

# A Benefit-Cost Analysis of the Auburn Boulevard Revitalization Project

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## Executive Summary

### Background

The Auburn Boulevard Redevelopment Area was formed in 1992 in response to physical, economic and social deterioration of a 2-mile commercial corridor adjacent to Interstate 80 in Sacramento, California. At the time of adoption, the project area was infamous for prostitution and associated crime stemming primarily from a collection of dilapidated, low-rent motels along the boulevard. It quickly became clear that the solution to revitalizing the area would take more than the traditional tools of redevelopment; it would also take attention to crime and nuisance activity. Thus, a multi-agency collaboration was formed in 1994 – comprising the redevelopment agency, law enforcement, district attorney’s office, code enforcement and a host of other public safety agencies – to jointly identify problem properties and coordinate enforcement activities.

### Objective of Study

The purpose of this analysis is to evaluate the efficiency of this strategy in generating the desired outcomes of crime reduction and economic development using formal techniques of benefit-cost analysis. In other words, was it economically *efficient* (or “worth doing”) from a social welfare perspective? Such a determination is based on the economic valuation of benefits (or policy consequences) generated by the project compared to the project costs. A secondary objective is to evaluate the *effectiveness* of the strategy from the perspective of key participants, i.e., was it a smart way to go about doing it?

### Benefit-Cost Findings

The study finds that the project passes the economic efficiency test using a moderate set of assumptions. Efficiency in this context is expressed as the “net present value” (NPV) of the stream of costs and benefits. Due to the inherent uncertainty associated with the benefit estimation techniques, the study provides three estimates: a conservative scenario (-\$18.1 million), an optimistic scenario (+\$34 million) and a moderate or “likely” scenario (+ \$7.9 million).

### Discussion of Findings

While the moderate scenario finds a gain in social welfare of about \$8 million, some caveats are in order. First, private costs reflect only direct expenditures, and public costs include only those recorded in the redevelopment agency’s ledgers (including funds for multi-agency enforcement). Second, the NPV calculations are highly sensitive to assumptions made about the effects attributable to project activity. For example, lowering the moderate assumption on the change in property values due to redevelopment activity from 50% to 25% lowers the moderate NPV to -\$4 million. At the same time, it is important to call attention to the benefits that could not be monetized – such as the provision of affordable housing for seniors and the potential gains in the county’s organizational capacity – which has the effect of understating total benefits. Another consideration is the strong positive trends in crime reduction and business activity. Assuming these positive trends continue, benefits will continue to accrue as public investment slows. This will likely raise the net present value of the project even further in the future.

### Evaluation of the Multi-Agency Collaboration

The team’s dual-pronged strategy to attack the boulevards “broken windows” – in terms of physical disrepair and social deterioration – has gone a long way toward moving the area in a positive direction. A variety of factors are credited, including the diversity of perspectives and talent brought to the table, the zeal of agency personnel, and the provision of dedicated personnel to work the area’s hot spots – made possible by the housing and redevelopment agency’s foresight to fund multi-agency enforcement. Still, there were some roadblocks along the way, including legal challenges to the contractual relationship between the prosecutor and the redevelopment agency. A lingering issue is a difference between some agencies regarding how aggressive a stance to take on the enforcement side. Moving into the future, a big unknown is what kind of effort will be needed to sustain the improvements in the Auburn Boulevard project area, and how much of the burden can be shifted from agency personnel to property owners.

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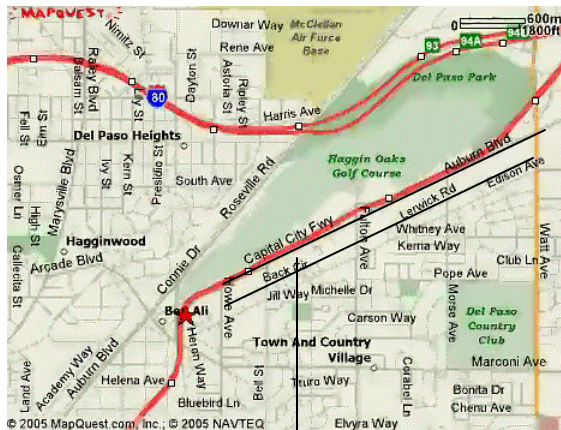
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# I. Introduction

The Auburn Boulevard Redevelopment Area was formed jointly by the city and county of Sacramento in 1992 in response to physical, economic and social deterioration of a 2-mile commercial corridor adjacent to Interstate 80 in Sacramento, California. At the time of adoption, the 118-acre project area was infamous for prostitution and associated crime stemming primarily from a collection of dilapidated, low-rent motels along the boulevard. It quickly became clear that the solution to revitalizing the area would take more than the traditional tools of redevelopment; it would also take attention to crime and nuisance activity. Thus, a multi-agency collaboration was formed in 1994 – comprising the housing and redevelopment agency and a host of public safety agencies – to address the area’s problems from a more holistic perspective. The purpose of this study is to evaluate the efficiency of this strategy in generating the desired outcomes of crime reduction and economic development using formal techniques of benefit-cost analysis. The emphasis here is on the county, although four properties in the project area fall under the city’s jurisdiction.

## Background

Auburn Boulevard served as the original route from the city of Sacramento to the Sierra foothill town of Auburn. As a former highway, it was lined with inexpensive motels designed to serve



Auburn Blvd. Project Area

travelers. Once Interstate 80 was built and the traveling public could easily bypass the boulevard’s commercial corridor, the area gradually declined. As housing and redevelopment agency officials describe it, “Motel owners felt forced to rent rooms to whoever could pay the bills. Too often, this included prostitutes, drug dealers and other

criminal types. Prostitution was such a problem, the area became known as ‘the stroll.’ During the worst of times, the Sacramento Sheriff’s Department was a permanent fixture along the boulevard.”

To compound the problem, these inexpensive motels increasingly served as substandard “housing” for very low-income populations, including families with children. Not surprisingly, poor people do not complain about substandard conditions because they either lack the necessary skills and resources or, in the words of one code enforcement official, they “have no place else to go.” So, despite deteriorating and even hazardous building conditions in the motels, complaints were minimal. Instead, occupants endured leaky pipes, exposed wires, crumbling stairs and railings, missing windows, cockroach infestations and worse.

The situation along the boulevard calls to mind the “Broken Windows” theory of physical and social deterioration.<sup>1</sup> As the theory holds, these untended conditions – such as physical disrepair, nuisance activity and nonviolent crime – break down community controls and increase vulnerability to criminal invasion of a more serious nature. In the context of this analysis, clearly the prospects for economic development were grim without attention to Auburn Boulevard’s broken windows.

In recognition of the problem, the county launched a “five-year odyssey” to put an end to the criminal activity and substandard building conditions. Business as usual – with each agency independently tackling one problem at a time – was not going to produce the quantum leaps needed to affect the degree of change necessary. Thus, a multi-agency collaboration was formed among community development, law enforcement and public safety agencies to jointly identify problem properties and coordinate enforcement activities in an effort to more effectively address the multitude of problems at a given site. The collaboration – spearheaded by the Sacramento Housing and Redevelopment Agency, the County Sheriff’s Department, County Code Enforcement and the District Attorney’s Office – represented a new, more strategic approach to community problem-solving.

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<sup>1</sup> See Wilson, J.Q. and Kelling, G. (1982). “Broken Windows.” *Atlantic Monthly*, March, pp. 29-38.

Ultimately, the model was extended countywide through standing inter-agency committees that still exist today.

By all accounts, the collaboration has produced tremendous results. Crime is down significantly along Auburn Boulevard and the neighboring residential streets. Substandard motels have been rehabilitated or demolished. Standing in their place are new or refurbished hotels and a new affordable housing facilities for low-income seniors. Several businesses have updated facades, and some have expanded their operations or are planning to do so. At the same time, given the level of investment in the project area, it is useful to determine whether the project has generated sufficient benefits to justify the costs. The purpose of this paper is to evaluate the project using formal techniques of benefit-cost analysis. It does not attempt to address the normative arguments for or against the use of public funds to support redevelopment. Rather, it seeks to establish if the project passes an *economic efficiency* test. A secondary objective is to evaluate the *effectiveness* of the strategy from the perspective of key participants.

The remainder of this report is offered in three sections. Section II describes in detail the methodology of the benefit-cost study, including the economic framework, key assumptions and design considerations, the particular costs and benefits included, and how these were quantified. This is the most technical part of the paper, but is a necessary component to aid the reader in interpreting the findings. (As the saying goes, “the devil is in the details” or, in this case, the assumptions.) Those interested solely in the bottom line may choose to skip directly to Section III, which contains an analysis of the findings. Section IV takes a more qualitative look at the multi-agency collaboration based on interviews with agency personnel and others. This by no means constitutes a formal organizational analysis. Rather, the emphasis here is on sharing the “lessons learned” by those involved in the collaboration, i.e., why collaborating was the most effective strategy, what challenges were encountered, and recommendations for other local governments that desire to undertake a similar approach to community revitalization. Finally, Section V offers some concluding thoughts.

