

EXHIBIT B

PUBLIC FINANCE PLAN

Executive Summary

DEVELOPER has crafted a proposed public finance plan to achieve the following objectives:

- < Virtually eliminate any risks that the City or the Redevelopment Agency would assume with respect to the public financing needs of the project;
- < Fully fund the Hamilton Trust Funds described below; and
- < Minimize the amount of tax increment financing required to support the project.

Any one of several development scenarios could materialize, and three specific scenarios were evaluated in detail for illustrative purposes only (see Attachment A to this Exhibit B). Assuming approval of 350 non-senior units and 100 senior units in Rafael Village, 22 units in San Pablo, and 648 non-transitional units in Capehart/Hillside, as well as many other assumptions, the project will generate the following amounts to the City and Redevelopment Agency:

Inflow of Funds to City

Land Purchase Price	\$ 8.1 million
Reimbursement of City Master Plan Expenses	\$ 3.6 million
Municipal Service Impact Mitigation Fees	\$21.1 million
General City Impact Mitigation Fees	\$ 7.2 million
Low Income Senior Housing Assistance Fees	\$ 4.7 million
Public Benefits Monitoring and Compliance Fees	\$ 4.4 million

Total	\$49.1 million

Net Inflow of Funds to Redevelopment Agency

Housing Fund Tax Increment	\$41.4 million
Net Non-Housing Fund Tax Increment (after payments to taxing agencies and the County Projects Fund)	\$93.4 million
Debt Service on Tax Allocation Bonds	(\$37.7) million
Annual Tax Increment Payments to DEVELOPER	(\$ 2.7) million
RDA Administration Costs	(\$ 5.7) million
Total	\$88.7 million

In order for the project to generate these cash flows to the City and Redevelopment Agency, DEVELOPER is relying on the availability of several financing tools that are described more fully below and in Exhibit D, Affordable Housing Plan. These tools include the following:

- 1. *A Mello-Roos Community Facilities District (CFD) in Rafael Village.*** The CFD will produce approximately \$12.5 million to fund infrastructure improvements required to serve Rafael Village. The annual burdens on new residential units in Rafael Village associated with CFD special taxes will be competitive and marketable, and extensive market analysis indicates that the levy of special taxes will not impact home prices or absorption rates. CFDs are used all over California, and are currently being used on other projects in Novato.
- 2. *Private Activity Bonds and Tax Credits for Capehart/Hillside rental developments.*** Financing the affordable rental housing at Capehart and Hillside includes an allocation of private activity bond authority from the State of California Debt Limit Allocation Committee, together with an allocation of 4% Tax Credits from the California Tax Credit Allocation Committee that would automatically follow the bond allocation. Private activity bond and tax credit funding for Capehart/Hillside totals approximately \$18.0 million and \$12.6 million, respectively. These funding mechanisms have been in place for decades, and DEVELOPER's non-profit builder has achieved a 100% success rate in obtaining this type of financing. Increasing competition for this type of funding based on more stringent selection criteria should actually assist the project, because the Capehart and Hillside rental developments will score extremely high according to new criteria under consideration.
- 3. *Tax Allocation Bonds.*** Capehart and Hillside rental developments require approximately \$13.4 million in tax increment funding, and approximately \$3.0 million in tax increment funding is required to pay for Rafael Village infrastructure. Rather than rely on a stream of future annual tax increment payments, the project relies on two tax

allocation bond issuances secured by annual tax increment revenues collected at the time bonds are issued. Reserve funds, debt service coverage, and other conservative features of these bonds should make them a high-quality credit. The Novato Redevelopment Agency would issue the bonds, and these types of bonds are issued routinely by redevelopment agencies throughout California.

