

SESSION FIVE

District Formation: Integration of Tax Increment and Land-Secured Districts

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**CURRENT TOPICS AND PRACTICES IN
LAND-SECURED AND DEVELOPMENT FINANCE**

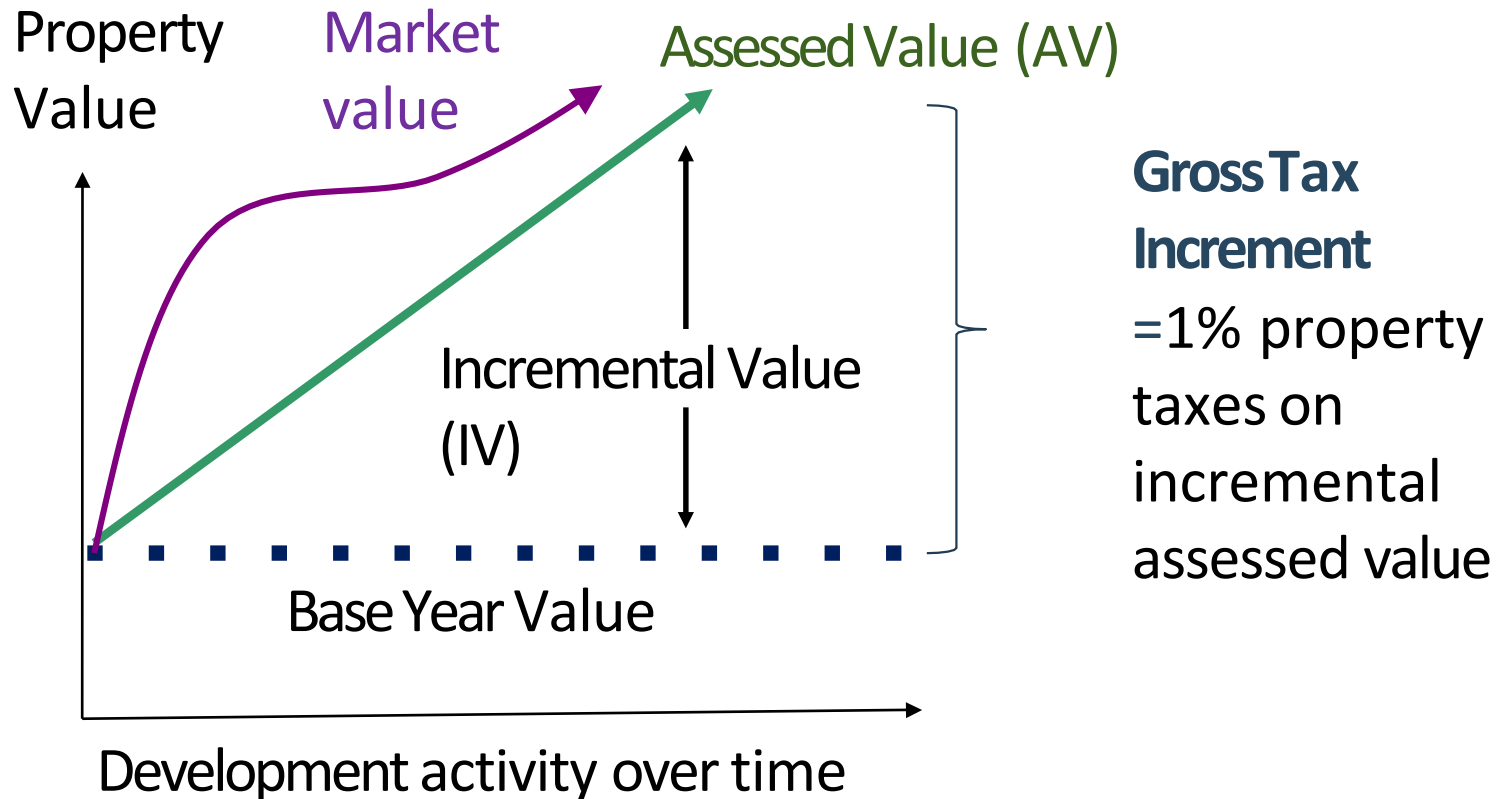
**MAY 22, 2024
POMONA, CA**

Infrastructure Financing Districts (IFDs)

- **Original statute from the 1990s**
- **Statutory powers expanded and revised following the dissolution of Redevelopment Agencies in 2011**
- **Several variations:**
 - Enhanced Infrastructure Financing District (EIFD)
 - Infrastructure Revitalization Financing District (IRFD)
 - Community Revitalization and Investment Authority (CRIA)
 - Climate Resiliency District (CRD)

Infrastructure Financing Districts (IFDs)

- Participating entities can direct all or a portion of their share of incremental property taxes within a district



Potential IFD Revenues
= some or all of the *participating entities' share* of 1% property tax revenues; schools explicitly excluded

Other revenues may also be pledged (i.e. VLF fees, RPTTF residuals)

Considerations for using IFDs

- **No new tax/no new revenue**
 - Just reallocating revenues from general fund to IFD
- **Limited revenue stream**
 - Primarily share of 1% property tax revenues of city, county or special district that opts in
 - Need not be all of participating entities' share
- **Can create a bondable revenue stream for housing**
 - Many issuers split tax increment between housing and facilities

