Memorandum

To: Interested Parties

From: The Blue Sky Consulting Group

Date: July 18, 2024

Re: Fiscal Impact of East Solano Plan at Population of 50,000, expected by 2040

Executive Summary

This memorandum presents an analysis of the fiscal impacts on Solano County of the East Solano Plan, as proposed by California Forever. Specifically, this memorandum presents an analysis of the likely impact of Phase One of the proposed new community in East Solano County, including approximately 23,000 new homes for 50,000 new residents and 10 million square feet of commercial and other non-residential buildings, expected to be built out by 2040. The analysis presented here shows the net fiscal effects of this new community on the budget of Solano County, estimating both additional revenues and additional services costs tied to the new community.

We estimate the net fiscal impact of the new community to be an annual surplus of $43.2 million, as shown in Figure 1. This surplus would accrue to the general fund of Solano County, and could be used as determined by the Board of Supervisors.

Figure 1 – Summary Fiscal Impact of New Community (million 2024 $)

Fiscal Impact	Amount
New Tax Revenue	$143.2
Municipal Service Costs	($73.1)
County Service Costs	($26.9)
Net County Surplus	**$43.2**

New Tax Revenue: As new residences and commercial buildings are built, these buildings will add to the county property tax base, generating additional property tax revenues for the county as well as schools and other entities that receive a share of the property tax. In addition, the residents and businesses in the new community will purchase many goods locally in the new community, adding to the sales tax collected by the county. Other revenue sources will increase as well, including hotel taxes, real estate transfer taxes, and franchise fees. In total, the new community is estimated to generate $143.2 million in additional revenue for Solano County.[1]

Municipal and County Service Costs: The county will be paying to provide services to the new community. These increased service costs will include sheriff's patrols, fire protection, street and road maintenance, and parks and libraries, among other types of services. In total, municipal-types services for the new community will cost an estimated $73.1 million.[2] In addition, costs for countywide services, such as county administration, prosecution and public defense, probation, and general fund supported health and social services, will increase by an additional $26.9 million, for a total cost increase of $100.0 million. [3]

Higher Surplus in Regional Job Center Scenario: The results presented above reflect the likely impact of the new community based on an analysis of other, comparable communities. To the extent that the new community becomes a regional job center as California Forever anticipates, it would support a larger number of jobs per resident similar to the highest level among the comparable cities, with a correspondingly larger potential to generate revenue for Solano County. Under this regional job center assumption in which the new community supports as many jobs per 100 residents as Walnut Creek (77.6), the East Solano Plan would result in annual New Tax Revenues of $153.9 million, producing an annual county surplus of $53.9 million.

Fiscal Impact Overview

To estimate both the change in revenues and change in costs for the county, we developed a fiscal impact model which relied on budget data obtained from Solano County as well as detailed data for comparable communities in the region. This model estimates changes in each revenue source that would be impacted by the new community, including property, sales, real estate transfer, and all other taxes, licenses, permits, and fees that would change as a result of the new community. In addition, the model estimates the costs to serve this new community, including estimates of the cost for public safety, streets and roads, parks and libraries, building permits and inspections and all other municipal-type services that the new community would use. The model also estimates the costs for providing additional countywide services, including county administration, prosecution and public defense, probation, general fund supported health and social services, jails and court security, and all other general fund supported services provided by the county.

Comparable Cities

While many estimates of changes to revenues and service costs can be based on the current county budget, some revenues and service costs are more appropriately estimated based on an analysis of

[1] Includes increases in district revenues where these revenues support municipal service functions (e.g., fire and library).

[2] Includes total cost of service, including portion to be provided by county and portion to be provided by special districts (e.g., fire and library).

