

# Arc Ecology

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Treasure Island Development Authority  
Through Peter Summerville  
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To: Chairwoman Claudine Cheng and Members of the Board

We appreciate the very public process that you and the CAB established to review this proposal. In addition to attending numerous meetings of the Treasure Island Development Authority (TIDA), the Citizens Advisory Board (CAB), and CAB subcommittees, we have carefully reviewed the proposal submitted by Treasure Island Community Development (TICD). Members of the Board and the CAB have previously articulated many of our concerns.

We would like to expand on some of those issues. From the outset of the public dialog about the redevelopment of Treasure and Yerba Buena Islands (TI), our most pressing concern has been to ensure that the huge investment of public capital in this project yields a commensurate level of public benefit.

## **A Project that will be Financed by the Public**

The project now conceptualized by TICD has heightened our concerns. The City is expected to provide most of the investment capital for this project, over and above land and buildings that would be given to TICD at no cost. TICD will finance this project primarily with public assets. TICD is proposing to invest less than \$40 million<sup>1</sup> of its funds to cover \$317 million<sup>2</sup> in costs, relying on public dollars and income generated by the project itself to pay for the rest.

A rough comparison, based on the unadjusted numbers in the TICD Financial Plan, suggests that the City will invest (not counting its real estate contribution) more than \$3 of its funds for each \$1 of TICD equity. TICD's \$40 million will be more than matched in the second year of the project by \$62 million<sup>3</sup> the City would borrow (by issuing a revenue bond) against rental income earned from housing on the site. A second source of capital provided by the people of San Francisco would be most of the project's long term stream of property tax revenue: \$65 million<sup>4</sup> in debt capital (tax anticipation bond proceeds) to be repaid with property taxes, and another million<sup>5</sup> in additional property taxes.

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<sup>1</sup> TICD Financial Proposal page 5

<sup>2</sup> TICD Financial Proposal Cash Flow Pro Forma

<sup>3</sup> TICD Financial Proposal page 5

<sup>4</sup> TICD Financial Proposal page 6

<sup>5</sup> TICD Financial Proposal page 6

A more complete understanding of the local contribution to this project requires an estimate of the value of the land and buildings that would be donated to TICD. If San Francisco is successful in obtaining a no-cost Economic Development Conveyance (EDC), these assets would also represent a contribution from the federal government. (However it is not altogether clear whether the military will determine that this fundamentally residential project satisfies EDC requirements.) Theoretically San Francisco would receive TI real estate at no cost through an EDC. The reality is that the costs of arranging the conveyance, and the costs and liabilities associated with operating and providing services to the property prior to conveyance have been substantial.

In addition to these subsidies that San Franciscans would provide to TICD, California and U.S. taxpayers will add another layer of subsidy in the form of tax exempt interest on the project's debt capital.

**Table 1: SOURCE OF FINANCIAL SUPPORT FOR TICD PROJECT**

PRIVATE CAPITAL	PUBLIC CAPITAL		REINVESTED PROJECT INCOME
	San Francisco	State and Federal	
TICD: <\$40m	TI rents: \$62 m	Land and Buildings	Home site sales: \$123 m
	TI Property taxes \$66 m	Income taxes on debt interest	Rental units: \$ 90 m
	Land and buildings		Ground leases: \$106.m
			Other: \$ 25 m

## The Return on the Public's Investment

The level of public investment capital that TICD is assuming in their financial plan triggers an obvious question: What rate of return does the public need to receive on its investments? Projecting the return on public capital is a more complex exercise than calculating the internal rate of return on a private real estate investment, but it is equally essential to ensuring prudent investment decisions. Too often the standards for investing public capital is that benefit, no matter how small, justifies the investment, no matter how big.

Theoretically one of the most significant public benefits of this project would be reinforcement of the perimeter of Treasure Island – a prerequisite of any redevelopment. The realization of that contribution (whether economic development, housing, or parkland) however must ultimately be evaluated in the actual public benefits of the use of the stabilized land; i.e., stabilizing the land to develop a use with little or no direct public benefit can not in itself be considered a public benefit.