Use of IFD Proceeds

- **Useful life of at least 15 years**
- **Public facilities or projects with community-wide significance**
 - Water, sewer, roads, fire stations, libraries, etc.
- **Affordable housing**
 - Acquisition, construction or rehabilitation of housing serving very low, low or moderate income people
 - Preservation covenant: 45+ years for ownership, 55+ years for rental

IFD Formation Overview

- **Resolution of Intention**
 - Sponsoring agency initiates formation and forms a Public Financing Authority
 - Notices sent to District landowners and other taxing entities
- **Public Financing Authority (PFA)**
 - Governed by members of participating agencies, 2 members of the public
- **Infrastructure Financing Plan (IFP)**
 - Includes boundary map, facilities list, pledged revenues, revenue projections and cap, tax increment limit, sunset date
- **Three public hearings**
 - At least 30 days apart, with opportunity for protest
 - Process terminates upon majority (50+% protest), election required for 25-50% protest
- **Adoption of the IFP**
- ***Judicial validation***

The Infrastructure Financing Plan (IFP)

- **Boundary map**
 - May include distinct Project Areas
- **Facilities list and project goals**
 - Estimated location, timing and costs of EIFD facilities, community-wide significance of facilities
- **Pledged revenues and revenue projections**
 - Annual tax revenue projections and portion of participating taxing entities share of tax increment committed annually, can vary by taxing entity and over time
 - Plan of finance including intention to incur debt
 - Cap on total revenues allocated to the district
- **Tax collection period and sunset date**
 - Not more than 45 years from approval of bond or loan OR 45 years after each Project Area has received \$100,000 in annual increment
- **Fiscal impacts of expected development**

Snapshot of IFD Activity Around California

- **May IFDs created to date**
 - Sacramento (City), Sacramento (County), West Sacramento, Napa
 - Placentia, Otay Mesa, LaVerne, Rancho Cucamonga
 - Rincon Hill (IFD), Treasure Island (IRFD), Mission Rock and Pier 70 (SF Port's own IFD statute)
 - Others formed or under consideration
- **First IFD public bond sale in 2022**
 - \$29 million for San Francisco's Treasure Island IRFD in August 2022

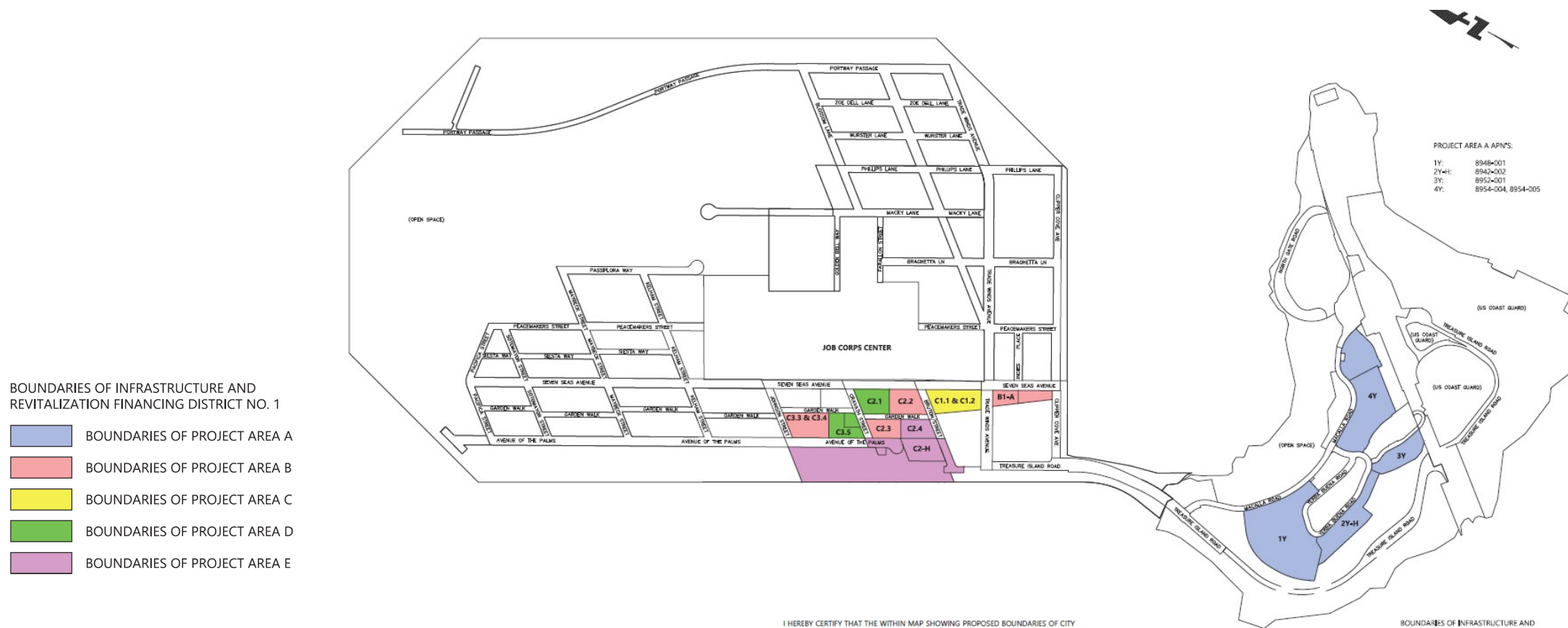


Source: Housing Financing Tools and Equitable, Location-Efficient Development in California Report on the Use of Tax Increment Financing Prepared in Accordance with California Senate Bill 961, 2017-2018 Regular Session; County of Sacramento



