SANTA BARBARA COUNTY PLANNING COMMISSION
Staff Report for Santa Barbara Ranch Project
Transfer of Development Rights

Hearing Date: September 26, 2007
Staff Report Date: September 7, 2007
Case Nos.: Not Applicable
Environmental Document: Exempt

Supervisorial District: Third
Staff: Dianne Black, Development Services Director
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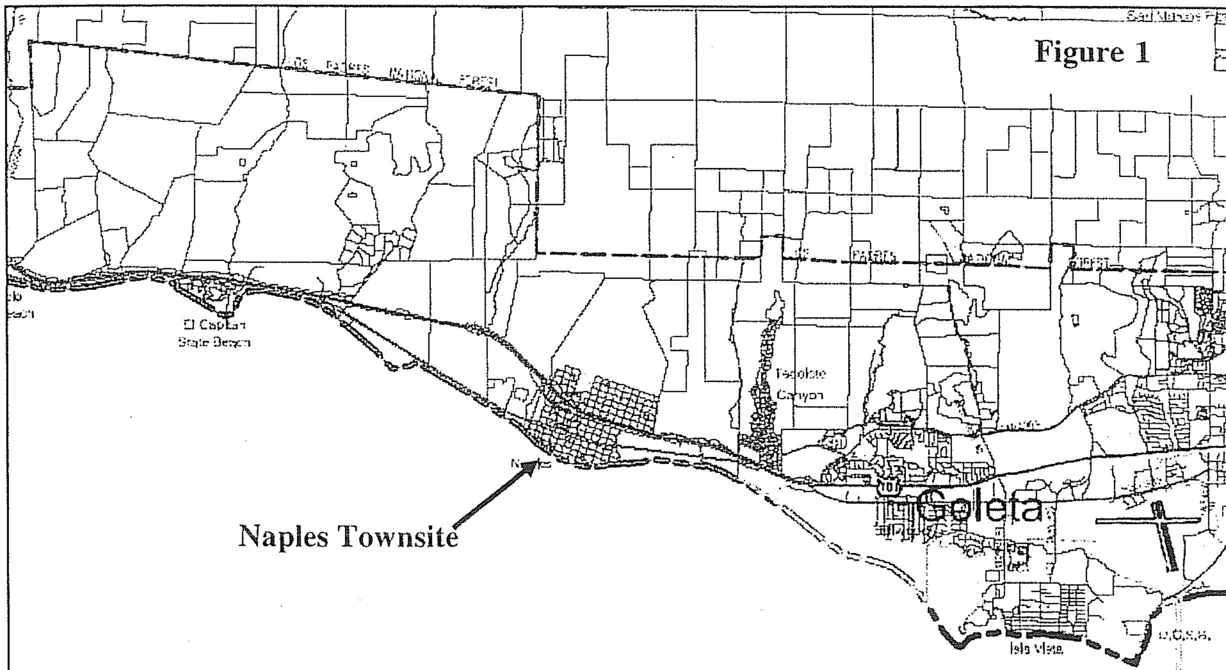

Figure 1

1.0 REQUEST

Request by County staff that the County Planning Commission receive a report on the feasibility of transferring development rights at Santa Barbara Ranch and make recommended findings to the Board of Supervisors, along with comments on an enabling ordinance, preparatory to commencing formal hearings in connection with the proposed development of the Naples townsite located two miles west of the City of Goleta, APN's 079-080-026 to 081-240-018, Third Supervisorial District.

2.0 SUMMARY OF ISSUES

Santa Barbara Ranch comprises 485 acres and encompasses 80% of the 274 legal lots comprising the Official Map of Naples. Existing land use and zoning designations for the Naples townsite

consist primarily of commercial agriculture, with minimum lot size requirements ranging from 10 acres ("U" zone designation for inland lots) to 100 acres (AG-II-100 zone designation for coastal lots) for each parcel. This translates to a hypothetical residential development potential of 14 lots that is far less than the 274 legal lots recognized in the 1995 Official Map of Naples. In short, existing agricultural land use designations and implementing zoning ordinances at Naples do not align with the residential lot densities already in existence. As a means of resolving this conflict, the County's Coastal Land Use Plan ("CLUP") contains policy language that is expressly and solely applicable to Naples. Policy 2-13 was adopted in 1982 at the time of the certification of the County's Local Coastal Program and states:

> *"The existing townsite of Naples is within a designated rural area and is remote from urban services. The County shall discourage residential development of existing lots. The County shall encourage and assist the property owner(s) in transferring development rights from the Naples townsite to an appropriate site within a designated urban area which is suitable for residential development. If the County determines that transferring development rights is not feasible, the land use designation of AG-II-100 should be re-evaluated."*[1]

In compliance with Policy 2-13, a TDR Study has been completed for Santa Barbara Ranch. The TDR Study identifies and evaluates potential receiver sites that would be suitable for residential development within designated urban and rural areas, as well as the financial and administrative apparatus and capacity necessary to accomplish potential transfers. The TDR Study indicates that, for a variety of reasons, a full extinguishment of development rights at Santa Barbara Ranch is not feasible but that it may be possible to transfer development from as much as 57% of the total lots. In order to foster this potential and affirmatively further Policy 2-13 objectives which require the County to "*...encourage and assist the property owner(s) in transferring development rights from the Naples town site...*", an Enabling Ordinance has been developed in consultation with key stakeholders. Thus, while it is not feasible to extinguish all development rights at Santa Barbara Ranch, a TDR Ordinance would maximize its potential.

3.0 RECOMMENDATION AND PROCEDURES

Staff recommends that the Commission take the following actions:

1. Receive the report on the feasibility of transferring development rights from Santa Barbara Ranch;

2. Recommend that the Board of Supervisors find that: (i) only a partial extinguishment of development potential at Naples is possible; (ii) partial extinguishment will not resolve the underlying conflict that gives rise to Policy 2-

[1] The term "feasible" is defined in the California Coastal Act as meaning "...capable of being accomplished in a successful manner within a reasonable period of time, taking into account economic, environmental, social, and technological factors (Section 30108 of the California Public Resources Code).

13; and (iii) the land use designation of AG-II-100 should be re-evaluated based upon the analysis in Section 8.2 of this staff report; and

3. Provide comments on the TDR Enabling Ordinance and recommend that the Board of Supervisors formally initiate the process of amending the County Code in order to maximize the potential for partial transfers at Santa Barbara Ranch.

4.0 JURISDICTION

The Santa Barbara Ranch Project entails a broad array of legislative and quasi-judicial land use approvals. Precedent to all of these actions, the County must first make a determination of TDR feasibility under CLUP Policy 2-13. The Planning Commission's role in each instance is advisory to the Board of Supervisors. As noted in Section 5.3, this is an iterative process and the TDR Ordinance will ultimately return for final consideration by the Commission.

5.0 BACKGROUND

5.1 Land Use

The Naples townsite encompasses an 800-acre area on the Gaviota coast, located two miles west of the City of Goleta. The area's development potential has long been a source of dispute and litigation, both past and pending. This conflict centers around the Original Map of Naples filed by the Naples Improvement Company on July 23, 1888, the Official Map of Naples recorded by the County on October 3, 1995, and intervening legal disputes over lot merger provisions and septic system permit requirements imposed by the County. Further complicating the matter are California Coastal Act and local coastal land use policies that promote the preservation of agriculture, sensitive habitats and visual quality of the Gaviota Coast, while at the same time identify a single family residence as an eligible principal permitted use on individual legal lots, regardless of size.

Existing land use and zoning designations for the Naples town site consist primarily of commercial agriculture, with minimum lot size requirements ranging from 10 acres ("U" zone designation for inland lots) to 100 acres (AG-II-100 zone designation for coastal lots) for each parcel. This translates to a hypothetical residential development potential of 14 lots that is far less than the 274 legal lots recognized in the 1995 Official Map of Naples. In short, existing agricultural land use designations and implementing zoning ordinances at Naples do not align with the residential lot densities already in existence. As a means of resolving this conflict, the County's Coastal Land Use Plan ("CLUP") contains policy language that is expressly and solely applicable to Naples. Policy 2-13 was adopted in 1982 at the time of the certification of the County's Local Coastal Program and states:

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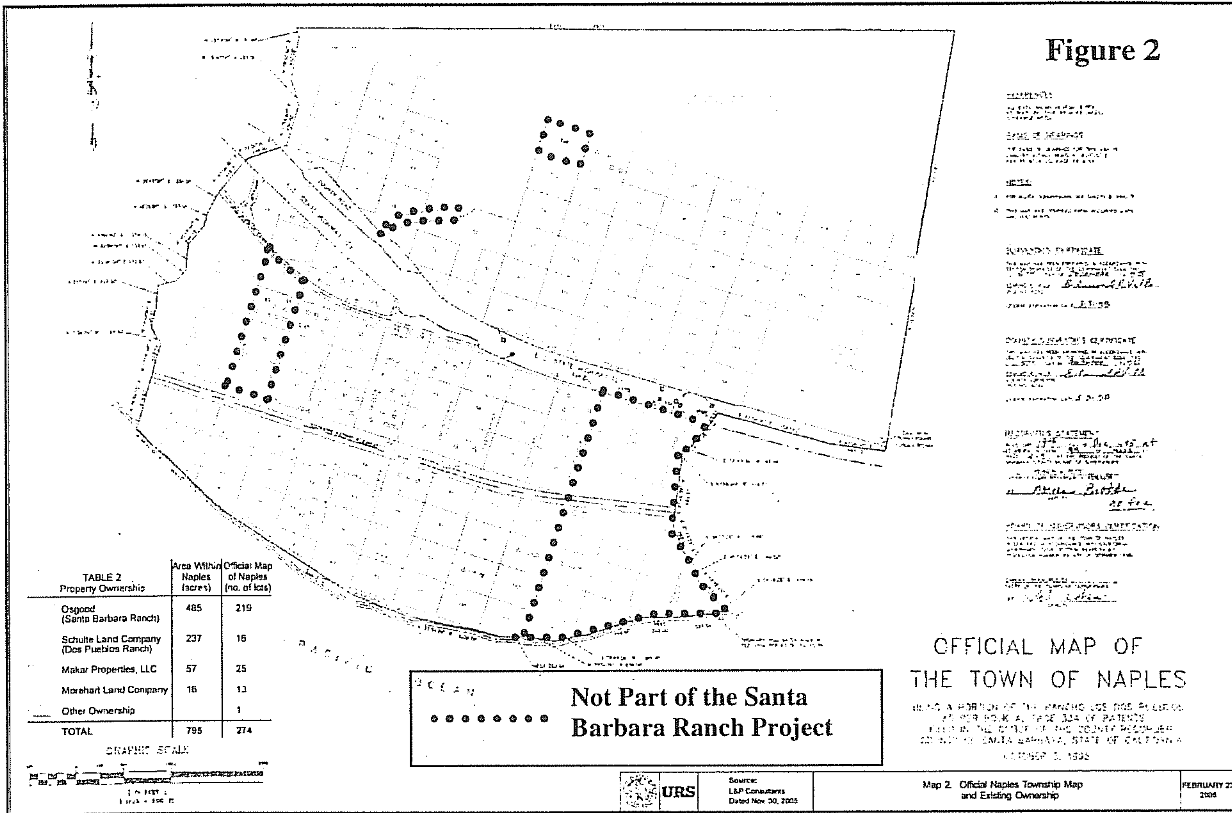

TABLE 2

Property Ownership	Area Within Naples (acres)	Official Map of Naples (no. of lots)
Osgood (Santa Barbara Ranch)	485	219
Schulte Land Company (Dos Pueblos Ranch)	237	16
Makar Properties, LLC	57	25
Morehart Land Company	16	13
Other Ownership		1
TOTAL	795	274

5.2 Memorandum of Understanding

The Naples townsite is owned principally by four sets of owners: (i) Santa Barbara Ranch related interests which account for 219 parcels and 485 acres; (ii) Dos Pueblos Ranch related interests which account for 16 parcels and 244 acres; (iii) Makar Properties, LLC, which account for 25 parcels and 57 acres; and (iv) Morehart related interests which account for 13 parcels and 16 acres. In late 2002, the County, the Morehart related interests, and the Santa Barbara Ranch related interests entered into a Memorandum of Understanding ("MOU") setting forth a protocol and structure for the submission of project applications as a part of a potential global resolution of pending and threatened litigation. As noted earlier, the MOU does not create entitlements, rights or approvals, and does not impair the County's ability to enforce its applicable ordinances, resolutions, policies or statutes. However, it does provide a protocol for the County to entertain applications for development and conservation at Naples. In this regard, two projects are under consideration:

o **Santa Barbara Ranch Project (MOU Project).** The MOU Project consists of a large lot residential development and associated land use changes on Santa Barbara Ranch ("SBR") totaling 485 acres and encompassing 80% of the lots comprising the Official Map of Naples. The MOU Project would result in 54 new rural estate residences and includes an equestrian center, agricultural support facilities, a worker duplex, public amenities (including access road, parking and restroom, hiking, biking, equestrian trails near the coastal bluff, an educational kiosk and a coastal access stair structure), and creation of conservation easements permanently protecting 137 acres for agricultural uses and 188 acres for open space.

o **Alternative 1 (Alt 1).** Alt 1 is proposed for review by the landowners at a project-level detail for purposes of evaluating alternatives to the MOU Project under CEQA. As proposed, Alt 1 comprises the 485-acre SBR plus the adjacent 2,769-acre Dos Pueblos Ranch ("DPR") property, together encompassing 86% of the lots comprising the Official Map of Naples. Alt 1 would include development 72 new single family homes, one employee duplex, one agricultural support facility, public amenities (including access road, parking and restroom, hiking, biking, equestrian trails near the coastal bluff, an educational kiosk and a coastal access stair structure), and creation of conservation easements permanently protecting 2,629 acres for agricultural uses and 372 acres for open space.

5.3 Entitlement Process

Applications for the MOU Project were formally accepted for processing on September 3, 2004. This action was followed with the release of a Draft Environmental Impact Report ("DEIR") on June 28, 2006. Subsequent to the close of the public review period, it was concluded that the best method for responding to comments would be to revise and re-circulate the entire DEIR document for public review as opposed to simply responding to individual comments. A revised DEIR is presently under preparation with a release expected within the next thirty days. Project hearings before the Planning Commission and Board of Supervisors are scheduled to begin in late fall/early winter with final action anticipated by the first quarter of 2008. During the intervening time between release of the original DEIR and present, the Santa Barbara Ranch Project has been the subject of numerous meetings with the Board of Architectural Review and Agricultural Preserve Advisory Committee. Both bodies have since completed their initial tasks and await the outcome of Commission and Board deliberations.

As noted earlier, CLUP Policy 2-13 requires that the feasibility of transferring development rights from the Naples townsite be studied before a re-designation of land use and associated entitlements can be acted upon. The first step is for the Planning Commission to express its opinions on TDR feasibility to the Board of Supervisors, along with comments on the companion ordinance. The Board will then be asked to render a decision on TDR feasibility and authorize staff to formally commence the Code Amendment process. With such changes as the Board may direct, the TDR Ordinance will be finalized and returned to the Planning Commission for consideration along with the Revised Draft Environmental Impact Report and project entitlements.

6.0 TDR STUDY

6.1 March 2006 TDR Feasibility Study (Attachments A and B)

"Simply put, a transferable development rights (TDR) program creates a market for willing buyers and sellers of development rights. The mechanism allows landowners to voluntarily sever the right of development associated with land ownership from the land itself and converts it into a marketable commodity. Willing buyers of the development rights are granted incremental density increases on designated "receiving sites." The success of the TDR program hinges on stimulating developers to purchase development rights as a means of obtaining increased density."[2]

In the most basic of terms, determining TDR feasibility amounts to a four step process: (i) valuing the development rights of "sender sites" to be transferred; (ii) identifying "receiver sites" and their capacity to absorb higher density; (iii) comparing resultant valuation differentials and transfer ratios; and (iv) defining a program structure for implementing transfers. As the first step in this process, Solimar was instructed to utilize the MOU Project and Alternative 1 in establishing sender site values. Using an elaborate "regression-analysis to determine the contribution various site and house attributes make in setting sales prices, Solimar determined in its March 2006 Study that total development right values ranged from $165.7 million (MOU) to $199 million (Alt 1).[3] These numbers reflect a 30% downward adjustment in proposed house sizes to account for uncertain outcomes resulting from entitlement process.

Next, Solimar evaluated potential receiver sites that might be suitable for residential development, with corresponding estimates of potential lot extinguishment at Naples. Potential receiver sites within rural areas were considered as well as urban areas in order to provide the broadest of inventories. An initial slate of 79 candidate sites were identified. However, most of these locations were subsequently removed from consideration for a variety of reasons: remoteness from the Naples townsite, lack of common interest and issues between the Naples townsite and potential receiver sites, and the disparity between very high land and development values on the Gaviota coast when compared with inland urbanized areas. In the final analysis, eight sites were identified as having the greatest potential to receive development rights from Naples, four within the City of Santa Barbara and four within adjacent unincorporated areas of the County[4].

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[2] Santa Barbara Ranch Transferable Development Rights (TDR) Feasibility Analysis (page 2), Solimar Research Group, Inc., March 3, 2006.

[3] The value of development rights reflects the speculative value of land that might be developed plus the additional value that actual entitlements would endow on the property. See the discussion on page 63 of the "Santa Barbara Ranch Transferable Development Rights (TDR) Feasibility Analysis" for details.

[4] Five sites are graphically shown in the TDR Feasibility Study as passing the 1st and 2nd screens (see Map B, Appendix A). However, the Pony Lot was ultimately eliminated from consideration, thereby leaving four final sites within the City of Santa Barbara.

Based on a "willingness to pay" analysis that assesses the value of purchasing development credits, Solimar estimated that the final slate of eight candidate properties could absorb $185 million worth of development with a corresponding increase in density from 27 to 552 new residential units. Adjusting downward for political realities and community tolerance, Solimar concluded that 100 new units would be a realistic scenario. Under this assumption, the dollar amount of development that the candidate sites could absorb translates to $73.2 million, resulting a short fall of between $92.5 and $125.8 million between receiver and sender sites.[5] In the final analysis, Solimar concluded that: "*...some, but not all, the development from the Santa Barbara Ranch Project could be transferred......[and]....do not appear to reduce densities enough to permit development under current agricultural zoning, apparently justifying a new land use and zoning designation as indicated under policy 2-13 of the County's Local Coastal Plan.*"[6]

Finally, Solimar concluded that a host of administrative actions and policy decisions would be needed to successfully implement a TDR Program, regardless of whether all development rights at Santa Barbara Ranch can be extinguished. A centerpiece of this program is the establishment of TDR Bank to serve as an intermediary between the buyers and sellers of development rights. This arrangement would allow a program to unfold overtime and not require that all potential receiver sites be fully entitled at inception. Moreover, the Bank could raise capital that would not necessarily depend on receiver sites to back fill. That is, donations and grants could be used in place of funds that would otherwise be raised through TDR transactions, enabling development rights to be extinguished outright rather than transferred elsewhere. As seed capital, Solimar concluded that the Bank could be initially capitalized at $20 million. This figure is roughly one-quarter of the valuation of potential receiver sites and corresponds to the sum that was successfully raised in connection with the preservation of the Ellwood Mesa in 2003.

6.2 August 2007 TDR Feasibility Update (Attachments C, D and E)

Based on public feedback, coupled with commentary from members of the TDR Working Group, Solimar was tasked by the County to update the March 2006 TDR Study.[7] The specific purpose of this update is: (i) review and update key variables assumed in the 2006 value determinations; (ii) broaden the valuation analysis to encompass the Grid Scenario, in addition to the MOU Project and Alternative 1 evaluated in the original study; (iii) provide a context and frame of reference for Solimar's valuation by comparing calculated values against recent sales of similar properties along the south coast of Santa Barbara County; and (iv) address public comments received in connection with the earlier work.

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[5] The lack of receiver sites is perhaps the most common obstacle in implementing TDR programs in California coastal areas where land values are high. See "*Putting Transfer of Development Rights to Work in California* (pages 46-57)," Rick Prutetz – Solano Press Books, November 1993.

[6] Santa Barbara Ranch Transferable Development Rights (TDR) Feasibility Analysis (page 79), Solimar Research Group, Inc., March 3, 2006.

[7] See Section 7.1 for a discussion of the TDR Working Group.

A centerpiece of the TDR Update is the inclusion of the Grid Scenario which assumes that development would generally follow the rectilinear pattern of the existing lots and mapped street locations under the Official Map of Naples. In consultation with County staff and EIR Consultant, it is estimated that between 114 and 125 Official Map lots have the potential for residential development. By comparison, the first Draft EIR estimated that 82 existing lots had development potential. The difference in development estimates between the original DEIR and current analysis is explained by two primary factors: (i) new information regarding soils and geology that were previously believed to constrain development in the northwestern part of Santa Barbara Ranch due to threat of landslides; and (ii) consideration of alternative effluent disposal technology (i.e., a packaged treatment plant) that removes septic limitations as a constraint. The combination of these two factors results in an increase of between 32 and 43 buildable lots. Each lot was then assigned a building envelop by matching lot sizes under the Grid Scenario with lot sizes proposed under the MOU Project. Valuation parameters were then updated as to land and construction costs, development timeline and absorption rates. The hedonic model was then applied to each of the three development scenarios, employing the same 70% discounting that was used in the original study.

The preliminary results, along with the original study, were then subjected to a peer review by Stephen G. Schott, an independent MAI appraiser specializing in large lot estate and agricultural properties. Mr. Schott made four principal findings: (i) values assigned to bluff lots under the MOU Project and Alt 1 appear to be high, while values assigned to Grid lots south of the railroad appear to be low; (ii) land values should be adjusted according to the size and amenities of homes rather than benchmarked against lot area; (iii) the value of development rights are not sufficiently discounted to account for risks inherent in the entitlement process; and (iv) the sum of development right values for individual lots exceeds what the project would command as a whole.

TABLE 1: FINAL REVISED 2007 TDR STUDY UPDATE	Grid (125 Lots)	MOU (54 Lots)	Alt 1 (72 Lots)
Average House Size (Sq.Ft.)	3,660	4,500	4,631
Development Right Value			
Total	$205 M	126 M	$155 M
Average/Lot	$1.64 M	$2.24 M	$2.07 M
Receiver Site Valuation Capacity	$73.2 M	$73.2 M	$73.2 M
Valuation Differential	$131.8 M	$52.8	$81.8

SOURCES: Santa Barbara Ranch Transferable Development Rights (TDR) Feasibility Analysis (page 59), Solimar Research Group, March 3, 2006. Summary Report to Update the Santa Barbara Ranch TDR Feasibility Study (Table 4.1, page 28), Solimar Research Group, Inc., August 30, 2007.
NOTES: Figures shown in Table 1 reflect a 70% downward adjustment in maximum development proposed under each scenario.

Based on this peer review, Solimar again revised the valuation methodology and adjusted for the various factors identified by Mr. Schott. Solimar's specific responses are summarized in Section 2.2 of the TDR Feasibility Study Update (Attachment E) and the resulting valuation figures

appear in Table 1 above. Based on the earlier findings that candidate receiver sites have the potential of absorbing $73.2 million in additional development value, the updated analysis reveals a short fall of between $52.8 and $131.8 million between receiver and sender sites. This short fall already reflects a downward adjustment in development values at Naples to account for the uncertain outcome of entitlements. Rather than speculate as to which lots may or may receive entitlements, an "across-the-board" adjustment was made to proposed house sizes; that is, values are based on house sizes that are 70% of the square footage actually proposed for each corresponding lot. At 100% of potential, the shortfall would increase by a minimum of $10 million.

In summary, the conclusions initially reached by Solimar in its 2006 TDR Feasibility Study remain unchanged; ***while it may be possible to extinguish at least some development potential at Naples, a complete extinguishment of development rights is improbable***. Moreover, the potential magnitude of development transferred depends on what goals are pursued in the process – reducing the overall development intensity, preserving the public viewshed from Highway 101, or eliminating development from the coastal bluff-tops. The Study further notes that development transfers, no matter how small or large, depend upon a host of actions that must subsequently occur: capitalization of a mitigation bank, execution of inter-jurisdictional agreements and a variety of legislative actions to provide requisite "up-zoning" for receiver sites.

7.0 ENABLING ORDINANCE

7.1 TDR Program Framework (Attachments F and G)

Following release of the March 2006 TDR Study, a series of informal discussions subsequently ensued between various stakeholders. The informal TDR Working Group consists of representatives of the County, City of Santa Barbara, Naples Coalition (and constituent members), and Santa Barbara Ranch owner/developer. Representatives from Bermant Development as well as officials from the Cities of Goleta and Carpinteria also participated at key points in the process. Under the guidance of Supervisors Carbajal and Firestone, the Working Group reached consensus on a workscope with Solimar Research Group to bring TDR to a point of implementation. Rather than focus on specific receiver sites or debate valuation methodology, the Group agreed on a programmatic approach that would provide the administrative apparatus for implementing TDR. The resulting work products consist of a Program Framework and TDR Ordinance.

An underlying premise of the TDR Program is that: "*...it should be voluntary, incentive based and market driven between willing sellers and willing buyers – landowners should not be obligated to use the program.*" At the recommendation of Solimar, and with general agreement among Working Group members, the program has been developed with a geographic focus; that is, transfers of development rights from Naples should be initially restricted to areas within the South Coast Housing Market Area which generally share common market values, internal geographies and land preservation goals. Within these basic parameters, the Program Framework outlines the following structure:

- Prioritizing Naples lots for preservation, identified by the Board of Supervisors, for the purposes of extinguishing development rights from one combination of the following locations: (i) lots most visible for Highway 101; (ii) lots located within the coastal zone; (iii) lots located on the bluff south of Highway 101; (iv) lots located on productive agricultural land; and/or (v) lots located within or near environmentally sensitive habitat.

- Creating a commodity for receiving sites called "density credits." Each credit represents one residential unit above the existing baseline density of each receiver site. Developers would purchase credits based on the market value associated with each receiver site. Market value is benchmarked against what developers are willing to pay, generally ranging between 18% and 20% of the selling price for an additional residential unit.

- Adopting receiver site eligibility criteria. In this regard, the following criteria has been proposed: (i) sites located within or adjacent to the South Coast Urban Growth Boundary; (ii) sites without severe environmental constraints so as to preclude development by virtue of slopes, flood plains, geologic hazards and ESHA; (iii) sites not involving prime agricultural land; and (iv) sites that are currently proposed for upzoning or for which second dwellings are otherwise allowed, regardless of all other criteria.

- Enacting a process for assigning density credits. A four step process discretionary is suggested: (i) abbreviated applications are filed by owners/developers; (ii) requests are prescreening by County staff to determine receiver site eligibility; (iii) preliminary non-binding assignments of density credits are made by the Planning Commission; and (iv) development plans are processed for approval along with assignment of density credits.

- Establishing a "Bank" to serve as an investment and administrative intermediary in the TDR process. Activities of the Bank would include: (i) establishing fair market prices and transfer ratios; (ii) buying development rights and selling density credits: (iii) attracting capital investment and servicing a revolving trust fund for ongoing TDR transactions; and (v) facilitating inter-jurisdictional TDR agreements between the County and cities.

- Incentivizing receiver site areas and award of density credits through establishment of "amenity funds." For each five density credits that area sold and exercised in a particular community plan area, it is proposed that the Bank award 10% of the total sale proceeds for amenity enhancements and infrastructure improvements in those specific neighborhoods where density credits are awarded.

- Mitigating investment risk and retaining commodity value through policies that limit developer alternatives for achieving greater market-rate densities. This would be accomplished by requiring that all upzoning, including agricultural land conversions, occur within the framework of the TDR Program (i.e., purchase of density credits or equivalent measures).

Although the Program Structure was the result of a consensus-based process of the TDR Working Group, not all participants agreed with the outcome. Specifically, representatives of the Environmental Defense Center, Surfrider Foundation and Naples Coalition have offered an alternative approach. In contrast to the voluntary premise of the Solimar work product, the afore-named parties believe that TDR participation should be compulsory on the part of any property owner seeking re-designation of land use at Naples. Such mandatory participation would include the irrevocable offer to sell development rights and a phased release of lots commensurate with capitalization of the TDR Bank. The obligatory period of participation would be eight years as measured from the date of Coastal Commission approval (roughly the equivalent of 10 years from the effective date of County approval). During this period, development on specified lots would be prohibited until gradually released from the requirements of TDR (commonly referred to as the "hold" period). Lots of lesser priority would be released before those which possess important public attributes.

While Solimar notes the critical importance of having a temporary "hold" on development to allow the Bank to become capitalized, it stops short of compelling this feature; largely at the urging of County staff in deference to the voluntary premise of the program. Instead, it suggests that the County and landowners mutually agree upon this particular parameter and memorialize the understanding by means of a Development Agreement. In this regard, the owners of Santa Barbara Ranch have previously expressed their willingness to delay development on specified lots in the Coastal Zone under Alternative 1 for an initial period 18 months from the date of County action, with the potential for an additional 18 months provided that measurable progress is made toward funding the TDR Bank. For sake of reference, Solimar points to the preservation of the Ellwood Bluff as a local example of TDR, noting that it took three to four years for the Trust for Public Land (TPL) and the community to raise $20 million necessary for transaction.

7.2 Draft TDR Ordinance (Attachment H)

While the TDR Working Group did not agree on all points, a common denominator among those represented was a sense of urgency to implement a TDR Program at the earliest possible date. The Enabling Ordinance, structured around the Program Framework, provides the administrative and regulatory apparatus to facilitate the sell, purchase and extinguishment of development rights at Naples. This is necessary regardless of whether TDR at Naples is determined to be feasible or not. Moreover, the sooner such a program can proceed, the sooner the TDR Bank can become capitalized and the better its chances of success. The Ordinance accompanying this staff report is provided in draft form for discussion purposes only. Once the Planning Commission and Board of Supervisors have conducted their initial reviews, the Ordinance will be revised and placed into final form with the assistance of County Counsel. The Ordinance will then be returned for consideration by both bodies in conjunction with the Santa Barbara Ranch project.

By design, two issues are expressly deferred to the Board of Supervisors: (i) the targeting of specific Naples lots for transfer or extinguishment; and (ii) the establishment of "hold" periods as discussed in Section 7.1 above. In regard to targeting, Section 35.90.010.C. of the draft

Ordinance calls for the Board of Supervisors to establish site-specific priorities at the time a TDR program is implemented. Based on feedback from the TDR Working Group, the Ordinance outlines a number of competing policy objectives from which to choose: public viewsheds, oceanfront bluffs, scenic coastal areas, productive agricultural land or sensitive environmental resources. These choices are influenced by underlying valuation and disparate transfer ratios; lots with ocean frontage command higher values than lots located north of Hwy 101. Consequently, fewer bluff lots can be transferred with the same amount of capital compared to lots inland of the Coastal Zone. The disparity in transfer ratios is illustrated in Table 2 below.

TABLE 2: TRANSFER RATIOS	Scenario #1 Maximum Transfers	Scenario #2 Protect Viewshed	Scenario #3 Protect Bluff
Grid Scenario			
Lots Transferred	37	32	4
% of Total (125 Lots)	30%	26%	3%
Development Value	$20.1 Million	$20 Million	$24 Million
MOU Project			
Lots Transferred	31	25	3
% of Total (54 Lots)	57%	46%	6%
Development Value	$19.9 Million	$19.7 Million	$21.8 Million
Alternative 1			
Lots Transferred	35	24	3
% of Total (72 Lots)	49%	33%	4%
Development Value	$20.6 Million	$21.1 Million	$19.3 Million

SOURCES: Summary Report to Update the Santa Barbara Ranch TDR Feasibility Study (Tables 6.1, 6.2 and 6.3; page s 42,43 and 44), Solimar Research Group, Inc., August 30, 2007.
NOTES: Each Transfer/Extinguishment Scenario is based on an initial TDR Back capitalization of $20 million. Scenario #1 reflects the maximum number of lots for which development rights can be transferred or extinguished; Scenario #2 seeks to eliminate lots for which development would otherwise be visible from Hwy 101; and Scenario #3 seeks to eliminate lots located south of Hwy 101, starting with those lots with ocean frontage.

As discussed in Section 7.1, there are disparate views on the duration and compulsory delay on development in order to allow the TDR Program to become fully operational. These differences notwithstanding, Solimar underscores the critical importance of the applicant mutually and voluntarily agreeing upon a timeframe to withhold the issuance of building permits following entitlement approval. Although the Board of Supervisors may choose to fix this requirement as part of the Enabling Ordinance, so doing would require careful review of relevant statutory and case law on regulatory "takings." Among other considerations are: (i) the history of litigation and development delays associated with the Naples townsite; (ii) application filing and permit streamlining provisions associated with Santa Barbara Ranch; and (iii) the MOU and its prescribed processing timelines. For the time being, the negotiated approach suggested by Solimar provides room for these various considerations to be a reconciled.

A final issue worth noting is the interface between density credits and the production of affordable housing. In short, the Enabling Ordinance has been structured such that it does not undermine State density bonus law or place the County's Housing Element at risk. Initial

discussions with officials of the State Department of Housing and Community Development ("HCD") affirm this conclusion. Indeed, HCD views density bonus for purposes of TDR as separate and distinct from density bonuses used to produce affordable housing. The former requires developers to acquire development credits with the expectation of increasing profit, while the latter requires local government to grant credits to underwrite the expense of providing affordable housing. Once the Board of Supervisors has weighed-in on the initial draft, a final version of the Enabling Ordinance will be submitted to HCD for concurrence before the matter is returned to the Planning Commission.

8.0 PROJECT ANALYSIS

8.1 Environmental Review

The determination of feasibility, as well as the enabling TDR ordinance, are statutorily exempted from the California Environmental Quality Act ("CEQA") insofar as neither action constitutes a "project." CEQA Guidelines Section 15378(b)(4) states that an action is not a "project" for purposes of CEQA, where it involves: "The creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may have a significant effect on the environment." Several CEQA decisions have opined that fiscal programs are not projects for purposes of CEQA, while other companion decisions assert that actions leading to land use changes (but which do not actually ordain the outcome) do not produce any physical changes to the environment that would otherwise trigger CEQA. These decisions include the following projects:

- The formation of an assessment district to raise revenue for a water district. *Not About Water Comm. V. Board of Supervisors,* (2002) 95 Cal. App.4th 982, 1001.

- The formation of a community facilities district under Govt. C. sections 53311 to raise revenue in which no decision committed the agency to any school expansion or development. *Kaufman and Broad South Bay, Inc. v Morgan Hill Unified School District,* (1992) 9 Cal. App.4th 464.

- The detachment of 10,000 acres of undeveloped land from a recreation and park district was not considered a project because no land use designation would change. *Simi Valley Recreation and Park District v. LAFCO*, (1975) 51 Cal. App.3rd 648, 666.

The present situation is similar. The County's determination simply declares whether a funding mechanism to extinguish lots is feasible. Such an action does not commit the County to fund the extinguishment of development rights on any particular lot nor does it commit the County to provide development credits for any particular receiving site. Similarly, the TDR Enabling Ordinance as currently proposed, does not commit the County to providing development credits for any particular sending or receiving sites, nor does it eliminate the possibility that any development rights could be extinguished. Therefore, neither the feasibility determination nor the approval of an ordinance would produce any physical changes to the environment that would

trigger CEQA. On the other hand, subsequent actions of the County to rezone land or amend the LCP would be projects subject to CEQA and appropriate environmental review would have to be prepared before final decisions could be made.

8.2 Policy 2-13 Analysis

CLUP Policy 2-13: The existing town site of Naples is within a designated rural area and is remote from urban services. The County shall discourage residential development of existing lots. The County shall encourage and assist the property owner(s) in transferring development rights from the Naples town site to an appropriate site within a designated urban area which is suitable for residential development. If the County determines that transferring development rights is not feasible, the land use designation of AG-II-100 should be re-evaluated.

Policy Compliance:

1. **Requirement:** *The County shall discourage residential development of existing lots.*

   Facts: Shortly following certification of the Coastal Land Use Plan ("CLUP") in 1982, the County adopted antiquated subdivision regulations and instituted an Antiquated Subdivision Overlay ("ASO") District in the period between 1984 and 1988. These regulations were based on the County's belief that pre-1893 maps created parcels upon recordation. These regulations effectively reduced the development potential of Naples by requiring merger of undersized parcels down to an estimated maximum of 14 lots compared to over 400 lots claimed by the owners. The County was subsequently sued by the one of the Naples landowners, and in 1994, the California Supreme Court struck down the subdivision regulations pertaining to involuntary merger provisions. *Morehart v. County of Santa Barbara* (1994) 7 Cal.4th 725. In response, the County rescinded these regulations and adopted the Official Map of Naples in their place. The Official Map only recognizes those lots for which the County previously issued a certificate of compliance demonstrating that a division of land complied with state and local laws, or had a deed history establishing the lot as a separate legal parcel. Because the Official Map only recognizes 274 legal lots (as opposed to over 400 lots alleged by Naples landowners), the Map's adoption led to further litigation:

   - Santa Barbara County Superior Court Case No. 179265, challenging the County's ASO Ordinance, alleging inverse condemnation and seeking monetary damages for alleged violations of civil rights and seeking declaratory relief.

   - Santa Barbara County Superior Court Case No. 203256, challenging the action of the County and the California Coastal Commission in adopting and certifying Ordinance No. 4084 which, among other things, regulates private wastewater facilities.

- Threatened and tolled litigation, challenging the County's 1994 rescission of its antiquated subdivision regulations, adoption of the Official Map and determination of parcel validity within the Naples townsite.

In late 2002, the County and landowners representing roughly 80% of the Official Map lots entered into a Memorandum of Understanding ("MOU") setting forth a protocol and structure for the submittal of project applications as a part of a potential global resolution of pending and threatened litigation. The MOU does not create entitlements, rights or approvals, and does not impair the County's ability to enforce its applicable ordinances, resolutions, policies or statutes. However, it does provide a protocol for the County to consider applications for development and conservation at Naples. Most importantly, it preserves the opportunity to control land use planning for Naples as opposed to a situation where individual lot owners could seek development permits for single family homes under the current Grid configuration. This would lead to development in an ad hoc, fragmented basis, leaving the County vulnerable to potential claims by numerous individual landowners of regulatory "taking" (if development were denied on grounds other than valid health and safety concerns) and likely compromise the very goals promoted in the CLUP.

Conclusion: Since adoption of the CLUP, the County has been steadfast in discouraging residential development at Naples; first through the adoption of regulations that minimize its potential (14 lots allowed by Ordinance compared to 400+ lots alleged by property owners), followed by the adoption of the Official Map that recognized approximately 1/3rd less lots than reflected in the Original Map of 1888. In spite of the unfavorable ruling by the California Supreme Court, the County continued to discourage development at Naples. This objective is reflected in the MOU where the scope of development contemplated is for 54 total residential units on 485 acres, or roughly one-quarter of the 219 legal lots comprising Santa Barbara Ranch ("SBR") as recognized under the Official Map.

2. **Requirement:** *The County shall encourage and assist the property owner(s) in transferring development rights from the Naples town site to an appropriate site within a designated urban area which is suitable for residential development.*

   Facts: In compliance with CLUP Policy 2-13, the County has commissioned a study on the feasibility of transferring development rights from Naples to sites more suitable for residential development. This process has led to the creation of a Working Group of "stakeholders" to help facilitate the transfer. Core members of the Working Group include the City and County of Santa Barbara, Environmental Defense Center, Surfrider Foundation Foundation, Naples Coalition and the owner of SBR. The County broadened this outreach and invited representatives from the Cities of Carpinteria and Goleta to participate as well. As a result, the Working Group (with the financial support of the City of Santa Barbara, County of Santa Barbara and Property Owner of SBR) have engaged in a collaborate effort to devise a TDR Program and implementing Ordinance. The program

framework was completed in early 2007 and the resulting Ordinance is presently under consideration. With the encouragement of County staff, the owner of SBR has voluntarily agreed to withhold issuance of Coastal Development Permits for a select number of lots within the Coastal Zone of SBR under the Alternative 1 configuration for a minimum of 18 months following County land use approvals. The applicant has further agreed to pledge these lots as credits for potential transfer under a County-sanctioned TDR Program. Provided that the a TDR Program is established and capitalized, the applicant has agreed to extend the initial "holding" period by an additional 18 months for selected lots equivalent to the capacity and valuation of receiver sites.

Conclusion: The County's furtherance of Policy 2-13 TDR objectives is evidenced by creation and financial support of a TDR Working Group. The resulting program framework and implementing Ordinance will provide the administrative apparatus to facilitate the sell, purchase and extinguishment of development rights at Naples. The applicant's willingness to toll development and pledge Coastal lots for transfer is the result of collaborative discussions with County staff. Final details on mechanics and time lines will be memorialized in the Development Agreement.

3. **Requirement:** *If the County determines that transferring development rights is not feasible, the land use designation of AG-II-100 should be re-evaluated.*

   Facts: In compliance with CLUP Policy 2-13, a TDR Study has been completed for three different development configurations: (i) the Grid Scenario which represents baseline conditions and estimates that between 114 and 125 Official Map lots have the potential for development; (ii) the MOU Project consisting of 54 residential home sites and associated land use changes on SBR totaling 485 acres and encompassing 80% of the lots comprising the Official Map of Naples; and (iii) Alternative 1 (proposed for review by the landowners at a project-level detail for purposes of evaluating alternatives to the MOU Project under the California Environmental Quality Act ("CEQA") consisting of 72 residential home sites and associated land use changes encompassing the 485-acre SBR plus the adjacent 2,769-acre Dos Pueblos Ranch ("DPR") property, together encompassing 86% of the lots comprising the Official Map of Naples. The TDR Study identifies and evaluates potential receiver sites that would be suitable for residential development within designated urban and rural areas. The TDR Study indicates that, for a variety of reasons, most of these locations are not feasible as receiver sites: remoteness from the Naples townsite, lack of common interest and issues between the Naples townsite and potential receiver sites, and the disparity between very high land and development values on the Gaviota Coast when compared with inland urbanized areas. The Study does, however, suggest that it might be possible to extinguish at least some development potential provided that a host of actions subsequently occur: capitalization of a mitigation bank, execution of inter-jurisdictional agreements and a variety of legislative actions to provide requisite "up-zoning" for receiver sites.

Conclusion: TDR feasibility turns on three key issues: program capacity, receiver sites and bank capitalization. Program capacity is addressed through impending adoption of an Enabling Ordinance that sets forth the administrative and regulatory process by which to accomplish transfers. In short, this leg of the feasibility triangle can be satisfied. Potential receiver sites, on the other hand, fall short of total value needed. Moreover, community acceptance of higher density on any or all of these sites is unknown. And while a variety of potential funding sources have been identified, no capital has thus far been raised. The only local example on which to draw is the Ellwood Mesa transaction in which $20 million was raised as compared to the $126 - $205 million required to fully extinguish development at Naples under the Grid, MOU and Alternative 1 configurations. In conclusion, the dearth of receiver sites and lack of upfront capital makes the determination of TDR feasibility highly problematic. At best, only a partial extinguishment of development potential at Naples is possible.

Partial TDR Feasibility:

Premise: Policy 2-13 allows for a reconsideration of land use if development rights at Naples cannot be extinguished through TDR. While Policy 2-13 is not clear regarding whether the County must determine that all development rights at Naples can be transferred, Policy 2-13 does require that a feasibility determination be made prior to rezoning any or all of the Naples townsite. In short, partial extinguishment will not resolve the underlying conflict that gives rise to Policy 2-13. Despite 27 years of attempts by the County to discourage development by zoning the area as agriculture, forcing mergers and litigating extensively, 274 legal lots still remain. With or without a feasibility determination, and regardless of whether the zoning is changed, the landowner has the right to proceed with applications for development of any or all of the existing lots. Partial feasibility, if accompanied with delays in land use re-designation and/or entitlements, could prompt the land owner to choose to sell or develop individual parcels instead of presenting one comprehensive plan. Such individual development or sale could drastically reduce the County's power to influence the overall development approach at Naples. In summary, the TDR determination and the rezone must be broad-based and take into account not only the obstacles to a TDR program but also the landowner's legal rights and the opportunity for comprehensive land planning.

Facts: Existing land use and zoning designations for the Naples townsite consist primarily of commercial agriculture, with minimum lot size requirements ranging from 10 acres ("U" zone designation for inland lots) to 100 acres (AG-II-100 zone designation for coastal lots) acres for each parcel. This translates to a hypothetical residential development potential of 14 lots that is far less than the 274 legal lots recognized in the 1995 Official Map of Naples. In short, existing agricultural land use designations and implementing zoning ordinances do not accommodate residential development of lots already present at the townsite. If full extinguishment of development potential at SBR through TDR is not possible, the underlying conflict between lot density and existing

agricultural designations remains. The means by which to resolve this conflict is through a re-designation of land use. This is the expressed purpose of Policy 2-13.

Proposal: In order to resolve the conflict in underlying land use designations while maximizing the potential for use of TDR, three concurrent yet sequential steps are contemplated:

Step #1 - The Board of Supervisors adopt findings and declare that the full extinguishment of development potential at Naples through TDR is not feasible. In order to foster partial extinguishment and affirmatively further Policy 2-13 objectives which require the County to "*...encourage and assist the property owner(s) in transferring development rights from the Naples town site...*", a TDR Ordinance will be offered and recommended for adoption.

Step #2 - The Board of Supervisors acts upon the MOU Project presently under consideration. Potential outcomes include approval, denial or modification of the MOU Project, Alternative 1 or some variation thereof. Outright denial would revert to the Grid configuration (i.e., lots recognized under the Official Map). If approved, the applicant's willingness to toll development and pledge Coastal lots for transfer would be memorialized by way of a Development Agreement.

Step #3 - The Board of Supervisors designates TDR priorities for extinguishment under the TDR Ordinance adopted in Step #1 (i.e., lots most visible from Hwy 101, lots located within the Coastal Zone, bluff lots located south of Hwy 101, lots located on productive agricultural land, lots within or near environmental sensitive habitat, etc.). Lots eligible for transfer shall conform to the geographic priorities established by the Board and correspond to the development configuration resulting from Step #2.

7.0 APPEALS PROCEDURE

As noted in Section 4.0, the Planning Commission's role is advisory to the Board of Supervisors. The TDR Feasibility Study and proposed Enabling Ordinance are not appealable actions; instead, the Board will serve as the decision making body.