## **II. Benefit-Cost Methodology**

Before describing the methodology, it is useful to begin with an introduction to the theoretical foundations underlying the benefit-cost method and its application to public policy decisions.

Following this introduction, the remaining sub-sections provide an overview of the study, technical considerations such as the discount rate and decision rule, the particular costs and benefits (or policy consequences) attributable to the project and how these were quantified.

### **Foundations and Applications of Benefit-Cost Analysis**

Benefit-cost analysis provides an objective method for determining the potential gains from public expenditures. It has been widely used in the public sector for more than 60 years to evaluate a diverse array of policies and projects including environmental regulation, infrastructure development such as transportation and water resources, health and safety, early education and crime reduction.

More than an accounting of revenues and expenditures, the benefit-cost method is designed to evaluate the efficiency of policy consequences which may include revenue enhancements, but also encompasses non-market outcomes such as the satisfaction derived from neighborhood improvements. In this context, the terms “cost” and “benefit” take on specific meanings that go beyond a traditional return-on-investment type of calculation.

Grounded in social welfare economics, the fundamental premise of benefit-cost analysis is that a program is efficient if it produces gains to society that exceed its losses. This is typically referred to as the *Kaldor-Hicks criterion* which holds that “efficiency is promoted when a policy (or project) generates greater benefits than costs to society regardless of who receives the benefits, who bears the costs, or whether the losers are compensated” (Fuguitt and Wilcox, 1999). The conceptual construct underlying this application of economic valuation techniques is the idea of “consumer surplus.” When a policy generates surplus value – or net benefits that exceed society’s “willingness to pay” for policy outcomes – it enhances the welfare of society. To enable the comparison of costs and benefits,

monetary values are attached to each. However, it is important to bear in mind that money in this type of analysis is a standard unit of measure to facilitate comparison across diverse activities and outcomes, not a value statement about a particular use of funds. The goal is to identify the most efficient allocation of scarce resources among competing alternatives. Although no policy alternative is under consideration here, this analysis can offer useful insights as to whether this particular project is economically efficient (or was, in retrospect, “worth doing”) from a social welfare perspective. Such a conclusion may be of interest to other local governments that wish to undertake a similar initiative in the future. Given the expression of outcomes in dollar values, it can also provide a benchmark for comparing investments in this type of project relative to other public investments for which benefit-cost data are available, such as crime reduction or social service programs.

One of the biggest challenges in using benefit-cost analysis is that some outcomes are difficult to quantify in monetary terms. For this reason, cost-effectiveness analyses are sometimes preferred. In the latter approach, benefits are expressed in terms of outcomes (e.g., reduced crime, job creation, etc.) rather than monetary values. The chief drawback, however, is an inability to make comparisons across diverse activities since the relevant units of measure vary from program to program.

Recognizing that investment in redevelopment activities will ultimately be weighed against other competing options for public funding, this analysis attempts to quantify all of the key benefits in dollars. However, it is important to note that some benefits could not be monetized due to limitations of data, time and budget. These are addressed qualitatively in this report.

Another caveat to consider is that benefit-cost analysis uses efficiency as the decision-making or evaluation criterion. As in most decisions, however, the picture is usually a bit more complicated. For the public manager or elected official, there are other considerations that must also weigh into a decision to undertake such an initiative: economic incentives that enable exportation of certain costs outside the local jurisdiction, political feasibility, the administrative infrastructure, and value judgments about “fairness,” particularly with respect to the potential displacement of some individuals

(namely, the poor). Benefit-cost analysis is not intended to supplant the political process in which these factors are weighed, but instead to act as an input to a decision-making process that ultimately must be made in a political arena.

### **Overview of Study**

This analysis uses market valuation techniques to estimate the market benefits of the project's key outcomes including crime reduction and economic development. Underlying this approach is the assumption that these market effects reflect society's preferences or "willingness to pay" for such outcomes (Fuguitt and Wilcox, 1999). The most rigorous approach to valuing the direct benefits calls for an experimental design where two areas with similar characteristics are compared over a period of time and actual effects of program activity in the test area are measured and compared to a control area with no program activity. While such an approach is ideal from an academic perspective, it is often not practical in real life application. This study is no exception. Given the retrospective nature of the analysis, some measure of control is needed to estimate the impacts attributable to project activity rather than to general changes in the economy or society. (Only the former benefits are appropriate to include in the analysis.) To that end, this study employs a quasi-experimental approach comparing the Auburn Boulevard Redevelopment Area to a matched area. In benefit-cost terminology, this process is part of establishing the baseline scenario. The sub-sections that follow provide additional details about how the baseline scenario was established as well as other design considerations, including the definition of society (i.e., who has "standing"), discounting methodology, the decision/evaluation criterion and the valuation of costs and benefits.

### **Baseline Scenario**

Benefit-cost analysis is a "with and without" analysis. In other words, it includes the *incremental* costs and benefits that arise *with the policy* (Fuguitt and Wilcox, 1999). In the context of this study, an important consideration is the extent to which observed changes in crime and economic development are attributable to the project. One way to estimate the effects is to compare trends in the

redevelopment area to countywide trends. Yet, as Dardia (1998, p. 7) suggests, such a comparison typically understates the program impact given that the growth prospects of a blighted area may be worse than the region as a whole. Therefore, an important step in this analysis is identifying a control area to provide a more meaningful basis for gauging program outcomes. Several blighted areas in Sacramento County were given initial consideration based on input from redevelopment agency staff as well as the county economic development department to identify commercial corridors of a similar age and function. Two additional criteria were used to make the final selection:

- 1) Lack of a formal redevelopment zone or significantly less redevelopment than in test area.
- 2) Similarity in the degree of blight in the year before the redevelopment zone was established, as measured by population and property characteristics in the surrounding neighborhoods (e.g., poverty and vacancy rates from Census data).

Previous research suggests that poverty rates and vacancy rates are the best proxies for blight (Dardia, 1998, p. 47). To that end, Census data were analyzed at the block group level for neighborhoods surrounding Auburn Blvd. and the possible control areas. As noted in Table 1 below, Folsom Blvd. in Rancho Cordova emerged as the best match based on poverty rates, vacancy rates and home values.

**Table 1: Census Comparison of Auburn Blvd. & Folsom Blvd.**

Geographic Areas <sup>1</sup>	1990 Census Data (Block Group Level)						
	% of Persons Below Poverty	Median Household Income <sup>2</sup>	Per Capita Income	Median Home Value <sup>2</sup>	Mean Home Value	Median Gross Rent <sup>2</sup>	Housing Vacancy Rate
<b>Auburn Blvd.</b> (Neighborhoods south of I-80)	17.52%	\$18,571 -\$27,813	\$11,661	\$88,800 -\$116,100	\$123,223	\$364 -\$520	7.49%
<b>Folsom Blvd.</b> (Routier to Zinfandel south to Hwy. 50)	15.26%	\$21,116 -\$36,563	\$12,379	\$88,400 -\$96,400	\$97,761	\$473 -\$645	8.28%
<b>Stockton Blvd.</b> <sup>3</sup>	36.33%	\$13,927 -\$22,245		\$58,400 -\$81,500		\$333 -\$495	5.20%
<b>Franklin Blvd.</b> <sup>3</sup>	32.65%	\$12,575 -\$36,250		\$57,300 -\$128,900		\$399 -\$625	6.26%
<b>Sacramento County</b>	12.47%	\$32,297	\$15,265	\$129,000	\$169,452	\$527	5.52%

<sup>1</sup>each area defined by a series of block groups; see Appendix, Table I ("area definitions").

<sup>2</sup>median values represent the range (lowest and highest values) for the series of block groups covered by each defined area.

<sup>3</sup>eliminated based on extent of redevelopment activity and disparity in poverty and vacancy rates in the baseline year.

Despite the similarities in the degree of blight between Auburn and Folsom Boulevards and the surrounding communities, the two are not a perfect match. For example, there are differences in the commercial sectors represented in each area; Auburn Blvd. has a large motel/hotel sector, while the

roughly two-mile stretch along Folsom Blvd. contains only one. Thus, the control area is more useful for estimating some program effects (such as the impact on home values and crime rates) than others. Further, the lack of sub-county data to use for comparison is a barrier in some cases. These limitations are addressed where appropriate.

### Definition of Society

In order to quantify the benefits and costs associated with a program or policy, it is first necessary to determine who has standing; in other words, whose benefits and costs “count.” According to Fuguitt and Wilcox, this definition of society should include all persons who incur costs or receive benefits, either directly or indirectly (1999, p. 53). For purposes of this analysis, society is defined as all U.S. residents. While the redevelopment project represents a sub-county area, two factors argue for a broader geographic perspective. First, the source of funds spans governmental jurisdictions (including significant federal dollars) and encompasses both public and private investment. It is difficult to sort out these funding sources in light of the “myriad spillovers and cross-subsidies that exist” (Dardia, 1998, p. viii). Second, while *most* of the benefits accrue within the county (and, in particular, a small sub-county region), benefits are not fully contained within the local jurisdiction. Benefits cross jurisdictions due to the nature of the particular benefits in question – such as tax revenues that get dispersed among various levels of government – as well as the long-term nature of the project, increasing the likelihood of mobility-related spillovers.