Case Study: Treasure Island IRFD No. 1

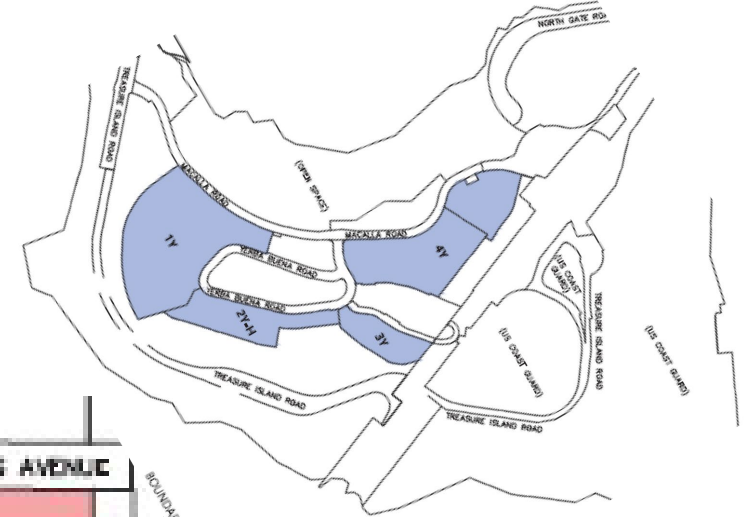
- **Formed in 2017 and judicially validated in 2018**
 - Planned for 1,755 residential units and two hotels on 33 acres
 - Base year established (at \$0) before land was privately owned and assessed



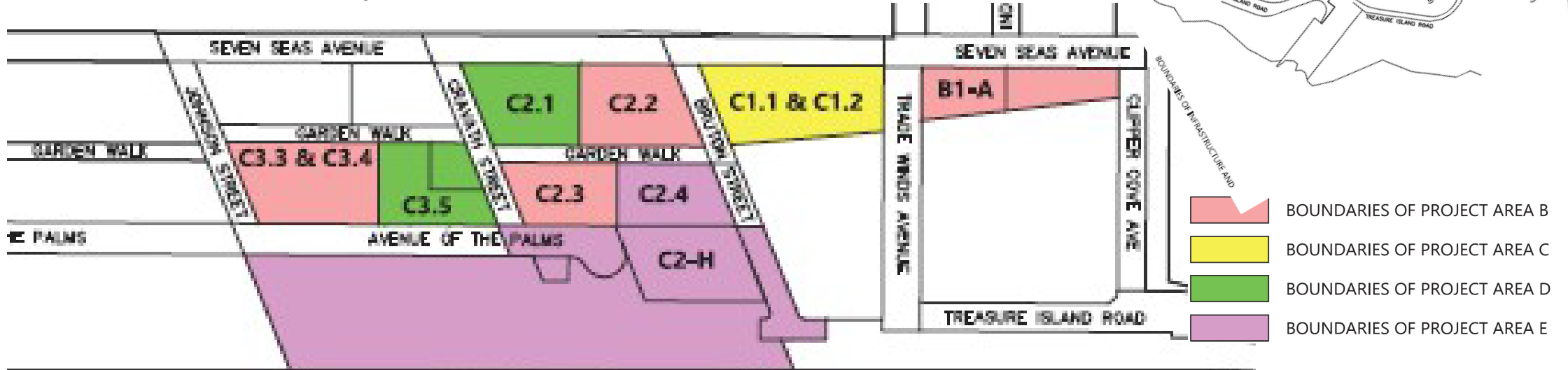
Treasure Island IRFD: Project Areas

- **Five initial Project Areas (non-contiguous)**
 - Sized to encompass planned development phases
- **Revenue collection time limits vary for each**
- **Revenues are pooled into one credit**

Project Area A boundaries



Project Areas B, C, D and E Boundaries



Treasure Island IRFD: Allocated Revenues

- **San Francisco receives 65% of 1% property tax rate**
 - A portion (56.6%) pledged directly to IRFD
 - Contingent portion (8%) enhances debt service coverage; returned to City’s general fund if unused

- **IRFD Revenues are further split**
 - 82.5% for public facilities; 17.5% for affordable housing

Share of 1% Property Tax Rate	
City Share	64.6%
ERAF	25.3%
SFUSD	7.7%
SF CCD	1.4%
SF Office of Education	0.1%
BART	0.6%
BAAQMD	0.2%
Total	100%

	Total	Housing Share (17.5%)	Facilities Share (82.5%)
Pledged to IRFD	56.6%	9.9%	46.7%
Conditional City Funds	8.0%	1.40%	6.6%
	64.6%	11.3%	53.3%

