# 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

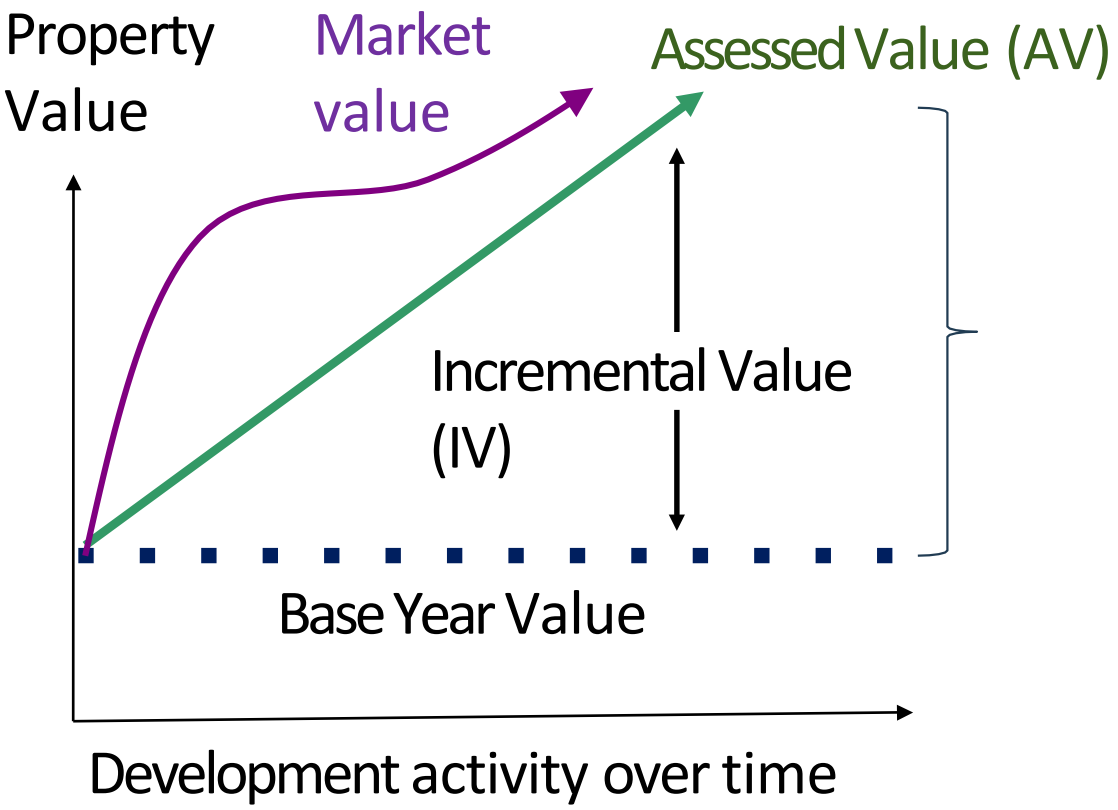
POMONA, CA

# 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**




**Gross Tax Increment**
=1% property taxes on incremental assessed value

**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

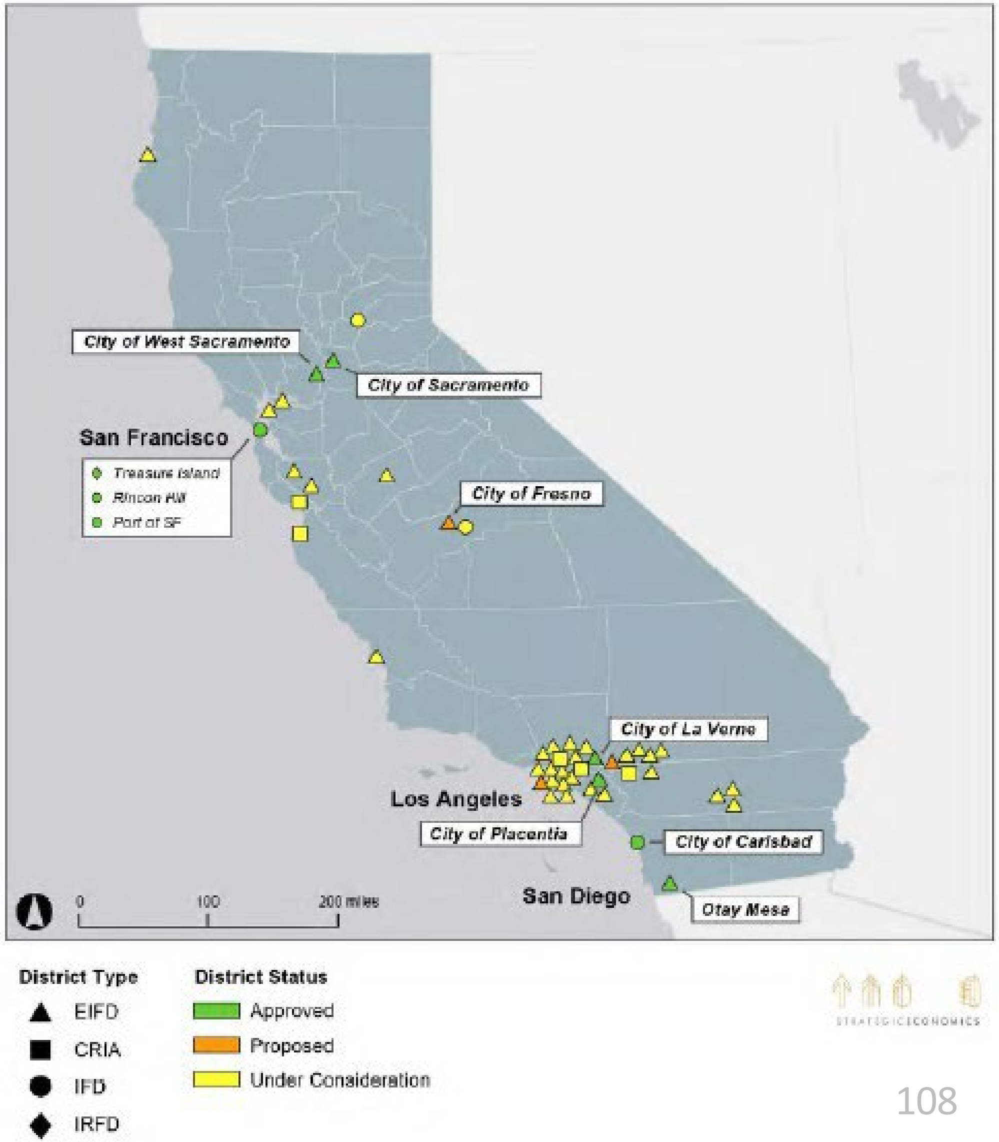
- **Resolution of Intention**
  - Sponsoring agency initiates formation and forms a Public Financing Authority
  - Notices sent to District landowners and other taxing entities
- **Public Financing Authority (PFA)**
  - Governed by members of participating agencies, 2 members of the public
- **Infrastructure 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

