

Tax Increment and Special Tax Financing Options for Mixed-Use Development

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Primary Financing Alternatives

■ Redevelopment Tax Increment Revenues

- Agency can borrow against future tax increment revenues
- Usually leverage only property value increases *already* on tax roll, timing lags occur

■ Community Facilities Districts (Mello Roos)

- Flexible tool, can fund public capital projects and some services
- Requires cooperative property owners in district

■ Parking Revenues

- Requires parking fees, market sensitive to supply and demand
- Limited leverage potential

■ Hotel Tax or Sales Tax Revenues

- Credit quality depends on depth of market
- May already be committed to general City-wide services

■ General Fund Revenues

- Typically strong credit with lower borrowing costs, but can be politically sensitive

■ General Obligation Revenues

- Requires super majority vote of electorate

Redevelopment Overview

■ Credit considerations

- Nature and concentration of tax base
- Historic and projected growth
- Extent of leverage

■ Capacity Constraints

- Current annual tax increment revenues
- Pass thru payments and DDA obligations
- Debt service coverage requirements

■ Bond Financing

- Broad flexibility on use of funds for public or private uses
- Escrow bonds can leverage revenues for completed projects not yet on tax rolls
- Bond anticipation notes can be used to jumpstart development projects but can be risky

Redevelopment Credit Factors

- Project Area Size and Location
 - ✓ 500- 1,000 acre threshold
 - ✓ Seismic considerations
- Assessed Valuation
 - ✓ \$500 million threshold
 - ✓ Base year value as % of total AV
 - ✓ Growth trends and potential
- Taxpayer Diversity
 - ✓ Residential, commercial, etc.
 - ✓ Concentration of revenues
 - ✓ Stability
- Project Area Limits
 - ✓ Final maturity
 - ✓ Max indebtedness and increment
- Local Economy
 - ✓ Employment base
 - ✓ Wealth levels
- Legal structure
 - ✓ Debt service coverage
 - ✓ Flow of funds
 - ✓ Additional bonds test

California Tax Increment Finance 2012

- It's June, 1978. Jerry Brown is Governor and Proposition 13 has just passed
- It's 1981 before the first lease Certificate of Participation is sold
- Mello-Roos special tax bonds created in 1982. First sizable use in 1986.

Mello-Roos Special Tax

- **Formation of a Community Facilities District (CFD)**
 - Requires public agency sponsorship
 - Flexible boundaries and allocation of taxes among property classes
 - Public hearing and voter election required: 2/3rds majority approval
 - ◆ Vote by registered voters if > 12 in residence, otherwise, by landowners
- **Bond Financing**
 - Can generate up-front funds for *public* infrastructure
 - Secured by tax lien on District property
 - Repaid with annual special taxes on property tax bills
 - Property is subject to foreclosure if taxes aren't paid
- **Capacity Considerations**
 - How much in funds for public projects are needed?
 - How much debt can land value support?
 - How much in annual special taxes can property owners support?

Financing Public-Private Projects

- **Combinations of funding sources can facilitate risk-sharing**
 - Choice of security structure may depend on desired risk-sharing between City and developer
 - ◆ CFD special tax enhanced by tax increment revenue
- **Each financing is “custom-made” based on project specifics**
- **Development agreement details should be carefully crafted**
 - If bond financing is planned, key business points in any development agreements should be reviewed with future financing in mind
 - Agreements can be crafted to enhance bond credit and lower borrowing costs

What Can Land-Secured Bonds Finance?

- Public roads
- Street lighting & signalization
- Water, sewer & flood control facilities
- Seismic retrofitting
- Environmental remediation
- Landscaping & streetscaping
- Parks
- Public recreational facilities
- Public parking
- Libraries & cultural facilities
- Fire prevention & suppression
- Developer/school impact fees



Must be owned and operated by a public

Useful life longer than term of bonds

Limitations vary by type of district

Why Use Land-Secured Finance?

- Access tax-exempt interest rates
- Off balance sheet financing for developer
- Can be structured as interim or permanent financing
- Smaller/shorter equity commitment
- Long term take-out source for bank loans
- Tax or assessment can be designed to address needs & reduce carrying costs during development
- Option to transfer all or some of infrastructure costs to end-user property owners or tenants

Basic Legal and Credit Framework

- What is the security for the Bonds?
 - Annual tax payments levied on property tax bill
 - Value of land subject to special taxes or assessment lien
- What happens if there is a default in payment of taxes?
 - Late fees & penalties accrue
 - Foreclosure on delinquent parcels by public agency
- Ongoing continuing disclosure obligation
 - Reporting on status of development, payment of taxes, fund balances, etc.
 - Developer obligation terminates when ownership stake diminishes sufficiently
- Bond capacity considerations
 - How much debt can land value support?
 - How much in annual taxes/assessments can be supported?
 - Other outstanding debt?
- Bond structuring and public policy considerations
 - Value-to-lien requirements (typically 3-to-1 minimum)
 - Credit enhancement
 - Capitalized interest

What Are the Critical Steps in Process?