Portion of City’s share of 1% property tax rates and splits for facilities and housing were heavily negotiated in context of developer obligations

Treasure Island IRFD: Tax Increment Collection

- Tax increment collection in each Project Area begins when minimum revenue threshold is met and continues for 40 years thereafter

IRFD No. 1 Initial Project Areas				
Project Area	Acreage	Trigger Amount	Commencement Year	Last year of Tax Increment
A	15.6	\$150,000	FY2019-20	FY2058-59
B	4.4	150,000	FY2022-23	FY2061-62
C	1.6	300,000	TBD	TBD
D	2.1	300,000	TBD	TBD
E	9.5	150,000	FY2022-23	FY2061-62
	33.1			

EIFD Variations

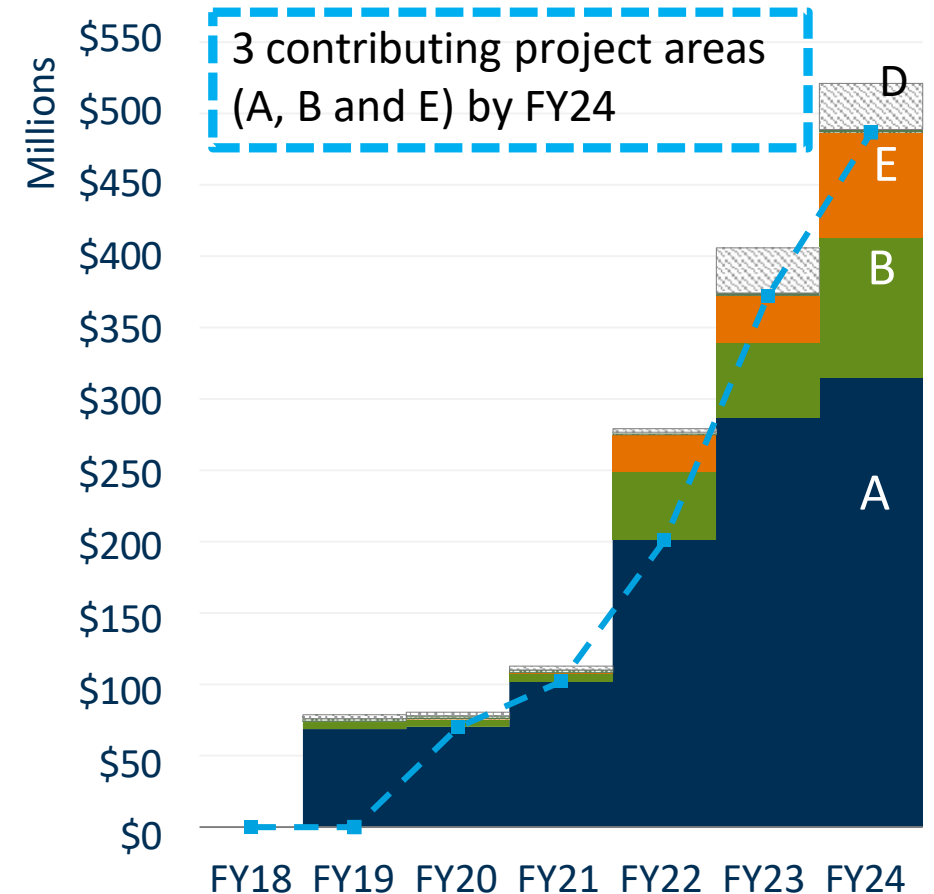
- Tax increment collection for **45** years
- Collection period start can be either: (1) date of local agency loan to the EIFD, (2) date of EIFD's bond issuance approval, or (3) when at least **\$100,000** of tax increment is generated in a designated Project Area

Treasure Island Incremental Value

- **By June 2022, the Bristol was complete**
 - 124 residential condominiums (10 below market)
 - Accounted for 41% of FY23 AV, 32% of FY24 AV
- **3 Project Areas contributing tax increment**



