LAND-SECURED FINANCING:

FUNDAMENTALS AND EVOLVING PRACTICES

SEPTEMBER 10–11, 2025

PLEASANTON, CALIFORNIA

SESSION ONE

Real Estate Market Trends and Conditions

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Empire Economics

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION:
LAND-SECURED FINANCING CURRENT TOPICS AND PRACTICES

PROSPECTS FOR NEW LAND-SECURED FINANCINGS

CURRENT MARKET CONDITIONS UNIQUE:
PRICE APPRECIATION STRONG DESPITE HIGH MORTGAGE RATES!

FEDERAL RESERVE GOAL OF 2.0% INFLATION VS. FISCAL POLICIES & TARIFFS
HOW WILL THESE IMPACT FUTURE LEVELS OF MORTGAGE RATES?

BY
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SEPTEMBER 11, 2025

PRESENTATION OVERVIEW

THE MARKET FOR NEW HOMES FACES UNIQUE CHALLENGING CONDITIONS

A. FEDERAL RESERVE BOARD - JEROME POWELL

- *POWELL STEADFASTLY PURSUING FED POLICY FOR A 2.00% INFLATION RATE.*
- *HOLDING SHORT-RUN FEDERAL FUNDS YIELDS HIGH AS LONG AS UNEMPLOYMENT IS MODERATE*

***** ***BUT POLITICAL PRESSSURE MOUNTING*** *****

B. FISCAL POLICIES – PRESIDENT TRUMP

- *"BIG BEAUTIFUL BILL" PASSED, RENEWING 2017 TAX POLICIES ALONG WITH FURTHER TAX REDUCTIONS*
- *HIGHER TARIFFS WILL ULTIMATELY RESULT IN HIGHER PRICES AND CONSTRUCTION COSTS*

***** ***INFLATION LIKELY TO REMAIN ABOVE 2.0%*** *****

C. RESTRICTIVE FED POLICIES + EXPANSIONARY FISCAL POLICIES

=

LIKELY CONTINUATION OF HIGH LEVELS FOR MORTGAGE RATES

ALL EYES ON THE ECONOMY/EMPLOYMENT& INFLATION AS THEY WALK THE TIGHT ROPE

Chairman Powell

The independence of the FED for attaining its goal of a 2.0% inflation rate, but recently, political pressure mounting

Recent Inflation Metrics
FED's Preferred Index: +2.9%/yr.
CPI Index: +3.1%/yr.

Trump Policies

The Big Beautiful Bill will enhance economic growth.

Higher fiscal deficits will be offset by more economic growth.

China/other countries will pay for tariffs so they are not inflationary.

Not concerned about inflation returning to the 2% FED target

INFLATION, EMPLOYMENT, AND HOUSING
AI POETIC VIEW

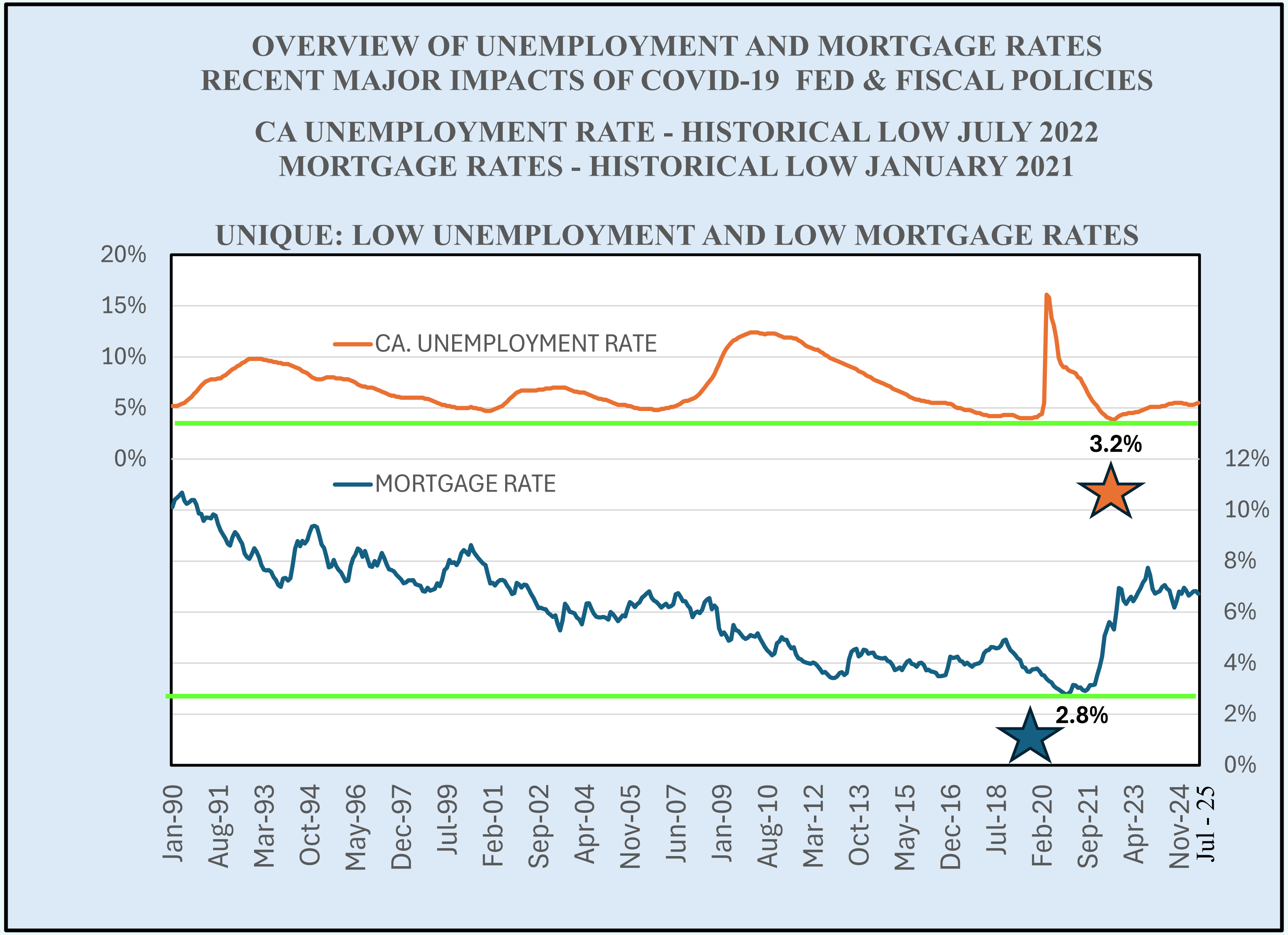
The Fed's balancing act, a delicate now political dance,
Between jobs and prices, a careful stance.
Two percent the target, how close can they get?
Short rates stable, but long bonds high - a tricky duet.

Deficits grow, though GDP climbs,
Debt's shadow looms in these modern times.
Will short term rates stay high as red ink flows?
The future's path, no one truly knows.

Housing inventory, a scarcity tale,
Prices climb higher, will the trend prevail?
In this economic rhyme and reason,
Today we ponder how long this market season.

I. MACROECONOMICS CONDITIONS

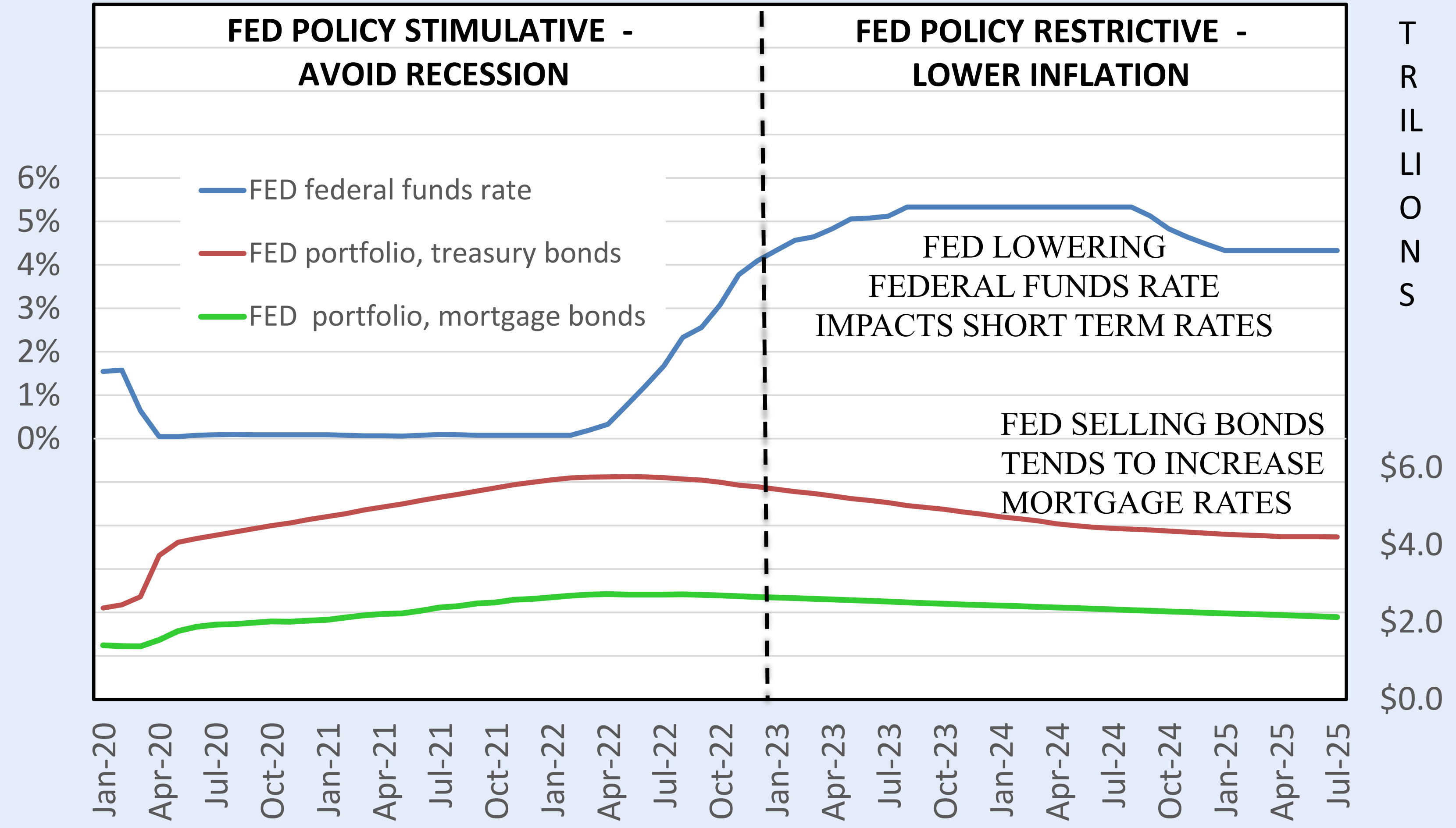
RECENTLY, HISTORICALLY UNIQUE ECONOMIC CONDITIONS
LOW UNEMPLOYMENT AND LOW MORTGAGE RATES



FED POLICY SHIFT FROM STIMULATIVE TO RESTRICTIVE

MAJOR SHIFTS IN FED POLICIES IMPACT MORTGAGE RATES

STIMULATE ECONOMY: LOW FED FUNDS RATE AND PURCHASE BONDS
RESTRICTIVE POLICIES: NOW HIGHER FED FUNDS RATE & SELL BONDS



US FEDERAL DEBT: $36.2T
PUBLIC: $29T   FED: BALANCE

INTERMEDIATE TERM: 51%
INTEREST RATE: 4.3%

FISCAL REVENUES $5.0T/YR.
INTEREST PAID $1.26T/YR.

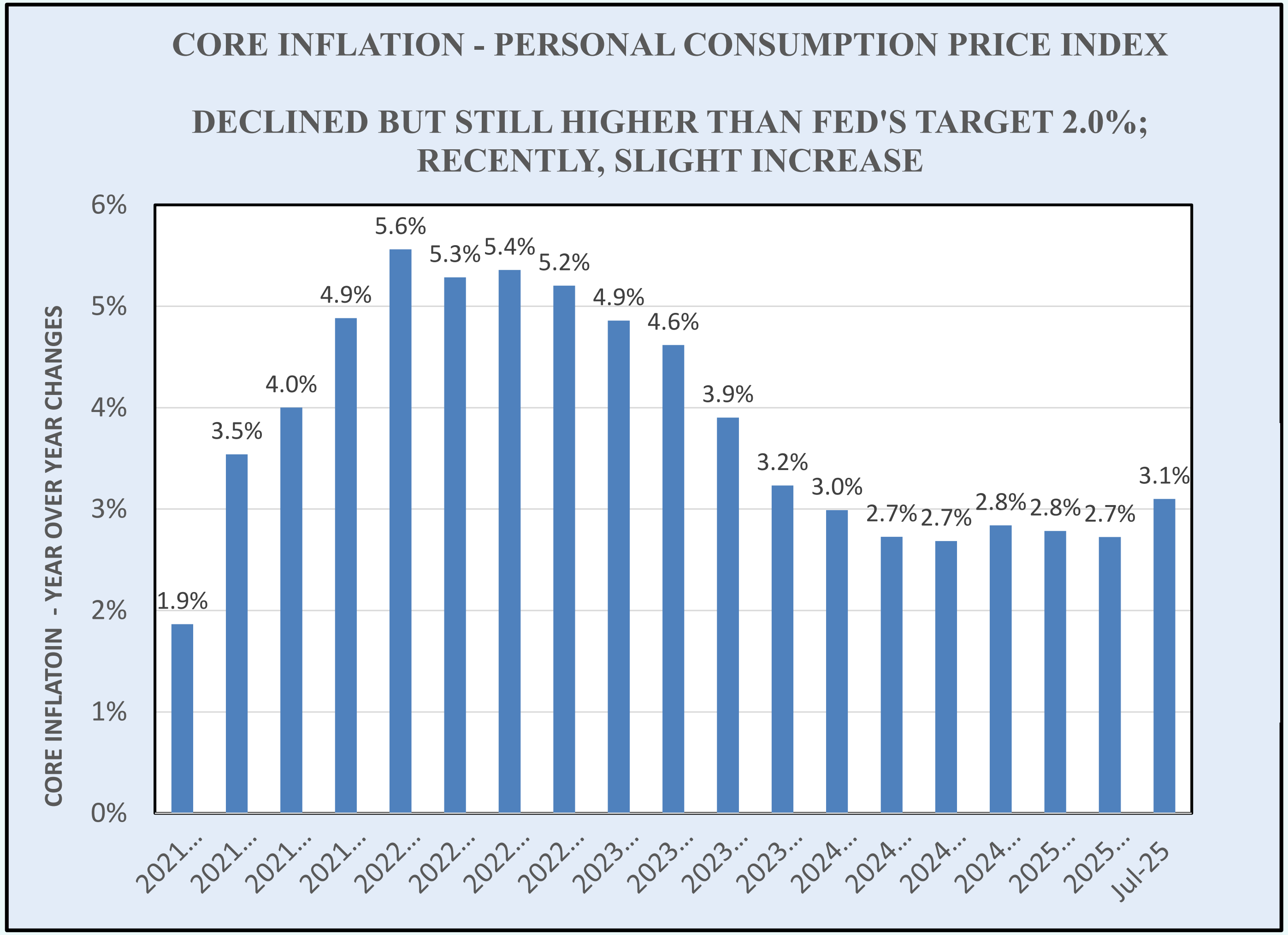
10 YEAR BOND RELATED
TO MORTGAGE RATES

TRADING $151 TRILLION – ANNUALLY
$600B DAILY

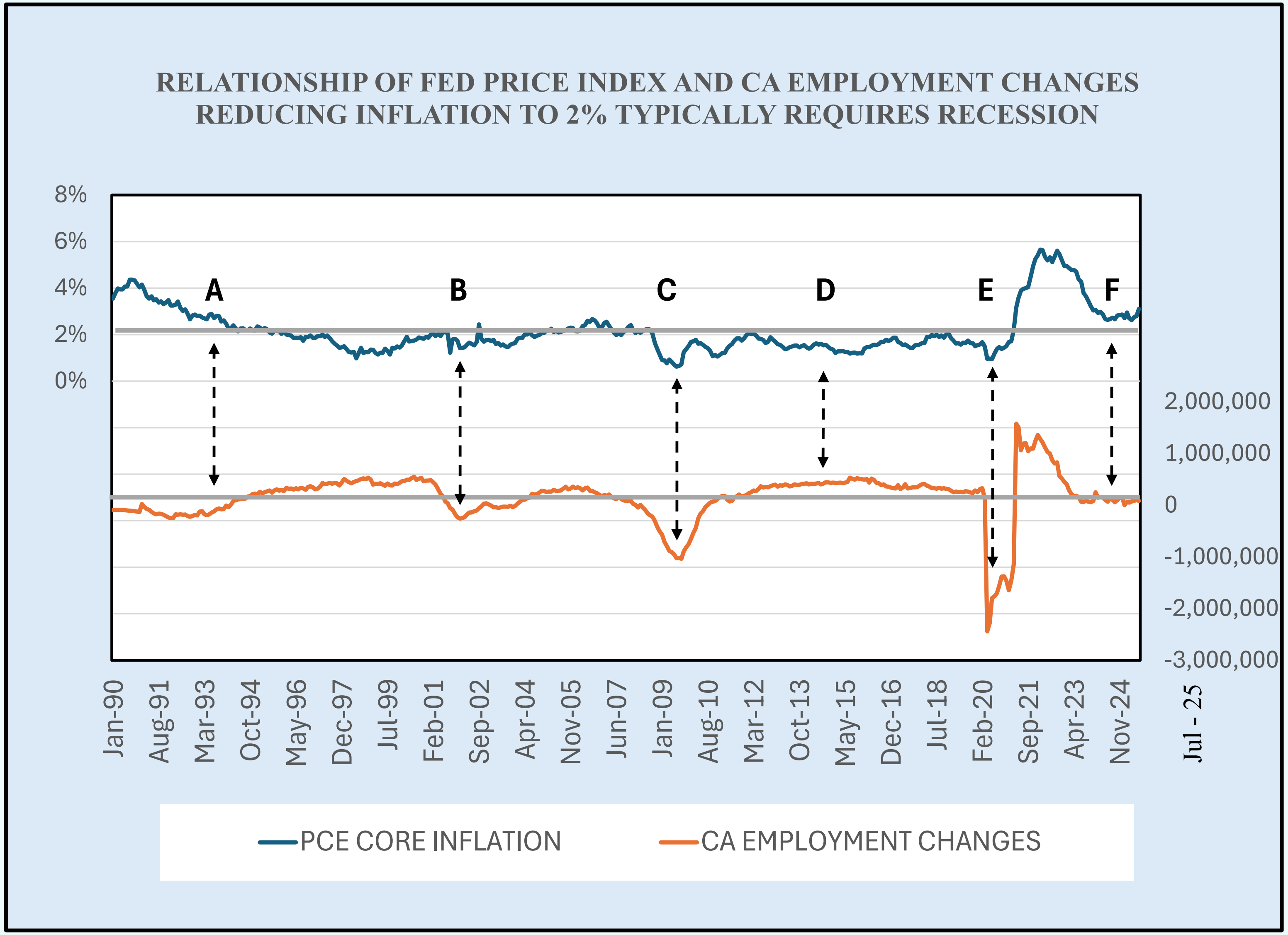
FINANCIAL MARKET GLOBAL
AND DYNAMIC/EFFICIENT

FRB MONETARY POLICIES TARGET CORE INFLATION AT 2% GOAL

FED IS ADOPTING A CONSERVATIVE POSTURE TO ENSURE INFLATION REMAINS LOW REMAINING VIGILANT AS ECONOMY/EMPLOYMENT IS STURDY - SOFT LANDING



HISTORICALLY, RESTRICTIVE FED POLICIES GENERALLY HAVE EMPLOYMENT DECLINES - RECESSION
CURRENTLY FED PURSUING 2% TARGET



TRENDS/PATTERNS FOR U.S. MORTGAGE RATES SINCE 2018

MORTGAGE RATES ARE A SECONDARY DRIVER OF HOUSING DEMAND; EMPLOYMENT GROWTH IS TYPICALLY THE PRIMARY DRIVER.