Two exceptions to the “U.S. residents” parameter are the exclusion of criminals and the decision to disregard the displacement effects. With respect to the former, the monetary losses to criminals from an inability (or reduced ability) to financially gain from crime in the redevelopment area are considered irrelevant due to the socially undesirable nature of the behavior. Displacement effects represent a bigger ethical challenge. In a project such as this, a variety of displacement effects may occur: the migration of crime to other communities, the forced relocation of motel “tenants” due to the closure of substandard properties, and barriers to home ownership as a result of rising property

values. Most of these outcomes disproportionately impact low-income populations. While the Kaldor-Hicks efficiency criterion does not require that benefits are proportional – only that the gains exceed the losses – the disproportional impact raises issues of social equity. Having said that, this outcome is not a rationale for allowing an area to deteriorate, since physical and social deterioration ultimately lead to greater losses. It does, however, require attention to addressing the needs of those who fail to gain from the improvements.

### Present Values, Discounting & the Time Horizon

Because costs and benefits occur over an 11-year period (1992-2003), another important consideration in this analysis is the need to express all monetary values in comparable terms. Thus, *present values* are derived before aggregating the incremental costs and benefits. In a benefit-cost analysis, the “present” is defined as the year in which dollars were first committed to the policy or program. In this case, the base year is 1992 – the year in which the redevelopment area was adopted and initial public investments were made. To account for the time value of money, two levels of discounting are necessary. First, monetary values are converted to 1992 dollars based on actual changes in the Consumer Price Index to adjust for annual inflation during the project time horizon.<sup>2</sup> Second, these values are discounted to reflect the opportunity cost of capital. This second level of discounting is necessary to account for the positive time preference in consumption decisions (Fuguitt and Wilcox, 1999). Put more simply, people generally prefer to consume now rather than later even if it costs more – as is evident by the use of credit cards – so a dollar received today is worth more than a dollar in the future. Given the use of real (constant) dollars in this study, a real discount rate is used.<sup>3</sup>

### Decision (Evaluation) Criterion

In accordance with the Kaldor-Hicks criterion, a single policy is efficient if it exhibits a positive net present value (NPV). In other words, when the present value of the aggregated benefits

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<sup>2</sup> For ease of computation, it is assumed all expenses were incurred on the last day of each year.

<sup>3</sup> The social rate of time discount is generally believed to range from 1-3%; this study uses 1.5%.

exceeds the present value of aggregated costs, the policy or program should be pursued (Fuguitt and Wilcox, 1999). Of course, in a retrospective analysis, the decision to pursue the policy has already been made. In this case, the NPV calculation provides an evaluation of whether the project in hindsight was worth doing from a social welfare perspective. Given the degree of uncertainty stemming from assumptions made about how much change is attributable to the project, a sensitivity analysis is performed for each benefit. Thus, the final analysis provides three NPV estimates representing a conservative, moderate and optimistic scenario. In each case, the *conservative scenario* is established by using the best available comparison area (i.e., the control area or next best alternative); specifically, the estimated benefits reflect the extent to which improvements in the project area *exceed* the rate of change in the comparison area. The *optimistic scenario*, on the other hand, makes the assumption that *all* of the incremental benefits should be attributed to the project. The rationale for this assumption is that the degree of blight in the area was sufficiently bad that economic and social conditions along the boulevard would have remained stagnant without the investments of time, effort and money associated with this project. Finally, the *moderate scenario* is simply the middle value between these two end points.

#### Identification of Costs and Benefits

A final decision in this study is which costs and benefits to include. As noted earlier, this is not simply a matter of identifying revenues and expenses. The cost side of the equation should include all incremental costs associated with the project or policy; in this case, resources that were engaged specifically for the project or that could have been allocated to other activities in the economy (public or private) if the project had not been undertaken. The benefit side of the equation should include all socially positive policy consequences. Again, this may include revenue enhancements but also encompasses social outcomes that are not necessarily priced in the market. Table 2 (next page) summarizes the costs and benefits included in this analysis; these were identified in consultation with the Sacramento Housing and Redevelopment Agency.

**Table 2: Costs and Benefits**

COSTS	BENEFITS
<p>Incremental costs associated with policy:</p> <p>Agency costs:<sup>1</sup></p> <ul style="list-style-type: none"> <li>- Infrastructure (rezoning, water main)</li> <li>- Multi-agency enforcement (sheriff's deputies and deputy district attorney)</li> <li>- Proportional indirect expenses attributable to project activities</li> <li>- Direct expenses for projects and related activities</li> </ul> <p>Private Investment:</p> <ul style="list-style-type: none"> <li>- Direct private investment in projects</li> <li>- Loans, conventional and subsidized</li> </ul> <p><sup>1</sup>Sacramento Housing and Redevelopment Agency.</p>	<p>Estimated savings in criminal justice system (and private losses) as a result of a reduction in crime</p> <p>Increased market values of commercial properties in redevelopment area</p> <p>Increased market values of residential properties in surrounding area</p> <p>Increased property tax receipts</p> <p>Increased business taxes paid (sales, transient occupancy taxes)</p> <p>Non-monetized benefits:</p> <ul style="list-style-type: none"> <li>- Increased satisfaction of property owners (quality of life)</li> <li>- Savings to county agencies</li> <li>- Other private benefits</li> </ul>

**Calculation of Cost Stream**

The cost stream consists of the market-priced resources engaged for this project, both public and private. For public costs, the data source is the Sacramento Housing and Redevelopment Agency's general ledger for the period 1994 through 2003.<sup>4</sup> This data set includes the proportional allocation of administrative costs (e.g., overhead, salaries and benefits, etc.), funding for multi-agency enforcement, and all direct costs attributable to project activity – from community meetings to infrastructure improvements funded by the Sacramento Housing and Redevelopment Agency. Agency-made loans to private entities are excluded from public costs as these are accounted for under private investment. With respect to private investments, the only data available are total direct expenditures for each commercial project regardless of funding source (including public loans). Since detailed information about these investments is not available, the analysis makes a gross assumption that all private costs for a given project were incurred in the final year in which the project was completed. This, of course, introduces some discounting error, but given the lack of available information this error is unavoidable. Further, it ignores interest on loans secured for private development and thus understates costs to a degree. (See Tables C, D and E for more details.)

<sup>4</sup> Costs for 1992 and 1993 represent the best estimates available.

## **Calculation of Benefit Stream**

The stream of benefits uses market valuation techniques to estimate the market benefits of enforcement and redevelopment activities along Auburn Boulevard. As noted earlier, a critical step in measuring the benefits is the need to determine monetary gains or losses attributable to project activity. Where possible, comparisons between the test area (Auburn Blvd.) and control area (Folsom Blvd.) are used to estimate these effects. In some cases, the necessary sub-county data are not available or the control area does not provide an adequate comparison, thus other methods are required (e.g., broader geographic areas, expert opinion, etc.). The methodology for each benefit is described below in the appropriate sub-section.

### Changes in Assessed Property Values

The state legislature authorized the creation of redevelopment agencies in 1945 as a means of addressing urban blight (Dardia, 1998, p. viii). By allowing redevelopment agencies to reinvest any excess property tax revenues (or “tax increment”) locally, blighted areas may be revitalized more rapidly than without the infusion of a dedicated revenue stream. Thus, a typical measurement of success for a redevelopment project is the amount of tax increment generated as a result of increases in assessed property values. Because all U.S. residents have standing in this analysis – not just property owners in the project area – one method for assessing program effects is to count monetary losses and gains in total property taxes during the project period rather than just the tax increment revenue. However, property values declined significantly in California during the early to mid-‘90s, driving down property tax revenues. It is difficult to imagine that the losses during this period are attributable to project activity.

By the same token, it is unlikely that project activity accounts for all of the gains since 1999. A study by the Public Policy Institute of California finds that, on average, redevelopment projects are responsible for about 51% of the tax increment generated – though the range extends from 0 to 90% depending on the project (Dardia, 1998, p. ix.). In view of these results, a reasonable assumption is

that most of the losses during the '90s reflect changes in the economy, while *some portion* of the gain since 1999 is attributable to project activity. To develop a range of estimates, this study uses the change in aggregate property tax revenue (whether a gain or loss) as a conservative estimate. The remaining estimates are based solely on the generation of tax increment revenue. The optimistic scenario assumes all of the tax increment revenue generated is attributable to the project, while moderate scenario assumes that 50% of this revenue is attributable to project activity. This latter scenario is consistent with PPIC's findings noted above, though it may be a bit conservative given the county's investment in infrastructure necessary for new development.<sup>5</sup> Another consideration to bear in mind is that assessed values will continue to increase, thus adding to the future benefit stream.