ATTACHMENTS

A. MOU and Alternative 1 Development Configurations
B. TDR Feasibility Study (March 8, 2006)
C. Grid Scenario
D. TDR Feasibility Study Peer Review (July 20 and August 29, 2007)
E. TDR Feasibility Study Update (August 30, 2007)
F. TDR Program Framework (August 24, 2007)
G. A TDR Program For Naples – EDC, Surfrider and Naples Coalition (May 11, 2007)
H. TDR Enabling Ordinance (May 29, 2007)

ATTACHMENT A

MOU PROJECT

Legend

Existing and Proposed Water Tanks

Water Treatment Plant

Agricultural Office and Storage

Sewage Treatment Plant

Reclaimed Water Storage

Proposed Coastal Trail (De Anza Trail)

Public Parking

Public Restroom & Showers

Coastal Trail

Interpretive Kiosk

Beach Access Stairway

URS

Santa Barbara Ranch EIR

ALTERNATIVE 1

Reclaimed Water Storage

Los Pueblos Creek

Existing Water Tank

Sewage Treatment Plant

Water Treatment Plant

Sewage Treatment Plant

Agricultural Office and Storage

Sewage Treatment Plant

Reclaimed Water Storage

Proposed Coastal Trail (De Anza Trail)

Public Parking

Public Restroom & Showers

Proposed Coastal Access Trail

Interpretive Kiosk

Beach Access Stairway

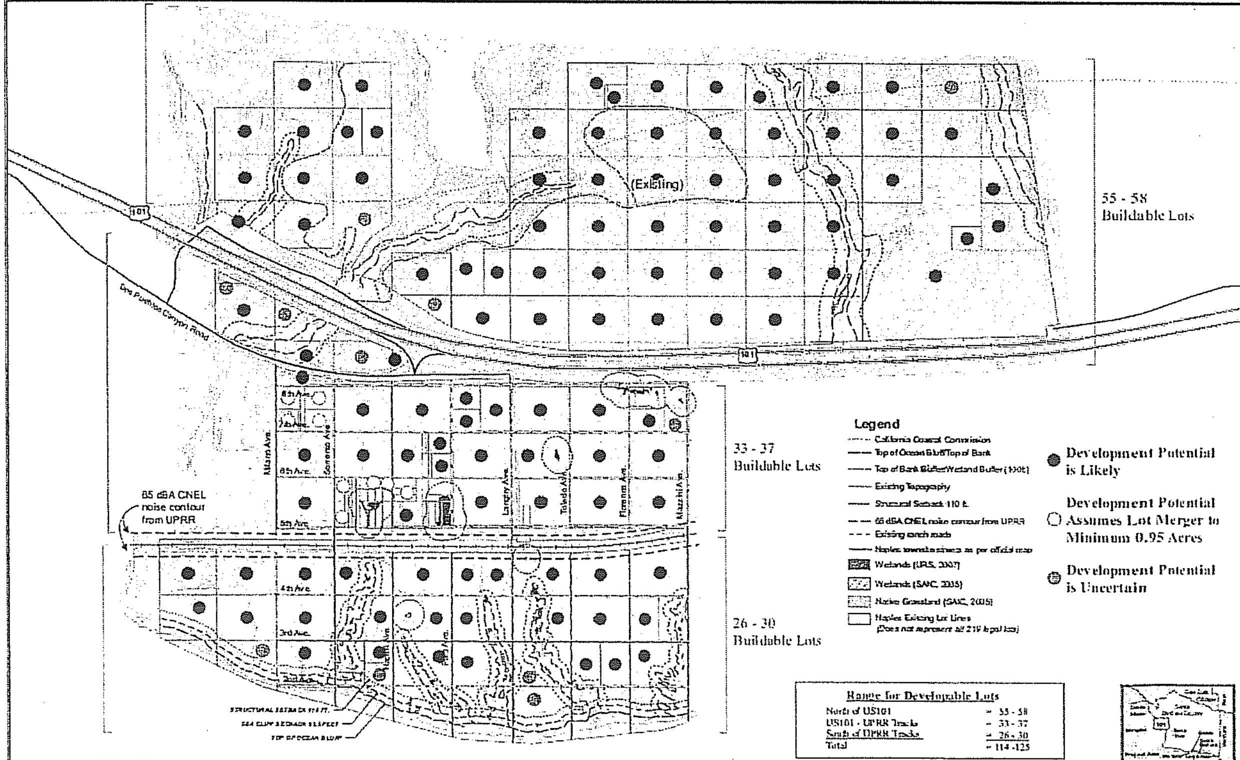
ATTACHMENT B

ATTACHMENT C

GRID SCENARIO

Official Map of Naples
•806 Acres
•274 Legal Lots

Santa Barbara Ranch
•485 Acres
•219 Legal Lots



Range for Developable Lots

North of US101	= 55 - 58
US101 - UPRR Tracks	= 33 - 37
South of UPRR Tracks	= 26 - 30
Total	= 114 -125

GRID DEVELOPMENT POTENTIAL

(Disclaimer: The estimate of lots with development potential under the "Grid" configuration is based on the results of the Revised Draft EIR. This estimate is provided for comparative analysis only, and neither URS nor the County warrant or represent what may actually be possible; such conclusions may only be determined in connection with lot-specific permitting and environmental review.)

11.4 ALTERNATIVE 3: NO PROJECT

11.4.1 Description of Alternative 3

Background. CEQA Guidelines Section 15126.6 (e) addresses the "no project" alternative. Section 15126.6 (e) (3) states in part:

> *A discussion of the "no project" alternative will usually proceed along one of two lines:*
>
> *(A) When the project is the revision of an existing land use or regulatory plan, policy or ongoing operation, the "no project" alternative will be the continuation of the existing plan, policy or operation into the future. Typically this is a situation where other projects initiated under the existing plan will continue while the new plan is developed. Thus, the projected impacts of the proposed plan or alternative plans would be compared to the impacts that would occur under the existing plan.*
>
> *(B) If the project is other than a land use or regulatory plan, for example a development project on identifiable property, the "no project" alternative is the circumstance under which the project does not proceed. Here the discussion would compare the environmental effects of the property remaining in its existing state against environmental effects which would occur if the project is approved. If disapproval of the project under consideration would result in predictable actions by others, such as the proposal of some other project, this "no project" consequence should be discussed. In certain instances, the no project alternative means "no build" wherein the existing environmental setting is maintained. However, where failure to proceed with the project will not result in preservation of existing environmental conditions, the analysis should identify the practical result of the project's non-approval and not create and analyze a set of artificial assumptions that would be required to preserve the existing physical environment.*

The MOU Project and Alternative 1 propose both a change in the land use designation, as well as a particular development project. Following the logic suggested above for proposals that involve a change in land use designation, denial of the project (implementing the No Project alternative) would result in retention of the AG-II-100 designation and associated zoning (and small area of U zone). It would also result in the retention of the existing pattern of 219 lots within the SBR property as depicted in the Official Map of Naples adopted by the County in 1995. In such event, individual lots could be sold off and a series of individual lot-by-lot mergers, consolidations, development plans, building permits, and related applications would be submitted.

Description of Alternative 3A - No Project with Grid Development. The Official Map is shown on Figure ES-3 in Section ES 2.2 of this RDEIR. Rectangular lots of 3.8 acres form a grid pattern that dominates the property. Several of the rectangular parcels are divided further into groups of smaller lots. Creation of the rights-of-way for US 101 and for the Union Pacific Railroad left a series of narrow lots adjacent to both of these corridors. These sets of smaller lots account for several dozen legal parcels within the property, not all

of which can be shown on Figure ES-3. Assuming that the narrow lots along the highway and railroad rights of way would be combined with adjacent lots reduces the number of parcels from 219 to 193, which are distributed as follows:

- North of US 101 – 65 parcels (12 in the western region and 53 in the eastern region)
- Between US 101 and the UPRR tracks
- Between US 101 and Dos Pueblos Canyon Road – 5 parcels
- Between Dos Pueblos Canyon Road and the UPRR tracks – 85 parcels
- South of the UPRR tracks – 38 parcels

Development in the Alternative 3A Grid scenario would generally follow the rectilinear pattern of the existing lots and mapped street locations, with access to the areas north of US 101 provided by the existing ranch roads and access to the areas south of US 101 being provided by Dos Pueblos Canyon Road, Langtry Avenue, and existing ranch roads. Figure 11.4-1 shows the configuration of existing lots along with setbacks from coastal drainages and other features that would pose constraints to development in order to achieve consistency with coastal policies.

CLUP Policy 2-11 addresses the preservation of environmentally sensitive habitats. Related policies (9-1, 9-9, 9-18, 9-37, and 3-4) identify specific habitat types and establish buffer distances to protect biological and other resources. A 100-foot setback from the tops of the coastal bluffs, from the tops of the stream banks, and from isolated wetland areas on the property, will encompass most of the sensitive resources and provide protection. Comprehensive Plan Hillside and Watershed Protection Policies (Policy 1, 2, and others) address geologic constraints including development on unstable slopes.

If individual on-site treatment systems (septic tanks) were utilized, limitations related to the disposal of effluent set forth in the Regional Water Quality Control Board (RWQCB) Basin Plan would influence the size and the location of allowable lots for residential use. The RWQCB Basin Plan for the area identifies a minimum lot size requirement of usually 1 acre (RWQCB, 1994:Section VII D.3). The lot can be as small as 0.5 acre if "soil and other physical constraints are particularly favorable. This constraint might also influence buildout. The 100-foot setback noted above would also apply to the locations of effluent disposal systems. Additionally, part of the area north of US 101 is underlain by a shale formation that would limit the use and location of dry wells for effluent disposal. Given the number of existing legal lots, sole reliance on individual septic effluent disposal systems may potentially affect groundwater quality. For this reason, a packaged treatment plant option as discussed below would be anticipated in this alternative.

CLUP Policies 2-6 and 2-10 address the issue of adequate services such as water, sewer, roads, and other utilities. Policy 2-6 requires a finding that such services are available or that the applicant assumes full responsibility for the costs of such services. Policy 2-10 addresses

the issue of providing such services in designated rural areas. The exact language of Policy 2-10 is as follows:

> ***CLUP Policy 2-10:*** *Annexation of a rural area to a sanitary district or extensions of sewer lines into rural area(s) as defined on the land use plan maps shall not be permitted unless required to prevent adverse impacts on an environmentally sensitive habitat, to protect public health, or as a logical extension of services.*

The MOU Project, Alternative 1, and Alternative 3A No Project with Grid Development may all be found to be consistent with this policy. None would involve an extension of sewer lines from an existing district. None would involve the extension of sewer service to areas outside of the Naples area. All would require the use of a sewage treatment system, at least in the Coastal Zone, to protect ground and surface water quality due to the unique circumstances on the property.

With respect to water service, both the Santa Barbara Ranch and the Dos Pueblos Ranch are served by the Naples Water Company. An adequate water source to serve the proposed development, or any alternative development, is already available and the major components of a treatment and distribution system are already in place. Equipment upgrades in the water treatment plant area necessary, and additional water storage capacity for fire protection purposes will be required, but the major components of a water supply system are already developed and in use. Thus, there is no need to extend water service to the project area. The project would also incorporate measures to prohibit the further extension of service to adjacent properties (although portions of Dos Pueblos Ranch and properties farther to the west are already served by the Goleta Water District). For these reasons the project, or future development under the Alternative 3A No Project - Grid Development, would not require extension of new water service and there is no need to consider other options for providing water service.

Roadway access is already provided to the property via US 101, Dos Pueblos Canyon, and Calle Real. Internal circulation can be developed along existing roads including Langtry Avenue, roadway easements following the pattern of existing lots, and the existing ranch roads.

In summary, these environmental and policy constraints may influence the size of a house on a lot or otherwise affect the details of a proposed residential development, but may not prevent a parcel from being developed. Unless prompted by a threat to health or safety, denial of all development could be considered a regulatory taking of the parcel. Considering these features and policies, the range of developable shown in Figure 11.4-1 and summarized below in Table 11.4-1 may be expected.

Table 11.4-1

Range of Developable Lots Under Alternative 3A – No Project, Grid Development

Location	Range in Numbers of Lots
North of US 101	55-58
US 101 to UPRR tracks	33-37
South of UPRR tracks	26-30
Total	114-125

This total is higher than that estimated in the first Draft EIR for this project (approximately 82 units). There are two reasons for the difference. First, during the time of preparation of the first Draft EIR additional investigations were undertaken regarding the landslides present in the northwestern part of the property. These deposits were found to be relatively shallow, and not as extensive as originally believed. While the impact sections of the first Draft EIR acknowledged this result, the alternatives section was not revised to reflect that information. Second, the consideration of alternative effluent disposal technology (i.e. a packaged treatment plant) reduces a constraint that was considered a limitation in the first Draft EIR alternatives analysis. The combination of these two factors results in an increase of about 40 developable units, when compared with the analogous discussion in the first Draft EIR.

[NOTE: This narrative is extracted from the Administrative Draft Revised DEIR for Santa Barbara Ranch and is subject to minor change pending publication of the DEIR.]

ATTACHMENT D

SCHOTT & COMPANY

REAL ESTATE APPRAISAL & CONSULTING

August 29, 2007

Dianne Black
Director of Developer Services
County of Santa Barbara
123 E. Anapamu St.
Santa Barbara, CA 93101

Reference: Peer Review
Solimar Research TDR Study
Naples/Santa Barbara Ranch
Santa Barbara County, California

Dear Ms. Black:

The purpose of this letter is to analyze the response that was given by Solimar Research to my comments set out in my July 20, 2007 peer review of Solimar's *Draft "Summary Report" for the Update of the Santa Barbara Ranch TDR Feasibility Study* dated June 20, 2007.

I indicated four primary areas that I felt raised concerns with respect to the accuracy of the conclusions sending site portion of Solimar's Study.

My first comment pertained to the projected finished home values that the model estimates. Nearly all of my concerns were addressed directly with modifications to the model. While no modification was made to address my concern that the 100% values of the MOU and ALT1 bluff top properties are in excess of what I would expect the market to bear, the fact that the final development right analysis is based on the 70% values (and therefore, lower overall values), this concern is judged to be mitigated.

My second comment pertained to the need to more accurately estimate the underlying base land value for each lot in each development scenario relative to the other lots in that scenario. Changes to the model have addressed this comment.

The third comment that I raised pertained to the trending up of home values into the future. While I do not believe that this accurately reflects what a hypothetical developer would project, the author of the study indicated that the intent was not to reflect what a developer would project but, rather, to estimate market conditions and development right values at the anticipated time that the program would get off the ground. Considering that this is the intent and the fact that in the

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updated analyses construction costs were trended upward as I had suggested, this issue has been addressed.

The fourth issued I raised pertained to a lack of analysis pertaining to the time value of money and absorption. This point is particularly relevant in the estimate of the value of the development rights for the project as a whole. The model, in its final form, is a reasonable methodology for measuring the development rights on a lot by lot basis. However, because it does not have a mechanism to measure the impact of time and absorption risk, it overstates the value of the development rights for the property as a whole.

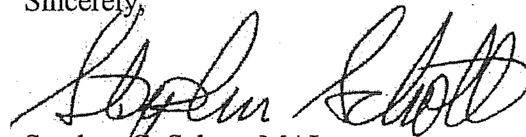
The sum of the development right values for each of the lots is equal to more than the total value of the development rights for the entire project. This relationship stems from the fact that if a developer is going to extinguish some development rights but continue the lion share of a development, he will still incur much of the risk, time and cost of the total development. Alternatively, if all of the development rights will be extinguished, the developer would incur no further cost, expertise, risk, or time to realize his profit.

The author of the report agrees that his analysis is designed for the estimate of the feasibility of partial extinguishment of development rights at Santa Barbara Ranch and that the total values reported are likely overstated. An alternative methodology would be required to more accurately estimate the total value of the development rights at the property.

My comments labeled five and six pertained to receiving sites and were more guttural responses to the study. As these comments are not based on empirical data, they are less important than those discussed above, and based on my discussions with the author of the report, I believe they are laid to rest.

If you have any questions or further instructions please do not hesitate to contact me.

Sincerely,



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REAL ESTATE APPRAISAL & CONSULTING

July 20, 2007

Dianne Black
Director of Developer Services
County of Santa Barbara
123 E. Anapamu St.
Santa Barbara, CA 93101

Reference: Peer Review
Solimar Research TDR Study
Naples/Santa Barbara Ranch
Santa Barbara County, California

Dear Ms. Black:

Pursuant to your request, I have proceeded with an assessment of the reasonableness of the conclusions and analyses of Solimar Research Group's *Santa Barbara Ranch Transferable Development Rights (TDR) Feasibility Analysis* dated March 8, 2006 and the update of the study dated June 20, 2007.

The scope of my work has included a review of the studies, the proposed TDR ordinance, a letter from Integra Realty Services critiquing the original study, and associated project maps. The focus of my work was to comment on the reasonableness of the conclusions of the study. As originally agreed, where I disagree with the conclusions of the study I will state why but I will not offer alternative conclusions as the required amount of analysis to accomplish this goes beyond the scope of my assingment. Further, I will not be commenting on or analyzing the underlying mathematics employed in the hedonic model. Rather, I intend to comment on the reasonableness of the conclusions reached in the study relative to my experience as a real estate appraiser.

The following are my comments with respect to the study:

Santa Barbara Ranch Analyses Comments

1) Projected Finished Home Values – The model indicates values that appear to be inconsistent with market values in the real world. In the 100% MOU and ALT1 analyses, the bluff top lots have lots of 8 to 15 acres and values ranging from approximately $19,000,000 to $30,000,000. In the Grid analysis, the bluff top lots range in lot size from 0.76 acres to 3.8 acres and have values from approximately $3,900,000 to $7,000,000. Actual sales of bluff top homes suggest that this spread is far too wide. The analyses suggest that lot size is the primary factor in determining value differences. Market data indicate that the

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primary value of bluff top property is its unobstructed ocean view amenity and proximity/access to the beach. It appears that the hedonic model is not accurately reflecting this. Further, it appears that the values of the MOU and ALT1 bluff top properties are in excess of what comparable sales would indicate (Are the open space/agricultural/public easements factored into the hedonic model?) and those of the Grid analysis are below that which comparable sales would indicate. Recent comparable sales of oceanfront/bluff top parcels on the South Coast range in lot size from 0.4 acres to 60 acres and in price from $7,900,000 to $33,750,000. Excluding the extremes, the data range from approximately $9,200,000 to $28,500,000. All of these data are in locations that are more central to Santa Barbara and would be considered superior to the location of Santa Barbara Ranch.

The Grid analysis has a range of approximately $3,900,000 to $7,000,000 for the bluff top lots and a range of approximately $3,400,000 to $6,300,000 for lots north of the bluff top lots but south of the railroad tracks. The analysis appears to place little premium on the bluff top lots versus interior lots. However, market evidence indicates that there is a very substantial premium for bluff top/oceanfront lots versus those that are one or more properties removed from the bluff/oceanfront. This is particularly true where the topography is gentle and, therefore, the rear lots do not have the view amenity that the bluff top lots have.

As evidence of this relationship two sales on Beach Club Road near Carpinteria can be examined. 3248 Beach Club Road is an oceanfront house of 2,750 square feet. It sold for $9,200,000 in January 2005. 3261 Beach Club Road is across the street from 3248 Beach Club Road and not ocean front (one parcel and the street is between the property and the ocean). This house is on a similar sized lot and is 2,367 square feet. It sold for $3,600,000 in November 2005. This is a dramatic illustration of the premium paid for oceanfront or bluff top lots.

It appears that the hedonic analysis does a better job of estimating values for properties that are further inland as these value conclusions are more reasonable.

2) Underlying or Base Land Value - While the hedonic model used to estimate the values of hypothetical finished homes on the individual sites provides a methodology to account for differences of value created by varying attributes among the subject sites (size, location, proximity to freeway, etc.), no such analysis is done for the underlying or base land value (aka "land cost"). This figure is subtracted as a project cost in order to estimate "Capitalized Land Value," and ultimately the value of the development right for each parcel. The result of using an average base land value for each of the sites is that the development rights vary more widely from one parcel to another than would be reasonable. By distributing the total base land value to the various parcels based on their relative appeal, a more realistic picture of Development Right Value would be created. One method of accomplishing this would be to apply the percentage of the total retail value that each hypothetical finished home represents to the total base land value for each lot. Performing such an analysis will have an equalizing effect on the resulting individual development right

values. In other words, there will be a tighter range of development values. It will not impact the total development right value.

3) Trending Hypothetical Home Values Upward Into the Future – In the analysis where development right values are calculated, the values indicated for the hypothetical finished homes on the subject lots are inflated at 8.9% annually in an attempt to estimate what the homes would sell for in the future. These future values are then discounted at a much lower rate (2-3%). This analysis results in higher values without the recognition of the higher risk associated with the projection. Additionally, typically developers make their projections of what a finished product will sell for in the future based on today's values, not future values that have been trended upward. For these reasons, I believe the results are unnecessarily skewed upward.

   Alternatively, with the rising costs of construction (costs have increased an average of 6% per year over the past five years with the rate of increase accelerating over this time frame per Marshall Valuation Service) it would be prudent to trend the projected construction costs upward to reflect estimated future costs.

4) Accounting for the Time Value of Money and Risk – The study attempts to account for absorption through higher holding costs (specifically, through extended financing costs). While financing costs are a valid holding cost, they are only part of the picture. The time value of money must be accounted for. If a home will not sell until a number of years into the future, the developer will not receive the profit until that future time. Typically, developers recognize and account for this fact in their proformas by discounting future profits to present value. The discount rate used is reflective of the risk of the projection (will the home really sell in the projected timeframe for the projected price?). Lacking this type of analysis, the profit and, therefore, development right value is overstated.

Receiving Site Comments

5) Neighborhood Resistance The entire feasibility of the process is questionable due to resistance that will be mounted by neighbors of receiving sites. While the study suggests small financial incentives be made to improve neighborhood amenities, it is likely that more significant incentives will be required to achieve a level of acceptability necessary for a receiving site project to move forward. This issue should be explored further.

6) Willingness to Pay for Development Right Willingness to pay appears to be overstated due to low construction cost estimates ($120-$130 per square foot). My analysis of recent multi-unit residential development projects indicates that hard construction costs locally are in the range of $175 - $250 per square foot.

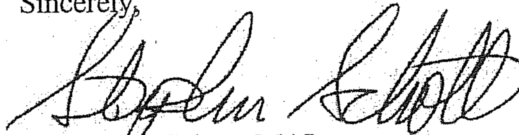
Ideally real world data would be included to support the conclusions in this part of the analysis (actual receiving site development right purchases correlated to the buyer's project Proforma at the time of sale),

Conclusion

Until the issues detailed above are considered and commented on by the authors, the conclusions of the Solimar Research Group Santa Barbara Ranch TDR Feasibility Study are in question.

If you have any questions or further instructions please do not hesitate to contact me.

Sincerely,



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ADDENDA/USPAP REPORTING REQUIREMENTS

Function/Purpose of Assignment

The function and purpose of this assignment is to provide a review of the reasonableness of the conclusions in the TDR study herein referenced.

Intended Use & User

The intended use of this report is for decision making purposes. The intended user is the County of Santa Barbara.

Effective Date of Assignment

The effective date of this assignment is July 20, 2007.

Scope of Work

I have reviewed the 2006 Solimar TDR study and the 2007 update. I have also reviewed a letter from Integra Realty Resources critiquing the 2006 study. I have reviewed various maps of the project and considered market data.

Definition of Terms

MARKET VALUE

Market value is the major focus of most real property appraisal assignments. Both economic and legal definitions of market value have been developed and refined. A current economic definition agreed upon by federal financial institutions in the United States of America is:

> The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

(a) Buyer and seller are typically motivated;

(b) Both parties are well informed or well advised, and acting in what they consider their best interest;

(c) A reasonable time is allowed for exposure in the open market;

(d) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and

(e) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

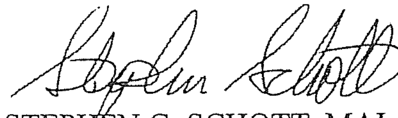
Source: Uniform Standards of Professional Appraisal Practice (of the Appraisal Foundation)

CERTIFICATION

I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinion, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- my engagement in this assignment is not contingent upon developing or reporting predetermined results
- my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.
- that this appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
- my analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation and in accordance with the Code of Professional Ethics and the standards of Professional Practice of the Appraisal Institute.
- I have not made a personal inspection of the property that is the subject of this report.
- no one provided significant professional real property appraisal assistance to the person signing this report.
- that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

As of the date of this report, I have completed the requirements under the continuing education program of the Appraisal Institute.



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Bachelor of Arts Degree, Sociology

Appraisal Institute Courses:
- 1A: Real Estate Appraisal Principals
- 1B: Real Estate Appraisal Procedures
- SPP A & B: Standards of Professional Practice
- 310: Basic Income Capitalization
- 430: Standards of Professional Practice, Part C
- 510: Advanced Income Capitalization
- 550: Advanced Applications (Challenged)
- 540: Report Writing

Appraisal Seminars:
- Eminent Domain Law for Right of Way Professionals
- Appraising Apartments
- Appraiser Litigation Skills
- 1998 Eminent Domain Case Update Seminar
- Santa Barbara Market Conditions Update
- Insurance Loss Prevention Seminar
- Data Confirmation & Verification Methods
- Federal & State Laws Workshop
- Conservation Easements
- Easement Valuation

Professional Memberships

Certified General Real Estate Appraiser, No. AG024150, State of California
MAI Designated Member of the Appraisal Institute, No. 11266
President of the Santa Barbara Chapter of the Appraisal Institute (1998)
Treasurer/Secretary California Central Coast Chapter of the Appraisal Institute (1999)
Member: International Right of Way Association – Chapter 47
California Licensed Real Estate Broker #01309727

Expert Witness Testimony Santa Barbara Superior Court

Property Types Appraised

Commercial/Industrial

Single and multi-tenant office, retail, and industrial; restaurants; mixed use commercial/residential; both existing and proposed.

Multi-Family

All sizes from duplexes to institutional grade investment properties (>100 units).

Agricultural

Greenhouses, prime soils, ranch land,

Special Purpose

Motels, hotels, bed & breakfast facilities, residential care facilities, tennis and swim club, nursery school, dinner theatre, girls club, religious facilities, schools, mortuary, crematorium, sorority/fraternity, student dormitory, etc.

Land

Unimproved and under-improved commercially and industrially zoned properties; unimproved & under-improved residentially zoned land including subdivision analysis; foothill and mountainous acreage; "gentleman ranches."

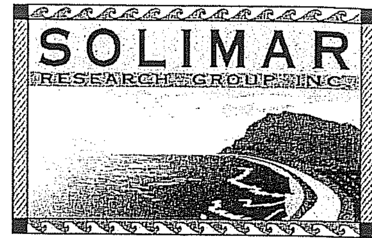
Single Family

Large estates, unusual homes, tract homes; both existing and proposed.

Easements/Condemnation

Utility takings, trail easements, reciprocal access easement, golf course landscaping easement, temporary construction easements.

ATTACHMENT E



Solimar Research Group

Summary Report to Update the Santa Barbara Ranch TDR Feasibility Study

August 30, 2007

William Fulton
Darren Greve
Susan Weaver
Raphael Bostic

Table of Contents

EXECUTIVE SUMMARY 3

1. BACKGROUND 7

1.1 SOLIMAR'S VALUATION METHODOLOGY 7

Step 1 – Regression Analysis *8*

Step 2 – Residual Land Value Analysis *10*

2. RESPONSE TO PUBLIC COMMENT 13

2.1 PUBLIC COMMENT 13

2.2 INDEPENDENT APPRAISER REVIEW 19

3. NAPLES GRID LOT VALUATION 22

Grid Lot Value Summary *23*

Table 3.1 Range of Grid Lot Home Values 24

Table 3.2 100% Grid Lot Development Right Values 25

Table 3.3 70% Grid Lot Development Right Values 26

4. UPDATED MOU AND ALT 1 VALUATION 27

Table 4.1 Grid, MOU, and ALT 1 Summary 28

Table 4.2 Range of MOU Home Values 30

Table 4.3 Range of ALT 1 Home Values 31

Table 4.4 MOU Development Right Values 32

Table 4.5 ALT 1 Development Right Values 33

5. COMPARISON TO RECENT SALES 34

6. TRANSFERRING DEVELOPMENT RIGHTS FROM THE SANTA BARBARA RANCH 35

6.1 CAPITALIZATION OF THE TDR BANK 35

6.2 APPROACH TO TRANSFER RATIOS 37

6.3 DEVELOPMENT TRANSFER SCENARIOS 39

Table 6.1 Grid, MOU, ALT 1 Development Right Transfer Summary *40*

Table 6.1 Grid Lot Transfer Scenarios *42*

Table 6.2 MOU Lot Transfer Scenarios *43*

Table 6.3 ALT 1 Lot Transfer Scenarios *44*

APPENDIX A : MAP OF DEVELOPABLE GRID LOTS 45

Executive Summary

This update to the 2006 Santa Barbara Ranch TDR Feasibility Analysis accomplishes three essential tasks pursuant to relevant comments from the public and a County-approved independent appraiser. In particular, the report:

1. Adjusts the valuation of MOU / ALT1 development right values for more accuracy;
2. Estimates development right values of the so called "Grid";
3. Discusses the feasibility of transferring development potential from Naples based on the updated valuation.

As the basis for transferring development potential, it is important to use the value of entitlements or "development rights" rather than what finished homes would sell for on the Santa Barbara Ranch. When comparing development right values of the Grid, the MOU, or the ALT 1 development scenarios, it is most useful to look at our estimate of the *average* rather than the *total* project development right value.

This is because the valuation method we use is most accurate on an individual lot basis. If an entire project – or large portions of it rather than individual lots – were to be transferred the compensation for development rights would likely be less than the totals we report. Simply put, if the owner of the Santa Barbara Ranch is paid in-whole and up-front he is likely to accept less than the totals we report so as to avoid the inherent risk of getting the project approved and sold in a timely fashion. We feel this is acceptable since we assume that transferring development is partially feasible and would occur on an *individual* lot by lot basis rather than the *entire* project. For this reason it is important to focus on average development right values rather than the total project development right values.

Table ES.1 below is a condensed summary of the average development right value, the average price that finished homes would sell for (i.e. home value), as well as the total development right and total project values of the Grid, MOU, and ALT 1 projects that resulted from the 2007 updated analysis.

Table ES.1

	Grid (125 units)	MOU (54 units)	ALT 1 (73 units)
Av. Development Right Value	$1,638,481	$2,242,201	$2,071,902
Av. Home Value	$4,433,917	$7,108,166	$6,848,472
Total Development Right Value	$204,810,147	$125,563,237	$155,392,675
Total of Home Values in 2007	$554,239,645	$383,840,983	$499,938,484

(note: values reported are based on the 70% project wherein house sizes were reduced by 30%.)

One can see that average development right values for all three scenarios are about one-third of the average home value for each of the three project scenarios. The Grid's average development right value is almost half the development right value of the MOU project ($1.6 million versus $2.2 million). The Grid's total development right value is greater than the MOU and the ALT 1 project because the project has so many more potential homes – 125 homes versus 54 and 73 homes for the MOU and ALT 1 respectively.

We conclude that a partial transfer is feasible – that is, to transfer some, but not all, the development from the Santa Barbara Ranch project is possible. We come to this conclusion for two reasons:

1. It is unrealistic for the receiving sites we identify to absorb enough density to transfer *all* the development right value from Naples. As a threshold matter, the County (and potentially the City of Santa Barbara) would need to identify and re-zone certain parcels to receive additional units under the TDR program;

2. The development rights would have to be transferred off Naples "up-front" rather than over time. This would require the creation of a "TDR Bank" to buy, hold, and eventually sell the rights. The Bank would have to be well capitalized in order to execute the up-front purchase; we feel it is unlikely the Bank could be seeded with enough money to buy *all* development rights.

We do, however, believe it is possible to capitalize the Bank with enough money to transfer *some* development rights from the Santa Barbara Ranch. If the transfer of development rights is to be executed up-front, then the feasibility of the transfer system is driven not by some theoretical calculation of sending and receiving site value, but on the actual amount of money that can be raised to stake the TDR bank.

The Ellwood Mesa preservation effort serves as a good reference for the amount of money that could capitalize the Bank. The Trust for Public Land (TPL), as recently as 2003, generated $19.7 million for the successful preservation of Ellwood Mesa. In this deal TPL negotiated with the landowner and the potential developer to relocate 130 entitled lots from Ellwood Mesa to a settled-upon 62 unit project on a 12 acre County park site a short distance away. While not an official TDR, the Ellwood deal essentially bought-down and relocated $20 million worth of development potential from the Bluffs. It is important to point out that unlike the Ellwood deal, capitalization of the Naples TDR Bank would be a loan, since the Bank would, in theory, repay its initial investors.

The County and Santa Barbara Ranch applicant should establish an agreed-upon time period that is commensurate to capitalize the Bank, if the County determines TDR to be feasible. As a point of reference, it took 3 to 4 years for the TPL and the community to raise the $20 million to preserve the Ellwood Bluffs.

We explore a set of three transfer scenarios, assuming the TDR Bank is capitalized with $20 million, to illustrate which lots are preserved and which development rights are

transferred for the Grid, MOU, and ALT 1 projects. We are not suggesting that $20 million or any other amount is a "magic number" required to make the TDR system work. However, we feel $20 million is a likely starting point given our analysis of funding opportunities and this recent Ellwood Mesa deal. The scenarios we identify are:

- Scenario #1 Goal: *to reduce the overall development intensity regardless of view-shed impact.* Under this scenario, residential lots possessing the lowest development right value would be prioritized for transfer;

- Scenario #2 Goal: *to transfer development rights from lots that are the most visible from Highway 101;*

- Scenario #3 Goal: *to transfer development rights from ocean-front bluff-top lots.*

Table ES.2 below indicates that the TDR Bank would have the choice of removing the 37 least expensive Grid lots; 32 of the most visible Grid lots from Highway 101 north of freeway; or four ocean-front bluff-top lots. Alternatively, if the transfer is based on the MOU project, the choice would be to remove 31 of the least expensive lots; 32 of the most visible lots from Highway 101; or 3 ocean-front bluff-top lots.

Table ES.2

	Scenario #1	Scenario #1	Scenario #1
	Maximum amount of Development Right Transfers	Protection of HWY 101 View-shed Development Right Transfers	Ocean-front Bluff-top Development Right Transfers
GRID # Development Rights Transferred	37	32	4
MOU # Development Rights Transferred	31	25	3
ALT 1 # Development Rights Transferred	35	24	3

(note: this data is based on $20 million TDR Bank capitalization)

Based on an analyses of developer "willingness to pay" for additional density on a set of receiving sites from the 2006 TDR Feasibility Report, we can derive transfer ratios. That is, the number of additional units built in the receiving areas for each development right transferred from Naples. These ratios illustrate the significant value disparity between the bluff-top lots and other inland lots.

For example, the ratios to transfer the maximum number of Grid lots, and the Highway 101 view-shed impacting Grid lots range from 1:1 to 2:1. In contrast, the ratio to transfer ocean-front bluff-top lot range from 12:1 to 27:1 depending on the receiving site. This means that between 1 and 2 units would need to be built for every Highway 101 view-impacting Grid lot and between 12 and 27 additional units for each bluff-top Grid lot.

The ratios to transfer the maximum number of MOU lots, and the Highway 101 view-shed impacting MOU lots range from 2:1 to 4:1. Similar to the significant difference expressed above for the bluff-top Grid lots, the ratio to transfer ocean-front bluff-top MOU lots is 15:1 to 32:1 depending on the receiving site.

The feasibility scenarios we identify do not appear to reduce densities enough to permit development under current agricultural zoning, apparently justifying a new land use and zoning designation as indicated under policy 2-13 of the County's Local Coastal Plan.

If the TDR system is created, the final configuration of the Santa Barbara Ranch project will depend on how much financial capital the Bank has, and what program goals those resources are used to achieve. The final distribution of density in the receiving areas depends on the value of the density credits the Bank has and the City and County priorities for increasing density.

To conclude, the extent of development rights that could be transferred will depend to a large extent on the County's goals for preservation at Naples. But, it goes without saying that the high value of bluff-top parcels makes transfer of their development rights more difficult than their inland counterparts. That is to say, the large amount of additional density needed in the receiving areas for each lot that is preserved on the Naples Bluff will make transfers politically difficult.

1. Background

This summary report is the deliverable in a scope of work to the County of Santa Barbara to update the 2006 Santa Barbara Ranch TDR Feasibility Analysis. It is meant to provide the reader a synopsis of the changes and adjustments that were made to assign value to the development rights associated with the Santa Barbara Ranch property and to update the impact upon transfer feasibility.

The genesis of these changes is from public comments regarding the 2006 TDR Study. This summary report, therefore, includes: (1) an overview of the valuation methodology we used, (2) a full response to both public comments and comments from an independent County-approved appraiser, (3) the changes, gleaned from the comments, we feel were adequate to make, (4) updated valuations, and (5) the resulting affects on TDR feasibility.

1.1 Solimar's Valuation Methodology

It must be stressed up-front that Solimar's analysis – and the subsequent valuation methodology – is for the purposes of a "Feasibility Analysis." It is solely meant to assist the County in its deliberations about TDR feasibility for the Santa Barbara Ranch pursuant to LCP Policy 2-13. Our method is not meant to assign value for the purposes of lot or home purchase. We do not claim to be real estate appraisers and are not governed by the rules of the Uniform Standards of Professional Appraisal Practice (USPAP). Yet, the methodology we invoke is sound and tested for the purposes of a feasibility analysis.

We take a two-part approach to estimating the value of development potential that could be transferred from the Santa Barbara Ranch property. This involves: (1) estimating the final value of a home on each lot, and (2) deriving the entitlement or development right value. The latter is arrived at by backing into the added value the land acquires with residential development by accounting for all project costs and the developer's expected profit.

We apply these steps to estimate the development right values of three development scenarios on the Santa Barbara Ranch property – the "Grid," the "MOU" and the "ALT 1" proposals. In so doing, we base the market selling price of dwelling units on assumed entitlements. We recognize uncertainty exists as to the extent of final development that the County and Coastal Commission approve. However, in order to do our analysis we had to assume a starting point. This starting point included, essentially, full entitlement under the MOU and ALT 1 scenarios; for the Grid scenario we use the "buildable" lots as identified by the County.

In all three development scenarios we do not speculate on which lots would or would not be removed from the project based on County or Coastal Commission action. Rather, we show a range of value based on 100% and 70% house sizes. It is important to note that we use the valuation under the 70% scenario as the basis for the determination of the

number of development rights that could be feasibly transferred from the Santa Barbara Ranch.

In addition, we strive to create an accurate picture as to what development rights would be worth in the future rather than their value in the present. We do this because we base our assessment of TDR feasibility on an up-front purchase of development rights from the Santa Barbara Ranch.

We assume it would take 3-4 years to both capitalize the Bank as well as maneuver through the development review process to create legal entitlements. Thus, we strive to estimate value at the time when the TDR Bank would purchase the development rights from the owner of the Santa Barbara Ranch property. For this reason, we inflate the home values that resulted from the regression analysis for 2 or 4 years. We use a relatively modest appreciation rate of 8.9% rather than the 14% observed over the last 10 years.

We acknowledge that predicting the future in real estate values is uncertain, but our goal is to paint as an accurate picture as we can about what the future value of development rights could be worth. It is possible that the future values could be worth less or it is possible that they could be worth more.

Step 1 – Regression Analysis

To accomplish step 1 of the valuation we used statistical regressions of sales data, known as the "hedonic method," to determine the contribution various site and house attributes make in setting the sales prices of residential properties. This empirical model breaks the aggregate value of a property into the values associated with its component parts, including the land, housing structure(s) on the parcel, parcel amenities and disamenities, and neighborhood or regional amenities and disamenities. The dependent variable was sale price (valuation) and the independent variables included the following:

- Lot square footage
- Structure square footage
- Age of the structure
- Number of bedrooms
- Number of bathrooms
- Dummy variable indicating the presence (1) or absence (0) of a pool
- Distance to the ocean in meters (ArcView)
- Distance in meters to nearest airport with scheduled commercial flights (ArcView)
- Distance in meters to the closest major thoroughfare (ArcView)
- Distance in meters to the nearest railroad line (ArcView)
- Percentage of residents of the census tract identifying themselves as white (Census 2000)

- Average journey to work in minutes reported for the census tract (Census 2000)
- Percent of unemployment reported for the census tract (Census 2000)
- Average annual household income reported for census tract (Census 2000)
- Percent of census tract residents below poverty line (Census 2000)
- Percent of vacant households in census tract (Census 2000)
- Median year of construction for houses in census tract (Census 2000)
- Dummy variables for Los Angeles, Santa Barbara, and San Luis Obispo Counties
- Dummy variable indicating whether the property lies on the seaward or inland side of either US101 or Rte. 1 (Pacific Coast Highway), whichever is relevant for the particular property.

A dummy variable is simply a binary variable that is coded in the database as either "0" or "1" for presence or absence. It is important to point out that the regression model does not include a dummy variable for immediate ocean-front amenity. The data did not afford us the ability to easily differentiate between properties with ocean frontage versus those without. As a proxy for this we use the distance to ocean variable.

The strength of this statistical regression approach is that it cuts through misconceptions about value one party may have versus another – it lets the data speak for itself, unclouded by any assumptions.

In seeking comparable properties, we select for sales of single-family residential properties located within the ZIP Code zones that abut the coast in the region of Malibu in Los Angeles County and in Ventura, Santa Barbara and San Luis Obispo Counties. We used sales in the period between January 1, 2000 and March 31, 2005. Data were purchased from DataQuick Corporation; the final dataset included 7,456 transactions.

Since the sales spanned several years, prices were converted to current dollars (2005) using quarterly home price appreciation figures based on data for California published by the FDIC.[1]

The quality of data provided by DataQuick varied by county since some county assessor's offices provide DataQuick with more complete information than others. San Luis Obispo posed a particular challenge, as the DataQuick data for this county had very few records that included structure attributes, such as parcel or structure square footage. Consequently, additional data from Assessor books maintained by the San Luis Obispo County Assessor's Office were purchased. The books purchased provided detailed information – including information on construction quality and views -- on properties in Pismo Beach, Shell Beach, Los Osos, Morro Bay and Cambria. Due to budgetary constraints, we were not able to purchase data for all areas within the San Luis coastal ZIP Code area. Rather, Assessor books were purchased based on how many DataQuick records they would complete.

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[1] http://www.fdic.gov/bank/analytical/stateprofile/SanFrancisco/Ca/CA.xml.html

The DataQuick and San Luis Obispo County data were augmented with neighborhood characteristic information at the census tract level from Census 2000, and with distance variables generated by ArcView, a GIS software package.

We run the regression on both 100% and 70% house size values (with reduced bed and bath counts) to reflect a value "range" that would speak to the uncertainty of project approval. We felt it was too uncertain to identify specific lots that would/would not be approved by the County and Coastal Commission.

Finally, the values – being generated by 2005 sales data – were appreciated to 2007 and 2009 (annual 8.9%) for inland and coastal zone lots respectively and then discounted back to 2005 (1.9 – 3.2 % annually). This acts to capture the increase in value the properties would receive between the time when the study was completed and when the properties would be approved and issued building permits, or when the TDR Bank could feasibly purchase development rights from the properties.[2]

Step 2 – Residual Land Value Analysis

Step 2 uses the regression estimates of home selling prices to determine the actual value of the entitlements (i.e. development rights) on the Santa Barbara Ranch for both the 100% and 70% projects. To accomplish this we use a residual land value (RLV) approach. This method removes all the costs a development project incurs to arrive at the added value the land acquires with residential development. Inclusive in this determination of "capitalized" or "residual" land value is the project profit; since the residual basis of land acquires the extra rents (i.e. profit) after all costs have been paid.[3]

The RLV model we create runs basic pro-formas to accurately portray the array of fixed costs a developer would incur upon developing each individual lot on the Santa Barbara Ranch.

The fixed project costs we account for are organized as follows:

1. Pre-development Costs (land, land carry, entitlement, professional fees, etc.)
2. Development Costs (building & Construction, Site development costs – sewer, water, roads, and other indirect costs)
3. Developer Fee (costs of developer overhead)
4. Marketing Costs
5. Financing Costs
6. Commission & Closing Costs

Further detailed pro-forma assumptions are indicated in the notes in the excel worksheets.

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[2] Assumes inland lots would take 2 years for County approval and coastal zone lots would take 3-4 year Coastal Commission approval

[3] Geltner; Miller; Real Estate Analysis and Investment, 2001

The underlying question we are trying to answer is: "how much money will it take to encourage the developer of the Naples property to sell development rights rather than exercise them on the property?" In answer to this, we identify the baseline amount for each lot to be the capitalized land value *plus* the 'developer's expected profit' – not the project profit – as described below:

Development Right Value *= The Residual Land Value + Developer's Expected Profit*

Residual land value is simply the added value the land acquires with newly entitled residential development. In order to calculate residual land value it was treated as a variable cost in the pro-forma model. In other words it was subtracted from the total market value of the proposed lot and all the cost of preparing the site and constructing the actual house. However, unlike the other 'fixed costs' in the model, residual land value varies to produce a net profit that is 15% of revenue.[4] The 15% net profit was taken to be the Industry's expected net margin through conversations with local area developers.

Project Net Profit was determined by subtracting the total project costs from the total value. We use the excel tool 'solver' to calculate a "Residual Land Value" with a constraint that the net profit be fixed at 15% of total value with the assumed fixed costs.[5]

Developer's Expected Profit is defined to be 50% of the project's 15% net profit. In the development industry the common method of financing projects is both with a lending institution ***and*** private equity investors. These equity partners expect a higher return on there investments which is captured in a project profit split (usually 80%/20% investor/developer) at the end of the project.

If the developer were to sell development rights rather than build he would not need to borrow money from equity partners, and subsequently, he would not expect such additional equity partner profit. For this reason we take a modest approach and assume the developers' expected profit to be 50% of the project profit, thus not including full project profit in the determination of development right value.

In sum, we conclude that the owner of the Santa Barbara Ranch would be motivated to sell his development rights if he can capture not only his 50% share of the project net profit, but also the land's residual value. This would explain our basic equation for development right value as the sum of the two.

It should be pointed out that the RLV approach does not completely account for economies of scale, and thus any potential cost savings that may be captured. Equally important is that the model is not a full discounted cash flow analysis (DCF), and does not account for the phasing that is likely to occur for development of any one of the three

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[4] Profit could also be taken as a % of project costs; the way the model is set up either way the profit is calculated the net (as % of cost or revenue) is captured in the sum of capitalized land and the project profit
[5] In the pro-formas Residual Land Value is represented as "Capitalized Land Value" as they are one in the same.

scenarios. Therefore, the analysis does not completely capture the time value of money and the associated financial risk inherent to development on the Santa Barbara Ranch.

For this reason the aggregate values of development rights for each of the three scenarios are less accurate than our estimates for individual lots. That is to say, on an individual lot basis the model does a good job at predicting the compensation needed to transfer development rights; but if the entire project – or large portions of it – were to be transferred the compensation for development rights would likely be less than the totals we report. Simply put, if the owner of the Santa Barbara Ranch is paid in-whole and up-front he is likely to accept less so as to avoid the inherent risk of getting the project approved and sold.