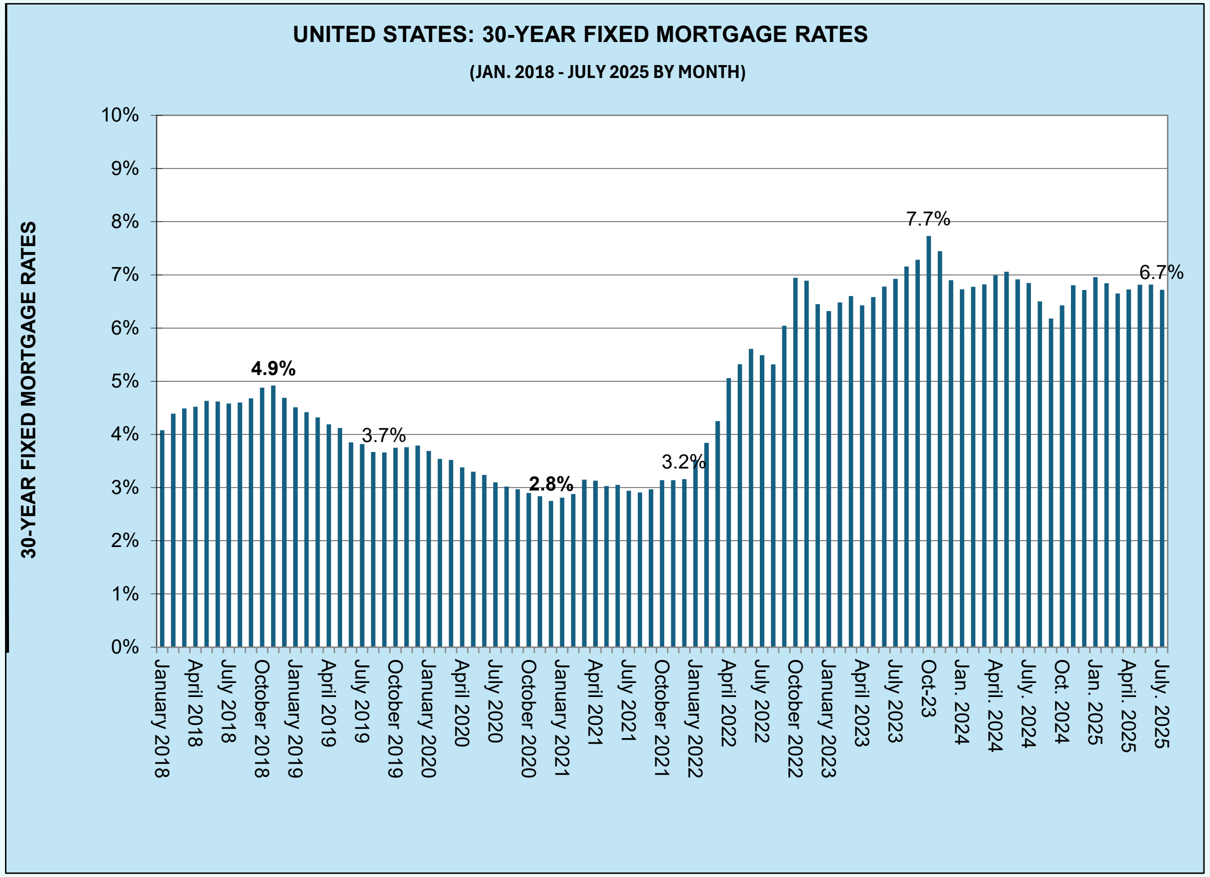
A. MORTGAGE RATES PEAKED IN NOVEMBER 2018 AT **4.9%.**

B. RATES THEN DECLINED TO THEIR **LOWEST LEVEL OF 2.8% IN JANUARY 2021**, DUE TO FED POLICIES TO STIMULATE THE ECONOMY.

C. RATES REMAINED AT HISTORICALLY LOW LEVELS, **BELOW 3.2**%, **THROUGH DECEMBER 2021**.

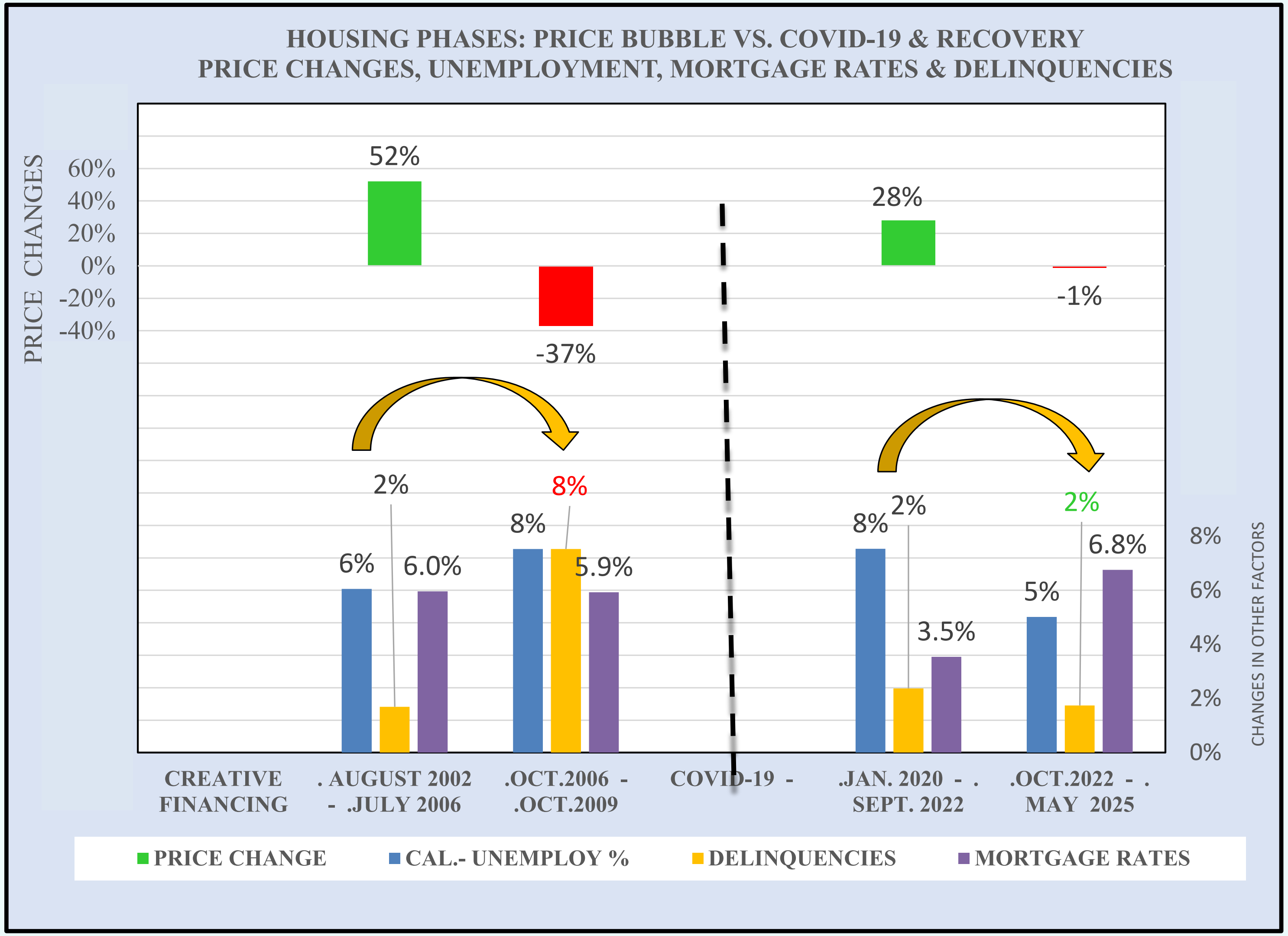
D. DUE TO FED POLICIES TO REDUCE INFLATION, MORTGAGE RATES **ROSE TO 7.7% IN OCTOBER 2023**

E RECENTLY MORTGAGE RATES HAVE **DECLINE SLIGHTLY, TO AROUND 6.5-7.0%**



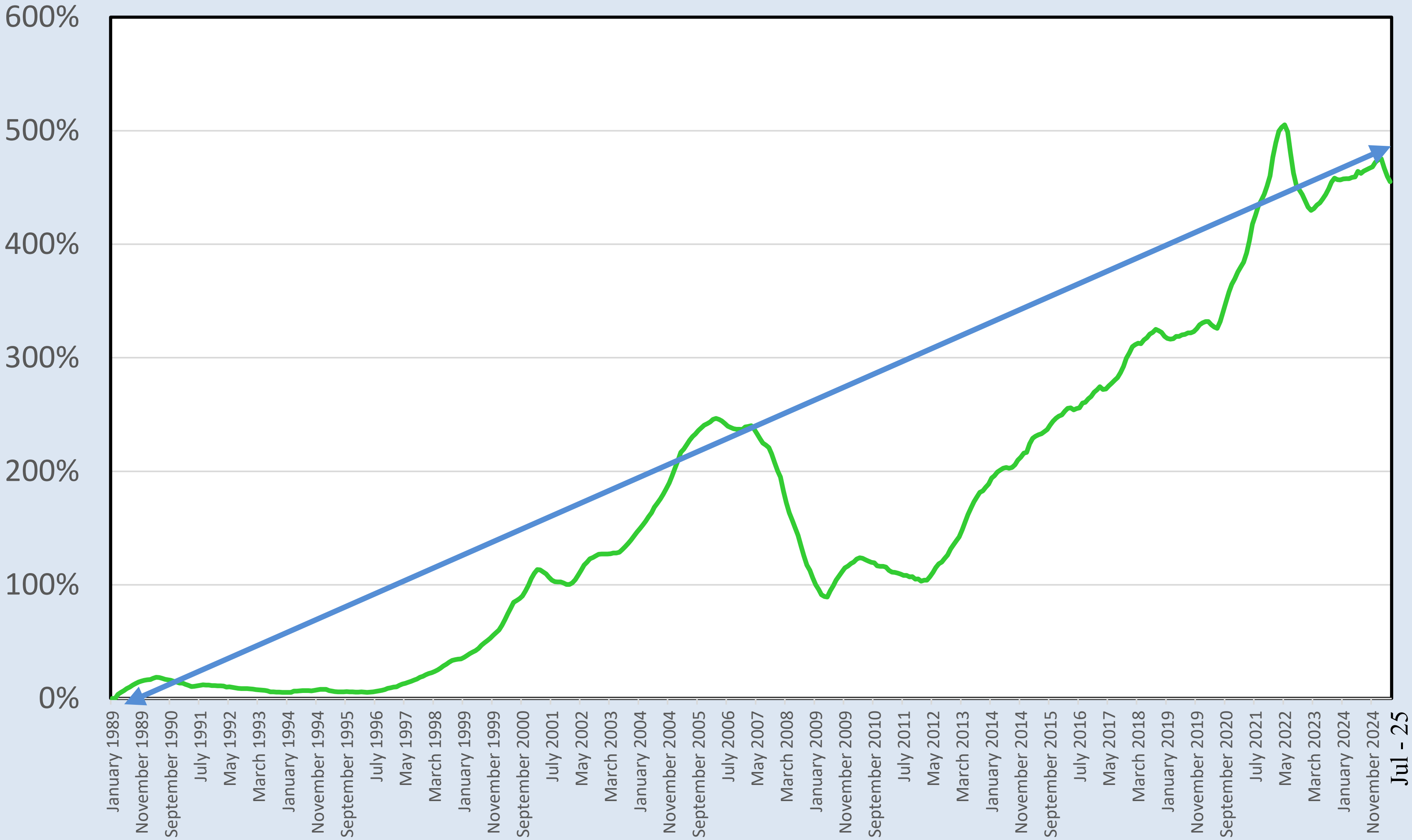
COMPARISON OF PRICE BUBBLE/IMPLOSION VS. RECENT HOUSING CONDITIONS

CREATIVE FINANCING 2002-2006 FOLLOWED BY PRICE DECLINES AND HIGH UNEMPLOYMENT
2022-2025 PRICES STABLE DESPITE HIGH MORTGAGE RATES → DUE TO LOW INVENTORY



II. HOUSING MARKET CONDITIONS

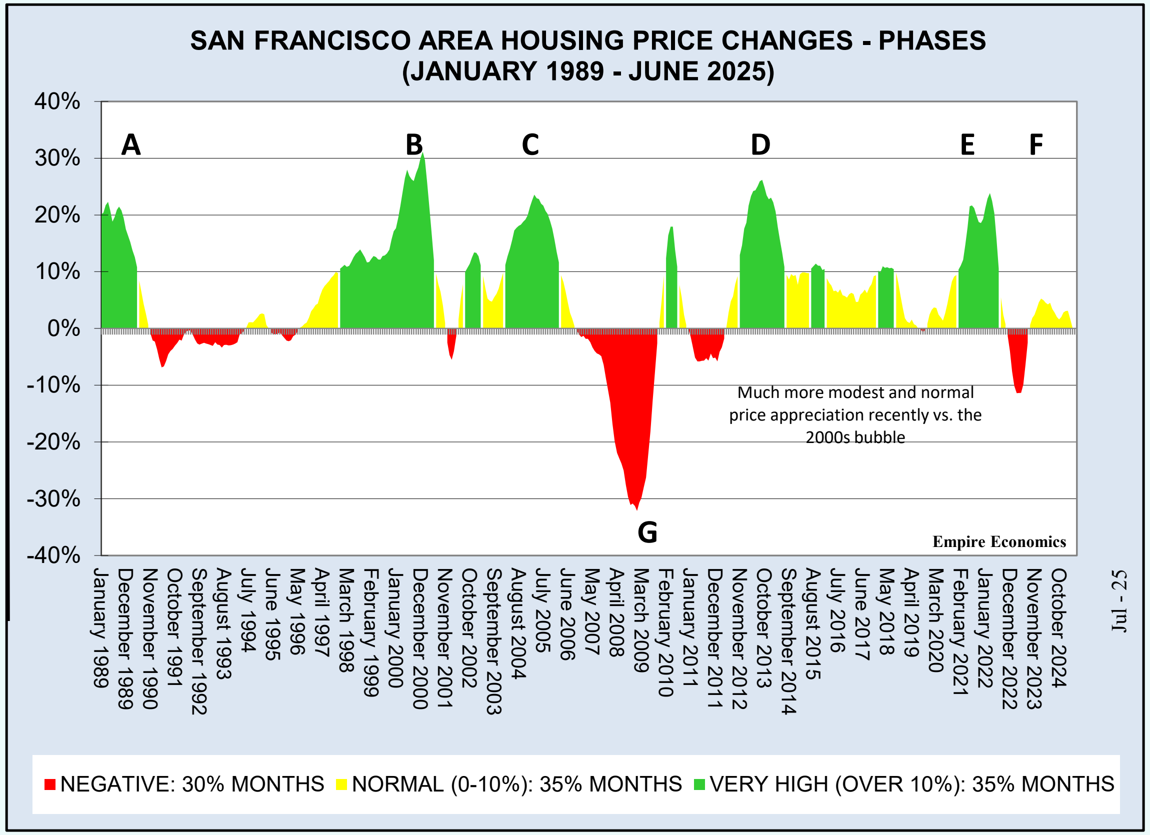
HOUSING PRICE PATTERNS SAN FRANCISCO REGION
LONG-TERM TRENDS JANUARY 1987-JULY 2025
4.2% AVERAGE (BLUE-LINE)
EXAMPLE: HOME PRICED AT $100,000 INCREASED TO $546,000



SAN FRANCISCO REGION - OVERALL PATTERNS OF PRICE APPRECIATION

Since 1989, the San Francisco Region experienced five major appreciation phases, with peak levels of 20%+.