DEVELOPER has analyzed its ability to achieve the minimum objectives of the Reuse Plan if these contingent financing sources do not materialize under a worst-case scenario. Specifically, DEVELOPER remains committed and able to meet the minimum affordable housing percentages stipulated in the Navy Purchase Agreement and to fully fund the Municipal Service Impact Mitigation Fund as described below so the City does not experience fiscal deficits as a result of project development. DEVELOPER will also purchase the property for \$8.13 million, provide \$3.6 million in reimbursement funds to the City, and fund the Public Benefits Monitoring and Compliance Fund as described below. However, such a worst-case scenario may involve conventional mortgage financing for the Capehart and Hillside rental developments, an increased reliance on annual tax increment revenues, and lower payments into the General City Impact Mitigation and Low Income Senior Housing Assistance Funds. The worst-case scenario would also result in higher Capehart/Hillside rents because the Navy's minimum affordability requirements are not as stringent as DEVELOPER's proposed affordability levels, and tax increment revenues would be higher because the elimination of a CFD in Rafael Village and higher affordability levels on the for-sale units in Capehart would allow for higher home prices.

A. Infrastructure Financing Plan

DEVELOPER has access to significant, existing revolving lines of credit to fund all phases of project development and home building. Commonly, these revolving loan facilities are utilized to fund a majority of the costs incurred during development of the project, while the remaining portion of project costs is equity-financed with internal corporate cash flow. The lines of credit are generally paid down with the proceeds of each home sale (i.e., cash-flowed with project revenues). DEVELOPER underwrites its business commitments assuming no project-specific debt. DEVELOPER may choose to use some project-specific debt in the course of the project, depending on specific project circumstances. In any event, no outside financing is required by DEVELOPER to fund this project.

The majority of project costs for which DEVELOPER is responsible that do not relate to affordable housing projects will be funded primarily with private equity sources internal to DEVELOPER. See Exhibit D, Affordable Housing Plan, for proposed methods of financing affordable housing projects.

A Mello-Roos Community Facilities District ("CFD") will likely be formed in Rafael Village to

fund certain infrastructure required to serve that area. DEVELOPER anticipates forming a CFD in order to free up additional project capital that can be used to fund other project and City costs and to minimize the use of tax increment financing. In formulating the infrastructure financing plan, DEVELOPER tested several different CFD scenarios and settled on an annual special tax (to support debt service on CFD bonds) that equates to 0.5% of assessed value. This annual burden, when combined with a basic property tax of 1.0%, additional burdens of approximately 0.1% related to fire district assessments and other tax overrides, and homeowner association dues of approximately 0.15%, results in a total annual burden on a new homeowner of 1.75% of assessed value. This burden level is considered to be competitive and marketable relative to the annual burdens of comparable new home sales and, therefore, is not anticipated to have a negative impact on home sales or absorption rates in Rafael Village.

Approximately \$12.5 million (in future dollars, based on \$11.6 million in 1999 dollars escalated at 3% per year) in funding for Rafael Village infrastructure will be generated from the issuance of \$14.7 million in tax-exempt bonds through the CFD. Assuming a 25-year bond term, the net debt service on the bonds (gross debt service plus annual district administration costs of \$50,000 less interest income on the reserve fund) will total more than \$33.7 million, of which \$33.0 million will be paid by developed residential property. The remaining \$660,000 will be paid by undeveloped property, which is defined on a preliminary basis as any parcel within the CFD that has not had a building permit issued for construction of a residential structure. These vacant land taxes represent a carrying cost to DEVELOPER that is factored into the project pro forma.

A conservative interest rate of 7.5% is assumed for the Mello-Roos bonds; the current average interest rate on similar Mello-Roos bonds is approximately 6.25%. All bond issues are assumed to have a 25-year term, 10% reserve fund, and total costs of issuance equal to 5.0% of the bond amount. Although the Mello-Roos law allows for issuance of up to two years of pre-paid interest (i.e., capitalized interest) out of the bond issue, no capitalized interest is assumed.