2. Response to Public Comment

The California Coastal Commission (letter dated 9/27/06), the Naples Coalition (letter dated (2/1/07), and the Integra Realty Resources on behalf of the Environmental Defense Center (letter dated 9/26/06) were the primary respondents with public comment. In addition, the County had a third-party certified appraiser evaluate the analysis, its results and the methodology used. This was conducted by Schott & Company in July 2007; the response to this latter party is described in Section 2.2.

2.1 Public Comment

Common to some or all of these parties' comments were 9 areas of concern pertaining to the 2006 TDR Feasibility Analysis. These are:

1. The Solimar analysis did not use, as the baseline determinant of TDR feasibility, the values of the "Grid" lot development scenario. Rather the study used the applicant's proposed MOU and ALT 1 project proposals as the basis for feasibility;

2. The Solimar valuation is an improper approach to assign value since it bases value on homes which do not exist and are not yet entitled;

3. The Solimar method of estimating value using hedonic regression followed by the developer's residual value analysis is also improper;

4. The Solimar hedonic study relies on data from home sales that were not actually field inspected to assure reliability and consistency, thus making suspect the relevance of the data and the model's outputs;

5. The statistical analysis leads to conclusions that are appear to contradict normal market expectations and acts to bring into question the methodology. For example:

    a. Location on the seward side of the highway was negatively associated with price;

    b. An increase in the number of bedrooms within a residence leads to a decrease in the value or price of that residence;

6. The Solimar study assumes the achievable price of homes to be acquired in the future will continue to rise at an annual rate of 8.9%. This rate of appreciation is uncertain and results in future values that may be much greater than what the future will actually bring;

7. There is no allowance in the study to account for the period of time it would take to achieve sale of all the lots (i.e. absorption time) under the various development scenarios and the subsequent capital return requirements during that time period;

8. The Solimar study under-estimates the land costs at $22,000 per acre. It does not take into account the actual land costs incurred by the developer and/or recent appraisals of similar properties that show land to valued at $57,732 per acre;

9. The Solimar study under-estimates the direct cost of unit construction as it assumes $250 per square foot. Homes selling for over $10 million are likely to cost closer to $437 per square foot.

The following discussion is a point-by-point response to the comments above.

Response to #1: Solimar, at the County's guidance, used the MOU and ALT 1 projects as the basis for its 2006 TDR feasibility report – this was the task we were charged with. The County and other involved parties, however, agree that the "Grid" development (i.e. the lots as they are shown on the Official Naples Townsite map) should be the basis of TDR feasibility according to Policy 2-13.

As a result, this current work effort estimates values of the Grid development and translates the information into its affects on TDR feasibility as described in Section 6. We identify Grid lot values using the same method applied for the updated 2007 MOU and ALT 1 scenarios. We make reasonable assumptions to identify a likely Grid development scenario using the County's determination of the buildable Grid lots, their location, and the subsequent house sizes.

Response to #2: It is true the extent of entitlement is uncertain for all development scenarios. But, it is also beyond Solimar's purview to speculate on which lots are likely to be denied or approved by the County and Coastal Commission. Furthermore, we had to have something to value for sake of the feasibility analysis. Thus, we felt a reasonable approach is to assume full entitlement and simply reduce the size of each house by 30% and show a range in value for a 70% and a 100% of project approval.

Response to #3: A principal strength of the hedonic method is that it is not a study of strict "comparables." Rather it models the value of property as a function of time period and characteristics in a way that controls for quality change. It is an objective analysis in that it does not rely on subjective assessments about quality or what constitutes a "comparable" property. (Case)[6]

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[6] Case, Bradford and Susan Wachter. "Residential Real Estate Prices as Financial Soundness Indicators: Methodological Issues." Real Estate Indicators and Financial Stability. Ed. Paul Van den Bergh, and Robert Edwards. Washington, D.C.: Bank for International Settlements, 2005. 384. Vol. 21.

The hedonic regression method is the standard way to analyze real estate prices and to estimate the incremental value added by assorted property attributes (Malpezzi)[7] because it allows analysis based on very large numbers of properties. (Case)[8] Among those giving tacit approval to its use is the National Association of Realtors, which has commissioned studies which employ this technique. (Sirmans)[9]

The use of the developer's residual land value approach stems from the basic premise that the TDR program would be voluntary for the owner(s) of the lots on the Santa Barbara Ranch. Therefore, TDR must incentivize him/her to choose the option to sell and transfer development rights rather than exercise them on the property through development.

Therefore, to determine the owner's willingness to sell development rights it is necessary to evaluate the developer's residual land value after all costs and profit expectations are met – that is, we assume the TDR mechanism would need to compensate the developer with a more or less equivalent amount of money than could be realized through development of the property.

It could be argued that the developer may be willing to sell his/her development rights for *less than* the full residual land value and profit expectations after sales - simply to avoid the "hassle" and inherent risk of development since there is uncertainty in the both the approval process and whether or not homes will sell in the future. This will depend on the preferences of the seller, as it could also be argued that the TDR option would need to provide the seller *more* compensation in order to catalyze participation.

As a final note to comment # 3, it was never intended that Solimar's study would determine precise purchase values for any currently existing parcels, for any that might be created in the future, or even for any eventual transferred development rights. The purpose of this study is to simply assess the financial feasibility of a transferable development rights program - the methods used in this study are appropriate to that purpose.

Response to #4: The comments regarding the lack of field inspection for comparable quality and range of sales prices included in the data set indicate a basic misunderstanding of the hedonic regression method (see response to # 4 above). The data was obtained from DataQuick - a reputable source for real estate sales data.

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[7] Malpezzi, Stephen. "Hedonic Pricing Models: A Selective and Applied Review." Housing Economics: Essays in Honor of Duncan Maclennan. University of Wisconsin: Center for Urban Land Economics Research, 2002.
[8] Case, Bradford and Susan Wachter. "Residential Real Estate Prices as Financial Soundness Indicators: Methodological Issues." Real Estate Indicators and Financial Stability. Ed. Paul Van den Bergh, and Robert Edwards. Washington, D.C.: Bank for International Settlements, 2005. 384. Vol. 21.
[9] Sirmans, G. Stacy, and David A. Mcpherson. The Value of Housing Characteristics. Washington D.C.: National Association of Realtors, 2003.

The quality of data provided by DataQuick varied by county since some county assessor's offices provide DataQuick with more complete information (i.e. house size, # beds and baths, etc.) than others. Where incomplete, we augmented the data with parcel information direct from the Assessor's office; this occurred predominantly for certain sales data in San Luis Obispo County.

Response to #5: Expectations are often based on anecdotal or limited evidence and are frequently confounded when empirical data are analyzed. In the case of this study, the properties examined are all in the coastal area and preferences of buyers appear to be different here than they may be for homes in areas further inland. There are several explanations for this: The data may reveal a shift in the preferences of consumers that mirrors the demographic transition from a population of the 1960s in which families with children accounted for 48 percent of households to a 21st Century population in which 72 percent of households will be without children (Nelson).[10] On a more local level, many homes in the study area are purchased as second homes not for full-time occupancy. Even among full-time residents, many buyers in this market are older, more affluent and have different space needs and preferences than the average home buyer.

The negative correlation between number of bedrooms and housing price has also been found in other studies and is not remarkable. In this particular case, it may reflect the tastes of the predominant buying groups. It is widely recognized that the number of bedrooms is not as important to older buyers, as they often have no children residing with them. While a master bedroom and one or two guest rooms might be desirable, additional bedrooms detract from the square footage that can be devoted to other types of living space which are more functional on a daily basis (Angelucci; Stangenes; Testa; Wylde).[11] Since many vacation home owners indicate intentions to retire to them (Kirk)[12], the number of bedrooms may be less important than it is among people purchasing their primary residence.

The negative correlation between seaward side location and price, as noted in the 2006 report, is small and statistically insignificant. Even so, there are several potential explanations for the negative sign. The seaward side has several clear disamenties. First, many of these parcels have close proximity to the freeway. Second, seaward side parcels might be negatively impacted by the railway traffic, as the the railroad tracks are on the seaward side of the highway. Third, some seaward side locations may have limited views which make them less attractive than comparable beachside or hillside locations – that is,

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[10] Nelson, Arthur C. "Leadership in a New Era." Journal of the American Planning Association 72.4 (2006): 393-407.

[11] Stangenes, Sharon. "Amenity Filled Giant Home Has Boomer Attitude." Chicago Tribune Online January 14, 2006 2006.

Angelucci, Steve. "Community Living: New Construction Geared toward Active Adults." Atlantic City Weekly Online October 20, 2005 2005.

Testa, Bridget Mintz. "What Boomers Want." Big Builder Online 2006.

Wylde, Margaret. Boomers on the Horizon: Housing Preferences of the 55+ Market. Washington, D.C.: BuilderBooks, 2001.

[12] Kirk, Patricia L. "Second Home Lifestyles." Urban Land (2005).

parcels situated on the inland side at higher elevations which afford ocean views may command higher prices than viewless seward properties. All these disamenities might outweigh the attractive aspects of the particular locations.

Response to #6: The sales data used to derive the regression was generated come from house sales between the period January 1, 2000 and March 31, 2005. Since the sales spanned several years, prices were converted to current dollars (2005) using quarterly home price appreciation figures based on data for California published by the FDIC.[13]

In addition we needed to predict the selling price of homes not in 2005, but rather when they would likely be approved for development. In addition, we strive to create an accurate picture as to what development rights would be worth in the future rather than their value in the present. We do this because we base our assessment of TDR feasibility on an up-front purchase of development rights from the Santa Barbara Ranch.

We assume it would take 3-4 years to both capitalize the Bank as well as maneuver through the development review process to create legal entitlements. Thus we strive to estimate value at the time when the TDR Bank would purchase the development rights from the owner of the Santa Barbara Ranch property. For this reason, we inflate the home values that resulted from the regression analysis for 2 or 4 years.

We acknowledge that predicting the future in real estate values is uncertain, but our goal is to paint as an accurate picture as we can about what the future value of development rights could be worth. It is possible that the future values could be worth less or it is possible that they could be worth more.

In so doing, we assumed that it would take 2 years for inland development to be approved by the County, and 4 years for the Coastal Commission to approve developments in the Coastal Zone.

Based on these assumptions we inflated the 2005 results from the hedonic model using 8.9% annual rates of appreciation to 2007 and 2009 followed by discounting back to 2005 dollars using a forecasted percent annual change in the CPI (range of 1.9 – 3.2% depending on the year).

Between 1996 and 2006 the median home price change in Santa Barbara County was 14.06%. The years 2002-2005 saw high rates in annual growth, but a sharp reversal occurred in 2006. We error on the side of being conservative with the use of the 8.9% appreciation rate rather than the 14.06% because it can be argued that the last ten years are uncharacteristic of the next ten years. As a point of comparison, realtors in the Montecito and Hope Ranch areas report 53.3% and 50.0% as a five year return on homes purchased.[14]

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[13] http://www.fdic.gov/bank/analytical/stateprofile/SanFrancisco/Ca/CA.xml.html
[14] Wendy Gragg: http://www.distinctiverealestateonline.com/market_conditions.htm

With this evidence we feel the 8.9 % rate of appreciation is appropriate and should not be changed in the updated analysis.

The only change we make in regards to appreciation in the analyses of all three development scenarios is appreciating to 2009 for inland properties and 2011 for Coastal Zone properties followed by discounting back to the year 2007. This makes current all the values for an updated 2007 TDR feasibility Analysis.

Response to #7: The residual land analysis *does* account for an absorption period and subsequent capital return requirements. It is captured in the pro-forma cost line "debt financing." In the 2006 study we assumed that the developer would pay 8% debt financing costs for 75% of the total project debt using a linear draw for 3 years. This time period assumes a 2 year construction period and 1 year of absorption.

In 2006 there was annual demand for approximately 14 luxury homes selling for over $10 million in Coastal Santa Barbara.[15] We cannot expect all 14 would go to the Santa Barbara Ranch (SBR). If we assume the SBR captures 25% of the luxury home sales per year that would be roughly 4 sales per year. But, if there is pent-up demand for let's say 20 total sales per year and SBR captures these additional 6, then it would equate to 10 luxury home sales per year from the SBR. Homes under $10 million are expected to move off the market faster.

The MOU and ALT 1 proposals have 54 and 73 homes respectively (but not all are priced over $10 million; the Grid alternative has 125 homes with none priced over $10 million). If 30 homes were priced over $10 million then this would equate to an absorption time of 3 years for these higher-priced homes. However, it must be assumed that the projects would be built in phases – not all at once – a situation we do not model in our valuation analysis.

Because of this evidence we adjust the absorption period in the model from 1 year to 2 years for homes valued under $10 million and from 1 year to 3 years for homes over $10 million. In total then, accounting for a 2 year construction period, the debt financing period changes from 3 years to between 4-5 years depending on whether the home is valued under or over $10 million.

Response to #8: We used $22,000 per acre as the cost to the developer for acquiring the land in the residual land analysis. This was based on comparable sales of coastal agricultural land in Santa Barbara County. However, after talking to real estate professionals and using, as a reference the Hammock appraisal of the Preserve at San Marcos, we adjust the land costs to be more accurate. The updated valuation numbers reflect land costs of $60,000 per acre.

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[15] http://realtytimes.com/rtmcrccond/California~Santa_Barbara~Wendygragg
Santa Barbara County Economic Outlook 2007; UCSB Economic Forecast Project, Goldberg, Gary.

Response to #9: In the developer's residual land analysis we model $250 per square foot as the direct building construction costs. These costs do not include any site development for sewer, water, and roads – the costs reflect simply the labor and material costs of the building itself. The $250 figure was assumed to reflect high-end luxury homes.

However, we agree with the public comments that we underestimated these costs for the very high-end luxury homes. To correct for this we adjust the construction costs and assume a sliding scale, with higher priced homes incurring greater per square foot costs. Specifically: homes priced between $2 - $4 million have $250/sf costs; homes between $5 - $9 million have $350/sf costs; homes between $10 - $14 million have $400/sf costs; homes between $15 - $20 million have $450/sf costs; and homes above $20 million have $500/sf costs of construction.

2.2 Independent Appraiser Review

As mentioned above, the County contracted with Schott & Company as an independent appraiser to review Solimar's methodology and valuation results. The four main points that resulted from this review and our responses are shown below:

1. The values of ocean-front bluff-top homes in the Grid scenario versus the MOU/ALT 1 scenario is too disparate. Ocean front Grid lot values do not reflect the ocean frontage amenity. Subsequently, future homes on Grid lots that are ocean front seem to be undervalued. Alternatively, ocean front MOU/ALT 1 homes seem higher than expected. The valuation of homes and development rights in each of the scenarios that are inland of the ocean front properties are reasonable.

Response:
The regression analysis does not take directly into account the amenity of ocean frontage. We were not able to ascertain this information from the data. Therefore, as previously stated, the model does not include a "dummy variable" for ocean frontage; we use distance to ocean as a best proxy.

For this reason there was little difference in value between ocean-front grid lot homes and homes on those grid lots just inland of them. To more accurately reflect the premium placed for ocean front homes we look to January 2005 comparable sales of two equally-sized houses, both on Beach Club road in Carpinteria.[16] The ocean-front house sold for 2.5 times that of the inland house.

Therefore, to account for the premium that would be paid for the ocean frontage amenity, we identify which Grid lots these are and simply multiply the values originally generated by a factor of 2.5. This resulted in the average ocean-front grid lot home worth $12 to $13.5 million rather than $4-$5 million that resulted from the regression analysis. Table 2.2 below shows the results of this calculation.

[16] This comparable was provided to us by Schott & Company.

Table 2.2 Ocean front Improved Grid lot values

OCEAN FRONT GRID LOT ADJUSTED VALUES				
Official Naples Lot #	Total Value - 100% project (inflation adjusted to 2007)	Adjusted to Reflect Ocean Front Values (2.56 x 2007 values)	Total Value - 70% project (inflation adjusted to 2007)	Adjusted to Reflect Ocean Front Values (2.56 x 2007 values)
12	$ 7,053,311	$ 18,056,475	$ 6,264,625	$ 16,037,441
35	$ 6,040,753	$ 15,464,327	$ 5,333,665	$ 13,654,181
36	$ 4,776,338	$ 12,227,427	$ 4,177,549	$ 10,694,525
38	$ 6,954,896	$ 17,804,535	$ 6,185,049	$ 15,833,726
63A	$ 3,932,861	$ 10,068,123	$ 3,490,097	$ 8,934,649
63B	$ 4,111,442	$ 10,525,293	$ 3,595,963	$ 9,205,666
66	$ 3,897,456	$ 9,977,487	$ 3,458,673	$ 8,854,203
91	$ 4,956,177	$ 12,687,814	$ 4,428,269	$ 11,336,367
94	$ 5,367,062	$ 13,739,679	$ 4,801,414	$ 12,291,620
93	$ 6,500,756	$ 16,641,935	$ 5,721,779	$ 14,647,754
119A	$ 4,774,496	$ 12,222,710	$ 4,202,361	$ 10,758,045
119B	$ 4,798,199	$ 12,283,388	$ 4,223,224	$ 10,811,453
122	$ 5,628,069	$ 14,407,856	$ 4,870,911	$ 12,469,531
Average	$ 5,291,678	$ 13,546,696	$ 4,673,352	$ 11,963,782

[shaded] Denotes lots with uncertain development potential (defines lower-end of development range)

We estimate the average value of the nine ocean-front homes in the MOU/ALT 1 scenarios to be $25 million for the 100% project. We looked at comparable sales of ocean-front properties along the South Coast of Santa Barbara. In so doing, the values ranged dramatically from $2 million up to $33 million. This afforded no empirically sound means by which to reduce the values below the $25 million average that resulted from the regression analysis. However, it should be stressed that the average value of homes for the 70% MOU/ALT 1 projects is $20 million (see chart 4.2) – and, importantly, it is the 70% valuation results that we use as the basis to determine the extent of TDR feasibility.

2. While the individual development right values associated with the various lots seem reasonable, the total value of development rights (as a sum of the individual lots) for each of the three scenarios is overstated. The methodology does not take into account the phasing of the project and its inherent financial risks. A full discounted cash flow analysis that discounts future profits to present values would provide this.

Response:
It is likely that the owner of the SBR may be willing to sell development rights for less than the totals we report in order to avoid the financial risk and uncertainty of development/sale of his product, but only if the development rights came from large portions of the property. However, if the owner were to sell-off, in a piecemeal fashion, the individual development rights of various lots, his financial risk to develop the project(s) would not be significantly minimized and he would command a higher price – that is, a price closer to the individual development rights we report.

If development rights are transferred from the Santa Barbara Ranch, it is likely they will be on an individual lot-by-lot basis (not the entire property) since a partial transfer is more likely than complete transfer. Therefore, our approach which places more accuracy on individual lot valuations rather than the value of the whole development project, is reasonable.

3. The underlying or base land value of each lot is not properly accounted for. This results in widely varied development right values from one parcel to the next. Rather than using an average of $60,000 per acre as a land cost for each lot, the total base land value (i.e. $60,000/ac x 480 acres = $28.7 million) should be distributed to the various lots based on their relative appeal – that is, their percentage of the project's total value.

Response:
We incorporated this into the analysis for all three development scenarios. As expected it resulted in higher land costs for the more valuable ocean-front lots which in turn reduced the values of the development rights tied to these lots. We used $28.7 million as the land basis for the 480 acres of the Grid and MOU scenarios; but for the ALT 1 scenario we included the option property at $60,000 per acre. Thus the total land costs for the 618 acre ALT 1 project was assumed to be a total of $37 million and was distributed across the proposed lots based on their relative value. We did not include the proposed Dos Pueblos lots in this calculation.

4. Since the selling prices of finished homes that resulted from the regression analysis were inflated over time in all three scenarios, construction costs should also be increased annually. The annual increase in direct construction costs (i.e. labor and materials) has exceeded inflation by a factor of two. Thus construction costs should be inflated 6% annually to better estimate future costs at time of construction.

Response:
We also incorporated this increase in construction costs assumption into our valuation analysis. Table 2.3 below illustrates the numbers we use depending on the estimated value of the house and when it would be built/sold (i.e. 2009 for inland and 2011 for coastal zone).[17]

Table 2.3 Inflated Construction Costs

	Inflated Construction Cost (per sf)				
value of improved lot with house	2-4 million	5-9 million	10-14 million	15-20 million	20+ million
2007	250	350	400	450	500
2008	265	371	424	477	530
2009	281	393	449	506	562
2010	298	417	476	536	596
2011	316	442	505	568	631

[17] In several cases where values straddled a cost break we did not inflate so as to avoid negative development right values.

3. Naples Grid Lot Valuation

As a component of the work to update the 2006 TDR Feasibility Analysis we estimate the value of the development rights associated with the "Grid" alternative – that is, the 219 existing legal lots the County recognizes on the official Naples townsite map. It is these values that we use in our revised assessment of TDR feasibility in Section 6 of this report.

To accomplish this we need to identify a reasonable development scenario of the Naples lots. As a first step, the County identified which of the 219 Grid lots were indeed buildable. In so doing the County identified 115 to 125 lots as potentially buildable. Ten of the Grid lots it is uncertain whether or not they would be considered developable at this point. The map in Appendix A shows which Grid lots the County considers potentially developable.

These 125 buildbable lots ranged in size from 0.95 acres to 33 acres; the majority however were 3.8 acre lots with an average lot size of 3.32 acres. We assumed that a certain amount of each lot would used for roads and common subdivision space. Typical of larger-lot subdivisions of this kind we assume 10% of the gross acreage would be used for roads and 10% used for common subdivision space – this equates to a 20% overall reduction in the size of each of the 125 buildable Grid lots. The resulting average lots size was 2.66 acres.

Next, the likely house size and subsequent number of bedrooms and bathrooms of houses likely to be built on these lots was determined. The County identified houses as proposed in the MOU project with lot sizes similar to the Grid lots to model in the analysis. It was assumed smaller lots would have smaller houses and larger lots would have larger houses. This resulted in average house sizes of 5,229 square feet (with 5 bedrooms and 4 bathrooms) for the 100% project approval scenario; and 3,660 square feet (with 4 bedrooms and 3 bathrooms) for the 70% project approval scenario.

Finally, we calculated distances to Highway 101, the ocean, the railroad, airport and urban areas just as we had done in the MOU and ALT 1 valuation analyses and applied the hedonic regression to each of the 125 lots with their unique set of attributes.

The results (shown in Table 3.1 on the following page) represent the expected selling prices of homes on these lots as output by the model in 2005. These were then inflated by 8.9% annually to reflect their value in 2007. The 2007 average Grid lot home selling price is $5.025 million and $4.433 million for the 100% and 70% project approval respectively. A house on lot #12 priced at $18 million is the highest priced home. The total potential 2007 value of the 125 homes ranged from $628 million (100% project) to $554 million (70% project).

To determine the value of the *development rights* associated with the buildable Grid lots, we first inflated the values by an annual 8.9% appreciation rate to 2009 and 2011 for

inland and coastal properties respectively. These values were then fully adjusted by discounting back to 2007 using a 3.2% discount rate to give current dollars. The resulting values were input into the residual land value model and are shown along side the model outputs and development right values in Tables 3.2 (for the 100% project) and Table 3.3 for the 70% project.

We assumed a 25% site development cost rather than the 35% assumed for the MOU and ALT 1 because the denser, smaller-lot Grid development would capture some economy of scale that would act to reduce the site preparation costs that larger lot developments could not.[18] Like we did for the MOU and ALT 1 scenarios, constructions costs are inflated 6% annually.

Grid Lot Value Summary

The average value of the homes under the 100% scenario after full adjustment is $6.031 million and the total value for the 125 potential homes is $753.8 million. However, after backing out all costs and including the developer's expected profit, the value of the development rights under the 100% scenario are much less; they averaged $1.347 million with a total of $168.4 million for all 125 development rights.

The average value of the homes under the 70% scenario after full adjustment is $5.321 million and the total for the 125 potential homes is $665.2 million. Again, after backing out all costs and including the developer's expected profit, the value of the 70% development rights are much less; they averaged $1.638 million with a total of $204.8 million for all 125 development rights.

Interestingly, the model reports higher development right values for the 70% project than the 100% project. This can be explained by the fact that the marginal costs for additional square footage is greater than the marginal revenue the extra square footage generates - when the market price averages $5 - $6 million for these homes. That is, it is more economically beneficial for the developer to build 3,600 square foot houses rather than 5,300 square foot houses when the land costs are $60,000 per acre and construction costs are between $250 - $350 per square foot.

[18] We also used the same revised fixed cost assumptions as indicated in the beginning of Section 4.

Table 3.1 Range of Grid Lot Home Values

		Official Naples Lot #	Approximate Lot Size (ac)	Adjusted Lot Size (ac)	100% House Size* (sf)	Range of Current Grid Lot Market Values Total Value - 100% project (av. 2 methods, in 2005)	Total Value - 100% project (inflation adjusted to 2007)	70% House Size (sf)	Total Value - 70% project (av. 2 methods, in 2005)	Total Value - 70% project (inflation adjusted to 2007)
Coastal Zone Lots	Bluffs South of Rail Road	12	3.8	3.04	6,938	$ 5,936,635	$ 18,056,475	4,857	$ 5,272,814	$ 16,037,441
		13	3.8	3.04	7,160	$ 5,277,007	$ 6,269,607	5,012	$ 4,698,957	$ 5,582,826
		34	3.8	3.04	5,792	$ 4,671,111	$ 5,549,742	4,054	$ 4,134,676	$ 4,912,643
		35	3.8	3.04	6,010	$ 5,084,385	$ 15,464,327	4,207	$ 4,489,243	$ 13,654,181
		36	0.95	0.76	3,990	$ 4,020,152	$ 12,227,427	2,793	$ 3,516,162	$ 10,694,525
		40	3.8	3.04	6,972	$ 4,831,962	$ 5,740,649	4,880	$ 4,257,662	$ 5,058,524
		39	3.8	3.04	6,607	$ 5,178,743	$ 6,152,859	4,625	$ 4,469,438	$ 5,310,135
		38	3.8	3.04	6,104	$ 5,853,802	$ 17,804,535	4,273	$ 5,205,837	$ 15,833,726
		61	3.8	3.04	5,792	$ 4,438,640	$ 5,273,781	4,054	$ 3,929,285	$ 4,668,379
		62	3.8	3.04	6,010	$ 4,777,061	$ 5,675,621	4,207	$ 4,217,904	$ 5,011,288
		63A	0.95	0.76	4,363	$ 3,310,213	$ 10,068,123	3,054	$ 2,937,548	$ 8,934,649
		63B	0.95	0.76	3,990	$ 3,460,522	$ 10,525,293	2,793	$ 3,026,653	$ 9,205,666
		68	0.95	0.76	4,363	$ 2,887,384	$ 3,430,498	3,054	$ 2,562,416	$ 3,044,404
		67	0.95	0.76	3,990	$ 2,975,764	$ 3,535,502	2,793	$ 2,602,571	$ 3,092,112
		66	0.95	0.76	4,363	$ 3,280,413	$ 9,977,487	3,054	$ 2,911,098	$ 8,854,203
		89A	1.9	1.52	4,948	$ 3,500,880	$ 4,159,391	3,464	$ 3,081,344	$ 3,660,942
		89B	1.9	1.52	4,948	$ 3,500,479	$ 4,158,916	3,464	$ 3,080,992	$ 3,660,523
		90	3.8	3.04	4,442	$ 4,077,819	$ 4,844,852	3,109	$ 3,614,589	$ 4,294,489
		91	3.8	3.04	3,919	$ 4,171,519	$ 12,687,814	2,743	$ 3,727,188	$ 11,336,367
		96	3.8	3.04	7,160	$ 4,579,292	$ 5,440,653	5,012	$ 4,077,734	$ 4,844,751
		95	3.8	3.04	6,938	$ 4,751,670	$ 5,645,454	4,857	$ 4,220,357	$ 5,014,202
		94	3.8	3.04	4,944	$ 4,517,353	$ 13,739,679	3,461	$ 4,041,258	$ 12,291,620
		93	3.8	3.04	4,948	$ 5,471,561	$ 16,641,935	3,464	$ 4,815,911	$ 14,647,754
		117	3.8	3.04	7,160	$ 4,615,969	$ 5,484,228	5,012	$ 4,110,395	$ 4,883,556
		118	3.8	3.04	3,467	$ 3,806,849	$ 4,522,913	2,427	$ 3,358,616	$ 3,990,368
		119A	1.9	1.52	4,948	$ 4,018,601	$ 12,222,710	3,464	$ 3,537,046	$ 10,758,045
		119B	1.9	1.52	4,948	$ 4,038,551	$ 12,283,388	3,464	$ 3,554,606	$ 10,811,453
		124	3.8	3.04	5,980	$ 4,461,258	$ 5,300,416	4,186	$ 3,876,656	$ 4,605,851
		123	1.9	1.52	4,948	$ 3,720,764	$ 4,420,636	3,464	$ 3,274,892	$ 3,890,896
		122	3.8	3.04	4,700	$ 4,737,037	$ 14,407,856	3,290	$ 4,099,752	$ 12,469,531
	South 101 / North Railroad	28	0.95	0.76	4,363	$ 2,604,329	$ 3,094,200	3,054	$ 2,311,128	$ 2,745,849
		29	3.8	3.04	5,980	$ 3,995,473	$ 4,747,018	4,186	$ 3,472,163	$ 4,125,274
		45	3.8	3.04	4,442	$ 3,499,549	$ 4,157,811	3,109	$ 3,101,972	$ 3,685,450
		57	1.9	1.52	4,948	$ 3,107,996	$ 3,692,607	3,464	$ 2,735,558	$ 3,250,113
		43A	0.95	0.76	4,363	$ 2,684,056	$ 3,188,924	3,054	$ 2,381,903	$ 2,829,937
		43B	0.95	0.76	3,990	$ 2,639,627	$ 3,136,139	2,793	$ 2,308,613	$ 2,742,861
		43C	0.95	0.76	4,363	$ 2,627,675	$ 3,121,938	3,054	$ 2,331,869	$ 2,770,491
		43D	0.95	0.76	3,990	$ 2,608,691	$ 3,099,383	2,793	$ 2,281,545	$ 2,710,702
		42	3.8	3.04	4,521	$ 3,733,529	$ 4,435,802	3,165	$ 3,305,634	$ 3,927,420
		41	3.8	3.04	6,501	$ 4,360,906	$ 5,181,188	4,551	$ 3,882,151	$ 4,612,379
		60A	0.95	0.76	4,363	$ 2,768,783	$ 3,289,588	3,054	$ 2,457,149	$ 2,919,337
		60B	0.95	0.76	3,990	$ 2,717,144	$ 3,228,236	2,793	$ 2,376,311	$ 2,823,293
		60C	0.95	0.76	4,363	$ 2,758,210	$ 3,277,026	3,054	$ 2,447,767	$ 2,908,189
		60D	0.95	0.76	3,990	$ 2,700,549	$ 3,208,519	2,793	$ 2,361,796	$ 2,806,047
		59	3.8	3.04	5,980	$ 4,094,790	$ 4,865,015	4,186	$ 3,558,339	$ 4,227,659
		58	3.8	3.04	4,700	$ 3,678,551	$ 4,370,483	3,290	$ 3,183,524	$ 3,782,342
		71	3.8	3.04	6,104	$ 3,883,757	$ 4,614,287	4,273	$ 3,453,943	$ 4,103,626
		70A	1.9	1.52	4,948	$ 3,231,647	$ 3,839,517	3,464	$ 2,844,385	$ 3,379,411
		70B	0.95	0.76	3,990	$ 2,575,876	$ 3,060,396	2,793	$ 2,252,815	$ 2,676,568
		70C	0.95	0.76	4,363	$ 2,619,159	$ 3,111,820	3,054	$ 2,324,336	$ 2,761,541
		69A	0.95	0.76	3,990	$ 2,664,314	$ 3,165,469	2,793	$ 2,330,124	$ 2,768,418
		69B	0.95	0.76	4,363	$ 2,762,884	$ 3,282,579	3,054	$ 2,451,931	$ 2,913,137
		86A	0.95	0.76	3,990	$ 2,479,546	$ 2,945,946	2,793	$ 2,168,598	$ 2,576,510
		86B	0.95	0.76	4,363	$ 2,550,870	$ 3,030,686	3,054	$ 2,263,722	$ 2,689,526
		86C	1.9	1.52	4,948	$ 3,097,745	$ 3,680,428	3,464	$ 2,726,532	$ 3,239,390
		87	3.8	3.04	6,501	$ 4,025,043	$ 4,782,149	4,551	$ 3,583,067	$ 4,257,038
		88	3.8	3.04	4,521	$ 3,689,307	$ 4,383,262	3,165	$ 3,266,516	$ 3,880,944
		99	3.8	3.04	5,980	$ 3,907,113	$ 4,642,037	4,186	$ 3,395,290	$ 4,033,940
		98	3.8	3.04	4,700	$ 3,707,061	$ 4,404,355	3,290	$ 3,208,111	$ 3,811,553
		97	3.8	3.04	3,467	$ 3,377,304	$ 4,012,572	2,427	$ 2,979,618	$ 3,540,081
		114	3.8	3.04	4,948	$ 3,623,092	$ 4,304,592	3,464	$ 3,188,926	$ 3,788,760
		115	3.8	3.04	4,944	$ 3,663,299	$ 4,352,362	3,461	$ 3,277,379	$ 3,893,851
		116	3.8	3.04	6,938	$ 4,293,423	$ 5,101,012	4,857	$ 3,813,359	$ 4,530,648
		127A	0.95	0.76	4,363	$ 2,583,732	$ 3,069,730	3,054	$ 2,292,884	$ 2,724,173
		127B	0.95	0.76	3,990	$ 2,551,039	$ 3,030,887	2,793	$ 2,231,118	$ 2,650,789
		126	3.8	3.04	6,010	$ 4,030,284	$ 4,788,377	4,207	$ 3,558,559	$ 4,227,921
		125	3.8	3.04	5,792	$ 4,094,899	$ 4,865,146	4,054	$ 3,624,824	$ 4,306,650
	North 101	47	3.8	3.04	3,919	$ 2,978,854	$ 3,539,173	2,743	$ 2,646,425	$ 3,144,215
		46	3.8	3.04	6,938	$ 3,602,908	$ 4,280,611	4,857	$ 3,197,430	$ 3,798,863
		74	3.8	3.04	6,607	$ 3,575,414	$ 4,247,945	4,625	$ 3,112,631	$ 3,698,114
		73	1.9	1.52	4,948	$ 2,750,874	$ 3,268,311	3,464	$ 2,422,366	$ 2,878,011
		55	11.4	9.12	5,129	$ 4,023,379	$ 4,780,173	3,590	$ 3,567,477	$ 4,238,516
		83	1.9	1.52	4,948	$ 2,719,120	$ 3,230,584	3,464	$ 2,394,410	$ 2,844,796
		84	3.8	3.04	6,972	$ 3,570,578	$ 4,242,200	4,880	$ 3,148,617	$ 3,740,869
		104	3.8	3.04	3,467	$ 2,734,095	$ 3,248,376	2,427	$ 2,415,392	$ 2,869,725
		103	3.8	3.04	6,104	$ 3,339,366	$ 3,967,498	4,273	$ 2,960,465	$ 3,517,326
		102	3.8	3.04	6,010	$ 3,371,646	$ 4,005,850	4,207	$ 2,970,971	$ 3,529,808
		101	3.8	3.04	5,792	$ 3,349,689	$ 3,979,762	4,054	$ 2,955,992	$ 3,512,011
		112	3.8	3.04	3,919	$ 2,927,999	$ 3,478,752	2,743	$ 2,601,318	$ 3,090,623
		111	3.8	3.04	4,442	$ 3,052,491	$ 3,626,661	3,109	$ 2,699,111	$ 3,206,811
		110	3.8	3.04	4,521	$ 3,047,985	$ 3,621,308	3,165	$ 2,693,301	$ 3,199,908
		109	3.8	3.04	6,501	$ 3,422,851	$ 4,066,686	4,551	$ 3,027,682	$ 3,597,186
		108	3.8	3.04	6,972	$ 3,487,840	$ 4,143,899	4,880	$ 3,075,682	$ 3,654,214
		133	3.8	3.04	6,501	$ 3,414,080	$ 4,056,265	4,551	$ 3,019,890	$ 3,587,929
		131	3.8	3.04	6,972	$ 3,574,416	$ 4,246,760	4,880	$ 3,152,017	$ 3,744,908
		130	3.8	3.04	6,607	$ 3,588,132	$ 4,263,056	4,625	$ 3,123,729	$ 3,711,299
		129	3.8	3.04	6,104	$ 3,456,501	$ 4,106,665	4,273	$ 3,064,401	$ 3,640,811
		136	3.8	3.04	3,919	$ 2,866,961	$ 3,406,234	2,743	$ 2,546,910	$ 3,025,981
		137	3.8	3.04	4,948	$ 3,166,199	$ 3,761,758	3,464	$ 2,788,103	$ 3,312,542
		138	3.8	3.04	4,944	$ 3,172,352	$ 3,769,068	3,461	$ 2,816,793	$ 3,346,629
		139	3.8	3.04	6,938	$ 3,606,619	$ 4,285,021	4,857	$ 3,200,731	$ 3,802,786
		140	3.8	3.04	7,160	$ 3,686,000	$ 4,379,333	5,012	$ 3,266,593	$ 3,881,036
		162	3.8	3.04	6,104	$ 3,340,756	$ 3,969,148	4,273	$ 2,961,644	$ 3,518,727
		161	3.8	3.04	6,010	$ 3,375,501	$ 4,010,429	4,207	$ 2,974,331	$ 3,533,799
		160	3.8	3.04	5,792	$ 3,361,607	$ 3,993,922	4,054	$ 2,966,429	$ 3,524,412
		159	3.8	3.04	5,980	$ 3,466,832	$ 4,118,940	4,186	$ 3,030,244	$ 3,600,230
		158	3.8	3.04	4,700	$ 3,224,840	$ 3,831,429	3,290	$ 2,816,644	$ 3,346,452
		157	3.8	3.04	3,467	$ 2,896,473	$ 3,441,296	2,427	$ 2,558,808	$ 3,040,118
		163	3.8	3.04	6,607	$ 3,519,636	$ 4,181,676	4,625	$ 3,064,339	$ 3,640,738
		164	3.8	3.04	6,972	$ 3,572,707	$ 4,244,730	4,880	$ 3,150,517	$ 3,743,126
		166	1.9	1.52	4,948	$ 2,801,427	$ 3,328,372	3,464	$ 2,466,889	$ 2,930,908
		167	3.8	3.04	6,501	$ 3,597,620	$ 4,274,329	4,551	$ 3,182,434	$ 3,781,047
		185	3.8	3.04	4,521	$ 3,065,395	$ 3,641,993	3,165	$ 2,708,660	$ 3,218,157
		186	3.8	3.04	4,442	$ 3,076,422	$ 3,655,094	3,109	$ 2,720,232	$ 3,231,905
		187	3.8	3.04	3,919	$ 2,964,102	$ 3,521,647	2,743	$ 2,633,266	$ 3,128,580
		196	3.8	3.04	4,944	$ 3,168,375	$ 3,764,343	3,461	$ 2,813,154	$ 3,342,305
		195	3.8	3.04	4,948	$ 3,232,094	$ 3,840,048	3,464	$ 2,646,129	$ 3,381,484
		244	3.8	3.04	7,160	$ 3,724,021	$ 4,424,506	5,012	$ 3,300,153	$ 3,920,909
		243	3.8	3.04	6,938	$ 3,735,219	$ 4,437,810	4,857	$ 3,314,858	$ 3,938,380
		193	0.95	0.76	3,990	$ 2,306,800	$ 2,740,706	2,793	$ 2,027,420	$ 2,408,775
		188	33.47	26.776	5,129	$ 5,350,430	$ 6,356,841	3,590	$ 4,744,405	$ 5,636,823
Inland Lots	North 101	26	3.8	3.04	4,700	$ 3,208,263	$ 3,811,734	3,290	$ 2,802,238	$ 3,329,337
		25	3.8	3.04	3,467	$ 2,821,739	$ 3,352,505	2,427	$ 2,492,814	$ 2,961,710
		48	3.8	3.04	4,948	$ 3,213,647	$ 3,818,131	3,464	$ 2,829,881	$ 3,362,179
		49	3.8	3.04	4,944	$ 3,154,248	$ 3,747,558	3,461	$ 2,800,664	$ 3,327,466
		50	3.8	3.04	6,938	$ 3,512,303	$ 4,172,964	4,857	$ 3,116,995	$ 3,703,299
		51	3.8	3.04	7,160	$ 3,529,676	$ 4,193,605	5,012	$ 3,127,847	$ 3,716,192
		52a	1.9	1.52	4,948	$ 2,713,378	$ 3,223,762	3,464	$ 2,389,360	$ 2,838,796
		52b	1.9	1.52	4,948	$ 2,725,961	$ 3,238,712	3,464	$ 2,400,440	$ 2,851,960
		53	3.8	3.04	3,467	$ 2,802,641	$ 3,329,815	2,427	$ 2,475,941	$ 2,941,663
		105	3.8	3.04	6,607	$ 3,426,001	$ 4,070,428	4,625	$ 2,982,787	$ 3,543,847
		107a	2.85	2.28	5,322	$ 2,988,613	$ 3,550,768	3,725	$ 2,598,128	$ 3,086,833
		107b	0.95	0.76	3,990	$ 2,125,021	$ 2,524,736	2,793	$ 1,867,741	$ 2,219,062
		134	3.8	3.04	4,521	$ 2,972,655	$ 3,531,808	3,165	$ 2,626,708	$ 3,120,789
		135	3.8	3.04	4,442	$ 2,967,876	$ 3,526,130	3,109	$ 2,624,237	$ 3,117,854
AVERAGE			3.32	2.66	5,229	3,506,988	5,025,171	3,660	3,093,776	4,433,917
TOTAL		125	415			$ 438,373,476	$ 628,146,321		$ 386,722,035	$ 554,239,645

* Includes 800 sf guest house for certain properties

[shaded] Denotes lots with uncertain development potential (defines lower-end of development range)

[shaded] ocean front lots with values adjusted to reflect ocean front amenity (output x 2.56)