[3] The results presented in this memorandum reflect just the ongoing impacts of phase one of the East Solano Plan (i.e., a new community of 50,000 residents) and do not include the tax revenues or costs associated with building the infrastructure necessary to support this new community. The Solano Taxpayer Guarantee in the ballot initiative requires the developer and the new community to pay all of these costs.

comparable communities. That is, while the new community will be located in the unincorporated area of Solano County, it will be denser and require a different type and mix of services relative to the existing, largely rural unincorporated parts of Solano County. Therefore, to estimate the likely revenues to be generated and service costs to be incurred, we used a set of comparable cities as the basis for our estimates.

To identify a set of comparable cities, we evaluated the economic and demographic characteristics of cities across the Bay Area and Sacramento Delta regions to identify cities that possess the likely characteristics of the new community. Cities were selected for inclusion in the comparable cities cohort based on their size and geography. The comparable cities chosen all have populations roughly comparable to the estimated population of the new community at completion of Phase One of the East Solano Plan (50,000 residents). The list of cities included is provided in Figure 2.

Figure 2: Comparable Cities Used in Fiscal Analysis

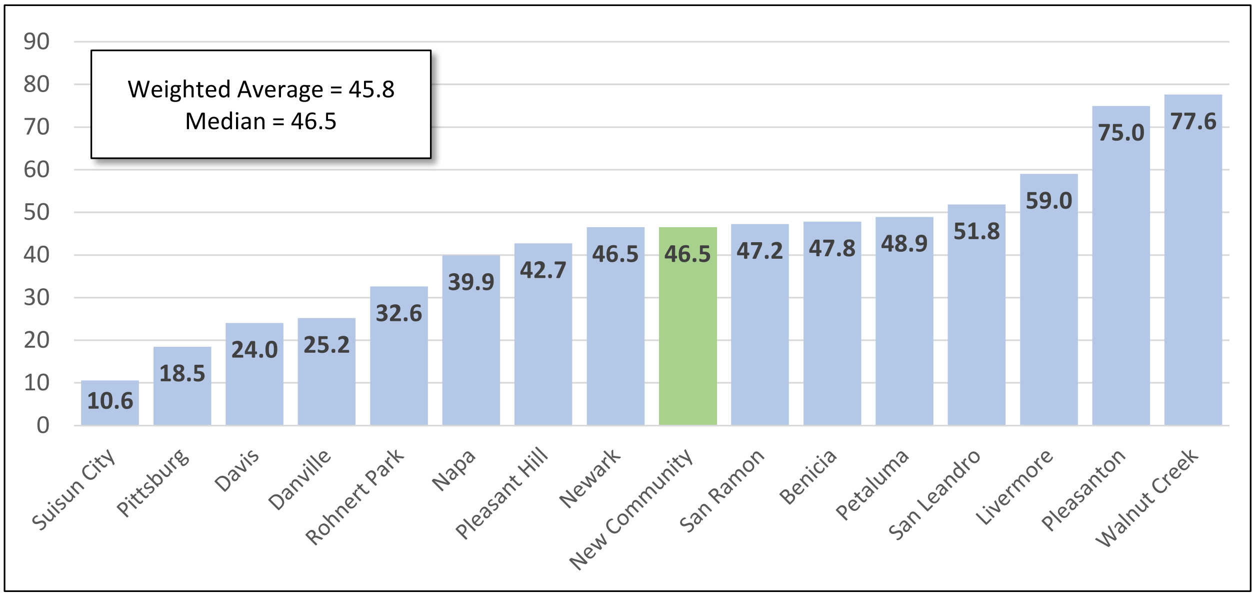
City	County	Population
Benicia	Solano	27,131
Suisun City	Solano	29,518
Pleasant Hill	Contra Costa	34,613
Danville	Contra Costa	43,582
Walnut Creek	Contra Costa	70,127
Pittsburg	Contra Costa	76,416
San Ramon	Contra Costa	86,328
Newark	Alameda	47,529
Pleasanton	Alameda	79,871
Livermore	Alameda	87,955
San Leandro	Alameda	91,008
Rohnert Park	Sonoma	44,390
Petaluma	Sonoma	59,776
Napa	Napa	79,246
Davis	Yolo	66,850

The comparable cities are all within a short driving distance of the largest population centers of San Francisco, Oakland, San Jose, and Sacramento, and are proximate to the suburban and rural areas to the north and east of the Bay Area. The cities include jurisdictions in Solano, Contra Costa, Alameda, Sonoma, Napa and Yolo counties.

