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**MARIN CITY U.S.A.
WHAT LESSONS CAN BE LEARNED**

By

Jennifer G. Borenstein

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Marin City U.S.A.: What Lessons Can be Learned?
A Study Conducted for the Berkeley Program on Housing and Urban Policy



by
Jennifer G. Borenstein
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EXECUTIVE SUMMARY

Marin City U.S.A. is a housing and retail redevelopment project in Marin City, California, an economically distressed, unincorporated area in southern Marin County. Marin City U.S.A. provides market-rate and affordable townhomes and apartments. It also provides employment and social services to its residents. This paper examines the lessons that can be learned from Marin City U.S.A. that would enable its successful replication.

Marin City U.S.A. warrants examination for three primary reasons. First, Marin City U.S.A. provides many public benefits. Residents received jobs, housing, social services and improved recreational facilities. Second, it was innovative in its land ownership structure, profit sharing agreement and financing. Third, as this analysis reveals, Marin City U.S.A. has successfully provided quality, affordable housing and employment for Marin City residents. To enhance this success, we recommend that the partners attract different retail tenants to the shopping center, adjust the types of social services provided to the residents and fund a formal evaluation.

This examination reveals that successful replication of Marin City U.S.A. needs 1) a partnership with a strong, local community organization; 2) effective leadership by the developers; and, 3) access to adequate funding. Circumstantial factors also contributed to Marin City U.S.A.'s success and would facilitate successful replication, but they are not essential. These factors include a location in an affluent region, committed local government officials and an organized community.

Public funding accounts for more than one-third of Marin City U.S.A.'s total cost. The total public subsidy is slightly higher than the amount that experts consider reasonable for Marin County. Specifically, we find that Marin City U.S.A.'s public subsidy is nearly \$110,000 per unit, compared to experts' expectation that between \$76,000 and \$100,000 per unit is reasonable for Marin County. Did Marin City U.S.A. receive too much public funding?

Our study reveals that the amount of public funding Marin City U.S.A. received is reasonable for three reasons. First, Marin City provided a large amount of public benefits. The project generates positive "spillover" effects, which benefit non-residents. These public benefits include improved transportation facilities on Highway 101, a decrease in blight in the county and more shopping opportunities. Second, the non-profit development partners needed public funding to attract a for-profit developer who had retail expertise. Most likely, the project would not have been completed without public funding to attract a for-profit developer. Third, public funding was a reliable and stable funding source. For these reasons, the size of the public subsidy is justifiable.

INTRODUCTION

BRIDGE Housing Corporation, a non-profit affordable housing developer, worked with the Marin City Community Development Corporation and the Martin Group, a for-profit developer, to create a new “mini-town” called Marin City U.S.A. A mixed-income, multi-use development, Marin City U.S.A. has created 340 new rental and ownership housing units in Marin City.

In the first section of this paper, we present the history of Marin City and Marin City U.S.A. We describe the demographic attributes of Marin County as the context for the subsequent discussion.

In part two, we analyze the project’s goals, components, costs, benefits and challenges. We also examine how Marin City U.S.A. was innovative in its financing, marketing and land ownership.

In part three, we present an evaluative framework for analyzing the project’s accomplishments. Although we cannot draw a definitive conclusion, the analysis reveals that, in general, Marin City U.S.A. has had a positive influence on the community. We propose recommendations to enhance the project’s positive influence on Marin City.

In part four, we examine how Marin City U.S.A.’s achievements can be successfully replicated. In particular, we focus on conditions that would facilitate successful replication of Marin City U.S.A. We also analyze the size of Marin City U.S.A.’s public subsidy and evaluate its appropriateness.

I. PART ONE

The Context for Marin City U.S.A. - Marin County

Marin City is located in the southern part of Marin County. Across the Golden Gate Bridge from San Francisco, Marin County is not only one of the more affluent counties in the state, but also in the nation. In 1990, the median household income of Marin County was \$48,544, compared to a statewide income of \$35,798.¹ A predominantly white bedroom community for San Francisco (89 percent white in 1990), this 606 square mile county has low crime and low unemployment rates. Specifically the Marin County FBI Crime Index per capita hit an all time low in 1998 of 2,751 down from 3,698 in 1989 and the labor force participation rate achieved its all time high of close to 98.5 percent.² These statistics might lead one to conclude that all Marin County residents enjoy the benefits of this high standard of living. This, however, is not the case.

About 3,000 people, one percent of the county's population, live in the unincorporated community of Marin City. (Please see map on the next page.) Given its proximity to San Francisco's tight housing and job market, Marin City should in theory benefit from the "spillover" effects of San Francisco's prosperity and Marin County's affluence. This "spillover" effect is not operating.

Marin City has not shared in the county's economic success. For example, in 1995, Marin City's median income was \$15,000 compared to a median income of \$55,000 for Marin County. The unemployment rate was 35 percent in Marin City while the county rate was 3 percent. Furthermore, about one third of Marin City's 900 households (about 700 people) lived in the public housing projects; roughly 95 percent of public housing inhabitants were African American.³ In 1997, 58 percent of Marin City households were low-income and 16 percent received some sort of public assistance.⁴ With high unemployment rates, a high concentration of minorities and prevalent crime and drug use, Marin City is an anomaly within Marin County.

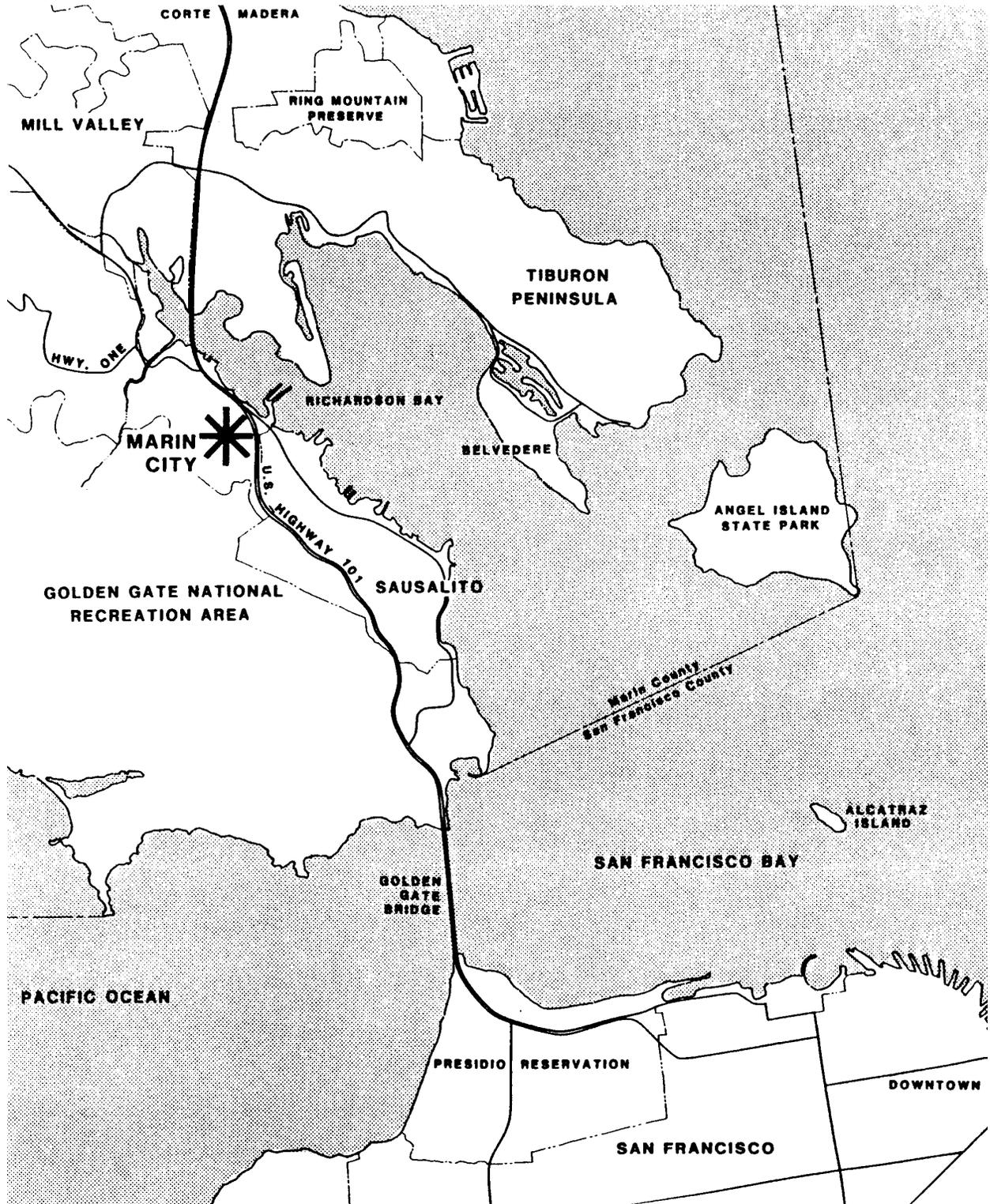
¹ 1990 US Census.

² California Department of Education.

³ Doyle, Jim, "Will Success Ruin Marin City?" *San Francisco Chronicle*, October 8, 1995.

⁴ US Census.

Map of Marin City/Southern Marin County



Marin City's History and Background

During World War II, Marin City was a vibrant and self-sufficient community. More recently however, the community has lacked affordable housing, an economic base and basic services for its residents. The next section presents the history of Marin City and the Marin City U.S.A. development.

Marin City – From Healthy to Hurting

Marin City was formed on 356 acres of donated farmland between Mill Valley and Sausalito. In 1942, Kenneth Bechtel, an industrial builder, signed a contract with the U.S. government to deliver ships. Working from an undeveloped site north of Sausalito, Bechtel created an instant shipyard called Marinship – known for building the famous Liberty ships, tankers and barges intended for the planned invasion of Japan.

This unincorporated community of Marin City was constructed as a temporary housing facility for the Bechtel Company's shipyard workers and families. Since Marinship required numerous workers, Bechtel overlooked the standard workplace exclusions and recruited African Americans. Advertisements in southern states such as Louisiana, Arkansas, Texas and Oklahoma brought African Americans to Marin City. By the end of 1943, Marin City had a population of 6,000 – about twice its current population – and was the second biggest community in terms of population in Marin County.

During this period, Marin City was a vibrant and self-sufficient community – a far cry from Marin City's plight just decades later. With its own grocery store, post office, barber shop, restaurant and churches, Marin City provided its residents with access to basic necessities. Housing was available to both whites and African Americans.

The end of the war caused an unfortunate repercussion in Marin City: shipbuilding jobs disappeared. African Americans could not easily relocate to find jobs like their white and Asian American counterparts. Real estate agreements at this time often contained discriminatory covenants that prevented African Americans from buying homes in the area. During the 1940's and 1950's, the population of Marin City dwindled to 1,300 and its racial composition shifted to 90 percent African American. Increasingly, Marin City became isolated from the rest of the county because of the racial composition and economic predicament of its residents.

Various agencies tried to help Marin City recover.

- In the mid 1950's, the Marin County Housing Authority razed the dilapidated worker housing and replaced it with 500 units of low-income public housing instead.
- In the late 1950's, residents formed the Community Services District (CSD), the local government of the unincorporated area, to produce public housing.

- The county activated the Marin County Redevelopment Agency with the single project area in Marin City and built 300 units of public housing.
- Private interests built 150 single-family homes and over 400 apartments and townhouses in the hillside or headlands area.

Despite these efforts to provide housing, the community continued its economic decline primarily due to the lack of job opportunities.

Call to Action – A Convergence of Events

The county addressed Marin City’s deterioration with the Marin City Redevelopment Plan in 1958. The county razed the entire commercial district in anticipation of “urban renewal”, but it did not attract developers. Similarly, various iterations of the redevelopment plans (1960, 1961, 1981, 1987 and 1989) failed to ignite redevelopment.

Frustrated by the diminishing supply of affordable housing and the county’s indifference to their needs, Marin City residents formed the Marin City Community Development Corporation (CDC), a non-profit, public benefit group, in the early 1980’s. (There is a list at the end of the Appendix with each organization’s name and abbreviation.) The CDC’s mission was – and still is – to improve the economic and social quality of life for Marin City residents through creating affordable housing, providing job opportunities, and extending preferential treatment to low-income Marin City residents.⁵

Residents considered the CDC’s creation as vital to solving their community’s problems. They were frustrated with the county’s lack of action. They were also concerned about the diminishing supply of housing for residents. In the early 1980’s, developers built expensive new condominiums in the Marin City hills, but Marin City residents could not afford them. Moreover, during this time, Marin City landlords converted Section 8 housing to market-rate housing forcing many residents to move elsewhere. For these reasons, the residents formed the CDC to play an active role in developing their community to meet their needs. The CDC’s goal was to increase the supply of affordable housing for Marin City residents.

Creating Economic Opportunities

Addressing the CDC’s agenda to provide affordable housing and jobs, Executive Director Al Fleming and Assistant Director Benny Stewart used foundation funds to purchase the 10.9-acre parcel of land that had been used for a weekend flea market from the Marin County Redevelopment Agency.⁶ They planned to build a 300-room hotel. After various development attempts failed, the CDC decided to buy a bigger parcel of land to attract more developers. The

⁵ Per Andy Blauvelt, Assistant Director of the CDC, residents can become a lifetime member of the CDC for \$5. Members elect the Board at an annual meeting. The Board then hires the executive director. Currently, the board has nine elected members who serve staggered three-year terms and six appointed members who serve two-year staggered terms.

⁶ The San Francisco Foundation provided the money.

nearby Mount Tamalpais school site, owned by the Sausalito school District, was the ideal parcel.⁷

Many residents objected to the CDC's plans, especially converting the flea market to a hotel. As one of the only remaining ways for residents to earn an income, the flea market was vital to many residents' economic well being. Moreover, the CSD also received funds from the flea market; 75 percent of the CSD's operating revenues were derived from the flea market. Any development plans would therefore have to create enough revenue to reimburse the CSD.

Complicating the redevelopment process at this stage was the community's lack of trust in the CDC. Residents' skepticism came from two places. First, in those formative years, the CDC was "not stable".⁸ The CDC had five different directors in six years. Thus, residents did not consider the CDC to be effective. Second, the CDC did not have enough time to build relationships with Marin City residents in its new role and therefore did not have the full trust of residents. Both issues created an obstacle to the redevelopment process, but were resolved as development started.

The Next Piece of the Puzzle – the School Site and BRIDGE

Although the CDC remained interested in the Mount Tamalpais school site, it was not willing or able to pay the district's \$10 million selling price. Rick Holliday and Donald Turner, two affordable housing developers, were also interested in this land. They knew that vacant school sites were a good source of public housing due to "infill" possibilities. Turner and Holliday were a part of a non-profit, public benefit corporation called BRIDGE Housing Corporation (BRIDGE).