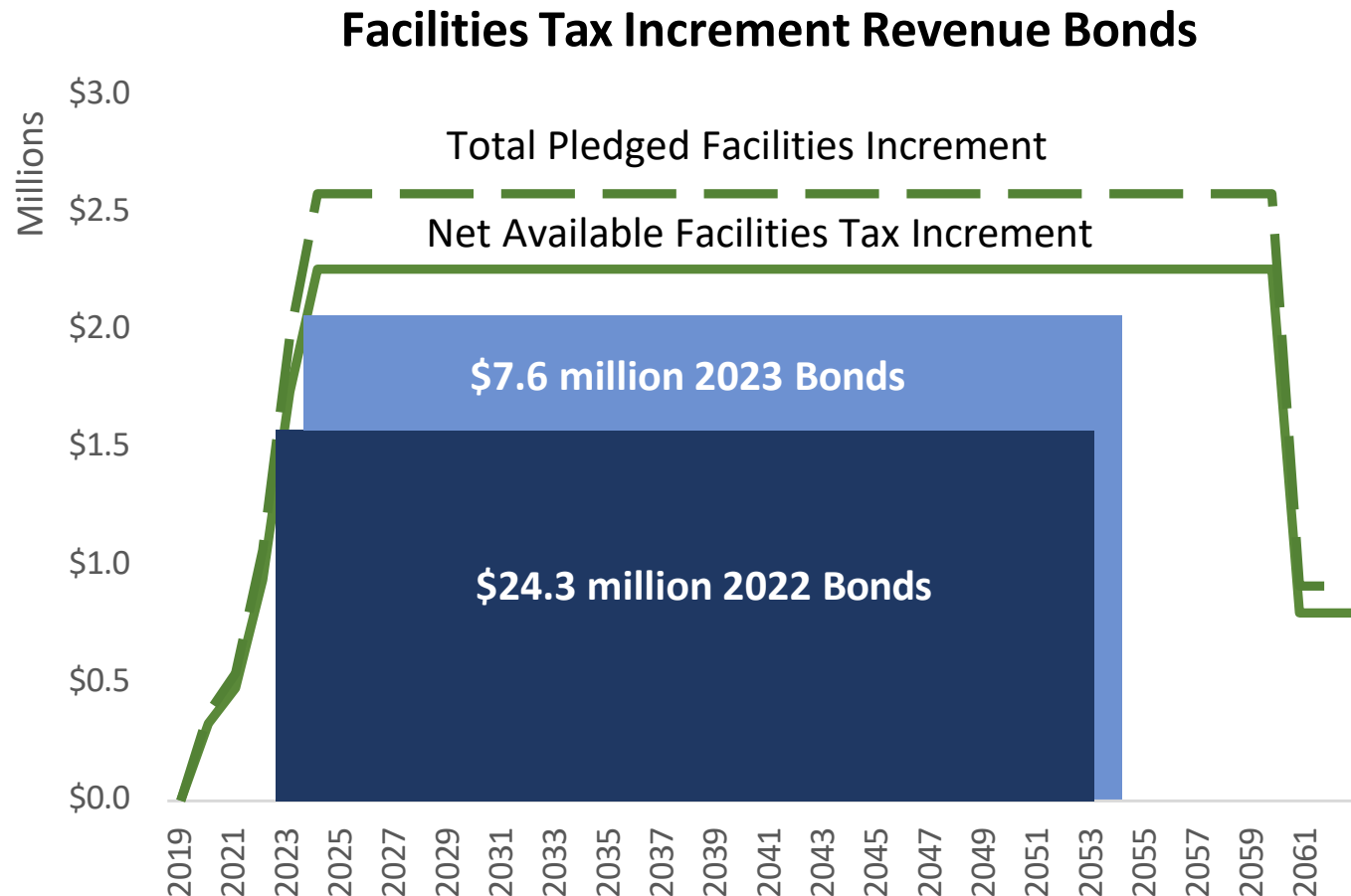
Assessed Value by Project Area



Treasure Island Tax Increment Bonds

San Francisco sold its first round of IRFD Tax Increment Bonds in August 2022

Parity Bonds were sold in December 2023



- Distinct securities for Facilities and Housing Bonds
- Total IRFD Bonds: \$38.6 million
 - \$31.9 million Facilities Bonds
 - \$6.7 million Housing Bonds
- 125% All-In Coverage for each
- Revenues drop off as each Project Area term sunsets

Staggered CFD and IRFD Bond Sales

- **Special Tax Bonds sales**
 - \$99 million issued to date with sales in 2020, 2021, 2022 and 2023
- **Tax Increment Bonds sales:**
 - \$39 million issued to date with sales in 2022 and 2023