The most important use of the comparable cities analysis was to estimate the likely cost of providing services to the new community. Specifically, we analyzed municipal budget data for each comparable city and identified the cost per person for a range of municipal services, including police and fire protection, parks and libraries, streets and roads, planning and building, animal control, and municipal administration. We then calculated the median expenditure per person and utilized this value as the basis for our estimates of the corresponding service cost.

In addition, we used the economic characteristics of the comparable cities to estimate the amount of sales taxes likely to be generated by the new community and the extent of commercial buildings required (and resulting property taxes generated). Specifically, these estimates were based on the number of jobs per 100 residents in the comparable cities.[4] This figure can vary across communities, from as few as 10.6 jobs per 100 residents in Suisun City to 77.6 jobs per 100 residents in Walnut Creek, as shown in Figure 3.[5] For our analysis of fiscal impacts, we adopted the median ratio—46.5 jobs per 100 residents—across the comparable cities.

Figure 3 – Jobs per 100 Residents for New Community and Comparable Cities



Revenue Sources

This section describes the methodology used to estimate changes in each revenue source that will be impacted by the new community.

Property taxes

Property taxes comprise the largest general purpose revenue source for Solano County. To estimate the change in property taxes, we developed estimates of the number and value of new residential and commercial structures to be built in the new community and the value for each type of structure. To estimate the change in property tax revenues, we estimated the total value of the new residential and

[4] Jobs for each city were estimated using data from the US Census Bureau's Longitudinal Employer-Household Dynamics (LEHD) Origin-Destination Employment Statistics (LODES) data. These data are available at https://lehd.ces.census.gov/data/.

[5] The number or industry mix of regional "jobs," as used in this memorandum, refers to jobs sited in that region; i.e., jobs are tied to the business's location. Regional "employment" refers to the residents of the region. Thus, the number of regional jobs may differ from the level of regional employment. In Solano County, for example, there are nearly 200,000 employed residents, though businesses in the County provide roughly 146,000 jobs, as of April 2024. In other counties, such as coastal job centers like San Francisco and Santa Clara, conversely, the number of jobs exceeds the number of employed residents.

non-residential development, subtracted the current assessed value for the specific parcels identified for development, and applied the 1.00% property tax rate to the increase in assessed value.

To determine the share of the additional property tax revenues that would go to the county and the other taxing entities (e.g., school districts, library districts, and fire districts), we identified the tax rate area (TRA) for each parcel expected to be developed and allocated the property tax revenue increase according the TRA allocation schedule. Finally, we applied an Educational Revenue Augmentation Fund (ERAF) adjustment (which reduces property taxes for non-school entities and increases the allocation for schools) and estimated the increase in property taxes in lieu of Vehicle License Fees that will accrue to the county from the increase in assessed value in the new community.

Residential Development

Phase One of the East Solano Plan would result in the development of 22,804 new homes for 50,000 new residents, for an average of 2.2 residents per dwelling unit. The homes will include a mix of sizes and configurations, including both single family and multi-family homes. At today's prices many of the units would be expected to sell for between $400,000 and $650,000, with some homes selling for over $650,000, resulting in an average price of $592,000. Values for housing units are estimated to increase three percent per year in real terms.[6]