**Table 3: Property Tax Gains**

Valuation of Property Tax Gains				
Year	Aggregate Assessed Value (secured & unsecured)	Amount Over Base	Incremental Tax Revenue <sup>1</sup>	Incremental Tax Revenue (1992 \$)
Base Year (1992)	\$61,387,193	\$0	\$0	\$0
1993	\$59,493,340	-\$1,893,853	-\$18,939	-\$18,391
1994	\$59,493,340	-\$1,893,853	-\$18,939	-\$17,924
1995	\$57,599,487	-\$3,787,706	-\$37,877	-\$34,833
1996	\$59,534,647	-\$1,852,546	-\$18,525	-\$16,750
1997	\$59,945,502	-\$1,441,691	-\$14,417	-\$12,600
1998	\$60,582,864	-\$804,329	-\$8,043	-\$6,925
1999	\$61,920,247	\$533,054	\$5,331	\$4,491
2000	\$58,434,149	-\$2,953,044	-\$29,530	-\$24,062
2001	\$63,380,075	\$1,992,882	\$19,929	\$15,788
2002	\$67,216,546	\$5,829,353	\$58,294	\$45,463
2003	\$71,806,747	\$10,419,554	\$104,196	\$79,450
Net Gains/Losses in Tax Revenue				\$13,707
Total Tax Increment Revenue Generated				\$145,192
<b>Benefit Estimates: (1992 \$)</b>				
Conservative Estimate: 100% of Change in Property Tax Revenue				\$13,707
Moderate Estimate: 50% of Tax Increment Generated				\$72,596
Optimistic Estimate: 100% of Tax Increment Generated				\$145,192

<sup>1</sup> Estimated as 1% of the amount over base year. See Appendix, Table G for more details.  
Source: SHRA, Finance Department.

### Changes in Market Value of Property

While property tax revenue captures the *public* benefit of changes in assessed property values stemming from the project activity, there are also *private* benefits to individual property owners. To the extent that improved conditions along the boulevard make the area more attractive to prospective

<sup>5</sup> As noted, PPIC's research supports the 50% moderate assumption; and, in the absence of any objective data to support a different conclusion, this seems to be the most reasonable basis for estimating the benefits. Further, even a more liberal assumption of say, 60% or 70%, would have little impact on the overall findings.

property owners, market values of commercial and nearby residential property increase. From an economic perspective, these increases in value provide a measure of the “willingness to pay” for such improvements. In that sense, the “neighborhood effects” of community revitalization are capitalized into property values.

### *Commercial Property*

As a commercial redevelopment zone, one of the most important considerations in this analysis is the extent to which changes in the market value of commercial property provide a measure of business owners’ willingness to pay for improvements along the corridor. Unfortunately, there were no regular sales of commercial property in either the test or control area between 1990 and 1998, and the first regular sale along Auburn Blvd. occurred in 2001.<sup>6</sup> So, while it is possible to estimate the current market value per square foot of property, no baseline exists for computing the *change* in value during the project time horizon. The only readily available solution is to use the change in commercial lease rates as a guide for the change in property values.<sup>7</sup> To that end, historical commercial lease rates were obtained for the narrowest sub-county markets available for 1994 and 2004: North Highlands (encompassing the Auburn Blvd. project area) and Highway 50/Sunrise (including Folsom Blvd.).<sup>8</sup> Next, the 2004 property value for Auburn Blvd. was estimated based on broker input and a current property listing. Finally, a 1994 value was derived using the current value (in real dollars) in combination with the estimated change in values (based on lease rates) for the period 1994 to 2004. The change in lease rates between the two areas is also used as a basis for determining the effects attributable to the project. As Table 4 shows (see next page), the control area shows stronger growth than the project area; thus, the conservative estimate assumes the project is not accountable for *any* portion of the change in market values. It is important to note, however, that this is a highly

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<sup>6</sup> According to DataQuick, there were a few foreclosures in ‘97-98, but no regular sales along Auburn until 2001.

<sup>7</sup> This is not the ideal solution, but a “reasonable guide” to the change in values according to a local broker.

<sup>8</sup> In this case, the Highway 50 sub-market is a less than adequate comparison. Its function here is to establish the baseline; and, while it has no effect on the optimistic scenario (already estimated at 100%), the conservative and moderate estimates could be understated if the Auburn Blvd. test area significantly outpaced Folsom Blvd.

pessimistic assumption since the sub-market used for comparison is significantly broader and includes new industrial development east of the control area. On the high end, the optimistic assumption is made that 100% of the incremental change in market values is attributable to the project. Finally, the moderate estimate attributes 50% of the change to the project (consistent with the assessed value assumption from Dardia's research noted earlier).

**Table 4: Commercial Property Values\***

<b>Valuation of Commercial Property</b>	<b>1994</b>	<b>2004</b>
<b>North Highlands Sub-Market Lease Rates<sup>1</sup></b> (incl. Auburn Blvd.)		
Monthly Lease Rate (per sq.ft.) <sup>2</sup>	\$0.22	\$0.37
Conversion to Comparable (1994) \$	\$0.22	\$0.29
% Change in Value		31.82%
<b>Auburn Boulevard Project Area</b>		
Going Rate for Commercial Land in RDA <sup>3</sup> (in 1994 \$)	\$10.22	\$13.48
Aggregate Value of Land (assuming 118 acres 5,140,080 square feet)	\$52,531,618	\$69,288,278
Change in Aggregate Value (assumes 31.82% rate)		\$16,756,661
Change in Aggregate Value (1992 \$)		\$15,858,814
<b>Benefit Estimates:</b>		
Change Attributable to Project – Conservative Estimate (0%)		\$0
Change Attributable to Project – Moderate Estimate (50%)		\$7,929,407
Change Attributable to Project – Optimistic Estimate (100%)		\$15,858,814
<b>Highway 50/Sunrise Sub-Market Lease Rates<sup>1</sup></b> (incl. Folsom Blvd.)		
Monthly Lease Rate (per sq. ft.) <sup>2</sup>	\$0.21	\$0.40
Conversion to Comparable (1994) \$	\$0.21	\$0.32
% Change in Value		52.38%

<sup>1</sup>North Highlands sub-market runs along I-80 from Arden to Manzanita and north to Rio Linda; Hwy 50/Sunrise is significantly larger and runs south toward Hwy. 99.

<sup>2</sup>Rates vary based on type of property and structural characteristics; the rates used here reflect the lower bound values, since the test/control areas are assumed to be among the lower-valued properties in the broader sub-markets.

<sup>3</sup>2004 value derived from 1 listed property (\$20.56 per square foot) adjusted down approx. 15% to \$17 based on input from a second source and taking into consideration length of time on market (3 years).

\*See Appendix, Table H for more details.

### *Residential Property*

Just as changes in the market value of commercial property reflects business owners' willingness to pay for improvements along the commercial corridor, changes in residential property values reflect the willingness of residents to pay for improvements in their neighborhoods. While these neighborhoods are outside the official redevelopment zone, the nearby residential area was the focus of significant project activity particularly with respect to crime control. Therefore, changes in residential property values are justifiably relevant to the benefit side of the equation.

To determine the change in residential values, the study compares the median sales price of homes in 1992 and 2003 using Census block groups to isolate neighborhoods surrounding the test and

control areas. As Table 5 below illustrates, the change in median home values in the test area did not keep pace with changes in the control area, suggesting that the project did *not* have a significant impact on property values in surrounding neighborhoods. Thus, the conservative scenario assumes none of the incremental change in values is attributable to the project. At the same time, it is important to point out that Folsom Boulevard was not a haven of prostitution during this period. An argument can be made that without attention to crime and nuisance activity, property values might have stagnated in the Auburn Boulevard area. Consistent with the other benefit estimates, the optimistic scenario assumes *all* of the incremental change is attributable to the project. Given the large increase in aggregate home values during this period, this of course creates a wide disparity in the benefit estimates reflecting the sensitivity of this analysis to assumptions about the program effects.

**Table 5: Residential Property Values**

Valuation of Residential Property	1992	2003
<b>Auburn Blvd. – Surrounding Block Groups</b>		
Median Price of Homes	\$116,500	\$196,250
Median Price in Real (1992) \$	\$116,500	\$149,642
% Change in Median Price		28.45%
Total Number of Units <sup>1</sup>	1,272	1,272
Aggregate Value of Homes	\$148,188,000	\$190,344,624
Difference in Aggregate Values		\$42,156,624
<b>Benefit Estimates:</b>		
Change Attributable to Project – Conservative Estimate (0%)		\$0
Change Attributable to Project – Moderate Estimate (50%)		\$21,078,312
Change Attributable to Project – Optimistic Estimate (100%)		\$42,156,624
<b>Folsom Blvd. – Surrounding Block Groups</b>		
Median Price of Homes	\$92,500	\$73,000
Median Price in Real (1992) \$	\$92,500	\$131,913
% Change in Median Price		42.61%

<sup>1</sup>Number of units was obtained for 2003; assumed to be the same in 1992 (a reasonable assumption given age of areas). Source: DataQuick custom report; for more details (incl. block groups in each area), see Appendix Table I.

### Changes in Business Tax Receipts

Since the redevelopment area encloses a commercial corridor, another way to gauge its success is to examine changes in business activity. There are a variety of ways to quantify these changes monetarily: business profits, job creation (and associated increase in wages) and tax receipts. Since the private benefits to business owners are captured in the increase in commercial property values (as noted earlier), the emphasis here is on estimating the *public* benefits of improved economic activity. For purposes of this analysis, two specific benefits are included: sales and transient occupancy taxes.