Table 3.2 100% Grid Lot Development Right Values

Zone	Area	Official Naples Lot #	Approximate Lot Size (ac)	Adjusted Lot Size (ac)	100% House Size* (sf)	Total Value (av. 2 methods at 100% project size) (fully adjusted to 2011 and 2009 $ for coastal zone & inland lots respectively)	Development Costs (100% project) (see Appendix ??)	Project Profit (100% project) (15% total value)	Residual land value (100% project) (note: this does not include profit)	*Developer profit (100% project)* (50% project profit)	Entitlement Value (100% project) (sum of residual land value & *developer profit*)
Coastal Zone Lots	Bluffs South of Rail Road	12	3.8	3.04	6,938	$ 21,669,860	$ 10,650,123	$ 3,280,457	$ 7,939,280	$ 1,640,229	$ 9,579,508
		13	3.8	3.04	7,160	$ 7,593,898	$ 6,009,596	$ 1,139,055	$ 445,048	$ 569,527	$ 1,014,575
		34	3.8	3.04	5,792	$ 6,721,803	$ 4,969,456	$ 1,008,271	$ 744,077	$ 504,135	$ 1,248,212
		36	3.8	3.04	6,010	$ 18,730,271	$ 8,617,922	$ 2,809,541	$ 7,302,808	$ 1,404,770	$ 8,707,578
		36	0.95	0.76	3,990	$ 14,809,783	$ 5,764,103	$ 2,221,460	$ 6,824,210	$ 1,110,725	$ 7,934,935
		40	3.8	3.04	6,972	$ 6,953,271	$ 5,776,453	$ 1,042,991	$ 133,827	$ 521,495	$ 655,323
		39	3.8	3.04	6,607	$ 7,452,294	$ 5,625,698	$ 1,117,852	$ 708,746	$ 558,926	$ 1,267,672
		38	3.8	3.04	6,104	$ 21,564,712	$ 9,777,390	$ 3,234,685	$ 8,552,637	$ 1,617,343	$ 10,169,979
		61	3.8	3.04	5,792	$ 6,387,562	$ 4,811,545	$ 958,134	$ 517,882	$ 479,067	$ 996,949
		62	3.8	3.04	6,010	$ 6,874,267	$ 5,137,552	$ 1,031,147	$ 705,568	$ 515,573	$ 1,221,142
		63A	0.95	0.76	4,363	$ 12,194,431	$ 5,606,156	$ 1,829,152	$ 4,759,123	$ 914,576	$ 5,673,699
		63B	0.95	0.76	3,990	$ 12,748,151	$ 5,406,909	$ 1,912,223	$ 5,429,020	$ 956,111	$ 6,385,131
		66	0.95	0.76	4,363	$ 4,154,992	$ 2,958,865	$ 623,249	$ 572,879	$ 311,624	$ 884,503
		67	0.95	0.76	3,990	$ 4,282,172	$ 2,792,954	$ 642,326	$ 846,892	$ 321,163	$ 1,168,055
		68	0.95	0.76	4,363	$ 12,084,654	$ 5,587,138	$ 1,812,698	$ 4,684,820	$ 906,349	$ 5,591,169
		89A	1.9	1.52	4,948	$ 5,037,822	$ 4,129,167	$ 755,673	$ 152,982	$ 377,837	$ 530,819
		89B	1.9	1.52	4,948	$ 5,037,246	$ 4,129,067	$ 755,587	$ 152,593	$ 377,793	$ 530,386
		90	3.8	3.04	4,442	$ 5,868,047	$ 3,944,157	$ 880,207	$ 1,043,683	$ 440,103	$ 1,483,786
		91	3.8	3.04	3,919	$ 15,367,380	$ 6,180,104	$ 2,305,107	$ 6,882,169	$ 1,152,554	$ 8,034,723
		96	3.8	3.04	7,160	$ 6,589,675	$ 5,835,639	$ 988,458	$ (234,422)	$ 494,229	$ 259,807
		95	3.8	3.04	6,938	$ 6,837,730	$ 5,734,337	$ 1,025,666	$ 77,726	$ 512,833	$ 590,559
		94	3.8	3.04	4,944	$ 16,641,391	$ 6,136,998	$ 2,496,209	$ 8,008,186	$ 1,248,104	$ 9,256,291
		93	3.8	3.04	4,948	$ 20,158,581	$ 8,307,013	$ 3,023,487	$ 8,736,081	$ 1,511,744	$ 10,247,824
		117	3.8	3.04	7,160	$ 6,642,454	$ 5,844,784	$ 996,368	$ (198,698)	$ 498,184	$ 299,486
		118	3.8	3.04	3,467	$ 5,478,117	$ 3,242,936	$ 821,723	$ 1,413,457	$ 410,861	$ 1,824,319
		119A	1.9	1.52	4,948	$ 14,804,050	$ 6,521,255	$ 2,220,608	$ 6,062,188	$ 1,110,304	$ 7,172,492
		119B	1.9	1.52	4,948	$ 14,877,643	$ 6,533,988	$ 2,231,631	$ 6,111,924	$ 1,115,816	$ 7,227,740
		124	3.8	3.04	5,980	$ 6,419,822	$ 5,039,318	$ 962,973	$ 417,531	$ 481,487	$ 899,017
		123	1.9	1.52	4,948	$ 5,354,240	$ 4,183,989	$ 803,141	$ 367,109	$ 401,571	$ 768,680
		122	3.8	3.04	4,700	$ 17,450,681	$ 7,233,970	$ 2,617,585	$ 7,599,126	$ 1,308,792	$ 8,907,919
	South 101 / North Railroad	28	0.95	0.76	4,363	$ 3,747,671	$ 2,888,292	$ 562,151	$ 297,228	$ 281,075	$ 578,303
		29	3.8	3.04	5,980	$ 5,749,550	$ 4,923,187	$ 862,438	$ (36,075)	$ 431,219	$ 395,144
		48	3.8	3.04	4,442	$ 5,035,908	$ 3,770,317	$ 755,386	$ 510,204	$ 377,693	$ 887,897
		57	1.9	1.52	4,948	$ 4,472,468	$ 3,324,670	$ 670,868	$ 476,918	$ 335,434	$ 812,352
		43A	0.95	0.76	4,363	$ 3,862,400	$ 2,973,663	$ 579,360	$ 309,356	$ 289,680	$ 599,036
		43B	0.95	0.76	3,990	$ 3,798,466	$ 2,779,846	$ 569,770	$ 448,850	$ 284,885	$ 733,735
		43C	0.95	0.76	4,363	$ 3,781,267	$ 2,966,206	$ 567,194	$ 247,867	$ 283,597	$ 531,464
		43D	0.95	0.76	3,990	$ 3,753,946	$ 2,775,743	$ 563,092	$ 415,112	$ 281,546	$ 696,658
		42	3.8	3.04	4,521	$ 5,372,608	$ 3,852,689	$ 805,891	$ 714,028	$ 402,946	$ 1,116,974
		41	3.8	3.04	6,501	$ 6,275,414	$ 5,222,707	$ 941,312	$ 111,395	$ 470,656	$ 582,051
		60A	0.95	0.76	4,363	$ 3,984,323	$ 2,984,919	$ 597,649	$ 401,756	$ 298,824	$ 700,580
		60B	0.95	0.76	3,990	$ 3,910,014	$ 2,790,126	$ 586,502	$ 533,386	$ 293,251	$ 826,637
		60C	0.95	0.76	4,363	$ 3,969,108	$ 2,983,517	$ 595,366	$ 390,225	$ 297,683	$ 687,908
		60D	0.95	0.76	3,990	$ 3,886,133	$ 2,787,925	$ 582,920	$ 515,288	$ 291,460	$ 806,748
		89	3.8	3.04	5,980	$ 5,892,468	$ 4,848,814	$ 883,870	$ 159,784	$ 441,935	$ 601,719
		58	3.8	3.04	4,700	$ 5,293,495	$ 3,961,732	$ 794,030	$ 537,734	$ 397,015	$ 934,748
		71	3.8	3.04	6,104	$ 5,588,788	$ 4,901,417	$ 838,318	$ (150,947)	$ 419,159	$ 268,212
		70A	1.9	1.52	4,948	$ 4,650,392	$ 3,341,068	$ 697,559	$ 611,766	$ 348,779	$ 960,545
		70B	0.95	0.76	3,990	$ 3,706,727	$ 2,771,392	$ 556,013	$ 379,323	$ 278,006	$ 657,329
		70C	0.95	0.76	4,363	$ 3,769,012	$ 2,965,077	$ 565,356	$ 238,580	$ 282,678	$ 521,257
		69A	0.95	0.76	3,990	$ 3,833,891	$ 2,783,120	$ 575,099	$ 475,772	$ 287,549	$ 763,322
		69B	0.95	0.76	4,363	$ 3,975,834	$ 2,984,137	$ 596,379	$ 395,318	$ 298,190	$ 693,508
		86A	0.95	0.76	3,990	$ 3,568,107	$ 2,758,617	$ 535,220	$ 274,270	$ 267,610	$ 541,880
		86B	0.95	0.76	4,363	$ 3,670,743	$ 2,956,021	$ 550,611	$ 164,111	$ 275,306	$ 439,416
		86C	1.9	1.52	4,948	$ 4,457,705	$ 3,323,311	$ 668,656	$ 465,739	$ 334,328	$ 800,067
		87	3.8	3.04	6,501	$ 5,792,101	$ 5,178,187	$ 868,815	$ (254,881)	$ 434,408	$ 179,526
		88	3.8	3.04	4,521	$ 5,308,973	$ 3,846,824	$ 796,351	$ 665,797	$ 398,178	$ 1,063,973
		99	3.8	3.04	5,980	$ 5,622,399	$ 4,823,926	$ 843,360	$ (44,887)	$ 421,680	$ 376,793
		98	3.8	3.04	4,700	$ 5,334,521	$ 3,965,512	$ 800,178	$ 568,830	$ 400,089	$ 968,919
		97	3.8	3.04	3,467	$ 4,859,995	$ 2,614,144	$ 728,999	$ 1,516,852	$ 364,500	$ 1,881,351
		114	3.8	3.04	4,948	$ 5,213,688	$ 4,115,555	$ 782,053	$ 316,081	$ 391,027	$ 707,107
		115	3.8	3.04	4,944	$ 5,271,548	$ 4,118,287	$ 790,732	$ 362,527	$ 395,366	$ 757,893
		116	3.8	3.04	6,938	$ 6,178,305	$ 5,497,788	$ 926,746	$ (246,209)	$ 463,373	$ 217,164
		127A	0.95	0.76	4,363	$ 3,718,033	$ 2,960,379	$ 557,700	$ 199,945	$ 278,854	$ 478,799
		127B	0.95	0.76	3,990	$ 3,670,986	$ 2,768,098	$ 550,648	$ 352,240	$ 275,324	$ 627,564
		126	3.8	3.04	6,010	$ 5,799,644	$ 4,859,757	$ 869,947	$ 69,940	$ 434,973	$ 504,914
		125	3.8	3.04	5,792	$ 5,892,626	$ 4,726,645	$ 883,900	$ 282,081	$ 441,950	$ 724,031
	North 101	47	3.8	3.04	3,919	$ 4,286,619	$ 2,789,057	$ 642,993	$ 854,569	$ 321,496	$ 1,176,066
		46	3.8	3.04	6,938	$ 5,184,642	$ 5,406,197	$ 777,702	$ (999,257)	$ 388,851	$ (610,406)
		74	3.8	3.04	6,607	$ 5,145,078	$ 5,187,431	$ 771,762	$ (814,115)	$ 385,881	$ (428,234)
		73	1.9	1.52	4,948	$ 3,958,552	$ 3,277,311	$ 593,787	$ 87,454	$ 296,893	$ 384,348
		68	11.4	9.12	5,129	$ 5,789,708	$ 4,377,071	$ 868,450	$ 544,186	$ 434,225	$ 978,411
		83	1.9	1.52	4,948	$ 3,912,858	$ 3,273,100	$ 586,929	$ 52,829	$ 293,464	$ 346,294
		84	3.8	3.04	6,972	$ 5,138,119	$ 5,424,007	$ 770,718	$ (1,056,605)	$ 385,359	$ (671,246)
		104	3.8	3.04	3,467	$ 3,934,407	$ 2,528,847	$ 590,161	$ 815,399	$ 295,081	$ 1,110,480
		103	3.8	3.04	6,104	$ 4,805,402	$ 3,937,832	$ 720,815	$ 146,754	$ 360,408	$ 507,162
		102	3.8	3.04	6,010	$ 4,851,854	$ 3,894,740	$ 727,778	$ 229,327	$ 363,889	$ 593,216
		101	3.8	3.04	5,792	$ 4,820,257	$ 3,781,992	$ 723,043	$ 315,221	$ 361,522	$ 676,743
		112	3.8	3.04	3,919	$ 4,213,437	$ 2,782,313	$ 632,016	$ 799,109	$ 316,008	$ 1,115,117
		111	3.8	3.04	4,442	$ 4,392,584	$ 3,062,349	$ 658,892	$ 671,343	$ 329,446	$ 1,000,789
		110	3.8	3.04	4,521	$ 4,386,099	$ 3,101,557	$ 657,915	$ 626,627	$ 328,957	$ 955,585
		109	3.8	3.04	6,501	$ 4,925,538	$ 4,148,942	$ 738,831	$ 37,765	$ 369,415	$ 407,181
		108	3.8	3.04	6,972	$ 5,019,058	$ 5,413,035	$ 752,859	$ (1,146,836)	$ 376,429	$ (770,406)
		133	3.8	3.04	6,501	$ 4,912,917	$ 4,147,779	$ 736,942	$ 28,195	$ 368,471	$ 396,667
		131	3.8	3.04	6,972	$ 5,143,642	$ 5,424,516	$ 771,552	$ (1,052,425)	$ 385,776	$ (666,649)
		130	3.8	3.04	6,607	$ 5,163,380	$ 5,189,118	$ 774,512	$ (800,250)	$ 387,256	$ (412,994)
		129	3.8	3.04	6,104	$ 4,973,961	$ 3,953,366	$ 746,094	$ 274,501	$ 373,047	$ 647,548
		136	3.8	3.04	3,919	$ 4,125,603	$ 2,774,218	$ 618,840	$ 732,545	$ 309,420	$ 1,041,965
		137	3.8	3.04	4,948	$ 4,556,212	$ 3,332,389	$ 683,436	$ 540,387	$ 341,718	$ 882,105
		138	3.8	3.04	4,944	$ 4,565,066	$ 3,331,189	$ 684,760	$ 549,117	$ 342,380	$ 891,497
		139	3.8	3.04	6,938	$ 5,189,983	$ 5,406,680	$ 778,503	$ (995,209)	$ 389,251	$ (605,958)
		140	3.8	3.04	7,160	$ 5,304,214	$ 5,561,496	$ 795,637	$ (1,052,920)	$ 397,819	$ (655,101)
		162	3.8	3.04	6,104	$ 4,807,401	$ 3,938,017	$ 721,110	$ 148,274	$ 360,555	$ 508,830
		161	3.8	3.04	6,010	$ 4,857,400	$ 3,898,260	$ 728,610	$ 233,530	$ 364,305	$ 597,835
		160	3.8	3.04	5,792	$ 4,837,407	$ 3,783,673	$ 725,611	$ 328,223	$ 362,806	$ 691,029
		159	3.8	3.04	5,980	$ 4,988,828	$ 3,892,256	$ 748,329	$ 348,243	$ 374,165	$ 722,408
		158	3.8	3.04	4,700	$ 4,640,597	$ 3,215,204	$ 696,090	$ 729,303	$ 348,045	$ 1,077,348
		157	3.8	3.04	3,467	$ 4,168,071	$ 2,550,380	$ 625,215	$ 992,476	$ 312,607	$ 1,305,083
		163	3.8	3.04	6,607	$ 5,064,813	$ 5,180,034	$ 759,727	$ (874,948)	$ 379,864	$ (495,085)
		164	3.8	3.04	6,972	$ 5,141,183	$ 5,424,289	$ 771,183	$ (1,054,289)	$ 385,591	$ (668,697)
		166	1.9	1.52	4,948	$ 4,031,298	$ 3,284,015	$ 604,695	$ 142,588	$ 302,347	$ 444,936
		167	3.8	3.04	6,501	$ 5,177,033	$ 5,121,466	$ 776,555	$ (721,008)	$ 388,277	$ (332,730)
		165	3.8	3.04	4,521	$ 4,411,153	$ 3,103,866	$ 661,673	$ 645,614	$ 330,837	$ 976,451
		186	3.8	3.04	4,442	$ 4,427,021	$ 3,065,522	$ 664,053	$ 697,441	$ 332,029	$ 1,029,470
		187	3.8	3.04	3,919	$ 4,265,391	$ 2,787,100	$ 639,809	$ 838,482	$ 319,904	$ 1,158,386
		190	3.8	3.04	4,944	$ 4,559,343	$ 3,330,662	$ 683,901	$ 544,780	$ 341,951	$ 886,730
		195	3.8	3.04	4,948	$ 4,651,036	$ 3,341,127	$ 697,660	$ 612,249	$ 348,830	$ 961,079
		244	3.8	3.04	7,160	$ 5,358,926	$ 5,566,538	$ 803,844	$ (1,011,456)	$ 401,922	$ (609,534)
		243	3.8	3.04	6,938	$ 5,375,041	$ 5,423,743	$ 806,262	$ (854,964)	$ 403,131	$ (451,833)
		193	0.95	0.76	3,990	$ 3,319,522	$ 2,735,709	$ 497,932	$ 85,881	$ 248,966	$ 334,847
		188	33.47	26.776	5,129	$ 7,699,355	$ 4,708,031	$ 1,154,903	$ 1,836,422	$ 577,452	$ 2,413,873
Inland Lots	North 101	26	3.8	3.04	4,700	$ 4,090,041	$ 3,164,467	$ 613,506	$ 312,067	$ 306,753	$ 618,820
		25	3.8	3.04	3,467	$ 3,597,282	$ 2,071,709	$ 539,592	$ 559,911	$ 269,796	$ 829,707
		48	3.8	3.04	4,948	$ 4,096,905	$ 2,907,402	$ 614,540	$ 192,304	$ 307,270	$ 499,574
		49	3.8	3.04	4,944	$ 4,021,179	$ 3,214,335	$ 603,177	$ 136,935	$ 301,588	$ 438,524
		50	3.8	3.04	6,938	$ 4,477,844	$ 3,737,532	$ 671,651	$ (521,667)	$ 335,826	$ (186,041)
		51	3.8	3.04	7,160	$ 4,499,793	$ 4,350,008	$ 674,969	$ (818,937)	$ 337,484	$ (279,453)
		52a	1.9	1.52	4,948	$ 3,459,139	$ 3,401,107	$ 518,871	$ (291,020)	$ 259,435	$ (31,585)
		52b	1.9	1.52	4,948	$ 3,475,180	$ 3,247,329	$ 521,277	$ (278,863)	$ 260,639	$ (18,224)
		53	3.8	3.04	3,467	$ 3,572,935	$ 3,330,521	$ 535,944	$ 541,456	$ 267,972	$ 809,428
		106	3.8	3.04	6,607	$ 4,367,622	$ 3,290,223	$ 655,143	$ (438,459)	$ 327,572	$ (110,887)
		107a	2.85	2.28	5,322	$ 3,810,021	$ 3,593,336	$ 571,503	$ (213,555)	$ 285,752	$ 72,196
		107b	0.95	0.76	3,990	$ 2,709,074	$ 2,351,126	$ 406,361	$ (376,740)	$ 203,181	$ (173,559)
		134	3.8	3.04	4,521	$ 3,789,678	$ 3,780,055	$ 568,451	$ 174,631	$ 284,226	$ 458,857
		135	3.8	3.04	4,442	$ 3,783,584	$ 3,040,501	$ 567,541	$ 209,818	$ 283,771	$ 493,587
AVERAGE			3.32	2.66	6,229	6,031,073	4,230,201	907,380	900,650	452,331	1,347,365
TOTAL		125	415			$ 753,884,111	$ 528,776,184	$ 112,516,177	$ 111,066,177	$ 56,641,359	$ 168,419,353

* Includes 600 sf guest house for certain properties

[shaded] Denotes lots with uncertain development potential (defines lower-end of development range)

[shaded] ocean front lots with values adjusted to reflect ocean front amenity (model output x 2.56)

Table 3.3 70% Grid Lot Development Right Values

Official Naples Lot #	Approximate Lot Size (ac)	Adjusted Lot Size (ac)	100% House Size* (sf)	Total Value (av. 2 methods at 70% project size) (fully adjusted to 2011 and 2009 $ for coastal zone & inland lots respectively)	Development Costs (70% project)	Project Profit (70% project) (15% total value)	Residual land value (70% project) (note: this does not include profit)	*Developer profit (70% project)* (50% project profit)	Entitlement Value (70% project) (sum of residual land value & *developer profit*)
12	3.8	3.04	4,857	$ 19,424,422	$ 8,405,674	$ 2,913,663	$ 8,104,885	$ 1,456,832	$ 9,561,716
13	3.8	3.04	5,012	$ 6,761,875	$ 4,806,177	$ 1,014,281	$ 941,417	$ 507,141	$ 1,448,557
34	3.8	3.04	4,054	$ 5,950,154	$ 3,986,863	$ 892,523	$ 1,070,768	$ 446,262	$ 1,517,029
36	3.8	3.04	4,207	$ 16,537,837	$ 7,127,801	$ 2,480,675	$ 6,929,360	$ 1,240,338	$ 8,169,697
38	0.95	0.76	2,793	$ 12,953,124	$ 4,829,630	$ 1,942,956	$ 6,180,539	$ 971,478	$ 7,152,016
40	3.8	3.04	4,880	$ 6,126,845	$ 4,603,117	$ 919,033	$ 604,695	$ 459,516	$ 1,064,212
39	3.8	3.04	4,825	$ 6,431,594	$ 4,491,897	$ 964,739	$ 974,958	$ 482,370	$ 1,457,328
38	3.8	3.04	4,273	$ 19,177,884	$ 7,781,210	$ 2,876,653	$ 8,519,822	$ 1,438,326	$ 9,958,148
61	3.8	3.04	4,054	$ 5,654,304	$ 3,932,491	$ 848,146	$ 873,668	$ 424,073	$ 1,297,740
62	3.8	3.04	4,207	$ 6,069,632	$ 4,117,613	$ 910,445	$ 1,041,574	$ 455,222	$ 1,496,797
63A	0.95	0.76	3,054	$ 10,821,577	$ 4,644,903	$ 1,623,226	$ 4,553,448	$ 811,613	$ 5,365,061
63B	0.95	0.76	2,793	$ 11,149,830	$ 4,496,241	$ 1,672,474	$ 4,981,114	$ 836,237	$ 5,817,352
68	0.95	0.76	3,054	$ 3,687,358	$ 2,382,084	$ 553,107	$ 752,167	$ 276,554	$ 1,028,720
67	0.95	0.76	2,793	$ 3,745,142	$ 2,255,404	$ 561,775	$ 927,962	$ 280,887	$ 1,208,850
66	0.95	0.76	3,054	$ 10,724,141	$ 4,627,020	$ 1,606,610	$ 4,488,510	$ 804,305	$ 5,292,815
89A	1.9	1.52	3,464	$ 4,434,104	$ 2,890,226	$ 665,116	$ 878,762	$ 332,558	$ 1,211,320
89B	1.9	1.52	3,464	$ 4,433,597	$ 2,890,133	$ 665,044	$ 878,420	$ 332,522	$ 1,210,942
90	3.8	3.04	3,109	$ 5,201,461	$ 3,183,694	$ 780,218	$ 1,237,540	$ 390,109	$ 1,627,649
91	3.8	3.04	2,743	$ 13,730,519	$ 4,979,007	$ 2,059,578	$ 6,691,934	$ 1,029,789	$ 7,721,723
98	3.8	3.04	5,012	$ 5,867,925	$ 4,642,364	$ 880,189	$ 345,372	$ 440,094	$ 785,466
96	3.8	3.04	4,657	$ 6,073,162	$ 4,572,052	$ 910,974	$ 590,136	$ 455,487	$ 1,045,623
94	3.8	3.04	3,461	$ 14,887,513	$ 5,589,016	$ 2,233,112	$ 7,065,386	$ 1,116,556	$ 8,181,942
93	3.8	3.04	3,464	$ 17,741,244	$ 6,734,608	$ 2,661,187	$ 8,345,449	$ 1,330,593	$ 9,676,042
117	3.8	3.04	5,012	$ 5,914,925	$ 4,650,976	$ 887,245	$ 376,704	$ 443,622	$ 820,326
118	3.8	3.04	2,427	$ 4,833,103	$ 2,354,369	$ 724,965	$ 1,753,768	$ 362,483	$ 2,116,251
119A	1.9	1.52	3,464	$ 13,030,059	$ 5,411,112	$ 1,954,509	$ 5,664,439	$ 977,254	$ 6,641,693
119B	1.9	1.52	3,464	$ 13,094,746	$ 5,423,033	$ 1,964,199	$ 5,707,514	$ 982,099	$ 6,689,613
124	3.8	3.04	4,186	$ 5,578,570	$ 4,020,725	$ 836,791	$ 721,053	$ 418,396	$ 1,139,449
123	1.9	1.52	3,464	$ 4,712,622	$ 2,941,556	$ 706,893	$ 1,064,173	$ 353,447	$ 1,417,619
122	3.8	3.04	3,290	$ 15,102,998	$ 6,010,305	$ 2,265,450	$ 6,827,244	$ 1,132,725	$ 7,959,969
28	0.95	0.76	3,054	$ 3,325,750	$ 2,315,724	$ 498,866	$ 511,160	$ 249,433	$ 760,593
29	3.8	3.04	4,186	$ 4,996,499	$ 3,423,684	$ 749,480	$ 823,335	$ 374,740	$ 1,198,075
46	3.8	3.04	3,109	$ 4,463,766	$ 2,655,298	$ 669,573	$ 1,138,917	$ 334,786	$ 1,473,704
57	1.9	1.52	3,464	$ 3,936,511	$ 2,670,036	$ 590,477	$ 675,998	$ 295,238	$ 971,237
43A	0.95	0.76	3,054	$ 3,427,597	$ 2,399,928	$ 514,140	$ 513,529	$ 257,070	$ 770,599
43B	0.95	0.76	2,793	$ 3,322,132	$ 2,247,889	$ 498,320	$ 575,923	$ 249,160	$ 825,083
43C	0.95	0.76	3,054	$ 3,355,596	$ 2,393,293	$ 503,343	$ 458,961	$ 251,671	$ 710,632
43D	0.95	0.76	2,793	$ 3,283,181	$ 2,244,300	$ 492,477	$ 546,404	$ 246,239	$ 792,643
42	3.8	3.04	3,165	$ 4,758,860	$ 2,714,756	$ 713,534	$ 1,328,570	$ 356,767	$ 1,685,337
41	3.8	3.04	4,551	$ 5,586,478	$ 4,136,162	$ 837,977	$ 612,338	$ 418,989	$ 1,031,327
60A	0.95	0.76	3,054	$ 3,535,877	$ 2,409,907	$ 530,382	$ 595,589	$ 265,191	$ 860,780
60B	0.95	0.76	2,793	$ 3,419,550	$ 2,258,667	$ 512,938	$ 649,747	$ 256,468	$ 906,215
60C	0.95	0.76	3,054	$ 3,522,376	$ 2,408,662	$ 528,356	$ 585,357	$ 264,178	$ 849,535
60D	0.95	0.76	2,793	$ 3,398,662	$ 2,254,942	$ 509,803	$ 633,918	$ 254,901	$ 888,819
59	3.8	3.04	4,186	$ 5,120,507	$ 3,347,588	$ 768,071	$ 1,004,868	$ 384,035	$ 1,388,903
58	3.8	3.04	3,290	$ 4,581,143	$ 2,772,089	$ 687,171	$ 1,121,882	$ 343,586	$ 1,465,468
71	3.8	3.04	4,273	$ 4,970,279	$ 3,384,659	$ 745,542	$ 840,074	$ 372,773	$ 1,212,848
70A	1.9	1.52	3,464	$ 4,093,110	$ 2,664,466	$ 613,971	$ 794,676	$ 306,986	$ 1,101,662
70B	0.95	0.76	2,793	$ 3,241,838	$ 2,240,490	$ 486,276	$ 515,072	$ 243,138	$ 758,210
70C	0.95	0.76	3,054	$ 3,344,757	$ 2,392,294	$ 501,714	$ 450,750	$ 250,857	$ 701,606
69A	0.95	0.76	2,793	$ 3,353,088	$ 2,250,742	$ 502,965	$ 599,378	$ 251,483	$ 850,861
69B	0.95	0.76	3,054	$ 3,526,398	$ 2,409,215	$ 528,259	$ 589,895	$ 264,029	$ 854,524
66A	0.95	0.76	2,793	$ 3,120,648	$ 2,229,321	$ 468,100	$ 423,226	$ 234,050	$ 657,277
66B	0.95	0.76	3,054	$ 3,257,532	$ 2,384,256	$ 488,633	$ 384,643	$ 244,317	$ 628,960
66C	1.9	1.52	3,464	$ 3,923,523	$ 2,668,830	$ 588,532	$ 666,151	$ 294,266	$ 960,417
87	3.8	3.04	4,561	$ 5,156,091	$ 3,564,654	$ 773,409	$ 817,628	$ 386,704	$ 1,204,533
88	3.8	3.04	3,166	$ 4,700,569	$ 2,700,566	$ 705,085	$ 1,295,015	$ 352,543	$ 1,638,458
99	3.8	3.04	4,166	$ 4,865,877	$ 3,325,946	$ 732,881	$ 827,049	$ 366,441	$ 1,193,490
98	3.8	3.04	3,290	$ 4,619,523	$ 2,775,349	$ 692,478	$ 1,148,695	$ 346,239	$ 1,494,935
97	3.8	3.04	2,427	$ 4,287,718	$ 2,137,320	$ 643,162	$ 1,507,236	$ 321,581	$ 1,828,817
114	3.8	3.04	3,464	$ 4,586,918	$ 2,674,674	$ 688,037	$ 1,025,904	$ 344,189	$ 1,370,073
115	3.8	3.04	3,461	$ 4,716,202	$ 2,884,761	$ 707,430	$ 1,124,011	$ 353,715	$ 1,477,726
116	3.8	3.04	4,857	$ 5,487,485	$ 4,342,279	$ 823,123	$ 322,083	$ 411,561	$ 733,644
127A	0.95	0.76	3,054	$ 3,299,467	$ 2,388,123	$ 494,928	$ 416,446	$ 247,464	$ 663,910
127B	0.95	0.76	2,793	$ 3,210,815	$ 2,237,612	$ 481,592	$ 491,411	$ 240,796	$ 732,207
126	3.8	3.04	4,207	$ 5,120,824	$ 3,853,412	$ 768,124	$ 501,289	$ 384,062	$ 885,350
125	3.8	3.04	4,054	$ 5,216,180	$ 3,752,826	$ 782,432	$ 680,922	$ 391,216	$ 1,072,138
47	3.8	3.04	2,743	$ 3,808,249	$ 2,265,597	$ 571,241	$ 971,411	$ 285,621	$ 1,257,031
48	3.8	3.04	4,657	$ 4,601,153	$ 3,693,217	$ 690,173	$ 217,764	$ 345,086	$ 562,850
74	3.8	3.04	4,625	$ 4,479,126	$ 3,546,009	$ 671,673	$ 261,244	$ 335,937	$ 597,180
73	1.9	1.52	3,464	$ 3,465,824	$ 2,626,503	$ 522,474	$ 334,447	$ 261,437	$ 595,884
56	11.4	9.12	3,590	$ 5,133,057	$ 3,090,023	$ 770,043	$ 1,273,591	$ 385,022	$ 1,658,613
83	1.9	1.52	3,464	$ 3,445,594	$ 2,624,796	$ 516,839	$ 303,959	$ 258,420	$ 562,379
84	3.8	3.04	4,880	$ 4,530,911	$ 3,700,709	$ 679,637	$ 150,565	$ 339,818	$ 490,383
104	3.8	3.04	2,427	$ 3,476,788	$ 2,062,496	$ 521,372	$ 891,920	$ 260,686	$ 1,152,605
103	3.8	3.04	4,273	$ 4,260,157	$ 3,140,939	$ 639,024	$ 480,195	$ 319,512	$ 799,707
102	3.8	3.04	4,207	$ 4,275,275	$ 3,106,466	$ 641,291	$ 527,518	$ 320,646	$ 848,164
101	3.8	3.04	4,054	$ 4,253,720	$ 3,021,301	$ 638,058	$ 594,362	$ 319,029	$ 913,391
112	3.8	3.04	2,743	$ 3,743,338	$ 2,259,615	$ 561,504	$ 922,219	$ 280,752	$ 1,202,971
111	3.8	3.04	3,109	$ 3,884,064	$ 2,472,137	$ 582,614	$ 829,314	$ 291,307	$ 1,120,621
110	3.8	3.04	3,165	$ 3,875,704	$ 2,501,509	$ 581,356	$ 792,839	$ 290,678	$ 1,083,517
109	3.8	3.04	4,551	$ 4,356,883	$ 3,301,330	$ 653,532	$ 402,021	$ 326,766	$ 728,787
108	3.8	3.04	4,880	$ 4,425,956	$ 3,691,037	$ 663,893	$ 71,025	$ 331,947	$ 402,972
133	3.8	3.04	4,551	$ 4,345,671	$ 3,300,296	$ 651,851	$ 393,524	$ 325,925	$ 719,449
131	3.8	3.04	4,880	$ 4,535,803	$ 3,701,160	$ 680,375	$ 154,268	$ 340,188	$ 494,456
130	3.8	3.04	4,825	$ 4,495,096	$ 3,547,481	$ 674,264	$ 273,351	$ 337,132	$ 610,483
129	3.8	3.04	4,273	$ 4,409,722	$ 3,154,722	$ 661,458	$ 593,542	$ 330,729	$ 924,271
136	3.8	3.04	2,743	$ 3,665,045	$ 2,252,400	$ 549,757	$ 862,888	$ 274,878	$ 1,137,766
137	3.8	3.04	3,464	$ 4,012,125	$ 2,677,005	$ 601,823	$ 733,298	$ 300,911	$ 1,034,209
138	3.8	3.04	3,461	$ 4,053,411	$ 2,679,283	$ 608,016	$ 766,112	$ 304,008	$ 1,070,120
139	3.8	3.04	4,657	$ 4,605,904	$ 3,693,654	$ 690,890	$ 221,359	$ 345,446	$ 566,805
140	3.8	3.04	5,012	$ 4,700,680	$ 3,793,577	$ 705,102	$ 202,001	$ 352,551	$ 554,552
162	3.8	3.04	4,273	$ 4,261,854	$ 3,141,095	$ 639,278	$ 481,481	$ 319,639	$ 801,120
161	3.8	3.04	4,207	$ 4,280,110	$ 3,106,912	$ 642,021	$ 531,178	$ 321,010	$ 852,188
160	3.8	3.04	4,054	$ 4,268,740	$ 3,022,685	$ 640,311	$ 605,744	$ 320,155	$ 925,899
159	3.8	3.04	4,186	$ 4,360,570	$ 3,102,880	$ 654,088	$ 603,605	$ 327,043	$ 930,646
158	3.8	3.04	3,290	$ 4,053,197	$ 2,586,164	$ 607,979	$ 859,053	$ 303,990	$ 1,163,043
157	3.8	3.04	2,427	$ 3,682,188	$ 2,081,515	$ 552,329	$ 1,048,323	$ 276,164	$ 1,324,487
163	3.8	3.04	4,625	$ 4,409,833	$ 3,539,805	$ 661,445	$ 208,583	$ 330,722	$ 539,305
164	3.8	3.04	4,880	$ 4,533,644	$ 3,700,961	$ 680,051	$ 152,632	$ 340,026	$ 492,658
166	1.9	1.52	3,464	$ 3,549,893	$ 2,634,408	$ 532,487	$ 382,998	$ 266,244	$ 649,241
167	3.8	3.04	4,551	$ 4,579,575	$ 3,511,725	$ 686,936	$ 380,913	$ 343,468	$ 724,381
185	3.8	3.04	3,165	$ 3,897,806	$ 2,503,546	$ 584,671	$ 809,589	$ 292,335	$ 1,101,925
186	3.8	3.04	3,109	$ 3,914,458	$ 2,474,938	$ 587,169	$ 852,351	$ 293,584	$ 1,145,936
187	3.8	3.04	2,743	$ 3,789,312	$ 2,263,852	$ 568,397	$ 957,063	$ 284,198	$ 1,241,261
196	3.8	3.04	3,461	$ 4,048,174	$ 2,678,800	$ 607,226	$ 782,147	$ 303,613	$ 1,085,760
195	3.8	3.04	3,464	$ 4,095,626	$ 2,684,700	$ 614,344	$ 796,583	$ 307,172	$ 1,103,755
244	3.8	3.04	5,012	$ 4,748,974	$ 3,798,028	$ 712,346	$ 238,600	$ 356,173	$ 594,773
243	3.8	3.04	4,857	$ 4,770,134	$ 3,708,789	$ 715,520	$ 345,825	$ 357,760	$ 703,585
193	0.95	0.76	2,793	$ 2,917,489	$ 2,210,599	$ 437,623	$ 269,267	$ 218,812	$ 488,078
188	33.47	26.776	3,590	$ 6,827,278	$ 3,820,516	$ 1,024,085	$ 1,982,673	$ 512,042	$ 2,494,715
26	3.8	3.04	3,290	$ 3,572,422	$ 2,541,858	$ 535,867	$ 494,697	$ 267,933	$ 762,630
25	3.8	3.04	2,427	$ 3,177,954	$ 2,035,049	$ 476,696	$ 666,208	$ 238,348	$ 904,556
48	3.8	3.04	3,464	$ 3,807,862	$ 2,839,731	$ 541,153	$ 426,778	$ 270,576	$ 697,354
49	3.8	3.04	3,461	$ 3,570,414	$ 2,634,773	$ 535,562	$ 400,080	$ 267,781	$ 667,861
50	3.8	3.04	4,857	$ 3,973,688	$ 3,432,756	$ 596,053	$ (55,121)	$ 298,027	$ 242,906
51	3.8	3.04	5,012	$ 3,987,523	$ 3,518,736	$ 598,132	$ (129,345)	$ 299,066	$ 169,721
52a	1.9	1.52	3,464	$ 3,046,065	$ 2,587,977	$ 456,913	$ 1,175	$ 228,456	$ 229,632
52b	1.9	1.52	3,464	$ 3,060,191	$ 2,589,279	$ 459,032	$ 11,880	$ 229,516	$ 241,396
53	3.8	3.04	2,427	$ 3,156,443	$ 2,033,067	$ 473,470	$ 649,906	$ 236,735	$ 886,641
105	3.8	3.04	4,825	$ 3,802,594	$ 3,290,694	$ 570,393	$ (58,493)	$ 285,196	$ 226,703
107a	2.85	2.28	3,725	$ 3,312,212	$ 2,755,205	$ 496,835	$ 60,172	$ 248,418	$ 308,589
107b	0.95	0.76	2,793	$ 2,381,082	$ 2,161,167	$ 357,162	$ (137,247)	$ 178,581	$ 41,334
134	3.8	3.04	3,165	$ 3,348,647	$ 2,452,938	$ 502,297	$ 393,412	$ 251,149	$ 644,561
135	3.8	3.04	3,109	$ 3,345,496	$ 2,422,505	$ 501,826	$ 421,165	$ 250,914	$ 672,079
	3.32	2.66	3,660	5,321,563	3,283,066	798,234	1,239,364	399,117	1,638,481
125	415		$	665,194,089 $	410,494,333 $	99,779,217 $	154,920,839 $	49,889,609 $	204,810,147

1 house for certain properties

Is with uncertain development potential (defines lower-end of development range)

[shaded box] ocean front lots with values adjusted to reflect ocean front amenity (model output x 2.58)

4. Updated MOU and ALT 1 Valuation

The changes applied to the valuation analysis in the Updated 2007 TDR Feasibility Study as a result of public comment described in Section 2 are shown below. The results of these changes are reflected in the new numbers for the MOU and ALT 1 projects in the ensuing tables.

- Valuing the Grid Alternative as the baseline (completed in Section 3)
- Appreciate the values from the 2005 regression results to reflect 2009 and 2011 values followed by discounting back to 2007.
- Adjust the absorption time from 1 year to 2 or 3 years for homes values under/over $10 million respectively.
- Adjust land costs from $22,000 per acre to $60,000 per acre to reflect a total land cost for the Santa Barbara Ranch of $28.7 million.
- Added a land basis calculation that distributes total base land value to the various parcels based on their relative appeal (i.e. their value as a percent of the project's total value).
- Adjust construction costs to more accurately capture the cost of luxury home construction according to the following: homes priced between $2 - $4 million have $250/sf costs; homes between $5 - $9 million have $350/sf costs; homes between $10 - $14 million have $400/sf costs; homes between $15 - $20 million have $450/sf costs; and homes above $20 million have $500/sf costs of construction.
- Construction costs were then appreciated 6% annually to the expected time in which the home would be sold (i.e. 2009 or 2011 for inland or costal zone properties).[19]
- The Dos Pueblos home/lot values were corrected in the model to reflect zero land costs and no land carry. It is assumed the owner/developer has held ownership of land and did not incur its cost at $60,000 per acre
- We correct for a site development cost error in the 2006 study. In the previous study it was reported that site development costs were calculated assuming 35% of construction costs, but the model actually calculated based on approximately 50% of construction costs. We correct this to allow site development costs to be 35% of building construction costs as indicated in the report.

Table 4.1 below summarizes the average and total results for the Grid, MOU and ALT 1 valuation analysis. Chart 4.1 shows the reader how the valuation results changed from the 2005 valuation analysis with the adjustments that were made in this 2007 re-valuation. The complete results for each individual lot of the MOU and ALT 1 are shown in Tables 4.2 – 4.5. In short, the MOU total development values decreased from $165 million to

[19] Note: some lots did not have the construction costs inflated so as to avoid negative development right values. These were several lots that straddled a value/cost threshold.

$125 million while the ALT 1 development right values decreased from $199 million to $155 million.

Table 4.1 Grid, MOU, and ALT 1 Summary

	Updated 2007 Data					
	Grid (125 units)		MOU (54 units)		ALT 1 (73 units)	
	100%	70%	100%	70%	100%	70%
Average house size* (sf)	5,229	3,660	6,500	4,550	6,615	4,631
2007 Total Value	$ 628,146,321	$ 554,239,645	$ 456,143,265	$ 383,840,983	$ 574,026,698	$ 499,938,484
2007 average home value	$ 5,025,171	$ 4,433,917	$ 8,447,098	$ 7,108,166	$ 7,863,379	$ 6,848,472
Fully adjusted Total value**	$ 753,884,111	$ 665,194,089		$ 458,562,502		$ 581,123,887
Fully adjusted average home value	$ 6,031,073	$ 5,321,553		$ 8,491,898		$ 7,960,601
2007 Total Development Right value	$ 168,419,353	$ 204,810,147	$ 135,660,229	$ 125,563,237	$ 149,211,920	$ 155,392,675
2007 Average Development Right value	$ 1,347,355	$ 1,638,481	$ 2,512,226	$ 2,242,201	$ 2,043,999	$ 2,071,902
	2005 Data					
2005 Total Value	none	none	$ 381,895,406	$ 325,929,778	$ 484,989,461	$ 416,994,700
Fully adjusted Total value***	none	none		$ 380,157,901		$ 480,874,763
2005 Total Development Right value	none	none	$ 221,307,164	$ 165,726,476	$ 262,928,409	$ 198,941,801

* includes 800 sf guest house
** fully adjusted refers to the appreciation to 2009 and 2011 followed by discounting back to 2007
*** 2005 data adjusted to 2007 and 2009 followed by discounting back to 2005

It is important to point out in this discussion the relative certainty in our estimate of *individual lot* development right values versus the degree of uncertainty in our estimate of the *total* value of all the development rights if they were purchased in-whole and up-front by the Naples TDR Bank.

That is to say, on an individual lot basis the model accurately predicts the compensation needed to transfer development rights; but if the entire project – or large portions of it – were to be transferred, the compensation for development rights would likely be less than the totals we report. Simply put, if the owner of the Santa Barbara Ranch is paid in-whole up-front he is likely to accept less so as to avoid the inherent risk of getting the project approved and sold. We feel this is acceptable since we assume that transferring development is partially feasible and would occur on an individual lot by lot basis. For this reason, it is more important to look at average development right values.

It is most useful to compare the Grid with the MOU scenario since the latter was derived from the official 219 Naples Grid lots (of which 125 are determined to be buildable by the County). In that regards, the following represent the most significant findings that can be derived from Table 4.1:

- The Grid's overall value is greater than the MOU's - $665 million versus $458 million;
- The Grid's average home selling price is less that of the MOU's ($4 - 5 million versus $7 - $8 million);

- The average development right values are about one-third of the average unit selling price for each of the three project scenarios;

- The Grid's average development right value is about half that of the MOU's ($1.3 million vs $2.5 million) – this will affect the "feasibility" of transfer, but could result in development right transfers that create a similar number of lots as is being proposed in the MOU project;

- The Grid's total development right value ranges between $168 and $204 million while that of the MOU ranges between $125 and $ 135 million;

- Finally, the updated total development right values for both the MOU and ALT 1 are less than what we predicted in 2005; this reflects the higher costs we model in the 2007 update

    - These higher costs act to more than offset the homes' extra appreciation through 2009 and 2011 which thereby returns 2007 development right values that are lower than those reported in 2005.

In nearly all cases the model predicts that development can yield a 15% profit and a positive residual land value. In some situations, however, we report a negative residual land value, but when combined with the expected profit the development right value becomes positive. This means that the cost of construction relative to the potential revenues for these lots is close enough that a windfall residual on the land is not captured yet expected profit is still reached to yield a positive development right value.

In a few cases we report a negative development right value. This means that cost of construction exceed the lot's revenue potential and profit expectations cannot be reached. For these lots the developer may actually take a loss. This occurred with lower-valued lots with homes (i.e. less than $5 million) that are larger in size. Subsequently, the per-square foot construction costs acted to tip the pro forma into a negative residual land value.