The San Francisco Foundation's "blue-ribbon" Housing Task Force chartered BRIDGE in 1981 after an anonymous \$660,000 gift to the San Francisco Foundation called for a study of the Bay Area's housing crisis. The task force recommended creating an aggressive, non-profit regional development corporation. Thus, they started BRIDGE with the following mission statement:

The mission of BRIDGE is to employ its resources and capabilities throughout California to create and rehabilitate both home rental and ownership opportunities for individuals and families with very low to moderate incomes. In addition, BRIDGE and its affiliates provide distressed urban areas with opportunities for economic revitalization through mixed income and mixed-use developments.

BRIDGE's Turner and Holliday valued the school site at approximately \$6.2 million. Since the school district wanted \$10 million, purchasing the site seemed impossible.

Recognizing each other's complementary goals, BRIDGE and the CDC came together in 1986 to acquire the school site. BRIDGE devised a plan to satisfy all parties: the land sale was structured

⁷ Stewart telephone interview.

⁸ Ibid.

as a \$10 million zero coupon bond sale with a present value of the approximately \$6 million. The Marin Community Foundation and the Cowell Foundation provided money to buy the land. This innovative approach to “deal making” was a crucial element that allowed the project to move forward to the next stage.

The Three Way Partnership is Formed – A Convergence of Interests

The CDC and BRIDGE conducted community workshops to gauge resident’s interests and concerns about development. A two year’s long process, these workshops enabled the redevelopment team to draft a proposal that fulfilled the community’s goals. These community-defined goals were to⁹

- Establish a strong positive identity for Marin City
- Provide affordable housing
- Increase economic self sufficiency
- Provide for the needs of Marin City Residents by creating jobs, community services and housing opportunities.

The initial plan included a mix of retail, office, housing and community uses. Since residents wanted an affordable supermarket, job opportunities and community facilities, the partners modified the plans to include parks, a childcare center, a library and a relocated church. The CDC worked closely with residents providing information about the development throughout this time. Cultivating community consensus proved to be vital to the success of the development.

In 1989, the CDC and BRIDGE invited the Martin Group Inc. (Martin) to analyze and reconfigure the project. They needed a retail expert who had access to financing. They chose Martin because Martin accepted the community’s goals. Terner and David Martin, the president of Martin, were associates and had mutual respect for each other.

Why Martin Joined the Partnership

Martin is a private for-profit commercial developer with considerable expertise in the redevelopment of blighted neighborhoods and experience in commercial development. Best known for the Emery Bay Redevelopment Projects, Martin was an ideal partner. Martin was interested in this project two reasons: financial potential and social goals.

1. Sufficient financial potential

With Martin as the financial lead, but the CDC and BRIDGE in charge of the political issues, Martin felt confident about its prospects for a financial return of 20 percent.¹⁰ Dan McNevin, Martin’s project manager of Marin City U.S.A., considered the project to have minimal risk of delay and failure because of the community consensus and BRIDGE’s track record.

⁹ IJOSI newsletter, Spring 1991.

¹⁰ According to McNevin, 20 percent is the financial incentive that most developers require.

2. Social goals

David Martin saw great social value in the project. He states, “working on this project leaves you with a warm feeling after a full day’s work.”¹¹ Martin’s commitment to the social goals of the project helped insure its success.

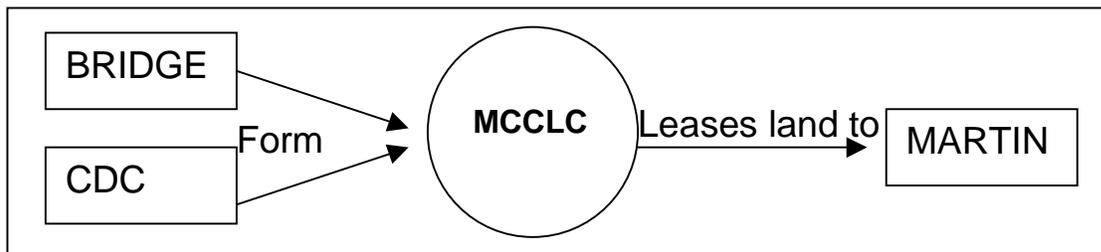
Project Progresses to the Next Stage

In 1990, the partnership obtained a 24-month loan agreement for \$14 million with Security Pacific that provided the funding to start the project. One year later though, Bank of America (BoFA) bought Security Pacific and complications ensued. The partners were able to secure funding through Security Pacific’s compliance with the Community Reinvestment Act.¹²

The CDC and BRIDGE consolidated their land holdings and created a jointly owned non-profit land trust, the Marin City Community Land Corporation (MCCLC).¹³ (Please see the chart below for MCCLC’s structure.) Martin borrowed money to buy the land for Marin City U.S.A. and donated it to the MCCLC. The MCCLC, as landowner, leased the land to Martin for 99 years as of October 17, 1990. The length of the lease enabled Martin to avoid extra penalties on appraisal since the loan was considered “fee simple”.¹⁴

The MCCLC uses half of its share of net income to promote and increase the affordability levels within the project and to enhance the living environment of Marin City. The other half of net income funds job training programs and other community services.

Chart 1 – Structure of the Land Ownership



¹¹ ISOJI newsletter, Summer 1991.

¹² The Community Reinvestment Act is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods. It was enacted by the Congress in 1977 (12 U.S.C. 2901) and is implemented by Regulation BB (12 CFR 228).

¹³ The MCCLC is a 501(c) 3 with a self-perpetuating Board comprised of two officers from BRIDGE, two from the CDC and one from the CSD. Unlike the CDC, there are no members.

¹⁴ “Fee simple” is defined in the Dictionary of Real Estate Appraisal as absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power and escheat.

County Approval Process

After a seven-year approval process, the Marin County Board of Supervisors unanimously agreed to the Marin City U.S.A. project.¹⁵ The project appealed to the County for two reasons. First, it was the largest developable piece of land in Southern Marin with access to a transit hub on Highway 101. Second, the community desperately needed economic and social reform.

Marin City's status as unincorporated facilitated the approval process, minimizing bureaucratic "red tape". The project only needed county approval rather than both county and city approval. Since county supervisors often have a broader perspective and may not be as concerned as city officials would be with pleasing specific constituents, the approval process was relatively smooth.

Obstacles Faced by Marin City U.S.A.

Marin City U.S.A. faced several obstacles including opposition to land assemblage and environmental concerns. Such obstacles are common to most development project, but may have been more complex for Marin City U.S.A. given its history of failed development and its location in affluent Marin County. The partners constructed deals, compromised and/or organized to overcome the following obstacles.

- *Opposition to land assemblage*

Two holdover tenants, Hayden's Market and the CSD, and the relocation of a church hindered the pace of development. The partners were able to construct a deal that allowed them to continue the development process.¹⁶

- *NIMBYism (Not-in-my-backyard concerns)*

Some neighbors feared the changes that development would bring. For example, the Sausalito Chamber of Commerce initiated a grass roots campaign opposing the project. They were particularly concerned about the loss of freeway access and the estimated increase in new car trips per week.¹⁷ To appease opponents, the partners agreed to improve the Waldo freeway interchange.

- *Environmental concerns*

At public hearings, the Marin Conservation League advocated slowing down the approval process and conducting more studies of Marin City U.S.A. The county also identified some

¹⁵ The County Board of Supervisors approved the Marin City U.S.A. Master Plan by Ordinance 31088 on March 17, 1992 as amended by Ordinance no. 3115 in November 1992.

¹⁶ St. Andrew Church entered into an exchange agreement with the MCCLC in March of 1994. The church conveyed its property to the MCCLC in exchange for property located adjacent to the land on which the townhomes would be built. In addition, the MCCLC agreed to pay the church \$1.3 million plus an adjustment for the consumer price index. The MCCLC also agreed to provide temporary facilities and grade the New Church property to a construction finish if deemed necessary.

¹⁷ IJOSI Special Issue 1992.

environmental problems in their Environmental Impact Report, including the effects of construction on Marin City's wetlands. These wetlands act as filter for Richardson Bay.¹⁸ The developers agreed to restore the wetlands as part of Marin City U.S.A.

- *Regulations*

The Marin Municipal Water District had a moratorium on new water hook ups. The CDC and the Marin City residents organized to pass the Measure V initiative on the November 1992 ballot. This initiative proposed an increase in Marin County's water supply and improved Marin City U.S.A.'s ability to secure water for the new residents and businesses.

- *High cost of development*

Many developers were reluctant to work in Marin City. Marin City is located on Bay Area mud, which is subject to differential settlement, flooding and earthquakes. As a result, developing Marin City requires costly construction techniques and poses various risks to developers. Furthermore, Marin City's poor image failed to attract many developers. The partners' social objectives outweighed many of these development costs.

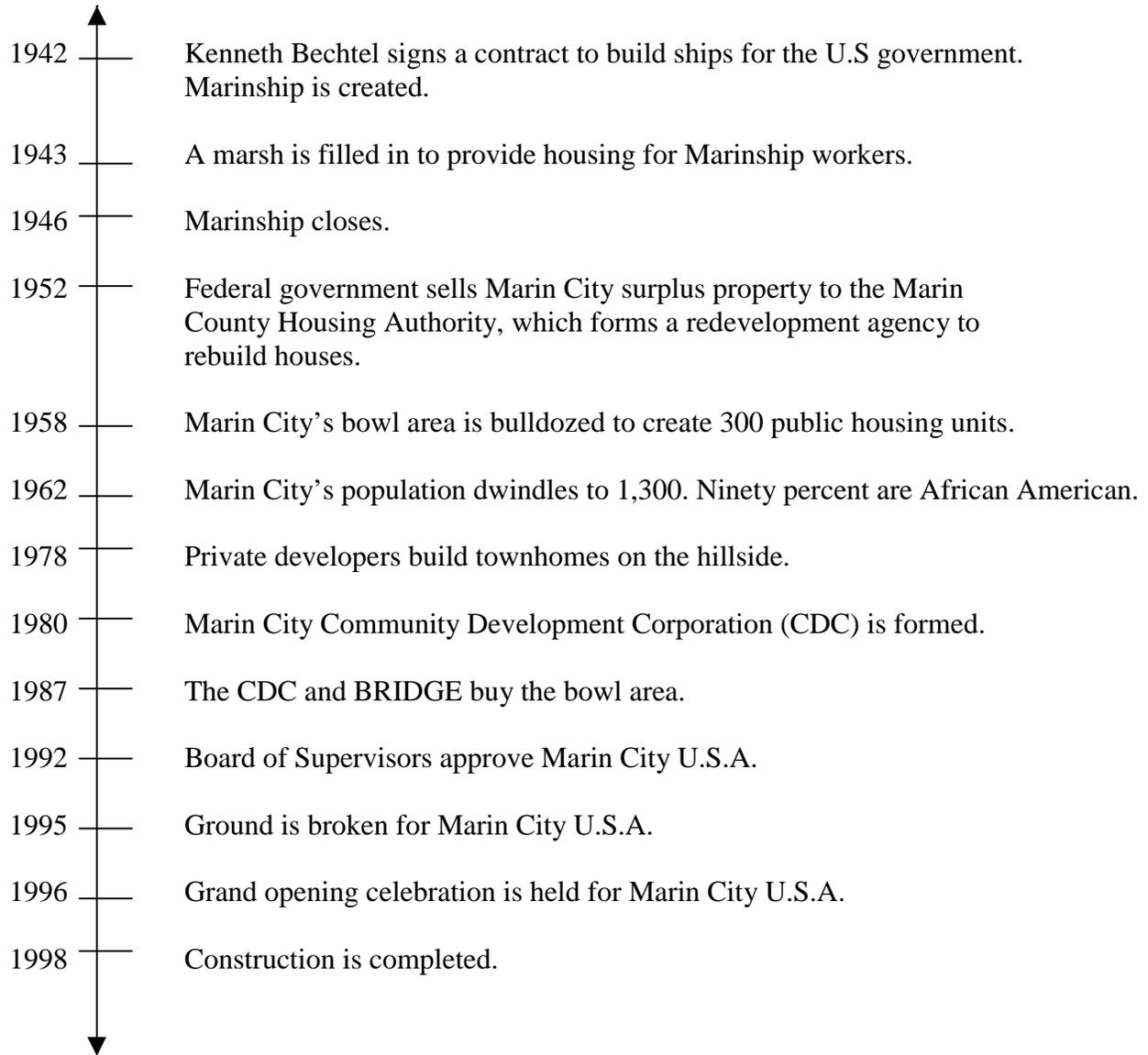
- *Economic cycle*

Due to the recession in the early 1990's, funding was scarce. The partners' track record and innovative use of funding allowed them to secure adequate financing despite the recession. They also amended the plan to fit the current economic situation. For example, they removed the office component from the plan because Marin County's office market was not viable during the recession.

¹⁸ Marin County Redevelopment Agency. *Planning Commission Staff Report*.

Marin City U.S.A. Timeline

The timeline below summarizes the major events in the history of Marin City and Marin City U.S.A.



II. PART TWO

Marin City U.S.A. is Born - Overview of the Project

The Marin County Redevelopment Agency, the CLC, the CSD and Martin entered into a master agreement in June of 1995 to build Marin City U.S.A. Marin City U.S.A. is a mixed-income, multi-use development of 340 new rental and ownership units, 136 of which are affordable. This new “mini-town” was built on 47-acre area of land in the unincorporated community of Marin City. The development consists of the following four major components:

- 1) Mariner’s Ridge Townhomes – 85 mixed-income townhomes
- 2) Ridgeway Apartments – 225 mixed-income apartments
- 3) Doretha Mitchell Apartments – 30 affordable apartments
- 4) Gateway Retail Plaza – 186,000 square foot shopping center across the street from the housing units

Along with these four components, Marin City U.S.A. also includes public benefits such as a childcare center, a library, an expanded fire and sheriff station, recreational areas, restored wetlands and a reconfigured highway.

The partners created separate legal entities to build Marin City U.S.A. to limit their exposure, allow for financing options and manage financial reporting. (Please see chart on the next page for ownership structure.) Specifically, the developers and owners/lessee were

- *Mariner’s Ridge Townhomes:*

BRIDGE Martin Homes Inc. (BMH), a California non-profit public benefit corporation and an affiliate of BRIDGE, was created to build the townhomes. This separate legal entity has no material assets other than its interest in the townhomes.