## Sales Taxes

Sales taxes are an important revenue source for local governments, particularly given the losses in property tax revenue stemming from passage of Proposition 13. In fact, so important are sales taxes that the competition between local jurisdictions is a key driver in the fiscalization of land use decisions. Thus, the extent to which the project is helping to stimulate tax revenue for the county is not an insignificant policy consideration. For this analysis, changes in sales taxes are estimated based on actual tax receipts from all businesses in the redevelopment zone as compared to the county as a whole.<sup>9</sup> As Table 6 below illustrates, the rate of growth in taxes along Auburn Boulevard exceeds the county by nearly 10 percentage points. (Comparisons to the two sub-county areas are likely skewed by a shift in the taxable base between the two resulting from new incorporations.) Using this margin as a base, the most conservative estimate assumes 10% of the change in sales taxes is attributable to the project. Again, the optimistic scenario attributes all of the incremental change to the project, while the moderate estimate represents the middle value.

**Table 6: Sales Tax Receipts**

<b>Changes in Sales Tax Receipts (in 1992 \$)</b>		
<b>Auburn Blvd. Project Area</b>	<b>Total Tax Revenue</b>	<b>Incremental Change</b>
1992	\$617,156	\$0
1993	\$613,354	-\$3,802
1994	\$664,562	\$47,406
1995	\$618,432	\$1,276
1996	\$782,944	\$165,788
1997	\$839,349	\$222,193
1998	\$864,034	\$246,878
1999	\$969,193	\$352,037
2000	\$1,094,008	\$476,852
2001	\$1,290,356	\$673,155
2002	\$1,220,356	\$603,200
2003	\$1,144,157	\$527,001
Total Incremental Increase		\$3,311,984
% Change from 1992 to 2003 (1997 to 2003)	85.39% <b>(36.31%)</b>	
<b>Benefit Estimates:</b>		
Change Attributable to Proj. – Conservative Est. (10%)		\$331,198
Change Attributable to Proj. – Moderate Est. (55%)		\$1,821,591
Change Attributable to Proj. – Optimistic Est. (100%)		\$3,311,984
<b>Comparison Areas:</b>		
% Change in County's Incorporated Areas, 1997-2003	<b>58.17%</b>	
% Change in County's Unincorporated Areas, 1997-2003	<b>4.99%</b>	
% Change in Entire County, 1997-2003	<b>28.82%</b>	

Source: Sacramento County Economic Development Department, custom query. See Appendix, Table J.

<sup>9</sup> Comparable data for Folsom Blvd. not available; data for county available only for period 1997-2003.

### *Transient Occupancy Taxes*

Transient Occupancy (T.O.) taxes are another important revenue source to consider on the benefit side, particularly in view of the large hotel/motel sector along Auburn Boulevard. Changes in T.O. taxes are calculated based on actual tax receipts from properties operating along Auburn Boulevard at any point during the project time horizon. In this case, Folsom Blvd. is not an adequate comparison area since its 2-mile commercial corridor contains only one motel. Without a control area to set the lower value, estimating the change attributable to the Auburn Blvd. project requires a degree of judgment. The estimates used here range from 50% on the conservative end to 100% on the optimistic end. These assumptions are more optimistic than those used for sales taxes in view of the active role the multi-agency collaboration played in affecting this particular commercial sector (i.e., closing old motels as well as facilitating the renovation and construction of new hotel properties). As Table 7 shows, T.O. taxes have shown strong growth despite the demolition of the four “worst” properties. This is due in large part to the renovation of the Ramada Inn (now the Clarion) in 1997 and the construction of the Hampton Inn in 2002.

**Table 7: Transient Occupancy Taxes**

<b>Changes in Transient Occupancy Tax Receipts (1992 Dollars)</b>		
<b>Auburn Boulevard Project Area</b>	Total T.O. Taxes	Amount Over Base
Base Year (1992)	\$68,895	\$0
1993	\$70,357	\$1,462
1994	\$79,821	\$10,926
1995	\$53,695	-\$15,200
1996	\$96,498	\$27,603
1997	\$89,849	\$20,954
1998	\$139,581	\$70,686
1999	\$149,642	\$80,747
2000	\$175,521	\$106,626
2001	\$186,351	\$117,456
2002	\$191,494	\$122,599
2003	\$263,089	\$194,194
Total		\$738,053
% Change from 1992 to 2003	281.87%	
<b>Benefit Estimates: (1992 \$)</b>		
Change Attributable to Project – Conservative Est. (50%)		\$369,027
Change Attributable to Project – Moderate Est. (75%)		\$553,540
Change Attributable to Project – Optimistic Est. (100%)		\$738,053
<b>Comparison Areas:</b>		
None available		

Source: Sacramento County Finance Department, custom query. See Appendix, Table K for more details.

## Changes in Criminal Activity

In light of the decision to fund two dedicated sheriff's deputies for five years, an important consideration on the benefit side is the extent to which those investments resulted in an actual reduction in crime. The first step in this process is to compare trends in crime rates between Auburn Blvd. and Folsom Blvd. Since crime statistics for unincorporated areas are published only at the county level, data are not readily available for small sub-county areas. Thus, estimating the respective rates of change in each area requires a review of crime records. For this analysis, the number of crime reports filed by deputies (as opposed to incident reports, where a crime may or may not have occurred) was compiled for 10 selected crimes occurring within each area in 1992 and 2003. As Table 8 below indicates, crime rates show significant improvements along Auburn Blvd. compared to the control area. In cases where a particular type of crime has decreased in both areas, the rate of decrease along Auburn Blvd. is greater; and, in cases where a particular crime has increased in both areas, the rate of increase along Auburn Blvd. is smaller. Remarkably, Auburn Blvd. shows the *opposite* trend for several crimes: robbery is down 94.74% (vs. a 333.33% increase along Folsom) and prostitution is down 85.71% (vs. a 1500% increase along Folsom). This lends support to the fact that crime reduction activity in the project area is directly attributable to law enforcement initiatives undertaken there. Using the difference in the rates of change for the lower bound, the conservative scenario attributes 70% of the change to project activity; thus, the range extends from 70% to 100%.

**Table 8: Crime Comparison**

Crime <sup>1</sup>	Total Documented Crimes <sup>2</sup>					
	Auburn Blvd.			Folsom Blvd.		
	1992	2003	% Change	1992	2003	% Change
Burglary	41	25	- 39.02%	60	52	- 13.33%
Child Abuse/Neglect	1	0	- 100.00%	1	1	0.00%
Domestic Violence	9	8	- 11.11%	2	10	+ 400.00%
Felony Assault	5	10	+ 100.00%	11	13	+ 18.18%
Homicide	1	0	- 100.00%	0	0	0.00%
Rape	1	1	0.00%	1	1	0.00%
Robbery	19	1	- 94.74%	24	32	+ 333.33%
Prostitution	21	3	- 85.71%	0	15	+ 1500.00%
Vandalism	10	7	- 30.00%	21	23	+ 9.52%
Drugs/Narcotics	15	29	+ 93.33%	14	39	+ 178.57%
<b>Total</b>	<b>123</b>	<b>84</b>	<b>- 31.71%</b>	<b>134</b>	<b>186</b>	<b>+ 38.81%</b>

<sup>1</sup>See Appendix Table L for crime code definitions and annual crimes for Auburn Blvd. for entire 11-year period.

<sup>2</sup>Compiled from review of actual crime reports (vs. incidents), whether or not an arrest was made.

Source: Sacramento Co. Sheriff's Department, Records Management Division.

Once the rates of change attributable to the project are established, the next step in the analysis is to estimate the annual savings (or increases) based on actual crimes along Auburn Blvd. during the 11-year project period. Again, the sub-county data are not available, so it is necessary to review crime reports. For this study, 10,000 crime reports for the same 10 selected crimes were reviewed to isolate those that occurred in the relevant address range (2052-3148 Auburn Blvd. and major cross-streets) and time period (1992-2003). The difference in the number of crimes between the base year and each subsequent year yields the number of crimes avoided (a savings) or, in other cases, the increase in crimes (a cost). Monetary values are then attached using “plug in” cost-of-crime estimates from previous academic research.<sup>10</sup> These estimates of the cost per crime – available for only 5 of the 10 crimes considered here – reflect criminal justice costs (adjusted for the probability that an offender will be arrested and punished) as well as victims’ costs (e.g., productivity losses, medical care, property loss, etc). It is important to note that other, less tangible social costs – such as reduced quality of life stemming from fear of crime among those in the broader community – are not reflected in these estimates. Typically, these non-market effects are assessed using contingent valuation techniques where individuals express a willingness to pay for *all* of the benefits derived from crime reduction; however, using such measures in a study that also counts increases in property values from neighborhood improvements results in “double counting.” The cost-of-crime estimates used here are less likely to create such a problem. As Table 9 shows (see next page), when savings for all crimes are aggregated over the entire 11-year period, the total benefits of crime reduction range from \$1.6 to \$2.4 million. (For detailed breakdown of crimes and costs by year, see Tables L and M in Appendix.)