Table 4.2 Range of MOU Home Values

MOU Range of Current Market Values

Zone	Area	Lot #	Lot size (ac) per project plan	100% House size (sf) per project plan	Total Value - 100% project (av. 2 methods, inflated to 2007 from 2005 values)	70% House size (sf) per project plan	Total Value - 70% project (av. 2 methods, inflated to 2007 from 2005 values)
Coastal Zone Lots	Bluffs	39	11.88	10,564	$ 24,531,857	7,395	$ 22,045,114
		35	10.34	9,069	$ 22,654,871	6,348	$ 20,070,557
		63	13.13	9,707	$ 25,202,644	6,795	$ 21,734,365
		66	14.38	7,461	$ 23,440,167	5,223	$ 15,103,343
		91	15.27	9,909	$ 26,300,784	6,936	$ 21,476,936
		93	15.40	14,119	$ 29,993,843	9,883	$ 22,415,981
		12	8.09	6,274	$ 19,329,809	4,392	$ 17,085,818
		119	15.06	11,084	$ 28,055,936	7,759	$ 23,909,780
		122	14.95	8,400	$ 23,760,151	5,880	$ 21,176,581
	South 101 / North Railroad	42	7.39	5,992	$ 6,583,148	4,194	$ 5,889,008
		41	10.03	7,676	$ 8,712,705	5,373	$ 7,673,420
		43	8.79	5,847	$ 6,572,201	4,093	$ 5,773,070
		70	7.39	6,035	$ 6,579,901	4,225	$ 5,670,529
		69	10.03	5,144	$ 7,407,654	3,601	$ 6,373,197
		71	8.55	8,112	$ 7,223,537	5,678	$ 6,213,902
		97	37.47	12,524	$ 12,575,635	8,767	$ 11,334,924
		57	no plans				
	North 101	104	3.80	3,467	$ 6,047,092	2,427	$ 4,644,253
		109	3.80	5,792	$ 7,163,617	4,054	$ 4,549,180
		185	10.23	8,223	$ 5,906,222	5,756	$ 5,645,839
		164	3.80	3,919	$ 6,425,683	2,743	$ 3,177,712
		186	3.80	4,948	$ 3,952,909	3,464	$ 4,692,978
		195	6.87	4,832	$ 4,483,512	3,382	$ 3,487,549
		187	3.80	4,944	$ 3,947,253	3,461	$ 3,484,320
		160	7.60	6,346	$ 4,959,824	4,442	$ 4,388,696
		136	3.80	6,607	$ 4,454,835	4,625	$ 3,813,038
		133	3.80	6,010	$ 4,034,432	4,207	$ 3,589,223
		188	33.47	5,129	$ 6,492,550	3,590	$ 5,964,762
		137	3.80	8,757	$ 4,783,407	6,130	$ 4,858,572
		193	1.00	4,363	$ 3,050,000	3,054	$ 2,489,000
		132	Existing unit				
		103	33.09	6,017	$ 6,330,953	4,212	$ 5,557,406
		110	12.12	6,292	$ 5,334,825	4,404	$ 4,698,663
		131	11.99	5,887	$ 5,246,083	4,121	$ 4,638,373
		139	8.01	4,737	$ 4,586,320	3,316	$ 4,007,150
		138	3.80	6,972	$ 4,421,025	4,880	$ 3,896,659
		161	3.80	4,521	$ 6,746,173	3,165	$ 3,323,813
		159	3.80	6,501	$ 4,391,045	4,551	$ 3,765,750
		158	7.84	5,115	$ 4,674,033	3,581	$ 4,153,152
		167	11.39	4,442	$ 4,894,361	3,109	$ 4,299,636
		243	7.49	4,403	$ 4,573,071	3,082	$ 4,042,177
		47	8.94	4,800	$ 4,639,318	3,360	$ 4,036,032
Inland Lots		26	6.17	5,847	$ 4,323,232	4,093	$ 3,795,018
		52B	1.90	7,080	$ 3,800,517	4,956	$ 3,301,803
		163	3.80	4,442	$ 3,704,992	3,109	$ 3,296,484
		52A	1.90	6,512	$ 3,760,231	4,558	$ 3,188,804
		48	7.60	6,097	$ 4,838,502	4,268	$ 4,220,232
		51	3.80	7,160	$ 4,368,933	5,012	$ 3,820,201
		49	7.60	5,256	$ 4,593,932	3,679	$ 4,045,371
		50	3.80	6,938	$ 4,402,065	4,857	$ 3,786,278
		105	3.80	4,700	$ 3,754,604	3,290	$ 3,273,575
		108	3.80	5,980	$ 4,139,743	4,186	$ 3,609,313
		107B	0.95	3,990	$ 2,618,732	2,793	$ 2,283,410
		107A	0.79	3,990	$ 2,546,497	2,793	$ 2,189,262
		135	7.60	5,963	$ 4,739,731	4,174	$ 4,270,499
		134	3.80	6,104	$ 4,088,165	4,273	$ 3,610,276
AVERAGE				6,500	$ 8,447,098	4,550	$ 7,108,166
TOTAL			467		$ 456,143,265		$ 383,840,983

Table 4.3 Range of ALT 1 Home Values

ALT 1 Range of Current Market Values

Area	Group	Lot #	Lot size (ac) per project plan	100% House size (sf) per project plan	Total Value - 100% project (av. 2 methods, inflated to 2007 from 2005 values)	70% House size (sf) per project plan	Total Value - 70% project (av. 2 methods, inflated to 2007 from 2005 values)
Coastal Zone Lots	Bluffs	39	11.88	10,564	$ 24,531,857	7,395	$ 22,045,114
		35	10.34	9,069	$ 22,654,871	6,348	$ 20,070,557
		63	13.13	9,707	$ 25,202,644	6,795	$ 21,734,365
		66	14.38	7,461	$ 23,440,167	5,223	$ 15,103,343
		91	15.27	9,909	$ 26,300,784	6,936	$ 21,476,936
		93	15.40	14,119	$ 29,993,843	9,883	$ 22,415,981
		12	8.09	6,274	$ 19,329,809	4,392	$ 17,085,818
		119	15.06	11,084	$ 28,055,936	7,759	$ 23,909,780
		122	14.95	8,400	$ 23,760,151	5,880	$ 21,176,581
	South 101 / North Railroad	42	7.39	5,992	$ 6,583,148	4,194	$ 5,889,008
		41	10.03	7,676	$ 8,712,705	5,373	$ 7,673,420
		43	8.79	5,847	$ 6,572,201	4,093	$ 5,773,070
		70	7.39	6,035	$ 6,579,901	4,225	$ 5,670,529
		69	10.03	5,144	$ 7,407,654	3,601	$ 6,373,197
		71	8.55	8,112	$ 7,223,537	5,678	$ 6,213,902
		97	37.47	12,524	$ 12,575,635	8,767	$ 11,334,924
		57	no plans				
		DP-13	40.55	6,104	$ 7,527,013	4,273	$ 7,998,953
		DP-14	Existing unit		$ -		$ -
		DP-15	25.36	3,990	$ 5,701,142	2,793	$ 5,942,831
		DP-16	41.27	5,852	$ 8,662,172	4,096	$ 9,386,504
		DP-17	31.68	6,035	$ 7,296,475	4,225	$ 7,605,981
	North 101	104	3.80	3,467	$ 6,047,092	2,427	$ 4,644,253
		109	3.80	5,792	$ 7,163,617	4,054	$ 4,549,180
		185	10.23	8,223	$ 5,906,222	5,756	$ 5,645,839
		164	7.60	3,919	$ 4,158,633	2,743	$ 3,676,606
		186	3.80	4,948	$ 3,952,909	3,464	$ 4,692,978
		195	6.87	4,832	$ 4,483,512	3,382	$ 3,487,549
		187	3.80	4,944	$ 3,947,253	3,461	$ 3,484,320
		160	3.80	6,346	$ 4,311,619	4,442	$ 3,818,314
		136	7.60	6,607	$ 4,798,322	4,625	$ 4,181,905
		133	3.80	6,010	$ 4,034,432	4,207	$ 3,589,223
		188	129.23	5,129	$ 8,891,339	3,590	$ 7,848,006
		137	3.80	8,757	$ 4,783,407	6,130	$ 4,858,572
		193	8.44	4,363	$ 4,605,722	3,054	$ 4,015,404
		132	Existing unit				
Inland Lots	SBR Lots	52A	3.80	6,512	$ 4,238,717	4,558	$ 3,719,580
		48	22.64	6,097	$ 6,087,538	4,268	$ 5,375,742
		51	10.03	7,160	$ 5,301,183	5,012	$ 4,730,813
		49	7.39	5,256	$ 4,538,378	3,679	$ 4,021,313
		50	8.79	6,938	$ 5,228,304	4,857	$ 4,629,882
		105	3.80	4,700	$ 3,754,604	3,290	$ 3,273,575
		108	3.80	5,980	$ 4,139,743	4,186	$ 3,609,313
		107B	0.95	3,990	$ 2,618,732	2,793	$ 2,283,410
		107A	3.0	3,990	$ 5,176,531	2,793	$ 4,522,054
		135	7.60	5,963	$ 4,739,731	4,174	$ 4,270,499
		134	3.80	6,104	$ 4,088,165	4,273	$ 3,610,276
	Option Property Lots	201	6.97	5,102	$ 4,325,123	3,571	$ 3,779,607
		202	9.6	6,512	$ 5,085,912	4,558	$ 4,458,933
		203	6.28	8,757	$ 5,107,072	6,130	$ 4,473,534
		204	5.82	7,160	$ 4,616,741	5,012	$ 4,119,931
		205	3.18	4,521	$ 3,449,204	3,165	$ 3,007,607
		206	3.11	4,700	$ 3,551,493	3,290	$ 3,089,230
		207	3.29	5,963	$ 3,850,820	4,174	$ 3,412,351
		208	4.71	6,104	$ 4,255,289	4,273	$ 3,745,668
		209	13.79	6,607	$ 5,720,247	4,625	$ 4,957,854
		210	19.77	6,346	$ 5,930,356	4,442	$ 5,234,819
		211	7.76	3,990	$ 4,136,021	2,793	$ 3,597,533
		212	10.2	4,832	$ 4,541,092	3,382	$ 4,001,527
		213	4.02	7,080	$ 4,290,416	4,956	$ 3,782,911
		214	18.1	6,607	$ 5,951,284	4,625	$ 5,188,789
		215	4.12	5,847	$ 4,056,314	4,093	$ 3,586,621
		216	4.67	4,800	$ 3,853,439	3,360	$ 3,401,563
	Dos Pueblos Lots	DP-1	12.77	6,501	$ 5,158,799	4,551	$ 4,592,818
		DP-2	11.09	8,400	$ 5,425,360	5,880	$ 4,881,865
		DP-3	10.38	7,160	$ 5,020,610	5,012	$ 4,480,298
		DP-4	20.76	6,292	$ 5,710,782	4,404	$ 5,030,123
		DP-5	17.83	7,461	$ 5,963,992	5,223	$ 5,200,131
		DP-6	10.16	6,017	$ 4,915,059	4,212	$ 4,352,792
		DP-7	10.02	5,963	$ 4,822,946	4,174	$ 4,287,813
		DP-8	10.01	8,223	$ 5,397,810	5,756	$ 4,809,607
		DP-9	10.03	6,104	$ 4,759,170	4,273	$ 4,202,945
		DP-10	10.04	6,972	$ 4,999,234	4,880	$ 4,421,595
		DP-11	2,304.60	8,223	$ 17,250,151	5,756	$ 15,371,814
		DP-12	20.63	8,112	$ 6,774,610	5,678	$ 7,048,805
AVERAGE				6,615	$ 7,863,379	4,631	$ 6,848,472
TOTAL			3193		$ 574,026,698		$ 499,938,484

Table 4.4 MOU Development Right Values

Area	Lot #	Lot size (ac) per project plan	70% House size* (sf)	Total Value (av. 2 methods at 70% project size) (fully adjusted to 2011 or 2009 $ for coastal zone & inland lots respectiv	Development Costs (70% project) (see Appendix ??)	Project Profit (70% project) (15% total value)	Residual land value (70% project) (note: does not include profit)	*Developer profit (70% project)* (50% project profit)	Entitlement Value (70% project) (sum of residual land value & *developer profit*)	Entitlement Value (100% project) (sum of residual land value & *developer profit*)
Coastal Zone Lots – Bluffs	39	11.88	7,395	26,700,868	14,830,648	4,005,157	7,865,063	2,002,578	9,867,642	9,786,292
	35	10.34	6,348	24,309,300	13,084,043	3,646,395	7,578,862	1,823,198	9,402,060	9,784,747
	63	13.13	6,795	26,324,491	14,159,506	3,948,674	8,216,311	1,974,337	10,190,648	11,307,157
	66	14.38	5,223	18,293,050	10,849,800	2,743,976	4,699,274	1,371,988	6,071,262	12,226,048
	91	15.27	6,936	26,012,695	14,450,461	3,901,930	7,660,304	1,950,965	9,611,269	12,043,113
	93	15.40	9,883	27,150,059	18,628,169	4,072,536	4,449,354	2,036,268	6,485,622	10,659,969
	12	8.09	4,392	20,694,208	9,923,890	3,104,152	7,666,166	1,552,076	9,218,242	9,942,231
	119	15.06	7,759	28,959,337	15,961,219	4,343,901	8,654,218	2,171,950	10,826,168	12,288,219
	122	14.95	5,880	25,648,908	12,792,162	3,847,362	9,009,385	1,923,681	10,933,066	11,478,716
Coastal Zone Lots – South 101 / North Railroad	42	7.39	4,194	7,132,720	5,068,971	1,069,908	993,841	534,954	1,528,795	1,220,411
	41	10.03	5,373	9,293,986	6,740,338	1,394,098	1,159,551	697,049	1,856,600	798,931
	43	8.79	4,093	6,992,297	5,054,551	1,048,845	888,901	524,422	1,413,323	1,210,852
	70	7.39	4,225	6,868,100	5,069,130	1,030,215	768,755	515,107	1,283,862	1,185,358
	69	10.03	3,601	7,719,165	4,741,743	1,157,875	1,819,548	578,937	2,398,485	2,576,129
	71	8.55	5,678	7,526,229	6,423,526	1,128,934	(26,231)	564,467	538,236	191,262
	97	37.47	8,767	13,728,771	10,118,843	2,059,316	1,550,613	1,029,658	2,580,270	1,068,132
	57	12.23	no plans		-	-	-	-	-	
Coastal Zone Lots – North 101	104	3.80	2,427	5,625,083	3,390,535	843,768	1,390,780	421,884	1,812,665	2,644,186
	109	3.80	4,054	5,509,930	4,881,667	826,490	(198,226)	413,245	215,019	1,877,371
	185	10.23	5,756	6,838,196	5,279,913	1,025,729	532,554	512,865	1,045,418	200,160
	164	3.80	2,743	3,848,819	3,119,979	577,327	151,514	288,663	440,177	2,636,224
	186	3.80	3,464	5,684,098	3,707,893	852,620	1,123,585	426,310	1,549,895	729,214
	195	6.87	3,382	4,224,092	3,324,559	633,618	265,915	316,809	582,724	255,414
	187	3.80	3,461	4,220,180	3,039,447	633,027	547,706	316,514	864,220	726,443
	160	7.60	4,442	5,315,554	4,141,790	797,333	376,432	398,667	775,098	496,195
	136	3.80	4,625	4,618,322	3,286,012	692,744	639,567	346,372	985,938	984,365
	133	3.80	4,207	4,347,238	3,429,783	732,976	184,480	366,488	550,968	184,031
	188	33.47	3,590	7,224,472	4,563,769	1,083,678	1,577,025	541,839	2,118,864	1,651,736
	137	3.80	6,130	5,884,664	4,168,818	882,694	833,152	441,347	1,274,499	338,517
	193	1.00	3,054	3,400,000	2,598,581	510,003	291,416	255,002	546,418	429,154
	132		Existing unit		-			-	-	
	103	33.09	4,212	6,731,086	5,012,402	1,009,663	709,021	504,831	1,213,853	981,366
	110	12.12	4,404	5,690,983	4,202,039	853,647	635,296	426,824	1,062,120	856,094
	131	11.99	4,121	5,617,961	4,055,797	842,694	719,470	421,347	1,140,817	131,045
	139	8.01	3,316	4,853,428	3,351,450	728,014	773,964	364,007	1,137,971	416,413
	138	3.80	4,880	4,719,602	3,413,298	1,670,091	(363,786)	835,046	471,259	796,455
	161	3.80	3,165	4,025,776	3,464,752	603,870	(42,846)	301,935	259,089	2,465,103
	159	3.80	4,551	4,561,046	3,236,531	961,056	363,459	480,528	843,987	974,635
	158	7.84	3,581	5,030,265	3,558,651	754,540	717,075	377,270	1,094,345	209,793
	167	11.39	3,109	5,207,686	3,285,991	781,153	1,140,541	390,576	1,531,118	906,571
	243	7.49	3,082	4,895,853	3,195,361	734,378	966,114	367,189	1,333,303	655,118
	47	8.94	3,360	4,888,411	3,391,678	733,262	763,471	366,631	1,130,102	415,503
Inland Lots	26	6.17	4,093	4,072,104	3,194,386	610,816	266,902	305,408	572,310	403,855
	52B	1.90	4,956	3,542,877	3,257,252	531,432	(245,806)	265,716	19,909	(229,848)
	163	3.80	3,109	3,537,171	2,475,609	589,231	472,331	294,615	766,946	729,211
	52A	1.90	4,558	3,421,629	3,049,971	513,244	(141,586)	256,622	115,036	(13,950)
	48	7.60	4,268	4,528,364	3,158,377	679,255	690,733	339,627	1,030,360	984,002
	51	3.80	5,012	4,099,125	3,412,185	614,865	72,076	307,432	379,508	166,593
	49	7.60	3,679	4,340,736	2,825,731	651,106	863,898	325,553	1,189,451	1,163,401
	50	3.80	4,857	4,062,726	3,338,788	609,405	114,533	304,702	419,236	288,047
	105	3.80	3,290	3,512,588	2,449,349	526,888	536,351	263,444	799,795	768,010
	108	3.80	4,186	3,872,840	2,964,261	580,926	327,653	290,463	618,116	504,750
	107B	0.95	2,793	2,450,129	1,959,604	367,519	123,006	183,760	306,765	214,508
	107A	0.79	2,793	2,349,106	1,940,532	352,364	56,211	176,182	232,393	159,717
	135	7.60	4,174	4,582,301	3,894,961	687,341	-	343,670	343,670	381,434
	134	3.80	4,273	3,873,873	2,999,010	581,081	293,782	290,540	584,323	411,824
AVERAGE			4,550	8,491,898	5,319,959	1,275,693	1,645,121	626,456	2,242,201	2,512,226
TOTAL		480		$ 458,562,502		$ 70,163,119	$ 90,481,677	$ 35,081,559	$ 125,563,237	$ 135,660,229

* includes 800 sf guest house for certain properties

[shaded] MOU lots that were transferred in ALT 1

[shaded] Lot sizes that changed from MOU to ALT 1

Table 4.5 ALT 1 Development Right Values

Area	Group	Lot #	Lot size (ac) per project plan	70% House size* (sf)	Total Value (av. 2 methods at 70% project size) (fully adjusted to 2011 or 2009 $ for coastal zone & inland lots respectively)	Development Costs (70% project) (see Appendix ??)	Project Profit (70% project) (15% total value)	Residual land value (70% project) (note: does not include profit)	*Developer profit (70% project)* (50% project profit)	Entitlement Value (70% project) (sum of residual land value & *developer profit*)	Entitlement Value (100% project) (sum of residual land value & *developer profit*)
Coastal Zone Lots	Bluffs	39	11.88	7,395	$ 26,700,868	$ 15,676,417	$ 4,005,157	$ 7,019,294	$ 2,002,578	$ 9,021,872	$ 8,940,523
		35	10.34	6,348	$ 24,309,300	$ 13,665,101	$ 3,646,395	$ 6,797,805	$ 1,823,198	$ 8,621,002	$ 9,003,689
		63	13.13	6,795	$ 26,324,491	$ 15,028,402	$ 3,948,700	$ 7,347,389	$ 1,974,350	$ 9,321,739	$ 10,438,277
		66	14.38	5,223	$ 18,293,050	$ 11,667,932	$ 2,743,976	$ 3,891,143	$ 1,371,988	$ 5,263,130	$ 11,417,916
		91	15.27	6,936	$ 26,012,695	$ 15,357,216	$ 3,901,930	$ 6,753,548	$ 1,950,965	$ 8,704,513	$ 11,136,358
		93	15.40	9,883	$ 27,150,059	$ 19,662,248	$ 4,072,536	$ 3,415,275	$ 2,036,268	$ 5,451,543	$ 9,625,890
		12	8.09	4,392	$ 20,694,208	$ 10,590,312	$ 3,104,131	$ 6,999,765	$ 1,552,066	$ 8,551,831	$ 9,275,810
		119	15.06	7,759	$ 28,959,337	$ 16,928,486	$ 4,343,901	$ 7,686,951	$ 2,171,950	$ 9,858,901	$ 11,320,959
		122	14.95	5,880	$ 25,648,908	$ 13,611,325	$ 3,847,362	$ 8,190,221	$ 1,923,681	$ 10,113,902	$ 10,659,552
	South 101 / North Railroad	42	7.39	4,194	$ 7,132,720	$ 5,295,205	$ 1,069,908	$ 767,607	$ 534,954	$ 1,302,561	$ 994,178
		41	10.03	5,373	$ 9,293,986	$ 7,039,754	$ 1,394,098	$ 860,134	$ 697,049	$ 1,557,183	$ 498,544
		43	8.79	4,093	$ 6,992,297	$ 5,280,408	$ 1,048,845	$ 663,044	$ 524,422	$ 1,187,466	$ 984,995
		70	7.39	4,225	$ 6,868,100	$ 5,295,252	$ 1,030,215	$ 542,633	$ 515,107	$ 1,057,741	$ 959,236
		69	10.03	3,601	$ 7,719,165	$ 4,996,310	$ 1,157,883	$ 1,564,973	$ 578,941	$ 2,143,914	$ 2,321,561
		71	8.55	5,678	$ 7,526,229	$ 5,718,141	$ 1,128,934	$ 679,154	$ 564,467	$ 1,243,621	$ 1,169,120
		97	37.47	8,767	$ 13,728,771	$ 10,552,405	$ 2,059,316	$ 1,117,050	$ 1,029,658	$ 2,146,708	$ 634,570
		57	12.23	no plans		$ -	$ -	$ -	$ -	$ -	$ -
		DP-13	40.55	4,273	$ 9,688,268	$ 4,479,888	$ 1,453,240	$ 3,755,140	$ 726,620	$ 4,481,761	$ 2,978,264
		DP-14		Existing unit	$ -	$ -			$ -	$ -	
		DP-15	25.36	2,783	$ 7,197,910	$ 3,022,128	$ 1,079,687	$ 3,096,095	$ 539,843	$ 3,635,939	$ 2,720,535
		DP-16	41.27	4,096	$ 11,368,860	$ 5,099,362	$ 1,705,318	$ 4,564,180	$ 852,659	$ 5,416,839	$ 3,533,203
		DP-17	31.68	4,225	$ 9,212,304	$ 4,395,935	$ 1,381,836	$ 3,434,532	$ 690,918	$ 4,125,451	$ 2,797,416
	North 101	104	3.80	2,427	$ 5,625,083	$ 3,598,346	$ 843,768	$ 1,182,969	$ 421,884	$ 1,604,853	$ 2,436,378
		109	3.80	4,054	$ 5,509,930	$ 4,673,920	$ 826,490	$ 9,521	$ 413,245	$ 422,766	$ 1,631,190
		185	10.23	5,756	$ 6,838,196	$ 5,482,883	$ 1,025,722	$ 329,590	$ 512,861	$ 842,451	$ (2,810)
		164	7.60	2,743	$ 4,453,076	$ 3,012,202	$ 667,961	$ 772,912	$ 333,981	$ 1,106,893	$ 512,833
		186	3.80	3,464	$ 5,684,098	$ 3,843,736	$ 852,620	$ 987,741	$ 426,310	$ 1,414,051	$ 593,368
		195	6.87	3,382	$ 4,224,092	$ 3,478,638	$ 633,618	$ 111,837	$ 316,809	$ 428,646	$ 101,335
		187	3.80	3,461	$ 4,220,160	$ 3,175,097	$ 633,027	$ 412,057	$ 316,514	$ 728,570	$ 590,791
		160	3.80	4,442	$ 4,624,711	$ 3,846,775	$ 693,707	$ 84,229	$ 346,853	$ 431,083	$ 2,950,273
		136	7.60	4,625	$ 5,065,090	$ 3,819,914	$ 759,759	$ 485,418	$ 379,879	$ 865,298	$ 34,066
		133	3.80	4,207	$ 4,347,238	$ 3,568,433	$ 732,971	$ 45,834	$ 366,485	$ 412,320	$ 45,391
		188	129.23	3,590	$ 9,505,443	$ 5,541,336	$ 1,425,826	$ 2,538,281	$ 712,913	$ 3,251,194	$ 2,887,658
		137	3.80	6,130	$ 5,884,664	$ 4,333,202	$ 882,700	$ 668,762	$ 441,350	$ 1,110,112	$ 174,133
		193	8.44	3,054	$ 4,863,425	$ 3,336,116	$ 729,514	$ 797,795	$ 364,757	$ 1,162,552	$ 555,338
		132		Existing unit		$ -			$ -	$ -	
Inland Lots	SBR Lots	52A	3.80	4,558	$ 3,991,158	$ 3,312,785	$ 598,670	$ 79,703	$ 299,335	$ 379,038	$ 203,322
		48	22.64	4,268	$ 5,768,242	$ 4,764,712	$ 865,230	$ 138,299	$ 432,615	$ 570,915	$ 289,824
		51	10.03	5,012	$ 5,076,224	$ 3,810,394	$ 761,429	$ 504,402	$ 380,714	$ 885,116	$ 691,537
		49	7.39	3,679	$ 4,314,921	$ 3,180,007	$ 647,238	$ 487,676	$ 323,619	$ 811,295	$ 697,614
		50	8.79	4,857	$ 4,967,924	$ 3,713,540	$ 745,189	$ 509,195	$ 372,594	$ 881,790	$ 735,085
		105	3.80	3,290	$ 3,512,588	$ 2,764,553	$ 526,888	$ 221,147	$ 263,444	$ 484,591	$ 399,611
		108	3.80	4,186	$ 3,872,840	$ 3,106,525	$ 580,922	$ 185,393	$ 290,461	$ 475,854	$ 362,488
		107B	0.95	2,793	$ 2,450,129	$ 2,049,598	$ 367,519	$ 33,012	$ 183,760	$ 216,771	$ 124,514
		107A	3.0	2,793	$ 4,852,223	$ 3,052,922	$ 727,838	$ 1,071,463	$ 363,919	$ 1,435,382	$ 1,039,354
		135	7.60	4,174	$ 4,582,301	$ 3,504,107	$ 687,345	$ 390,849	$ 343,673	$ 734,522	$ 500,648
		134	3.80	4,273	$ 3,873,873	$ 3,139,501	$ 581,081	$ 153,291	$ 290,540	$ 443,831	$ 271,332
	Option Property Lots	201	6.97	3,571	$ 4,055,567	$ 3,062,164	$ 608,339	$ 385,064	$ 304,170	$ 689,234	$ 617,850
		202	9.6	4,558	$ 4,784,494	$ 3,615,485	$ 717,674	$ 451,334	$ 358,837	$ 810,171	$ 485,165
		203	6.28	6,130	$ 4,800,160	$ 4,288,123	$ 720,024	$ (207,987)	$ 360,012	$ 152,025	$ (141,970)
		204	5.82	5,012	$ 4,420,740	$ 3,633,969	$ 663,111	$ 123,660	$ 331,555	$ 455,215	$ 195,896
		205	3.18	3,165	$ 3,227,201	$ 2,440,224	$ 484,083	$ 302,894	$ 242,042	$ 544,936	$ 495,496
		206	3.11	3,290	$ 3,314,784	$ 2,525,720	$ 497,218	$ 291,846	$ 248,609	$ 540,455	$ 491,898
		207	3.29	4,174	$ 3,661,498	$ 3,032,368	$ 549,228	$ 79,902	$ 274,614	$ 354,516	$ 160,637
		208	4.71	4,273	$ 4,019,151	$ 3,254,586	$ 602,877	$ 161,688	$ 301,438	$ 463,127	$ 392,354
		209	13.79	4,625	$ 5,319,842	$ 4,562,491	$ 797,971	$ (40,620)	$ 398,985	$ 358,365	$ 149,492
		210	19.77	4,442	$ 5,617,030	$ 4,620,760	$ 842,554	$ 153,716	$ 421,277	$ 574,993	$ 9,462
		211	7.76	2,793	$ 3,860,200	$ 2,489,419	$ 579,030	$ 791,751	$ 289,515	$ 1,081,266	$ 1,020,044
		212	10.2	3,382	$ 4,293,691	$ 2,891,787	$ 644,054	$ 757,851	$ 322,027	$ 1,079,877	$ 905,145
		213	4.02	4,956	$ 4,059,113	$ 3,518,475	$ 608,867	$ (68,228)	$ 304,433	$ 236,205	$ (5,698)
		214	18.1	4,625	$ 5,567,638	$ 4,624,490	$ 835,140	$ 108,008	$ 417,570	$ 525,578	$ 316,800
		215	4.12	4,093	$ 3,848,491	$ 3,122,698	$ 577,274	$ 148,519	$ 288,637	$ 437,156	$ 61,995
		216	4.67	3,360	$ 3,649,921	$ 2,704,733	$ 547,492	$ 397,696	$ 273,746	$ 671,442	$ 422,702
	Dos Pueblos Lots	DP-1	12.77	4,551	$ 4,928,153	$ 3,125,520	$ 739,218	$ 1,063,415	$ 369,609	$ 1,433,024	$ 680,791
		DP-2	11.09	5,880	$ 5,238,305	$ 3,922,583	$ 785,746	$ 529,976	$ 392,873	$ 922,849	$ (216,956)
		DP-3	10.38	5,012	$ 4,807,418	$ 3,381,076	$ 721,108	$ 705,234	$ 360,554	$ 1,065,788	$ 163,092
		DP-4	20.76	4,404	$ 5,397,388	$ 3,684,498	$ 809,608	$ 903,281	$ 404,804	$ 1,308,085	$ 1,299,091
		DP-5	17.83	5,223	$ 5,579,809	$ 4,285,909	$ 836,966	$ 456,934	$ 418,483	$ 875,417	$ 826,094
		DP-6	10.16	4,212	$ 4,670,603	$ 2,905,923	$ 700,590	$ 1,064,090	$ 350,295	$ 1,414,385	$ 752,492
		DP-7	10.02	4,174	$ 4,600,880	$ 2,877,645	$ 690,127	$ 1,033,108	$ 345,064	$ 1,378,171	$ 702,480
		DP-8	10.01	5,756	$ 5,160,772	$ 3,843,810	$ 774,116	$ 542,846	$ 387,058	$ 929,903	$ (135,700)
		DP-9	10.03	4,273	$ 4,509,815	$ 2,926,312	$ 676,468	$ 907,035	$ 338,234	$ 1,245,269	$ 561,142
		DP-10	10.04	4,880	$ 4,744,429	$ 3,299,192	$ 711,664	$ 733,573	$ 355,832	$ 1,089,405	$ 256,448
		DP-11	2,304.60	5,756	$ 16,494,157	$ 7,010,719	$ 2,474,140	$ 7,009,298	$ 1,237,070	$ 8,246,368	$ 8,348,707
		DP-12	20.63	5,678	$ 7,563,460	$ 4,794,268	$ 1,134,511	$ 1,634,680	$ 567,256	$ 2,201,936	$ 1,161,085
AVERAGE				4,631	7,960,601	5,094,752	1,195,200	1,531,067	581,664	2,071,902	2,043,999
TOTAL			3205		$ 581,123,887		$ 87,249,597	$ 111,767,877	$ 43,624,798	$ 155,392,675	$ 149,211,920

* Includes 600 sf guest house for certain properties

5. Comparison to Recent Sales

We conducted a brief market survey of comparable sales to validate our analysis, and to see if our numbers are in the realm of possibility. Doing so provides some certainty in both the price of finished homes that result from the regression analysis, and the development right values that are the basis for TDR feasibility.

We looked at near-ocean and ocean-front home sales along the South Coast of Santa Barbara between November of 2000 and August 2006. Sale locations included Hope Ranch, Montecito, Padaro Lane / Beach Club road, Sand Point road, City of Santa Barbara, and Rincon Point.

The search yielded 170 home sales that range in value between $38 million and $1.15 million. The average selling price of a home was $5,289,270 and the median was $2,750,000.

Nine homes in Hope Ranch, Montecito and Padaro Lane had values in excess of $20 million; and there were ten home sales between $10 and $20 million. The remaining sales were homes under $10 million.

This data suggests that the values of finished ocean-front and near-ocean front homes vary significantly. It is difficult to find homes sales that are directly comparable to what could be built on the Santa Barbara Ranch property; there are few, if any, similar bluff-top developments located along the South Coast or the Gaviota Coast for that matter.

The range in home values and the average home value we report for the Grid, MOU, and ALT 1 scenarios are shown below in Table 5.1

Table 5.1

	Comparative Sales	Grid	MOU	ALT 1
Range in predicted home selling price (2007)	$1.15 - $38 million	$16 - $2.2 million	$23.9 - $2.2 million	$24 - $2.2 million
Average Home selling price (2007)	$5.29 million	$4.48 million	$7.1 million	$6.8 million

If one compares the averages and ranges in Table 5.1 to what we report from the comparable sales survey, it can be concluded that our results for Naples home and development right values are within the realm of possibility.

6. Transferring Development Rights from the Santa Barbara Ranch

As it pertains to receiving sites that would absorb development potential from the Santa Barbara Ranch through a TDR program - we indicate in the 2006 TDR Feasibility Report that the most economically and politically feasible scenario could be to increase densities by 100 units in unincorporated South Coast receiving areas and 156 units in City of Santa Barbara receiving areas. This would create a total developer willingness to pay of up to $73.2 million.

In other words, we believe that a conventional TDR program could create a pool of funds totaling $73.2 million that would be available to purchase development rights from Santa Barbara Ranch. However, as previously mentioned, the limiting factor affecting development transfers from the Santa Barbara Ranch Project is not the $73 million, but rather the amount of money that could be generated to purchase development rights up-front.

Based on this receiving-site potential, and this report's updated assessment of sending-site valuation, we conclude that at least a partial transfer of density off Santa Barbara Ranch is feasible. However, we believe this feasibility depends on the ability to set up the TDR system in the following way:

- Development potential would have to be transferred off of Santa Barbara Ranch "up-front," rather than over time;
- This would require the creation of a "TDR Bank" to buy, hold, and eventually sell the rights;
- The TDR Bank would have to be well capitalized in order to execute the up-front purchase;
- The County would have to construct a carefully calibrated system of density credits for the receiver sites and reinforce this system through its regulatory decisions. The Naples TDR Program Framework Report and its accompanying TDR Ordinance lays out the mechanics of this process.

6.1 Capitalization of the TDR Bank

A critical question to TDR feasibility is how to capitalize the bank with sufficient funds to purchase development rights from the Santa Barbara Ranch. If the transfer of development rights off of Santa Barbara Ranch is to be executed up-front, then the feasibility of the transfer system is driven not by some theoretical calculation of sending and receiving site value, but on the actual amount of money that can be raised to stake the TDR bank.

Raising capital for the Bank may be easier than it appears. Unlike typical land conservation initiatives, the money used to seed the Bank is not paid and never to be seen

again. Rather, the initial contributors of funds can be repaid once the TDR Bank starts selling density credits, or the money can be used as a revolving fund for continued preservation.

Early capitalization of, and participation in, the TDR Bank will depend upon investing parties being confident that the risk in loaning money to the Bank is reduced to effectuate an acceptable outcome. That is, conservation investors will need to see that lent money will go towards a program that will survive into the future, affect Naples preservation, and offer some degree of repayment.

To gain this requisite confidence, interested parties will need to witness and be assured of all the following:

- The County's commitment to the TDR option – namely, a determination of feasibility by its elected officials, and a development agreement that gives the TDR program a period of time that would not jeopardize the ability to secure adequate funding of the TDR Bank to achieve preservation;

- The likelihood that the County and/or participating cities will indeed grant higher densities via the purchase of TDRs on eligible receiving sites. It is likely that an initial receiving site(s) will need to prove as a catalyst to jump start the TDR program;

- A demand for TDRs does exist such that the TDR Bank can effectively sell its development rights to receiving area developers as a source of revenue. We show that a strong developer willingness to pay for incremental density exists along the South Coast of Santa Barbara County where land is scarce and very expensive. But, the process to identify receiving areas needs to structured such that it actually creates developer demand for TDRs rather than turn developers away because of a lengthy and costly process; and

- The County's prohibition on routes to higher density, except as allowed by the TDR option.

There are a multiple public, private and non-profit organizations that could play a role in the County's TDR Bank. We conducted a preliminary assessment of several organizations as to their respective interests in either serving as a source of funding for the Bank and/or playing a role as the Bank's manager. In particular, we talked to the following parties:

- Trust for Public Lands (TPL)
- California Coastal Conservancy
- Conservation Fund
- Land Trust for Santa Barbara County
- Prop 84 funding sources

Each professed a degree of interest and potential willingness to participate, except the Land Trust for Santa Barbara County. Yet, each have reservations based on the concerns previously mentioned. Independently these organizations indicated that as a first step to their consideration to participate in or play a role with the TDR Bank, the County must demonstrate a clear commitment to the TDR program. Thus, until such action is taken we conclude that any and all potential funding sources area simply "waiting to see" what action the County pursues.

One thing is for certain, when it comes to raising funds for land conservation – money follows money. After several initial transactions occur and the TDR Bank/Program begins to prove itself, additional revenue sources are likely to gain confidence in the system and are more likely to participate. if it is to be successful, a TDR Program should be structured such that it gives the Bank time to establish itself as a revolving fund for continued preservation.

As an example to the amount of money that could capitalize the Bank. The Trust for Public Land (TPL), as recently as 2003 generated $19.7 million for the successful preservation of Ellwood Mesa. In this deal TPL negotiated with the landowner and the potential developer to relocate 130 entitled lots from Ellwood Mesa to a settled-upon 62 unit project on a 12 acre County park site a short distance away. While not an official TDR, the Ellwood deal essentially bought-down and relocated $20 million worth of development potential from the Bluffs.

To conclude, the County and Santa Barbara Ranch applicant should work to establish an agreed-upon time period that would "give the TDR option a chance" – an amount of time that is commensurate to capitalize the Bank, if the County determines TDR to be feasible. As a point of reference, it took 3 to 4 years for the Trust for Public Lands (TPL) and the community to raise the $20 million to preserve the Ellwood Bluffs.

6.2 Approach to Transfer Ratios

As explained in the 2006 TDR Feasibility report, a TDR system creates a set of transfer ratios between sending and receiving sites. Every development right in the sending area equates to a certain number of development rights in the receiving area. This transfer ratio might be anywhere from 1:1 to upwards of 20:1 depending on valuation differences between sending and receiving areas.

We do not recommend a traditional transfer ratio approach here. There are several reasons for this:

- We are not recommending the creation of a classic TDR system in which the market unfolds over time.
- The disparity between the value of one unit in sending areas and one unit in receiving areas is very large.
- The disparity in the value among units in the sending area is very large.

- The disparity in the "willingness to pay" among prospective receiving sites is also very large.

Rather, we recommend a hybrid 3-step approach that works as follows:

1. **Purchase**: Up front, the TDR Bank would purchase "development rights" from Santa Barbara Ranch based on the estimations of entitlement value for each parcel calculated in this report. To use the Ellwood Mesa deal as an example, if the Bank had $20 million, it would purchase the development rights on any combination of lots whose development rights value totaled $20 million. The TDR Bank would then have $20 million in credit from Santa Barbara Ranch that could be applied to receiving areas

2. **Assign:** The County (and, potentially, the City) would create and value "density credits" in the receiving areas based on the "willingness to pay" analysis for the additional density in those areas, and then assign those Density Credits to the TDR Bank. For example, if the County were willing to rezone the St Vincent's property to accommodate more units if the developer participates in the TDR program (as our analysis suggests is possible), the County would create 46 Density Credits at a price of $337,322 each. If the City were willing to rezone the Cota parking lot to accommodate residential units, then the City would create 73 Density Credits at a price of approximately $224,500 each. See Table 5.5.1 in the 2006 TDR Feasibility Report.

3. **Sell:** These density credits would then be sold by the TDR Bank at the assigned value to willing developers in the receiving areas at any time at the market price. The total value of these Density Credits acquired by the bank would be the same as the total value of the Development Rights purchased by the TDR Bank from Santa Barbara Ranch Project. For example, if the TDR Bank had $20 million worth of credit from Santa Barbara Ranch, it could sell all of the available Density Credits to developers of the St. Vincent's property for about $15.5 million (i.e. 46 x $337,322) and have about $4.5 million left over to sell developers willing to build 20 units on the Cota site.

It is very important to note that, as the land-use regulators in this scenario, the County and the City would become regulators of the "currency" (the Density Credits) much as the Federal Reserve Bank is the regulator of the money supply. That is, the County and the City must commit themselves to stabilizing the Density Credits by (1) honoring them when a developer holds them; and (2) not providing additional density to receiving-area developers by other means. Obviously, neither the Board of Supervisors nor the City Council can commit their successors to specific regulatory actions in this process, but they can certainly adopt policies that would commit them to the TDR system.

6.3 Development Transfer Scenarios

If a TDR Bank were set up and capitalized, this would permit the Bank to purchase development rights from some parcels on Santa Barbara Ranch and, over time, sell some density credits to receiving areas in the City of Santa Barbara and unincorporated areas of the South coast.

If the TDR system is created, the final configuration of the Santa Barbara Ranch project will depend on how much financial capital the Bank has, and what program goals those resources are used to achieve. The final distribution of density in the receiving areas depends, once again, on the value of the density credits the Bank has and the City and County priorities for increasing density.

We explore scenarios 1-3 which illustrate how the TDR system might work for the Grid, MOU, and ALT 1 projects. The factors we must consider in creating these scenarios include the following:

1. Which Development Rights to remove from Santa Barbara /Dos Pueblos Ranch
2. How many Development Rights to remove from Santa Barbara Ranch
3. Which receiving areas should receive the bulk of the Density credits
4. How much money the TDR Bank has to invest in Development Rights up front.

Scenario #1 Goal: *to reduce the overall development intensity regardless of view-shed impact.* Under this scenario, residential lots possessing the lowest development right value would be prioritized for transfer.

Scenario #2 Goal: *to transfer the most visible developments from Highway 101.*

Scenario #3 Goal: *to transfer ocean-front bluff-top units.*

These represent the most likely set of possible transfer scenarios. For each project, under each scenario, we determine the specific lots from which development could be transferred assuming the TDR Bank is capitalized with $20 million. We are not suggesting that $20 million or any other amount is a "magic number" required to make the system work. However, we feel $20 million is a likely starting point given our analysis of funding opportunities and the recent Ellwood Mesa deal.

The number of Naples development rights shown to be transferred is based on values estimated under the 70% scenario – that is, the assumption that the projects are approved with a 30% reduction in house size. In terms of candidate receiving sites we use the same candidate receiving sites to determine the transfer scenarios as previously done in the 2006 Report. These sites are: the County Campus, St Vincent's property, Montecito

Orchard, Wright property-east, and the Cota Parking lot. Their associated WTP values are based on a 15% affordable/workforce component.

Table 6.1 simply shows a summary of the total number of development rights that could be transferred for each project. Tables 6.2, 6.3, and 6.4 show the actual lot numbers from which the development rights could be transferred (as well as the transfer ratios) for the Grid, MOU, and ALT 1 projects respectively.

Table 6.1 Grid, MOU, ALT 1 Development Right Transfer Summary

	Scenario #1	Scenario #1	Scenario #1
	Maximum amount of Development Right Transfers	Protection of HWY 101 View-shed Development Right Transfers	Ocean-front Bluff-top Development Right Transfers
GRID # Development Rights Transferred	37	32	4
MOU # Development Rights Transferred	31	25	3
ALT 1 # Development Rights Transferred	35	24	3

(note: this data is based on $20 million TDR Bank capitalization)

Table 6.1 shows that the Bank, with $20 million worth of capital, would have the choice of removing the 37 least expensive Grid lots; 32 of the most visible Grid lots from Highway 101 north of freeway; or four ocean-front bluff-top lots. Alternatively, if the transfer is based on the MOU project, the choice would be to remove 31 of the least expensive lots; 32 of the most visible lots from Highway 101; or 3 ocean-front bluff-top lots.

Based on the analyses of developer "willingness to pay" for additional density on the receiving sites from the 2006 TDR Feasibility Report, we can derive transfer ratios. That is, the number of additional units built in the receiving areas for each development right transferred from Naples. These ratios illustrate the significant value disparity between the bluff-top lots and other inland lots.

For example, the ratios to transfer the maximum number of Grid lots, and the Highway 101 view-shed impacting Grid lots range from 1:1 to 2:1. In contrast, the ratio to transfer ocean-front bluff-top lot range from 12:1 to 27:1 depending on the receiving site. This means that between 1 and 2 units would need to be built for every Highway 101 view-impacting Grid lot and between 12 and 27 additional units for each bluff-top Grid lot.

The ratios to transfer the maximum number of MOU lots, and the Highway 101 view-shed impacting MOU lots range from 2:1 to 4:1. Similar to the significant difference expressed above for the bluff-top Grid lots, the ratio to transfer ocean-front bluff-top MOU lots is 15:1 to 32:1 depending on the receiving site.

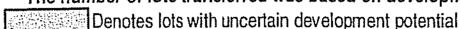
If the TDR system is created, the final configuration of the Santa Barbara Ranch project will depend on how much financial capital the Bank has, and what program goals those resources are used to achieve. The final distribution of density in the receiving areas depends on the value of the density credits the Bank has and the City and County priorities for increasing density.

To conclude, the extent of development rights that could be transferred will depend to a large extent on the County's goals for preservation at Naples. But, it goes without saying that the high value of bluff-top parcels makes transfer of their development rights more difficult than their inland counterparts. That is to say, the large amount of additional density needed in the receiving areas for each lot that is preserved on the Naples Bluff will make transfers politically difficult.

Table 6.1 Grid Lot Transfer Scenarios

	Grid Lot	Scenario #1	Scenario #2	Scenario #3
		Maximum amount of Development Right Transfers	Protection of HWY 101 View-shed Development Right Transfers	Ocean-front Bluff-top Development Right Transfers
	Bank Capitilization	$20 million	$20 million	$20 million
	# Development Rights Transferred **	37	32	4
	Grid Lots to be transferred	107b 163 86A 51 140 127A 105 83 49 52a 46 135 52b 139 48 50 244 70C 107a 73 243 108 74 43C 193 130 133 84 86B 167 164 134 109 131 166 127B 116	51 73 243 52a 74 167 52b 130 109 50 166 26 193 49 103 84 48 162 164 83 102 131 46 53 163 139 25 140 244 101 129 160	66 63A 119A 119B
	Total and Average Development Right Value **	Total = $20,048,573 Average = $541,853	Total = $ 19,971,028 Average = $624,095	Total = $23,989,183 Average = $5,997,296
	Receiving Site Density Credits			
Option 1	County Campus # of Units *WTP per unit* *av. Transfer Ratio* and St Vincents # of Units *WTP per unit* *av. Transfer Ratio*	31 $318,196 2 : 1 *and* 29 $337,322 2 : 1	31 $318,196 2 : 1 *and* 29 $337,322 2 : 1	31 $318,196 19 : 1 *and* 29 $337,322 18 : 1
Option 2	Montecito Orchard # of Units *WTP per unit* *av. Transfer Ratio*	39 $499,350 1 : 1	40 $499,350 1 : 1	40 $499,350 12 : 1
Option 2	Wright Property East # Units *WTP per unit* *av. Transfer Ratio*	76 $259,331 2 : 1	78 $259,331 2 : 1	78 $259,331 23 : 1
Option 2	Cota Parking Lot # of Units *WTP per unit* *av. Transfer Ratio*	73 $224,519 2: 1	73 $224,519 3 : 1	73 $224,519 27 : 1
Option 5	County Campus # of Units *WTP per unit* *av. Transfer Ratio* and Cota Parking Lot # of Units *WTP per unit* *av. Transfer Ratio*	31 $318,196 2 : 1 *and* 44 $224,519 2: 1	31 $318,196 2 : 1 *and* 44 $224,519 3 : 1	31 $318,196 19 : 1 *and* 44 $224,519 27 : 1

**** The number of lots transferred was based on development right values of the 70% project**

 Denotes lots with uncertain development potential

<u>Remaining 5 Candidate Receiving Site Statistics</u>

	per unit WTP
City Redevelopment Site	$325,806
Haley / Anacapa Parking Lot	$225,165
Montecito Orchard	$499,350
Montecito Area 3	$443,207

The average transfer ratio is calculated by dividing the average development right value of the lots to be transferred by theWTP for each receiving site

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Table 6.2 MOU Lot Transfer Scenarios

	MOU Lots	Scenario #1	Scenario #2	Scenario #3
		Maximum amount of Development Right Transfers	Protection of HWY 101 View-shed Development Right Transfers	Ocean-front Bluff-top Development Right Transfers
	Bank Capitilization	**$20 million**	**$20 million**	**$20 million**
	# Development Rights Transferred **	**31**	**25**	**3**
	MOU Lots to be transferred	52B 138 105 52A 71 159 109 193 187 107A 133 136 161 26 48 107B 195 185 135 134 110 51 108 158 50 163 47 164 160 139 131	52B 195 47 52A 163 139 109 160 131 51 159 49 50 187 103 164 48 137 138 185 243 193 110 26 158	66 93 12
	Total and Average Development Right Value **	**Total = $19,872,274** **Average = $641,041**	**Total = $19,664,087** **Average = $786,563**	**Total = $21.775,127** **Average = $7,258,376**
	Receiving Site Density Credits			
Option 1	County Campus # of Units *WTP per unit* *av. Transfer Ratio* and St Vincents # of Units *WTP per unit* *av. Transfer Ratio*	31 $318,196 2 : 1 *and* 29 $337,322 2 : 1	31 $318,196 2 : 1 *and* 29 $337,322 2 : 1	31 $318,196 23 : 1 *and* 29 $337,322 22 : 1
Option 2	Montecito Orchard # of Units *WTP per unit* *av. Transfer Ratio*	39 $499,350 1 : 1	40 $499,350 2 : 1	40 $499,350 15 : 1
Option 2	Wright Property East # Units *WTP per unit* *av. Transfer Ratio*	76 $259,331 2 : 1	78 $259,331 3 : 1	78 $259,331 28 : 1
Option 2	Cota Parking Lot # of Units *WTP per unit* *av. Transfer Ratio*	73 $224,519 3: 1	73 $224,519 4 : 1	73 $224,519 32 : 1
Option 5	County Campus # of Units *WTP per unit* *av. Transfer Ratio* and Cota Parking Lot # of Units *WTP per unit* *av. Transfer Ratio*	31 $318,196 2 : 1 *and* 44 $224,519 3: 1	31 $318,196 2 : 1 *and* 44 $224,519 4 : 1	31 $318,196 23 : 1 *and* 44 $224,519 32 : 1

**** The number of lots transferred was based on development right values of the 70% project**

Denotes lots with uncertain development potential

Remaining 5 Candidate Receiving Site Statistics

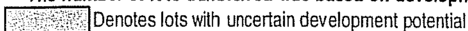
	per unit WTP
City Redevelopment Site	$325,806
Haley / Anacapa Parking Lot	$225,165
Montecito Orchard	$499,350
Montecito Area 3	$443,207

The average transfer ratio is calculated by dividing the average development right value of the lots to be transferred by theWTP for each receiving site

Table 6.3 ALT 1 Lot Transfer Scenarios

	ALT 1 Lots	Scenario #1	Scenario #2	Scenario #3
		Maximum amount of Development Right Transfers	Protection of HWY 101 View-shed Development Right Transfers	Ocean-front Bluff-top Development Right Transfers
	Bank Capitilization	$20 million	$20 million	$20 million
	# Development Rights Transferred **	35	24	3
	ALT 1 Lots to be transferred	203 134 187 107B 204 135 213 208 202 207 108 49 209 105 185 52A 214 136 133 206 DP-5 109 205 50 195 48 51 160 210 DP-2 215 216 DP-8 201 70	52A 109 105 48 185 108 51 164 136 49 186 133 50 195 135 188 160 134 187 137 107B 104 193 107A	66 93 12
	Total and Average Development Right Value **	Total = $20,614,184 Average = $588,977	Total = $21,099, 894 Average = $879,162	Total = $19,266,505 Average = $6,422,168
	Receiving Site Density Credits			
Option 1	County Campus # of Units *WTP per unit* *av. Transfer Ratio* and St Vincents # of Units *WTP per unit* *av. Transfer Ratio*	31 $318,196 2 : 1 *and* 29 $337,322 2 : 1	31 $318,196 3 : 1 *and* 29 $337,322 3 : 1	31 $318,196 20 : 1 *and* 29 $337,322 19 : 1
Option 2	Montecito Orchard # of Units *WTP per unit* *av. Transfer Ratio*	39 $499,350 1 : 1	40 $499,350 2 : 1	40 $499,350 13 : 1
Option 2	Wright Property East # Units *WTP per unit* *av. Transfer Ratio*	76 $259,331 2 : 1	78 $259,331 3 : 1	78 $259,331 25 : 1
Option 2	Cota Parking Lot # of Units *WTP per unit* *av. Transfer Ratio*	73 $224,519 3: 1	73 $224,519 4 : 1	73 $224,519 29 : 1
Option 5	County Campus # of Units *WTP per unit* *av. Transfer Ratio* and Cota Parking Lot # of Units *WTP per unit* *av. Transfer Ratio*	31 $318,196 2 : 1 *and* 44 $224,519 3: 1	31 $318,196 2 : 1 *and* 44 $224,519 4 : 1	31 $318,196 20 : 1 *and* 44 $224,519 29 : 1

**** The number of lots transferred was based on development right values of the 70% project**

 Denotes lots with uncertain development potential

Remaining 5 Candidate Receiving Site Statistics

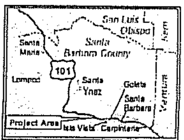
	per unit WTP
City Redevelopment Site	$325,806
Haley / Anacapa Parking Lot	$225,165
Montecito Orchard	$499,350
Montecito Area 3	$443,207

The average transfer ratio is calculated by dividing the average development right value of the lots to be transferred by theWTP for each receiving site

Appendix A: Map of Developable Grid Lots

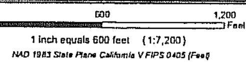
Range for Developable Lots

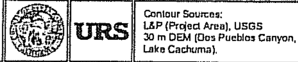
North of US101	= 55 - 58
US101 - UPRR Tracks	= 33 - 37
South of UPRR Tracks	= 26 - 30
Total	= 114 -125



GRID DEVELOPMENT POTENTIAL

(Disclaimer: The estimate of lots with development potential under the "Grid" configuration is based on the results of the Revised Draft EIR. This estimate is provided for comparative analysis only, and neither URS nor the County warrant or represent what may actually be possible; such conclusions may only be determined in connection with lot-specific permitting and environmental review.)