- *Ridgeway Apartments and Gateway Plaza Shopping Center:*¹⁹

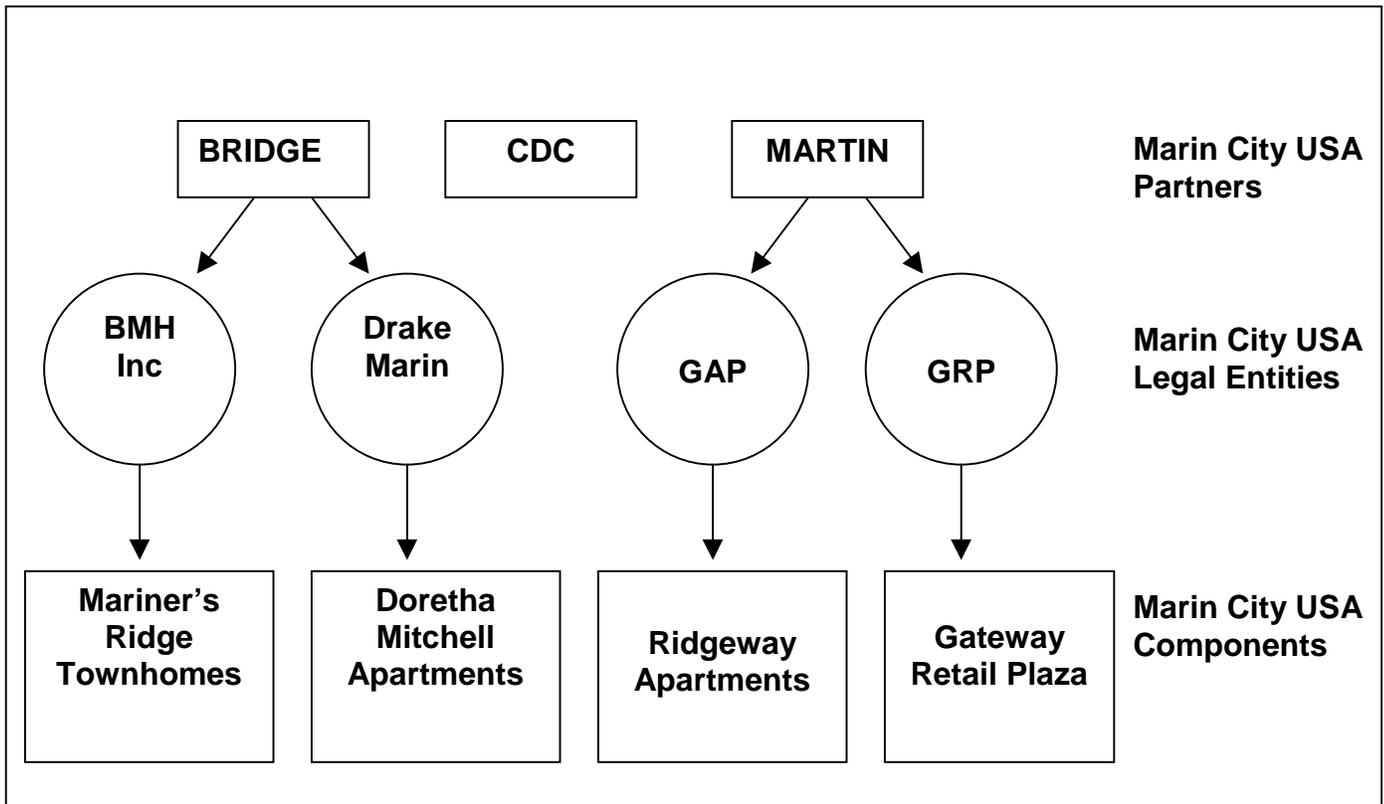
Gateway Apartments Partners (GAP), a California limited partnership, and Gateway Retail Partners (GRP), a California general partnership, and developed the apartments and the shopping center, respectively. Martin is the managing general partner of GRP and GAP, neither of which has any material assets other than the interests in the property they developed.

- *Doretha Mitchell Apartments:*

Drake Martin Associates (Drake), a California limited partnership was formed in 1995 for the purpose of constructing the Doretha Mitchell Apartments. Drake is a single asset partnership.

¹⁹ GAP did not build the Doretha Mitchell apartments.

Chart 2 – Who Built Marin City U.S.A



BRIDGE created BMH to limit its exposure to construction liability and insulate its financial statements. For instance, if the townhome sales were large one year and small the next, BRIDGE’s income statement would have been adversely affected. They also needed a separate legal entity, Drake, to build the Doretha Mitchell Apartments so that a third party investor could buy a limited partnership interest in Drake and receive the low-income housing tax credits and tax loss benefits in exchange.

The Ridgeway Apartments were built by a separate entity, GAP, from the Gateway Retail Plaza because GAP’s permanent lender, CHFA, would not finance the retail portion. This legal structure also circumvented lenders’ limits. If one entity had the responsibility for all of the loans, it may have reached the lender’s limit, which would have prohibited financing.²⁰

The Revenue Bonds, the Master Agreement and the Exploding Land Lease

Marin County and the Marin County Redevelopment Agency formed the Gateway Improvement Authority (GIA), a joint powers authority organized to finance the capital improvements. The

²⁰ Nunez telephone interview.

GIA issued \$10.285 million of 30-year Mello-Roos revenue bonds in September 1, 1995. The debt service on these bonds is paid from the proceeds of the following two special taxes.²¹

1. The first tax is on the Gateway Retail Center and the Ridgeway Apartments (not including Doretha Mitchell).
2. The second tax is comprised of surcharges on the Mariner's Ridge Townhomes and the Gateway Retail Center.

Each developer entered into a separate participation agreement with the Redevelopment Agency prior to or concurrently with the issuance of the bonds. As part of their separate agreements, the developers were required to enter into certain below market rate (BMR) and affirmative action agreements. When the GIA issued the bonds, the initial land lease was terminated and re-leased or sold in the following manner:

- *Townhomes:*

BMH agreed to build 85 Townhouses, 22 of which are set aside in perpetuity and made available for certain income brackets.²² BMH also agreed that the sales price would not exceed certain pre-defined levels as set forth in the Below Market Rate (BMR) agreement. The BMR one- and two-bedroom townhomes sold for between \$85,000 and \$149,000; three- and four-bedroom units sold for between \$76,000 and \$225,000.²³ The market-rate price during this time ranged from \$192,000 and \$279,000. Marin City residents received first priority and county residents received second priority in buying these townhomes.

- *Ridgeway Apartments:*

GAP constructed the Ridgeway Apartments. There are 225 one-, two- and three-bedroom units in twelve buildings. Of these units, 64 are affordable. In particular, 47 units are restricted to people with income levels at <50 percent area median income (AMI), and 17 units are set aside for residents with <80 percent AMI.²⁴ GAP was responsible for developing recreation areas as well as a childcare center and the adjacent ballfields.

GAP is the managing general partner of the apartments and it leases the land from the MCCLC. BRIDGE and the Western National Property Management manage the property.

²¹ Per the GIA bond prospectus, a portion of the proceeds was used to finance and or refinance the acquisition and construction of public capital improvements. The bonds are secured by a first lien on these properties having the same priority as real estate taxes.

²² Per the GIA bond prospectus, eight townhomes are restricted to families whose income level does not exceed 50 percent of the median for the San Francisco Metropolitan Areas (SFPSA); 14 townhomes are restricted to families with income levels that do not exceed 60 percent of the median SFPSA; 12 townhomes are restricted to families with income levels that do not exceed 80 percent of the median SFPSA.

²³ BRIDGE Housing Corporation. *Overview of Marin City U.S.A.*

²⁴ Ibid.

- *Doretha Mitchell Apartments:*

These apartments consist of 30 one-, two-, three- and four-bedroom units that have the same amenities as the other apartments. They are located in the Ridgeway Apartments. In accordance with the California Tax Credit Committee BMR Agreement and the Drake Limited Partnership Agreement, these apartments were rented such that all 30 are affordable to people with income levels at <50 percent AMI.

Two partners own the Doretha Mitchell Apartments. MCB Family Housing Inc., whose Board is comprised entirely of BRIDGE staff and officers, is the 1 percent general partner. The CLC Richman Group, Inc. purchased the low-income tax credits and is the 99 percent limited partner.

- *Gateway Retail Center:*

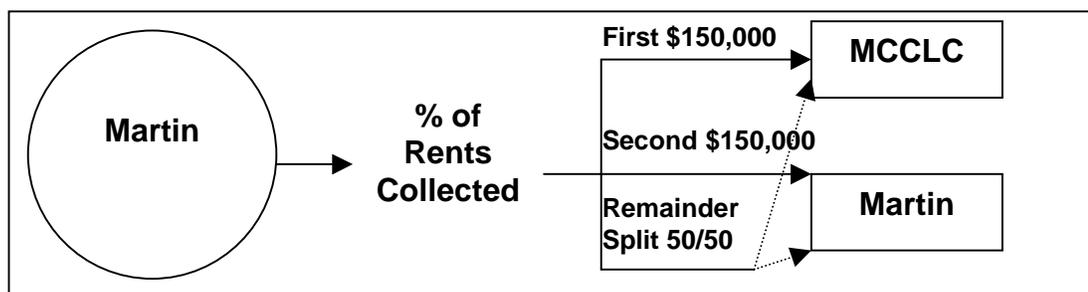
GRP constructed Marin City's 186,000 square foot retail center. (Please see Table 1 in the Appendix for the sources and uses of the funds to construct the public benefits.)

The Deal

The Marin City U.S.A. project was built on MCCLC's land. The financial deal consisted of three parts:²⁵

1. Martin, or more specifically GRP, developed the Gateway Retail Center and eventually sold it to Burnham Pacific Properties. GRP signed a 99-year lease from October 17, 1990 to October 16, 2089 whereby GRP agreed to pay \$150,000 annually during the construction period which ended September 30, 1998, and thereafter make lease payments based on a percentage of rents collected. The post construction period lease payments specify that the first \$150,000 of net revenue is paid to the lessor (MCCLC) while the next \$150,000 belongs to the lessee (Martin). The remainder is distributed equally between the two as shown below.

Chart 3 – Distribution of Retail Rental Income²⁶



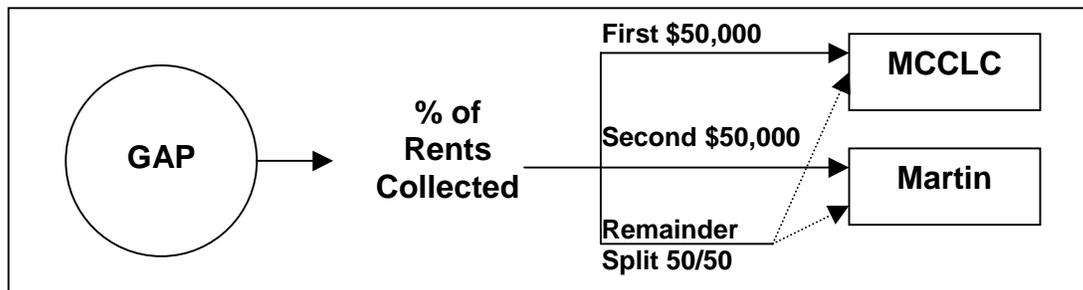
²⁵ Nunez telephone interview.

²⁶ Martin has sold the retail center to Burnham Pacific. The structure is still the same.

2. BMH developed the Mariner’s Ridge Townhomes in two phases on land contributed by the MCCLC. The land was booked at \$1,082,000. The Marin Community Foundation contributed \$850,000, and BRIDGE contributed \$245,775. The remaining \$193,875 was financed with HOME funds.²⁷ Since the land was contributed, BMH earned enough to pay Martin \$1,035,897 for development rights costs. Martin had been the 99-year lessee of the land parcels before the 1993-1994 financing of the development.

3. Drake developed the 30 affordable Doretha Mitchell units and GAP developed the 225 mixed-income Ridgeway Apartments. Drake and GAP developed these 255 apartments simultaneously as if they were one project. A third-party property management company, Western National Property Management, manages the units as one project.
 - Drake signed a 49-year lease to make annual lease payments of \$10,000 that are payable on surplus cash basis.
 - GAP entered into a 99-year lease from October 17, 1990 to October 16, 2089 to make annual lease payments of \$50,000 during the construction period, which ended September 30, 1998. After construction, the payments are based on a percentage of rents collected. The first \$50,000 of this net rent revenue is paid to the lessor (MCCLC) and the next \$50,000 to the lessee (Martin). The rest is distributed equally as shown below.

Chart 4 - Distribution of Apartment Rental Income



Until 1999, MCCLC donated the lease revenues of \$200,000 to the CSD.

Housing affordability is preserved in various ways. First, the partners structured the deal so that there was a small land cost, which enabled BRIDGE to maintain low rents and sales prices. Second, a portion of the MCCLC’s proceeds subsidizes affordable housing. Moreover, BRIDGE used tax exempt financing to secure low interest rate financing; and – when possible – it used federal, state and county funding programs to increase the percentage of affordable housing above the 40 percent minimum, or reduce affordable unit costs, or both.

²⁷ The HOME program is a Federal program that provides grants and lines of credit to local governments. This program also distributes funds to the states. Typically, these funds provide incentives for non-profit developers to build affordable housing. (Quigley, p.46)

Components of Marin City U.S.A. that also Provide Benefits

Marin City U.S.A provided the following public benefits.

- **Onsite Social Services Provide Benefits**

The partners recognized the need to link residents to the opportunities that Marin City U.S.A. created in order to improve living conditions for the residents. Thus, Martin allocated funds to the CDC to provide concurrent services such as job training, credit and mortgage assistance, and family counseling before, during and after construction of Marin City U.S.A.

- **Improved Capacity on the Waldo Interchange Provides Benefits**

To gain approval for the Marin City U.S.A. project, the partners agreed to restructure the Waldo interchange. They planned to realign Donahue Street and the southbound offramp from Highway 101 at a new signalized “T”. In addition, they widened the northbound offramp to expand storage capacity.²⁸ Together these improvements raised the level of service from “F” to “B” and “E” in worst conditions.²⁹ The construction of the interchange began in 1993 and was completed in 1995.

The Board of Commissioners of the Marin County Redevelopment Agency formed a community facilities district in June of 1995 that comprised the entire 47-acre proposed development.³⁰ They formed this district to levy a special tax and issue the special tax bonds in accordance with the provisions of the Mello-Roos Community Facilities Act of 1982.³¹ The Redevelopment Agency required that all components of the project proceed simultaneously before they would issue the bonds. They issued Mello-Roos bonds for \$10,285,000 at 7.75 percent interest rate maturing September 1, 2025.