The main public benefits that the TICD purports to offer include:

- Economic Development (employment and growth in the tax base)
- Public Trust land uses (primarily water-related habitat, recreation, and open space)
- Affordable housing

We believe that each of these benefit packages is flawed.

### ***Economic Development Benefits - Employment***

The most positive economic development benefits of the project were created by the City's commitment to the Treasure Island Homeless Development Initiative (TIHDI). Beyond the baseline level set by the TIHDI agreement, TICD is willing to participate in other City

employment programs. There is no real commitment to exceed City requirements for permanent jobs. TICD has not made a commitment to pay a “living wage”. TICD’s commitment to use union workers and pay prevailing wages seems to extend only to construction jobs.

Virtually all the permanent jobs created will command low wages: more than 80% would be in the low wage hospitality, retail, and building services sectors with pay generally below \$25,000 per year.<sup>6</sup> (The average annual wage or salary of \$40,000 implied by TICD’s projections of payroll tax revenue<sup>7</sup> is unrealistic.)

In our view, a thousand new jobs paying less than a living wage should be considered an economic liability, not a benefit. A single person household earning \$35,650 is considered very low income in San Francisco.

### ***Economic Development Benefits – Tax Base***

As many CAB members have pointed out, the project’s fiscal analysis addresses only the revenue side of the ledger. Even if other revenue projections in the fiscal analysis are not as badly overstated as the Payroll Tax, it is impossible to tell whether the project even pays its own way over the long term. Preliminary indications are not promising. The projected annual contribution of the project to the General Funds is about \$7.5 million<sup>8</sup> compare to the Mayor’s budget for 2002-2003 City expenditures of \$11.5 million for to support the current low level of city services.

It is not likely that the TICD development would achieve fiscal self-sufficiency during the life of the redevelopment project area. An island residential community of about 3,000 households is big enough to require a full array of city services but too small to use them efficiently or pay for them through ordinary taxes and fees.

An obvious example of the problem is transit. Establishing service both to the East Bay and San Francisco, with short headways, extended hours of service, and reasonably low fares, is essential, given the hazardous conditions of automobile access. The small number of riders per transit vehicle, especially in off-peak hours, will necessitate substantial underwriting of operating costs no matter what form of transit is provided. The problem is only exacerbated by the project’s promise of the most expensive mode – ferries.

Similar inefficiencies arise in providing a community of 3,000 households with police, fire, paramedic, library, and even school services. (Commercial services face the same problem. Current residents have been demanding a supermarket, even though there will not be enough people in the market area to support such an operation.)

There is a limited range of response to these inefficiencies. One possibility is that TI residents would adapt to a low level of services. This would involve the inconvenience of sending their children off the island to attend middle school, or the risk they will have to wait for an ambulance dispatched from the mainland to makes its way through congested bridge traffic

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<sup>6</sup> TICD Financial Proposal, Exhibit 2

<sup>7</sup> TICD Financial Proposal, Exhibit 1

<sup>8</sup> TICD Financial Proposal, Exhibit 1

because the single TI ambulance is already transporting another resident to a San Francisco hospital.

The second alternative is that the rest of San Francisco would subsidize additional costs of providing full municipal services for TI residents. Neither law nor custom precludes such subsidies, although the Mayor's mantra that TI will pay for itself would need to be revised. However, only tortured logic could then claim the expanded tax base as a positive return on the public capital invested in TI redevelopment.

Like employment, the tax base of the TICD project is likely to represent a net liability.

### ***Public Trust Land Uses – Water Related Habitat***

The storm water treatment wetland included in the Project's first phase represents a significant public benefit, as is the land set aside for a salt-water wetland to be developed with independent funding during the last phase. The public's investment in these wetlands will be repaid in the form of natural habitat creation, cleaner storm water discharges into the Bay, areas for wildlife viewing and an associated interpretative center. The wetlands are a destination that will attract San Franciscans, other Bay Area residents, and visitors to the water's edge. The wetlands will also help to make TI a year-round destination because they are particularly interesting and inviting during the winter months.