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<sup>10</sup> Cohen, M., Rust, R., Steen, S., and Tidd, S. present a useful summary of victim and criminal justice costs (see 2004, p. 103). These are derived from two previous studies. For details on victim costs, see Miller, T., Cohen, M. and Wiersema, B. (1996) “Victim Costs and Consequences: A New Look.” For details on criminal justice costs, see Cohen, M. (1998), “The Monetary Value of Saving a High-Risk Youth.”

**Table 9: Crime Savings**

Savings in Criminal Justice and Victim Costs of Crime <sup>2</sup>									
Cost Per Crime (in 1992 \$)	Burglary		Felony Assault		Rape		Robbery		Total Savings
	\$3,353		\$29,008		\$92,892		\$25,912		
Crimes Avoided <sup>1</sup>									
1993	-1	-\$3,353	-2	-\$58,016	-2	-\$185,784	2	\$51,824	-\$195,329
1994	14	\$46,942	0	\$0	-1	-\$92,892	6	\$155,472	\$109,522
1995	8	\$26,824	0	\$0	-3	-\$278,676	6	\$155,472	-\$96,380
1996	20	\$67,060	-2	-\$58,016	-3	-\$278,676	11	\$285,032	\$15,400
1997	23	\$77,119	-7	-\$203,056	-1	-\$92,892	10	\$259,120	\$40,291
1998	15	\$50,295	-8	-\$232,064	-1	-\$92,892	11	\$285,032	\$10,371
1999	23	\$77,119	-3	-\$87,024	-2	-\$185,784	15	\$388,680	\$192,991
2000	26	\$87,178	0	\$0	1	\$92,892	18	\$466,416	\$646,486
2001	23	\$77,119	4	\$116,032	0	\$0	16	\$414,592	\$607,743
2002	15	\$50,295	3	\$87,024	1	\$92,892	18	\$466,416	\$696,627
2003	16	\$53,648	-5	-\$145,040	0	\$0	18	\$466,416	\$375,034
Total Savings		\$610,246		-\$580,160		-\$1,021,812		\$3,394,472	\$2,402,746
<b>Benefit Estimates:</b>									
Change Attributable to Project – Conservative Estimate (70%)									\$1,681,922
Change Attributable to Project – Moderate Estimate (85%)									\$2,042,334
Change Attributable to Project – Optimistic Estimate (100%)									\$2,402,746

<sup>1</sup>A negative number in “crimes avoided” column reflects an *increase* in that crime in the given year.

<sup>2</sup>Savings from changes in homicides were excluded, given that even small changes would skew the data due to the exceedingly high costs (\$3.9 million per crime).

Source: Sacramento Co. Sheriff’s Department, Records Management Division; data compiled based on review of actual records.

Of course, it is important to point out that some crimes could not be valued economically using cost-of-crime estimates, including prostitution, child abuse, domestic violence and drug crimes.<sup>11</sup> With the exception of drug-related crimes, all of these show a strong downward trend between the base year and the most current year, though prostitution increased during the “crack down” period from 1994 to 1999 which would have temporarily increased costs. Further, crime control activities extended beyond the boulevard to include neighboring residential streets. Those results are not reflected here due to time limitations with regard to data compilation, but it is reasonable to conclude that a broader geographic net would likely reveal even greater savings. As noted earlier, an important caveat is that any displacement effects – such as the migration of crime to other areas – is not accounted for here.

**Non-Monetized Benefits**

Some of the less tangible benefits of project activity could not be monetized due to time or data limitations. However, it is important for the decision-maker or evaluator to consider these potential

<sup>11</sup> For an annual breakdown of all 10 crimes (including those that could not be monetarily valued), see Table M in the Appendix.

outcomes when interpreting the findings. While not necessarily a comprehensive list, below are three possible outcomes to bear in mind.

#### Increased Satisfaction of Residents and Merchants

This study attempts to estimate the increase in satisfaction – or the willingness to pay for neighborhood improvements – through a variety of means, most notably the increase in property values and the averted losses from crime reduction. However, there is a *qualitative* aspect to improved quality of life that is difficult to express in monetary terms. For example, how does one put a price tag on happiness or improved social capital? As an alternative, contingent valuation techniques are sometimes used for this purpose. In such cases, individuals are asked to attach monetary values to certain outcomes including the market *and* non-market effects of social policies. Unfortunately, these methods are time consuming and outside the scope of this project. Further, in a retrospective analysis such as this, market valuation is a more reliable method for estimating changes stemming from observed policy consequences. Still, an argument can be made that deriving a measure for improved quality of life from market valuation techniques may not capture the full benefit.

Based on anecdotal input from business owners and residents, satisfaction with the improvements is high. One business owner remarked that, “It’s 160% better than it was.” He went on to say that nighttime business, in particular, is “picking up for everyone” as people feel safer shopping there. Likewise, residents are relieved that “car dates” no longer happen on their streets. Though, as the qualitative evaluation in Section IV suggests, there are some concerns about the ability to sustain these improvements absent the dedicated law enforcement personnel.

#### Potential Savings to County Agencies

Another benefit not quantified in this analysis is the potential savings to the county from reduced workload, productivity enhancements or improved retention. As noted earlier, crime is down 32% along Auburn Boulevard. In addition, the worst substandard housing cases were eliminated with the demolition of four motel properties. In fact, no housing code enforcement cases have been opened

in the area since 2000; and total code enforcement cases (including housing, vehicle and zoning) are down from 15 in 1994 to only 1 in 2003. Clearly, the service needs in this narrow geographic area have declined from prior years. However, none of the agency principals interviewed for this analysis could document any savings stemming from this project. Improvements in a small, sub-county area do not necessarily translate into overall budgetary reductions for a variety of reasons: a) budgets are established through a political process and subject more to available funding than service needs, b) changes in a small sub-county area do not have a sizeable enough impact to reduce overall service demands, and c) a growing metropolitan area, such as Sacramento, faces ongoing increases in service needs, thus staffing costs are likely to increase from year to year (subject to available funding). Rather, the primary effect of a project such as this is distributional; as needs go up in one sub-county area, it draws resources away from other areas unless there is dedicated funding to absorb the increased workload. Conversely, as needs go down in a service area – such as Auburn Blvd. – resources are redirected to the myriad other needs in the county.

That said, it is not unreasonable to expect the county to realize tangible benefits particularly as collaboration becomes more widespread, though this would most likely come in the form of a restraint on staffing growth rather than a budgetary reduction. As one example, the number of code enforcement officials in Sacramento County has remained relatively constant in the past 3 years, while the caseload has increased by roughly a third. While a variety of factors are responsible for the greater caseload per officer, one agency principal attributes the change at least in part to “better coordination.” The agency also teamed with other nuisance abatement departments to form a consolidated complaint center. Reported benefits include reduced clerical needs in the respective departments, as well as improved ability to identify problem properties that need “multi-department responses.” There are other potential benefits as well. Making a more visible difference in the community through collective efforts may be a motivating factor for agency staff. Several individuals interviewed for this analysis spoke of the satisfaction they gained from seeing real progress as opposed to the usual “baby steps”

made by solving one small problem at a time. To the extent enhanced job satisfaction translates to better retention, this may show up in reduced recruitment and training costs. Of course, such outcomes need to be fairly widespread to have a discernable impact.

#### Other Private Benefits

Finally, there are other private benefits that are not reflected here, such as the expansion of affordable housing. For example, the construction of the Ladi Senior Apartments made 147 new units available to low-income seniors. The provision of senior housing has three potential benefits. First is the value accruing to individual seniors able to rent apartments worth \$800 per month (or more) for an average price of \$445 per month. Assuming the seniors living there formerly paid the higher price for housing, the annual benefits accruing to these individuals is in the neighborhood of \$448,000 for 2003 alone (in 1992 dollars). A second and potentially significant benefit is the stabilizing force these seniors play in the community. As one resident put it, “old folks get prescription drugs from their doctors...they don’t need drug dealers” (Le, 2003). Finally, these new facilities are creating social value for the broader Sacramento community by helping to address the scant supply of affordable housing for low-income seniors.

### **III. Benefit-Cost Findings**

Benefit-cost analysis provides a measure of economic efficiency from a social welfare perspective. Using a single criterion – the Net Present Value of the stream of costs and benefits – a determination can be made as to whether a policy or project provides benefits to society as a whole. Projects with a positive Net Present Value (NPV) are deemed economically efficient. Due to the inherent uncertainty associated with some of the benefit estimation techniques, this study employs a sensitivity analysis for each benefit category to produce three NPV estimates representing conservative, moderate and optimistic scenarios. In each case, the conservative estimate is based on the extent to which improvements in the project area outpaced the best available comparison area,

while the optimistic scenario attributes all of the incremental benefits accruing since 1993 to the project.