- **A 1989:** Post earthquake recovery, with economic expansion and limited supply of housing
- **B 2000:** Dot.com boom, tech growth. Venture capital influx, resulting in a high demand for housing.
- **C 2005:** Housing bubble due to subprime lending. Creative financing, speculation.
- **D 2013:** Tech resurgence, low interest rates. Inventory shortages and bidding wars.
- **E 2021:** Pandemic demand, historically low mortgage rates. Remote work trends, tech stability.
- **F 2025:** Housing appreciation moderates, high mortgage rates and slower employment growth.
- **G** Downturns have been relatively mild with the main exception being the 2008/2009 sub-prime mortgages.



FOR EXISTING HOMEOWNERS, OVER 60% HAVE MORTGAGE RATES BELOW 4.0% SIGNIFICANTLY BELOW RECENT LEVELS OF 6.5-7%

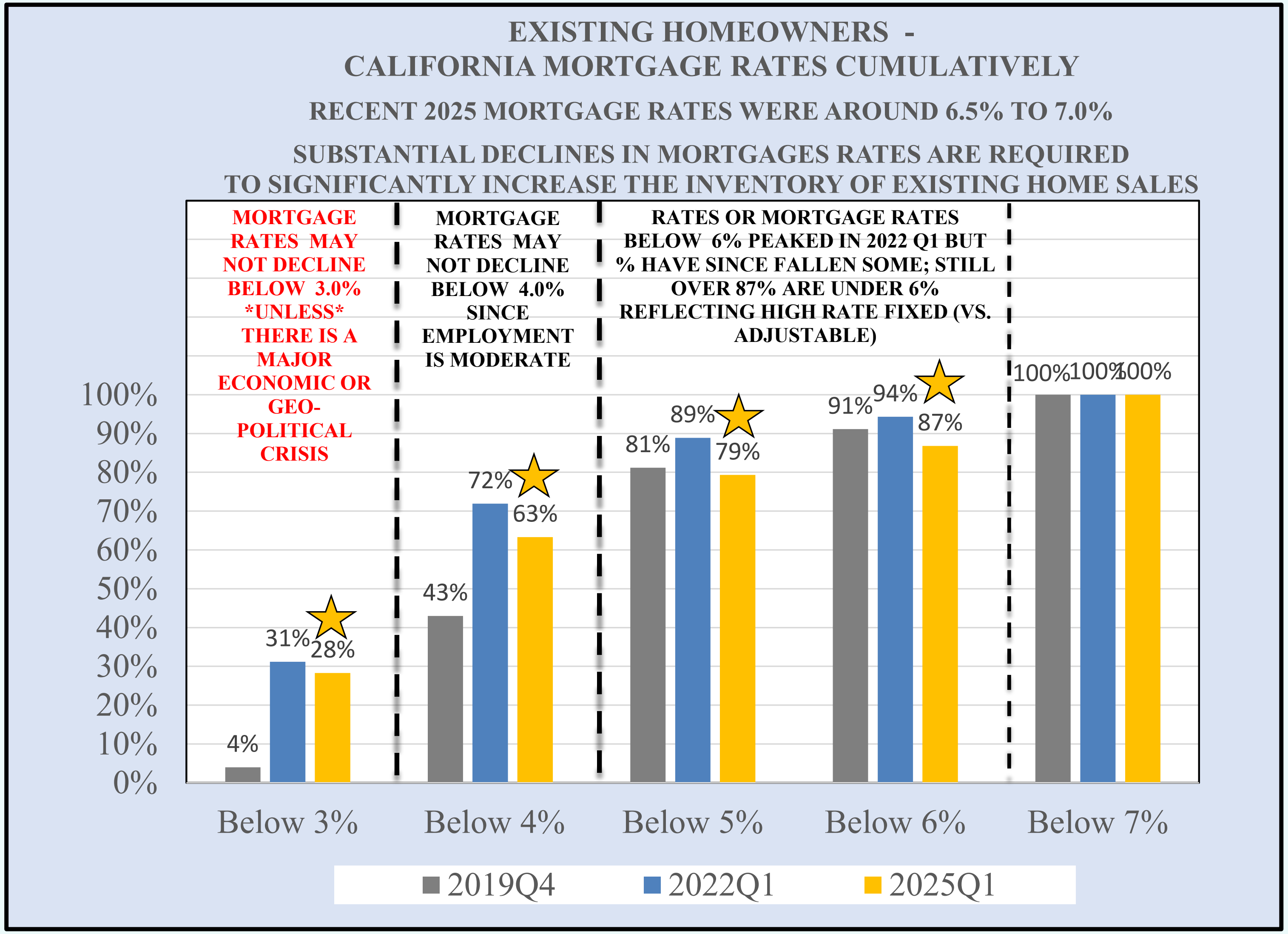
CHANGES IN COHORTS

<u>BELOW 3.0%</u>
FROM 31% TO 28%, -3%
PREVIOUS LOW 4%

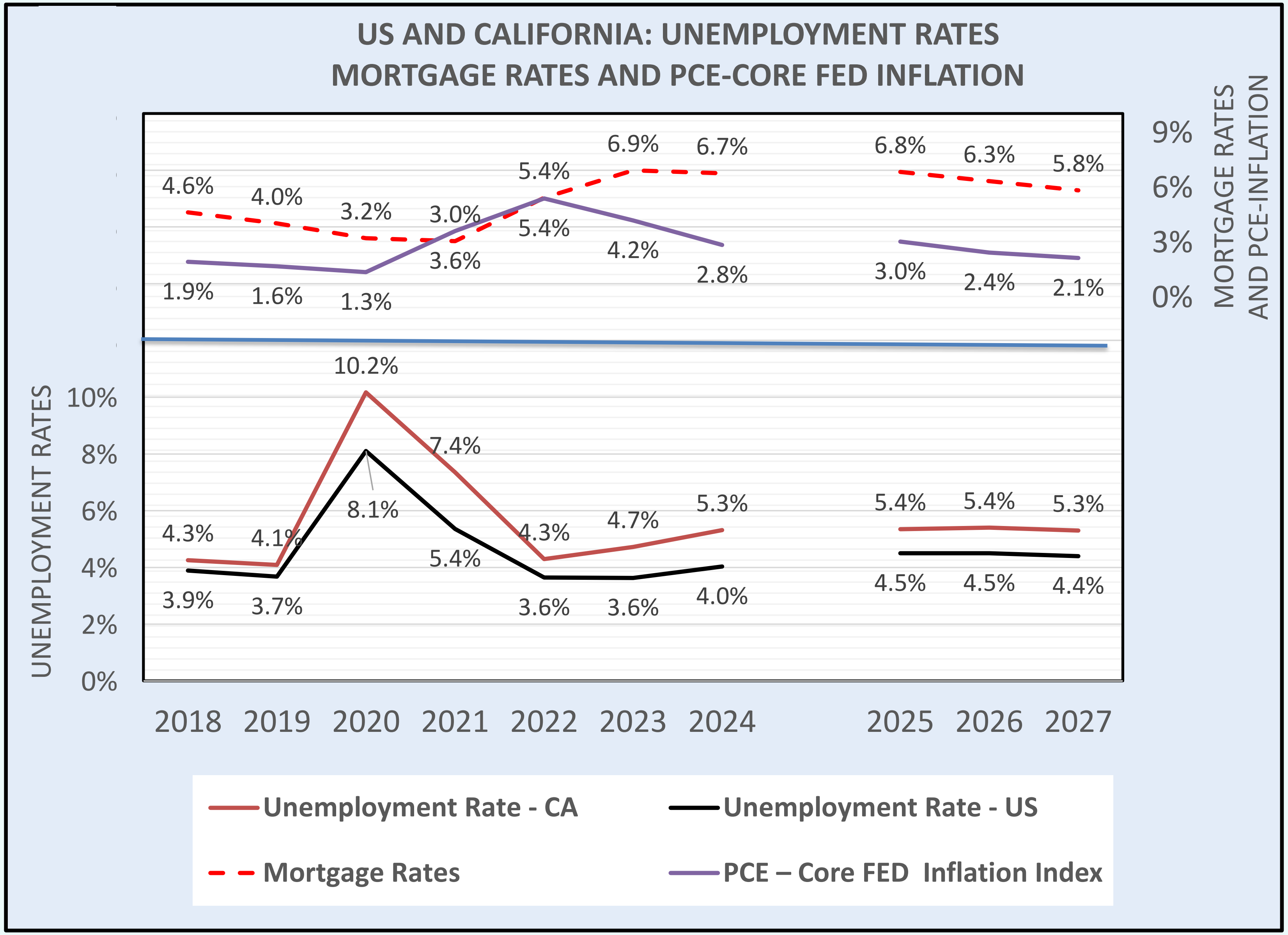
<u>BELOW 4.0%</u>
FROM 72% TO 63%, -9%
PREVIOUS LOW OF 43%

<u>HOUSEHOLDS WITH LOW MORTGAGE RATES MOVING ONLY IF NECESSARY</u>

- REMOTE/RETURN TO OFFICE
- NEW JOB LOCATION
- MAJOR FAMILY CHANGES
- MAJOR FINANCIAL CHANGES



SURVEY OF 40 PROFESSIONAL FORECASTERS – CONSENSUS FORECAST
SOURCE: FEDERAL RESERVE PROJECTIONS FROM JUNE 2025



SINCE 2020, HOME PRICES IN A SF SUBURBAN AREA HAVE INCREASED BY SOME 56%
THE RATE OF APPRECIATION HAS BEEN DRIVEN BY LIMITED INVENTORY OF EXISTING HOMES

HOMEOWNERS BEING LOCKED IN WITH HISTORICALLY LOW MORTAGE RATES

A: 2018 2019 NORMAL CONDITIONS
SUPPLY > DEMAND

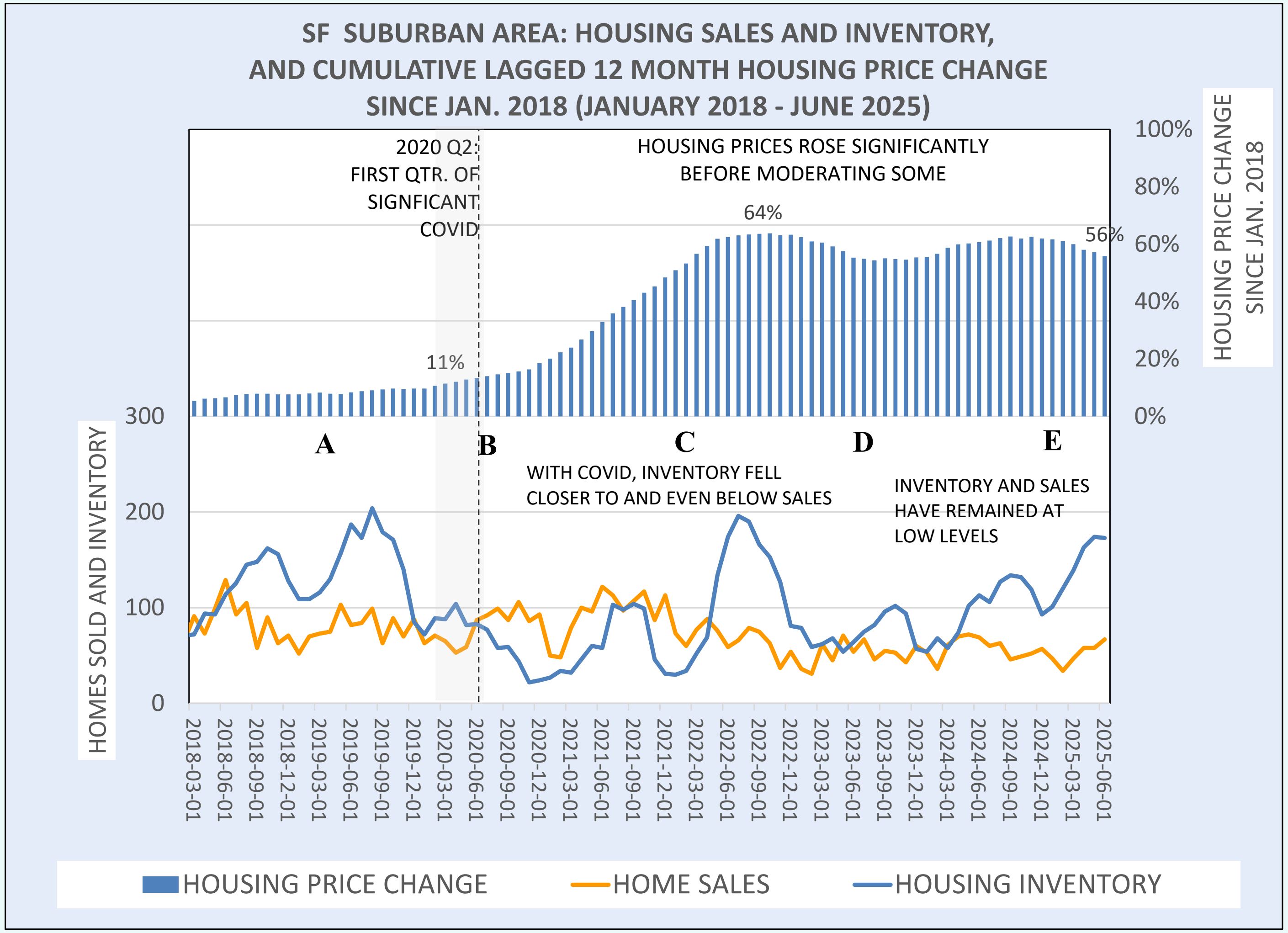
B: 2020 COVID-19 SUPPLY DECLINES

C: LOW MORTGAGE RATES
RESTRICTS SUPPLY
SIGNIFICANT PRICE APPRECIATION

D: PRICES REMAIN HIGH
DUE TO LOW SUPPLY

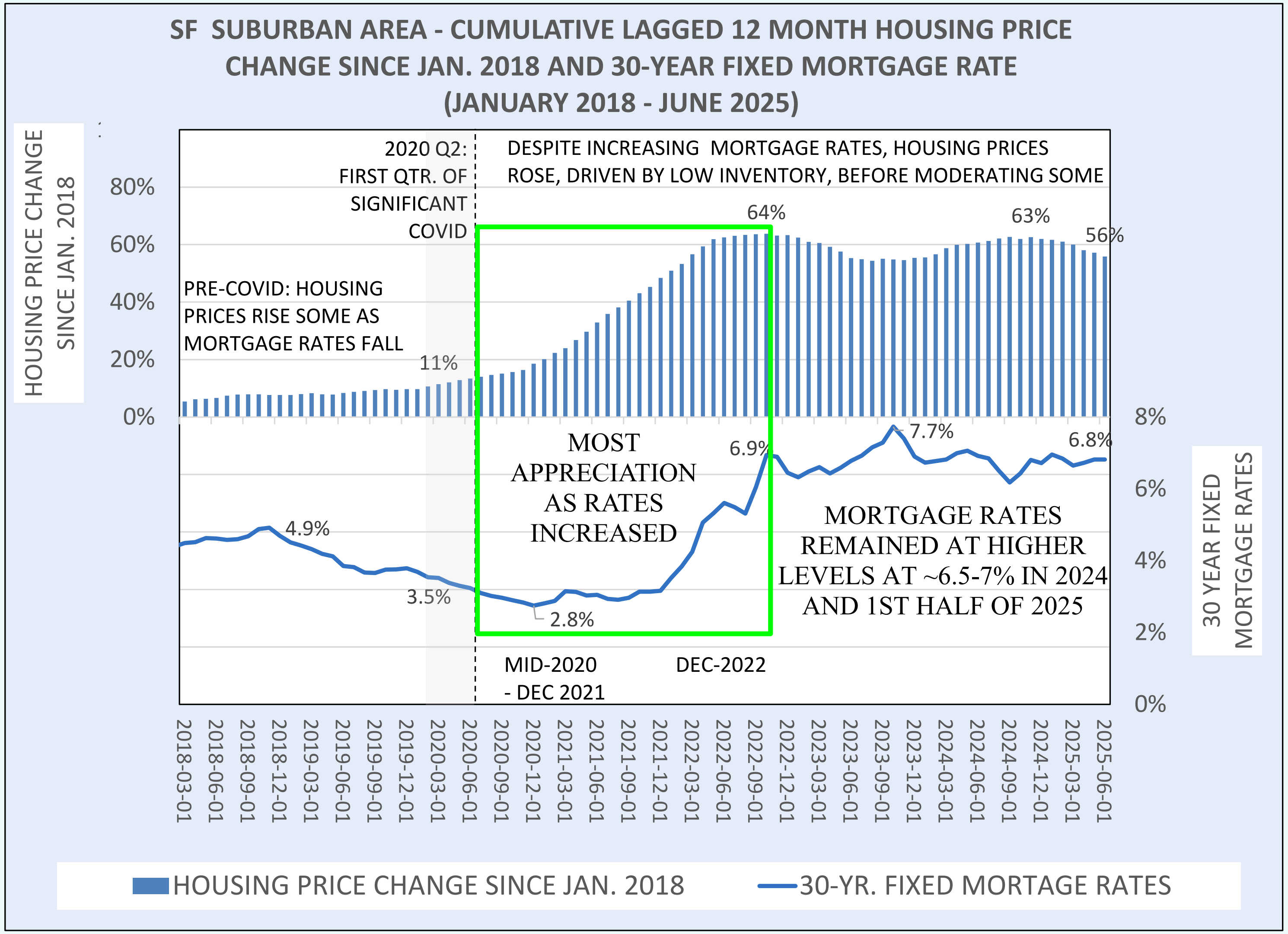
E. SUPPLY INCREASES SIGNIFICANTLY
BUT NOW DEMAND CONSTRAINED
BY HIGH MORTGAGE RATES

REMARK: SF SUBURBAN AREAS HAVE HAD HIGHER APPRECIATION THAN SF CITY.