The partners used the proceeds from the sale of the bonds to finance the project’s capital improvements. The Marin City U.S.A. development received net revenues of \$7.45 million from these bonds. Eighty percent of the tax increment revenues from the redevelopment area are pledged to service the Mello-Roos debt.³²

The partners obtained other funding sources:³³

- \$1 million through the federal Intermodal Surface Transportation Efficiency Act of 1991 Funds (ISTEA) distributed by the Metropolitan Transportation Commission

²⁸ Marin County Redevelopment Agency. *Planning Commission Staff Report*.

²⁹ Level of service of “F” at signalized intersections means that the stopped delay per vehicle in seconds is greater than 60 seconds. Level of Service of “B” and “E” refer to a delay of between five and 15 seconds per stopped vehicle and between 40 and 60 seconds per stopped vehicle, respectively

³⁰ GIA Bond Prospectus, p. 18

³¹ California Community Redevelopment Law authorizes redevelopment agencies to receive a portion of property tax revenue in excess of a specified base year amount of taxable property that existed in the project area at the time of development. These tax revenues are called tax increment revenues and can be pledged by the agency to repay its indebtedness.

³² The tax revenues pledged include the statutory annual increases of two percent over the base year of 1995.

³³ BRIDGE Housing Corporation. *Overview of Marin City U.S.A.*

- State Senate Bill 300 highway funds
- Marin Community Foundation
- County of Marin
- B of A
- Cowell Foundation

- **Business Incubator Provides Benefits**

The CDC started the incubator project in 1990. The purpose of the incubator was to encourage and support entrepreneurship and career development among Marin City residents. The incubator received a space in the Gateway Retail Center.

- **Other Amenities Provide Benefits³⁴**

1. *Manzanita Recreation Center* – For \$100,000 Martin designed and constructed the improvements to this center.
2. *Childcare Center* – Martin used approximately \$550,000 to develop a 4,000 square foot childcare center on the Community Facilities parcel.
3. *Recreation Facilities* – Martin agreed to improve the portion of land deemed to be the Recreation Area within the apartment site at a cost of \$410,000. This area is used for passive recreation and parks.
4. *Ballfields* – Martin used approximately \$100,000 to reconstruct the Marin City Ballfields.
5. *Wetlands Restoration* – The project site contains two types of wetlands. The first type is a freshwater marsh. The second type is a coastal marsh near a pond on the flea market site. The marshes serve as a filter system for water that runs into the nearby Richardson Bay. The partners created a buffer between the development and the pond to improve water filtration.³⁵
6. *Library* – Martin constructed a 4,000 square foot library within the retail parcel with the help of the county. Martin contributed \$50,000 to the county for procurement of an initial book collection and improvements to the interior.
7. *Expanded Sheriff and Fire Service* – Martin contributed \$350,000 to the Redevelopment Agency for this purpose.

³⁴ Marin City U.S.A. Master Agreement. June 8, 1995. Attachments 4 and 7.

³⁵ Marin Count Redevelopment Agency. *Planning Commission Staff Report*.

Marin City U.S.A.'s Costs and Financing Sources

The total project cost for the Mariner's Ridge Townhomes, the Ridgeway and Doretha Mitchell Apartments and the Gateway Shopping Center was \$89,300,500.³⁶ Fourteen different funding sources contributed to this project. Financing closed in September of 1995 and construction was completed in August of 1998. (Please see Table 2 in the Appendix for a detailed list of funding sources.) Including the other benefits such as the library, the childcare center and the Waldo Interchange improvements, the total cost of the project was close to \$100 million.³⁷

The approximate cost of each component was as follows:³⁸

- Townhomes - \$13.7 million³⁹
- Apartments - \$23.9 million⁴⁰
- Doretha Mitchell Apartments - \$3.4 million⁴¹
- Gateway Shopping Center - \$20 million⁴²

(Please see the Tables 3 through 6 in the Appendix for details of the cost of these four components.)

Debt Service and Tax Revenues

Two tax revenue streams support the debt service on the GIA bonds: special tax revenues and tax increment revenues. Special taxes are levied on the retail component and the townhome component. The retail tax is based on the number of acres whereas the townhome tax is based on number of bedrooms. In the event that these taxes do not generate sufficient revenues, contingent special taxes may be levied on the apartments.

The project was expected to generate \$1.13 million in tax revenues through increased property and sales tax revenue as well as increased business license fees.⁴³ The table below shows the anticipated revenues. Because of this expected revenue, the county viewed the project favorably.

³⁶ BRIDGE Housing Corporation. *Overview of Marin City U.S.A*

³⁷ This is the cost of the project according to the BRIDGE website.

³⁸ These figures are from the 1995 GIA Bond Prospectus. However, since securing financing was challenging, the partners relied on foundation money when other funding sources were not available. Hence, some of these cost figures from 1995 may have changed. The exact cost figures were not available.

³⁹ The townhomes were built in two phases using two separate loans. The remainder of the cost was financed with the proceeds on the sale of the first phase units.

⁴⁰ Martin secured a 40-year loan of \$25 million from California Housing and Finance Authority (CHFA).

⁴¹ Drake replaced the construction loan for these apartments with a 40-year loan of \$1.5 million from CHFA at a 9.5 percent interest rate per annum. The remainder of the funds was replaced by proceeds from the sale of low-income housing tax credits to CLC Richman Associates LP, a Delaware limited partnership. They purchased the project's tax credits through acquisition of 99 percent limited partnership interest in Drake. CLC paid about \$2,111,500 for the tax credits.

⁴² Martin pre-sold the property to Burnham Pacific in advance of the construction for a set price based on the committed leases. In order to make a profit, Martin had to build the center for less than the sales price. This deal enabled Martin to secure a construction loan.

Table 1 – Marin City U.S.A. Generates \$1.13 Million in Tax Revenues

REVENUE SOURCE	EXISTING REVENUE SOURCE	PROJECTED REVENUE SOURCE	NET GAIN IN TAX REVENUES
Property Tax	\$6,774	\$754,830	\$748,056
Sales Tax	10,000	374,313	364,313
Business License	0	22,000	22,000
Total	\$16,744	\$1,151,143	\$1,134,369

⁴³ Marin County Redevelopment Agency. *Planning Commission Staff Report.*

The Current State of Marin City U.S.A.

Marin City U.S.A.'s design is shown below. FoodsCo is now Best Buy. PetsMart has closed.



Marin City U.S.A. has become a busy town.

- There are no townhomes for sale.

BMH sold the entire second phase of 48 homes in two weeks. BMH sold the townhomes at a restricted sales price versus an equity participation loan program in accordance with the county's wishes. The county believed that an equity participation program undermined long-term affordability and therefore advocated for a restricted sales price.

Mariner's Ridge Townhomes, Marin City U.S.A.



- There is strong demand for Ridgeway Apartments.

There has been strong demand for these apartments and the vacancy rate low.⁴⁴

⁴⁴ Fiscina telephone interview.

The Ridgeway Apartments, Marin City U.S.A



- The current vacancy rate at the Gateway Retail Center is 26 percent.⁴⁵

In August of 1997, Burnham Pacific, one of the largest West Coast shopping center developers, acquired the 9-month-old 186,000 square foot retail center.⁴⁶ The San Diego Company acquired the shopping center for \$22.3 million as part of a stock deal with Martin.⁴⁷

In June of 1999 Burnham Pacific delegated all of the property management responsibilities for its properties to third party managers. Thus, Shelter Bay is now the third party property manager of the retail center. In general, the center has satisfied residents.⁴⁸ (Please see Table 7 in the Appendix for a list of current tenants.)

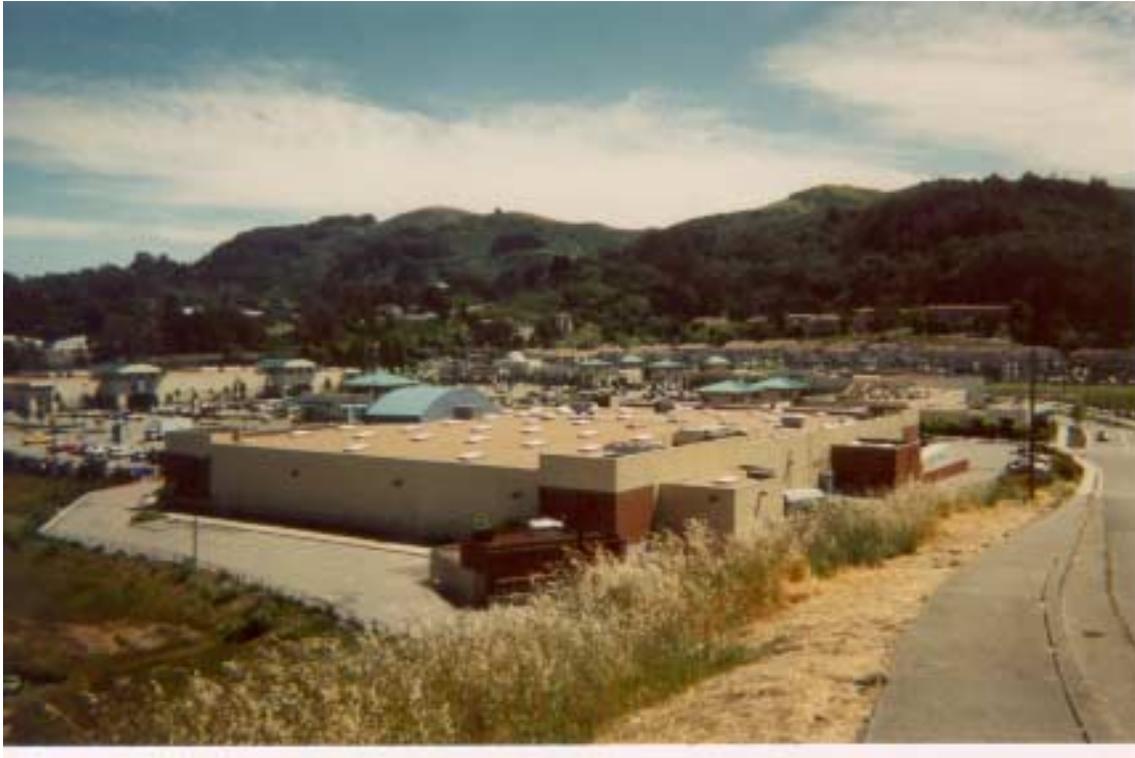
⁴⁵ Swenson telephone interview.

⁴⁶ *Marin Independent Journal*, August 19, 1997.

⁴⁷ Martin purchased Burnham Pacific using its interests in the Gateway Center. David Martin became the CEO of Burnham Pacific.

⁴⁸ Winters interview.

Gateway Retail Center, Marin City U.S.A.



What is Innovative about Marin City U.S.A.?

The five most innovative aspects of Marin City U.S.A. are the 1) land ownership structure, 2) priority agreements, 3) concurrent social services, 4) clever financing, and 5) marketing strategy.

1. The Community Owns the Land

The community owns the Marin City U.S.A. land. The CDC and BRIDGE created a land trust, the Marin City Community Land Corporation (MCCLC), to own the 47 acres of land beneath the development. They leased the land to Martin for 99 years. The MCCLC uses the lease payments to subsidize rents and enhance community services. The CDC, a resident organization, receives part of the project's profits and reinvests them in the community.

2. First Source and First Priority Agreements Keep Benefits within Marin City

The partners entered into agreements with the community to further ensure that the community receives benefits from the project. They agreed to extend housing priority to Marin City public housing residents and current and former Marin City residents.⁴⁹ They also agreed to a First Source Rule that states:

“The lessee by and through its construction contractor, shall use its best efforts to employ Marin City residents and to provide construction contract opportunities for Marin City-based businesses in the course of developing the property.”⁵⁰

The staffing goals for the predevelopment, construction, operation and management phase are 25 percent minorities, 5 percent women and 50 percent local residents.⁵¹ The CDC monitors contracts, and ensures compliance with these goals. With these agreements, the partners assured the community that jobs and housing opportunities would be available to Marin City residents.

3. Onsite Social Services Provide Residents Better Access to Opportunities

The partners provided concurrent, onsite social services to residents to improve their access to the project's benefits. The Marin City Project (MCP), a public/private and community collaborative, provided free social services to residents before, during and after the development. Founded in 1993 with a 3-year grant from the Marin Community Foundation, the MCP focused on strengthening the ability of Marin City's low-income residents to participate in local economic development by providing services in the following five major areas

1. Academic Achievement and Youth Development - tutorials, classroom and homework assistance, counseling and mentoring.

⁴⁹ ISOJI Winter 1992.

⁵⁰ Marin City U.S.A. Affirmative Action Agreement.

⁵¹ These percentages were not intended to be quotas.

2. Civic Participation/Community Building - community awareness, participation and involvement in community affairs
3. Community Economic Development – housing and job creation
4. Family Development and Enhancement - parenting skills training, self-sufficiency planning and crisis intervention
5. Income Enhancement - employment, training, job-placement and welfare-to-work assistance

By preparing residents for the opportunities that would become available through Marin City U.S.A., the partners enabled the residents to share the project's benefits.

4. Clever Financing Makes Project's Success more Likely

Throughout the development process the Marin City U.S.A. partners were clever in devising financing deals. First, BRIDGE crafted a zero coupon deal that satisfied enabled the purchase of the Mount Tamalpais school site. The partners were also clever with respect to infrastructure financing. The Marin County Redevelopment Agency issued Mello-Roos Bonds for \$10,285,000 in 1995 to finance a significant portion of the infrastructure improvements.⁵² The Mello-Roos Community Facilities District (CFD) Act was established in 1982 in response to the passage of Proposition 13. State Senator Henry Mello and Assemblyman Mike Roos carried a bill that enabled local governments to finance public services (usually infrastructure) by selling tax-exempt bonds. Property owners within the CFD who receive benefits from the infrastructure improvements are then levied an additional one percent to their property taxes in order to repay the Mello-Roos bonds.

The Mello-Roos bonds issued by the Marin County Redevelopment Agency were considered less risky than typical redevelopment bonds. As a result, they were issued at a lower interest rate, which allowed for higher net proceeds from the issuance.⁵³

There are two reasons for the lower level of perceived risk associated with these bonds. First, the Marin County Redevelopment Agency pledged revenues to support the debt service, which reduced the project's debt service burden. The bond issue was sized to match these revenues. Tax revenues pledged to support the debt service are the following:

- 1) the proceeds of a \$.05 per square foot per month surcharge on retail space;
- 2) the proceeds of a .3 percent surcharge on the townhome property taxes; and

⁵² In 1998, the GIA refinanced the bonds. The Gateway Refinancing Authority issued a new bond for \$13,425,000 with a pledge to pay off the 1995 bonds by 2005, the earliest date allowed for repayment.