BOUNDARIES OF INFRASTRUCTURE AND
REVITALIZATION FINANCING DISTRICT NO. 1

BOUNDARIES OF PROJECT AREA A

BOUNDARIES OF PROJECT AREA B

BOUNDARIES OF PROJECT AREA C

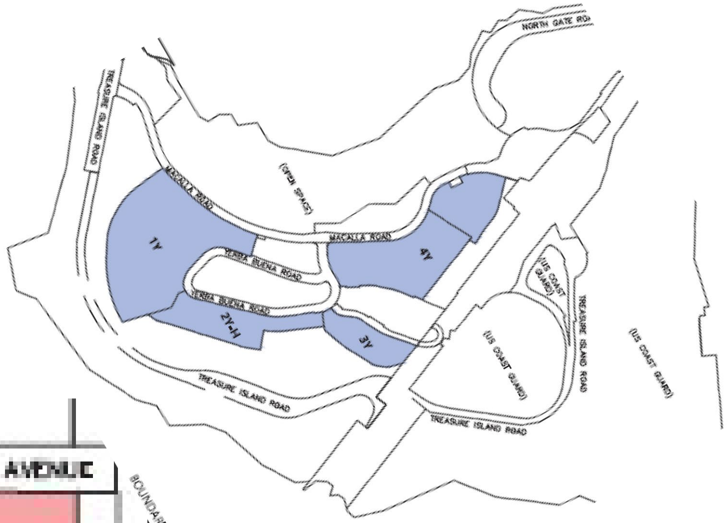
BOUNDARIES OF PROJECT AREA D

BOUNDARIES OF PROJECT AREA E

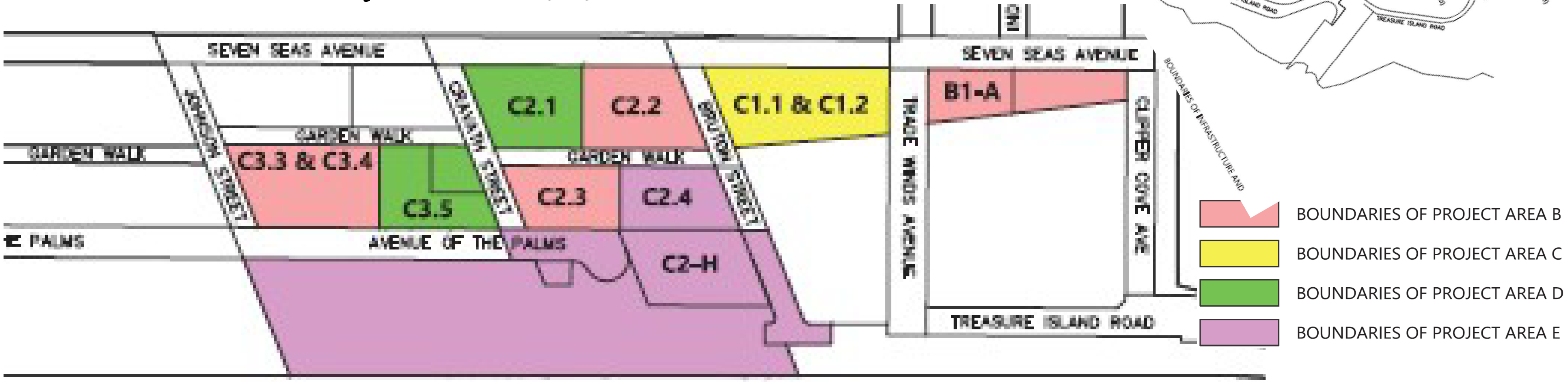
# Treasure Island IRFD: Project Areas

- **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 <u>in each Project Area</u> 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** | | | |