SINCE 2022, HIGHER LEVELS OF MORTGAGE RATES HAVE SUPPORTED

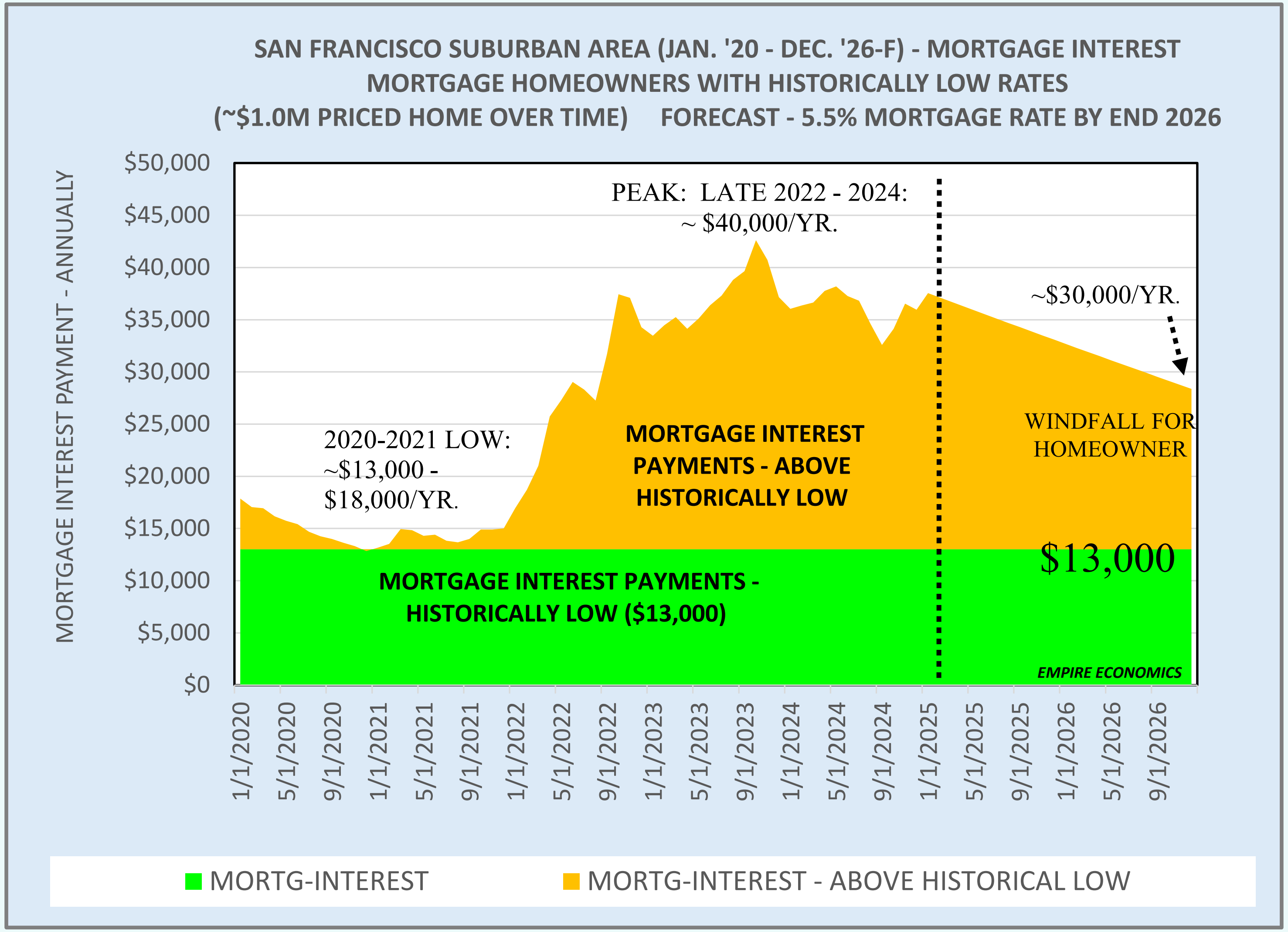
PRICE APPRECIATION DUE TO MOST EXISTING HOMEOWNERS BEING LOCKED IN



SF SUBURBAN AREA – MORTGAGE INTEREST PAYMENTS (JAN. 2020– DEC. 2026F)

HOUSE PURCHASE, HOUSEHOLDS THAT USED A **3% MORTGAGE RATE IN 2021** HAVE MORTGAGE INTEREST RATE PAYMENTS OF ABOUT **$13,000 A YEAR**

AS MORTGAGE RATES DECLINE, THE INCENTIVES FOR HOMEOWNERS TO STAY IN THEIR CURRENT HOMES WITH HISTORICALLY LOW RATES DIMINISHES, AND SO THE SUPPLY OF HOMES FOR-SALE INCREASES.



III. MARKET ABSORPTION STUDY

MARKET ABSORPTION STUDY

Economy/employment growth expected to be moderate/slow but not decline.
RISK FACTOR – RECESSION

Financial market/mortgage rates are expected to decline slightly but:
RISK FACTOR: INFLATION RISES DUE TO TARIFFS AND/OR HIGHER FISCAL DEFICITS

ABSORPTION RATES OF PROJECTS	**RATIOS**	**REMARKS**
ANNUAL ADJUSTMENT FACTORS		
Benchmark	1.00	Based Upon Normal Market Conditions
2025	0.80	Significant Level of Economic Uncertainty
2026	0.90	Market Conditions Improve
2027	1.00	Market Conditions Normalized
2028	1.10	Projects Approach Closing -Out
.2029+	1.50	Projects Close-Out

IV. PRICE POINT STUDY

A. PRICE POINT STUDY FOR CFD FORMATION

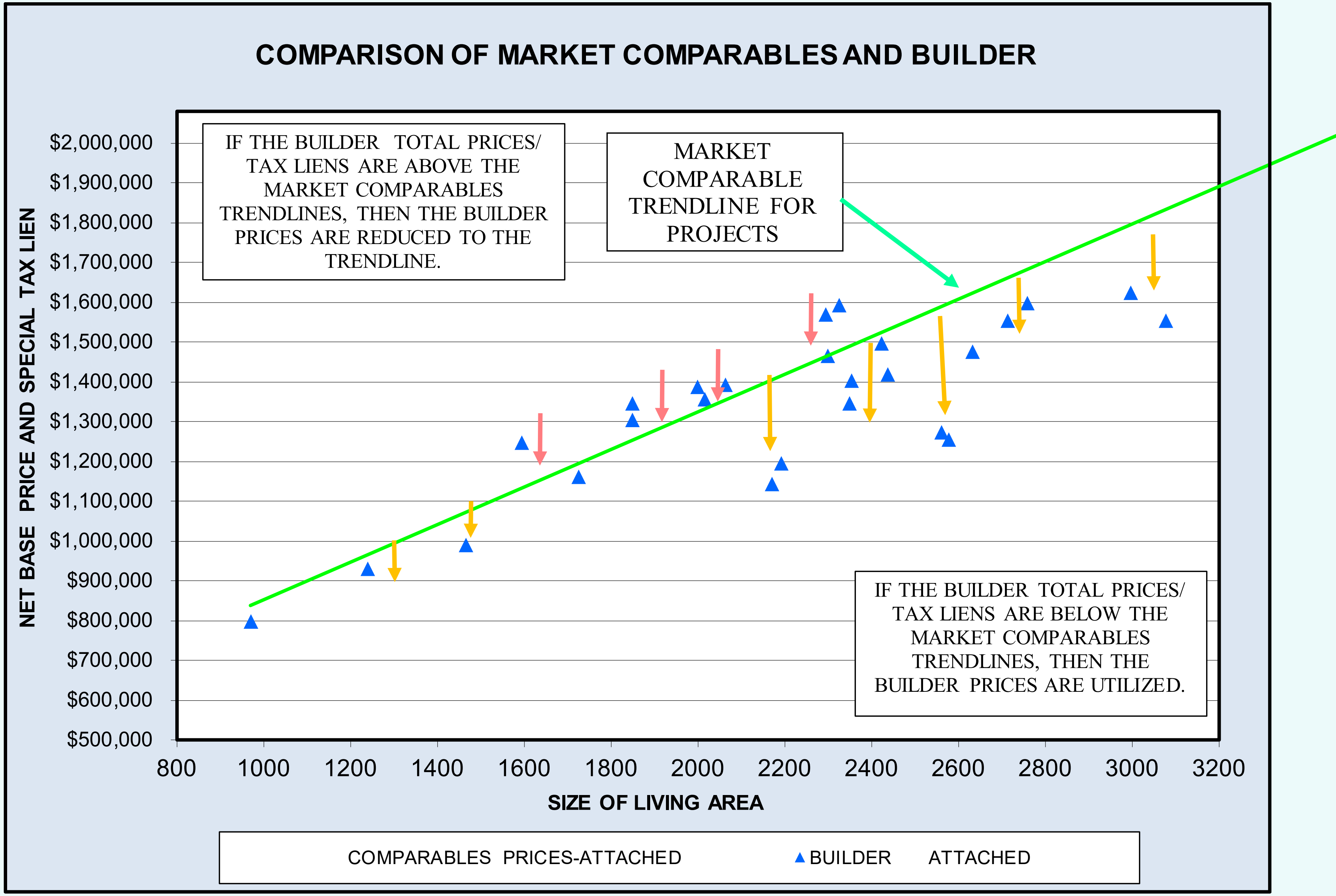
GREEN LINE
MARKET COMPARABLES
TOTAL HOUSING PRICE
SALES PRICE + TAX LIEN

BLUE TRIANGLES
CFD PROJECTS/PLANS
TOTAL HOUSING PRICE

1. ON GREEN LINE – OK

2. ABOVE GREEN LINE
REDUCE TO MARKET
TO BE COMPETITIVE
RED ARROW

3. BELOW GREEN LINE
USE LOWER PRICE
CONFORM TO ISSUER
TAX POLICY
ORANGE ARROW



B. PRICE POINT *REVIEW* STUDY
JUST PRIOR TO BOND SALE

CONFIRM THAT TAX LEVELS CONFORM TO ISSUER POLICIES
FOR HOMEOWNER TAX BURDENS

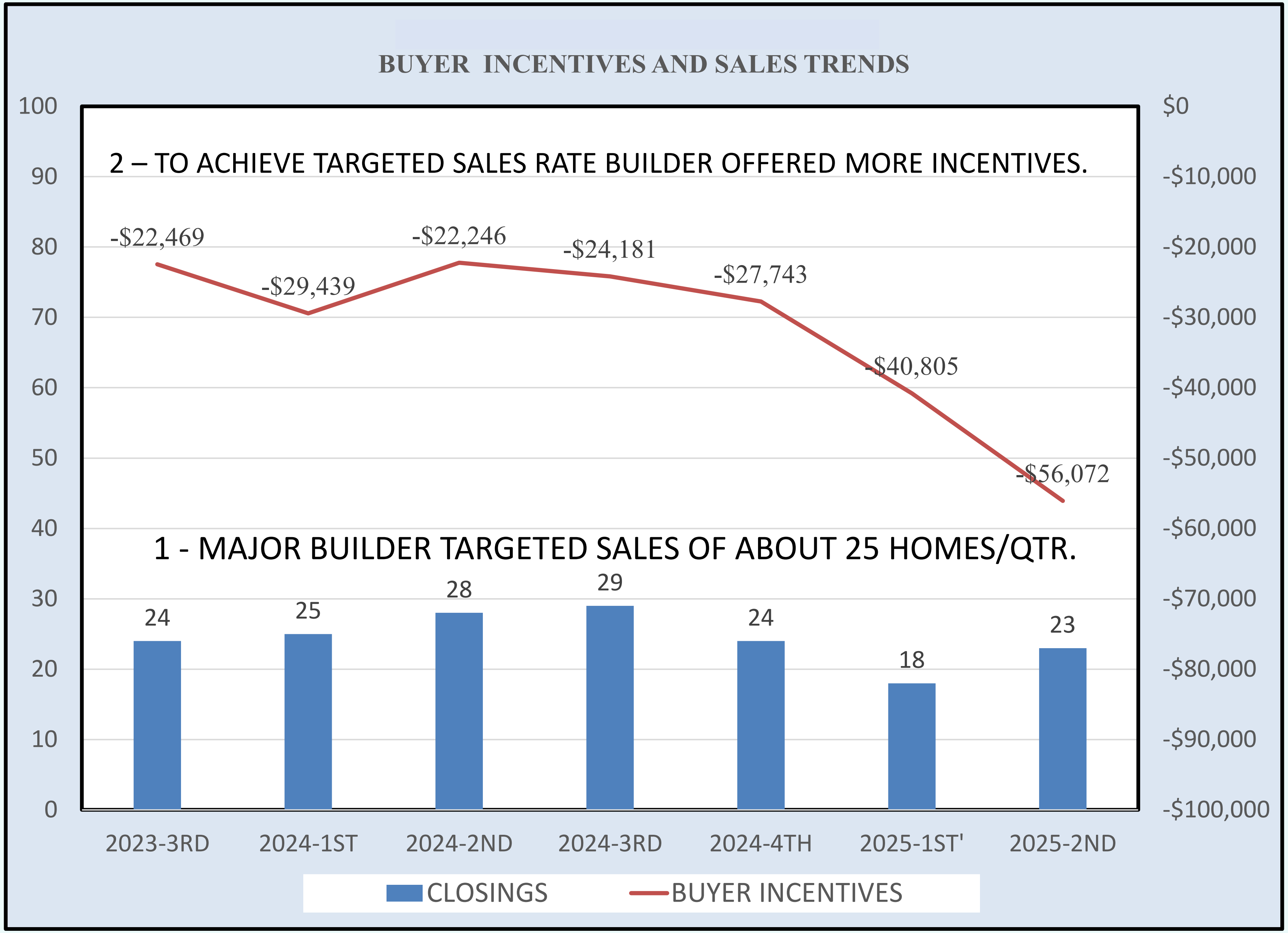
IF CURRENT MARKET VALUE FOR A PROJECT/PLAN IS BELOW
THE ORIGINAL PRICE POINTS,
THEN PRICES ARE REDUCED

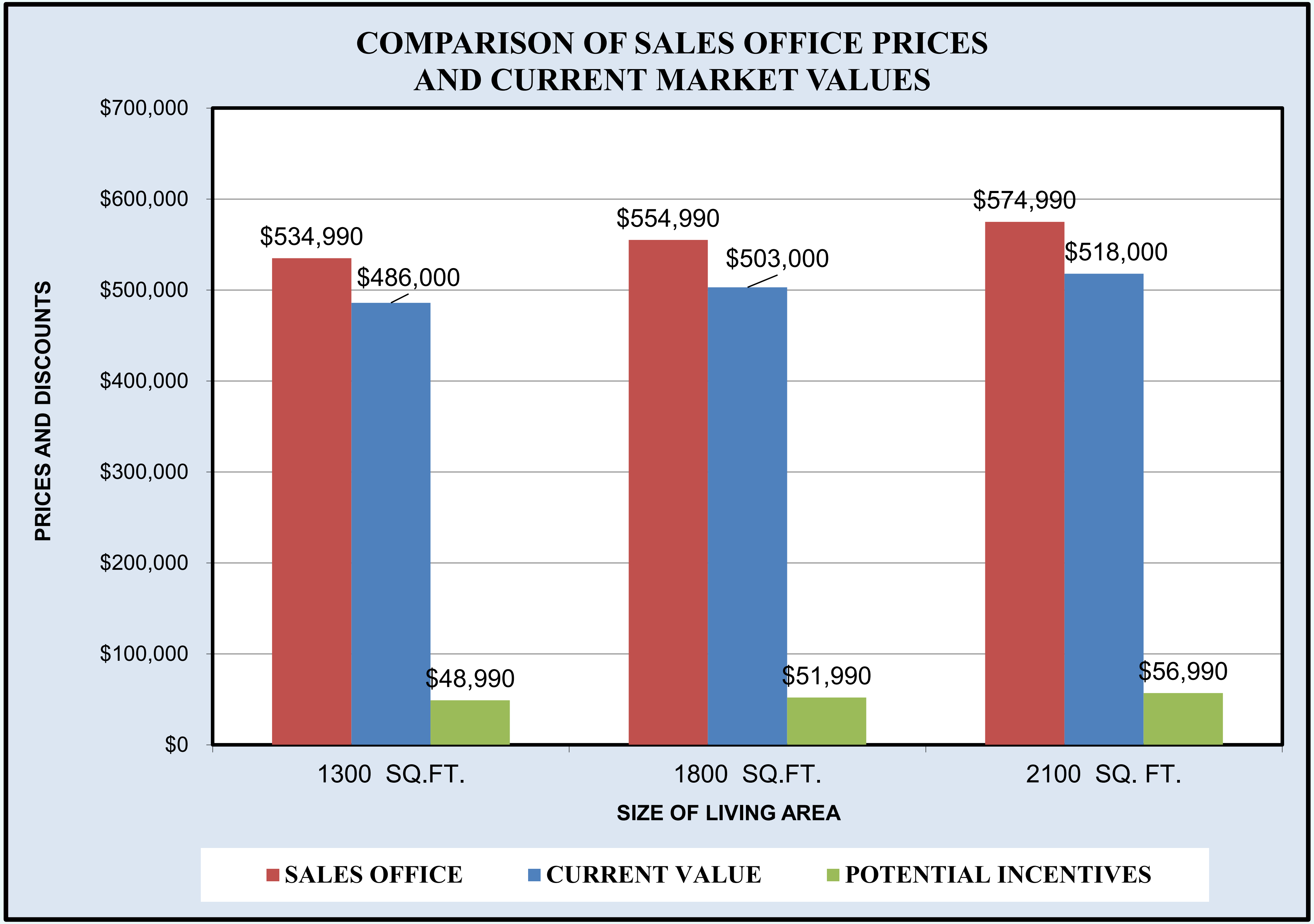
EMPIRE ECONOMICS UTILIZES RECENT ESCROW CLOSINGS