Three levels of maximum annual special taxes are proposed in order to maintain the marketability of each residential product and to generally equalize the total property tax bill for homes in the project. Specifically, the following maximum special tax rates are proposed:

<u>Residential Product Type</u>	<u>Maximum Fiscal Year 2002-03 Special Tax</u>
Senior Housing	\$1,555 per unit
4,000 and 5,000 sqft. lots	\$2,850 per unit
8,000 sqft. lots	\$3,580 per unit

The maximum rates set forth above are effective for fiscal year 2002-03 and will increase by 2.0% per year consistent with the annual increase in property taxes. Based on the average sales price (current estimated prices escalated at 3% per year to fiscal year 2002-03) for

homes in each of these categories, these maximum tax rates are approximately 0.50% of the total home price. Combined with the existing tax rate of approximately 1.10% as noted above, the total tax rate will amount to 1.60% (excluding homeowner association dues). Many public agencies have adopted Mello-Roos policies that limit the total combined tax rate to 2.0% or less, which is also a generally-accepted standard as to the maximum tax that can be supported by developed property. At 1.60%, the rates proposed for Rafael Village are well within this general industry standard, and, according to DEVELOPER's sales and marketing consultants, should have minimal impact on the marketing of the property.

Using the maximum taxes set forth above as an upward limit, the Mello-Roos bonding capacity was determined after taking into account other specifications required by the bond market. Specifically, a 110% debt service coverage was built into the bond sizing, which means that in any year the maximum special tax revenues that can be collected within the CFD are at least 110% of the gross debt service on the bonds. Based on this requirement, it was determined that approximately \$14.7 million in Mello-Roos bonds can be supported based on proposed land uses and the maximum annual special tax rates set forth above.

B. Use of Tax Increment

DEVELOPER projects that the vast majority of tax increment financing utilized by the project will be to fund infrastructure and other improvements for the Capehart/Hillside rental developments, as described more fully in Exhibit D, Affordable Housing Plan. However, to achieve its desired rate of return, DEVELOPER plans to use some tax increment financing to fund infrastructure required to serve Rafael Village. The second tax allocation bond issued in 2004 to complete the Capehart/Hillside financing would not utilize the bonding capacity of the tax increment generated at that time. Additional bonds totaling \$3.4 million will be issued to fund \$3.0 million in Rafael Village infrastructure. Total bonds issued in 2004, including the bonds issued for Capehart/Hillside, will amount to approximately \$10.6 million. Tax increment revenues collected at the time the second bonds are issued produce a debt service coverage factor on total outstanding bonds of over 190%. The coverage ratio increases to approximately 210% the following year, and generally increases each year thereafter.

A total of \$18.1 million in tax allocation bonds are anticipated to be issued, resulting in \$37.7 million of net debt service payments until the bonds are retired. Approximately \$1.5 million in tax increment is not used by the project in fiscal year ending 2005, increasing to \$4.9 million by 2038, the last full year that tax increment revenues could be allocated to the agency. A total of \$88.7 million in net tax increment revenues generated by the project could be used by the agency for purposes other than affordable housing or infrastructure inside the project.

With the current expectation that DEVELOPER will need \$16.2 million in 1999 dollars (\$18.5 million in future dollars based on a 3% annual escalation rate) in redevelopment funds, the

financing plan assumes the use of only a small portion of the total potential Redevelopment Agency tax increment financing. This expectation is based on an approved project with 350 non-senior units and 100 senior units in Rafael Village, 22 units in San Pablo, and 648 non-transitional units in Capehart/Hillside. As presented below under Section C, Reimbursement and Payments to City, DEVELOPER is committed to fully funding all reimbursement and payment requirements to the City. However, fully funding these amounts may require more or less tax increment financing depending on the number of Rafael Village and San Pablo units that are actually approved.

Attachment A to this Exhibit B, provided for illustrative purposes only, shows the amount of tax increment financing required by DEVELOPER for three Rafael Village scenarios: 1) the best and final plan, 350 non-senior and 100 senior units; 2) the minimum lot plan, 315 non-senior and 90 senior units; and 3) the maximum lot plan, 387 non-senior and 100 senior units. Each scenario assumes 22 units in San Pablo and 648 non-transitional units in Capehart/Hillside. Tax increment financing needs will be higher if a minimum of 19 units are developed on the San Pablo site, resulting in a minimum unit scenario of 424 total units (315 non-senior and 90 senior units in Rafael Village and 19 units in San Pablo).