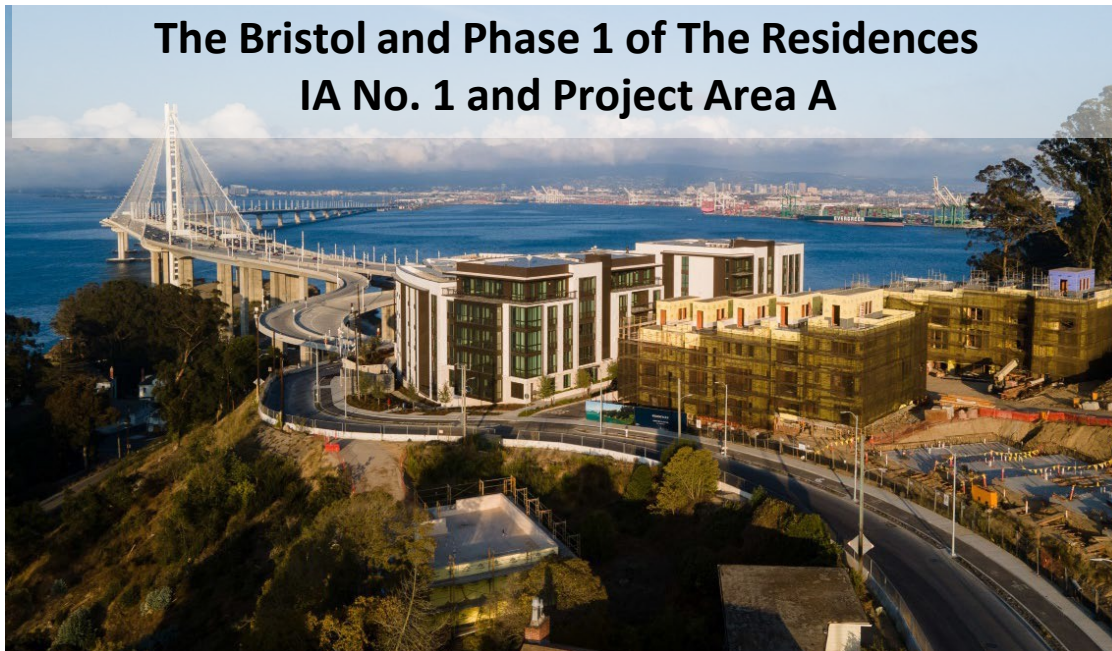


Photo from Sept 2022 by Andrew Campbell Nelson

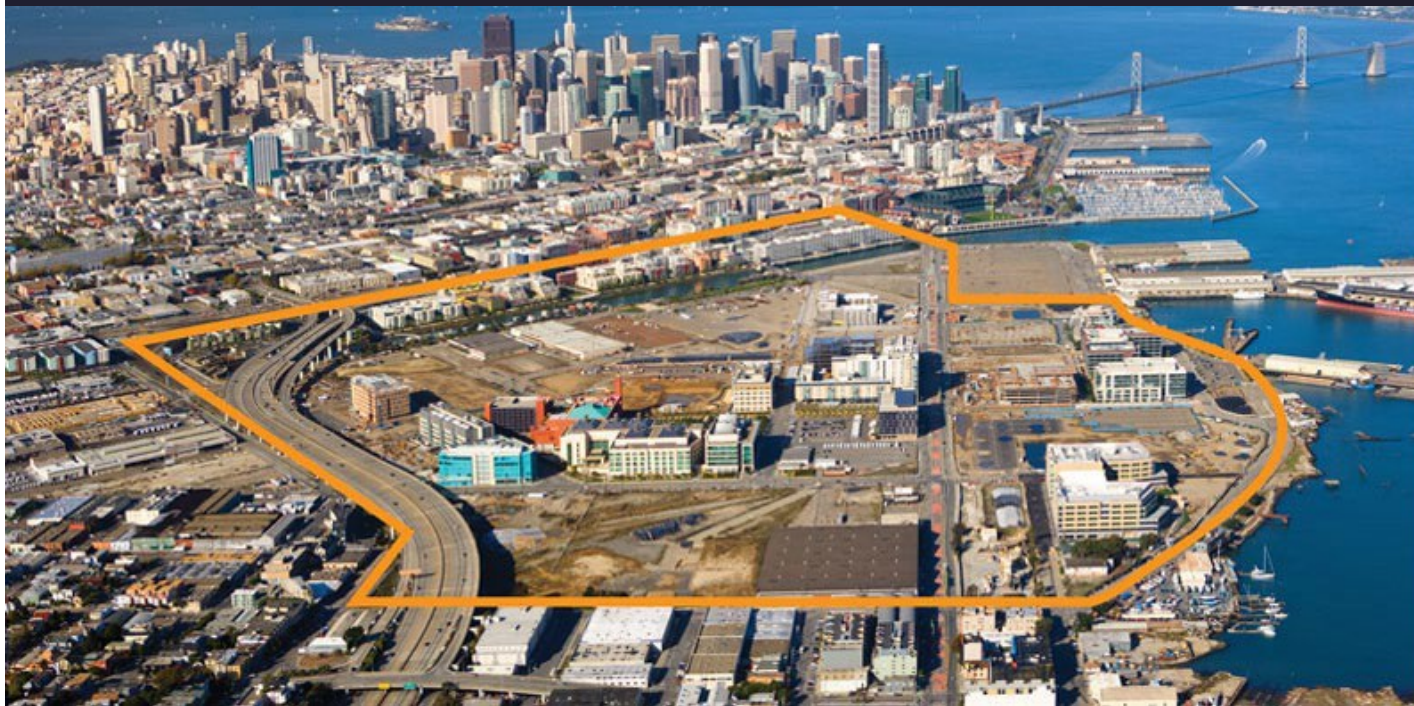


Photo as of November 7, 2023.