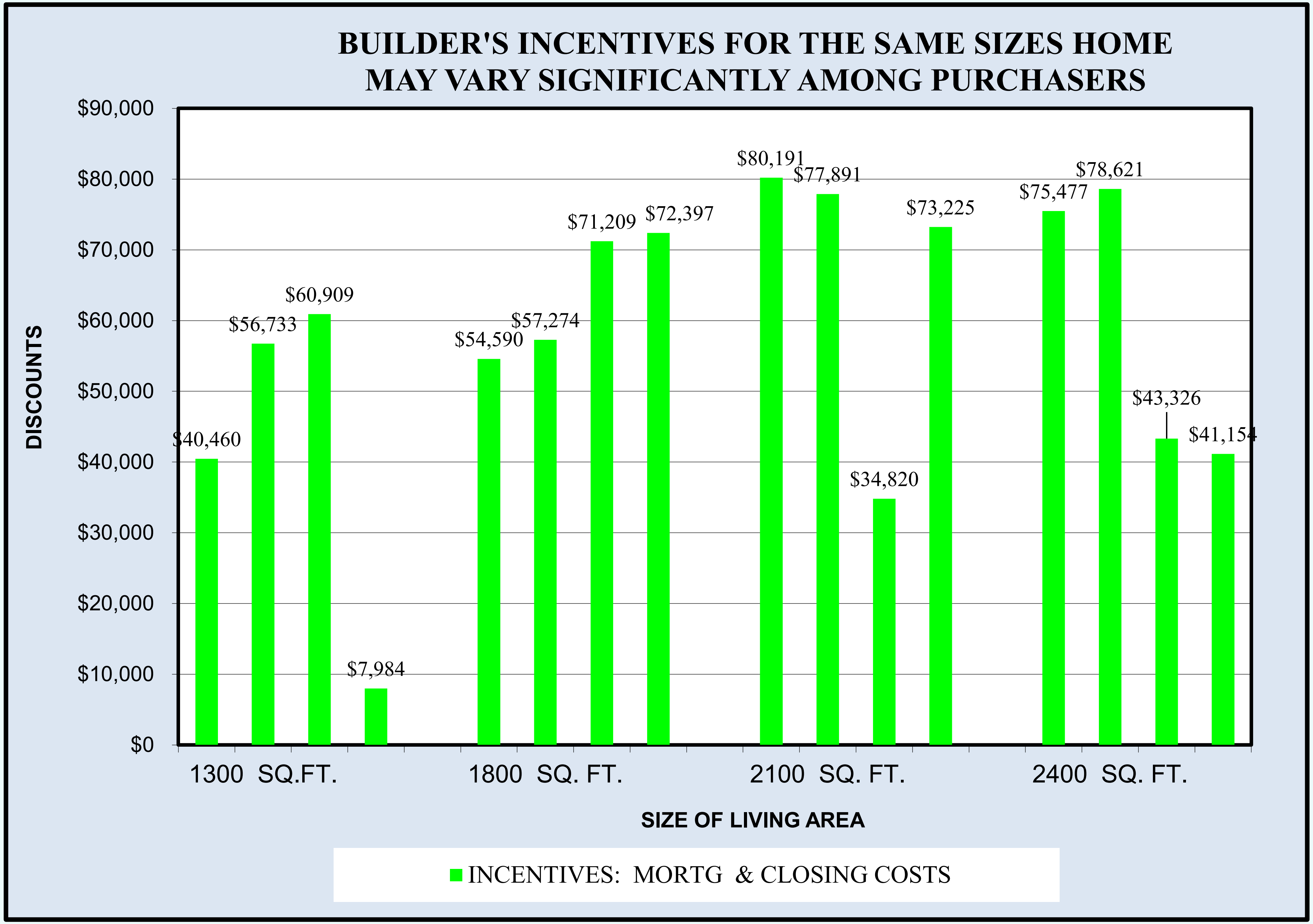
NET BASE PRICES = BASE PRICES – ALL TYPES OF INCENTIVES

FREE OPTIONS/UPGRADES, LOWER CLOSING COSTS
MORTGAGE RATE BUYDOWNS

SPECIAL TAX CONSULTANT CALCULATES CURRENT TAX BURDENS
AND REDUCES TAX LEVELS, AS APPROPRIATE


BUYER INCENTIVES AND SALES TRENDS
2 – TO ACHIEVE TARGETED SALES RATE BUILDER OFFERED MORE INCENTIVES.
1 - MAJOR BUILDER TARGETED SALES OF ABOUT 25 HOMES/QTR.
100
90
80
70
60
50
40
30
20
10
0
$0
-$10,000
-$20,000
-$30,000
-$40,000
-$50,000
-$60,000
-$70,000
-$80,000
-$90,000
-$100,000
-$22,469
-$29,439
-$22,246
-$24,181
-$27,743
-$40,805
-$56,072
24
25
28
29
24
18
23
2023-3RD
2024-1ST
2024-2ND
2024-3RD
2024-4TH
2025-1ST'
2025-2ND
CLOSINGS
BUYER INCENTIVES


COMPARISON OF SALES OFFICE PRICES
AND CURRENT MARKET VALUES
$700,000
$600,000
$500,000
$400,000
$300,000
$200,000
$100,000
$0
PRICES AND DISCOUNTS
$534,990
$486,000
$48,990
$554,990
$503,000
$51,990
$574,990
$518,000
$56,990
1300 SQ.FT.
1800 SQ.FT.
2100 SQ. FT.
SIZE OF LIVING AREA
SALES OFFICE
CURRENT VALUE
POTENTIAL INCENTIVES


BUILDER'S INCENTIVES FOR THE SAME SIZES HOME
MAY VARY SIGNIFICANTLY AMONG PURCHASERS
DISCOUNTS
$90,000
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
$40,460
$56,733
$60,909
$7,984
$54,590
$57,274
$71,209
$72,397
$80,191
$77,891
$34,820
$73,225
$75,477
$78,621
$43,326
$41,154
1300 SQ.FT.
1800 SQ. FT.
2100 SQ. FT.
2400 SQ. FT.
SIZE OF LIVING AREA
INCENTIVES: MORTG & CLOSING COSTS

V. CONCLUSIONS

CONCLUSIONS
THE MARKET FOR NEW HOMES WILL FACE CHALLENGING CONDITIONS

MOST PROBABLE SCENARIO

ECONOMIC WINDFALL/EQUITY TO EXISTING HOMEOWNERS MID-2020 – DEC 2022
CURRENTLY 63% OF HOMEOWNERS HAVE MORTGAGE RATES BELOW 4.0% - RELUCTANT TO SELL

DELINQUENCIES CURRENTLY ONLY 2% VS. 2006-2009 BUBBLE IMPLOSION 8%
PRICES RECENTLY STABLE VS. 2006-2009 PRIOR BUBBLE IMPLOSION - 37%

RECENT INCREASE IN INVENTORY BUT DEMAND IMPACTED BY HIGH MORTGAGE RATES
FIRST TIME BUYERS - AFFORDABILITY ISSUES: HIGH PRICES & HIGH MORTGAGE RATES

CFDs – BENEFIT FROM SPILLOVER OF DEMAND FROM EXISTING TO NEW HOMES
MARKET SHIFT TO HIGHER DENSITY PRODUCT TYPES – LOWER PRICES
BUILDERS BUYING-DOWN MORTGAGE RATES & OFFERING HOME RENTALS

HOUSING PRICES NOT LIKELY TO DECLINE SIGNIFICANTLY UNLESS:
POTENTIAL MAJOR RISK FACTOR
IF MORTGAGE RATES > 6.5% BUILDER BUY-DOWNS TOO EXPENSIVE

TIGHTROPE: MONETARY AND FISCAL POLICIES
? RECONCILE/COLLIDE ?

TIGHTROPE: MONETARY AND FISCAL POLICIES? RECONCILE/COLLIDE?

AI POLICY SONATA FOR FINANCE PROFESSIONALS

- PROMPTS PROVIDED BY EMPIRE ECONOMICS*

Collision Course
Storm clouds brew where eagles clash—
Hawkish rates meet stimulus splash.
Inflation’s drum thrums, double-time,
Two masters duel, no fault, no crime.

Negotiated Horizons
Truce Forged: Trim the tariff blade,
Phase the cuts where growth’s delayed.
Mortgage tides steady, jobs held firm,
Debt’s specter looms—but fires adjourn.

Reckoning Unbound
If egos drown the nation’s ledger,
Inflation’s beast slips every tether.
Jobs flee, loans soar, red ink cascades—
A “Trumpcession” etches its brigades.

SESSION TWO

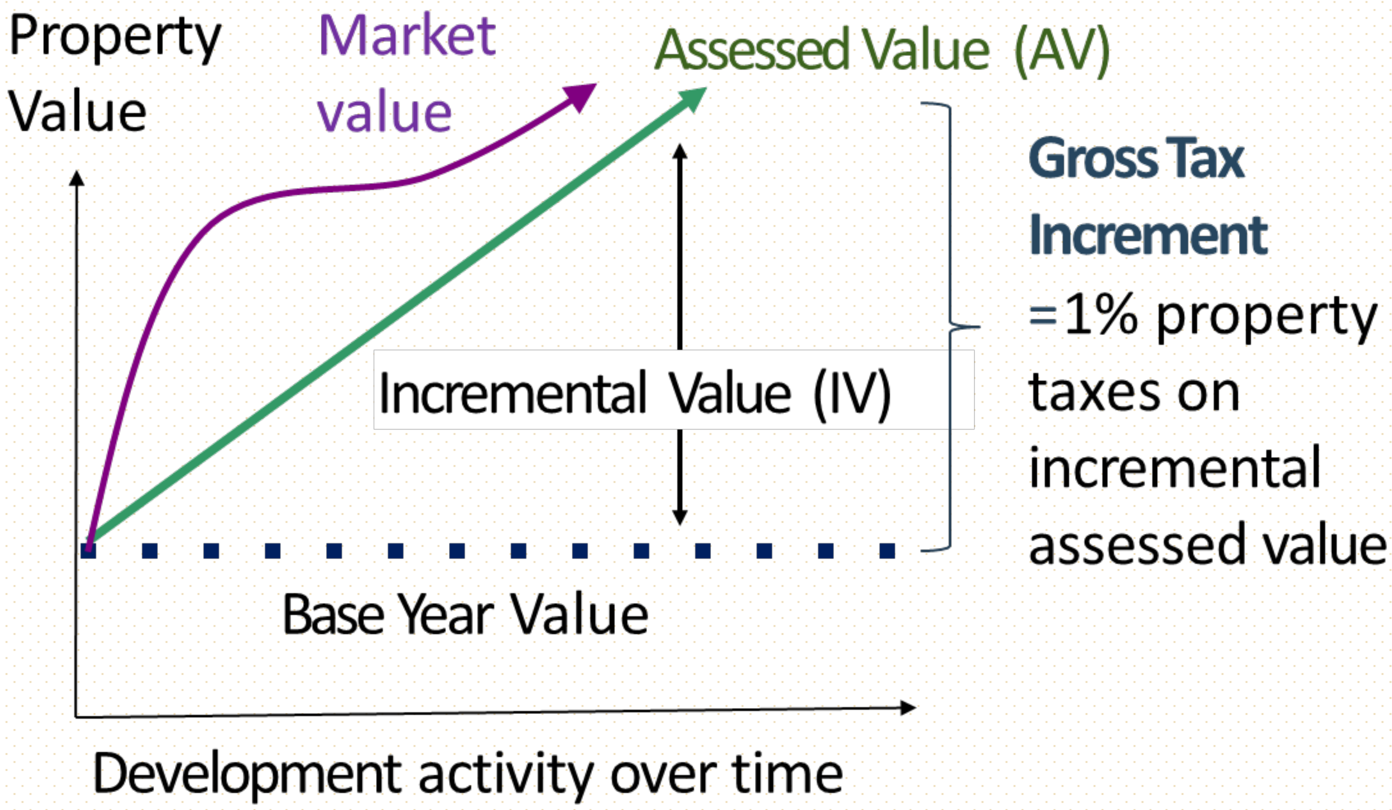
District Formation: Integration of Tax Increment and Land-secured Districts

PART A:

Infrastructure Finance Districts Primer

Infrastructure Financing Districts (IFDs)

- Special district to capture a portion of the ***incremental property taxes*** within a defined boundary - and allow for pooling of certain other revenues



Potential IFD Revenues

- All or a portion of ***participating entities' share*** of 1% property tax revenues (schools' share explicitly excluded)
- Property tax in-lieu of VLF
- RPTTF residual
- Sales tax (conditions apply)

IFD Statutory Framework

- **Original IFD statute from the 1990s saw very limited use**

- **Statutory powers expanded and revised in 2014 following dissolution of California Redevelopment Agencies (RDAs)**

- **Primary statutes:**
  - Enhanced infrastructure financing district (EIFD)
  - Infrastructure revitalization financing district (IRFD)
  - Community revitalization and investment authority (CRIA)
  - Climate resiliency district (CRD)

- **Statutory variances:**
  - Governance structure, term of tax increment collection, IFD powers, allocable revenues, use of proceeds (including affordable housing)

IFD Comparisons

	Tax Increment Collection	Project Areas	Potential Allocated Revenues	Eminent Domain	Affordable Housing Set-Aside	Governing Body
Enhanced infrastructure financing district (EIFD)	45 years (1)	Yes	Property tax, RPTTF, VLF Sales tax with conditions(3)	Remediation only	With sales tax allocation	Pub. Finance Authority
Community revitalization and investment authority (CRIA)	45 years (1)	Yes	Property tax, RPTTF, VLF	For 12 years	25% set-aside	Authority Board
Infrastructure revitalization financing district (IRFD)	40 years (2)	Yes	Property tax, RPTTF	No	Not required	Council / Co. Supervisors
Climate resiliency district (CRD)	Same as EIFD	Yes	Tax increment, benefit assessments, special taxes, property-related, user fees	No	No	Board of Directors for district

(1) From date of debt authorization, or first $100,000 in annual tax increment (TI) received in project area
(2) For each project area, after defined $ minimum of annual TI
(3) Conditions include use of funds within ½ mile of transit stop, within EIFD coterminous with city or county boundaries, 40% of sales tax dedicated to affordable housing, 10% of funds for parks or urban greening.