### ***Public Trust Land Uses –Water Related Recreation***

Although the project provides a generous amount of recreational open space, the siting of development prevents much of the open space from serving Public Trust functions. In order to build housing near the northern and southern shoreline, TICD is proposing to trade the underlying land out of the Public Trust in exchange for land on Yerba Buena Island that would be brought into the Public Trust. For most of the island, shore access would be provided through the mandatory 100 foot wide band governed by BCDC.

This configuration creates a serious problem for much of the remaining Public Trust land on Treasure Island which would be located in the center of the island, cut off from the shoreline. In addition to removing the residential parcels from the Public Trust, the trade also makes the interior land less useful for Public Trust purposes. Even though it would remain in the Trust, this open space would be physically and visually blocked from the water, except for streets running through the residential development which are supposed to provide view corridors..

Nor would the large interior open space likely serve as a regional recreational resource. These playing fields would be very difficult for people living elsewhere in San Francisco or the East Bay to access, especially during popular afternoon game times, whether by automobile because of bridge congestion and the dangerous on ramps, or by ferry or bus due to travel time or expense.

In reality, the large interior open space will feel like a part of the residential neighborhoods, and will primarily serve Treasure Island residents. We do not oppose the project including neighborhood serving open space. However, such facilities should be considered functionally part of the residential land uses, not a Public Trust resource. The same is true for the streets in the residential neighborhoods and neighborhood serving commercial facilities.

The site plan for the project needs to change substantially if the public capital invested in this project is to provide part of its return as Public Trust benefits. As the project is currently structured, the return on the public's investment is negative.

### ***Affordable Housing***

It would seem that a project promising that 1/3 of the new housing units will be affordable would provide a generous return on its public capital. Such is not the case for the TICD proposal for several reasons.

- Most of the very low income units do not represent a net addition to the city's stock of affordable housing.. The project plans to demolish existing low income units and provide land for their replacement.
- The project relies on TIHDI to provide the replacement units. The financial plan does not provide for relocation or construction costs.
- The inclusionary units that TICD proposes as part of their project appear to accommodate only moderate income households..
- The sale price for the for-sale affordable units seems too high. It seems to be derived from households dedicating 35% of their income just to mortgage payments rather than to all housing costs, including taxes, insurance, maintenance, and utilities.<sup>9</sup>

The housing benefits clearly need to be augmented if they are to be the same order of magnitude as the public investment in this basically residential development project. San Francisco is not suffering from a shortage of market rate housing sites. Housing for above moderate income households built 1988 – 2000 exceeded the city's share of regional needs.<sup>10</sup> Only the affordable units represent a return to the public on their investment in this project.

## **Conclusions**

We believe that this project must be substantially changed to create public benefits that are match the investment of public dollars. In our view this project is not substantially different from a project that would be built on land owned by a private developer with his/her own funding.

This mismatch suggests that the TIDA needs to revisit its decision to rely on a master developer to redevelop TI. The TICD proposal indicates that the master developer strategy will bring in only a modest amount of private risk capital. It is relatively small in comparison to the size of the project and it is relatively small in comparison to the City's own budget for capital projects (about \$5 billion net in the Mayor's 2002-2003 Proposed Budget).

At the very least, in giving direction to TICD to modify their proposal, the TIDA needs to recognize that it has alternatives. If TICD cannot bring forward a development proposal that provides San Franciscans with a public rate return comparable to the 25% (calculated with the

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<sup>9</sup> TICD Financial Proposal, Residential Product Mix assumptions

<sup>10</sup> Draft Housing Element 2000 - 2006

inappropriately high discount rate of 15%!) that TICD is demanding for itself, the TIDA should choose a different option.

We look forward to a continuing lively public review process.

Yours truly,

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