⁵³ BRIDGE Housing Corporation. *Marin City U.S.A. Mello-Roos Bond Financing Memo.*

- 3) 80 percent of the tax increment which includes the statutory annual increases of two percent over the base year (1995) from the entire redevelopment project area.

The second reason for the lower level of perceived risk is that the agency required that all components of the project proceed simultaneously. Typically, Mello-Roos bonds are issued in advance of construction. The Marin City bonds were issued simultaneously to minimize default risk.

5. The Marketing Strategy attracted Residents and Committed Tenants

The partners' marketing goal was to attract people who would be satisfied living in the multi-ethnic and mixed-income development. The marketing sales agent, who was a Marin City resident herself, said Marin City U.S.A. was sold as Marin City – not as Sausalito or as an adjunct to San Francisco. This strategy has facilitated stability and cohesiveness within Marin City U.S.A.⁵⁴ Cohesion and commitment minimize vandalism and crime at the development.

⁵⁴ Bush telephone interview.

III. PART THREE

Evaluative Framework

This section analyzes the successes and shortcomings of the Marin City U.S.A. project, determines the lessons that can be learned from the project, and explains the generality of these lessons to other projects.

We analyzed the outcomes of the Marin City U.S.A. project by using the following three-pronged evaluative framework.

- Has the project achieved its stated goals?
- What are the effects of the project beyond its stated goals?
- What are the broader social outcomes?

The Project's Stated Goals

The overarching goals of the Marin City U.S.A. project were to provide housing, create jobs and ameliorate the economic troubles of the community. Each of these larger goals contains more specific sub-goals. The housing goals include providing housing opportunities and creating affordable housing for very low-income, low-income and moderate-income households. With respect to jobs, the project aimed to create jobs and career opportunities for residents, minorities and women. The project also sought to revitalize the community through reinvigorating a sense of community pride and reversing Marin City's negative stereotype.

The partners had profitability goals as well. Martin expected to make a 20 percent return on its investment. The MCCLC expected to receive at least \$200,000 a year to pay the CSD. Since the Marin County Redevelopment Agency was responsible for debt payments, it expected the project to generate enough tax revenues to support debt service.

The Marin County Redevelopment Agency's goals were compatible with the partners' goals and established clear objectives for the project:⁵⁵

- to provide jobs, housing and community services for Marin City residents;
- to foster a sense of community among residents through architectural design and creating opportunities for interaction;
- to promote and protect minority interests; and
- to increase economic self-sufficiency for Marin City residents.

In addition, the agency aimed to eliminate the economic and physical conditions that prevented revitalization defined by state law as blight.⁵⁶

⁵⁵ Marin County Redevelopment Agency. *Five-Year Implementation Plan 2000-2004*.

⁵⁶ Blight is defined in the Health and Safety Code Sections 33030 and 33031 as unsafe structures, stagnant or depreciated property values, lack of commercial facilities, underdeveloped property.

The Effects of the Project beyond the Stated Goals

Beyond the stated goals of the project, other indicators show the success of Marin City U.S.A. Increases in property values, business license fee revenues, sales tax revenues and property tax revenues would indicate that Marin City U.S.A. has had a positive influence on Marin City. If we assume that future rental payments are capitalized into the current property value, then an increase in property values would indicate that expected future rental payments have increased. Increases in fees or tax revenues would have a positive impact on the community, given that these revenues will be used to provide public services.

The Broader Social Outcomes

The last part of the evaluative framework is the broader social outcomes. The positive influence of Marin City U.S.A may stretch beyond Marin City to Marin County. The outcome measures we have selected are crime rates, school outcomes and teen pregnancy rates. Marin City U.S.A. may have contributed to lower crime rates, increased school attendance and lower teen pregnancy rates. Any of these outcomes would be beneficial for the community, the county and indeed for society. It is difficult, however, to attribute cause and effect when assessing these types of social measures.

Has Marin City U.S.A. Succeeded?

Using the aforementioned criteria, we now analyze Marin City U.S.A.'s influence on the community. Various factors prevent us from drawing a definitive conclusion. First, much of the data do not perfectly correspond to the Marin City area because it is an unincorporated community. Second, we cannot isolate the project's effects from economic trends. Furthermore, it may be too soon to discern the ultimate outcome of Marin City U.S.A. because it takes time to change behavior and attitudes. Despite these factors though, we reached a general conclusion about the successes and shortcomings of Marin City U.S.A.

Overall, this analysis reveals that Marin City U.S.A. appears to be a success. The project proves beneficial to the community and the county. Marin City U.S.A. provides quality, affordable and market-rate housing for residents and creates jobs. Marin City appears to be awakening from the decades of neglect and disrepair.

Some residents, however, have concerns about the changing racial profile of their community, the shopping center's low profitability and the low number of residents who received jobs. These concerns do not overshadow the positive effect of Marin City U.S.A.

Marin City U.S.A. Provides Quality Affordable Housing

Marin City U.S.A. expanded the housing capacity of Marin City by more than a third, from 900 units to 1,240 units, with many of the new units restricted to low-income families. The Ridgeway Apartments generated a \$2,868,414 subsidy for below-market-rate buyers as a result of price reductions.⁵⁷ (Please see Tables 8 through 10 in the Appendix for the composition of affordable units for each income level and the breakdown of the apartment subsidy.)

Not only did the developers of Marin City U.S.A. provide more than the minimum amount of affordable housing, but they also provided affordable housing that was of exceptional quality. The Ridgeway Apartment property manager, Michael Fiscina, states that there have not been any problems with the apartments other than normal, routine maintenance issues.⁵⁸ The Ridgeway Apartment complex is one of Western National's least vandalized complexes. Fiscina attributes this success to the residents' sense of pride in their community. This success may also have been the result of the marketing strategy. Thus, Marin City U.S.A. has successfully achieved its goal of providing quality, affordable rental and home ownership housing opportunities for residents.

Marin City U.S.A. Has Upheld its "First Priority" Agreement

The Marin City U.S.A. partnership agreement established geographic preferences for the low-income and very low-income units. Approximately 75 percent of the townhomes went to priority buyers.⁵⁹ The racial composition of townhome residents is as follows:

⁵⁷ CDC compiled this data in October 1998.

⁵⁸ Fiscina telephone interview.

⁵⁹ There were 31 townhouses sold to current or former residents and 33 units sold to residents of other parts of Marin County.

- 25 African American families
- 12 Asian American families
- 4 Hispanic families
- 43 white families

According to the CDC, Marin City U.S.A. has met its first priority goals.⁶⁰

Marin City U.S.A. Created Jobs

Considerable challenges exist in assessing the data with respect to job creation and job placement. It is often reported that Marin City U.S.A. created 400 jobs.⁶¹ The organization charged with maintaining this information was de-funded due to poor recordkeeping.⁶² If the partners had provided funds for a formal evaluation, this information would be readily available.

The available data show that residents received jobs and job training.⁶³

- Of the 297 community residents who applied, 209 obtained construction jobs in Marin City. Thirty-five percent of local construction jobs went to residents.⁶⁴
- Of the 294 residents who applied, 123 obtained retail jobs at the four anchor stores. Those hired earned between \$6.25 and \$24.95 an hour.

It is important to note that after commercial and residential construction projects were completed, many jobs ended. Some residents have expressed concern that too few residents have jobs in Marin City U.S.A. or own businesses at the retail center.⁶⁵ The CDC's goal was to have 50 percent of the retail jobs filled by residents.⁶⁶ That goal, however, has not been reached. Recent information reveals that 115 (about 33 percent) of retail center employees are Marin City U.S.A. residents.⁶⁷ Furthermore, the inability to make lease payments has been a major financial obstacle for residents interested in opening a business. If the CDC provided lease payment assistance, a greater number of residents would have the opportunity to start a business. Despite the fact that Marin City U.S.A. fell short of its target employment goals, it has provided residents with new job opportunities.

Marin City U.S.A. Creates Some Community Cohesion

The influx of new residents has created some racial tensions in Marin City U.S.A.; long-time residents were not prepared for the increased diversity. For decades Marin City was almost

⁶⁰ Stewart telephone interview.

⁶¹ BRIDGE Housing Corporation. *Overview of Marin City U.S.A.*

⁶² The MCP experienced difficulties in meeting its stated objectives. Roles, responsibilities and accountability were unclear. As a result, the MCP went through six different employment and training coordinators. Personnel did not maintain adequate records of the uses of grant money.

⁶³ Compiled by the CDC.

⁶⁴ Williams, Rochelle, "Residents wait for Project to Fulfill its Promise," *Marin Independent Journal*, April 25, 1999.

⁶⁵ Ibid.

⁶⁶ Williams, Rochelle, "Dreams Built in Marin City," *Marin Independent Journal*, November 25, 1998.

⁶⁷ CDC data as of June 1999.

entirely African American. Now there are a substantial number of Asians, Hispanic and whites. Some residents complain that they have lost control of their community and seen the erosion of their culture.⁶⁸ Others feel that Marin City has lost some of its uniqueness.

These complaints are the exception though. Many residents have expressed satisfaction with and relief about the changes that have taken place in their community. They feel safer. They have access to more jobs, shops and recreational facilities. In addition, as residents' incomes rise, they are able to purchase local market-rate housing. By staying, they are role models for other residents and they promote community cohesion. In short, although some residents express dissatisfaction, the majority of people seem to be satisfied with the project.

Marin City U.S.A. Has Improved Self-Sufficiency of Some Residents

The number of people moving out of public housing can serve as a measure self-sufficiency. The project has provided housing to at least 23 former public housing families.

- At least three families have moved from public housing to the townhomes.
- At least six families moved from Oak Knolls, a private low-income cooperative in Marin City.
- 4 townhome owners had lived in public housing earlier in their lives.⁶⁹
- About 12 families moved into the Ridgeway Apartments from public housing.⁷⁰

Public housing residents face considerable challenges to becoming self-sufficient. The average annual income in Marin City public housing was \$9,396 in October 1998. This income level is only 15 percent of AMI for a family of three.⁷¹ Marin City U.S.A. had a minimum income requirement of \$12,000 so many public housing residents were not eligible to move into Marin City U.S.A. Considering these constraints, Marin City U.S.A.'s results are encouraging. Some people, however, have stated that Marin City U.S.A.'s influence could have been greater had BRIDGE relaxed the minimum income requirement.⁷²

Aside from home ownership, Marin City's goal was to promote career development. In light of that objective, the CDC created an Enterprise Center, or a small business incubator, in the early 1990's to facilitate self-sufficiency. The project provided financial and technical assistance to Marin City residents who wanted to start a business. The Marin City U.S.A. partners provided the incubator with space in the retail center.

Information on residents developing careers and/or acquiring better jobs is not readily available for analysis. Community interest in opening businesses was low. An estimated 50-60 percent of those enrolled in incubator classes dropped out.⁷³ Five businesses, called Marin City Shops, are

⁶⁸ Liberatore, Paul, "Ethnic diversity Alters Sense of Community," *Marin Independent Journal*, April 26, 1999.

⁶⁹ Blauvelt interview.

⁷⁰ CDC data.

⁷¹ A family of three is close to the average number of people per unit in Marin City public housing, which was 2.5.

⁷² Harris, Leslie, "Tapping the American Dream – Owning a Home," *Marin Independent Journal*, April 26, 1999.

⁷³ Williams, Rochelle, "Residents wait for Project to Fulfill its Promise," *Marin Independent Journal*, April 25, 1999.

currently sharing space in Gateway Retail Center and appear to have made modest gains. The incubator project's influence on self-sufficiency has yet to be fully determined.

The only criticism of Marin City U.S.A is that it did not go far enough in providing careers and opportunities for self-sufficiency.

The Profitability of Marin City U.S.A. is Hard to Discern

From the information available, it appears that the retail center has struggled and that Martin did not earn its expected financial return.

The Gateway Retail Center has Barely Been Profitable

The Gateway Retail Center is critical to the success of Marin City U.S.A. since it generates lease revenues that will be reinvested in the community via the MCCLC in the form of housing subsidies and services. Therefore, the shopping center's level of profitability directly affects the level of service the community receives. In addition, the shopping center creates job, which provide income and work experience to residents.

Since its opening, the retail center has generated enough profits to meet the \$150,000 minimum required lease payment. In one year, the center's owner was able to make a payment in excess of the minimum by \$8,000.⁷⁴ The CDC hopes to receive more profits from the center in the future.

McNevin concedes that Martin did not achieve its profit goals because Martin was "squeezed at the end."⁷⁵ The politics and economic conditions were more problematic than had been anticipated. For instance, the project required 5 more years to complete than Martin had planned. In McNevin's estimation, and with the benefit of hindsight, Martin would probably not undertake a similar project.⁷⁶

Many people agree with Martin and the CDC that the retail center is not as profitable as they had hoped it would be. The Gateway Retail Center has not attracted enough shoppers due to safety concerns and lack of appealing shops. Two of the four original anchor tenants, FoodsCo and PetsMart, were not upscale enough to attract Marin County shoppers. Since there is not a large enough population in Marin City to support these big stores, these stores closed in mid 1998. Best Buy replaced FoodsCo. The property manager has yet to fill the fourth site. Of the smaller businesses, only Subway has closed.

Shelter Bay, the new retail center property manager, has faced a substantial challenge in achieving profitability. Aside from the more conventional problems of generating enough shoppers and fighting Marin City's poor image as a place to shop, Shelter Bay has to manage community politics. One of the owners of the shopping center, the CDC, is a tenant in the

⁷⁴ Blauvelt interview.

⁷⁵ McNevin telephone interview.

⁷⁶ Ibid.

shopping center. The CDC is accustomed to involving the community in decision-making processes and has intervened in the retail management process. The CDC has less knowledge about how to manage a shopping center and could undermine profitability. Our analysis suggests that the property owner and manager should have more autonomy to make decisions about the future of the center, at least until the center becomes more profitable

Another criticism of the retail center is that the design is not considered “pedestrian friendly”. Its “U” shape is inhospitable to walking around and window shopping; factors which lessen the level of resident interaction. Also, people have expressed concern that the center has its back to Marin City U.S.A. and is primarily a huge parking lot.⁷⁷

Still another concern is the center’s high turnover rate, which is partly the result of the pressure to pre-lease.⁷⁸ Since BofA required a higher percentage of pre-leasing for the partners to qualify for the loan, there was considerable pressure on Martin to accept any tenant regardless of the tenant’s likelihood of success.⁷⁹ To induce companies to commit to a lease, Martin offered concessions in the leases, which has compromised cash flows and the financial return.⁸⁰

Positive Outlook for Shopping Center

In general, the community and the partners do not consider the center to be unsuccessful. Often it takes several years for a retail center to grow into its market. It takes time to change shoppers’ behavior. James Head, president of the National Economic Development law Center in Oakland, stated that it usually takes nearly ten years for most redevelopment retail projects to become successful.⁸¹ Also, the center’s slow start can be explained by the staggered opening of stores.⁸²

The property manager has attempted to rejuvenate the center. The Faces of Marin City Project, started and run by Nita Winters, aims to change Marin City’s reputation and build community pride. She takes pictures of residents and displays them throughout the center and community to counteract the Marin City’s negative stereotype. Changing people’s perception of Marin City may eliminate safety concerns and encourage more people to shop at the center.