Nonresidential Development

In addition to the residential development planned for Phase One, the initial build-out is also expected to result in approximately 10.1 million square feet of new non-residential space. This estimate was developed through an analysis of the average non-residential building area (in square feet) per job in each of five non-residential land uses and corresponding job sectors: retail, office/professional, commercial/industrial, institutional, and other.[7] As shown in Figure 4, multiplying the expected number of new community jobs in each sector by these job-to-square-foot ratios yields an estimate of the total build-out for each land use category. To estimate the increase in the property tax base (assessed value) that results from this new construction, we excluded the share of each category that would be exempt from property taxes (e.g. for non-profit organizations) and multiplied the remaining taxable share by the estimated value per square foot for each land use category.[8] As shown in Figure 4, non-residential development in the new community is expected to increase assessed value by $3.5 billion.

[6] Between 2014 and 2024, according to the Zillow Home Value Index, the median Solano County home price rose from $303,189 to $594,290, equal to a 6.9% annual growth rate in nominal terms, or 3.5% growth rate in real terms. Rates of home price appreciation fluctuate significantly over time, but this estimated 3% rate of appreciation is below the recent historical average. Because home prices are expected to increase faster than inflation, and the units will be completed throughout the 13-year build-out period, average selling prices over the entire 13-year build out period would be higher than $592,000 in 2024 dollars.

[7] Ratios of non-residential square feet per job are based on data from the Los Angeles County assessor and employment data from the LEHD's LODES program.

[8] The non-taxable (i.e., "exempt") share for each sector was set equal to the exempt share of total square feet for each non-residential land use in Los Angeles County. Commercial values per square foot provided by California Forever.

Figure 4 – Non-Residential Build-Out and Assessed Values (2024 $)

Sector / Use Category	Expected Jobs	Sq. Ft. Per Job	Total Est. Sq. Ft. (mil)	Exempt Share	Value per Sq. Ft.	Total Val. (bil $)
Retail	5,259	591	3.11	0.4%	$471	$1.46
Office/Professional	6,677	296	1.97	1.8%	$459	$0.89
Commercial/Industrial	3,912	993	3.88	0.6%	$235	$0.91
Institutional	6,253	146	0.91	68.8%	$632	$0.18
Other	1,148	167	0.19	12.9%	$419	$0.07
All Non-Residential	**23,250**	**433**	**10.1**	**7.2%**	**$348**	**$3.51**

Sales taxes

The amount of sales tax to be generated in the new community was based on an analysis of sales taxes collected in comparable cities. For each comparable city, we first estimated the share of total jobs that are retail sector jobs using the Census Bureau's LODES data described above. We then applied the median retail share (23%) to the new community to estimate a total of just under 5,300 retail sector jobs. We then estimated the total taxable sales for each city using data from the California Department of Tax and Fee Administration (CDTFA).[9] Specifically, we estimated the annual taxable sales for each of the comparable cities based on the two-year period from 2022 Q1 through 2023 Q4, converting these values to 2024 dollars using the CPI. We then divided annual taxable sales by the number of retail sector jobs for each comparable city to estimate the annual taxable sales per retail job, which ranged from a low of $176 in Davis to a high of $390 in Newark. We multiplied the median value of $270 in taxable sales per retail job by the estimated number of retail jobs in the new community to estimate the annual taxable sales, multiplying this total by the county's 1% share of sales tax to arrive at a sales tax estimate of $14.2 million per year.

Other revenue sources

Changes in most other revenue sources were estimated based on changes in the population contributing to the tax base. These revenue sources include real estate transfer taxes, animal licenses, business licenses, franchise fees, and most licenses and permits, fines and penalties, charges for services, and intergovernmental transfers from the state and federal governments. In each case, the appropriate tax base was assigned, such that revenues collected from a countywide population were assumed to increase with the overall increase in county population while revenues collected just from the unincorporated area were assumed to increase with the expected increase in the unincorporated area population.

Building permit revenue was estimated based on cost projections for the building inspection and approval function in comparable cities. Specifically, we estimated per resident costs for the planning and building departments in comparable cities; permit revenue was assumed to cover 90% of these costs (with the remaining portion paid by the general fund).