There is also some uncertainty with respect to the timing of a transfer of the Exchange Triangle site to DEVELOPER; tax increment financing needs will be higher if the site is not transferred in 2001 when project entitlements are expected to be granted. In addition, DEVELOPER has implicitly assumed risks associated with market (e.g., home prices and absorption), economic (e.g., inflation), financial (e.g., interest rates, financing mechanism availability), construction (e.g., infrastructure, residential unit, and other costs), and other factors; it cannot, though, bear entitlement exposure alone. Tax increment financing needs will be higher if all project approvals are received, through no fault of DEVELOPER (including a legal challenge under CEQA), after 2001 as anticipated.

Based on these considerations, the City, through its Redevelopment Agency, shall provide DEVELOPER with tax increment funding, calculated in 1999 dollars, in the amounts and at the times determined in accordance with the following:

(a) Amount of Tax Increment Funding

Step 1, Residential Units Approved:

Multiply the number of approved residential units in Rafael Village and San Pablo by ! \$69,300 (a negative number) to determine a Product. Add the Product (a negative number) to \$48,900,000 to determine the amount of tax increment funding in 1999 dollars that shall be allocated to DEVELOPER.

Step 2, Exchange Triangle Transferred:

Multiply the number of years after December 2001 that the Exchange Triangle is transferred to DEVELOPER by \$208,000 to determine the amount of tax increment funding in 1999 dollars that shall be allocated to DEVELOPER. A partial year shall be treated as a proportionate share of a full year. For example, a transfer that occurs in March 2003 translates into 1.25 years after December 2001.

Step 3, Entitlements Granted:

Multiply the number of years after December 2001 that all project entitlements are granted to DEVELOPER by \$10,700,000 to determine the amount of tax increment funding in 1999 dollars that shall be allocated to DEVELOPER. A partial year shall be treated as a proportionate share of a full year. For example, all entitlements granted in June 2002 translates into 0.50 years after December 2001.

Step 4, Total:

Add the tax increment required from Steps 1, 2, and 3 to determine the total amount of tax increment funding in 1999 dollars that shall be allocated to DEVELOPER. The equation to determine the amount of tax increment funding that shall be allocated to DEVELOPER can be expressed as follows:

$$\$48,900,000 ! \$69,300X + \$208,000Y + \$10,700,000Z$$

- where X = the number of approved units in Rafael Village and San Pablo,
- where Y = the number of years after December 2001 that the Exchange Triangle is transferred to DEVELOPER, and
- where Z = the number of years after December 2001 that all project entitlements are granted to DEVELOPER.

For example, assuming that 350 non-senior and 100 senior units in Rafael Village and 22 units in San Pablo are approved (472 total units), that the Exchange Triangle is transferred to DEVELOPER in March 2003 (1.25 years after December 2001), and that full project entitlements are granted to DEVELOPER in June 2002 (0.50 years after December 2001), the tax increment funding allocated to DEVELOPER would be \$21.8 million, calculated as follows:

$$\$48,900,000 ! \$69,300 \times 472 + \$208,000 \times 1.25 + \$10,700,000 \times 0.50.$$

(b) Timing of Tax Increment Funding

DEVELOPER shall have a second priority position on all net increment collected by the Redevelopment Agency up to a maximum equal to the amount of tax increment funding allocated to DEVELOPER (in 1999 dollars) pursuant to the formula described above in (a), Amount of Tax Increment Funding. Net increment is defined as annual tax increment collected by the agency, net of administration costs (which cannot exceed \$100,000 per year in fiscal year 2000-01, escalated at 3.5% per year thereafter) and payments to taxing agencies and the County Projects Fund pursuant to the Redevelopment Plan in effect at this time. First priority position on net increment shall be reserved for the payment of debt service on tax allocation bonds issued by the Redevelopment Agency for the purpose of providing DEVELOPER with required tax increment financing through net bond proceeds.