It is too soon to evaluate the success of the center. With a more appropriate tenant mix and a change in attitude, the Gateway Retail Center could become a financial success providing more profits to support community services. Regardless of its potential profitability though, the center has succeeded in bringing shopping opportunities and retail jobs to Marin City residents.

⁷⁷ Lai interview.

⁷⁸ The retail center leases are not completely fixed, but each lease is different and depends on the terms negotiated by Martin. Most businesses pay a base rent plus a percentage of cash flow or profits from the business.

⁷⁹ Holliday interview.

⁸⁰ Ibid.

⁸¹ Prado, Mark, “More Black Businesses Sought in Marin City,” *Marin Independent Journal*. April 25, 1999.

⁸² Breithaupt, Brad, “Marin City’s Gateway Center Bought for \$22 million,” *Marin Independent Journal*. August 19, 1997.

Profitability of the Apartments

According to BRIDGE's accountant, "no payment was realistically expected from this lease, and no lease payments have been made as the project has not generated sufficient surplus cash."⁸³

Marin City U.S.A. Provides Services, but their Impact is Hard to Discern

Providing social services to residents proved difficult for the MCP. Residents often were unable or unwilling to participate. Many residents lacked basic job skills, did not have high school diplomas, needed time to study for the equivalency exam or had substance abuse programs.

The MCP coordinated the provision of social services. Some success stories have not been documented due to MCP's poor recordkeeping. The available data on four of these programs show that many residents participated in the workshops.

MCP's workshops provided many outcomes:

- Outcomes from Academic Achievement and Youth Development⁸⁴
 1. The workshop served 152 1-12th graders and 75 pre-schoolers and kindergartners.
 2. 81 percent of 5-8th graders gained at least one grade level in reading.
 3. 100 percent of 6-7 graders and 66 percent of 8th graders improved their language arts grade.
 4. 50 percent of 6th graders 57 percent of 7th graders and 42 percent of 8th graders improved their math grades.
- Outcomes from Community Economic Development

The CDC worked with the HomeBuyers Assistance Center to provide comprehensive homebuyer education workshops, counseling and individualized technical assistance. During Phase I of the development (1996), 78 people participated in at least one of the workshops and 41 participated in at least one workshop during Phase II (1997). Sixteen attendees from Phase I and 16 from Phase II who completed the workshops were eligible to participate in the lottery for the townhomes. All the below-market rate participants were able to buy a home. These workshops were extremely useful in preparing residents to become a homeowner.⁸⁵

- Outcomes from Family Development and Enhancement⁸⁶
 1. Of the 56 families receiving counseling and training, 36 were considered thriving and stable according to the Global Assessment Functioning scale
 2. 9 families graduated into self-sufficiency.
 3. 69 clients received community-based treatment for chemical dependency.

⁸³ Nunez telephone interview.

⁸⁴ Marin City Project. "On This Rock We Stand".

⁸⁵ Stewart telephone interview.

⁸⁶ Ibid.

- Outcomes from Income Enhancement⁸⁷
 1. 209 residents received construction jobs.
 2. 123 residents obtained jobs at the retail center.
 3. 103 residents were trained for jobs in construction, carpentry, certified nursing, security, childcare, hazardous waste handling, phlebotomy and beauty/barber skills. 63 youth obtained summer jobs.
 4. 8 youth obtained part time jobs during the school year.

We cannot draw a conclusion about the effectiveness of these programs. We do not know the number of people who participated in each program and the other factors (i.e., new teachers) that may have contributed to noted improvements.

Influence of Marin City Beyond the Stated Goals of the Project - Property Values in Marin City have Increased

Between June 1991 and the beginning of construction of Marin City U.S.A. in 1995, the Marin County Tax Assessor found that the land value located within the Marin City U.S.A. Project Area had depreciated by four percent while the Sausalito and Tamalpais Valley property values had appreciated by 21 percent.⁸⁸ Over the course of the development, the assessed valuation of the property in the project area increased by approximately 272 percent from a base year of 1986/87 value of \$57,436,414 to 1998/1999 tax year value of \$155,952,513. Most likely, the Marin City U.S.A. project accounts for the majority of this increase. The strong economy also may have contributed to the increase in property values, but since Marin City had languished for decades – even during “boom” periods – it is likely that the economy is not the major cause of the increase.

A study of how BRIDGE affordable housing developments affect nearby property values supports the above findings. Namely, property values are not harmed by well-maintained, well-designed affordable housing developments. A regression analysis using six BRIDGE housing developments revealed that single family homes were not adversely affected by their proximity to BRIDGE affordable housing. In some cases, property values increased.⁸⁹

The increase in townhome prices from Phase I to Phase II of construction is further indication of the Marin City U.S.A.’s positive influence on property values. After Phase I, once the majority of improvements had been constructed, the demand for market rate housing was extremely high. According to the CDC, most of the Phase II townhouses were reserved before construction began. When people declined their reservation, the townhomes returned to the developer who could then raise price to meet demand. As a result, prices rose by almost \$50,000 over the Phase I prices. This price increase reinforces the earlier finding that property values have increased in the area.

⁸⁷ Ibid.

⁸⁸ Marin County Redevelopment Agency. *Five-Year Implementation Plan 200-2004*, p. 3

⁸⁹ Landis, p. 17

Tax Revenues Indicate a Slightly Favorable Impact

To gain a broader perspective on how Marin City U.S.A. has contributed to the community and county it is useful to assess changes in property tax increment and sales tax revenues and business license fees.

For the past two years, the gross tax increment received surpassed the estimate made at the time of the bond issuance. The table below shows that Marin City U.S.A. surpassed tax increment revenue expectations.

Table 2 – Actual Tax Increment Revenues Surpass Expectation

YEAR	ESTIMATED TAX INCREMENT REVENUE IN 1995 ⁹⁰	ACTUAL TAX INCREMENT REVENUE ⁹¹	DIFFERENCE ⁹²
1997-98	484,000	651,153	167,152
1998-1999	522,000	1,032,430	510,430
1999-00	542,000	857,000	315,000

The project was estimated to generate \$370,000 in sales tax per year.⁹³ Since Marin City is unincorporated, it is difficult to obtain sales tax information for Marin City to compare to the projection. Seasonal changes and economic trends also complicate sales tax revenue data. The county experienced an increase in sales tax over this time period; therefore a portion of the sales tax revenues is probably a result of the healthier economy.⁹⁴ To the extent that Gateway Retail Center steals business from neighboring shopping centers, this increase in sales tax revenues may have led to a decrease in revenues in other areas. In general, Marin City U.S.A. has created sales tax revenues for Marin City that would have otherwise occurred outside of the community.

The shopping center generated \$11,000 in business license fees over the last few years.⁹⁵ These revenues directly relate to Marin City U.S.A. and produce a favorable effect for the county.

Marin City U.S.A. Appears to have Affected Broader Social Outcomes

Although it is difficult to measure the positive “spillover” effects from this type of development, such analysis is important and warrants further consideration. In general, Marin City U.S.A. appears to have contributed to a positive social trend in Marin City that also benefits the county.

⁹⁰ GIA 1995 Bond Prospectus, p. 23

⁹¹ Marin County Redevelopment Agency. *Five-Year Implementation Plan 200-2004*, Appendix.

⁹² The years do not match up exactly between the actual and the estimated so this is calculation serves only as a general indicator.

⁹³ ISOJI summer 1991.

⁹⁴ www.boe.ca.gov

⁹⁵ Smith telephone interview.

Public Safety Has Improved as the Crime Rate has Fallen

Between 1991 and 1994, the crime rate per capita in the Marin City was over five times the County average for violent crimes: burglary, larceny, vehicle theft, narcotic- related crimes and juvenile offenses. Marin City only accounts for three percent of Marin County's population served by the Marin City Sheriff's Department, but accounts for 16 percent of all calls for the Sheriff's services.⁹⁶ Marin City's disproportionate need for police protection suggests that its residents experienced a lower level of public safety in their community.

From the beginning of the Marin City U.S.A. construction in 1996 to December 1998 the crime rate per capita in the Marin City area decreased by approximately 29 percent from .17 crimes per capita to .12 in 1998. The number of service calls decreased by 24 percent. Most likely, such reductions result from the jobs and housing opportunities residents obtained due to Marin City U.S.A.

Sheriffs in the area say, "things have improved dramatically within the last seven years".⁹⁷ Before Marin City U.S.A., it was not uncommon to have a stabbing once a week and a shooting once every six to eight weeks in Marin City. Residents heard gunshots everyday. People blatantly sold drugs on the street corner to anyone who wanted to purchase them.

Now, these sheriffs state that narcotic sales and violence have decreased. Two reasons are cited for the improvements: 1) the development that has occurred in Marin City, and 2) the ability to get a restraining order for people who have been arrested for narcotics. Part of the decrease in the crime rate may also be explained by positive economic trends.

Although it is difficult to draw a definitive conclusion, this information indicates that Marin City U.S.A. has contributed to a decrease in the crime rate.

School Outcomes are Difficult to Measure

Marin City U.S.A. may have a positive spillover effect on education outcomes. Marin City children attend Sausalito or Bayside Elementary Schools through 8th grade or Mount Tamalpais High School. The enrollment at these schools increased whereas countywide elementary enrollment rates have been declining since 1992.⁹⁸ This increase can be attributed to Marin City U.S.A.

High school dropout rates were at a low of .8 percent in 1995/96, the year that Marin City U.S.A. construction began.⁹⁹ This finding may be coincidental. Yet, the fact that African American's dropout rates (which are a close approximation of Marin City student's dropout rates) are lower than they were before Marin City U.S.A. existed suggests that Marin City U.S.A. has had a positive influence on school outcomes.

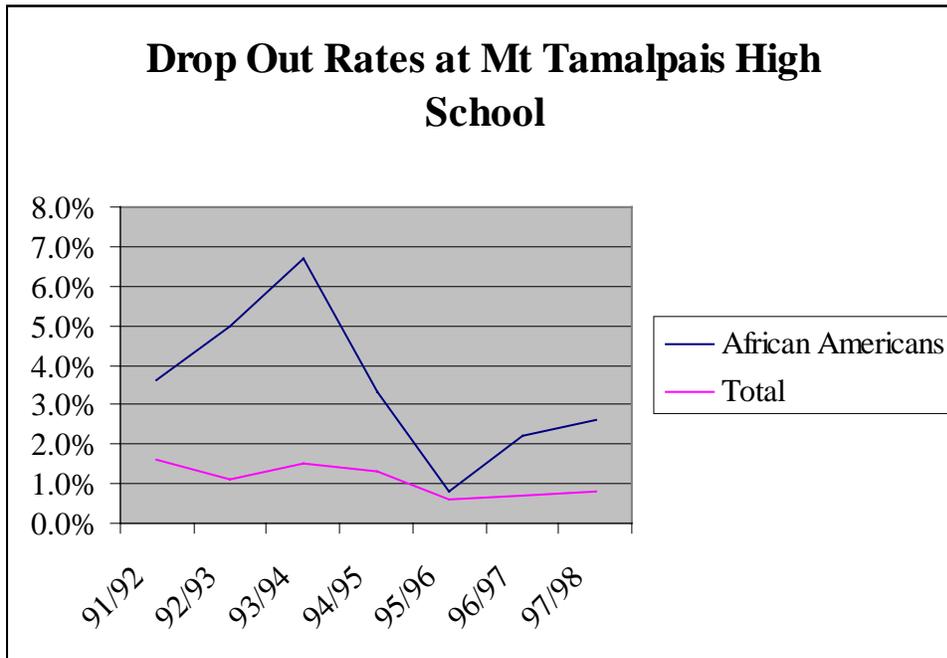
⁹⁶ Marin County Redevelopment Agency. *Five-Year Implementation Plan 200-2004*.

⁹⁷ Officer Tim Kimball works in the Marin County Sheriff's Southern Station in Gateway Plaza and has been working in this capacity for the last 13 years.

⁹⁸ www.edd.ca.gov.

⁹⁹ Ibid. Drop out rates are the total number of dropouts in each grade 9-12 divided by the total high school enrollment.

Graph 2 – Drop out Rates Decrease when Marin City U.S.A is Built



More Teens appear to be Seeking out Contraception

Barbara Williamson, a Marin County health and human services employee who provides perinatal, STD and family planning services throughout the community has observed a change over the last few years.¹⁰⁰ More Marin City women have requested contraception. She believes this increase will minimize teen pregnancy rates. The women who have requested contraception have jobs at the Gateway Retail Center. In her teen drop-in clinic, there has been a 300 percent increase in visits over last year. This increase, however, could be due to an increasing awareness of health issues or an increase in problems. She feels it is the former; therefore, Marin City U.S.A. may led to lower teen pregnancy rates.

¹⁰⁰ Williamson telephone interview.

Recommendations for how to Maximize Marin City U.S.A.'s Influence

Although Marin City U.S.A. has provided housing and jobs to Marin City residents, there are still some areas in which the project could have an even greater effect. The partners and the community may wish to consider the following six recommendations to enhance success.

1. **Minimize community involvement in the retail center until the center becomes more profitable.** Provide the retail property manager with more autonomy to make decisions about the future of the center.
2. **Reposition the center to attract more shoppers.** As the first set of leases end, there is an opportunity to create a different tenant mix that might appeal to a broader range of customers.
3. **Provide lease payment assistance.** Assistance with leases will allow Marin City residents who are interested in starting a business to have a greater opportunity of meeting financial obligations.
4. **Fund a formal evaluation.** The partners may wish to consider setting specific goals and selecting performance criteria in order to assess the impact of Marin City U.S.A. and learn how to replicate its successes.
5. **Select a service provider that can deliver.** The community should find a replacement for the MCP to provide ongoing community services.
6. **Create goals and programs for each stage of development.** The onsite social services should evolve to meet the needs of the community. For instance, diversity workshops would be useful for managing tensions created by the influx of different ethnic groups.

IV. PART FOUR

What can be Learned From Marin City U.S.A.?

In this section we examine the lessons that can be learned from Marin City U.S.A. Specifically, what are the conditions under which this type of success can be replicated? What is generalizable about the project?