As Table 10 illustrates (see next page), total public and private costs are estimated to be \$20.1 million. Benefits, on the other hand, range from \$2 million to \$54.2 million, reflecting the sensitivity of the analysis to assumptions made about the incremental changes attributable to the project. When the aggregated costs are deducted from the stream of benefits, the project passes the economic efficiency test under the both moderate scenario (NPV of \$7.9 million) and the optimistic scenario (NPV of \$34 million), while it fails the test under the most conservative scenario (NPV of negative \$18.1 million). Using the moderate scenario as the most likely outcome, the project is generating surplus value of nearly \$8 million. Thus, in hindsight, it was “worth doing” from a social welfare perspective. However, as alluded to above, changes in the assumptions made about program effects would alter this finding. For example, lowering the moderate assumption on property values from 50% to 25% lowers the moderate NPV estimate to a negative \$4 million.

In the final analysis, the moderate scenario may still be a bit optimistic.<sup>12</sup> At the same time, it is important to call attention to the non-monetized benefits that the reader must also weigh into the equation, such as the expansion of affordable housing and enhancements to the county’s organizational capacity. Further, the strong positive trends in tax revenue, property values and crime reduction since 2000 suggests that benefits are likely to continue to grow. This is a typical pattern in redevelopment activity, where heavy investments are made up front with an expectation of long-term gains. Factoring in both the intangible benefits and the likelihood of future benefits based on investments already made, the project warrants a favorable conclusion.

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<sup>12</sup> While tax increment and commercial property increases attributed to the project may be somewhat understated in the moderate scenario, on balance these are more than offset by the sizeable residential property allowances as well as the lack of indirect expenses associated with private sector investments.

**Table 10: Net Present Value**

<b>Monetization of Costs &amp; Social Benefits (in 1992 Dollars)</b>	
<b>Costs</b>	
Total Costs, 1992-2003	\$23,359,165
Total Costs, Adjusted for Opportunity Cost of Capital <sup>1</sup>	\$20,157,338
<b>Benefits</b>	
<b>Sales Taxes</b>	
Conservative Estimate (20% of incremental change)	\$331,198
Moderate Estimate (60% of incremental change)	\$1,821,591
Optimistic Estimate (100% of incremental change)	\$3,311,984
<b>Transient Occupancy Taxes</b>	
Conservative Estimate (50% of incremental change)	\$369,027
Moderate Estimate (75% of incremental change)	\$553,540
Optimistic Estimate (100% of incremental change)	\$738,053
<b>Property Taxes</b>	
Conservative Estimate (100% of gains/losses)	\$13,707
Moderate (50% of incremental change)	\$72,596
Optimistic (100% of incremental change)	\$145,192
<b>Commercial Property Value Increases</b>	
Conservative Estimate (0% of incremental change)	\$0
Moderate Estimate (50% of incremental change)	\$7,929,407
Optimistic Estimate (100% of incremental change)	\$15,858,814
<b>Residential Property Value Increases</b>	
Conservative Estimate (0% of incremental change)	\$0
Moderate Estimate (50% of incremental change)	\$21,078,312
Optimistic Estimate (100% of incremental change)	\$42,156,624
<b>Savings from Crime Reduction</b>	
Conservative Estimate (70% of incremental change)	\$1,681,922
Moderate Estimate (85% of incremental change)	\$2,042,334
Optimistic Estimate (100% of incremental change)	\$2,402,746
<b>Total Benefits</b>	
Conservative Estimate	\$2,395,854
Moderate Estimate	\$33,497,780
Optimistic Estimate	\$64,613,413
<b>Total Benefits, Adjusted for Opportunity Cost of Capital</b>	
Conservative Estimate	\$2,043,481
Moderate Estimate	\$28,131,405
Optimistic Estimate	\$54,219,800
<b>Net Present Value (NPV) With Sensitivity Analysis</b>	
<b>NPV – Conservative Estimate</b>	<b>-\$18,113,823</b>
<b>NPV – Moderate Estimate</b>	<b>\$7,974,102</b>
<b>NPV – Optimistic Estimate</b>	<b>\$34,062,496</b>

<sup>1</sup>Discounted to reflect social rate of time preference @ 1.5%

Looking only at the *public* costs and benefits, the project shows negative NPVs for all three scenarios, ranging from a loss in welfare of \$3.9 million on the conservative end to negative \$.5 million on the optimistic end. (See Table 11 next page.) However, to the extent the positive trends in tax revenue and crime reduction are sustained while public investment begins to slow, it is reasonable to expect that efficiency from the public perspective is achievable in the near future. Another consideration from the local government perspective is that a significant portion of the cost was exported to federal taxpayers while most of the benefits have accrued locally.

**Table 11: Public Costs and Benefits**

<b>Monetization of Public Costs &amp; Benefits (in 1992 Dollars)<sup>1</sup></b>	
Total Public Costs	\$5,286,474
Total Public Benefits	
Conservative Estimate	\$1,284,537
Moderate Estimate	\$2,948,139
Optimistic Estimate	\$4,612,212
<b>Net Present Value</b>	
<b>Conservative Estimate</b>	<b>-\$3,903,415</b>
<b>Moderate Estimate</b>	<b>-\$2,239,813</b>
<b>Optimistic Estimate</b>	<b>-\$575,740</b>
<b>Net Present Value Less Federal Dollars<sup>2</sup></b>	
<b>Conservative Estimate</b>	<b>-\$881,801</b>
<b>Moderate Estimate</b>	<b>\$781,802</b>
<b>Optimistic Estimate</b>	<b>\$2,445,874</b>

<sup>1</sup>Discounted to reflect social rate of time preference @ 1.5%

<sup>2</sup>Federal dollars include only EDI, 108 and CDBG funds identified in the redevelopment agency's ledgers.

## IV. Lessons Learned

While the benefit-cost analysis sheds light on whether the project was worth doing from an economic efficiency perspective, it is also useful to consider the effectiveness of the strategy from an organizational perspective. In other words, was this a smart way to go about doing it? To that end, numerous representatives from the core agencies were interviewed about the multi-agency collaboration with regard to what worked, what challenges they encountered and what recommendations they have for other local governments. Input was also obtained from selected business owners and residents who participated formally in the collaboration through the Project Area Committee. Before sharing this feedback, it is important to note that this does not constitute a formal organizational analysis encompassing a review of goals, leadership capacity, structures, processes, culture, etc. Rather, it is intended simply to capture some of the lessons learned by those involved in the collaboration with a focus on assisting other local governments seeking to use a similar approach to community revitalization. Interpretations of the input received from these individuals are the authors' own.

One of the most remarkable aspects of this project is the extent to which these diverse agencies came together to solve community problems collectively. Anyone who has participated in such an undertaking understands the difficulty of coordinating across agencies with diverse missions, resources, policies and work practices, not to mention the usual challenges of teamwork stemming from individual differences in personality and communication styles. To put it bluntly, collaboration is hard. At the same time, the opportunity to have a deeper or more lasting impact is enhanced by bringing together a variety of skills and perspectives to complicated, multi-faceted problems. Clearly, this is the case in the Auburn Boulevard Revitalization Project. As one law enforcement officer explained it,

*“There are portions of problems in an area that law enforcement can’t address, such as social issues, like families living long-term in motels, or health and safety issues in the environment. Collaboration brings together different skills sets and mindsets to tackle these problems more comprehensively.”*

The rationale for collaboration is obvious, but making it work is another matter. There are a variety of factors that contributed to the success of the multi-agency collaboration. As one interviewee explained it, “The success of this story (lies in) the zeal of the inspectors and deputies, the leadership of SHRA, political support from Supervisor Johnson’s office.....(and) a willingness to focus on getting the job done, not who’s going to get credit.” Another adds, “We got the right people involved and made a lot of positive changes.” These participants recognized the value to be gained by applying their collective resources to the problem. Importantly, they also understood the leadership role they needed to play to involve the community. For example, the Sheriff’s Department instituted quarterly community meetings to strengthen participation from residents. Merchants and residents were invited to serve on the Project Area Committee, which held monthly meetings open to the community. And, representatives from all agencies worked alongside neighborhood volunteers during a Community Pride Clean-up Day. In short, they “embraced (the) neighborhood.” This underlying spirit is captured nicely in a statement made by one agency principal in a local news story: “There are times in our lives

when we find ourselves in circumstances that may not be of our first choosing....When someone comes alongside of us to encourage us, to walk with us ...this is an example of the human side of revitalization” (Santos, 2001).

While the passion and commitment of agency personnel deserve a great deal of the credit, there were certain tactical decisions that also played a critical role:

- ✓ SHRA’s foresight to provide funding for multi-agency enforcement.
- ✓ The assignment of two full-time deputies to work a small, geographic area for five years using a problem-oriented policing approach that took them out of their patrol cars onto the streets.
- ✓ A part-time prosecutor to coordinate response to criminally-negligent building owners and put some teeth into the consequences for noncompliance.
- ✓ The formation of institutional structures to facilitate coordination, such as the countywide Nuisance Response Team – comprised of a multitude of law enforcement and nuisance abatement agencies – to identify and prioritize problem properties and plan joint operations.

This concentration of effort on the enforcement side was directly responsible for turning the tide on criminal activity, as evidenced by the extent of the improvements along Auburn Boulevard in relation to a comparison area. As one team member noted, it was a “great luxury” to have dedicated personnel to work a narrowly defined geographic area. Yet, the luxury of those resources enabled these public safety agencies to collectively make a real dent in the area’s problems, as opposed to the usual scenario of tackling one small issue at a time – and often seeing the same issue resurface time and time again.