Growing List of Adopted IFDs Around California

- **30+ IFDs adopted to date, partial list below, all EIFDs except as noted**

Carlsbad (IFD)
Covina
Carson
Fresno
Humboldt County
La Verne
Lakewood
Los Angeles County
Madera County (three)
Napa
Palmdale
Placentia
Placer County
Rancho Cucamonga
Riverside County
Sacramento (City) (two)
Sacramento County
San Diego
San Francisco (six: EIFD, IRFDs, IFDs)
Sanger
Sonoma County (CRD)
Stanislaus County
Victorville (CRIA)
West Sacramento (two: EIFD and IFD)
Yucaipa

- **Others proposed or in formation process**
- **First IFD public bond sale in 2022**
  - $29 million for San Francisco's Treasure Island IRFD in August 2022

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, industrial projects, former military base reuse, etc.
- **Affordable housing**
  - Acquisition, construction or rehabilitation of housing serving very low, low, or moderate income households
  - Affordability covenant: 45+ years for ownership, 55+ years for rental

EIFD 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, revenues allocated, revenue projections, tax increment limit, fiscal impacts, sunset date
- **Two public hearings**
  - At least 30 days apart, with opportunity for protest
  - Process terminates upon majority (50+% protest), election required if 25-50% protest
- **Adoption of the IFP**
- ***Judicial validation (prior to bond issue)***

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
- **Allocated 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 (not required to be net positive)**

Considerations for using IFDs

- **No new tax/no new revenue**
  - Just reallocating revenues from general fund to IFD
  - Affects fiscal impacts associated with new development within the district
  - Allocations can be changed annually before bond issuance
- **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
  - Issuer IFD policies may limit options for Issuer participation: % share, duration, types of projects
- **Can create a bondable revenue stream for housing**
  - Many issuers split tax increment between housing and facilities
- **Former RDA tax increment can bridge IFD revenue growth**
  - Redevelopment Property Tax Trust Fund (RPTTF) can be pledged to IFD bonds
  - Remaining increment from established RDA project areas can bolster credit quality

PART B:

Illustrative IFD Case Study

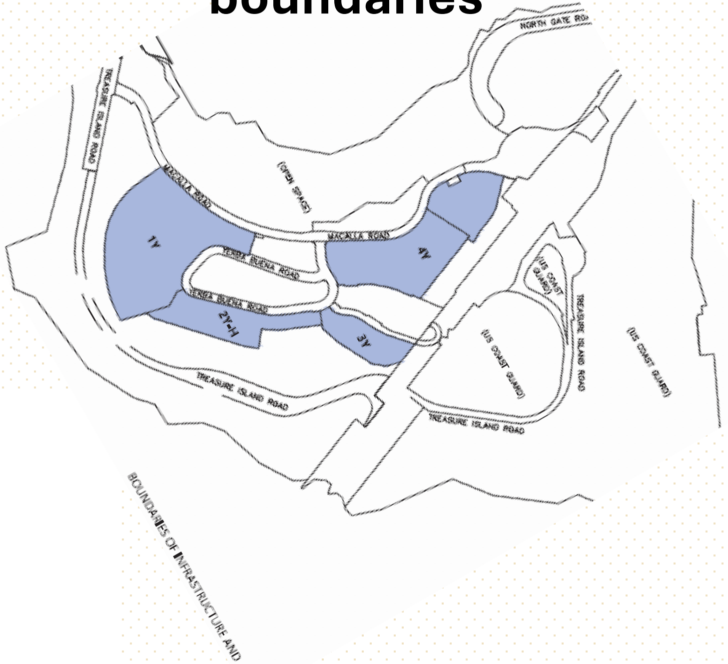
Case Study: Treasure Island IRFD No. 1

- 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

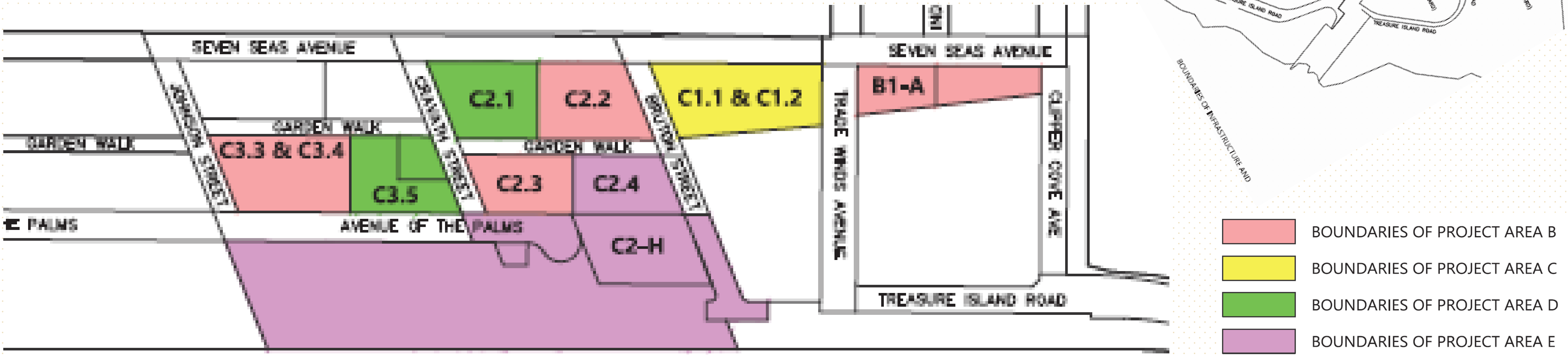
Treasure Island IRFD: Project Areas

- 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 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 annual tax increment is generated in Project Area (if has project areas)

New Development on Yerba Buena Island

- **The Bristol opened in June 2022**
  - 124 residential condominiums (14 below market)
- **Phase 1 of the residences opened in 2024**
  - 31 townhomes and flats in five buildings

The Bristol in 2023

The Bristol and Phase 1 of The Residences in 2022

Photo by Andrew Campbell Nelson

Phase 1 of The Residences in 2025

Photos: from tisf.com

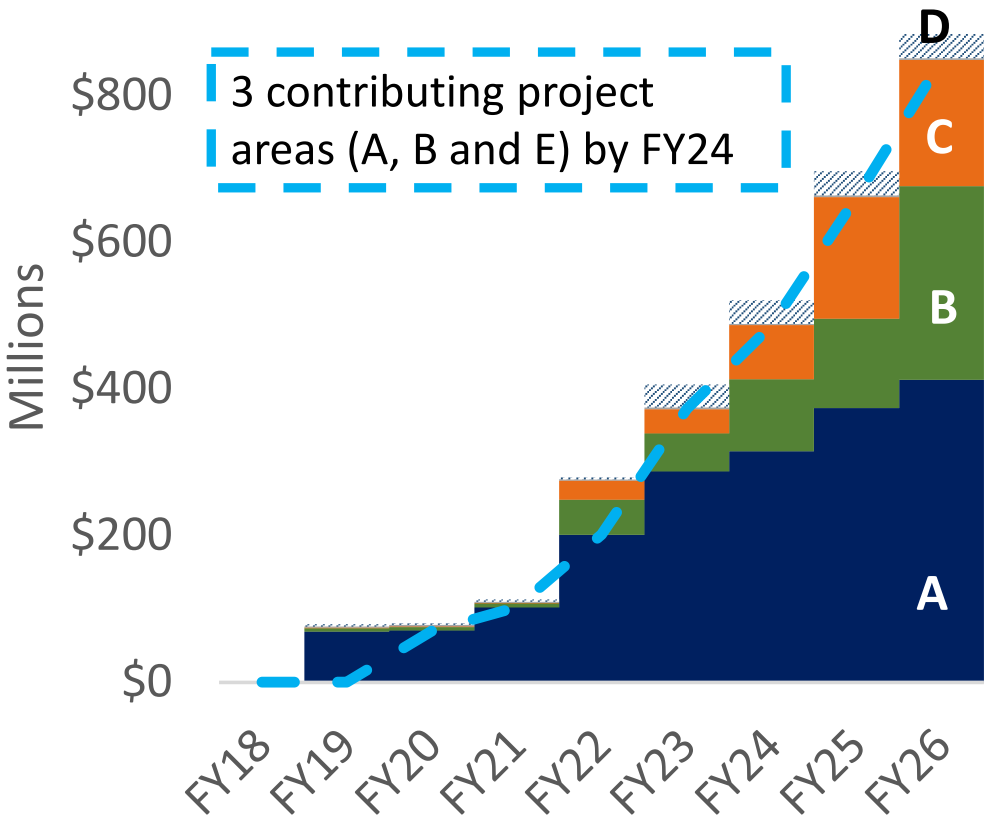
New Development on Treasure Island

- **Isle House -** 22 story tower with 250 rental apartments (24 below market) opened in 2024
- **Hawkins –** 178 rental apartments (9 below market) opened in 2025
- **490 Avenue of the Palms –** 148 residential condominiums (7 below market) expected to open in late 2025

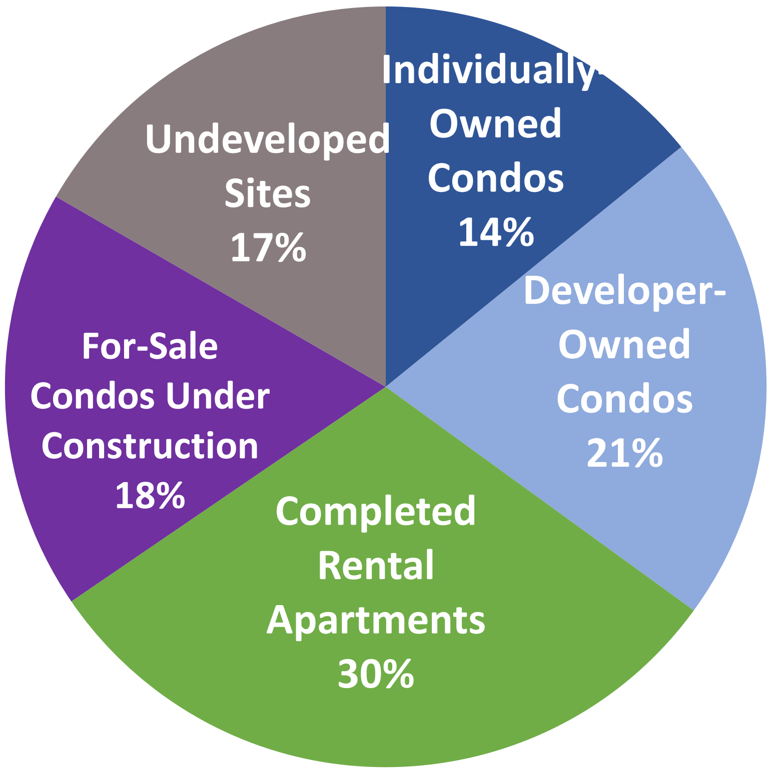
Treasure Island Incremental Value

- **As development has proceeded, assessed values and tax increment have grown**

Incremental Value by Project Area



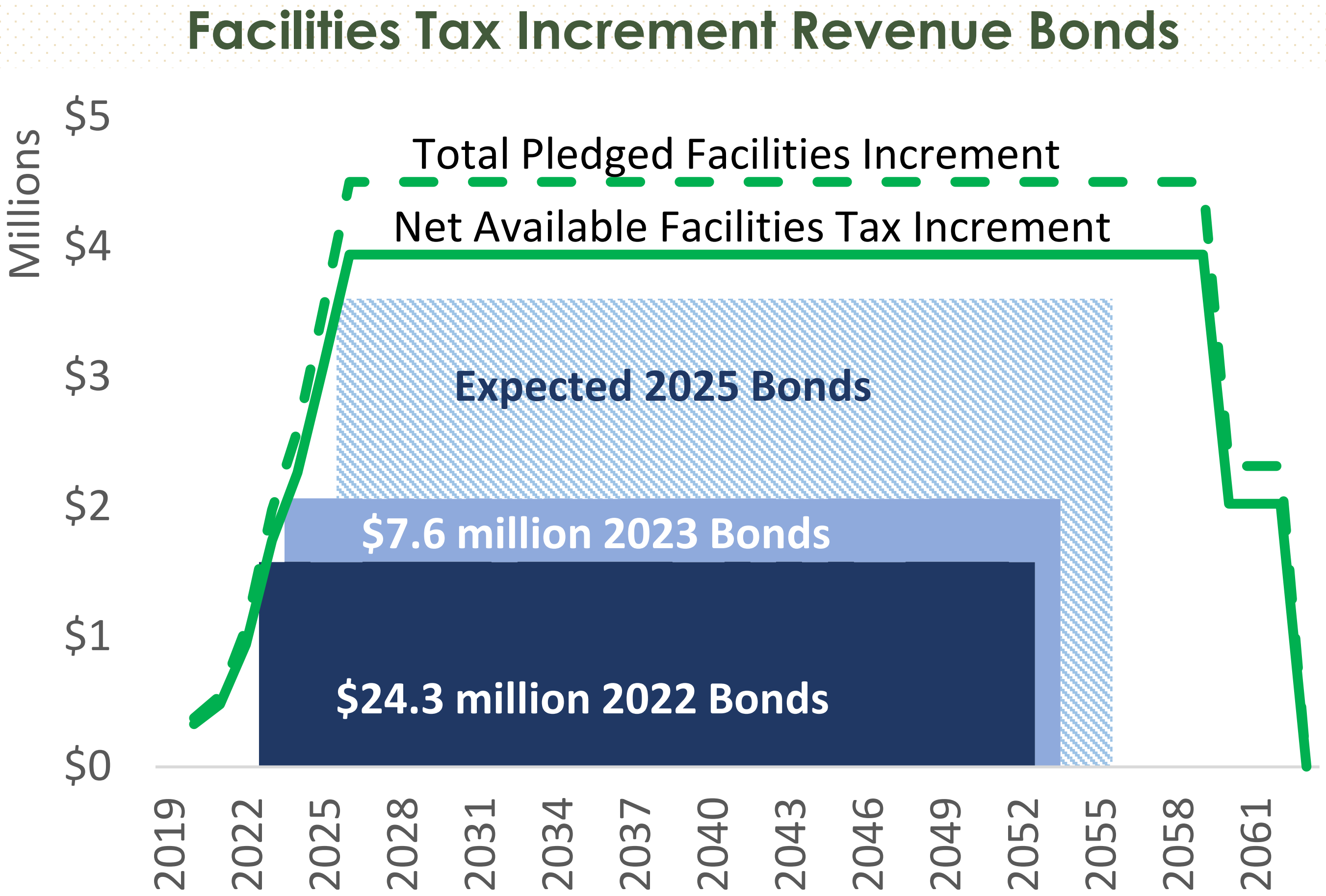
Incremental Value by Development Status



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, next sale expected in November 2025



- 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

PART C:

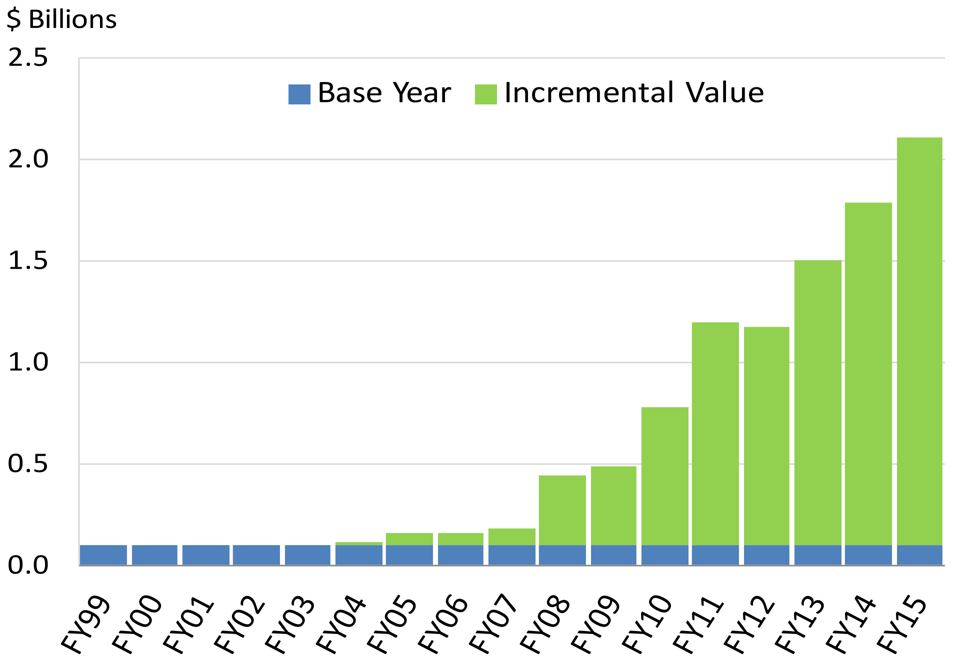
IFD Applications and Alternatives

IFD Bond Financing Challenge: Timing Lag

- **Development may take years to generate "bondable" revenues**
  - No revenue to leverage until <u>after</u> development is recognized on assessed tax rolls; may be 12-24+ month lag
  - First tax increment bond sale for Mission Bay South in 2009, ***ten years*** after project area formed

Historic View of San Francisco Mission Bay South

Mission Bay South Assessed Values



Stacked and Staggered CFD and IRFD Bond Sales

- **Special tax bonds issued first to generate up-front funds, tax increment bonds sold later, as development progresses**
- **Treasure Island examples:**
  - $99 million of Special Tax bonds issued to date in 2020, 2021, 2022 and 2023
  - $39 million of Tax Increment bonds issued to date with sales in 2022 and 2023

The Bristol Under Construction in 2020

Isle House and Hawkins Under Construction in 2023

Photos: Stifel-produced drone videos

IFD Bond Financing Challenge: Passive Revenue

- **Risk of assessed value (AV) declines**
  - Due to economic declines, assessment appeals, natural disasters, public or non-profit purchase
- **AV declines can have amplified impact on tax increment revenues**
  - Higher “volatility” when base year value represents a large portion of total AV
  - A modest decline in AV could wipe out all or most of the incremental value
- **Concentrated tax bases may be more vulnerable to declines**
  - Geographic, industry and property owner concentration

Coverage Ratio Can Mitigate Early-Stage Risks

- **West Sacramento provided at least 150% debt service coverage for initial bonds**
- **As and when development proceeds, required coverage drops to 135% and then 125% for future bonds to the extent credit can sustain 15% AV loss**

West Sacramento EIFD

- Larger EIFD: 4,000+ acres
- Top Taxpayers 60% of Increment
- High Volatility: base year 58% of AV
- EIFD revenues subordinate to former RDA obligations
- $57 M EIFD bonds issued 2025
- VLF, City pass through funds available to EIFD per IFP but not pledged to bonds

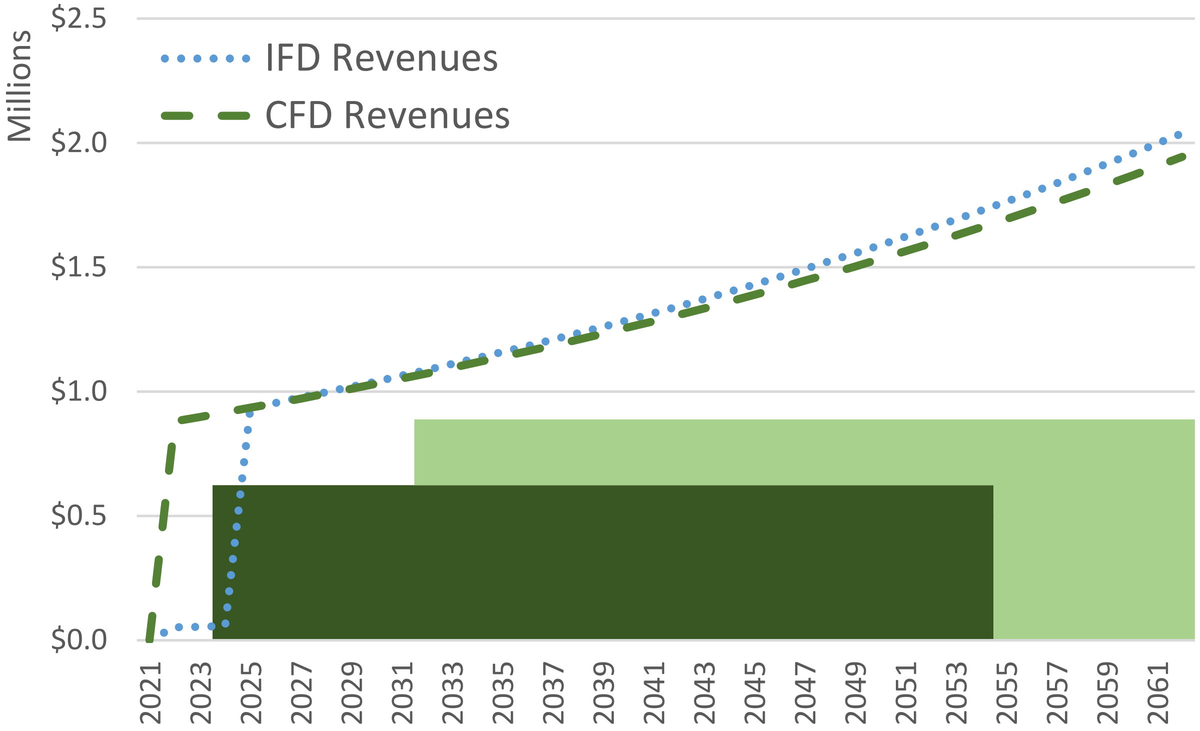
Pairing IFD with a CFD to Mitigate Challenges