Four conditions were crucial to the success of Marin City U.S.A.: the triumvirate structure, the existence of a strong, local partner, effective leadership and numerous funding sources. These conditions are vital for successful replication.

- **The Triumvirate**

Marin City U.S.A.'s three way partnership was an efficient and effective means of accomplishing the development since each partner specialized in producing the good for which he/she had a comparative advantage. Fleming and the CDC concentrated on organizing the community. Turner and BRIDGE built the affordable housing component, and Martin focused on the retail development and the financing. This structure allocated risk and minimized financing costs. Martin used its balance sheet to borrow at more favorable terms and then shared funds with the other partners. For example, Martin borrowed money to buy the land for Marin City U.S.A. and then donated it to the MCCLC.

- **A Strong, Local Partner**

Minimizing community politics enabled the CDC and BRIDGE to attract an appropriate for-profit developer. Developers are wary of community opposition since it often leads to costly changes and delays. For instance, Martin abandoned a similar redevelopment project in West Oakland because the residents opposed development.¹⁰¹ The CDC managed the community politics. They were a strong, local partner. Both BRIDGE and Martin state that a strong, local partner is absolutely essential to the success of this kind of project. As a BRIDGE employee explained, "if a strong local partner does not exist, create one."¹⁰²

- **Effective Leadership**

The three partners worked well together. Respect for each other's talents facilitated a smooth working relationship.¹⁰³ As a result, they minimized the transaction cost of doing business.

The leaders of this project, Turner and Martin and Fleming, also had an ability to corral resources and create solutions. They were committed to the project's economic and social goals. The

¹⁰¹ McNevin telephone interview.

¹⁰² Galante interview.

¹⁰³ Dietz, Betty, "Teamwork the key to Marin City Deal," *Marin Independent Journal*, November 18, 1990.

project might still have been built without BRIDGE or certain individuals, but it probably would not have achieved the same level of success.

- **Numerous Funding Sources**

The availability of funding sources is also an essential condition for success. While most redevelopment projects have between five and seven funding sources, Marin City U.S.A. had 17 sources. The partners had to be creative and diligent to secure financing. A downside to this patchwork financing method is that it is inefficient from a management perspective. The partners had no alternatives though. The project would not have happened without this money. Access to foundation money was also critical. The partners tapped into the many foundations that exist in the Bay Area and especially in Marin. Foundation funds filled in the financing gaps.

Four circumstantial factors also contributed to the project's success. These attributes would facilitate successful replication of Marin City U.S.A.

1. Location in Affluent Area

Marin City is considered a credible real estate market because it is surrounded by valuable real estate. Additionally, it is some of the only developable land in Marin County. These factors attracted the private developer to the project.

2. Unincorporated Status

People involved with Marin City U.S.A. state that working with the county was easier than working with a city because the county aggregated interests and had a broader view.¹⁰⁴ Marin City's unincorporated status facilitated development, but was not sufficient to encourage development. For years, Marin City languished after failed development attempts. It was not until the CDC, BRIDGE and Martin came together that development began in earnest.

3. Only Redevelopment Area in the County

Since Marin City U.S.A. was the only redevelopment area in Marin County, the project received ample support from the Marin County Redevelopment Agency and the county government.

4. History of the Community

Marin City's history created a strong sense of community that encouraged people to remain in the community or return to it. As soon as construction of Marin City U.S.A. was completed, there was strong demand for the units. Also, forty years of failed development attempts motivated people to commit to the social goals of the project. This commitment enabled the project to overcome many obstacles.

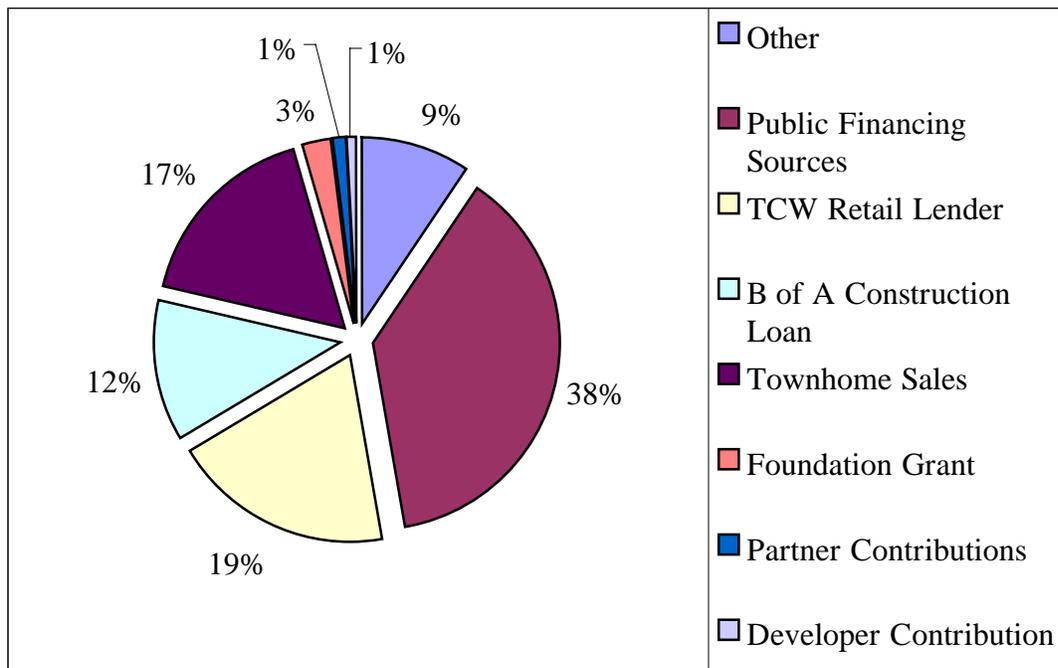
¹⁰⁴ Holliday interview.

The Public Subsidy

In this section we analyze the amount of public money the partners used to build Marin City U.S.A.

Marin City U.S.A. cost approximately \$100 million. Public funds financed over \$37 million or 38 percent of the project's total cost.

Pie Chart 1 - More than One -Third of Marin City U.S.A.'s Financing is From Public Sources



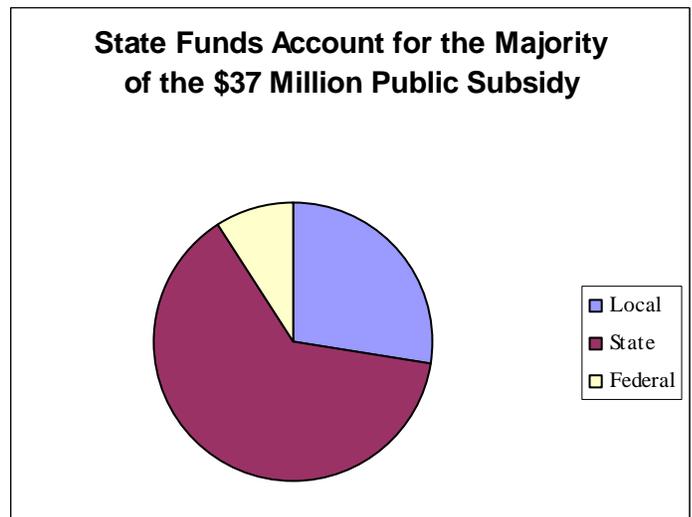
This calculation represents a conservative estimate of the size of the public subsidy because foundation money is not included. Since foundations are tax-exempt, foundation grants represent a tax expenditure for the federal government. Also, the subsidy would be larger if the tax increment revenues from the redevelopment area were included. These revenues are the county's foregone future property tax revenues.

Local, State and Federal Funding

The public subsidy is composed of federal, local and state funds as follows:

- \$10.27 of local funds
- \$23.66 million of state funds
- \$3.38 million of federal funds

State funds account for the majority of the Public subsidy. In general, the size of a local subsidy raises more concern than the state and federal levels because the use of local money directly affects local citizens. When state funds are used, the effect is spread out across all state residents. Federal subsidies are often considered “fair share” funds. Since California pays more in federal taxes than it receives back in benefits, analysts often consider the use of federal funds to be justified.¹⁰⁵



The level of subsidy per unit is shown in Table 2. The total public subsidy per unit, including the townhomes is close to \$110,000. This figure represents the amount of federal, state and local money that the partners used to provide housing in Marin City. This figure is not far from the expectation that the required public subsidy per unit in Marin County is between \$76,000¹⁰⁶ and \$100,000 per unit.¹⁰⁷ A formal cost/benefit analysis would be useful to determine the appropriateness of the subsidy.

Table 2 – Total Subsidy per Unit is About \$110,000

Subsidy per Unit	Apartments (255 units)	Apartments + Townhomes (340 units)
Local	\$40,275	\$30,206
State	122,000	91,500
Federal	12,325	9,926
Total	146,294	109,721

Marin City U.S.A. has six major sources of public funds that account for over \$37 million (37 percent) of the total cost of project. They are shown on the next page and include

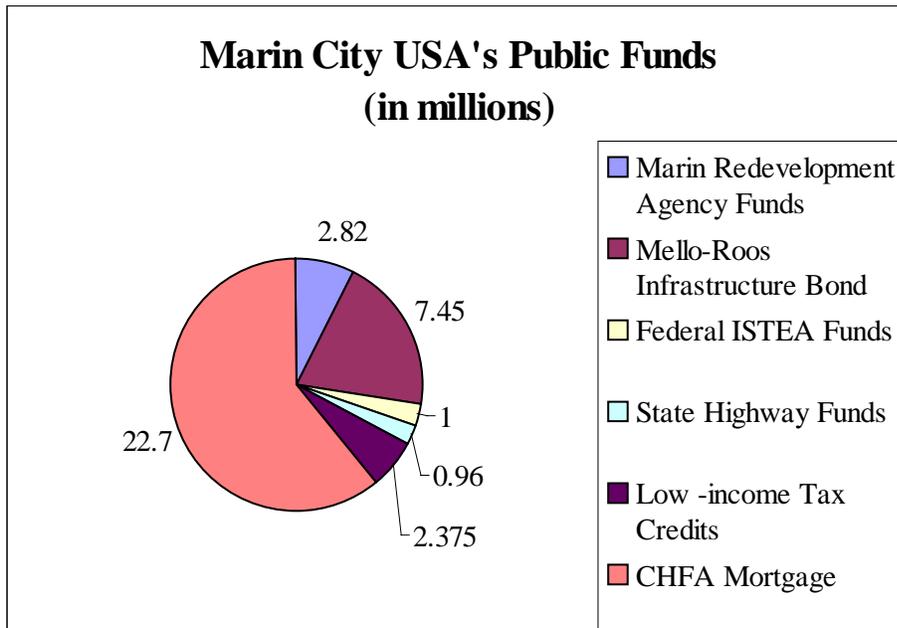
- 1) \$22.70 million mortgage from the state CHFA
- 2) \$2.82 million of local funds from the Marin County Redevelopment Agency
- 3) \$7.45 million state bonds to pay for highway infrastructure development
- 4) \$1 million of federal highway funds
- 5) \$2.38 million of federal low-income tax credits
- 6) \$963,000 of state highway funds

¹⁰⁵ Schmidt telephone interview.

¹⁰⁶ Campora telephone interview.

¹⁰⁷ Schmidt telephone interview.

Chart 2 – CHFA is Marin City U.S.A.’s Largest Source of Public Funds



First, CHFA provided a \$22.7 million first mortgage for the Ridgeway Apartments. This is the largest single funding source.

Second, the Marin County Redevelopment Agency provided a \$1.5 million first mortgage for Doretha Mitchell Apartments and \$320,000 for public benefits. The remaining \$1 million was used for general project support.

Third, Marin City formed a Community Facilities District (Mello-Roos CFD) to fund the highway infrastructure development.¹⁰⁸ With a Mello-Roos CFD, the Marin County Redevelopment Agency formed a Joint Powers Authority to issue \$10.285 million in bonds, the net proceeds of which were \$7.45 million. The Marin County Redevelopment Agency is responsible for debt service. They have pledged three revenue streams as debt payment.

Fourth, Marin City U.S.A. received \$1 million in federal ISTEAs to upgrade the Waldo interchange.

Fifth, Drake sold \$2.375 million of federal low-income tax credits to the CLC Richman Group, Inc. in exchange for a limited partnership interest in the Doretha Mitchell Apartments.

¹⁰⁸ The Mello-Roos Community Facilities District (CFD) was established in 1982 in response to the passage of Proposition 13. State Senator Henry Mello and Assemblyman Mike Roos carried a bill that enabled local governments to finance public services (usually infrastructure) by selling tax-exempt bonds. Property owners within the CFD who receive benefits from the infrastructure improvements are then levied an additional 1 percent to their property taxes in order to repay the Mello-Roos bonds.

Sixth, the project received close to \$1 million in state highway funds. Of this \$1 million, \$640,000 was SB 300 funds and \$323,000 was state highway retrofit money.

Benefits Provided by Marin City U.S.A.

The rationale for the using public money to build Marin City U.S.A. is that the project generates benefits to the community that are not accounted for in the project's cost. These benefits have a positive "spillover" effect. If Bay Area or state residents benefit from the project then the project generated positive "spillover" effects, or "positive externalities", which are not included in the financial figures. For this reason, the use of public funds may be justified. Marin City U.S.A. creates the following positive "spillover" effects.

- *Housing*

By providing affordable housing, Marin City U.S.A. allows residents to spend less of their money on housing so can they spend more on health care, for example. This benefits society in that fewer people require public assistance for health care and it improves public health.

- *Jobs*

New jobs bring more income to each household and raise the local standard of living. They increase the average area income, the tax base and tax revenues. There is also a "catalyst effect". The retail center brings new money into the local economy. This new spending generates a multiplier, or ripple effect, which creates even more jobs and spending. It is difficult to prove if this spending is "new" though. Rather, it may be the result of a shift in spending from other places and thus not represent a gain.

- *Decrease in blight*

Marin City U.S.A. has led to increases in property values and public safety. The project has reduced physical blight by improving and/or removing unsafe structures.¹⁰⁹ A decrease in blight benefits surrounding residents as well.

- *Transportation infrastructure*

Improved roads and highway access have provided residents with more job opportunities. The Waldo interchange improvement has reduced congestion for non-Marin City residents.

- *Improved facilities*

Marin City U.S.A. has improved the quality of life of residents by providing parks, a library, jobs and shops. Non-residents also receive benefits from this improvement. For example, the restored wetlands improve water quality for the entire area – not just Marin City.

¹⁰⁹ Marin County Redevelopment Agency. *Five-Year Implementation Plan 2000-2004*.