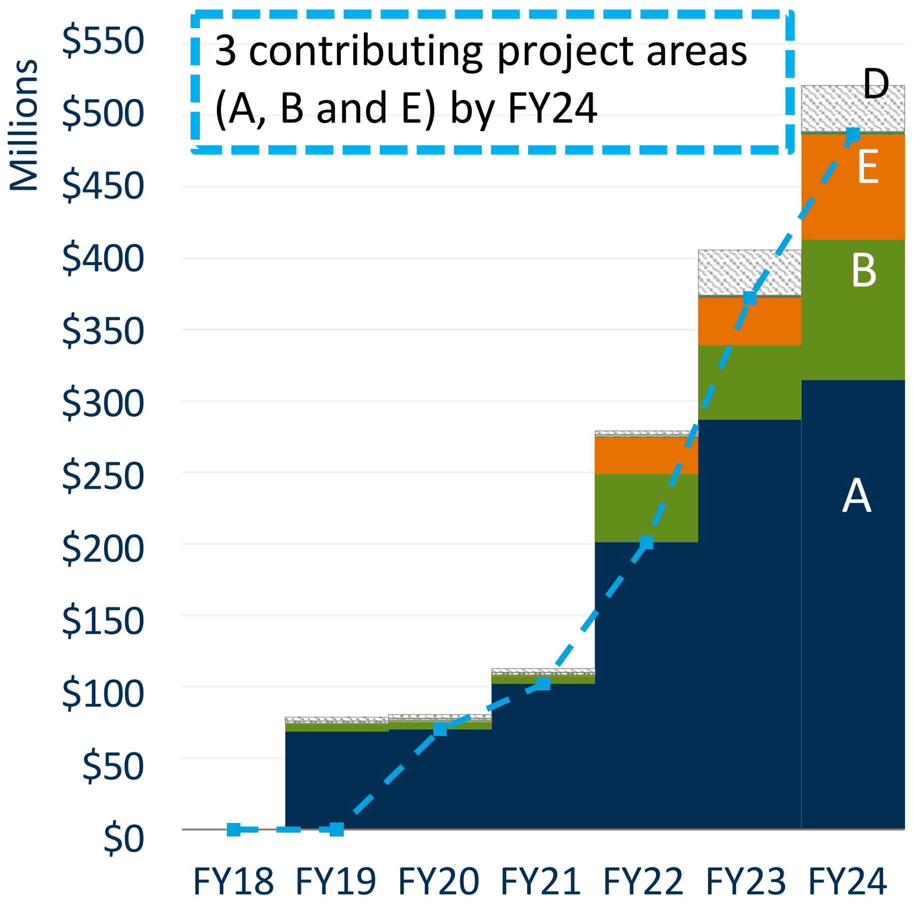
**<u>EIFD Variations</u>**

- 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**

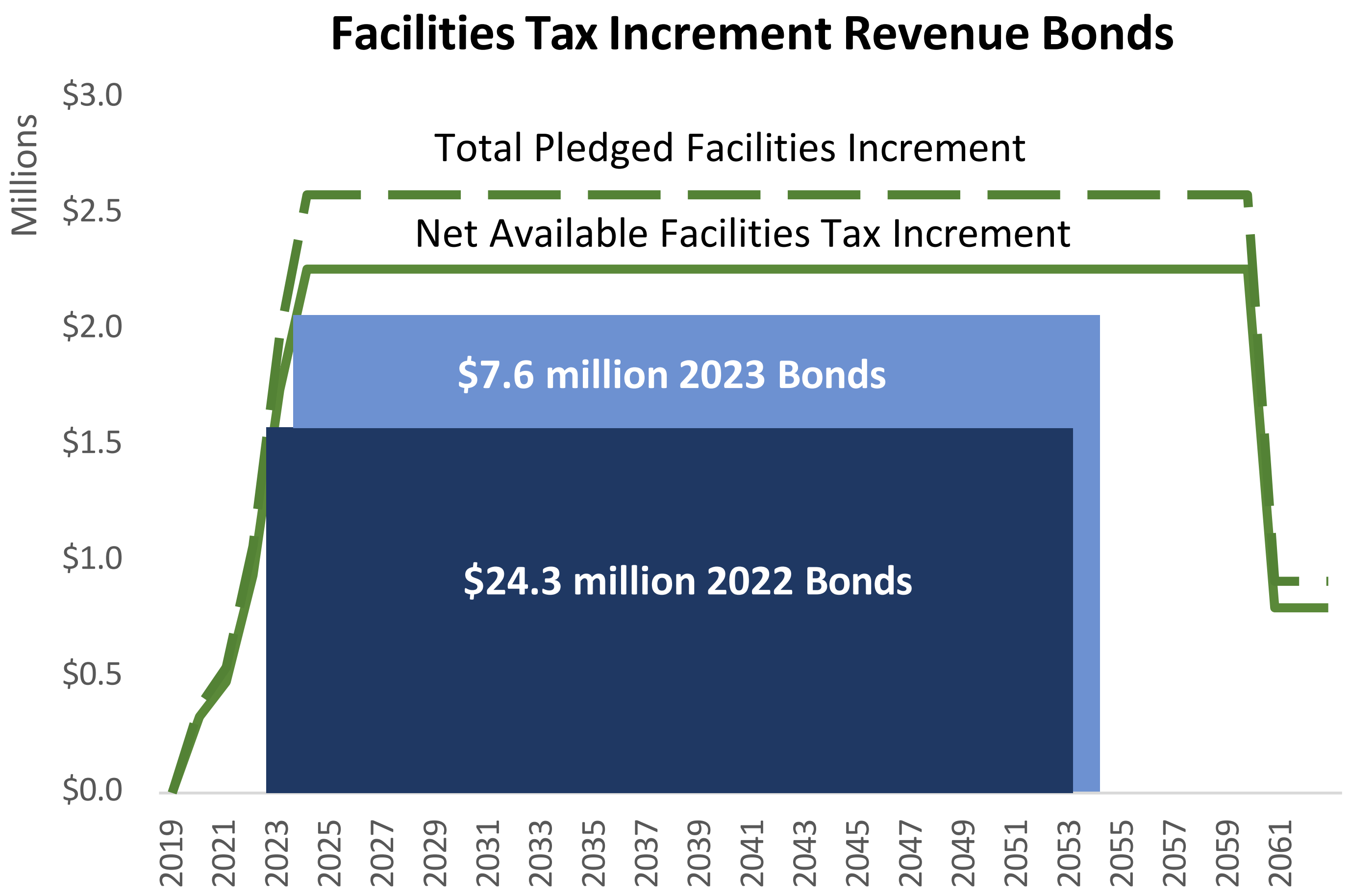

**Assessed Value by Project Area**



# 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

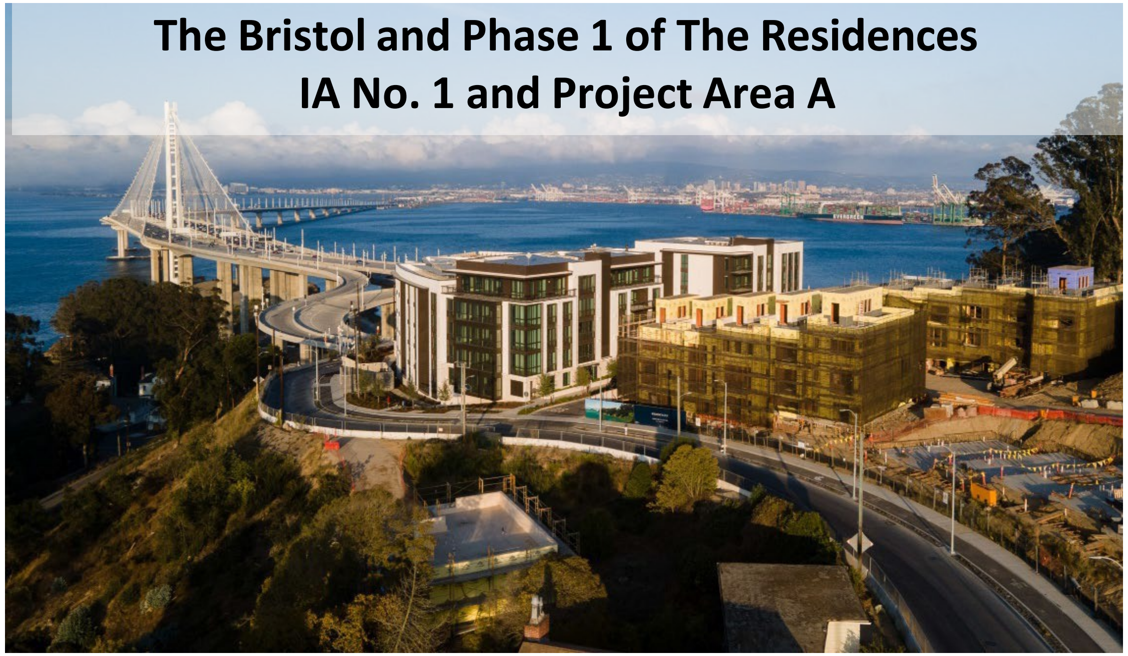