URS

Contour Sources: L&P (Project Area), USGS 30 m DEM (Dos Pueblos Canyon, Lake Cachuma).

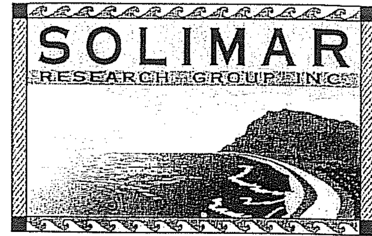
0 600 1,200 Feet
1 inch equals 600 feet (1:7,200)
NAD 1983 State Plane California V FIPS 0405 (Feet)

Santa Barbara Ranch EIR
County of Santa Barbara

Figure 11.4-1 Alternative 3A - No Project Grid Development Buildout

August 2007

ATTACHMENT F



Naples TDR Program Framework

Solimar Research Group

August 24, 2007

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Table of Contents

PREFACE III

1. TDR PROGRAM OVERVIEW 1

FIGURE 1. TDR PROGRAM AREA AND POLICY REGIONS 4

2. TDR PROGRAM GOALS 5

3. TDR PROGRAM PROCESS 7

STEP 1: IDENTIFY NAPLES LOTS TO PRIORITIZE FOR TRANSFER AND ESTABLISH A TIMEFRAME 9
STEP 2: CREATE THE TRANSFERABLE DEVELOPMENT CREDIT (TDC) COMMODITY 10
STEP 3: ESTABLISH RECEIVING SITE DISCRETIONARY PROCESS 11
STEP 4: ESTABLISH A TDR BANK TO "REGULATE" THE COMMODITY MARKET 14
STEP 5: ESTABLISH AMENITY FUNDS FOR RECEIVING AREA NEIGHBORHOODS 19
STEP 6: ADOPT POLICIES TO MITIGATE INVESTMENT RISK AND RETAIN COMMODITY VALUE 21
FIGURE 3. CONCEPTUAL DIAGRAM OF TDR PROGRAM 23

4. EXAMPLE TDR BANK TRANSACTION 24

5. TDR BANK ADMINISTRATIVE POLICIES 26

5.1 BANK TDR VALUATION METHODOLOGY AND PURCHASE PROCEDURES 27
Assessing Value of Naples Lots *29*
5.2 BANK TDC VALUATION AND SELLING PROCEDURES 30
5.3 BANK - INVESTOR CONTRACT GUIDELINES 31

6. FEASIBILITY OF FUNDING THE TDR BANK 32

7. SENDING / RECEIVING SITE CRITERIA 34

7.1 SENDING AREA ELIGIBILITY CRITERIA 34
7.2 RECEIVING AREA ELIGIBILITY CRITERIA 34

8. INTER-JURISDICTIONAL AGREEMENTS 36

8.1 CITY OF SANTA BARBARA'S TDR POLICY OPTIONS 37
8.2 DOVETAILING THE COUNTY AND CITY'S TDR OBJECTIVES 39

APPENDIX A: *DRAFT* SANTA BARBARA COUNTY TDR ORDINANCE 41

APPENDIX B: *DRAFT* INTER-JURISDICTIONAL AGREEMENT 42

APPENDIX C: NAPLES/SANTA BARBARA RANCH MAPS 48

MAP 1: NAPLES "GRID" LOTS 49
MAP 2: SANTA BARBARA RANCH "MOU" LOTS 50
MAP 3: SANTA BARBARA RANCH "ALT 1" LOTS 51

APPENDIX D 52

TABLE 1 RECEIVING SITE WTP SUMMARY RESULTS 53
TABLE 2 EXAMPLE TRANSFER SCENARIOS (ALT 1) 54
TABLE 3 TDR BANK INVESTMENT RETURN AND IRR 55
TABLE 4: 55
SENDING SITE CRITERIA (SITES OTHER THAN NAPLES) 55

Preface

This report outlines the framework of a TDR Program for Santa Barbara County as it processes the proposed Santa Barbara Ranch (Naples) project. The report serves as a project deliverable which was arrived at through a consensus process involving 3 meetings between Solimar Research Group and a diverse mix of stakeholders known hereafter as the "TDR Working Group[1]" beginning in October 2006 and ending in February 2007.

Rather than focus on specific receiving sites or debate valuation methodology, the Working Group agreed to develop the mechanics of program that could transfer development rights from the Santa Barbara Ranch property. Discussion was based on the principle of voluntary participation and free-market principles – that is, prices that a buyer could reasonably be expected to pay and a seller could reasonably be expected to accept. The exchange or extinguishment of development rights would be voluntary, whereby sellers and buyers would both need to be incentivized to participate in order to make the TDR program successful.

The ultimate deliverable of this effort is the accompanying *draft* TDR Ordinance, attached as Appendix A, which addresses and furthers the objectives of LCP policy 2-13. The language of TDR Program outlined in this report is therefore translated into the TDR Ordinance to assist the Board of Supervisors in its deliberations on TDR feasibility as it pertains to Naples under Policy 2-13. Inserted below is language from LCP Policy 2-13:

> *"The existing townsite of Naples is within a designated rural area and is remote from urban services. The County shall discourage residential development of existing lots. The County shall encourage and assist the property owner(s) in transferring development rights from the Naples townsite to an appropriate site within a designated urban area which is suitable for residential development. If the County determines that transferring development rights is not feasible, the land use designation of AG-II-100 should be re-evaluated."*

It was also an objective of the Working Group to come up with a TDR Program that not only addresses LCP Policy 2-13 but also possibly creates a framework for a TDR program that survives and persists into the future. A wide range of TDR program structures and policy options were discusses at the initial October meeting. During this time, the Working Group concluded that simply lifting a

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[1] The "TDR Working Group" members include: The Naples applicant, L&P Associates, staff and elected officials from the City of Santa Barbara, 1st District Supervisor Carbajal, 1st and 3rd District staff; County P&D Director and staff, members of the Naples Coalition, EDC, Bermant Development, and Solimar Research Group. Representatives from the Cities of Goleta and Carpinteria, rounding out the South Coast housing market area, were also invited to participate.

TDR Program "off the shelf" from another jurisdiction would not be appropriate. Rather, the Working Group agreed on the need to tailor a program to the unique Santa Barbara/Naples situation to arrive at a successful TDR policy.

Solimar then developed draft TDR Program reports that were circulated to members of the Working Group prior to the January and February meetings. Following each of these meetings, comments were compiled and addressed to produce revised reports. This current report represents the distillation of comments and revisions that followed the meeting on February 22, 2007.

As mentioned, the contents of this report are reflected in the TDR Ordinance. By design, two areas of the TDR Program that are expressly deferred to the Board of Supervisors include: (i) the targeting of specific Naples lots for development transfer; (ii) delaying effectuation of entitlements to allow time for TDR to be implemented (i.e., a "hold" period).

In regard to targeting, Section 35.90.010.C. of the draft Ordinance specifically provides that the Board of Supervisors will establish priorities for TDR at Naples at the time a program is implemented. As for the establishment of "hold" periods, it is recommended that the County and the applicant mutually and voluntarily agree upon a timeframe to withhold the issuance of building permits rather than fix a specific timeframe by Ordinance.

The agreed-upon "hold" period is a critical component to the success of the Naples TDR Program as it would allow the requisite time to implement the program and secure funding to capitalize the TDR Bank. However, we purposefully leave out from the *draft* TDR Ordinance any such timing language, assuming instead, that it would be included in a development agreement between the applicant and the County.

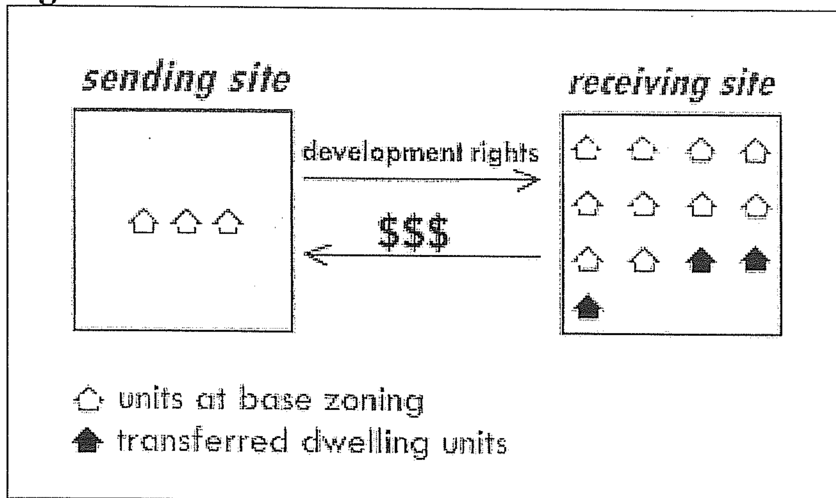
This particular work product should not be confused with the TDR Feasibility Study that was released in March of 2006 – which identifies under what conditions it is "feasible" to transfer Naples development. In contrast to the Feasibility Study, this TDR Program/Ordinance focuses on the mechanics to transfer whatever legal Naples lots exist on the Santa Barbara Ranch and adjacent properties at time of sale – as prioritized by the Board of Supervisors. These could be either "Grid," "MOU" or "ALT 1" lots depending on the extent and timing of rezone pursued by the County based on its determination of TDR feasibility (see Appendix C for lot maps).

If the Board of Supervisors determines TDR to be only partially "feasible" under LCP Policy 2-13, then it is recommended that the County and the applicant mutually and voluntarily agree upon a timeframe to withhold the issuance of building permits. As a point of reference, it took 3 to 4 years for the Trust for Public Lands (TPL) and the community to raise $20 million to preserve the Ellwood Bluffs.

1. TDR Program Overview

In a traditional TDR program, the right to develop land is severed from the land itself and treated as a separate right. Landowners in "sending areas" (areas designated for preservation) are permitted to sell their development rights to landowners or developers in designated "receiving" areas, who are permitted to build at higher densities if they purchase development rights. Once the development rights are sold from the property, the land is protected from future development in perpetuity with a conservation easement.

Figure 1.1



We propose a permutation of a traditional TDR program for Naples. One that is designed to reduce the TDR mechanism to its essential purpose – that is, a mechanism to recapture part of the extra value generated by increased development potential in receiving areas and uses this as compensation for the reduction of development potential at Naples.

Ultimately, there are a series of threshold questions which need to be addressed in a TDR Program that seeks to transfer development potential off the Naples property. These are:

- Which Naples lots are considered for transfer of development?
- How much money will it take to transfer these lots?
- Where and how would the development potential be transferred?
- How should the market in tradable rights be structured?
- What is the process to arrive at additional density in receiving areas?
- For how long will the County and the Naples applicant agree to "stay" development approvals to implement the TDR process?
- How can the County and City work together in a Naples TDR initiative?

The TDR Program should be voluntary, incentive based and market driven between willing sellers and willing buyers – landowners should not be obligated to use the program.[2] TDR ordinance language would enable the transfer of residential development rights from eligible sending sites to eligible receiving sites, both of which are identified based on Comprehensive/Community Plan policies.

The following TDR approach applies only to the Unincorporated areas of the South Coast – it in no way imposes expectations on the cities of Santa Barbara, Goleta, and Carpinteria. These jurisdictions, if interested in working with the County to achieve regional TDR goals, are assumed to develop their own programs independent of the County's, and with no obligation to participate.

Given the communities' sensitivities to "pre-designating" sites along the South Coast as either sending or receiving, the Working Group proposed a "criteria-driven" as opposed to a "map-driven" approach. This allows landowners themselves to "opt-in" to the program and apply for sending or receiving site status.

The Program should, initially, be limited in its geographic reach. The County, in its Housing Element, identifies five Housing Market Areas (HMAs) which possess relatively similar housing market values, internal geographies, and land preservation goals. We propose that the Program be initially limited to the South Coast HMA. In so doing, all transfers of development rights would be restricted *within* this area and governed by the established goals, criteria for sending /receiving sites, and regulations as outlined for the Naples TDR Program.

Limiting the trading area to the South Coast HMA allows the benefits of transferred density to be witnessed by those within the community – a factor Solimar identified in the Phase 1 report as being necessary for any TDR Program's political success. However, a nexus exists between the Gaviota Coast and areas of the North County – so much so that the County recently included the Gaviota Coast in the Central County Board of Architectural Review (CBAR's) jurisdiction.

Thus, allowing other areas outside the South Coast HMA to "opt-in" to the Program could meet with some political success and has potential to enable a greater degree of Naples preservation. For this reason, the program should

---

[2] As it pertains to Naples, the County's finding of TDR feasibility would determine whether or not it changes
the underlying land use designation from Ag II 100; the County cannot require the owner(s) of Naples lots to participate in the TDR program - it only has the authority to change zoning. If the County does not rezone, each Naples "Grid" lot is entitled to 1 legal residence under the Ag II 100 zoning.

initially be limited, but then allow for expansion after the program has shown success.

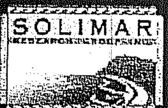
Despite its geographic reach, the Program should allow communities at smaller geographic scales than the South Coast HMA to tailor the TDR program (i.e. at the community plan level). This would allow communities to adjust a TDR structure to suit their more immediate local needs. Under the supervision of the County, the community plan update/visioning process provides an opportunity for these communities to tailor TDR into their local land use goals/policies. In so doing, a community plan amendment that recognizes TDR could use the mechanism to preserve lands that lie within its small and defined - and most likely urban - geographically boundary. This would gain community "buy-in" and needed political support for TDR success.

By focusing TDR on Naples, but in the context of the South Coast region or HMA, we are able to provide a policy framework that is potentially applicable to sites other than Naples and which can survive and persist into the future if so desired.

Finally, an important objective of the initially Naples-specific program should be to solicit the help of cities along the South Coast through inter-jurisdictional agreements should they decide to participate. An opt-in approach from other jurisdictions will expand the opportunities for Naples-related TDR, and may also result in continued dialogue about regional TDR policy.

It should be emphasized that cities' interests in TDR in no way binds them to involvement in the County's program. Only through a mutually agreed upon inter-jurisdictional agreement - wherein it can condition its participation - would a city participate. Section 7 of this report describes the critical issues involved with an inter-jurisdictional agreement and the terms both jurisdictions should consider. Appendix B provides an inter-jurisdictional agreement template for readers to get a sense of how these conditions would be manifested.

Figure 1. TDR Program Area and Policy Regions



2. TDR Program Goals

The overriding goal in this proposed program would be the transfer of development and subsequent preservation of Naples lots. However, to accomplish this in the context of the South Coast region, and to "make possible" the opportunity for other sites in the future to utilize the program,[3] a clear *set* of goals needs to be established. A successful TDR Program demands it in order to define criteria for sending and receiving site eligibility.

Assigning a set of goals as a matter of public policy, to govern the TDR Program is beyond Solimar's purview. Instead, we simply propose *draft* goals to help articulate the criteria for sending and receiving site eligibility in a program. Ultimately, the Board of Supervisors will decide upon the goals to govern the TDR program.

To accomplish this, we recommend organizing the program goals as outlined below. The initial phase of the Program should focus only on transferring development from Naples as indicated under Goal #1 below. A phase 2, if subsequently pursued, would involve potential sites other than Naples as described in Goals 2, 3, and 4.

Goal #1 To transfer the maximum number of development rights[4] from Naples lots that serve one or a combination of the following objectives - as determined and prioritized by the Board of Supervisors - onto properties more suitable for development that lie within or adjacent to the existing South Coast Urban Growth Boundary.[5] [6]

- Preservation of lots most visible from Highway 101.
- Preservation of lots located within the Coastal Zone.
- Preservation of lots located on the bluff south of Highway 101.
- Preservation of lots located on productive agricultural land.
- Preservation of lots within or near environmentally sensitive habitat.

Naples lots include any lots that exist on the Santa Barbara Ranch and adjacent properties at time of sale. These could be either "Grid," "MOU," or "Alt 1" lots (see Appendix C for lot maps) depending on the extent and timing of rezone

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[3] After Naples TDR is fully exhausted or the County amends the program to allow other sending parcels to participate.

[4] A Naples development right represents the legal right to build a primary and secondary dwelling unit(s) on a legal lot; its value would be assessed via the method explained in section 5.1

[5] This goal acknowledges LCP Policy 2-13 as central to the TDR program

[6] Solimar recommends that priority be placed on transferring development potential from Naples that impacts "views from 101." This recommendation assumes that neighbors surrounding potential receiving areas would be more accepting of development transfers from Naples if they were able to see from Highway 101 the homes that would be built.

pursued by the County. That is, if TDR sales occur prior to any rezone of the Santa Barbara Ranch property then "Grid" lot development potential should be transferred. Whereas if rezoning occurred to allow entitlement of "Alt 1" lots, the development rights vested with these lots should be subject to transfer.

In so doing, a map should be created that illustrates development right values - as estimated by the updated 2007 TDR Feasibility study - to help the Board prioritize the lots to be preserved via the TDR program. This will allow the Board of Supervisors to decide which lots provide the greatest "bang for the buck" *and* meet the priority objectives under Goal 1.

Should the County wish to extend the TDR program into the future - beyond Naples and Policy 2-13 – goals 2, 3, and 4 should be used to structure the program.

Goal #2 To permanently preserve rural properties on the Gaviota Coast which meet the criteria below by transferring the associated development potential onto ***rural*** properties within the Gaviota Coast that do ***not*** meet the criteria below.

- ***Rural*** lands possessing: sensitive natural resource value, prime agricultural/grazing land, and coastal bluffs
- ***Rural*** lands that lie within the public view-shed of Highway 101

A TDR program that utilizes Goal #2 in effect creates a market for development right transfers that are contained within the Gaviota Coast region – recommendations that came out of both the 2003 National Park Service Study and the 2006 Gaviota Coast Study Group Report.

Goal #3 To permanently preserve properties outside the existing UGB, other than Naples, which meet the criteria below by transferring the associated development potential onto properties more suitable for development that lie within or adjacent to the existing UGB.

- ***Rural*** lands possessing: sensitive natural resource value, prime agricultural/grazing land, and coastal bluffs
- ***Rural*** lands that lie within the public view-shed of Highway 101

Goal #4 To permanently preserve certain ***urban*** properties that meet the preservation goals of individual community plan areas by transferring the associated development potential to *urban* properties more suitable for development.

Goal #4 acknowledges the Working Group's agreement that a South Coast TDR Program needs to allow communities to preserve certain *urban* properties to

garner the requisite public support for the Program. Allowing urban-to-urban transfers that further the public polices of the community plan areas on an "opt-in" basis would allow this.

Program Goals 1 - 4 allow for a mix of rural-to-urban, rural-to-rural, and urban-to-urban transfers. With regards to Goal #4, urban-to-urban transfers have the potential to compete directly with development right transfers from the rural areas into existing urban areas - that is, a limited number of urban receiving sites will only allow a limited amount of preservation. If the preservation of "urban" properties takes precedence in a TDR Program, this *may* limit the amount of rural preservation in the TDR Program. [7]

While the allowance of these various mixes of transfer may appear to "muddy the waters" in a TDR Program, it will increase options and lay the foundation for a more successful Program.

3. TDR Program Process

The priority of the County's TDR Program would be the extinguishment of development rights at the Naples town site pursuant to LCP Policy 2-13 and the objectives outlined in Program Goal #1. The sequence outlined in this section is therefore particular to transferring development value from Naples, yet the process is applicable to other sending sites and future TDR situations across the South Coast if so desired in the future.

It should be re-emphasized that the TDR process described herein applies only to the Unincorporated areas of the South Coast – other jurisdictions that may voluntarily participate are expected to have their own TDR programs and processes. The County's and the participating city's TDR programs would "dovetail" through mutually agreed-upon inter-jurisdictional agreements.

The County's TDR Program would strive to put market forces to work to achieve preservation. It involves six integral components:

- Prioritization of Naples lots for preservation via the TDR Program;
- A commodity for receiving sites called "density credits" created by the County which allow development above baseline density;
- A process to determine eligible receiving sites and the extent to which developers can buy increased density on these sites;

[7] The preservation of urban properties would only come into play after Naples TDR has been fully addressed.

- A "Bank" to buy Naples development rights and sell density credits at fair market prices.[8] The Bank, through its buying and selling activities, would service a "revolving fund" for continued preservation; it would attract public and private investment by offering repayment options;

- Establishment of "amenity funds" for receiving area neighborhoods; and

- Inter-jurisdictional Agreements to facilitate transfers, if any, between the County and any participating cities.

In many ways, a good TDR program is similar to a mitigation bank. Like mitigation banks for wetlands, where "credits" are bought to mitigate development impacts, the TDR Program would "mitigate" the impacts of increased density in receiving areas through preservation at Naples via developer "density credit" purchases.

To be successful, then, the County must regulate the market it creates for additional density, and importantly, ensure that the commodity retains its value. To do so, it should not allow alternative routes to higher density that would compete with the TDR option (beyond existing inclusionary requirements and State Density Bonus laws). The Board of Supervisors should consider including in the TDR Ordinance language which clearly states that any up-zones and rezones to greater market-rate residential densities are contingent upon TDC purchases.

The County also needs to minimize the financial risk inherent to receiving site developers who may fear buying TDCs only to lose the extra density in the permit approval process. To eliminate such risk, developers should be able to apply for enhanced entitlements as part of the TDC discretionary review process, if they obtain from the planning commission additional density, then they acquire the density credits. In other words, payment is at the end of the entitlement process.

The six-step sequence below outlines a more descriptive "process" of the proposed TDR program. Figure 3, at the end of section 4, illustrates the program's conceptual framework.

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[8] Fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of the relevant facts

Step 1: Identify Naples Lots to Prioritize for Transfer and Establish a Timeframe

Following determination of TDR feasibility, if any, the County Board of Supervisors should identify which Naples lots to prioritize for transfer. In order to effectively do so, and capture the greatest "bang for the buck," a map should be created with estimated development right values[9] to facilitate the Board's decision regarding which lots to prioritize for preservation via the TDR program.

Naples development rights should only be available for purchase in order of their respective prioritization by the Board. In so doing, lots with higher priority are preserved before lots with lower priority ranking.

The County and Naples lot owner(s) should mutually and voluntarily agree – in a development agreement - to stay the issuance of building permits to these priority lots for an agreed-upon period of time and grant the TDR Bank the right of first refusal in any potential lot sale.[10] The agreed-upon time period is critical to the success of the Naples TDR Program as it would allow the requisite time to implement the program and secure funding to capitalize the TDR Bank.[11]

The current owner of Santa Barbara Ranch, in the past, has agreed to stay development of lots in the Coastal Zone under Alternative 1 for an initial period of 18 months, with the potential for an additional 18 months provided that measurable progress is made toward funding the TDR Bank. Together, these time periods are more realistic relative to the total period of time it would take to enable capitalization of the TDR Bank. As a point of reference, it took 3 to 4 years for the Trust for Public Lands (TPL) and the community to raise $20 million to preserve the Ellwood Bluffs.

An option to consider (and suggested by the Naples Coalition), no matter what time frame is decided upon, is to negotiate with the applicant an outcome that grants building permits throughout the "hold period" if and when the TDR Bank does *not* achieve its periodic funding goals. That is, if the Bank does not receive a certain amount of money by a certain date, based on a pre-determined funding schedule, then the developer is granted building permits to develop a certain number of the priority Naples lots.

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[9] At this point in the process the estimated values should based on the 2007 TDR feasibility study; ultimate buying and selling prices would occur via certified appraisals and negotiations between the Bank and the applicant as described in section 5.1

[10] This is a critical component the Board must decide upon in a Naples-specific TDR program.

[11] As earlier mentioned in the Preface, language pertaining to a hold is purposefully not included in the draft Ordinance, assuming instead it would be included in a development agreement between the applicant and County.

Step 2: Create the Transferable Development Credit (TDC) Commodity

In the receiving areas, the County, and any participating cities, allow additional units above existing base densities through purchases of transferable development "credits". In this newly created commodity market 1 TDC = 1 additional unit. Essentially then, the receiving-area developers are paying a "fee" for the privilege of obtaining higher density.

Throughout the South Coast of Santa Barbara, where land is scarce and housing prices are high, this commodity would hold significant value. In fact, Solimar's initial 2006 TDR study found that developers are "willing to pay" between 18% and 20% of the selling price of a home for an increment of additional density; this equates to $100,000 - $300,000 per unit depending on where it is exercised.

Table 3.1 below illustrates the "willingness to pay" (WTP) for the receiving sites identified in Solimar's previous 2006 TDR feasibility study. This serves as a good "sampling" of what receiving site developers may pay for an increment of density (i.e. TDCs) across the various policy areas. The average WTP is roughly $207,000.

Table 3.1 (based on County 30% Inclusionary requirement, see WTP Table 1 in Appendix D)

Policy Area	"Willingness to Pay"
Unincorporated Urban South Coast	$230,000
Unincorporated Rural South Coast	$290,000
City of Santa Barbara	$207,000
City of Goleta	$103,000
Average	***$207,000***

Since the idea in earlier drafts - of "capping" the amount of credits and assigning "pools" to community plans was rejected by the Working Group, the number of TDCs should simply "float". The number of credits, and where they are ultimately exercised, would thus be determined by a combination of the following:

- The total amount of Naples development value (i.e. which lots and their associated values) the Board wants to consider for transfer;
- The discretionary review process to determine which receiving sites could receive additional density through TDC purchases and to what extent (step 2 below);
- The "Bank" which would sell enough TDCs at varying fair market prices[12] to cover the cost of Naples development acquisition (step 4). The specific

[12] The TDC market price will vary depending on where the credits are exercised

mechanics of the Bank – for example, its policies on holding development credits over time and selling them would be determined by the Board.

Step 3: Establish Receiving Site Discretionary Process

The County should first establish criteria to determine receiving and sending site eligibility. Section 6 describes in detail the criteria to determine whether or not a site is eligible to be considered for enrollment in the program.

Following establishment of criteria, the County should use the 3-step discretionary review process described below to arrive at a legally buildable receiving site with an associated TDC density bonus.

It is imperative that the process minimize receiving site developer transaction costs and reduce his/her financial risk – at minimum, the process should be equal to, if not more expediting, than the current discretionary review process. This would encourage developer participation. To accomplish this, and provide the necessary public review process, a developer should be allowed to purchase TDCs at the back-end of the process. The process described below applies only to a County TDR program; participating jurisdictions are assumed to develop their own respective discretionary review processes for receiving sites.

TDR Program Receiving Site Discretionary Review Process:

1. Landowners of properties meeting the Program's threshold criteria apply to the County Planning & Development Department (P&D), at the Staff level, to determine "eligibility" in the TDR program. This action only determines whether or not the site does indeed meet the criteria to be further considered for enrollment in the program in step 2.

2. Potential receiving sites determined "eligible" by P&D are subjected to a preliminary staff-level study to identify the maximum allowable density through the TDR Program based on neighborhood compatibility. The study is subject to approval by the Planning Commission. Step 2 of the process is meant to serve as a TDR density bonus "pre-screen." At this point in the process the additional density is not "by right," and a landowner is not required to have a development plan.

    a. The preliminary staff study would serve as an initial assessment in an eventual CEQA analysis to achieve final receiving site approval in step 3. The Planning Commission's assessment would be appealable to the Board.

The purpose of step 2 is nothing more than the Planning Commission's determination of an "appropriate" maximum amount of development on the site; it does not commit the Planning Commission to a specific project

or density. It is meant to address the conceptual question of how well a certain intensity of development would fit on the site in the context of the surrounding land uses and neighborhood concerns.[13]

Importantly, step 2 recognizes a landowner/developer's risk in the process and acts to minimize the amount of their up-front investment. That is to say, it gives the potential developer a "taste" of what the Planning Commission is likely to tolerate with TDCs before he/she goes through the expense of creating a development plan.[14]

Even though the "pre screen" determination of TDC added density does not vest with the property, it could encourage property owners without any intention of filing a development plan to apply for a determination of added density. To minimize this, the County should require a modest fee for the pre screen – enough to filter landowners who are serious about development plans from those who are not.

3. The receiving site landowner/developer comes forward with a development plan with up to the maximum density determined by the Planning Commission's finding from step 2. The application is then subject to all existing County review and approval processes. The Planning Commission acts on the entitlements and identifies the base density and the number of additional units above base density allowed through TDC purchases.

    a. With regards to the County's Inclusionary Housing program, developers should only be required to provide the number of affordable units based on 30% of the determined base density – not 30% of the final project density with TDCs.[15]

    b. Most CEQA analysis would occur in step 3 of the process.

Once the project and its final density are "approved," the TDC density bonus is granted to and vested with the receiving site project "by right." The Planning Commission's decisions in step 3 can be appealed to the Board of Supervisors.

At this point the developer buys TDCs from the Bank for the number of additional units above the base density the Planning Commission approved.

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[13] As a guiding principle the density bonus could be considered on sliding scale by zoning class (i.e. R-2 20%, 50%).

[14] Developers are unlikely to incur the expense of drafting a development plan on receiving sites without some idea of what the process is likely to yield.

[15] This is the County's current Inclusionary housing requirement

Note: Depending on the intensity of the project and a receiving site developer's willingness to accept risk, he/she may opt to by-pass the step 2 "pre screen" and proceed, with development plans in-hand, straight to step 3 and the determination of "by right" TDC density bonus. This may prove attractive for projects of lesser intensity and fewer units (i.e. less than 5 or 6).

To illustrate how the overall process would work, take the following example shown in Figure 3.2 below. The landowner applies to County P&D which in turn determines the site meets the criteria to be an eligible receiving site. Following this the landowner pays a fee to obtain a "pre screen" analysis. Let's say the property is 2 acres in size and the pre screen determines that the property could hold a maximum of 15 units based on surrounding land uses.

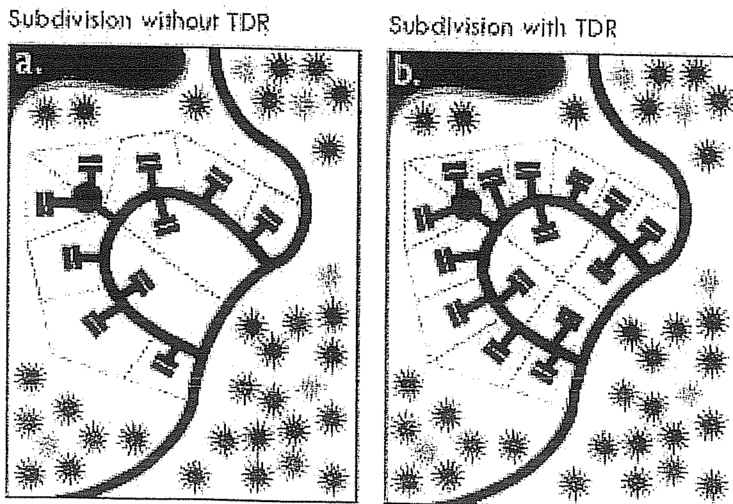
The landowner moves to step 3 of the process and drafts development plans for 18 units and goes to the Planning Commission for entitlements. In so doing, the Planning Commission determines that the base density is 5 units/acre (a common density in urban Santa Barbara neighborhoods) to allow 10 units as a baseline as shown in Figure 2 "a".

With the County's 30% Inclusionary Housing requirement applied to the base density, 3 of these homes would need to be set aside for below market rate "moderate income" affordable housing.

Recall that in the "pre screen" the Planning Commission determined that the site could tolerate 15 units with the purchase of TDCs - 5 additional units above the base density (a 50% density bonus) as shown in Figure 2 "b". The final density would then be 7.5 units/acre not 5 units/acre.

Importantly, the developer is only required to provide affordable units based on 30% of the base density – he/she should *not* be required to build additional affordable units for the extra 5 market rate units obtained through TDC purchases. The allowance of these additional market-rate units need to conform with, rather than undercut the State Density Bonus law - see the discussion in step 6.

Figure 2 Receiving Site with 50% TDC density bonus



The process laid out in steps 1-3 above does not place receiving site discretionary review "up-front" to determine "by-right" TDC density increases. Rather, it creates the potential for a lengthy discretionary process – this may deter developer participation and weaken the TDC market and the ultimate Program effectiveness. However, it is difficult to avoid such a process without first identifying and "pre-planning" a specific site to receive development through the TDR Program – a scenario that was met with limited support by the Working Group.

By pursuing an approach that does not identify and pre-plan up-front specific sites with "by-right" TDR density bonuses the working group is sacrificing a degree of market efficiency for a greater degree of political acceptance. This is the tradeoff that must be accepted with a "criteria driven" versus a "map-driven" Program.

The County (and Cities) could expedite the TDR Program at its early stages by identifying and selling TDCs to one or more sites it presently owns. This may result in a "quicker" discretionary process, especially for some sites that have existing development plans, and could attract significant developer interest to produce early and up-front revenue to purchase Naples TDRs.

As a final consideration discussed with the Working Group – one that may create a market for TDCs quicker - a process that creates immediate demand for TDCs should be explored. Because not all projects share the same intensity, the County could have a one-step process that grants TDC density bonuses "by right" for smaller projects with fewer units (i.e. less than 5). For example, properties that meet the receiving site criteria and fall within a given zoning class (i.e. R1, and R2) could be given "by right" 25% density bonus. This in effect allows these properties 1 or 2 additional units with TDC purchases.

Step 4: Establish a TDR Bank to "Regulate" the Commodity Market

Under the proposed Program framework, the County should establish a TDR Bank to:

- Act as the sole intermediary between TDR sellers and TDC buyers to facilitate the market between the often disparate timing issues and development values of sending and receiving sites;
- Management of a revolving fund for continued land preservation through the TDR program;
- Hold and/or transfer conservation easements to a third party trustee;
- Pay amenity funds to receiving area neighborhoods;
- Maintain records of all commodity transactions; and

- Facilitate the drafting of inter-jurisdictional TDR agreements between County and City officials.

Figure 3 illustrates the TDR Bank concept and the role it would play in the TDR Program.
The Bank should be administered either by an NGO, or under the auspices of the County. If the latter, a 3-member TDR Bank Administrative body could operate the Bank with Board of Supervisor oversight. In both cases the Bank should strictly follow the TDR ordinance to fulfill the Program goals. Section 5 explains further the administrative and operating parameters of the TDR Bank.

However the Bank is run, it would cover operating/administrative expenses, and fund receiving area amenity enhancements through income-generating commodity sales and program grants.

In short, the Bank would purchase transferable development ***rights***[16] (TDRs) from approved sending sites (i.e. Naples lots), in order of their priority, thereby restricting the lot from future development in perpetuity with a conservation easement. The easement would then be held by the Bank or transferred to a reputable Land Trust. With regards to Naples, the Bank would have "target prices," and negotiating parameters, at which it is willing to buy Naples entitlements.

The Bank would create revenue by selling transferable development ***credits*** (TDCs)[17] to receiving site developers and other interested parties. The number of credits ultimately created would be based on the discretionary process and the credit sale prices.[18] The Bank simply sells TDCs at varying prices - depending on where the credits are exercised - to cover the expense of TDR purchases from Naples, amenity fund payments, and its own administration costs. The methodologies to determine the Bank's TDR "target prices" and TDC sale prices are described in section 5 – Bank Administrative Policies.

The Bank, in this intermediary role, would buy and sell the commodities in <u>all</u> transactions and thereby create somewhat of a restricted market – that is, instead of creating a traditional market where buyers and sellers of "credits" find each other, the system reduces all receiving site developer density purchases to a financial obligation that is collected by the Bank. The Bank, then, uses the resulting funds to "mitigate" the excess density through the retirement of Naples lots.

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[16] The "rights" the Bank would purchase from Naples would be the legal rights granted to the Naples lot owner(s) to build both a primary and secondary dwelling unit on each of the legal buildable lots.
[17] The TDC, in physical form, would be a non-reproducable "certificate" signed by the Bank Director, the buyer and official notary.
[18] We suggest that the County allocate 10 TDCs to sell per year to buyers who do not have a particular receiving site project. This can act as a more immediate way to generate revenue for the Bank to purchase Naples TDRs.

Some Working Group members expressed concern that this arrangement could be construed as stymieing "real competition," and thereby create a "buyer's market" which *may* give prospective developers a very strong negotiating position.

However, the Bank's control of the TDC supply would allow it to establish TDC sale prices based on realistic appraisals of a receiving site developer's "willingness to pay" for increments of density. In fact, the Bank would be required to sell TDCs via a pre-determined set of parameters; using this method of price determination (see section 5) should make moot the issue of any developer monopoly buying power.

Moreover, the use of a Bank mechanism helps compensate for the fact that markets for land rights are traditionally "thin" - that is, TDR programs traditionally have few market participants as most landowners are not in the market at any given time – it is certainly likely to be so in Santa Barbara. Thus, without an intermediary such as the Bank, it would be difficult for the market to be fully efficient, especially at the Program's early stages.
Also, by allowing the Bank to control all transactions, an important and often difficult step is circumvented in the TDR program. It makes unnecessary the need to create a fixed "transfer ratio" to establish the number of TDRs to assign Naples lots such that value disparities are balanced between Naples and potential receiving sites.[19]

We assume it is absolutely critical that development rights from Naples lots be bought "in-whole" and not partially. The values of Naples lots are so high that this would probably not be possible if receiving-area buyers/developers had to purchase directly from the Naples landowner.[20] For this reason, we propose that 1 Naples development right is simply equal to 1 sellable TDR, to be purchased by the Bank. The Bank then "converts" those rights into the sellable TDC commodity available to receiving-area landowners.

In sum, we argue that requiring all transactions to flow through the Bank would not stymie the market. Rather it would facilitate and encourage market participation and make the program more efficient in its early stages. As the program ages and gains credibility *and* significant numbers of market participants, the program can be amended to "de-regulate" and open the TDC market up to private-party transactions. But, at its beginning, it is important to have a Bank-oriented program.

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[19] The program would have a "transfer ratio," but it is not established in the ordinance and does not drive the program. In this case, transfer ratio would simply be the number of TDCs the Bank ends up selling to cover the costs of Naples development right purchases, amenity funds, administrative costs, and any interest payments on lent money divided by the number of Naples lots retired.

[20] Nor would it make sense – since developers are likely to pay for added density in amounts that do not "fit" into whole number Naples lot values

In theory, the Bank could start selling credits to receiving area developers once the County creates the commodity - thereby generating funds for Naples TDR purchases. However, we assume this would not be the case. It takes time for the process to enable "approved" receiving sites with entitled densities that exceed base zoning. Further, the program would only require developer payment for TDCs at the end of this process. For this reason, the Bank needs to be capitalized to purchase Naples development rights "up-front" as the TDR process unfolds.

In so doing, the Bank could be capitalized to create a revolving fund through a number of investment "layers" and repayment "options" based on the source of the capital and associated risk profile. In general there are three sources for Bank investment capital, these include:

- **Public Agencies**:
  Many successful TDR programs throughout the Country have used public agencies for funding. The TDR Bank in King County Washington used County and State grant money; The Malibu program used grants from the California Coastal Conservancy as did Cambria's program in San Luis Obispo; New Jersey's Bank[21]– the richest TDR Bank in the Country - was capitalized with $20 million in State General Fund money.

  Santa Barbara's TDR Bank could be seeded from such public sources as shown below.

  - Coastal Resources Enhancement Fund (CREF)
  - California Coastal Conservancy
  - California Coastal Commission
  - California Proposition 84 Bond money
  - California Resources Legacy Fund
  - County/ City Municipal Bond
  - NOAA, UCSB
  - Wildlife Conservation Board
  - Federal Fish and Wildlife Service
  - Funds contributed by receiving-area jurisdictions
  - A Future Real Estate Transfer Tax[22]

- **Private Investors:**

  - Private equity capital with market-rate return expectations
  - Private donors with minimal return expectations
  - Receiving area developers

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[21] This is in reference to the recent 2004 NJ State TDR legislation, NOT the NJ Pinelands TDR program.
[22] Such a tax is not in place in Santa Barbara, but can be an effective way to capitalize the Bank if it were to be adopted.

- **Non-profit Investors:**
    - Non-profit Land Conservation Organizations
        - Trust for Public Land
        - Conservation Fund
        - American Land Conservancy
        - American Farmland Trust
    - Non-profit Foundations
        - Packard, Hewlitt, etc.
    - Local non-profit Organizations
        - Land Trust for Santa Barbara County
        - Goleta Valley Land Trust
        - Naples Coalition member organizations

- **Public – Private Partnership**: a combination of public grants and private resources could work together in the form of matching grants and investments to pool resources.

The bank should be structured and operate such that invested capital would produce a specified return on investment (ROI). Rates of return would be structured based on associated risk of the particular investor. Investments in the TDR bank would operate similar to a CD or Bond such that money would be tied-up for fixed 2 or 3 year periods with repayment plus accrued interest due upon maturity of the revolving fund contract.

Seed capital from public agencies could be either grants, with no expectation of repayment, or "working capital loans" with repayment of principal plus accrued interest at low annual rates (3 to 5%).

In contrast, "private investors", who are focused primarily on risk and return parameters, would require higher rates of return in order to compensate for some of the uncertainties inherent in the program. These risks could be mitigated by reducing uncertainties, such as the potential dilution of TDC values by competitive up-zoning measures (see Step 5). Also, some private investors with strong sentiments toward land preservation may be willing to accept lower returns because their capital is being deployed to accomplish such purposes.

Either way, such returns have the potential to draw sizable amounts of investment to a TDR Bank. Initially, however, limited amounts of money can be expected to capitalize a Bank - thereby producing only limited amounts of Naples preservation. In this situation a municipal bond may be a good way to catalyze the process. Be that as it may, after several initial transactions occur and the TDR Bank/Program proves itself, more potential investors are likely to gain confidence in the system and may decide to participate. A successful TDR

Program would allow the Bank time to establish itself as a revolving fund for continued preservation.[23]

Step 5: Establish Amenity Funds for Receiving Area Neighborhoods

In addition, the program should incentivize receiving areas with "amenity funds" to mitigate the impacts of additional units built through the TDC process. This would help to alleviate neighborhood opposition to TDC density. The Bank would allocate funds to specific neighborhoods in Community Plan areas based on the number of TDCs sold and exercised. This "amenity fund" concept, however, comes with a price – that is, it would dilute the dollar availability to preserve Naples lots. But this is considered a necessary tradeoff to win public support for the Program.

Amenity funds would be in addition to any developer impact fees and would fund projects benefiting the impacted area. Care needs to be taken to ensure that amenity funds do not displace money that would have otherwise flowed into the area as developer fees or from other sources.

A process should be established such that for every increment of 5 TDCs sold and exercised in a particular community plan area (i.e. 5 additional units built), the Bank would "give" 10 percent of the total revenue from these credit sales to the Community Plan area for amenity and infrastructure enhancements in specified neighborhoods. The receiving communities would need to identify their leading uses for the funds and the Bank would have to allocate the funds to the Departments of Parks and Recreation or Public Works for these specified uses.