- City, county or public agency sponsorship
 - Bonds are issued in public entity's name
 - 51% of bond-funded projects must be owned by sponsoring agency
- Selection of financing team
- Development of tax or assessment spread
 - Specifies the allocation of special taxes or assessments among parcels
 - Must be approved by voters in District
- Establishment of District
 - Easiest when developer is majority owner and before registered voters live in District
- Appraisal
 - Sets the bounds of borrowing capacity
 - Value-to-lien will be a key factor in marketing and pricing the bonds
- Development of bond structure and bond documents
- Public hearing, voter election and public agency approval of bond financing
- Marketing and pricing the bonds
- Bond proceeds available after bond closing and after project acceptance by agency

Hypothetical Financing Schedules

Mello Roos Community Facilities District

- Week 1: Issuer selects financing team
- Week 2: Kick-off meeting, discuss Rate and Method of Apportionment (RMA), begin project due diligence
- Week 6: Issuer declares intention to form district, adopts district boundaries, approves RMA, sets public hearing 30-60 days later
- Week 7-9: Develop appraisal, bond documents, investor disclosure, etc.
- Week 10: Issuer forms district, holds voter election approving tax, authorizes tax levy, approves financing and authorizes issuance of bonds
- Week 10-12: Investor pre-marketing
- Week 12: Bond pricing
- Week 14: Bond closing

1915 Act Assessment District

- Week 1: Issuer selects financing team
- Week 2: Kick-off meeting, discuss project, begin project due diligence; Issuer files proposed map
- Week 5: Issuer declares intention to form district, appoints engineer, calls for public bids on project
- Week 6: Issuer approves Engineer's Report, mails notices of assessment to property owners and sets public hearing at least 45 days later
- Week 7-12: Develop appraisal, bond documents, investor disclosure, etc.
- Week 13: Issuer forms district, holds election approving assessment, authorizes levy
- Week 17: End of 30 day cash prepayment period
- Week 18: Issuer approves financing and authorizes issuance of bonds
- Week 18-20: Investor pre-marketing
- Week 20: Bond pricing
- Week 22: Bond closing

Who Uses Land-Secured Finance?

- Master Planned Communities
- High Rise Condominiums
- Small Neighborhood Developments
- Industrial & Office Business Parks
- “Big Box” Commercial Centers
- Transit Oriented Developments
- Neighborhood Commercial Projects
- Retail Mall Renovations
- Military Base Conversions
- Affordable Housing Projects

San Francisco Mission Bay

Bonds issued to fund backbone public infrastructure to foster transformation of industrial Mission Bay area into a mixed-use community, with housing, commercial, retail and a new UCSF research campus. Two redevelopment project areas and community facilities districts were used for North Channel and South Channel area.

Bond par: \$37,000,000 in 2 series for North Channel
\$114,200,000 in 3 series for South Channel

Location: Southeast San Francisco, adjacent to AT&T Park on San Francisco Bay.

Acreage: 300 acres

Project Peripherals:

- 5 million sq. ft. office and life sciences space surrounding 2.65 million sq. ft. UCSF campus
- 730,000 sq. ft. retail space
- 500 room hotel
- 6,000 housing units rental and for-sale, including affordable units
- 60% of tax increment for project infrastructure, 20% to Agency, 20% to low-mod housing

Developer: Catellus Development Corporation (original), ProLogis, Farallon, Alexandria (subsequent)



Windemere Contra Costa County, CA

Project Summary:

Stone & Youngberg underwrote special tax bonds to finance parkway, parks, and water and sewer facilities for phases 2 thru 5 of a five-phase, 2,300 acre master planned community. The 2004 Bonds have a subordinate position relative to \$89 million of prior assessment district bonds.

Bond Total:	\$30,000,000
Location:	45 minutes southeast of San Francisco
Acreage:	728 acres in CFD
Project Peripherals:	<ul style="list-style-type: none">▪ 2,325 single family homes▪ 293 apartments▪ 320 town homes
Developer:	Joint venture of Lennar, Brookfield and Centex