Photo from Sept 2022 by Andrew Campbell Nelson

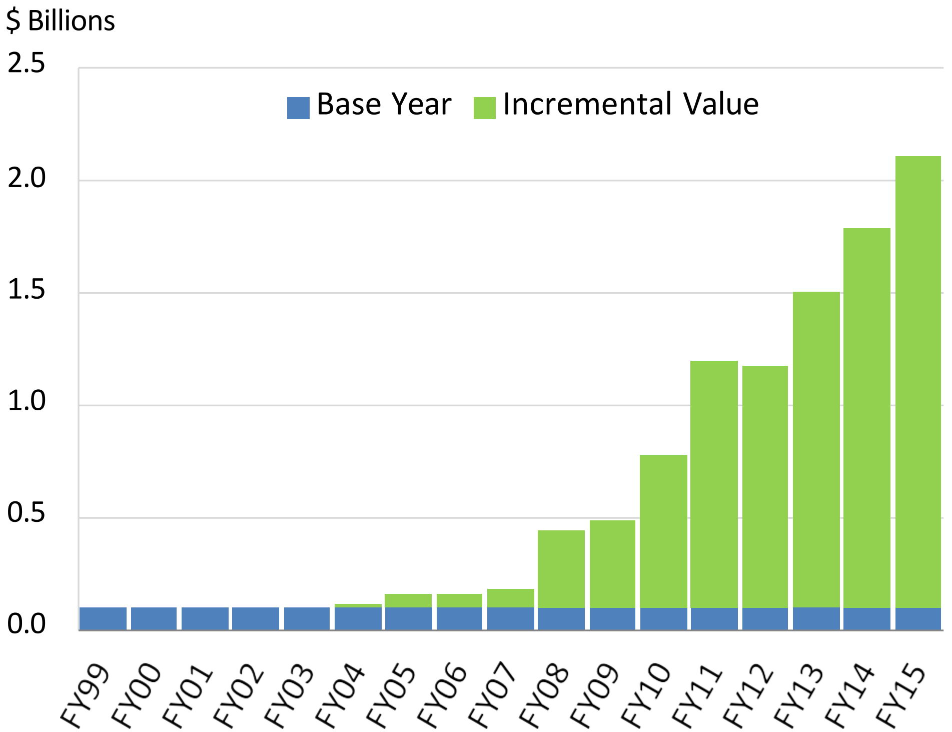

Photo as of November 7, 2023.

# 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

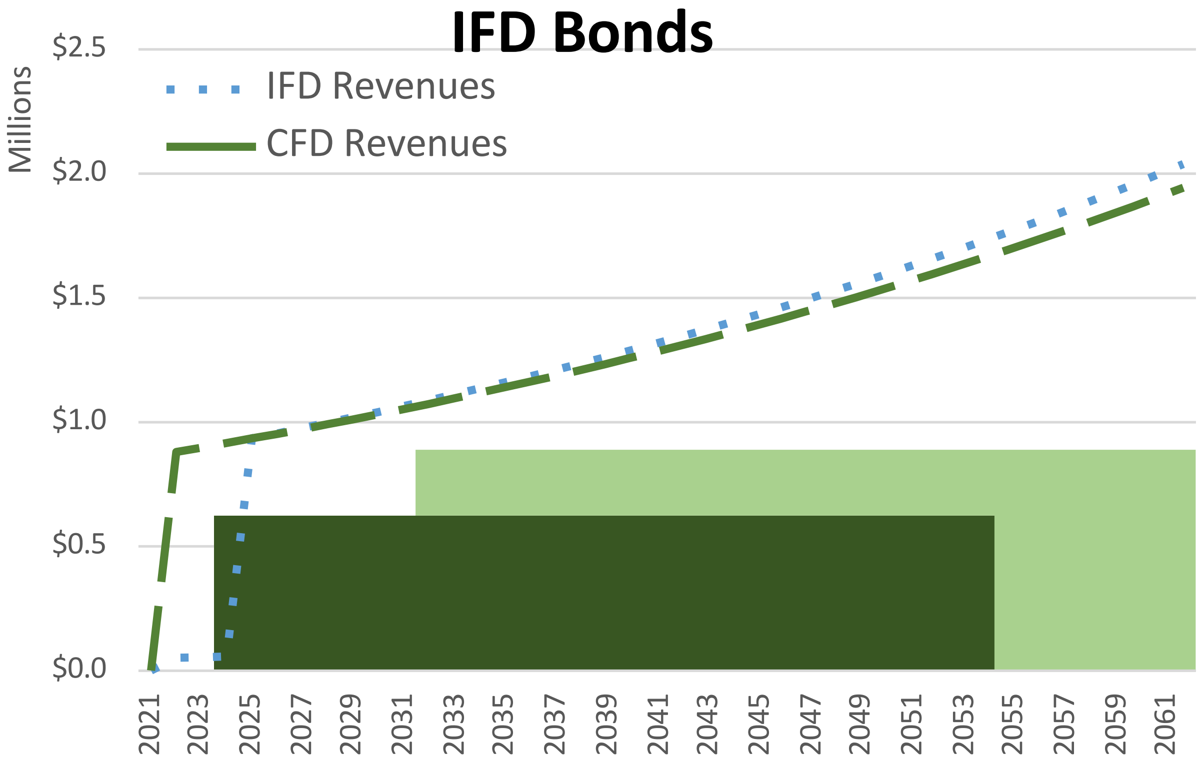
- **IFD revenues decline when assessed values decline**
  - Natural disasters, assessment appeals, non-profit purchase
- **Debt service coverage is used to insulate against declines**
  - 125% was “standard” for old redevelopment project area credits
- **Higher bond debt service coverage may be required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