For example, let's say 15 TDCs are purchased and exercised by developers in a neighborhood of the Goleta Community Plan area. The Bank's recorded selling price of these TDCs is $200,000 apiece. Since the number of credits represents three increments of five, the money devoted to amenities by the Bank would be based on 10 percent of the sale of 15 TDCs. In other words, 0.10(15 x 200,000) = $300,000. The Bank would give this amount to the Parks and Recreation or Public Works to enhance the public infrastructure as identified by members of the neighborhood in the Goleta Community Plan area.

It is important to stress that the Bank's amenity funding would reduce the amount of preservation ($300,000 less in the example above) that can be accomplished for a given amount of development in the receiving area. This must be understood as a necessary trade-off to achieve receiving area support and neighborhood willingness to absorb additional density in a TDR Program.

Applying amenity funds via increments of every 5 TDCs sold uses the money efficiently, by triggering funding once a critical number of additional units have

[23] See discussion in step 1 regarding timing

been built – an amount that warrants investment in public infrastructure. Moreover, funding on increments of 5 minimizes the administrative process and amasses enough money to put in place effective enhancement projects. If an area only receives 2 additional units, then a public enhancement project valued at only $40,000 in the neighborhood is probably an inefficient use of amenity funds. Whereas funding on increments of 5 guarantees the least expensive project would be $100,000 in this case – a wiser use of the money.

Step 6: Adopt Policies to Mitigate Investment Risk and Retain Commodity Value

It is important that the County mitigate, as much as it can, the "risk" that is inherent to any potential investor in the TDR Bank. Not doing so will act to keep investors away.

Obviously to encourage public and private investment in a TDR bank the County needs to ensure the currency's value by limiting developer alternatives to achieve greater market-rate density. The County should discourage up-zones to greater market-rate density throughout the unincorporated areas of the South Coast without the purchase of TDCs. The Board of Supervisors should consider language in the TDR ordinance that clearly states any and all planned up-zones/rezones should occur through TDC purchases, including agricultural land conversions.

The County's affordable housing requirements – as mandated in the Inclusionary Housing Policy of the County Housing Element, *can* act in direct competition with a TDC market. However, we show that there is "room" for the two policies to co-exist.[24] Developer "willingness to pay" analyses for TDCs in Solimar's 2006 TDR feasibility study were based on 15% and 30% inclusionary requirements. Even with these affordable housing requirements, we showed that developers are willing to pay up to 20% of the selling price of houses for an increment of density (i.e. TDCs). But affordable housing obligations should not be required for the additional units a developer acquires through TDC purchases.

An important legal consideration is the relationship between the TDC option for additional market-rate density and the State Density Bonus Law for greater density. This law grants developers additional market-rate units contingent upon the provision of affordable housing. One way to avoid this potential conflict is by capping the outside density of any given receiver site at 50%, inclusive of density bonuses afforded under State law and the TDR Program.[25] This would allow both programs to co-exist and grant the developer the ability to determine which program (or combination) it chooses to achieve the 50% bonus.

In sum, specific language in the TDR ordinance will need to clearly articulate how the TDC option, the County's Inclusionary requirements, and the State Density Bonus law work in unison. Further, the Board should consider a TDR Ordinance stating that during the time in which the TDC bank holds outstanding debt

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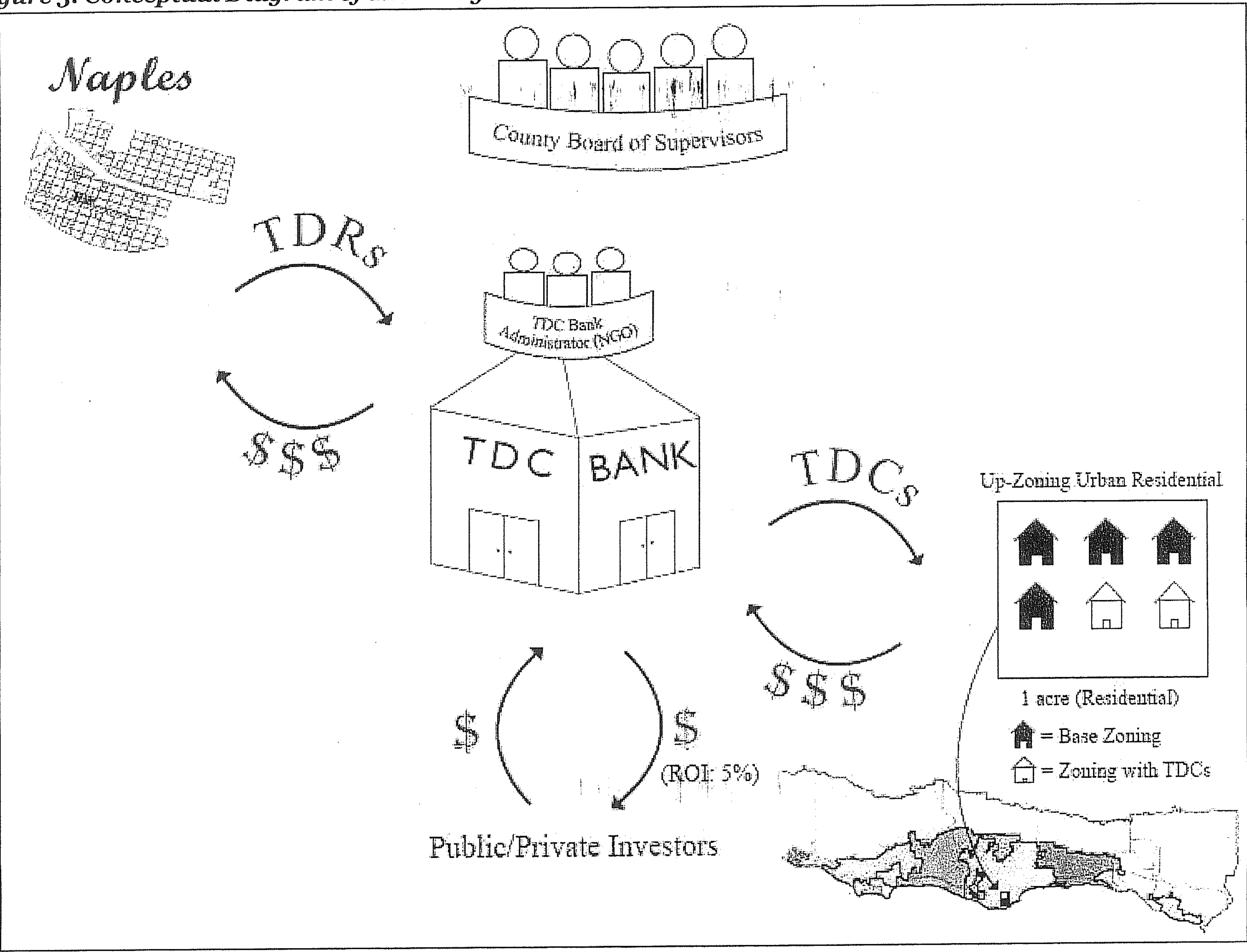
[24] The WTP analyses in Solimar's February 2006 TDR study were based on 15% and 30% inclusionary requirements. Even with these affordable housing requirements, developers are willing to pay for TDCs.
[25] Per preliminary discussions between P&D staff and County Counsel.

obligations the County will allow no other alternative routes to increased market-rate density besides the three mentioned above.

Figure 3. Conceptual Diagram of TDR Program



4. Example TDR Bank Transaction

With up-front capital, the TDR Bank operates by buying TD**Rs** from the sending site (i.e. Naples) and selling TD**Cs** to developers of "approved" receiving sites.

Let's say the bank is initially capitalized with a 3-year private equity investment of $5 million which is used to purchase TDRs from specific Naples lots, determined by the Board. Alternatively, the County could float a municipal bond with a similar outcome. Here is how the process would work to yield a 5% return on the $5 million investment.

- The Bank uses the $5million to buy transferable development ***rights*** (TD**Rs**) from identified Naples lots. Let's assume, pending further clarification of the value of Naples lots, that this would translate into 1, 2 or 3 lots preserved depending upon the lots' values and "target price" the bank is willing to pay.

- The Bank then sells as many transferable development ***credits*** (TD**Cs**) as necessary to developers of receiving sites to recoup the $5 million plus an additional $713,000 as a 5.00% return on investment (ROI) over 3 years. Considering the time value of money, this equates to a 4.54% Internal Rate of Return or IRR – a more important benchmark than ROI for potential investors (see appendix A Table 3 for example calculations). This money would be repaid at the end of the 3-year investor contract with the bank – not as annual payments.

- Let's assume two receiving area developers want to purchase TDCs – one in the Goleta Valley Community Plan area and another in the City of Santa Barbara. Each developer is "willing to pay" (WTP) different amounts for TDCs depending on the localized housing market. For this reason the selling price would be different from one area to the next.

    - The Bank, controlling the TDC supply, is able to set the price. The Bank evaluates the developer's WTP in each area and determines the price at which TDCs are sold to developers in a particular area. Generally speaking this is 18% - 20% of the expected selling price of a unit. This methodology is explained further in section 5 – Bank Administrative policies

    - As an example, let's say the developer in the Goleta Valley wants 10 TDCs and he/she is willing to pay $200,000 for each; the developer in the City wants 10 credits and is willing to spend $150,000 per TDC

- The bank sells the credits to these developers at the above mentioned prices to generate a total of $3,500,000 (i.e. 10 x $200,000 + 10 x $150,000).

- Since the Bank sold 10 TDCs to each of the two jurisdictions, it needs to pay "amenity funds." This would require the Bank to make payments to the Public Works Department that equal $200,000 and $150,000 for Goleta and the City of Santa Barbara respectively (i.e. 10% of TDC sales).

- In so doing, the $3.5 million worth of development value bought from Naples is translated into 20 additional homes in the urban south coast – assuming this preserves 2 lots at Naples, this represents a 1:10 transfer ratio.

- The Bank still needs to sell $2,563,000 worth of TDCs to pay off its investors (i.e. $5,000,000 as principle on loan + 713,000 as interest + $350,000 as amenity funds - $3,500,000 as revenue from TDC sales = $2,563,000). The TDC demand in the receiving areas *should* suffice as the program gains credibility.

If, however, after the three-year contract time has passed and an insufficient number of TDC transactions have occurred to pay the complete principal and expected return, then there are two possible scenarios: (1) if the investor is profit driven, he/she has imputed the possibility of loss into his/her return expectations and can tolerate such losses; or (2) if the investor is philanthropically oriented, they may choose to convert their investment into a grant to essentially purchase development rights from Naples.

It is important that the County and NGO overseeing the Bank are not held financially liable if the program fails. This must be "written into" the investor contract with the Bank.

5. TDR Bank Administrative Policies

The TDR Bank would be managed and operated either by an NGO or under County auspices. If it were to be managed by the County, the Bank's organizational structure could be a 3-member Board which acts as the administrative body.[26] This Board would take the necessary action and make the necessary decisions in furtherance of the adopted TDR ordinance. The Bank Board would have a Director who manages day-to-day operations, oversees all transactions, and compiles all necessary information for the other two members on any decision that requires a vote of the Bank Board. Decisions that would require a majority vote of the Bank Board are:

- The price at which the Bank is to buy TDRs from sending sites (i.e. Naples);
- The price at which the Bank is to sell TDCs to receiving area developers or other parties;
- Any contract agreement with potential investors, whether public or private; and
- Conditions of any inter-jurisdictional transfer agreement between the County and participating cities. Such agreements shall be approved by the County Board of Supervisors following Bank Board approval.

If the Bank were to managed by the County , the administrative body would have Board of Supervisor oversight. Using the example of a 3-member TDR Bank Board, the member composition could be: the County Planning Director, and 2 Board of Supervisor appointees – one as the Bank Director, and the other as a vote-casting member. It is important that the two appointees, and especially the Director, have backgrounds in finance and real estate. The Bank Director's roles would be to oversee all completed valuations, ensure the Bank's actions abide by the TDR ordinance, report to the Board of Supervisors, and negotiations with prospective buyers and sellers.

The Bank would cover its operating/administrative expenses through income generating commodity sales and program grants. Below is a description of the methodologies the Bank would employ to value TDRs and TDCs for the sake of negotiations with prospective sellers and buyers.

[26] The numbers on the Bank Board and its composition will be a political decision by the County Board of Supervisors

5.1 Bank TDR Valuation Methodology and Purchase Procedures

A valuation methodology needs to be "written into" the TDR ordinance to give the Bank procedures to buy TDRs and sell TDCs. That is, the Bank must have established procedures to determine "fair market" prices for Naples TDR purchases and set "floor" prices for TDC sales to receiving area developers.[27] This information will serve as negotiating parameters for transactions and does not obligate sellers and buyers to participate in transactions with the Bank at its prices.

The Bank should only be allowed to buy TDRs from sending sites that are in strict accordance with the TDR ordinance and are prioritized and "approved" by the Planning Commission / Board of Supervisors.

All "approved" sending site properties would only be allowed to engage in TDR sales to the Bank contingent upon the placement of a conservation easement on the property (recorded as a deed restriction to the title). The easement must sever, in perpetuity, the development right(s) from the bundle of other rights associated with ownership of said property. The Bank would subsequently hold or transfer to a Land Trust the easement on the property.

In all cases where the Bank is to purchase development rights[28] from Naples lots, a legal third-party appraisal valuation should be required by a certified appraiser who follows the standards as codified by the Standards of Professional Appraisal Practice (USPAP). The appraiser should be mutually agreed upon by the owner of the Naples lots and the TDR Bank Board. The appraiser's determination of development right value should serve as a price at which the Bank negotiates with the Naples lot owner.

There is some difference between valuation methods for property that holds existing entitlements (as would be the case for all development transfers in the program except Naples) and valuation for property that has yet to receive official entitlements (i.e. Naples). We seek to explain this difference – first, by addressing industry accepted valuation procedures on currently entitled property. Then we translate this information to procedures for currently un-entitled Naples lots.

As mentioned, the ultimate selling price of the development right(s) should be mutually agreed upon between the landowner and the Bank using a certified appraiser's determination of "fair market value" for purposes of equity and to establish the price at which the Bank negotiates payment for conservation easements (in our case TDRs) is rooted in, and indeed, is based upon previous Condemnation case law rulings. Eminent domain or Condemnation cases rely on

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[27] The Naples lot / development right valuations provided in Solimar's 2006 TDR Feasibility Study are not appraisals and the authors are not governed by Uniform Standards of Professional Appraisal Practice (USPAP). Adherence to USPAP is a requirement of the Appraisal Specifications of the State of California.

[28] The development right represents the right to build a primary and secondary residence on a legal lot.

the U.S. Supreme Court's established ruling in *Monongahela Navigation Co. v. United States*, wherein it was ruled that the owner's loss, not the taker's gain is the proper means of measurement of "just compensation." [29]

Moreover, the basis for "just compensation" is determined by the U.S. Department of Treasury regulation's citation of "fair market value": "The fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of the relevant facts." [30]

The often-used, and court-accepted, method of appraising conservation easements is derived from the "Federal Rule" of American Eminent Domain cases; it is also know as the "before and after" condition of valuation assignment. In its simplest form, the rule is: value before "taking" minus value after "taking" equals just compensation.

The IRS regulations suggest that the "before and after" value of the property subject to a conservation easement should be the model employed, in the similar manner to the Federal Rule for condemnation cases. Thus, in terms of an easement that severs the development right from a property in a TDR program, the value of the property in its "before" condition (i.e. with the existing development right(s)) minus the value of the property in its "after" condition (i.e. without development right(s)) must result in an amount that is the appropriate payment for the easement.[31]

Furthermore, the courts have demanded that an appraisal of a conservation easement must involve a "highest and best use" analysis in both the before and after conditions.[32] This term is defined as "the reasonable, probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value." The four criteria for "highest and best use" are: (1) legal permissibility, (2) physical possibility, (3) financial feasibility, and (4) maximum profitability. [33] [34]

This discussion firmly establishes where and how value should be determined for negotiations between the Bank and sending site landowner over the selling price of TDRs. In sum, TDR or easement value at the sending site must be through a certified USPAP appraiser based on "just compensation," "fair market value," "before and after approaches," and "highest and best uses."

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[29] Moss, Kioren; "*Understanding Conservation Easement Valuation*", Right of Way Magazine, April 2003.
[30] p6335 Treasury Regulation Section 20:2031-1b
[31] Moss, Kioren; "*Understanding Conservation Easement Valuation*", Right of Way Magazine, April 2003.
[32] Highest and best use refers to only financial results
[33] The Appraisal of Real Estate, Appraisal Institute 12th Edition 2001
[34] Moss, Kioren; "*Understanding Conservation Easement Valuation*", Right of Way Magazine, April 2003.

Assessing Value of Naples Lots

In terms of property that is not currently entitled, such as Naples, but which has valid legal lots,[35] the valuation methodology would use a similar approach to that described above, but with a few caveats. It is important to bear in mind that Policy 2-13 expressly references "development rights" as the basis of determining TDR feasibility, not simply the "as is" value of property without entitlement.

As a consequence, LCP Policy 2-13 creates somewhat of a "chicken and egg" situation as it pertains to determining value at Naples. That is to say, value will ultimately rest upon the extent of legal entitlements granted by the County; for Naples this is, at present, uncertain and is contingent upon the determination of TDR "feasibility."

Yet, TDR "feasibility" itself, also, hinges upon a determined value associated with Naples lots. Therefore, with regards to Naples, the TDR Program would require the Bank to apply appraisal valuation methodology without official entitlements before entering into negotiations with the Naples lots owner(s) regarding the price at which it purchases development rights.

A third-party appraisal for the Bank – under the TDR Program – would employ the four valuation criteria described above, but on "presumed entitlements" to anticipate the likely entitlement condition, rather than "as is" conditions. Doing so conforms to the "just compensation" and "highest and best uses" criteria for easement valuation.

This is commonly known in the appraisal world as a "hypothetical" appraisal. The method is not uncharacteristic and is commonly applied in situations involving subdivision tracks where the extent of entitlement at time of appraisal is uncertain. Doing so requires the appraiser to express the "hypothetical" as well as the "extraordinary" assumptions to qualify the values ultimately arrived at. A "hypothetical" assumption is based on some degree of certainty, while an "extraordinary" assumption is based on no degree of certainty.[36] The Bank can use the values and qualifying assumptions to negotiate a settled-upon price with the Naples lot owner(s).

Obviously, to accomplish Naples valuation for the Bank to negotiate prices, the County Board of Supervisors would have to identify which lots to value - "Grid lots," "MOU" lots or "Alt 1" lots – which will be based on the determination of feasibility, the extent of rezoning, and the time at which lots are purchased.

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[35] The Morehart Supreme Court Case did not grant entitlements to the Santa Barbara Ranch, rather it simply stated that the County must legally recognize the underlying Naples lots; the Court left the assignment of actual entitlements in the hands of the County.
[36] Moss, Kioren; USPAP certified appraiser

5.2 Bank TDC Valuation and Selling Procedures

The purpose in providing TDC valuation procedures is to establish a TDC "floor price" below which the Bank cannot sell the commodity. This ensures that developers do not acquire monopoly buying power with the as Bank the only seller in the market. In essence, then, this acts to make the transaction very similar to a density mitigation fee in the receiving areas where developers "pay" to build at densities greater than what zoning currently allows.

In essence the Bank needs to recapture part of the extra value generated by the County's granting of increased development potential on approved receiving sites. The Bank should have two options to set the prices that it must meet or exceed in all TDC sales:

1. A residual land value analysis should be conducted to determine how much a receiving area developer is "willing to pay" for increments of density. In so doing the receiving site developer would employ a third party appraiser – agreed upon by the Bank Board - to conduct analysis.

   The land residual methodology calculates the value of a development based on its income potential, and subtracts the costs of development and an expected developer profit to yield what he/she would pay for the land with enhanced entitlements. The difference between the current price of land, with its base density, and the "residual land value" with extra units allowed via the TDC density bonus, would be the Bank's "floor price" for TDCs.

2. 15% of the average per unit selling price of dwelling units in similar projects in the real estate market area surrounding the applicant's project derived from comparable sales by a Bank-approved MAI certified appraiser; or

The TDC selling price should be mutually agreed-upon by the Bank and the TDC purchaser. Either party shall not be obligated to participate in transactions if one or both parties find the determination of floor price inappropriate.

The Bank would sell TDCs to receiving area developers in strict accordance with the TDR ordinance that are "approved" by the Planning Commission / Board of Supervisors as set forth in the discretionary review process in step 3. In addition, we recommend that the County authorize the Bank to sell up to 10 TDCs per year to speculative parties that do not have a receiving site or receiving site project planned. This could act as a more immediate source of revenue to capitalize the Bank and retire Naples TDRs; rather than the time it may take to authorize a receiving site.

In this latter case, the Bank's TDC floor price should be set as 15% of the average annual per unit selling price of dwelling units in the South Coast HMA as derived

by a Bank-approved certified appraiser. This amount represents the average per unit willingness to pay Solimar found in the 2006 Feasibility study. Separate floor prices should be established for TDCs that would allow additional condo units versus single family residences. Subsequently, the certificates symbolizing the TDCs would need to be so labeled and restricted in their use.

5.3 Bank - Investor Contract Guidelines

The Bank, in addition to buying TDRs and selling TDCs, would look to attract private capital and public loans or grants to "seed" its revolving fund for continued land preservation. In so doing, the Bank would negotiate contract terms with these private and public parties; the terms would need to include:

- The amount of lent or "granted" money
- The time period for repayment of lent money
- The decided-upon rate of return for lent money, if any
- An agreement that absolves the County and the Bank of financial responsibility should the program fail to produce enough revenue from TDC sales to pay investors in full.

6. Feasibility of Funding the TDR Bank

Earlier we argued that to make the Naples TDR program work the Bank needs to be capitalized with funding up-front to buy Naples development rights in-whole. The Bank can then in-turn sell TDCs over time to pay back its investors through various repayment "options" based on the source of the capital.

It is presumed that annual funds provided to the Bank would be smaller at first but grow incrementally as the TDR program demonstrates its utility and gains momentum. Early capitalization of, and participation in, the Bank will depend upon investing parties being confident that the risk in loaning money to the Bank is reduced to effectuate an acceptable outcome. That is, investors will need to see that lent money will go towards a program that will survive into the future, affect Naples preservation, and offer some degree of repayment.

To gain this requisite investor confidence, interested parties will need to witness and be assured of all the following:

- The County's commitment to the TDR option – namely, a determination of feasibility by its elected officials, and a development agreement that gives the TDR program a period of time that would not jeopardize the ability to secure adequate funding of the TDR Bank to achieve preservation;

- The likelihood that the County and/or participating cities will indeed grant higher densities via the purchase of TDCs on eligible receiving sites. It is likely that an initial receiving site(s) will need to prove as a catalyst to jump start the TDR program;

- A demand for TDCs does truly exist such that the TDR Bank can effectively sell TDCs to receiving area developers as a source of revenue. We show that a strong developer willingness to pay for incremental density exists along the South Coast of Santa Barbara County where scarce land is very expensive. But, the process to identify receiving areas needs to structured such that it actually creates developer demand for TDCs rather than turn developers away because of a lengthy and costly process; and

- The County's prohibition on routes to higher density except as allowed by the TDC option and the State Density Bonus law.

Because of these initial uncertainties and risk, the County and/or the cities could serve as a catalyst and provide seed funding through a variety of possible sources and arrangements (i.e., forgivable contributions, investment capital, bond proceeds, etc.) . This would give potential investors the confidence that the government is behind the program.

As mentioned in Section 3 (step 4) there are a myriad of public, private and non-profit organizations that could play a role in the County's TDR Bank. We conducted a preliminary assessment of several organizations as to their respective interests in either serving as a source of funding for the Bank and/or playing a role as the Bank's manager. In particular, we talked to the following parties:

- Trust for Public Lands (TPL)
- California Coastal Conservancy
- Conservation Fund
- Land Trust for Santa Barbara County
- Prop 84 funding sources

Generally speaking, each professed a degree of interest and potential willingness to participate, except the Land Trust for Santa Barbara County. Yet, each have reservations based on the concerns previously mentioned. Independently these organizations indicated that as a first step to their consideration to participate in or play a role with the TDR Bank, the County must demonstrate a clear commitment to the TDR program. Thus, until such action is taken we conclude that any and all potential funding sources area simply "waiting to see" what action the County pursues.

Some specifics, however, came out of our conversations. In particular, TPL showed some interest as both a potential funding source and operator of the Bank. However, if they were to manage the Bank it would need to be structured different from what is outlined in this report. The Conservation Fund expressed a similar interest and curiosity to that of TPL. The Coastal Conservancy, likewise showed interest as a potential funding source, but has no interest or institutional capacity to operate the TDR Bank.

Finally, California Proposition 84 Bond funds could serve as a source of available funds. There are certain "pots" of money devoted to land preservation within the $5.4 billion measure that passed in November of 2007. With the passage of Prop 84 "the State will provide funds to purchase, protect, and improve natural areas – including wilderness and open space areas; wildlife habitat; coastal wetlands; forests; and rivers, lakes, streams, and their watersheds." If the County were to adopt a TDR program, it should make as a priority, for its Sacramento lobbyist, to ascertain just how much of the various Prop 84 "pots" could be allocated to Santa Barbara County's TDR Bank to generate preservation at Naples.

One thing is for certain, when it comes to raising funds for land conservation – money follows money. After several initial transactions occur and the TDR Bank/Program begins to prove itself, additional revenue sources are likely to gain confidence in the system and are more likely to participate. A Naples TDR Program should be structured, if it is to be successful, such that it gives the Bank time to establish itself as a revolving fund for continued preservation.

7. Sending / Receiving Site Criteria

There are, essentially, three ways to identify sending and receiving sites in a TDR program. Programs can be structured such that they: (1) target specific parcels on a map, (2) identify existing zoning classes in designated areas as the parcels to receive TDR density, and or (3) use criteria to establish a filter to determine eligible sites.

Given the communities' sensitivities to "pre-designating" sites along the South Coast as either sending or receiving, we propose a "criteria driven" as opposed to a "map driven approach." This allows landowners themselves to opt-in to the program and apply for sending or receiving site status.

Providing clear criteria is meant to establish certainty in the designation process. But, the Board of Supervisors would have discretion and right of review in the program. We propose the following criteria to determine whether a property is eligible as sending site or a receiving site in the unincorporated areas of the County.

7.1 Sending Area Eligibility Criteria

In regards to this initially-Naples-specific TDR program, only the *Naples lots* that exist on the Santa Barbara Ranch and adjacent properties at time of sale - as prioritize by the Board of Supervisors - would be eligible sending sites (see section 3 Goal #1). These lots could be either "Grid," "MOU" or "Alt 1" lots depending on the County's decision of TDR feasibility as directed under LCP Policy 2-13 and the subsequent extent of re-zone from Ag zoning to a special Naples zoning district.

Appendix D describes the potential criteria for sending sites other than Naples if the TDR program were to be so used in the future.

7.2 Receiving Area Eligibility Criteria

This section describes receiving site eligibility criteria for the unincorporated areas of the County; other jurisdictions are assumed to have developed their own criteria and procedures to identify potential receiving sites.

The single most important aspect of a receiving area is its ability to support development. Obviously the land should be suitable for development and not unduly constrained by severe topography, wetlands, and environmentally sensitive habitat areas. Nor should it qualify under any criteria laid out above for sending sites.

Receiving areas should be identified as parcels in high demand for development and be near existing transportation, sewer, and water infrastructure. This acts to minimize site development costs, making TDR purchases more attractive to developers. Further, it is imperative for residents in receiving areas to see the net benefit of preservation that the increased density brings.

As was expressed for sending site eligibility, the Board of Supervisors would have discretion as to which sites are ultimately identified as receiving areas. The point in establishing receiving area criteria is to provide a degree of certainty in the process such that not just any urban parcel could apply for receiving site status.

Only when a parcel meets ALL the following criteria can a landowner apply to the County P&D to be considered as an "eligible" receiving site. Once P&D deems a site eligible, it is then passed on to the Planning Commission for step 1 in the discretionary review process.

We propose the following criteria to determine receiving site eligibility:

1. The site is within or adjacent to the South Coast UGB
2. The developable footprint of the site has less than 30% slope
3. The site is not located in a designated flood or geologic hazard area as determined in the County's Land Use Element
4. The site is not currently under agricultural production *and* has less than 25% class I soils
5. The developable portion of the site is not located in a natural area or areas of environmental sensitivity, critical habitat, or riparian zones.
6. In addition, all sites inside and adjacent to the UGB, currently being considered by the County for up-zone from agriculture to residential zoning or from lower density residential zoning to higher density residential zoning, should be included in the pool of eligible receiving sites, regardless of whether or not they meet criteria 1 - 6.
7. Similarly, all parcels with proposals for secondary dwelling units should be included in the pool of eligible receiving sites regardless of whether they meet criteria 1-6.
8. Potential sites located inside South Coast cities would be based on the jurisdictions' process of receiving site identification. The County's program will facilitate this through inter-jurisdictional agreements (section 7).

8. Inter-jurisdictional Agreements

An inter-jurisdictional TDR agreement between the cities of the South Coast and the County is meant to ensure that participating cities can condition a transfer of development rights to capture their desired outcomes. For example, a city may wish for particular lots to be preserved that do not align with the County's goals for preservation at Naples. The City, by accepting the burden of increased density should be allowed to provide input on which lots it wants preserved.

Moreover, a city may have on-going TDR policy ideas of its own, and an inter-jurisdictional agreement should identify how best to "dovetail" a city's TDR policy with the County's TDR ordinance. In addition, when development potential is transferred from unincorporated to incorporated areas the cities bear the burden of increased pressure on their infrastructure. To mitigate this pressure, "amenity fund" payments from the sending jurisdiction should be paid to the receiving municipality. For example, in King County Washington, the County is paying the City of Seattle $500,000 for infrastructure enhancements associated with development right transfers into Denny Triangle.

In sum, an effective inter-jurisdictional agreement allows cities to readily "opt-in" to the County's Program and "tailor" aspects to suit their needs. These agreements may contain additional rules to govern development right transfers that are beyond the guidelines outlined in the County's TDR ordinance. An effective inter-jurisdictional agreement should leave both parties content that they are mutually benefiting from a transfer of development across municipal boundaries.

Some of the critical issues an inter-jurisdictional agreement should address are shown below. A *draft* agreement is shown in Appendix B; it shows how these issues would be manifested in a binding agreement between two jurisdictions and serves as a starting point for discussion between City and County officials.

The critical areas where participating cities will need to have some degree of authority to condition transfers are:

- Which Naples lots are preserved through development right transfers
- Where and how TDCs would be exercised in a City's jurisdiction
- The Bank's allocation of amenity funds – how much, when, and to what project
- A voice on the TDR Bank Board to affect the price at which Naples TDRs are purchased and TDC's are sold

8.1 City of Santa Barbara's TDR Policy Options

Recognizing that Naples is important to its residents and their quality of life, the City of Santa Barbara has shown interest in its preservation. Furthermore, City officials realize that having a TDR-like mechanism to affect land preservation within its own jurisdiction, regardless of Naples, would be beneficial.

This section outlines a few policy options the City of Santa Barbara has been considering or could adopt in its efforts to affect land preservation either at Naples or on properties inside City limits. Exploring these methods in this report is worthwhile to see how such policies would "dovetail" with the County's TDR Program in an inter-jurisdictional agreement.

The most plausible option the City may have to generate funds for land preservation is not through TDR, but rather through the imposition of a development impact fee on all new market rate units. Since the City currently has no impact fees, it could consider setting aside 50 percent of a newly imposed impact fee to a fund for open space preservation. The revenue from this could be utilized by the County's TDR Bank to retire Naples lots.

However, the revenue potential from such an impact fee is likely to be minimal. If the City were to impose a $30,000 per market rate unit impact fee – similar to the County – at 50% devoted to an open space fund, $15,000 would be generated per new to affect preservation. Given that the City permits on average 120 market rate units per year, then the impact fee could yield $1.8 million annually.

This, however, is a very high fee. More realistically, a $10,000 fee would yield $5,000 per unit for preservation. In an average year this would generate $600,000 for preservation.

If the City's priority was to transfer Naples lots most visible from Highway 101, the number of Naples ALT 1 lots retired would range from 3 to 1 based on the higher and lower impact fee revenues respectively. This is based on findings in the 2006 TDR Feasibility Study which reports an average development right value of $500,000 for lots visible from Highway 101.[37]

As an alternative to an impact fee, the City could consider a density mitigation fee - similar to the purchase of TDCs in the proposed County program. With this option, developers would pay for the right to build additional market rate units above baseline zoning. This has the potential to generate a more significant funding source. But the impact fee is probably easier to accomplish politically

[37] The valuations in the 2006 TDR Feasibility study are currently being updated to reflect "Grid" lot values; so this development right values are subject to some degree of change.

than the density mitigation fee wherein receiving areas would need to be identified and developers charged for the extra density they build.

However, the density fee option could prove flexible and allow developers to purchase additional FAR rather than whole units. It could accomplish this on a zone by zone basis – for example, properties in R-2 or R-3 zones could be allowed to exceed base density and height limits with density fee payments. The density mitigation fee could also be structured to allow secondary dwelling units in certain areas with R-1 or R-2 zoning.

It remains to be seen how open the City is to the idea of allowing developers to buy their way to greater densities. But, just like the impact fee revenue, the money from density fees could be utilized by the County TDR Bank to retire Naples lots.

Using the example above, if the City permits 120 market rate units each year, modest density increases that average 25 percent would equate to 30 additional units permitted each year above the typical 120. Using the findings from the 2006 Feasibility Study, developers in the City of Santa Barbara may be willing to pay up to $150,000 for the right to build an extra unit; therefore 30 additional units would yield $4.5 million that could be used to retire 9 Highway 101 view-impacting Naples lots.

The City Bainbridge in Washington State – an area of the country known for successful TDR programs - serves as an example of a density mitigation fee program. The City of Bainbridge has a FAR purchase program whereby developers pay a fee for additional FAR; 60% of the fee is allocated to open space acquisition and 40% to downtown amenities. The big advantage of this program over a traditional TDR program is that it allows the City to control how to allocate funding to achieve community preservation goals. Moreover the program offers a more direct method to qualify for bonus densities; the City sets a fixed price per square foot for addition FAR and thereby bypasses any need to determine prices that are appropriate for sending /receiving areas (i.e. a transfer ratio). In this way developers are able to buy as much or as little FAR as needed rather than purchase individual development rights.

Berthoud Colorado serves as example of a City with an impact fee devoted to open space preservation. The City calls its impact fee a "density transfer fee." It sits at $3,000 per single family home and $1,500 per multifamily residence; 6% of fee is spent on admin and 94% on open space acquisitions.

Both the impact fee and density mitigation fee options may conflict with the City of Santa Barbara's goals to overhaul its Inclusionary Housing requirements. At present, the City requires projects with 10 or more units to include 15 percent affordable housing. As a result, the City gets a lot of projects with unit counts under 10. To remedy this and provide affordable housing, City officials may change the requirements to be more stringent.

Policy may change such that the percent of required affordable units will increase and the threshold number that triggers the affordable requirement will decrease. The City will undoubtedly face opposition to this from the development community. The challenge will prove even more significant if City officials try to simultaneously impose an impact fee for open space preservation.

8.2 Dovetailing the County and City's TDR objectives

Both of the City's options - the impact fee or the density mitigation fee - would "partner" with the proposed County TDR program in a future inter-jurisdictional agreement. In this situation the County's TDR Bank would not sell TDCs to the City. Rather, the City would sell its own version of density credits – either through a density mitigation fee or as a development impact fee. The funds generated through the City's mechanism could be transferred into the TDR Bank for purchases of Naples development rights.

A binding inter-jurisdictional agreement would allow the City to condition such a transfer and use of its funds such that the City's goals for Naples preservation are met, and amenity funds are received.

If the City and the County cannot come to a TDR agreement, or if the City finds that the benefits of preservation at Naples do not balance the burdens incurred either by allocating impact fee funds or granting greater densities, then it could simply apply the program to sites within its own jurisdiction, as the City has no shortage of lands within its purview that are in need of preservation through such a mechanism.[38]

[38] Examples of this include the Los Positas property.

Appendix A: *Draft* Santa Barbara County TDR Ordinance

NOTE: To review the draft TDR Ordinance, please see Attachment H of the Planning Commission Staff Report for the Santa Barbara Ranch Project – Transfer of Development Rights for the meeting of September 26, 2007. Alternatively, a copy of this document may be viewed at the Planning and Development website under "Current Projects and Programs" - Santa Barbara Ranch (http://sbcountyplanning.org/projects/03DVP-00041/index.cfm).

Appendix B: *Draft* Inter-jurisdictional Agreement

The below is simply an example of what an agreement may look like between the City and County

AN INTER-JURISDICTIONAL AGREEMENT TO TRANSFER DEVELOPMENT RIGHTS FROM THE NAPLES TOWNSHIP IN SANTA BARBARA COUNTY TO THE ____________ PROPERTY IN THE CITY OF SANTA BARBARA

This Agreement is hereby entered into by Santa Barbara County, herein referred to as the "County," and The City of Santa Barbara, herein referred to as the "City."

RECITALS

WHEREAS, the County's Local Coastal Plan Policy 2-13 indicates that the County shall encourage and assist the transfer of development from the Naples townsite into existing urban areas; and

WHEREAS, the Naples townsite in the County is recognized as containing important county-wide public benefits including ______________; and

WHEREAS, the City, being "an existing urban area" has expressed a willingness to work with the County to transfer *some* development potential from Naples; and

WHEREAS, the County has in Ordinance ____________ developed a transfer of development right program which authorizes incorporated areas to assist the TDR Bank in its purchases of Naples development rights; and

WHEREAS, by Inter-jurisdictional Agreement, the County, and the City, agree to operate with the adopted and ratified TDR Policies for Naples in Santa Barbara County; and

WHEREAS, by City Ordinance _________, the City's General Plan designates ___________ area as an area that meets the criteria in the City's Planning Policies permitting an increase in the development capacity; and

WHEREAS, the City and the County share an interest in creating an effective, cooperative development right transfer system to achieve Regional South Coast TDR goals; and

WHEREAS, this shared interest is manifested through an ongoing partnership in which the City and urban areas of the County take additional development to preserve rural land and the County's TDR program invests in receiving area amenities; and

WHEREAS, the County and the City are authorized, pursuant to ________ and the California State Constitution, to enter into an inter-jurisdictional governmental cooperation agreement to accomplish these shared goals.

AGREEMENT

NOW THEREFORE, in consideration of the foregoing circumstances, the County and the City herein agree:

I. PURPOSE

The County and the City agree to implement a program (hereafter the "Program") to purchase development rights (hereafter referred to as "TDRs"), from the rural unincorporated area of the County known as the "Naples Townsite." Funds for the purchase of these rights shall be generated through sales of density credits to the ____________ property(s) according to the provisions described below.

II. RESPONSIBILITIES AND POWERS OF THE CITY OF Santa Barbara

A. City Ordinances

The City has adopted Ordinance ____________ to implement a Program, which has, among other provisions:

1. designated the ________________as a receiving area(s) which can exceed the density or FAR allowed by base zoning with the purchase of City-approved density mitigation fees or TDCs (i.e. density credits).
2. set the appropriate level of additional development that may be permitted on a receiving site(s) with TDC purchases;
3. established and modified development standards and provisions for public amenities;
4. established the _______________ receiving area Amenity Fund;
5. established a procedure by which funds generated through sales of City TDCs may be transferred to the County's TDR Bank to retire development rights from Naples lots.

or

The City has adopted Ordinance ____________ to implement a Program, which has, among other provisions:

1. created a TDR purchase fund through the requirement of development impact fees
2. established procedures by which TDR purchase funds may be transferred to the County's TDR Bank to retire development rights from Naples lots.

B. Prioritization of Sending Sites

The City, jointly with the County, shall establish priority Naples Lots to serve as sending sites for inter-jurisdictional development right transfers. The City and County hereby agree to prioritize for purchase Naples lots with the following APN numbers: ____.

C. Purchase Price of TDRs

The City may, jointly with the County TDR Bank Board, negotiate the price at which TDRs from Naples lots are purchased. If the decided-upon TDR purchase price does not meet the City's expectations it is not obligated to transfer funds to the County TDR Bank for their purchase.

In all County Bank purchases of Naples TDRs with City funds, the City is entitled a representative(s) to the TDR Bank Board. The City representative(s) is hereby granted veto power on any Bank Board vote to decide TDR purchase price(s) with City-generated funds.

D. Selling Prices of TDCs

The City retains its authority to set the price at which TDCs are sold to receiving site applicants in its jurisdiction. The City may opt to utilize the County TDR Bank and its process to set TDC floor prices, if so desired.

E. County Acknowledgment; Modifications

The County acknowledges that the provisions of such Ordinances are consistent with the intent and purposes of the County's TDR Program. The City may modify the terms and conditions by which it participates with the City.

F. Notification Process

The City, in consultation with the County, shall develop a process to notify the County and TDR Bank when it has accepted the use of TDCs for the receiving site project. The City shall also notify the County when it has received payment for TDCs.

G. Amenity Fund

The City shall create a "receiving area amenity fund" for all amenity payments received by the County

III. RESPONSIBILITIES AND POWERS OF SANTA BARBARA COUNTY

A. Program Administration

The County shall adopt polices, regulations and administrative procedures to implement the Program, which shall promote and facilitate the purchase of Naples TDRs. The County shall, at a minimum:

1. establish a TDR Ordinance with procedures for the certification of sending and receiving sites;
2. establish a TDR Ordinance with a provision to allow inter-jurisdictional transfer of funds to purchase and retire Naples development rights;
3. establish a TDR Bank with procedures to facilitate the purchase of Naples TDRs and sales of TDCs to approved receiving sites;
4. identify Naples lots as priority sites to purchase development rights;
5. establish receiving site amenity funding procedures;
6. establish procedures to require, maintain and enforce deed restrictions on rural unincorporated sending sites from which development rights are bought, in order to prohibit those sites from being developed in violation of the deed restrictions;

B. Purchase Prices of TDRs

Within 60 days after this agreement is signed by both parties, the County shall ensure that the TDR Bank, in consultation with a City representative, makes its best efforts to establish, the not to exceed purchase price of development rights from Naples lots that are prioritized by the City and County.

C. Timing TDR Purchases

Within 90 days of receiving City funds, the TDR Bank shall have purchased Naples TDRs, and have on record a conservation easement severing development rights from the Naples lots decided upon for transfer. If after 90 days the County has not accomplished this, the County shall transfer all funds back to the City.

D. Provision of Amenity Funds to the City

Only if the City transfers funds to the County's TDR Bank that were generated as the result of density increases, shall the County pay amenity funds to the City. County amenity fund payments are meant to help mitigate the impacts of increased density, and shall follow the process in IV below.

IV. PUBLIC AMENITY PAYMENTS

A. Public Amenities

An increase in the development intensity of a site in the City for the purposes of generating funds for the TDR Bank to purchase Naples TDRs shall require the County to make amenity payments to the City. The County's payment shall be in addition to any amenity funds the City itself generates through the sales of additional density.

The County and the City mutually agree the amount of payment is to be derived from the number of Naples development rights that are purchased and retired by the Bank.

The County hereby agrees to pay the City $XX.XX_as an amenity payment to help mitigate the impacts of additional density. The County shall ensure the TDR Bank deposits these funds to the City's "receiving site amenity fund" on or before x/x/xx or within 60 days of the completed receiving site project.

B. Eligible Amenities.

The amenity funds shall be expended to help mitigate the impacts of added density in and around the site receiving additional density. The City must spend funds provided by the TDR Bank for the development of amenities consistent with the following:

1. sidewalk widening, pedestrian and street improvements;
2. transit facilities, incentives to use transit, and improved transit service for residents;
3. parks, open space acquisition or improvements, gardens, gateways, and recreational and community facilities;
4. drainage improvements; and

C. Funding of Amenities

1. First $100,000...would go towards
2. Next $100,000...would go towards
3. Future Amenity Funding

D. Expenditure of Funds

Any project or activity which funds for amenities are provided by the TDR Bank to the City, must be completed within five years of the receipt of the funds by the City. If any such project or activity is not completed within five years, then any funds provided for such project or activity by the TDR Bank, not yet expended on costs of such project or activity, must be returned to the Bank with interest earned by the City and not yet expended for such costs.