Because the county has relatively few hotel rooms or vacation rentals paying transient occupancy taxes (also called TOT or hotel taxes), the amount of TOT was estimated based on the current county TOT rate and an estimated TOT tax base that reflected the median TOT tax base per capita in the comparable

[9] Data downloaded from https://www.cdtfa.ca.gov/dataportal/dataset.htm?url=TaxSalesCRCityCounty.

cities.

Service Costs

Most service costs were estimated based on the median cost per person for the comparable cities. Specifically, costs for police, fire, road maintenance, municipal administration, parks, planning and building, libraries, and animal control services were based on the median cost per person for the comparable cities. Costs for emergency management (currently provided by the Sheriff's Office) were estimated based on the current costs per person for this function. Figure 5 shows the estimated cost per person based on this analysis.

Figure 5 - Estimated Service Costs per Person

Service	Per Capita Cost
Police	$446
Fire	$306
Roads	$198
Administration	$166
Parks	$132
Planning/Building Permits	$122
Library	$77
Animal Services	$9
Emergency Management	$6
Total Municipal-Type Services	***$1,462***
Other County Services	***$537***
Total Service Costs	**$1,999**

In addition to these municipal-type services, the new community will also generate additional costs to Solano County as it provides county-wide services to the new residents and businesses, including county government administration, prosecution and public defense, probation, assessor and auditor controller, general fund supported health and social services, and all other services provided on a county wide basis. Costs for these services were estimated to increase on a proportionate basis based on the expected increase in the county's population following completion of the new community.

Costs for countywide services provided by the Sheriff's Office, including jails and court security, were estimated based on an analysis of the Sheriff's Office budget. Specifically, total costs for countywide functions were identified from the Sheriff's budget. Then, the proportionate share of overall Sheriff's Office administration expense for countywide functions was estimated to arrive at an overall total countywide cost, which was adjusted by the expected increase in population to arrive at an overall increase in costs resulting from the new community. Because the Sheriff uses revenue from the Proposition 172 public safety sales tax to fund these activities, the estimated increase in this revenue source was applied as an offset to arrive at a net cost increase for countywide Sheriff's Office services.

Fiscal Impact Results

We estimate the new community would generate $143.2 million in additional revenue while service costs would increase by $100 million, resulting is a net annual surplus of $43.2 million, as shown in Figure 6. This tax surplus would accrue to the general fund of Solano County, and be used as determined by the Board of Supervisors.[10]

Figure 6 – Summary Fiscal Impact of New Community (million 2024 $)