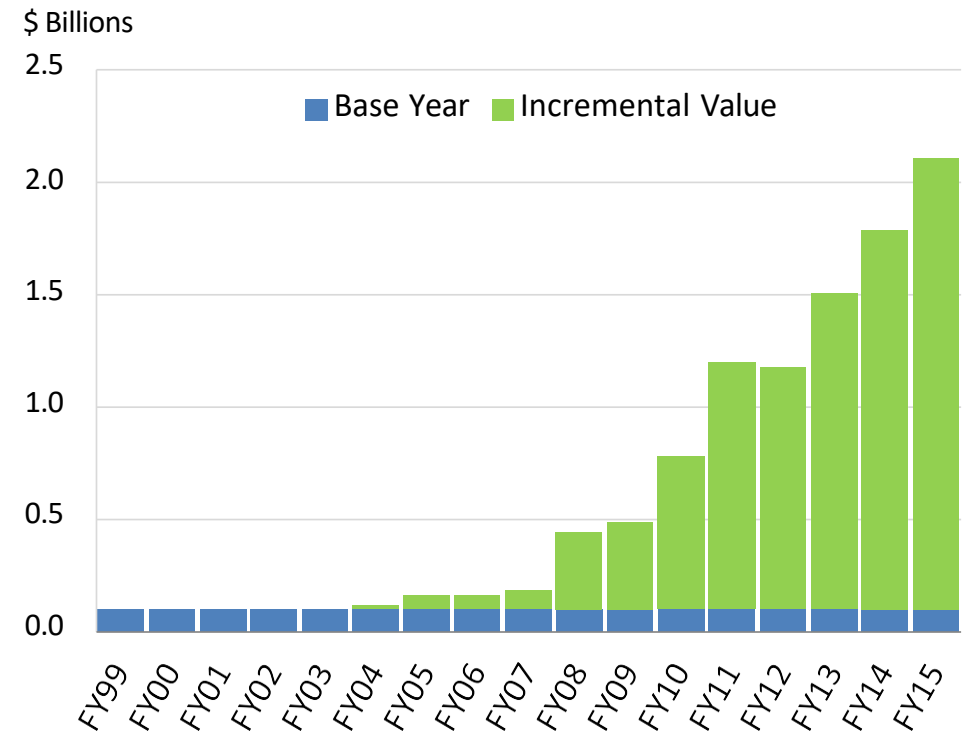
IFD Bond Financing Challenge: Timing Lag

- **Development may take years to generate “bondable” revenues**
 - No revenue to leverage until after development is recognized on assessed tax rolls; may be 12-24+ month lag

Historic View of San Francisco Mission Bay South



Mission Bay South Assessed Values



IFD Bond Financing Challenge: Passive Revenue

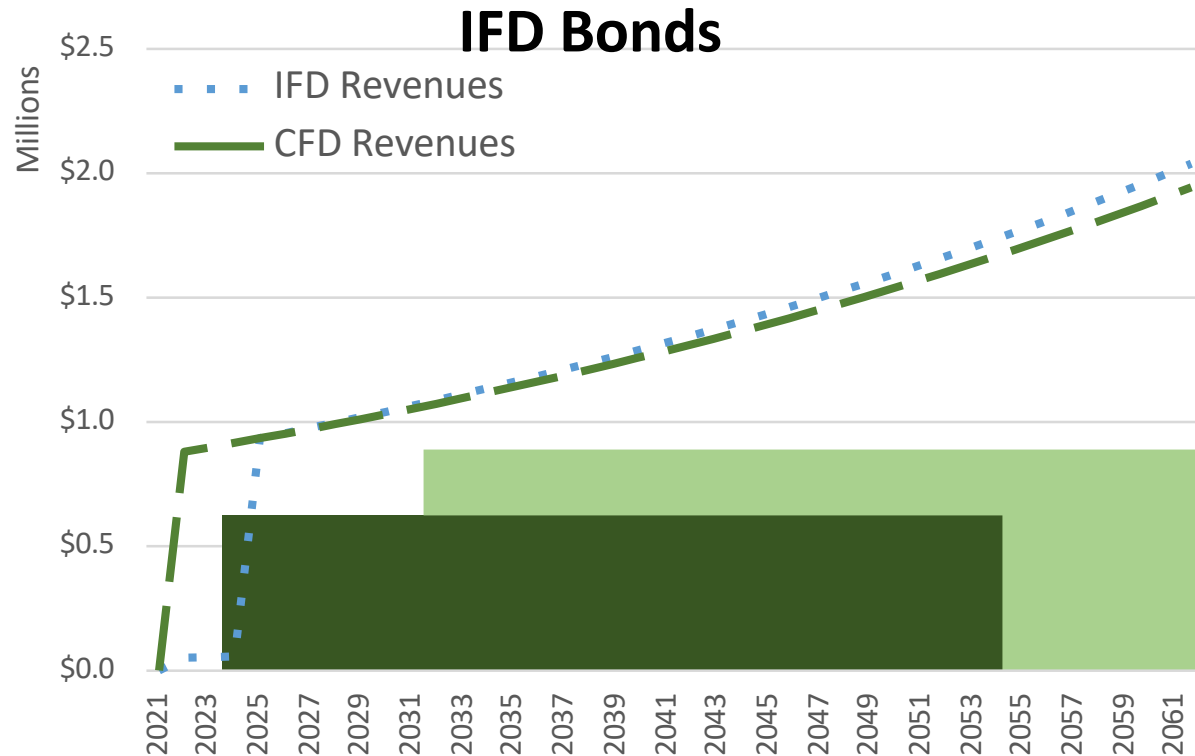
- **IFD revenues decline when assessed values decline**
 - Natural disasters, assessment appeals, non-profit purchase
- **Debt service coverage is used to insulate against declines**
 - 125% was “standard” for old redevelopment project area credits
- **Higher bond debt service coverage may be required for IFDs**
 - Smaller geographic areas
 - Concentrated tax base – by land use or major taxpayers
 - Volatility of revenue fluctuation
- **Higher coverage reduces net project funds**