The results are compelling. Crime is down 32% (versus a 39% increase in a comparison area). Four substandard motels were shut down, paving the way for a new hotel and an affordable housing complex serving low-income seniors. Merchants say people feel safer shopping at night and “business is picking up for everyone.” It is harder to quantify the gains in organizational capacity, but progress is evident there as well. Interviews with agency personnel indicate that exposure to different perspectives and ways of thinking afforded by the collaboration helped individual team members see new possibilities. In the words of one interviewee speaking on the lasting benefits of the

collaboration, “We’re finding solutions that weren’t there before.” It also led to “cultural shifts in the work that (they) do” as agency staff were able to see their role from a broader perspective. For example, code enforcement officers developed a better understanding of how their ability to collect and document evidence is linked to the community prosecutor’s ability to build a case against negligent property owners, thus contributing to a shift away from a “fix it ticket” mentality. Finally, the project heightened attention to certain policy and structural issues. For example, more aggressive enforcement of housing code violations prompted the creation of a new relocation policy for displaced tenants. The project also helped sew the seeds for what would become the District Attorney’s Community Prosecution Unit, formally established in 2000 to provide geographically based coordination for multi-agency response to criminally non-compliant property owners. As a result of the unit’s ongoing successes (see sidebar), the city is studying the possibility of funding a community prosecutor for the downtown area (Montano, 2004).

### Challenges

Despite the successes of the multi-agency collaboration, “there were bumps along the way” and

*The following excerpts are from an article appearing in The Sacramento Bee on 12/9/04, and are provided as an illustration of a recent multi-agency success story in the county.*

#### **Center makes a comeback: Merchants and the District Attorney’s Office join to clean up a troubled corner**

A constellation of events occurred about two years ago that began a turnaround for an Arden-Arcade shopping center, replacing blight with bustling business.

The center ... was once the site of all sorts of problems. Inebriates were downing 40-ounce bottles of beer in plain sight. Panhandling, public urination, sleeping in the bushes and illegal dumping were regular occurrences.

Within a short time, three separate complaints came to Deputy District Attorney Rita Spillane, the point person for the Arden-Arcade Community Prosecution Unit....Spillane organized and sent a cadre of enforces for a thorough inspection (including) fire officials, code enforcement officers, building department inspectors and deputy sheriffs.

Shortly after the mass inspection, Spillane and District Attorney Jan Scully sent owners of the land and the tenants a letter that spelled out what problems were occurring on the property. The letter made it clear that the county was prepared to use the power of the courts to clean up the center....The letter included the date for a meeting downtown.

Spillane explained to those at the meeting how the center could be cleaned up. Each week they were asked by Spillane to call and give her an update on exactly how they were going about that.

“Now they have formed a merchants association to keep that strip mall healthy,” Spillane said.

“The philosophy of ownership changed,” one owner remarked. “There is a pride of ownership...We realized we wanted to work together and that we had commonality of interest.”

these continue to occur. Beyond the resource issues typical in a public setting – i.e., too much work, not enough resources – one challenge that surfaced repeatedly in interviews pertains to “conflicting missions” (though it was not always characterized in these terms). For example, the code enforcement process is geared toward working with property owners on an ongoing basis to fix code violations. As one agency official explained it, fixes are preferred to closures given the high “human costs” associated with the displacement of tenants (such as the need to change schools). The law enforcement apparatus, on the other hand, is geared toward the arrest and prosecution of violators. These different perspectives caused some initial apprehension for officers working joint missions, though over time officers built the understanding and trust necessary to work collaboratively. However, there continue to be differences between some agencies with respect to how aggressive a stance to take on the enforcement side. These kinds of differences can be a source of ongoing tension unless inter-agency relationships get regular “care and feeding” to work through the issues, particularly as players change.

Another stumbling block involved legal challenges to the contractual relationship between the community prosecutor and the redevelopment agency. During the course of the criminal case against two negligent property owners, the defense attempted to recuse the prosecutor on the grounds that funding from SHRA “made the prosecution subject to a second master.” The judge agreed, finding a prejudice to defendants stemming from the action of the community prosecutor in her “aggressive effort to carry out the dictates of the SHRA (housing and redevelopment agency) contract.” This finding was later overturned by the Third Court of Appeals. Still, the county ultimately determined that community prosecutors should be financed through the county general fund to avoid further controversy.

### Looking to the Future

Clearly, the team’s dual-pronged strategy to attack the boulevard’s “broken windows” – in terms of physical disrepair and social deterioration – has made tremendous progress toward moving

the area in a positive direction. And while private development has been slower than anticipated, the reduction in crime and nuisance activity during the mid-late '90s is beginning to bear fruit as evidenced by the positive trends noted earlier. Looking toward the future, a big unknown is what kind of effort is needed to sustain the area's improvements, particularly in light of the long-standing reputation of the area. For example, without dedication of law enforcement personnel to the area, will crime begin to reappear? Some individuals interviewed expressed concerns about the potential reemergence of crime absent these resources.

Given the groundbreaking nature of the project, it will likely take some experimentation to determine the optimal level of government resources needed in the long term. It also remains to be seen the extent to which some of the burden can be shifted from county personnel to property owners themselves, particularly as a lack of urgency contributes to a sense of apathy among some community members. As one resident put it, "It's hard to fight (the) apathy" that naturally sets in as the area improves. That said, the business owners and residents interviewed for this analysis are passionate about the area and committed to re-energizing local property owners toward building on these improvements.

### Recommendations

Asked about their advice for other local governments seeking to use more collaborative problem-solving strategies, respondents offered several recommendations: the provision of dedicated resources to work specific hot spots, the courage to take risks, a more aggressive stance on enforcement, and an unyielding commitment to the end goal. Most importantly, collaboration requires a philosophy of service that starts at the top and permeates broadly. A truly community-oriented government embraces "a philosophy which motivates departments of local government to work

together with stakeholders to...improve the local quality of life.” The expression of that philosophy is embodied in the following principles:<sup>13</sup>

- ✓ A focus on community needs versus turf issues.
- ✓ An emphasis on problem solving, bringing all of the resources and perspectives to the table.
- ✓ Strong leadership support to create a culture that values collaboration, both within the agencies and at the executive level.
- ✓ Good communication channels at various levels, along with a common language for discussing issues to minimize misunderstandings.
- ✓ Institutional structures that facilitate ongoing collaboration to identify/solve problems.
- ✓ Established protocols for dealing with differences and disagreements, where problems are handled at the lowest levels possible but players know how to move issues to higher levels.
- ✓ A long-term commitment to a dynamic process.

In a sense, it is the application of the community-oriented policing philosophy on a grander scale. Through its multi-agency collaboration, the Auburn Boulevard project is a step in this direction. Yet, a fully implemented philosophy of “community-oriented government” is more far reaching, touching every aspect of local government: its mission and vision, its organizational structure, its policies and procedures. Without strong leadership support and attention to institutional structures and reward systems, it is easy for such initiatives to get lost under the myriad other priorities cash-strapped local governments are facing. Of course, putting such a vision into place raises issues of scope, issues of scale and the ever-present issue of money. It also raises more practical concerns. For example, how will such initiatives be evaluated? Do adequate information systems exist to support these efforts? The list goes on. Yet, long-term vision need not be limited by short-term reality. The model of community-oriented government provides a vision to which all communities can aspire. And, the

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<sup>13</sup> The definition and principles of “community-oriented government” were taken from a joint presentation made by Captain Merle Switzer and community prosecutor, Rita Spillane.

success of the Auburn Boulevard Revitalization Project illustrates the potential gains to be made along the way toward that broader vision.

## **V. Conclusion**

The primary objective of this study is to assess the economic efficiency of the Auburn Boulevard Revitalization Project using formal techniques of benefit-cost analysis. As the study shows, using a moderate set of assumptions about the benefits up to 2003, the project yields a positive Net Present Value of \$7.9 million thus passing the economic efficiency test. Taking into account all three scenarios, the range of estimates extends from a loss of \$18.1 million on the conservative end to a gain of \$34 million on the optimistic end, reflecting the sensitivity of the findings to assumptions made about the incremental benefits attributable to the project. While the moderate scenario is still a bit optimistic with respect to some of these assumptions, the project warrants a favorable conclusion in view of the intangible benefits that could not be monetized as well as the likelihood of additional future benefits based on investments already made.

A secondary objective of this study is to evaluate the effectiveness of the strategy used to revitalize Auburn Boulevard from the perspective of key participants involved in the project. By bringing together diverse skills and perspectives to complicated, multi-faceted problems, the multi-agency collaboration appears to have made a real and lasting dent in the problems along the boulevard. People feel safer, business is picking up, and residents no longer have to contend with visible prostitution and drug activity on their streets. It has also provided lasting benefits to the county in terms of stronger relationships among some agencies as well as cross-departmental committees to facilitate collaboration. At the same time, there are some challenges ahead on the road to sustaining – and more fully implementing – a truly community-oriented government in the broader sense of the term.

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## **Appendix**