C. Reimbursement and Payments to City

To ensure compliance with the requirements of the Reuse Plan that development of the Property will not subject the City to municipal deficits or unrecovered costs, DEVELOPER will make or cause to be made the following payments to the City in the amounts and at the times determined in accordance with the following:

(a) Purchase Price for the Property

\$8,130,000 payable at Close of Escrow.

(b) Reimbursement of City Costs

\$3,600,000 payable to the City at the time of and as a condition to recording the first final subdivision map for the Property.

(c) Hamilton Trust Fund

(i) Municipal Service Impact Mitigation

DEVELOPER shall make Municipal Service Impact Mitigation payments in accordance with the formula presented in Appendix E of the RFP, as revised by Keyser Marston Associates, Inc., with templates prepared April 8, 1999.

At the City's direction, DEVELOPER envisions the use of multiple homeowner associations in the residential areas at Hamilton to provide operation, maintenance, repair, and replacement of local parks. These services would be

in addition to the basic services stipulated in the Development Agreement. Alternatively, an association could be formed to provide simply the fundamental services outlined in the Development Agreement such as architectural design, front-yard and exterior maintenance, and use restrictions, with separate associations formed to provide park-related services specific to Capehart/Hillside and Rafael Village.

Therefore, application of the Appendix E formula for Capehart/Hillside and Rafael Village shall exclude costs associated with local parks. All other costs delineated in the Appendix E formula shall apply, including street, landscaping, lighting, and open space maintenance, as well as City administration, police protection, and operation and maintenance of Hamilton park and recreation facilities, provided that the City accepts responsibility and incurs the costs to provide these services. All of the revenues incorporated into the Appendix E formula shall apply, including property taxes, sales taxes, motor vehicle in-lieu, fines and forfeitures, franchise taxes, and gas taxes.

It is anticipated that the San Pablo site will include an association that covers its obligations for street, landscaping, lighting, local park, and open space maintenance. Costs related to San Pablo shall include only City administration, police protection, and operation and maintenance of Hamilton park and recreation facilities. All of the revenues incorporated into the Appendix E formula shall apply.

The only exception to the calculation of amounts pursuant to Appendix E is that the capitalization rate shall be 5%, rather than 7% as defined in the RFP. Municipal Service Impact Mitigation payments shall be made on a per-unit basis at the time a certificate of occupancy (“CofO”) is issued by the City. The payments shall not be part of escrow closing costs.

Based on approval of 350 non-senior units and 100 senior units in Rafael Village, 22 units in San Pablo, and 648 non-transitional units in Capehart/Hillside, as well as many other assumptions, the following Municipal Service Impact Mitigation fees would be paid to the City at CofO:

Rafael Village Non-Seniors:	\$10,816 per unit
Rafael Village Seniors:	\$11,897 per unit
San Pablo:	\$ 5,417 per unit
Capehart/Hillside:	\$21,455 per unit

Attachment A illustrates the annual stream of Municipal Service Impact Mitigation fee revenues to the City, which total approximately \$21.1 million if 350 non-senior units and 100 senior units for Rafael Village, 22 units for San Pablo, and 648 non-transitional units for Capehart/Hillside are approved and other assumptions are realized. Accounting for 3% annual escalation, that amount translates into \$19.0 million in fee revenues represented in 1999 dollars (based on the unit counts and per-unit fees).

(ii) General City Impact Mitigation

DEVELOPER shall make General City Impact Mitigation payments in accordance with the following formula:

Multiply the Total Annual Recurring General Fund Expense per Unit (calculated pursuant to the annual expense portion of the formula described in Section (i) above under Municipal Service Impact Mitigation) by the City's citywide overhead factor of 0.2172 to determine a Product. Divide the Product by a capitalization rate of 5% to determine the impact fee.

General City Impact Mitigation payments shall be made on a per-unit basis at the time a CofO is issued by the City. The payments shall not be part of escrow closing costs.

