate, and Urban Land Economics.

Minor Fields: Finance, Urban Planning, and Research Methodology.

EXPERIENCE

Present (Since January 2005) Director, Applied Research Institute, California State University, Sacramento.

Present (Since March 2001) Chief Economist, Sacramento Regional Research Institute, a joint venture of California State University, Sacramento and the Sacramento Area Commerce & Trade Organization. This research center provides economic development research, business forecasting, and locational analysis data and information about the Sacramento region.

Present (since 1980). Consultant in real estate and land development. Clients include housing, industrial, and office development companies, mortgage lenders, real estate associations, and expert witness testimony.

1976 - 1994. Professor of Real Estate and Urban Planning, School of Business Administration, California State University, Sacramento. (Currently Professor Emeritus.) Teaching areas included: real estate market and locational analysis; housing economics; regional economic development; mortgage markets; real estate finance; investment analysis; real estate appraisal; and urban planning.

Summary of Research and Public Information Activities:

Regional economic analysis including economic forecasts and projections, labor force and manpower studies, housing market studies, analysis of specific industry sectors, and economic impact analysis.

Housing, land use, and location studies for corporate decision makers.

Data analysis and publications for the Sacramento Area Commerce and Trade Organization; the Sacramento Metropolitan Chamber of Commerce; Placer County Department of Economic Development; and a number of city and county agencies.

Expert testimony on economic conditions, housing market trends, locational factors, real estate trends, and other economic, land use, and business factors.