- **Bonds can be *secured* by special taxes but *paid* from tax increment revenues**
  - Special tax can be levied if tax increment collections are insufficient
- **Special tax is an *active tax* with more predictable revenues**
  - Not dependent on assessed values or development activity
- **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**
  - Investors look to value of land as collateral for bonds and more readily accept early-stage financings and concentrated credits
  - Lower debt service coverage (typically 110% vs. 125%+)
  - Lower interest rates
  - More bond proceeds

IFD Bonds vs CFD Bonds

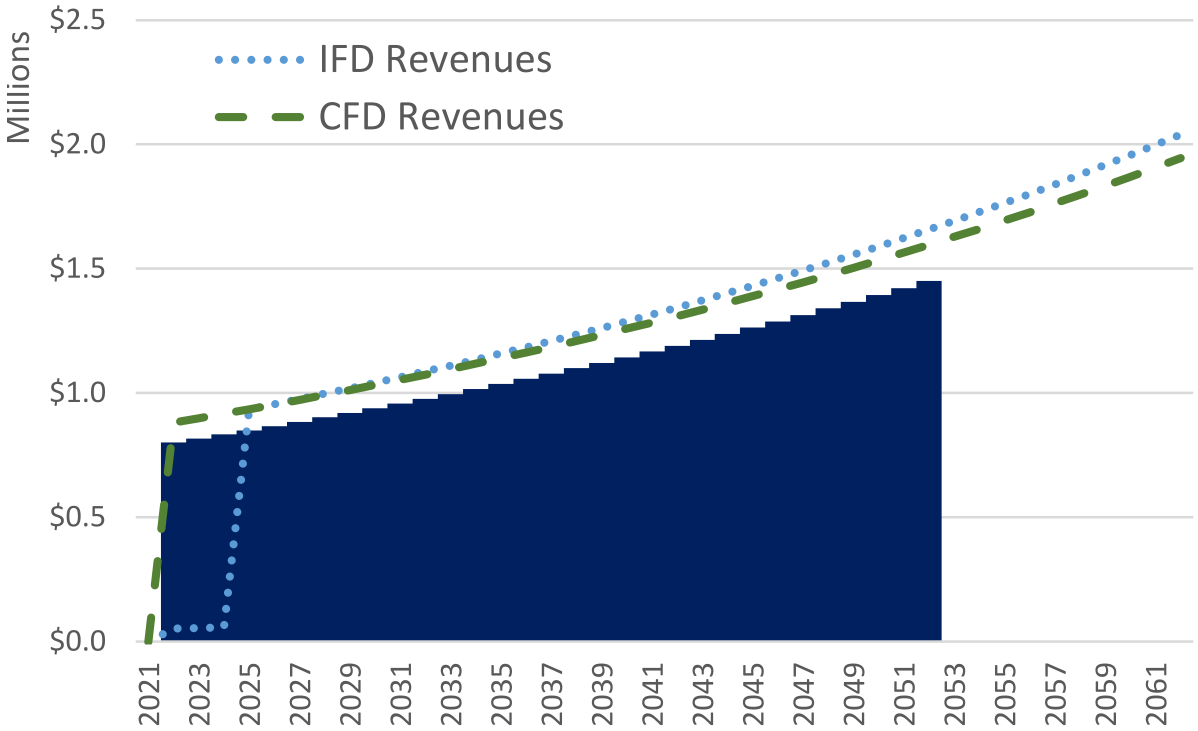
Same revenues leveraged through tax increment bonds vs special tax bonds

IFD Bonds



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

CFD Bonds



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

CFD with IFD Offset: San Francisco Mission Rock

- **Redevelopment of former SF Giants' parking lot**
  - Four phases planned on 11 development blocks
  - Up to 1.4 million sq ft of office, 1,100 residential units
  - Two office and two residential buildings now complete
- **Special Tax District formed in 2020**
  - Substantially overlaps Port's IFD project area I
  - RMA includes 4 different special taxes
  - Tax increment, as and when available, will reduce the Development Special Tax levy (the largest of the four)
  - Development special tax rates originally set at 80% of expected tax increment revenues at build out
- **3 bond sales to date totaling $153 million**

FY26 Max Special Tax Rates $ Per Square Foot		
Special Tax	**Market Rate Residential**	**Office**
Development	$ 9.67	$ 7.32
Office		
Zone 1		2.16
Zone 2		1.81
Shoreline		2.05
Contingent Services		1.68

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 <u>plus</u> 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 reduced by tax increment collected in prior fiscal year
- **Special tax bonds expected**

Rendering of Planned Development

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

Metro Air Park, Sacramento County

Use Cases for CFD/IFD in Combination

1. **IFD revenues not bondable on own**
   - Ownership concentration / small geography
   - High volatility (high base year vs. Current AV)
   - Limited increment flow
   - Subordinate to former RDA obligations
2. **Maximize proceeds from IFD revenue**
   - Enhance credit, reduce coverage/interest rate
3. **Bond IFD revenue sooner**
   - Potential to leverage before AV hits roll.
   - May provide advantage for feasibility if land developer funds infrastructure and is reimbursed from ifd proceeds
4. **Shift IFD revenue risk to developer**
   - Developer/owners pay special taxes if IFD revenues not sufficient
5. **Stacked use of both tools to address large financing need**
6. **Specific development projects where CFD can be formed with landowner vote vs. Larger IFD project area**

Alternatives to an IFD

- **IFDs don't create any new revenues**
  - Only divert incremental property tax revenues
- **Alternatives to leverage property tax increment**:
  - Fund infrastructure through a bond (i.e. general fund lease), use property tax increment to pay debt service
  - Increase CFD infrastructure debt capacity by reducing CFD services tax; city or county can use property tax increment to cover increased O&M responsibility
  - Use price and terms of public property disposition as a lever, if applicable
  - Contribute funds to affordable housing component of development, if applicable

Alameda Point
(former Naval Air Station)

- City has accepted infrastructure in-lieu of land price from new development
- Revenue from building sales funds new infrastructure in adaptive reuse area
- Property tax retained by city to maintain fiscally neutral development.

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SESSION THREE

Current Applications of CFDs

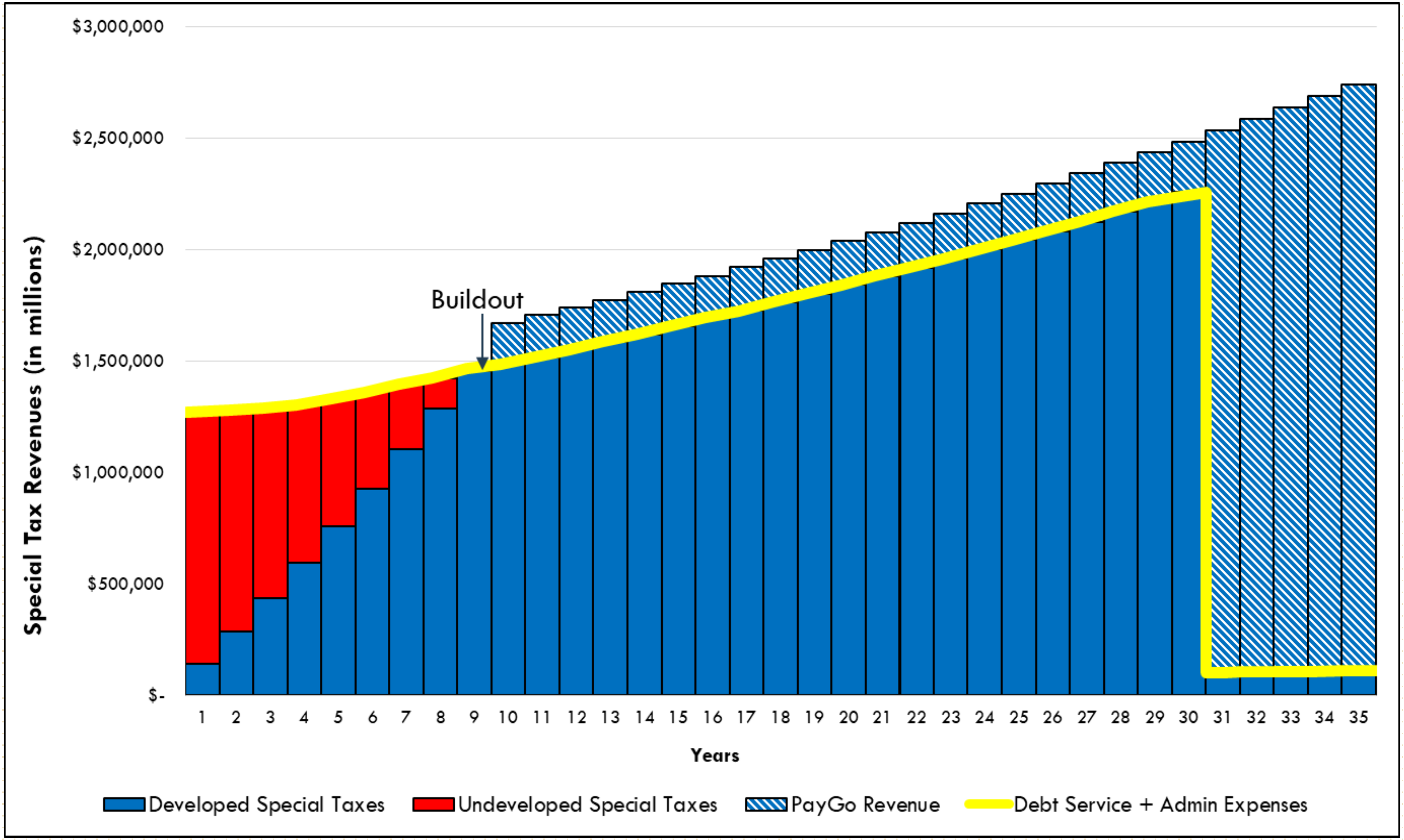
New Trends in Mello-Roos CFDs

- Paygo revenues
- Extended term
- Transition of facilities tax to services tax
- Annexable services CFDs
- Contingent special tax

Pay-As-You-Go Revenues (PayGo)

- Paygo = special tax revenues remaining after payment of debt service and administrative expenses
- Maximum special tax levied on developed property, not undeveloped property
- Little or no paygo in initial years of development
- Available from 10% coverage, savings from refundings, and retirement of bonds

PayGo Revenues



Uses of PayGo Revenues

- Continued acquisition of facilities (reimbursement to developer) after bond issuance
- Payment of facility costs in later years of development
- Repair/replacement of facilities funded from bond issues
- Deferred maintenance if services special tax is delayed or not required
- Contribution to major projects for which funding can be delayed (e.g., sea level rise improvements, transit, interchange)

PayGo Policy Considerations

- Term of collection of maximum special tax
- Use of PayGo Revenues
- Beneficiaries of bond refundings
  - Taxpayers = reduction in special taxes levied
  - Developers = additional reimbursements
  - Public agency = funding of facilities and/or maintenance

Extended Term

- Sunset date for special tax is well past retirement of initial bonds
  - Historically, CFDs with multiple bond issues had 35 to 45-year terms
  - Now, 60 to 100-year term of facilities special tax
- Useful only if facilities can be funded well into the future
  - PayGo or additional bond issues
  - After 30 years, use "recycled bonding capacity"
  - Multiple tranches of bonds, each with 30-year term
- Impacts prepayment options

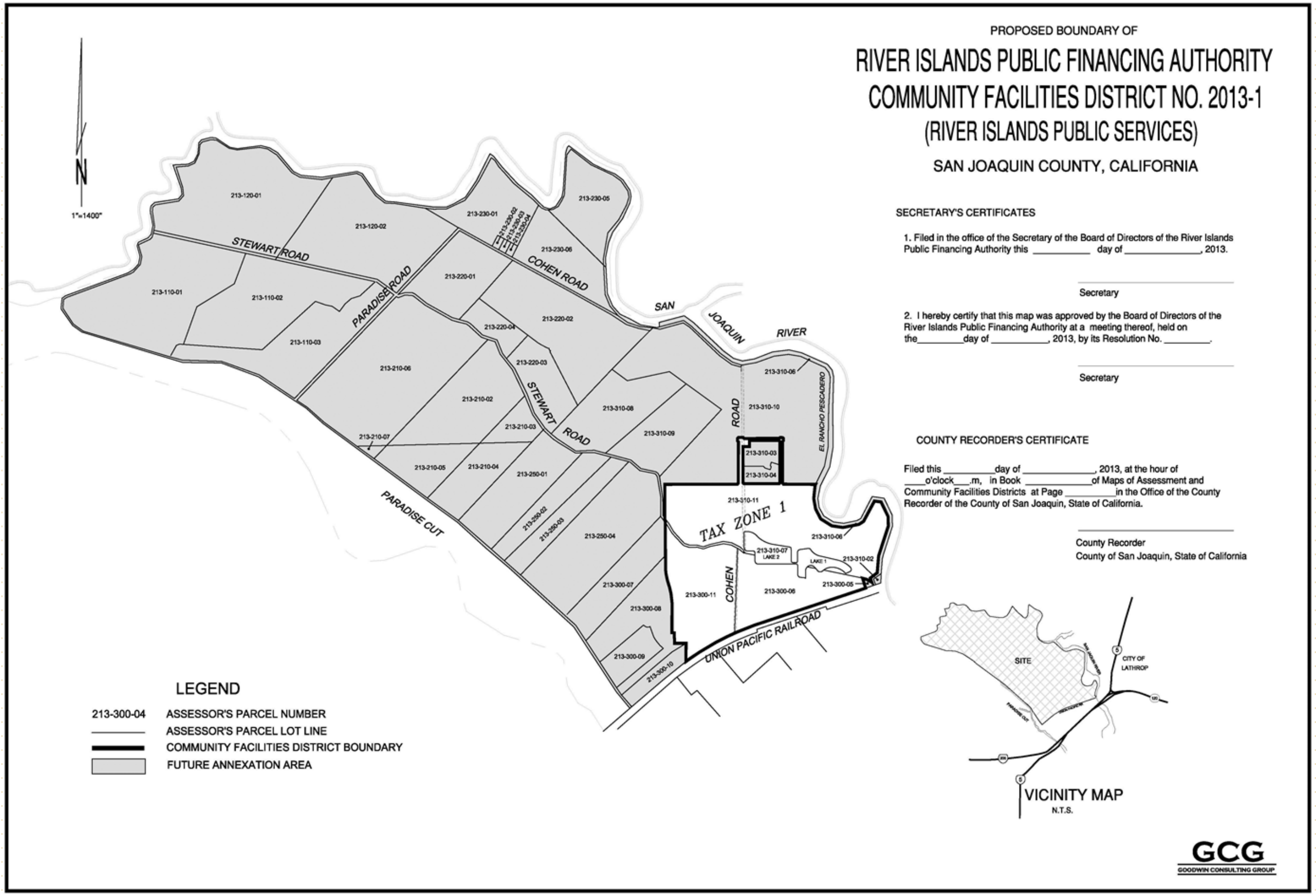
Transition of Facilities Tax to Services Tax

- Reserves capacity in initial years for infrastructure and community facilities
- Provides revenues in perpetuity for maintenance, repair and replacement, and public services
- “Transition event” usually occurs at the earlier of: (i) all bonds repaid and facilities fully funded or (ii) all bonds repaid and sunset date for facilities tax
- Must transition to avoid 2% cap on escalation and requirement for a sunset date
- Need to consider transition in prepayment formula for facilities special tax