Based on approval of 350 non-senior units and 100 senior units in Rafael Village, 22 units in San Pablo, and 648 non-transitional units in Capehart/Hillside, as well as many other assumptions, the following General City Impact Mitigation fees would be paid to the City at CofO:

Rafael Village Non-Seniors:	\$4,722 per unit
Rafael Village Seniors:	\$4,722 per unit
San Pablo:	\$3,227 per unit
Capehart/Hillside:	\$6,649 per unit

Attachment A illustrates the annual stream of General City Impact Mitigation fee revenues to the City, which total approximately \$7.2 million if 350 non-senior units and 100 senior units for Rafael Village, 22 units for San Pablo, and 648 non-transitional units for Capehart/Hillside are approved and other assumptions are realized. Accounting for 3% annual escalation, that amount translates into \$6.5 million in fee revenues represented in 1999 dollars (based on the unit counts and per-unit fees).

(iii) Low Income Senior Housing Assistance

DEVELOPER shall make Low Income Senior Housing Assistance payments in accordance with the following formula, which shall be applied only to non-senior units in Rafael Village:

Subtract from the unit selling price the price of a unit with the same number of bedrooms that would be affordable to a household earning 120% of the median income for Marin County to determine the Difference. Multiply the Difference by 5.7% to determine the impact fee.

Low Income Senior Housing Assistance payments shall be made on a per-unit basis at the time a CofO is issued by the City. The payments shall not be part of escrow closing costs. Total payments shall not exceed \$4.2 million in 1999 dollars.

Based on approval of 350 non-senior units in Rafael Village, as well as many other assumptions, Low Income Senior Housing Assistance fees would be paid to the City at CofO at a rate of \$11,970 per unit. This is based on an assumed average price for non-senior Rafael units of \$555,000 compared to an average price of \$345,000, which is affordable to households earning 120% of the median income in Marin County. The per-unit rate of \$11,970 is calculated by multiplying \$210,000 (the difference between \$555,000 and \$345,000) by 5.7%.

Attachment A illustrates the annual stream of Low Income Senior Housing Assistance fee revenues to the City, which total approximately \$4.7 million if 350 non-senior units for Rafael Village are approved and other assumptions are realized. Accounting for 3% annual escalation, that amount translates into \$4.2 million in fee revenues represented in 1999 dollars (350 units times \$11,970 per unit).

(iv) Public Benefits Monitoring and Compliance

DEVELOPER shall make Public Benefits Monitoring and Compliance payments in accordance with the following formula, which shall be applied only to non-transitional rental units in Capehart/Hillside:

Identify the Annual Gross Rental Income (not including laundry, concessions, or income other than rents) as determined by audited financial statements to be completed no later than March 31 following

each calendar year. Multiply the Annual Gross Rental Income by 1% to determine the Maximum Annual Fee. The annual fee will be equal to annual net income after all expenses and financing costs have been paid, up to the Maximum Annual Fee. In other words, the annual fee will be subordinate to debt service and all other annual costs of operating the rental developments.

Public Benefits Monitoring and Compliance payments shall be made each year within 60 days after audited financial statements are prepared.

Based on approval of 297 non-transitional rental units in Capehart/Hillside, as well as many other assumptions, Public Benefits Monitoring and Compliance fees would be paid to the City at a rate of approximately \$29,000 per year. This is based on monthly rents of \$860 for 153 Capehart rental units and \$750 for 144 Hillside units. Total annual gross rents would be \$2.9 million in 1999 dollars, which would translate into \$29,000 in annual fees based on 1% of gross rents.

In addition, the initial buyer of a deed-restricted for-sale unit shall pay a fee equal to 0.25% of the sales price when the unit is resold. Each subsequent owner shall be subject to the same fee upon resale. The deed restriction shall include a section that stipulates this provision of the Public Benefits Monitoring and Compliance program. Attachment A illustrates the annual stream of Public Benefits Monitoring and Compliance fee revenues to the City.

(d) Development Fees

[David Madway to insert language here.]