VI. DURATION

A. Duration

This Agreement shall become effective on the date it is signed by all parties and shall continue until …

B. Termination

C. Extension

VII. INDEMNIFICATION

A. County Negligence

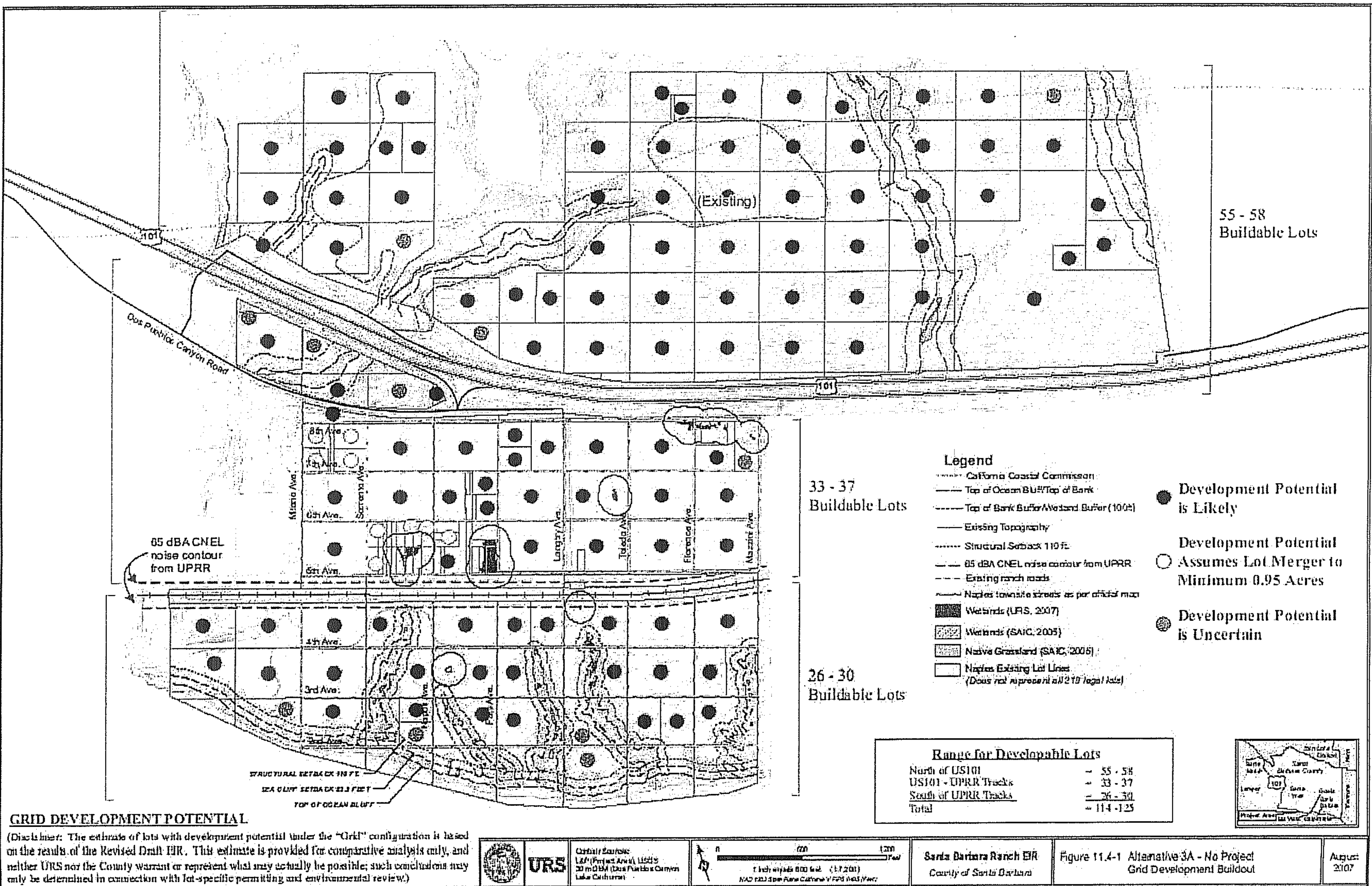
B. City Negligence

C. Concurrent Negligence

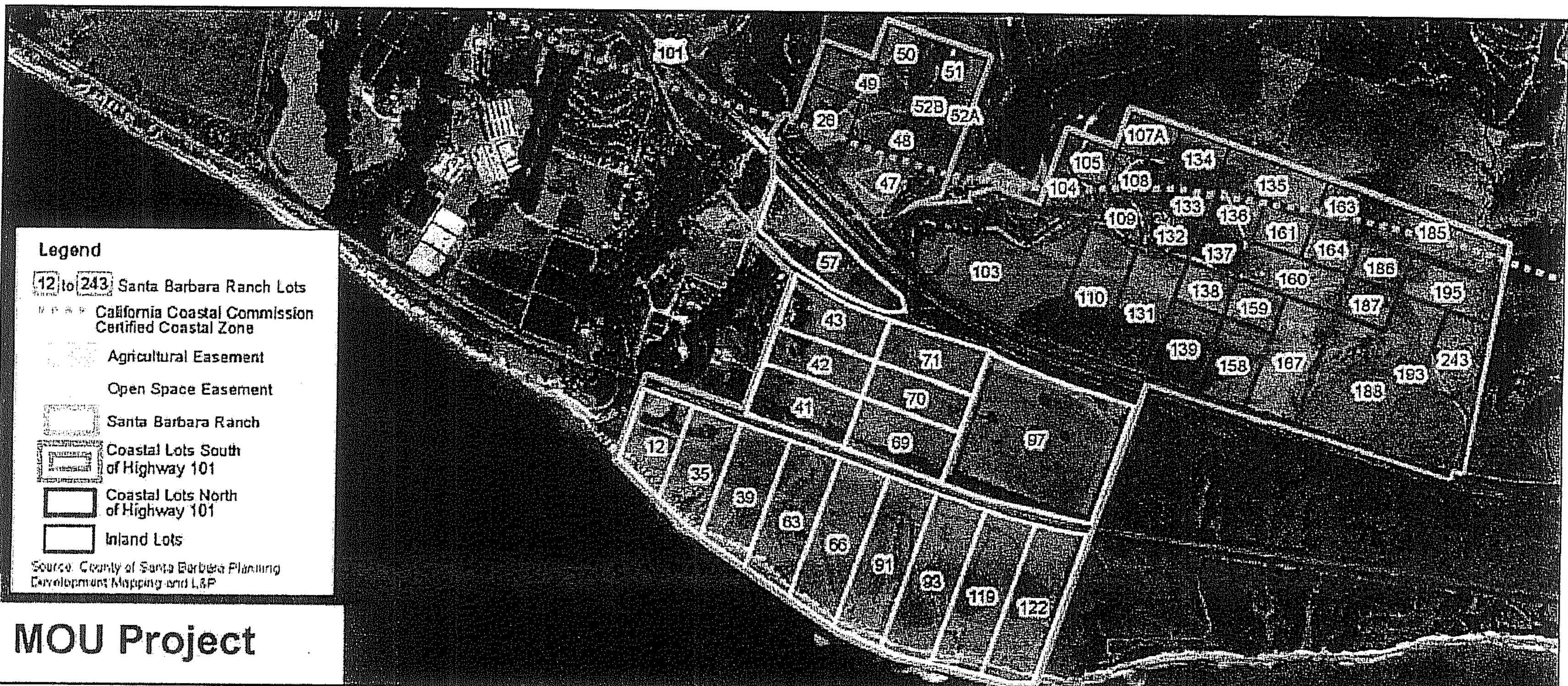
Appendix C: Naples/Santa Barbara Ranch Maps

1. Map of Naples "Grid" lots
2. Map of Naples "MOU" lots
3. Map of Naples "ALT 1" lots

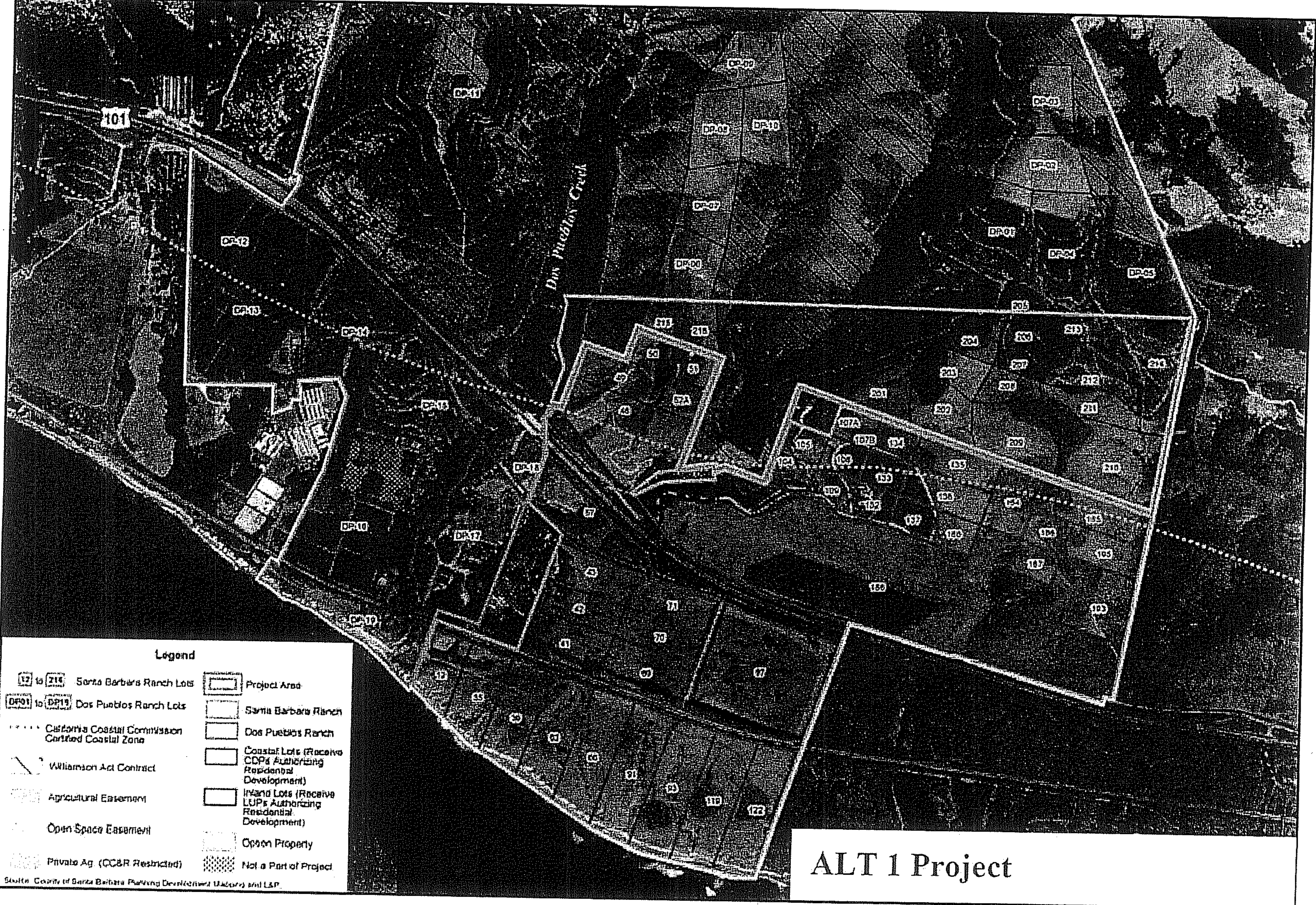
Map 1: Naples "Grid" Lots



Map 2: Santa Barbara Ranch "MOU" Lots



Map 3: Santa Barbara Ranch "ALT 1" Lots



Appendix D

Table 1: WTP summary results (from 2006 Feasibility Study)
Table 2: Potential Transfer Ratios (from 2006 Feasibility Study)
Table 3. Example TDR Bank Investment Return
Table 4. Sending Site Criteria (for sites other than Naples)

Table 1 Receiving Site WTP Summary Results

#s in (...) corresond to location on maps in Appendix A

Jurisdiction	SITE	Development Potential								Scenario #1 100% Market rate Units)		Scenario #2 15% Workforce rate* Units)		Scenario #3 30% Workforce rate* Units)	
Unincorporated Santa Barbara County		Gross acres	Buildable Area		Underlying Zoning (Units/Acre)	Development Potential w/ Underlying Zoning (# Units)	Possible TDR-Based Rezoning (Units/Acre)	Increased Development Potential w/ TDR-Based Rezoning (# Units)	Maximum Total Development Potential (# Units)	WTP Willingness to Pay (per Unit)	Total TDR Value (WTP x # TDR units)	WTP Willingness to Pay (per Unit)	Total TDR Value (WTP x # TDR units)	WTP Willingness to Pay (per Unit)	Total TDR Value (WTP x # TDR units)
South Coast Urban															
Map A	Noel Christmas Tree Farm (1)	26	60%	15.6	0.2	3	4.6	69	72	$ 182,780	$ 12,567,984	$ 142,237	$ 9,780,212	$ 101,692	$ 6,992,343
	MTD (7)	19	90%	17.2	0.2	3	4.6	76	79	$ 198,847	$ 15,136,231	$ 158,301	$ 12,049,904	$ 117,756	$ 8,963,574
	County Campus (9)	37.5	58%	22	0	0	3.3	73	73	$ 388,136	$ 28,178,706	$ 318,196	$ 23,101,059	$ 248,256	$ 18,023,377
	St Vincents - West (8)	33.4	60%	20	1	20 (including east)	3.3	46	66	$ 443,136	$ 20,388,351	$ 337,322	$ 15,519,952	$ 231,510	$ 10,651,629
	More Mesa (14d)	265	15%	40.5	1.8, 3.3, 0.7	70	3.3, 0, 1.8	23	93	$ 825,247	$ 18,980,676	$ 291,297	$ 6,699,836	$ -	$ -
MAP C	Montecito Orchard (2)	30.5	60%	18.3	0.2	3	1.8	30	33	$ 582,619	$ 17,443,604	$ 499,350	$ 14,950,537	$ 416,081	$ 12,457,457
	Montecito Area 3 (3)	21.3	60%	12.8	0.3	4	1.8	19	23	$ 565,289	$ 10,816,243	$ 443,207	$ 8,480,341	$ 6,144,464	$ 321,128
City of Santa Barbara															
Map B	Wright Property - East (3)	13	60%	7.79	0	0	20	156	156	$ 312,440	$ 48,703,164	$ 259,331	$ 40,424,584	$ 206,223	$ 32,146,005
	Cota St City Parking Lot	1.46	100%	1.46	0	0	50	73	73	$ 277,441	$ 20,253,216	$ 224,519	$ 16,389,886	$ 171,599	$ 12,526,710
	Haley / Anacapa City Parking Lot	1.7	100%	1.74	0	0	50	87	87	$ 278,088	$ 24,193,643	$ 225,165	$ 19,589,397	$ 172,244	$ 14,985,256
	Chapala / Carillo City Parking Lot	1.27	80%	1	0	0	50	51	51	$ 67,255	$ 3,416,564	$ 14,334	$ 728,158	$ -	$ -
	Lousie Lowry City Parking Lot	0.81	100%	0.81	0	0	50	41	41	$ 294,801	$ 11,939,449	$ 241,880	$ 9,796,142	$ 188,959	$ 7,652,834
	City Redevelopment Site (5)	2.5	80%	2	0	0	20	40	40	$ 378,915	$ 15,156,606	$ 325,806	$ 13,032,239	$ 272,697	$ 10,907,892
	Pony Lot Redevelopment Site (7)	2.0	70%	1.4	0	0	20	28	28	$ 334,763	$ 9,373,352	$ 281,653	$ 7,886,280	$ 228,544	$ 6,399,237
South Coast Rural															
MAP E	Winchester Canyon														
	Vincent's Property (R1 a & b)	163	40%	65	0.01	1	3.3	214	215	$ 283,267	$ 60,664,510	$ 229,912	$ 49,238,017	$ 176,557	$ 37,811,524
	Cavalletto Property (R1 c)	100	20%	20	0.01	1	1.8	35	36	$ 448,780	$ 15,707,309	$ 358,577	$ 12,550,200	$ 268,374	$ 9,393,092
MAP A	Rural Area 3	189	30%	56.7	0.05	6	1.8	96	102	$ 473,245	$ 45,459,914	$ 383,045	$ 36,795,256	$ 292,841	$ 28,130,310
	Rural Area 4	166	30%	49.8	0.025	3	1.8	87	90	$ 474,663	$ 41,124,808	$ 384,462	$ 33,309,791	$ 294,257	$ 25,494,451
MAP D	Glen Annie Golf Course (rural 2)	156	30%	46.8	0.01	1	1.8	83	84	$ 475,816	$ 39,606,884	$ 385,610	$ 32,098,248	$ 295,409	$ 24,589,875
MAP C	Summerland-eastern bluffs (rural 6)	29.0	50%	14.5	0.3	5	1	10	15	$ 747,745	$ 7,103,575	$ 579,233	$ 5,502,716	$ 410,725	$ 3,901,884
Santa Ynez Inner Rural															
Map G	Inner Rural Inventory - 21 parcels (81 potential lot splits @ 1unit/10 ac)	942			0.025	13	0.1	81	94	$ 167,785	$ 13,590,605	$ -	$ -	$ -	$ -
	Housing Summit Group Site #1	16.2	60%	9.7	0.1	1	4.6	44	45	$ 129,864	$ 5,664,685	$ 100,857	$ 4,399,365	$ 71,848	$ 3,134,016
City of Carpinteria															
Map F	Bluffs 1	23	60%	13.8	1.8	25	3.3	21	46	$ 659,012	$ 13,641,557	$ 315,035	$ 6,521,219	0	0
City of Goleta															
Map D	Ellwood Canyon (1)	33	60%	19.8	0.1	2	4.6	89	91	$ 184,559	$ 16,440,539	$ 143,890	$ 12,817,716	$ 103,222	$ 9,195,058
	Couvillion (2)	14	60%	8.4	0.025	0	4.6	39	39	$ 184,371	$ 6,939,725	$ 143,704	$ 5,409,033	$ 103,036	$ 3,878,278
	Bishop Ranch (4)	287	60%	174	0.025	4	4.6	796	800	$ 185,819	$ 147,986,647	$ 145,152	$ 115,598,928	$ 104,484	$ 83,211,208
	Across Camino Real (10)	32.8	90%	29.5	0	0	20	590	590	$ 184,559	$ 16,440,539	$ 143,890	$ 12,817,716	$ 103,222	$ 9,195,058

* workforce indicates affordable unit selling price targeted to a 4 person HH household that is 120- 200% of the Area Median Income (AMI) of $64,700. This translates to be $450,000 in the City of Santa Barbara and $330,000 in the County.

Table 2 Example Transfer Scenarios (ALT 1)

Table 7.4 Example Transfer Scenarios (ALT 1 project)

Option		Scenario 1: Maximum amount Development Transfers	Scenario 2: Transfer Development to protect HWY 101 viewshed	Scenario 3: Transfer Bluff-top Developments
	Bank Capitilization	$20 million	$20 million	$20 million
	# Development Rights Transferred	29	16	2
	ALT 1 Lot #s Transferred	48 195 213 50 135 215 51 187 216 52A 137 DP-3 105 203 DP-2 108 204 DP-5 134 205 DP-8 136 206 DP-9 133 207 DP-10 160 208	48 188 195 49 187 193 50 186 104 51 164 109 52A 185 137 160	66 12
	Total Development Right Value	$19,795,583	$20,245,943	$20,166,825
	Receiving Site Density Credits			
option 1	County Campus # of units	31	31	31
	WTP per unit	$ 318,196	$ 318,196	$ 318,196
	av. transfer ratio	2 : 1	4 : 1	32 : 1
		and	*and*	*and*
	St Vincents # units	29	29	29
	WTP per unit	$ 337,322	$ 337,322	$ 337,322
	av. transfer ratio	2 : 1	4 : 1	30 : 1
option 2	Montecito Orchard # units	39	40	40
	WTP per unit	$ 499,350	$ 499,350	$ 499,350
	av. transfer ratio	1.4 : 1	2.5 : 1	20 : 1
option 3	Wright Property East # units	76	78	78
	WTP per unit	$ 259,331	$ 259,331	$ 259,331
	av. transfer ratio	2.6 : 1	5 : 1	39 : 1
option 4	Cota Parking Lot # units	73	73	73
	WTP per unit	$ 224,519	$ 224,519	$ 224,519
	av. transfer ratio	3 : 1	5.6 : 1	45 : 1
option 5	County Campus # of units	31	31	31
	WTP per unit	$ 318,196	$ 318,196	$ 318,196
	av. transfer ratio	2.1 : 1	4 : 1	31.7 : 1
		and	*and*	*and*
	Cota Parking Lot # units	44	44	44
	WTP per unit	$ 224,519	$ 224,519	$ 224,519
	av. transfer ratio	3 : 1	5.6 : 1	45 : 1
	Bank Capitilization	$40 million	$40 million	$45 million
	# Development Rights Transferred	47	27	4
	ALT 1 Lot #s Transferred	48 195 213 50 135 215 51 187 216 52A 137 DP-3 105 203 DP-2 108 204 DP-5 134 205 DP-8 136 206 DP-9 133 207 DP-10 160 208 additional lots 49 214 DP-1 202 210 DP-7 209 212 DP-6 201 211 DP-12 DP-4 164 109□ 185 193	48 188 195 49 187 193 50 186 104 51 164 109 52A 185 137 160 additional lots 42 97 41 215 43 216 70 DP-1 69 DP-6 71	66 12 additional lots 35 93 93
	Total Development Right Value	$38,962,451	$40,064,789	$45,067,726
	Receiving Site Density Credits			
option 1	County Campus # of units	71	73	73
	WTP per unit	$ 318,196	$ 318,196	$ 318,196
	av. transfer ratio	2.6 : 1	4.7 : 1	35 : 1
		and	*and*	*and*
	Cota Parking Lot # units	73	73	73
	WTP per unit	$ 224,519	$ 224,519	$ 224,519
	av. transfer ratio	4 : 1	7 : 1	50 : 1
option 2	Wright Property East # units	90	94	113
	WTP per unit	$ 259,331	$ 259,331	$ 259,331
	av. transfer ratio	3 : 1	6 : 1	43 : 1
		and	*and*	*and*
	St Vincents # units	46	46	46
	WTP per unit	$ 337,322	$ 337,322	$ 337,322
	av. transfer ratio	2.5 : 1	4.6 : 1	35 : 1

Remaining 5 candidate Receiving Site Statistics

	per unit WTP
City Redevelopment Site	$ 325,806
Haley / Anacap Parkign Lot	$ 225,165
Montecito Orchard	$ 499,350
Monetcito Area 3	$ 443,207

The av transfer ratio is calculated by dividing the average development right value of the lots transferred by the WTP for each receiving site

Table 3 TDR Bank Investment Return and IRR

TDC Bank Investemet Return and IRR

Year		0	1	2	3
Cash Flow		(5,000,000)	0	0	5,713,125
Interest	5.00%		250,000	237,500	225,625
IRR	4.54%				

Table 4: Sending Site Criteria (sites other than Naples)

The Criteria below is meant for sending sites other than Naples.

If one or more of the following criteria is met, the landowner can apply to the County P&D to be "eligible" as a sending site.

Agriculture: rural agriculturally zoned parcels with at least 25% of the site possessing class I soils; no parcel size requirement

Grazing: rural land with demonstrated continuity of production; no parcel size requirement

Natural Resource: property with sensitive environmental designation in the County's Conservation and/or Open Space Elements of the General Plan; or property that is identified to be significant biological and/or riparian habitat

Coastal Bluffs/Coastal Terrace: rural parcels located between the high-tide line and Highway 101

Public Viewsheds: rural parcels located within the public view-shed of Highway 101

Note: the term "rural," as it is referred to above, implies that land is located outside the current South Coast UGB. "Urban" sending sites could be designated at the community plan level.

ATTACHMENT G

A TDR Program for Naples

May 11, 2007

Introduction

This paper is intended to supplement and expand upon the *Draft* TDR Program Framework authored by Solimar in February 2007.[1]

The Framework sketches a five-step process for implementing TDR at Naples. The recommendations outlined in this paper describe a complementary TDR process and address two fundamental questions that were raised in the Framework: (1) is a TDR program at Naples mandatory or discretionary; and (2) which lots are considered by a TDR program – "Grid" lots, "MOU" lots, or "Alt 1" lots. This paper also discusses implementation of TDR under a finding of partial feasibility. Partial feasibility is not discussed in the Working Group Framework.

The Framework does purport to answer question # (1) –TDR is considered discretionary on the land-owner. The Naples Coalition and Surfrider, however, read LCP Policy 2-13 to impose mandatory TDR program participation on any land-owners requesting County re-evaluation of AG-II-100 zoning designation for residential development at Naples. Ultimately, the choice of mechanism whereby TDR functions – and the level of success that TDR can achieve – is contingent on finding the program mandatory or discretionary.

The Framework first poses and then leaves question # (2). This paper will argue that pursuant to LCP Policy 2-13, not only is TDR program participation mandatory on a land-owner requesting re-evaluated zoning designations for Naples townsite lands, the value of existing "Grid" lots is an appropriate baseline for establishing the value of the development rights to be transferred under the TDR program.

Section I describes the Working Group Framework five-step process. Section II explains why TDR program participation is mandatory under LCP Policy 2-13, and how a mandatory TDR program is necessary to achieve the goals and objectives identified in the Framework. Section III describes components of a process for mandatory TDR participation, incorporating the five-step process identified in the Framework.

I. Working Group TDR Framework

The purpose of the TDR Framework is to:

> "[Outline] a TDR Program for Santa Barbara County as it processes the proposed Santa Barbara Ranch (Naples) project"

and

[1] Solimar Research Group, *Draft Naples TDR Program* (Feb. 2007) (hereinafter "TDR Framework").

> "come up with a TDR Program that not only addresses LCP Policy 2-13 but also possibly creates a framework for a TDR program that [is potentially applicable to sites other than Naples and which] survives and persists into the future."

TDR Framework at iii, 2.

According to the Framework, the goal of a TDR program is "extinguishment of development rights at the Naples town site pursuant to LCP Policy 2-13 and the [following] objectives":

> "Preservation of lots visible from Highway 101."
>
> "Preservation of lots located within the Coastal Zone."
>
> "Preservation of lots located on the bluff south of Highway 101."
>
> "Preservation of lots located on productive agricultural land."
>
> "Preservation of lots within or near environmentally sensitive habitat."

The Working Group has proposed a five-step process for creating a TDR program at Naples:

1. "Create the Transferable Development Credit (TDC) commodity."
2. "Establish TDR discretionary process."
3. "Establish a TDR bank to 'regulate' the commodity market."
4. "Establish amenity funds for receiving area neighborhoods."
5. "Ensure policies to mitigate investment risk and retain commodity value."

Some of these steps are not necessary for a working TDR process. For example, while amenity funds might make a TDR program more attractive to communities with receiving sites, TDR is not contingent on the implementation of amenity funds.

For the purposes of this paper, we can assume that Steps 1, 2 and ultimately 3 are the only necessary components of a TDR program at its inception. In this instance, we refer only to the component of Step 2 whereby receiving sites are screened for suitability – i.e., establishment of TDCs is discretionary, whereas TDR is mandatory at Naples.

II. TDR is Mandatory under LCP Policy 2-13

LCP Policy 2-13 directs the County to discourage residential development at Naples, and to encourage and assist in the implementation of a TDR program. If TDR is infeasible, Policy 2-13 permits the County to evaluate a rezone from AG-II-100.

Because a rezone is only contemplated after a finding of TDR infeasibility, it follows that a feasible TDR program would preclude a rezone. In the event of partial feasibility of the TDR program, those lands that can feasibly have their development rights transferred under the TDR program should not be subject to a rezone, while fairness would require that those lands for which transfer of the development rights is not feasible should be allowed to proceed with the rezone and perfection of their entitlements.

The question of voluntary vs. mandatory TDR is addressed by the process notes below – conditional deed restrictions on "protected" lots become a necessary consequence of project approval. TDR is voluntary in that there is no obligation to participate if a landowner remains subject to current entitlements – it becomes mandatory when a land-owner seeks re-evaluation of the zoning designation for Naples townsite lots under Policy 2-13.

III. Process Components for a Mandatory TDR Program at Naples

1. Grid valuations.

Because LCP Policy 2-13 requires consideration and implementation of any feasible TDR program before re-evaluation of existing zoning on Naples townsite lands, the actual transferable development rights contemplated herein should be based on the existing condition of the lands and lots within the Naples townsite – i.e., the "Grid" lots reflected on the Official Map adopted by the County in 1995.

A valuation of the Grid lots in their existing condition should take into account physical and regulatory constraints, including some acknowledgement that certain lots may not be developable. Other lots will likely be constrained in ways that allow some limited development and consequent partial economic return. Discounts for future uncertainty in development entitlements, such as may be associated with physical characteristics of each lot[2], and policy constraints[3] should be considered in the valuation.

Valuation should be performed by an independent, qualified professional in the form of a peer reviewable report on valuation. The end product of the valuation process will be a number or a range of numbers that establish the cumulative value of development rights that are to be transferred pursuant to Policy 2-13.

2. Assess sources and timing of funds for acquisition.

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[2] E.g., geological constraints limiting septic system use, cultural resources, noise, air pollution and safety exposure profiles, etc.

[3] E.g., restrictions on, or permitting requirements for the use of unified water and sewer systems, constraints on development from visual policies, agricultural resources issues, etc.

Neither the County nor any individual municipality has an operating TDR program or bank that could immediately accumulate funds and/or identify receiving sites for a Naples TDR Program. Once a TDR ordinance is adopted and an operational plan for banking is in place, a "Source of Funds" analysis should be completed. This analysis, which should include a public review and comment stage, will estimate what resources could become available over the relevant time period for purchase of development rights at Naples. As identified in the TDR Framework, funds will be derived from sources including capitalization of the TDR bank, contributions and loans from public agencies and private individuals, and the sale of TDCs. It is assumed that revenues to the program will be small at first, but once the program demonstrates utility and establishes a revolving market for TDRs and TDCs, including any necessary mid-course corrections, revenues will grow.

A self-adjusting mechanism for overly optimistic forecasting will be described below. An optimistic forecast will allow the program and bank to grow through its formative years, while the mechanism described below will insulate land-owners from bearing the cost of an unreasonably high estimate of funding availability.

A key component of the Source of Funds analysis is the time frame over which funding is forecast. As stated, the program must weigh land-owners' desire to receive return on investment with the practical reality of launching TDR. For the purposes of discussion, we suggest a window of eight years after the Coastal Commission has approved the program. Temporary restrictions of six years have been found to not constitute a taking – for example, the *Tahoe* decision suggested that six years could be an appropriate period for "holding" development – each circumstance, of course, must be evaluated on individual grounds.[4]

Eight years is comparable to the minimum length of time required to process a large complex development in the Coastal zone. It is also a reasonable period of time for this project – it took over a decade just for landowners to develop the submittal of a complete development application following the County's 1995 recognition of the Official Map. TDR programs require time to work, and may need mid-course program adjustments to maximize effectiveness. Eight years is a reasonable period of time for the program to be initiated and reach full functionality. This period allows opportunity for adoption and implementation in other jurisdictions, and any necessary program adjustments.

Note that eight years is not the finite duration of a TDR program established by ordinance (which program may be open-ended if other community uses of TDR funds are identified), but simply the interval over which funding is forecast and represents the entire duration of the Naples TDR program and the concomitant interim restrictions on development detailed below. It is also important to understand, as will be illustrated later, that there would be developer returns beginning in the first year.

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[4] *Tahoe-Sierra Preservation Council v. Tahoe Regional Planning Agency*, 535 U.S. 302, n.36 (2002) (citing *First English Evangelical Church of Glendale v. County of Los Angeles*, 210 Cal.App.3d 1353 (1989).

3. Perform present value calculation of future funding.

The concept here is simple. If a source of funds provides, say, $100,000 today, that is more valuable than having that same amount available five years from now. So it is appropriate to discount projections of funding into the future, and we would recommend using an index like the prime rate.

4. County determination of feasibility.

A determination of feasibility would follow from an estimated Source of Funds that is equal to or larger than the cumulative TDR value at Naples identified in our first point. If there is enough funding forecast to retire all the development rights at Naples, then a TDR program will be feasible.

If the Source of Funds analysis identifies a number that is lower than the cumulative value of the development rights at Naples, but that is still large enough to retire some development rights, then a finding of partial feasibility ensues. A threshold for partial feasibility may be appropriate, but if so, a minimum threshold of one lot – i.e., development rights retired through conversion and sale as TDRs from one "Grid" lot – would be sufficient to establish partial feasibility. Any transfer of development rights from Naples would address further compliance with the requirements of LCP Policy 2-13, in addition to supporting the second objective identified by the Working Group in its Framework – to create "a framework for a TDR program that [is potentially applicable to sites other than Naples and which] survives and persists into the future." TDR Framework at iii, 2.

5. Process the EIR and conditional approval of entitlements based on rezone.

This paper does not address the decision-making process whereby the MOU project or one of the Alternatives 1 through 6 is identified as the environmentally preferred project, except to require that the preceding valuation and funding exercises should be integrated into the environmental review and project approval process. For example, if it appears that half the project (in terms of Grid lot development values) could be feasibly transferred through TDR, then a clustering option for the remainder might end up becoming the environmentally preferred project. If such an alternative were not articulated in the FEIR, a supplemental EIR or addendum would be prepared prior to final project approval.

The County must use a two-step process of considering and issuing any entitlements based on a rezone. A preliminary finding of TDR feasibility is made, based on the Grid lots' development rights valuation, in part or in full. If partial TDR is feasible, the County entitlement process must condition prioritized lots' rezone-enabled entitlements on the Landowner's irrevocable offer to sell any such newly rezoned lot's development rights to the TDR bank for the eight-year "hold" period.

It is important that the EIR and project approval be processed through the County and the Coastal Commission without any bifurcation of the project – the inland and coastal portions be processed on the same timeline and neither should proceed to final approval or construction independently. Given the reliance of Alt 1 inland lot development on STPs and discharges in the coastal zone, development of the inland lots is dependant upon coastal development. This practical interdependence of the entire project ensures that the final development project will be configured in the most environmentally appropriate manner and reflect only the remaining development rights after the TDR program retires as much development as possible in accord with LCP Policy 2-13.

6. Prioritize lot transfers.

The lots to be transferred will be those that remain after CEQA review and the entitlement approval process. For example, if the County approves the MOU project, the lots upon which development rights were to be extinguished through TDR would be a portion of the 54 MOU (rezoned) lots tentatively approved by the County (i.e., less any lots eliminated by mitigation measures or for other reasons during the EIR and entitlement process). And if the County approved a clustering option, it would be the pool of Grid lots defined as providing the specific development rights exercised by that option.

These lots are then rank-ordered for preservation to reflect the relative importance assigned by the community, County and Coastal Commission. For example, the community and Coastal Commission have indicated that bluff-top lots are rank-ordered before lots in the public view-shed which in turn are rank-ordered before lots outside the coastal zone.

This step would be done after EIR certification but before County approval of any rezone to ensure (1) that all feasible alternatives are considered and mitigation is imposed prior to engaging the TDR program's retirement of development rights, and (2) that TDR is not used to cure policy conflicts or to mitigate significant project impacts that must otherwise be avoided or mitigated to the maximum extent feasible pursuant to CEQA.

The outcome from this step is a rank ordering of all Grid lots, bundled to correlate with the boundaries of any approved reconfigured or rezoned lots, with the most important ones for protection at the top down to the least important at the bottom.

7. Assign TDR values to EIR project lots.

After the County has obtained valuation of the Grid lots, and after some lots were identified as constrained or un-developable, it becomes appropriate to obtain valuations of the lots that are ultimately approved pursuant to the re-evaluated zoning designation and entitlement process. This is done by aggregating the valuations of any buildable underlying Grid lots. For example, suppose there are four Grid lots (w, x, y, z) that form one new lot A under the re-evaluated zoning designation and which is approved for development. And suppose that lots w, x, and y each were valued at 1 million dollars in

step 1, and that lot z was deemed unbuildable in Step 5 because of ESHA reasons. The values for w, x, and y are aggregated, and the 3 million dollar sum then becomes the transfer value of lot A. This process is performed for all lots created under the re-evaluated zoning designation and which are approved for development.

The result then becomes a list of the rezoned lots approved for development ordered by their priority for protection. This would look something like:

Priority	Approved Lot #	Grid Lot # & Transfer Value	Cumulative Transfer Value
1	A	w, x, y, z = 3,000,000	3,000,000
2	F	a, b, c = 2,500,000	5,500,000
3	C	q, j, l = 1,000,000	6,500,000
	....		

A discounted estimate of future funding has been obtained, and this amount is compared to the "cumulative transfer value" from the list of approved, rezoned lots to determine which approved, rezoned lots are within the estimated funding possibilities, and which are not. For example, suppose the highest priority 20 approved, rezoned lots have a cumulative transfer value of 50,000,000, that the Source of Funds estimate is 50,000,000, and that there are 42 approved, rezoned lots in total. This analysis would indicate that the highest priority 20 approved, rezoned lots were within the range of protection (the "protected" lots) while the remaining 22 approved, rezoned lots were not.

8. Rezone with deed restrictions.

All of the lots are then rezoned as specified by a new Naples Planned Development Zone. The lots that are "protected" are encumbered by individual interim deed restrictions or similar legal encumbrance on exercise of entitlement approval. A deed restriction or encumbrance temporarily stays development of the lot until the restriction is removed. Those lots that are not protected are available for development subject to the normal permitting processes.

9. Annual administration.

Suppose that a Source of Funds estimate (after discounts) looked like this:

Year 1	1 million
Year 2	3 million
Year 3	6 million
Year 4	7 million
Year 5	8 million
Year 6	8 million
Year 7	10 million
Year 8	10 million

For purposes of this example, assume that the TDR program is now in place and generating funding. At the end of Year 1, the amount raised is used to purchase development rights starting with the highest priority lots. If at least one million dollars was available, then there is no change to any of the interim deed restrictions on protected lots. But suppose the projection of one million dollars was not obtained, and at the end of the year no dollars were available. Arguably the funding estimate was too optimistic by one million dollars. An adjustment is now made, starting with the lowest priority "protected" lot. Assume that that lot (lot 20 in our example), had a transfer value of one million dollars. At the end of year 1, the deed restriction for that lot is removed and it becomes unprotected and available for development.

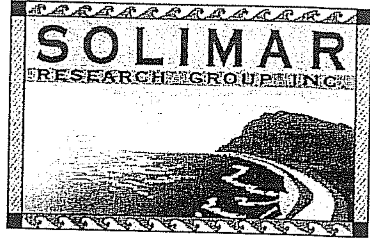
This mechanism is intended to adjust automatically for any overly optimistic funding estimates. That is, when the cumulative amount raised is less than projected, then potentially there is removal of deed restrictions in recognition of the funding realities. Note that this computation should be cumulative (e.g., if 2 million was raised in year 1 and 2 million in year 2, there would be no removal of deed restrictions since the total amount of 4 million was at least as much as forecast, even though in the second year the amount raised was less than forecast for that year.)

In short, the developer is having carrying costs of protected lots covered during the term of the TDR program by increased levels of return at the end of the TDR funding period.

10. Conclude TDR at Naples.

At the end of the TDR program time frame at Naples, any protected lots that remain with deed restrictions have those restrictions removed. It is anticipated that the TDR program(s) within the County and municipalities could continue for preservation of additional open space beyond Naples, and Naples Landowners could engage in voluntary sales of development rights to the TDR bank or other conservation purchasers, with any available funds.

ATTACHMENT H



Draft Naples TDR Ordinance

Solimar Research Group

May 29, 2007

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Article 35.9 - Santa Barbara County Land Use Development Code

Draft Naples Transfer of Development Rights (TDR) Ordinance

Chapters:

35.90.010 TDR Program Purpose and Intent

35.90.020 Definitions

35.90.030 TDR Administrator

35.90.040 Sending Sites

35.90.050 Receiving Sites

35.90.060 County Restrictions on Re-zones

35.90.070 Amenity Funds

35.90.080 TDR Bank

35.90.090 Inter Jurisdictional Agreements

(Note: Ordinance format is preliminary and final codification is subject to change pending review by County Counsel).

35.90.010 TDR Purpose and Intent

A. Program Purpose and Intent

The provisions of Article 35.9 implement the transfer of development rights (TDR) program. The program's objective is to transfer development potential from eligible Naples townsite lots to eligible receiving sites along the South Coast of Santa Barbara County in furtherance of Local Coastal Plan Policy 2-13. The overriding purpose is to extinguish the rights to develop Naples lots determined to have the greatest public benefit by the Board of Supervisors.

B. Program Description

The TDR program is a market-driven program involving willing sellers and willing buyers. Landowners are not obligated to use the program but may participate voluntarily. The TDR program allows for eligible sending site (parcels targeted for preservation) property owners to sever the development right(s), as defined in this ordinance, from the bundle of rights associated with land ownership. If they choose to participate in the program, sending site land owners are compensated, at fair market value, for the lost development potential through market sales of those development rights. Once the development rights are sold, the land is protected from future development in perpetuity with a conservation easement. Sending site landowners are incentivized to participate since they can forego the lengthy and often costly development approval and building process yet receive payments commensurate with the realized profits of their property built to its highest and best use.

Eligible receiving sites (parcels to accommodate development) in the unincorporated areas of the County may be developed at higher densities than otherwise allowed under current zoning with requisite purchases of "density credits." So called receiving site developers are incentivized to participate since they are able to realize greater profits through enhanced entitlements.

Cities that adopt plans and ordinances to allow for increased density on receiving sites may opt to participate in the County's TDR program through legally binding inter-jurisdictional agreements

C. Program Goals

1. The primary goal of the TDR program shall be to transfer the maximum number of development rights from Naples lots that serve one or a combination of the following objectives – as determined and prioritized by Resolution of the Board of Supervisors – onto properties more suitable for development that lie within or adjacent to the existing South Coast Urban Growth Boundary.

    a. Preservation of Naples lots most visible from Highway 101.

b. Preservation of Naples lots located within the Coastal Zone.
c. Preservation of Naples lots located on the bluff south of Highway 101.
d. Preservation of Naples lots located on productive agricultural land.
e. Preservation of Naples lots within or near environmentally sensitive habitat.

2. In order to facilitate the primary goal, it is a secondary goal of this ordinance to create a market for development right transfers within the Gaviota Coast region. Once Naples development right transfers to existing urban areas are fully exhausted, the Program shall seek to extinguish development rights at Naples by transferring development potential onto ***rural*** properties within the Gaviota Coast that do ***not*** meet the criteria below. The Board shall decide when such transfers are appropriate as indicated in Section 35.90.050.A.3 of this Article.

   a. ***Rural*** lands possessing: sensitive natural resource value, prime agricultural/grazing land, and coastal bluffs
   b. ***Rural*** lands that lie within the public view-shed of Highway 101

35.90.020 Definitions

Sending site: Legal lots identified by the County pursuant to Section 35.90.040, the underlying development rights to which, at the landowner's discretion, may be severed and sold to the TDR Bank.

Development right: One of the bundle of property rights associated with land ownership that legally entitles a landowner to develop his/her property in accordance with the local government zoning regulations. For purposes of this Article, a development right is limited to principal permitted uses that entail physical alteration of real property including residential, commercial and industrial uses; provided, however, that open space, grazing and agricultural crop production are expressly excluded.

Transferable development right (TDR): Development rights - as defined in this article - from sending sites that can voluntarily severed from the bundle of rights associated with the property's ownership at the initiation of the landowner and sold to the TDR Bank.

Conservation Easement: A legal deed restriction recorded on the title to the property that severs in perpetuity the right to develop dwelling unit(s), commercial, and/or industrial facilities on said property.

Receiving site: Legal lot(s) the County (or participating City) has determined to be appropriate for increased development density with the purchase of transferable development credits.

Transferable development credit (TDC): A certificate which grants one additional dwelling unit above base density - on specified receiving sites - that can only be purchased from the TDR bank.

Base Density: The allowed number dwelling units on the receiving site under the property's current zoning.

TDC Density Bonus: The number of additional units above base density – for a County approved receiving site project – that can be built with the purchase of TDCs.

TDR Bank: The entity established and given authority by the County to buy TDRs and sell TDCs.[1]

TDR Administrator: The party identified by Resolution of the County Board of Supervisors to oversee the TDR Program.

Rural and Urban Areas: Rural and urban areas as identified by the County in its Comprehensive Plan and Coastal Land Use maps.

Amenity Funds: A percent of the revenue collected from TDR Bank sales of TDCs that are set aside to fund infrastructure and park/recreational enhancements in receiving site neighborhoods as both an incentive and reward for accepting increased density.

Inter-jurisdictional Agreement: A legal agreement to transfer development potential between the County and a participating City. The agreement articulates the conditions tied to the transfer of development rights to ensure that both jurisdictions mutually benefit.

Naples townsite: The area encompassed by the Official Map of Naples approved by the County Board of Supervisors on October 3, 1995, and filed for the record on December 19, 1995, in Book 99, at Pages 4 through 9 of Maps.

Grid lots: Legal lots recognized under the Official Map of Naples and shown on record documents in the office of the County Recorder appearing in Book 99, at Pages 4 through 9 of Maps.

Naples lots: One or a combination of: (i) Grid lots; or (ii) reconfigured lots resulting from lawful mergers, line adjustments and re-division approved by the County in connection with rezoning of all or part of the Naples townsite pursuant to Local Coastal Plan Policy 2-13.

Participating City: An incorporated municipal jurisdiction within the County of Santa Barbara which has entered into an Inter-Jurisdictional Agreement to participate in the TDR Program.

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[1] It has yet to be determined whether the Bank is run by a non-governmental agency, such as a local land trust or national conservation organization, or is managed under County auspices.

35.90.030 TDR Administrator

The County shall designate a TDR Administrator by Resolution of the Board of Supervisors to process all sending and receiving site applications. The designation may be changed from time to time at the convenience of the Board.

35.90.040 Sending Sites

A. Sending site eligibility

Properties that qualify as eligible sending sites that meet all the criteria below:

1. Lots within the Naples townsite that the Board prioritizes for transfer according to section 35.90.010 Goal #1.[2]

2. If lots have not received approval for rezoning from their current agricultural designation pursuant to Local Coastal Plan Policy 2-13, then only the development rights that correspond to the existing "Grid" pattern under the Official Map shall be transferred. If rezoning occurs as provided under Local Coastal Plan Policy 2-13, then the development rights associated with the rezoning and lot reconfigurations (if any such lot reconfigurations are concurrently approved) shall be subject to transfer.

3. All Eligible Naples lots shall be ranked-ordered as to their priority for transfer by Resolution of the County Board of Supervisors. The rank shall determine the order by which the Bank purchases TDRs from sending sites.

B. Allocation of TDRs to Sending Sites

Each eligible Naples parcel shall be entitled to one transferable development right (TDR). Each TDR shall represent the legal right to build a primary and secondary dwelling unit on a legal lot which can be voluntarily severed from the bundle of rights associated with the property's ownership at the initiation of the landowner. Sending site TDRs shall only be sold to the TDR Bank.

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[2] Note to Working Group: to assist the Board and inform its decision regarding which Naples lots to prioritize for transfer, a map of Naples lots with estimated development right values shall be created. This value map shall use value estimates from the updated 2007 TDR feasibility Study to inform the Board in its sending site deliberations).

C. Sending Site Application Process

1. Landowners of parcels that meet the eligibility requirements under section 35.90.040(A) and desiring to sell their TDRs shall file with the TDR Administrator an application containing two copies of a preliminary title report concerning the parcel with its current owners.

2. Notice of eligibility. Following submittal of an application, the TDR Administrator shall prepare a written notice to the applicant which confirms the lot(s) as those the Board has approved, the lots priority rank, and a statement of the number of TDRs that can be allocated to each approved Naples sending lot.

3. Record of Conservation Easement. TDRs shall not be officially recognized as attached to sending sites until such time as a conservation easement, subject to review and approval by County Counsel, is recorded as a deed restriction on the property title. The easement must sever, in perpetuity, the development right(s) from ownership of the property.

4. Issuance of Sending Site Certificate. Following recordation of a conservation easement(s), a certificate allocating TDRs shall be issued to the owner(s) of the property by the TDR Administrator. A TDR certificate shall be issued for each TDR assigned to a legal lot as determined by 35.90.030(B) that has a recorded a conservation easement; the certificate shall include a full legal lot description and its respective priority ranking.

5. Sending site TDRs shall only be available for purchase by the TDR Bank, in order of their respective prioritization, after a certificate allocating TDRs has been issued to the lot owner(s) by the Administrator.

35.90.050 Receiving Sites

A. Receiving site eligibility

1. Unincorporated County Sites. Unincorporated properties that qualify as eligible receiving sites to exceed base zoning density through the purchase of Transferable Development Credits (TDCs), as defined in section 35.90.020 of this ordinance, must meet all the following criteria:

   a. The site must be located within the County's South Coast Housing Market Area (HMA) as delineated in the County's Housing Element,[3]
   b. The site must be within or adjacent to a designated urban area
   c. The developable footprint of the site must have less than 30% slope

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[3] Note to Working Group: as we discussed this can be amended to include areas outside the immediate South Coast in the future if so desired.