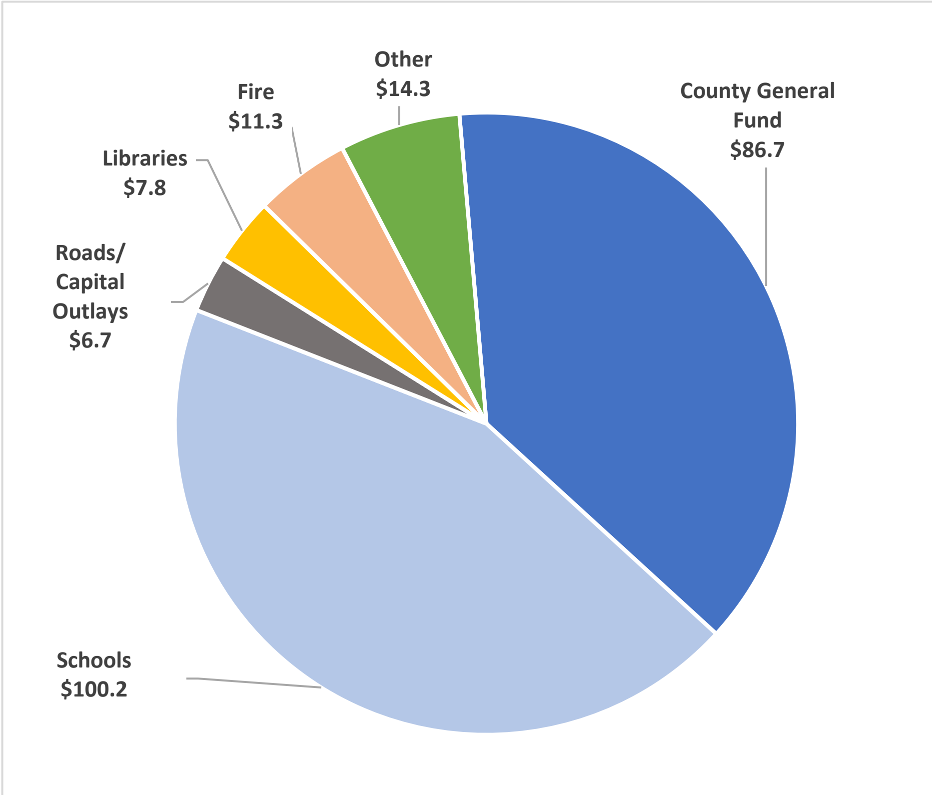
Fiscal Impact	Amount
New County Revenue	$143.2
Municipal Service Costs	($73.1)
County Service Costs	($26.9)
Net County Surplus	**$43.2**

Results – Revenues

Property taxes would comprise the largest category of additional revenue. The new community's residential and nonresidential development is expected to increase the assessed value of the affected parcels by approximately $22.7 billion (2024 dollars), resulting in total annual property tax revenue increases of $227 million. These property tax revenues will benefit the County's General Fund as well as local schools, libraries, fire districts, and other entities as summarized in Figure 6. Based on the allocation of property taxes across local agencies, 44% of new revenue ($100.2 million) will be distributed to local schools and 38% ($86.7 million) to the County General Fund, with the remaining 18% ($40.1 million) going to local library and fire districts, the county road fund, and other capital project funds and services.

[10] The East Solano Homes, Jobs, and Clean Energy Initiative, page 75, includes provisions that would recommend the Board of Supervisors considers allocating a share of this surplus, of similar magnitude to "other large-scale projects approved in the last 20 years in the State of California," towards helping to pay for infrastructure improvements that benefit both Solano County at large and the new community, such as transportation improvements.

Figure 7 – Allocation of Annual New Property Tax Revenue (2024 million $)



In addition to property taxes, the new community would generate an estimated $14.2 million in added sales tax revenue, $5.5 million in planning and building permit fees, and $2.1 million in franchise fees. In total, the new community would generate an estimated $143.2 million annually in new revenue to support municipal and countywide services, as shown in Figure 7.

Figure 8 – Annual Estimated Revenues (2024 million $)

Revenue Source	Revenue
Property Tax - General Fund	$86.7
Property Tax - Districts	$22.5
Sales Tax	$14.2
Planning/Building Permit Fees	$5.5
Franchise Fee	$2.1
Gas Tax	$1.2
Transient Occupancy Tax	$0.9
Animal License	$0.5
Transfer Tax	$0.4
Business License	$0.3
Utility Users Tax	$0.0
Parking Tax	$0.0
County Other	$8.9
Total New Revenue	**$143.2**

Because the new community will require both fire and library services, all additional revenue generated for the fire and library districts is included in the available revenues shown in the category "Property Tax – Districts" in Figure 7. In addition, 50% of the increased revenues generated by the new community for the county road fund and the county capital outlay fund are included as available resources to fund local services. In total, special district funds from these sources (library, fire, road, and capital outlay) are expected to contribute $22.5 million to fund services in the new community.