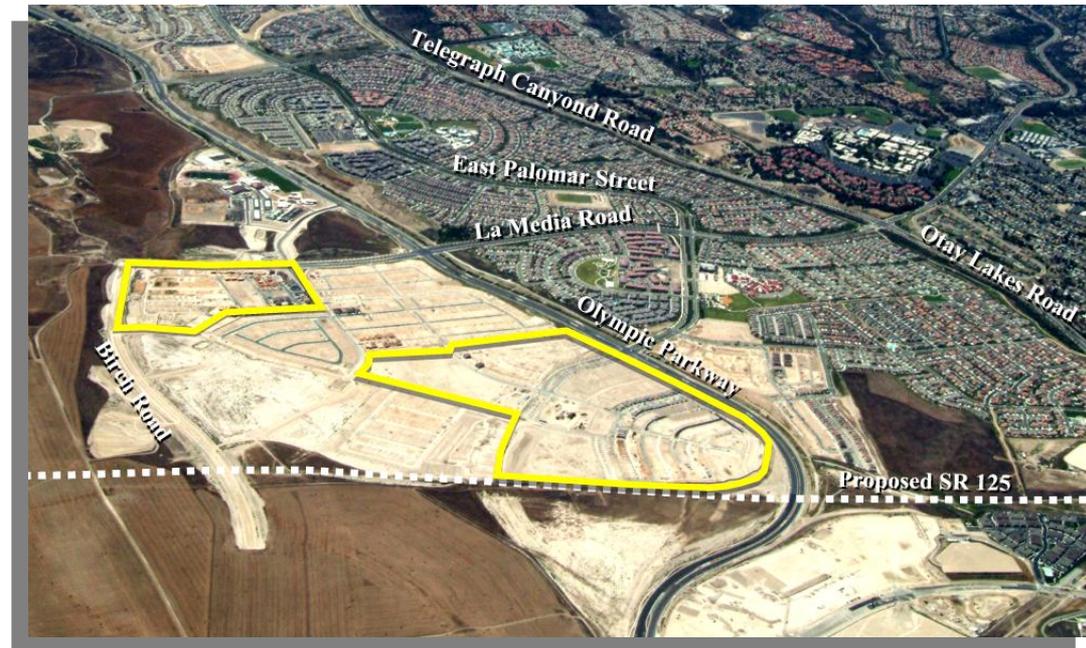


Otay Ranch Chula Vista, CA

Project Summary:

Otay Ranch is being developed as distinct villages by different developers, but with common themes and common needs. The infrastructure requirements consist of major and minor arterial improvements for local and regional backbones.

CFD 08-I:	Otay Ranch Village Six
Bond Total:	\$21,665,000
Location:	20 minutes east of San Diego
Acreage:	189 gross acres
Project Peripherals:	<ul style="list-style-type: none">▪ 789 SFA residential units▪ 516 SFD residential units▪ 3 acres commercial/retail▪ 49 acres open space/roads▪ 8 acres parks▪ 8 acres schools
Developer:	Otay Project, LLC
Other Otay Developers:	McMillin, Brookfield/Shea, TriMark, Eastlake Companies



Hunters Point Shipyard Improvements

PROJECT OVERVIEW:

Bonds issued to support the redevelopment of Hunters Point Naval Shipyard, a San Francisco landmark on the Bay.



Bond Total:	\$34,500,000 (variable rate)
Location:	San Francisco, north of Candlestick Point
Acreeage:	443 acres, Phase One improvements total 66 acres
Project Peripherals:	<ul style="list-style-type: none">■ Mixed-use development■ 1,238 housing units■ 20,000 sq. ft. commercial space■ 32.5 acres open space■ Following environmental remediation: another 362 houses, 280,000 sq. ft. retail, R&D campus, industrial facilities, more parks and open space
Developer:	Lennar/BVHP

Case Study: Otay Ranch Chula Vista, CA

PROJECT SUMMARY:

The infrastructure requirements consist of major and minor arterial improvements for local and regional backbones.



Bond Total:	\$23,000,000
Location:	10 minutes SW of downtown San Diego
Acreage:	Approximately 1,000
Project Peripherals:	<ul style="list-style-type: none">■ 2,888 residential units■ 1,743 apartments■ 11.3 acres – community service facilities■ 8.1 acres of commercial development■ 290 acres of open space/roads■ 29.9 acres of parks■ 20.5 acres of schools
Developer:	Otay Project, LLC
Builders:	Shea Homes, Centex Homes, Trimark Pacific, Standard Pacific, D.R. Horton, and William Lyon Homes

Additional S&Y Land-Secured Projects in Northern California

Projects Include:

- Emeryville East Bay Bridge
- Vacaville Nut Tree
- Fremont Pacific Commons
- Lathrop Mossdale Village/Central Lathrop Specific Plan
- Hayward Industrial Boulevard
- San Jose Coyote Valley
- Union City Union Landing
- Stockton Brookside Estates
- Stockton Weston Ranch
- Sacramento North Natomas
- Fresno Palm Bluffs Corporate Center
- Rio Vista Trilogy
- San Ramon Windemere Ranch
- San Francisco Mint Plaza
- San Francisco Rincon Hill
- San Francisco Hunters Point
- San Francisco 695 Market Street

Additional S&Y Land-Secured Projects in Southern California

Projects Include:

- Bakersfield City in the Hills
- Bakersfield Solera/Rio Vista
- Carlsbad Poinsettia Lane East
- Chino Meritage
- Chula Vista Otay Ranch Village Eleven
- Chula Vista Otay Ranch Village Seven
- Chula Vista San Miguel Ranch
- Orange Ladera Ranch
- Palm Springs Mountain Gate
- Palmdale 10th Street West
- Palmdale Anaverde
- Rancho Cucamonga Rancho Etiwanda Estates
- Rancho Cucamonga Rancho Summit
- Rialto Elm Park
- Riverside A Street North
- San Diego Liberty Station
- Seal Beach Heron Pointe
- Seal Beach Pacific Gateway Business Center
- Simi Valley Town Project Center
- Temecula Crowne Hill
- Temecula Harveston
- Temecula Roripauh Ranch
- Victorville Western Addition