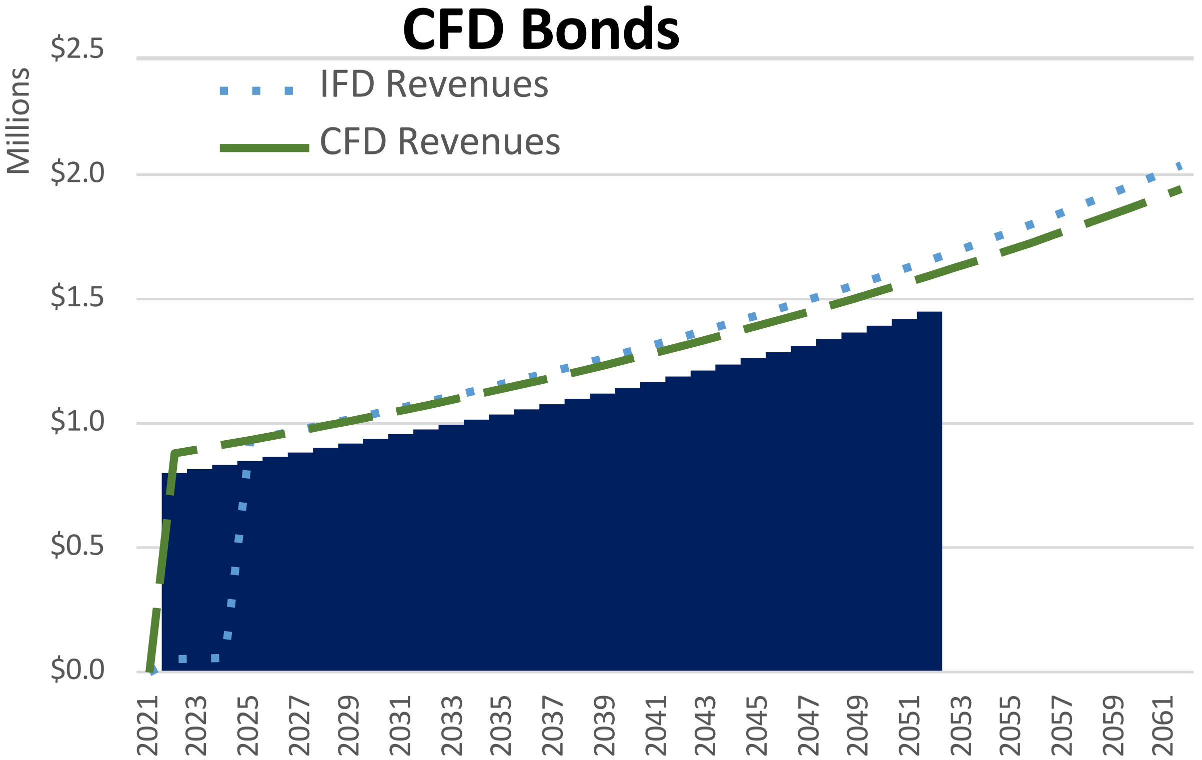
# Pairing IFD with a CFD to Mitigate Challenges

- **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**

Aggie Square, City of Sacramento

# 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