- *Demonstration value*

Marin City U.S.A. also provides public value by serving as a demonstration project. If the project had been developed in the private market, people would not have the same access to the project's details. Many people would not know about its success and would not be able to learn from it.

Evaluating the Cost

The entire economic cost of Marin City U.S.A. includes not only the explicit cost of \$100 million, but also the implicit cost of obligating public funds and staff time. These implicit, or "opportunity", costs reflect the next best alternative use of the funds and resources that were committed to Marin City U.S.A. They raise the cost of the project. Additional costs that should be considered are

- The cost associated with issuing bonds in that it could compromise the redevelopment agency's ability to sell future bonds.
- Staff time that could have been spent on other projects.
- The best alternative use of committed financial outlays.

From the county's perspective, the best alternative use of committed funds is by far the most significant of the three costs and so we focus on these costs. The committed outlays include:

- a) One-time outlay of \$2.82
- b) Tax revenues pledged to support the Mello-Roos bonds for 30 years (approximately \$1 million per year).¹¹⁰

The estimated total present value of these costs is \$17.3 million - \$2.82 plus the present value of the pledged tax revenues of \$14.5 million.¹¹¹ If we divide this cost by the 230,000 residents in Marin County, the cost per person is \$75. If each person in Marin County values the benefits that Marin City U.S.A. provides more than \$75, then the subsidy is justified. Considering the improved highway interchange, the additional shopping opportunities and the decrease in blight, county residents probably received greater than \$75 in benefits. Thus, the size of the public subsidy seems reasonable.

Providing Benefits at a Lower Cost

Marin City U.S.A. is considered successful because of the benefits it has generated. Could these benefits have been provided with a smaller subsidy than \$37 million? And if so, why wasn't it? If the project was financially desirable to private developers than why was public money needed?

¹¹⁰ GIA Bond Prospectus.

¹¹¹ Discounted at of 5.5 percent, equal to the market rate for bonds as identified by Tom Lai at the Marin County Redevelopment Agency.

The appropriate level of public subsidy depends on the local market place. There is not a standard level of public subsidy that is considered acceptable. Often the level is negotiated through a political process with a city council.¹¹²

In general, the appropriate level of public subsidy is determined by comparing the projected value of the project to its cost.¹¹³ If the project's cost is greater than its value then a subsidy is warranted, assuming that the project is still considered to be desirable for other purposes.¹¹⁴

Usually public funds provide the balance to equate value with cost, which was most likely true for Marin City U.S.A. Few developers were willing to commit to the project's level of public benefits other than Martin. It is unlikely that the project would have attracted any private developers without public money, given that only Martin was interested in the project. Indeed, Denise Pinkston, former Marin County Redevelopment Agency planner, stated that it "took quite a while to find a developer comfortable with a project that has so many public benefits."¹¹⁵ In the case of Marin City U.S.A., the partners required public funding to fill the financing gap and attract a for-profit developer.

Public funding provides financing that makes a deal more attractive to developers. It may also acts as an insurance mechanism by providing reliability and stability to project financing. With public funding, more people are willing and able to participate in development.

To summarize, our study reveals that the amount of public funding Marin City U.S.A. received is reasonable for three reasons. First, Marin City generates many positive "spillover" effects, which benefit non-residents. Second, the non-profit development partners needed public funding to attract a for-profit developer who had retail expertise. Third, public funding was a reliable and stable funding source. For these reasons, the size of the public subsidy is justifiable.

¹¹² Schmidt telephone interview.

¹¹³ The projected value is derived from the projected rental and sales income less operating expenses taking into account extraordinary circumstances such as transportation improvements and environmental clean-up.

¹¹⁴ Funk telephone interview.

¹¹⁵ Evanson, Laura, "New Development for Marin City," *San Francisco Chronicle*, 10/18/90.

How Can Marin City U.S.A.'s Successes be Replicated?

In this section, we analyze when and where Marin City U.S.A. can be replicated.

Favorable Conditions for the Marin City U.S.A. Approach

Many aspects of Marin City U.S.A. facilitated development. Some of these factors are present in other locations. There is a higher probability that replication would be successful if the new location shares Marin City's attributes. Some of these attributes include

- ✓ The presence of a strong, local partner to minimize community politics
- ✓ An abundance of knowledgeable local developers who have a proven track record
- ✓ The presence of foundations to provide funding
- ✓ An affluent surrounding community with a credible real estate market that will attract for-profit developers
- ✓ Available land with highway access located near an urban center
- ✓ An organized community
- ✓ Committed local government officials who will support development
- ✓ The presence of legislation that facilitates funding such as the Mello-Roos Act

Checklist

The following checklist may be useful to BRIDGE and Martin in gauging the likelihood of successful replication. A score of 1 or 2 for each question indicates a higher chance of successful replication.

1. Is there an existing strong, local partner?

1. Yes 2. Somewhat 3. Not really 4. Not at All

2. If not, can a strong, local partner be created?

1. Yes 2. Somewhat 3. Not really 4. Not at All

3. Is there appropriate project leadership?

1. Yes 2. Somewhat 3. Not really 4. Not at All

4. Will sufficient financing be available?

1. Yes 2. Somewhat 3. Not really 4. Not at All

5. If not, is foundation money available?

1. Yes 2. Somewhat 3. Not really 4. Not at All

6. Will financing be available at favorable terms?

1. Yes 2. Somewhat 3. Not really 4. Not at All

7. Does legislation exist that enables funding?

1. Yes 2. Somewhat 3. Not really 4. Not at All

Many communities, however, are not suited for a project similar to Marin City U.S.A. If a community does not have certain attributes then Marin City U.S.A.'s approach would not be effective. If the community is not organized, for example, then community involvement is hard to achieve. Or, if the community does not have access to effective development leadership then securing financing may be impossible.

When Marin City U.S.A.'s approach is not appropriate, which approach would be appropriate? Listed below are five implementation aspects that could be adjusted to suit replication in different locations. In order to achieve success, developers should modify the Marin City U.S.A. approach to maximize chances for success.

- ***Comprehensive vs. Focused Development*** – Should the project be multi-use or single use?
- ***Broad vs. Targeted*** – Do various groups that need assistance or can the project target a single group of people to receive the benefits?
- ***Provision of Social Services vs. No Provision of Social Services*** – Should services be provided to help people access the benefits or will the development itself create the desired effect?
- ***Bottom-up vs. Top-down*** – How willing is the community to participate in the development process? How much control do they require?
- ***Resource-Generous vs. Resource-Conservative*** – Does the community have resources that they are willing to commit to development? Resources include land, money, infrastructure and experts' time.

Conclusion

The experiences and accomplishments of Marin City U.S.A. provide an excellent case study for how to create a successful mixed-income, multi-use development. The lessons from Marin City U.S.A. are that a strong local partner, effective leadership, an efficient partnership structure and the availability of funding sources are essential to success. Circumstantial attributes such as location and history facilitate success as well. The presence of these factors increases the chance for successful replication of Marin City U.S.A. Some areas, however, are not suitable for Marin City U.S.A.'s development approach. In these instances, an effective implementation strategy should adapt to fit the environment by adjusting the comprehensiveness, focus and level of community involvement of the project.

The partners achieved their goals of providing quality, affordable housing and jobs to Marin City residents. In order to do so, they used public funds. Public funds accounted for more than one-third of Marin City U.S.A.'s total cost. This analysis reveals that the level of public subsidy appears reasonable given Marin City U.S.A.'s large amount of public benefits. Since these benefits, including improved highway transportation and water filtration, accrue to Marin County residents the use of public funds seems justified.

In conclusion, Marin City U.S.A. has reinvigorated Marin City. BRIDGE, the CDC and Martin succeeded in improving the standard of living for many Marin City residents. A 1943 Chronicle article hoped that the rest of the country would see Marin City's lesson as a reaffirmation of the "cooperative and democratic principles upon which this nation was founded". These words are fitting for today's redevelopment efforts.

APPENDIX

Table 1 – Sources and Uses of Financing of Marin City U.S.A.’s Public Benefits

SOURCES OF RETAIL FINANCING	AMOUNT	USES OF RETAIL FINANCING	AMOUNT
Marin Community Foundation	\$845,000	St Andrew Church related costs	\$1,550,300
Townhomes Development Rights Payment	304,304	St Andrew Relocation	125,000
Retail Center Development Rights Payment	2,640,774	Manzanita Upgrade	100,000
Apartments Development Rights Payment	2,783,897	Flea market support during construction	400,000
Doretha Mitchell Development Rights Payment	600,000	Marin County services payment	300,000
Martin Group	950,000	Hayden’s Market relocation	25,000
MCCLC	698,419	Childcare Facility	500,000
Redevelopment Agency	320,000	Ballfields Restoration	100,000
BRIDGE	500,000	Project reserve fund for special tax bonds	750,000
		Infrastructure not funded with special tax	3,856,842
		Bank of America (partial loan repayment)	1,500,000
		Miscellaneous pre-construction costs	385,252
Total	\$9,642,394		\$9,642,394

Table 2 – Financing for the Apartments, Townhomes and Shopping Center

<u>SOURCE OF FINANCING</u>	<u>AMOUNT</u>
First Mortgage (Ridgeway) – CHFA	\$22,700,000
First Mortgage (Doretha Mitchell) – Marin Redevelopment Agency	1,500,000
Mello-Roos Bonds	7,450,000
TCW Retail Lender	19,000,000
Marin County Redevelopment Agency	1,000,000
Construction Loan – Bank of America	12,200,000
Townhome Sales (Mariners’ Ridge)	16,700,000
Marin Community Foundation Grant	2,495,900
ISTEA	1,000,000
SB 300	640,000
State Retrofit	323,000
Developer Contribution	916,650
General Partner Contribution	1,000,000
Limited Partner Contribution – the Richman Group	<u>2,375,000</u>
Total	<u>\$89,300,550</u>

Table 3 - Cost of the First Phase of Townhomes

<u>TOWNHOMES</u>	
BMH Equity Contribution	\$1,000,000
Marin County HOME Funds Grant	194,000
Union Bank Construction Loan ¹¹⁶	5,274,000
Union Bank Land Loan	<u>196,668</u>
Total	<u>\$6,664,668</u>

¹¹⁶ Per the bond prospectus, the union bank loans were for 15 months at an interest rate of one percent over union bank’s prime lending rate. Union bank had committed to providing a \$7.047 million-dollar loan for the second phase.

Table 4 – Cost of the Ridgeway Apartments (Excluding Doretha Mitchell)

APARTMENTS	
Agency Contribution	\$ 890,000
Marin County Home	365,000
Union Bank Construction Loan ¹¹⁷	<u>22,700,000</u>
Total	<u>\$23,955,000</u>

Table 5 – Cost of Doretha Mitchell Apartments

DORETHA MITCHELL APARTMENTS	
Bank of America Community Development Construction Loan ¹¹⁸	\$2,500,000
Tax Credit Equity	739,025
Agency Loan ¹¹⁹	110,000
General Partner Contribution	143,181
Total	<u>\$3,492,206</u>

Table 6 – Cost of the Gateway Retail Center

GATEWAY RETAIL CENTER	
Union Bank Construction Loan ¹²⁰	\$19,200,000
GRP Contribution	<u>800,000</u>
Total	<u>\$20,000,000</u>

¹¹⁷ The union bank loan is an 18-month loan with interest at one percent over union bank's prime lending rate. The California Housing Authority (CHFA) provided permanent replacement financing for this loan for a term of 40 years at 7.5 percent interest per annum.

¹¹⁸ The B of A loan is for 15 months and bears interest at one percent over the bank's prime lending rate.

¹¹⁹ The Agency loan is for 40 years and bears a 3.5 per annum interest rate. The principal and interest with respect to this loan are payable only out of 50 percent of net revenues from the Doretha Mitchell apartments up to a maximum of \$8,000. A permanent CHFA loan of 1.5 million at a 9.5 percent interest rate per annum and a term of 40 years replaced the construction loan.

¹²⁰ The Union Bank loan is an 18-month loan with interest at one percent over union bank's prime lending rate. The retail center was later sold to Burnham Pacific.

Table 7 – Current List of Retail Tenants as of March 2000

GATEWAY RETAIL TENANTS

Apollo Cleaners
 Best Buy
 Blockbuster Video
 Burger King
 Cigarettes Cheaper
 Coffee Smith
 Faces of Marin City
 Gateway Beauty Salon
 Gateway Hair Design
 GNC
 Longs Drug Store
 Marin City Shops
 Nails #1
 Outback Steakhouse
 Pac Bell
 Post n Plus
 Radio Shack
 Red Boy Pizza
 Rickshaw Chinese Food
 Ross
 Taco Bell

Table 8 – Mariner’s Ridge Townhomes Composition

INCOME CATEGORY	HUD SPECIFIED LIMIT	ACTUAL INCOME AT TOWNHOMES ¹²¹ (AS OF 10/98) ¹²²
Very low-income	65 percent of area median income (AMI)	42.8 percent of AMI
Low-income	80 percent of AMI	67.3 percent of AMI
Moderate-income	120 percent of AMI	89.8 percent of AMI

¹²¹ In the event that a resident sells a townhouse, the units remain affordable.

¹²² CDC data.

Table 9 - Ridgeway Apartments Composition

INCOME LIMIT	NUMBER OF UNITS
35 percent of AMI	11
50 percent of AMI	51
60 percent of AMI	13
80 percent of AMI	19
100 percent of AMI	3
120 percent of AMI	5
Total	102

Table 10 - Size of Ridgeway Apartment Subsidy

SIZE OF APARTMENT	BELOW MARKET RATE PRICE	UNITS AT THAT PRICE	AVERAGE MARKET PRICE	PER UNIT SUBSIDY	TOTAL SUBSIDY
2 Bedroom	\$81,000	3	\$192,476	\$111,476	\$334,429
2 Bedroom	\$96,000	5	\$192,476	\$96,476	\$482,381
2 Bedroom	\$149,000	2	\$192,476	\$43,476	\$86,952
3 Bedroom	\$100,000	5	\$223,971	\$123,971	\$619,855
3 Bedroom	\$119,000	8	\$223,971	\$104,516	\$836,132
3 Bedroom	\$185,000	10	\$223,971	\$38,516	\$385,165
4 Bedroom	\$128,000	1	\$251,500	\$123,500	\$123,500
Total		34			\$2,868,414

List of Organizations

BMH – BRIDGE Martin Homes, Inc.
 BRIDGE – BRIDGE Housing Corporation
 CDC - Marin Community Development Corporation
 CSD – Marin City Services District
 DRAKE – Drake Martin Associates
 GAP – Gateway Apartment Partners
 GRP – Gateway Retail Partners
 MCCLC – Marin City Land Corporation
 MCP – Marin City Project

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