Results – Service Costs

As summarized in Figure 8, we estimate that annual costs for the new community will total approximately $73.1 million per year for municipal-type services, with about half of these costs for police and fire services ($22.3 million and $15.3 million, respectively), and the remainder for services such as road maintenance, parks, planning and building permits, and libraries. In addition, costs for countywide services will total an estimated $26.9 million annually, for a total of $100 million in additional costs per year.

Figure 9 – Annual Estimated Service Costs (2024 million $)

Service	Total Cost
Police	$22.3
Fire	$15.3
Roads	$9.9
Administration	$8.3
Parks	$6.6
Planning/Building Permits	$6.1
Library	$3.9
Animal Services	$0.4
Emergency Management	$0.3
Total Municipal-Type Services	*$73.1*
Other County Services	*$26.9*
Total Service Costs	**$100.0**

Net Impacts

The $143.2 million in additional revenues and $100 million in additional costs result in a net annual surplus of $43.2 million.[11]

Additional Revenue Impacts

The results presented above reflect the likely impact of the new community based on an analysis of other, comparable communities in terms of the number of jobs supported per resident. To the extent that the new community becomes a regional job center as California Forever anticipates, it would support a larger number of jobs, with a correspondingly larger potential to generate revenue for Solano County. Under this regional job center assumption in which the new community supports as many jobs per 100 residents as Walnut Creek (77.6), the East Solano Plan would result in annual New Tax Revenues of $153.9 million, producing an annual county surplus of $53.9 million.

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About the Blue Sky Consulting Group

The Blue Sky Consulting Group is a public policy and economics consulting firm founded in 2005. The firm's subject matter experts come from the highest levels of government, academia and the private sector, offering insights, analysis, and strategic advice to clients across a broad range of practice areas. Our clients have included the State Treasurer, State Controller, and multiple state departments and agencies, including the Department of Housing and Community Development, Housing Finance Agency, and Office of Emergency Services. We have also worked for numerous local governments, including Los Angeles County, City of Los Angeles, City and County of San Francisco, and City of Oakland.

This report was prepared by Matthew Newman, Shawn Blosser, and James Paci.

Matthew Newman is a joint founder of the firm and an expert in the state-local fiscal relationship, county finance, and economic analysis. Mr. Newman's economic modeling work includes experience with REMI and IMPLAN, as well as custom-built economic forecasting and simulation models. Previously, Mr. Newman was the Executive Director of the California Institute for County Government, a nonpartisan public policy research institute. He also worked for LECG, an international economics and public policy consulting firm and California's Legislative Analyst's Office. Mr. Newman is a Phi Beta Kappa, magna cum laude graduate of the College Honors program at the University of California at Los Angeles and holds a Master of Public Policy degree from Harvard University's Kennedy School of Government.

Shawn Blosser is a Senior Consultant with the Blue Sky Consulting Group, focusing on quantitative analyses of large datasets. Mr. Blosser has designed and implemented complex quantitative analyses in areas as varied as affordable housing, consumer financial services, health care, waste management, and public finance, among others. Previously, Mr. Blosser was a fellow at the California Institute for County Government, where he assisted with the development of a series of regional economic forecasting models. Mr. Blosser worked for six years at LECG, Inc., where he was a Senior Economist primarily involved in preparing economic analyses for corporate litigation and regulatory matters. Mr. Blosser received his B.A. with Honors in Economics from Stanford University and attended the graduate program in Economics at the University of Chicago, where his studies focused on environmental and urban economics.

James Paci has professional experience in policy research and the design, procurement, and evaluation of public programs; previous academic work focused on economics, public finance, and statistical analysis. Previously, James worked as the Deputy Director of Innovation & Analysis at the Massachusetts Bay Transportation Authority. James also worked as a litigator in New York, with a primary focus on SEC and CFTC enforcement actions, and other securities, commercial, and environmental lawsuits. James received a Master of Public Policy degree from Harvard University's Kennedy School of Government and holds a JD from Cornell Law School and a Bachelor of Arts in Philosophy from the University of Pennsylvania.