Pairing IFD with a CFD to Mitigate Challenges

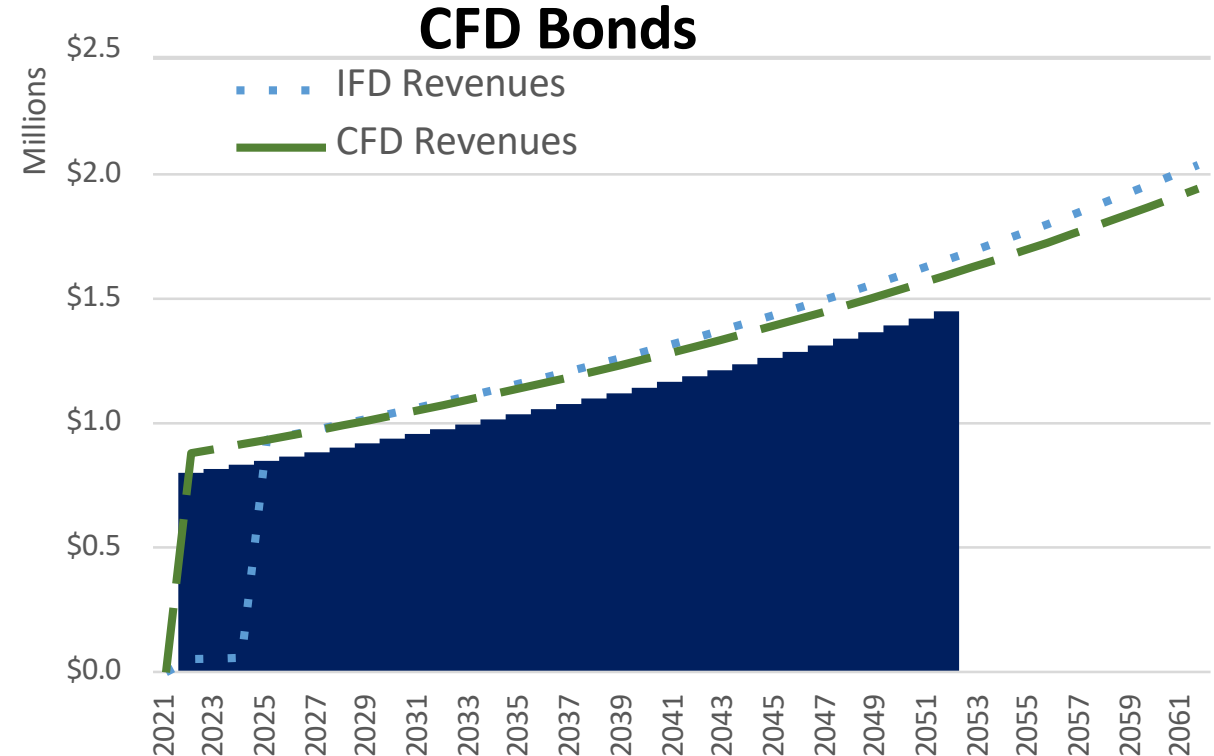
- **Special tax is an active tax with more predictable revenues**
 - Not dependent on assessed values or development activity
 - Special tax can be levied if tax increment collections are insufficient
- **Shifts payment risk from issuer to property owner**
 - Delinquent special taxes are subject to accelerated foreclosure
- **CFD enhances bonding capacity and can accelerate bond issuance**
 - Lower debt service coverage (typically 110%)
 - Lower interest rates
 - Investors look to value of land as collateral for bonds

IFD Bonds vs CFD Bonds

Same revenues leveraged through Tax Increment Bonds vs Special Tax Bonds



- Leverage only *current* revenues, level debt
- Coverage at least 125% - 150%
- Higher expected interest rates



- Leverage escalating revenues, escalating debt
- Coverage of 110%
- Lower expected interest rates

Alternative CFD/IFD Combinations

- **Stacked CFD and IFD to maximize funding sources**
 - Bond issuances may be staggered in time
 - i.e. Treasure Island CFD and IRFD
- **Netting IFD revenues against overlapping CFD**
 - Tax increment, as and when available, can reduce special tax levy
 - i.e. Sacramento Aggie Square, San Francisco Mission Rock
- **Flexible application of IFD revenues, to CFD or not**
 - i.e. Sacramento County Metro Air Park EIFD

CFD with IFD Offset: Sacramento Aggie Square

- **Planned life sciences campus**
 - Located on UC Davis Sacramento campus
- **EIFD to fund public infrastructure**
 - Formed on 42 acres, 19 parcels, 5 owners
 - 100% of tax increment plus payment in lieu of taxes and RPTTF revenues
 - 80% for developer-led costs, 20% for affordable housing
- **Intertwined CFD**
 - Maximum special tax set at 80% of expected tax increment
 - Special tax levy will be reduced by tax increment collected in prior fiscal year
- **Special tax bonds expected**



Flexible CFD and IFD: Sacramento Metro Air Park

- **Industrial business park**
 - 1,600 acres along Interstate 5, next to Sacramento International Airport
- **CFD formed in 2000**
 - Privately placed bonds in 2004 and 2007 raised \$103 million
- **EIFD formed in spring 2022**
 - Additional funding for infrastructure
- **CFD bond sale in summer 2022**
 - \$121 million par
 - Option, but not obligation, to use EIFD tax increment to reduce special tax levy in the future