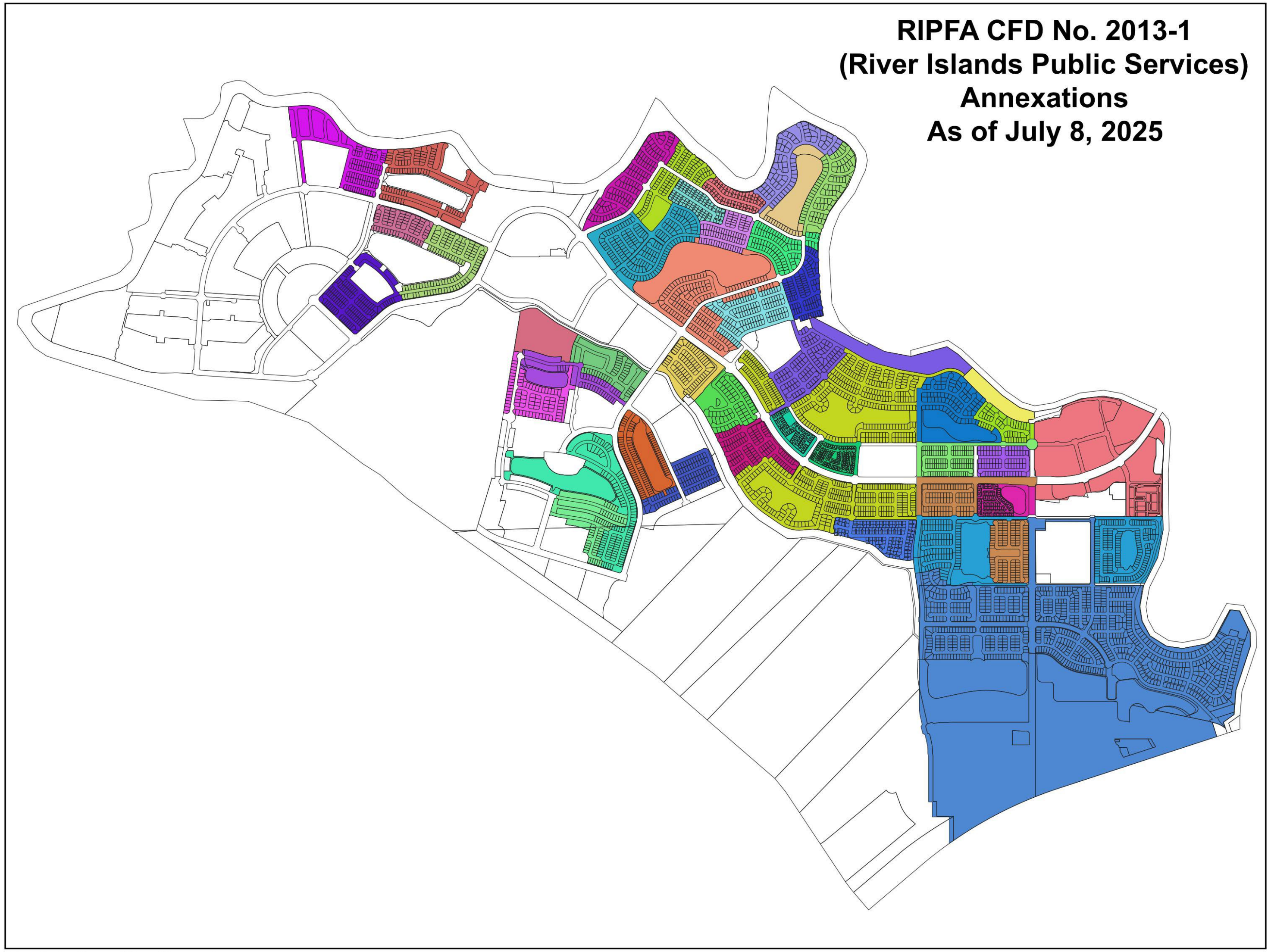
Annexable Services CFDs

- Quick and cost-effective mechanism to comply with condition of development to fund maintenance and/or public services
- One or more parcels in initial CFD boundaries, with conditioned projects annexing at start of development
- Future Annexation Area can be entire jurisdiction and even sphere of influence
- Initial CFD can be “tax zone 1” with future tax zones established upon annexation if different tax rates are needed
- Maximum special tax may have multiple components for different cost items
- With each annexation, one or more components can be changed

Annexable Services CFD – The Starting Point



Annexable Services CFD – Years Later



Goodwin Consulting Group, Inc.

Contingent Special Tax

- Used when public agency is concerned about continuation of services being provided by an owners association
- Kicks in if and when association does not provide required service(s) or provides substandard level of service
- “Trigger event” is defined in RMA
- Contingent special tax must be disclosed to homebuyers

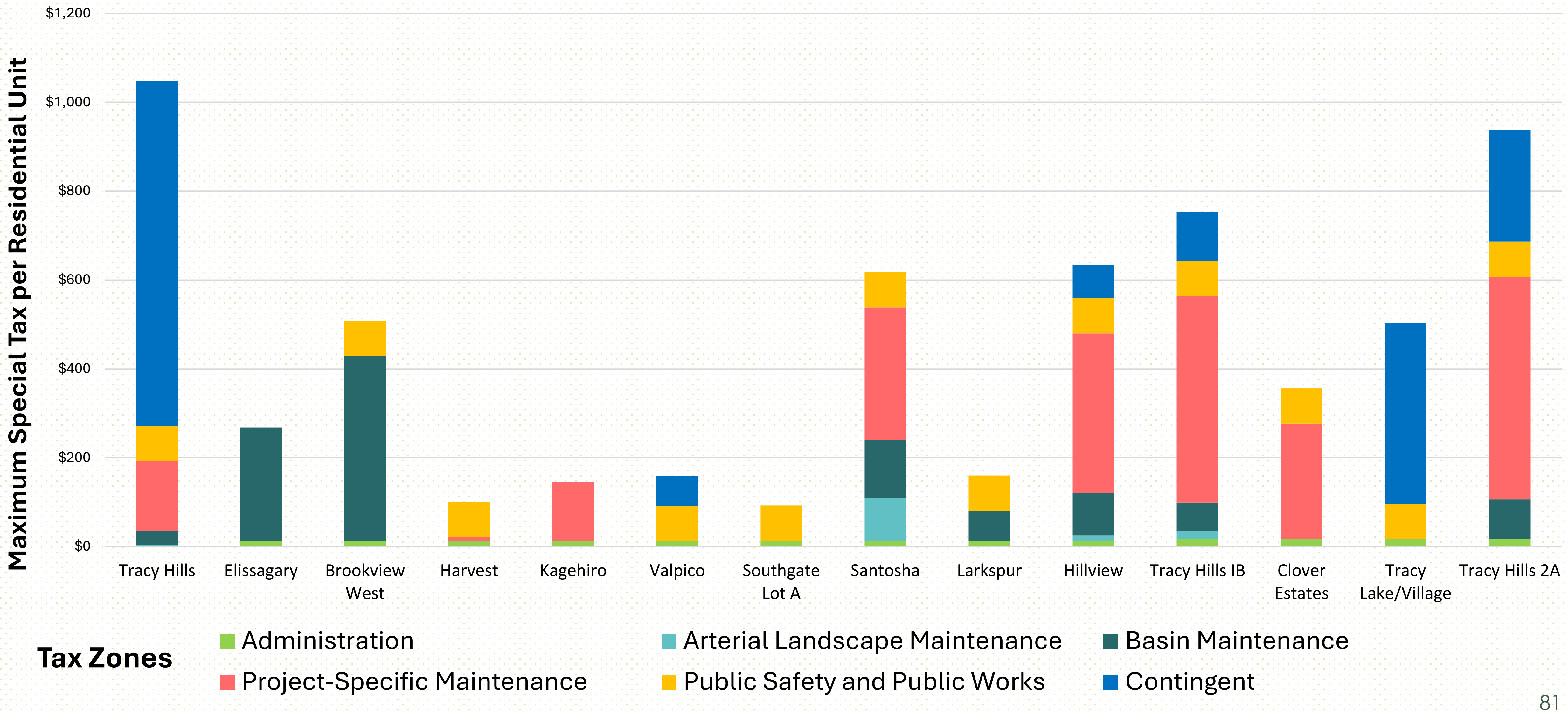
Case Studies

City of Tracy: Citywide Services CFD

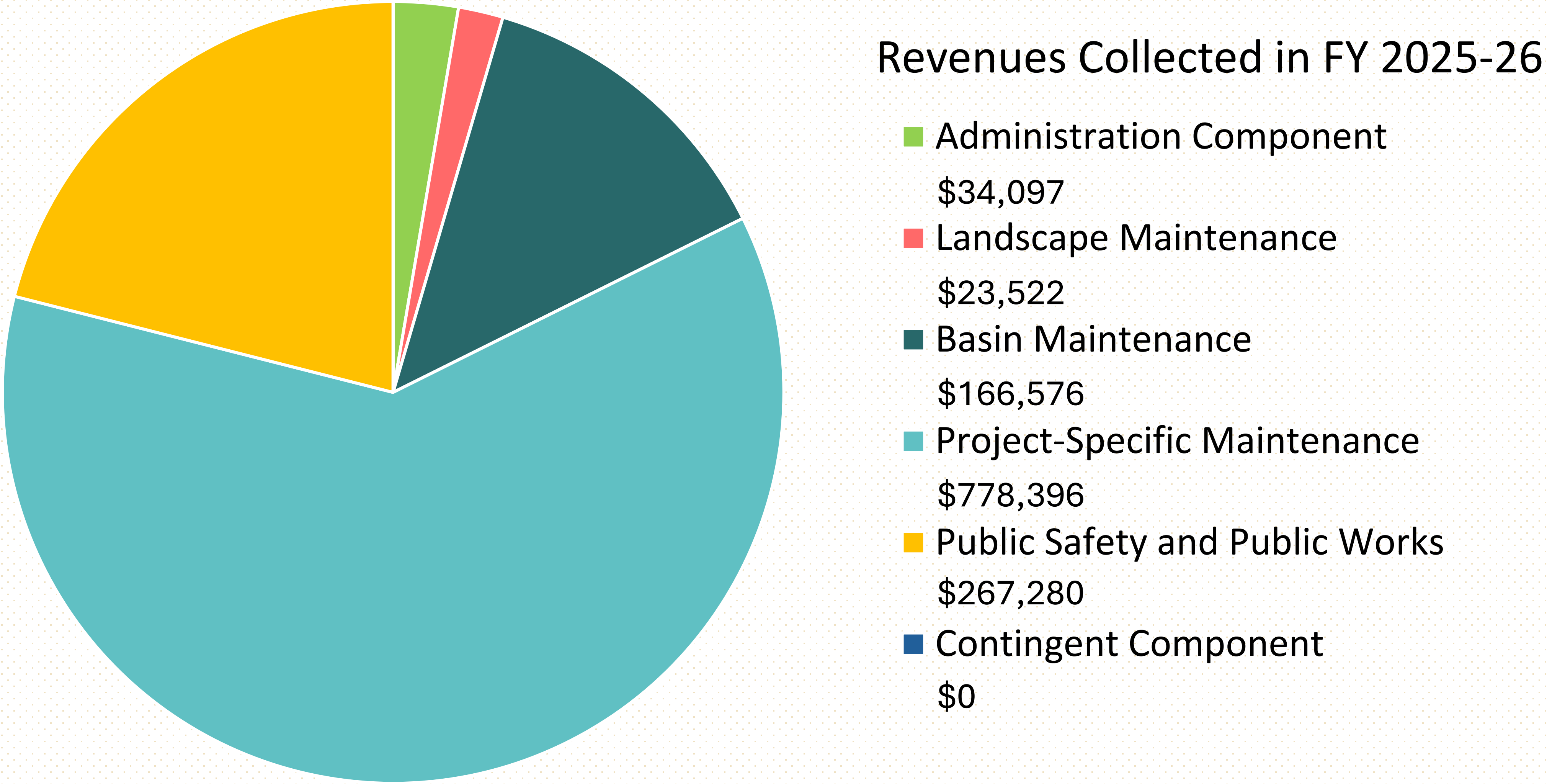
- All new developments in Tracy are conditioned to fund maintenance and public services
- Original CFD formed in 2018 with replacement formed in 2021 to add more authorized services
- 12 annexations to date, all with a new tax zone created for different rates
- Six different components making up one maximum special tax
- Two components are the same in almost every zone, other four vary by zone
- Escalator = lesser of increase in CPI or 4%
- In fiscal year 2025–26, CFDs generated almost $1.3 million in aggregate special tax revenues.

City of Tracy: Citywide Services CFD

(cont. 2 of 3)



City of Tracy: Citywide Services CFD
(cont. 3 of 3)



Treasure Island: Case Study of a Modern CFD

- Improvement areas
- Future annexation area
- PayGo
- Extended term
- Adjustment of maximum tax prior to first bond issue
- Transition of facilities special tax to services special tax

Redevelopment of Treasure Island

Yerba Buena Island

- 150 acres natural island
- Anchors Bay Bridge

Treasure Island

- 400-acre man-made island
- Hosted 1939 International Golden Gate Exhibition

Former U.S. Navy station from 1941 to 1997

Treasure Island Planned Redevelopment

<u>Expansive Development Plan</u>

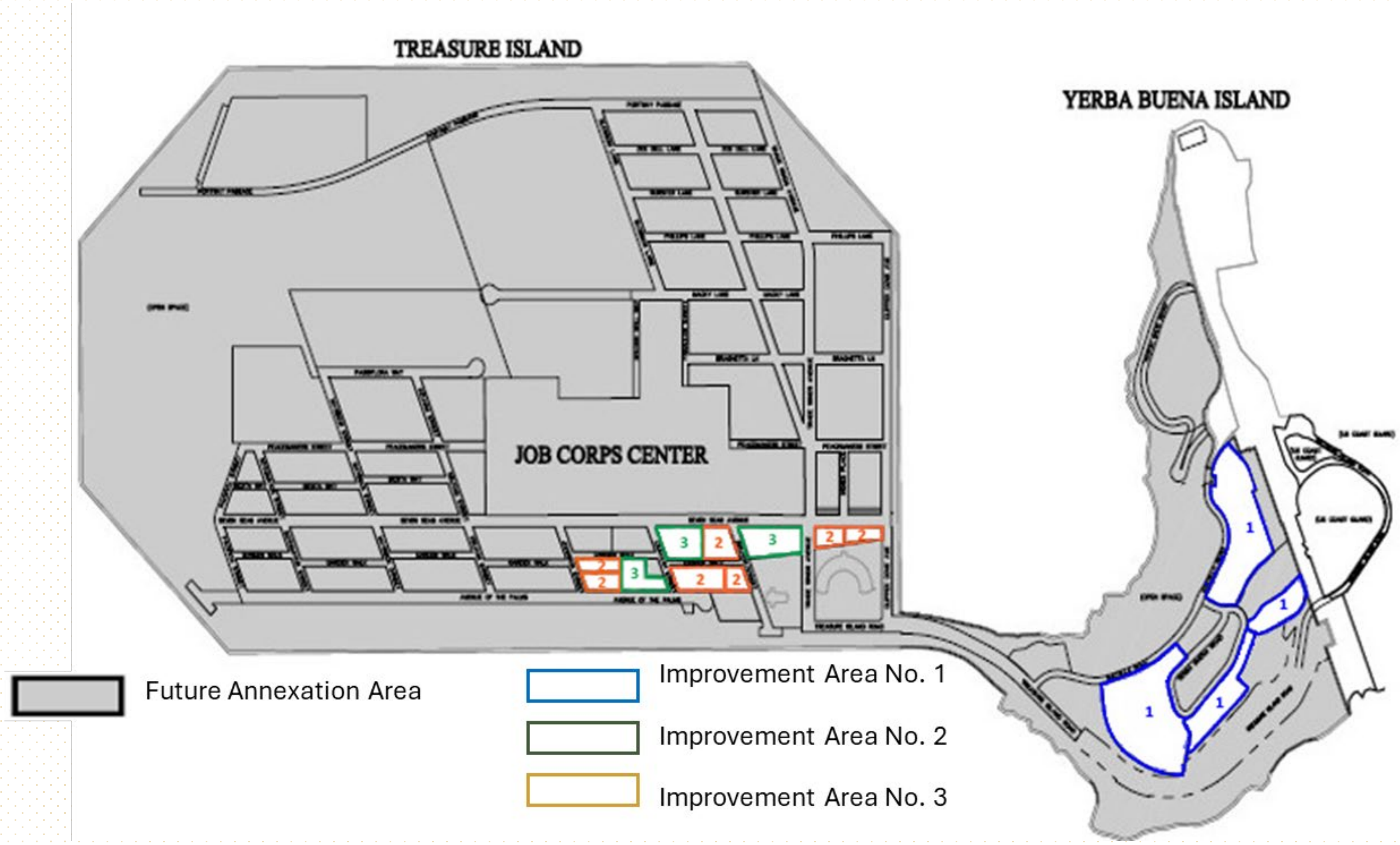
- Up to 8,000 homes, 25% below market
- 240,000 sq ft of retail, office, and commercial uses
- Ferry terminal and 400-slip marina
- Parks and open space

Treasure Island Infrastructure Needs

- Significant upfront infrastructure costs
  - Geotechnical stabilization of soils on manmade island and sea level rise mitigations
  - Modern utility systems
  - Rebuilt causeway connecting the islands
  - Streets, bike paths, pedestrian trails
  - New ferry terminal
  - Expansive parks and open spaces
  - Over $1 billion invested to date
- Future capital and maintenance needs
  - Uncertain future Sea level rise improvements
  - Ongoing maintenance of parks, infrastructure, and sea level rise improvements

San Francisco CFD No. 2016-1 (Treasure Island)

- Formed in 2017 with $5 billion authorization
- Improvement area No. 1 (Yerba Buena Island) and a future annexation area
- Additional property has since annexed into improvement areas No. 2 and No. 3



Treasure Island: Case Study of a Modern CFD (cont.)

- Developer anticipating 8 improvement areas (IAs)
  - Three IAs formed to date; future IAs established when property annexes into CFD
- Financing plan provided for 999-year facilities special tax term
  - Ultimately set at 100 years for each IA, then transitions to services special tax.
- Negotiated application of PayGo revenues:
  - First 42 years = acquisition of infrastructure from developer
  - Years 43-100 = facilities and improvements determined by city, including sea level rise (SLR) improvements
- "Transition event" = earlier of (i) all bonds repaid and SLR capital reserve fully funded, or (ii) all bonds repaid and facilities tax levied for 100 years
  - Facilities special tax is then reduced to $0
  - Services special tax equal to 26% of facilities special tax prior to transition kicks in

Treasure Island: CFD Bond Sales to Date

Improvement Area No. 1

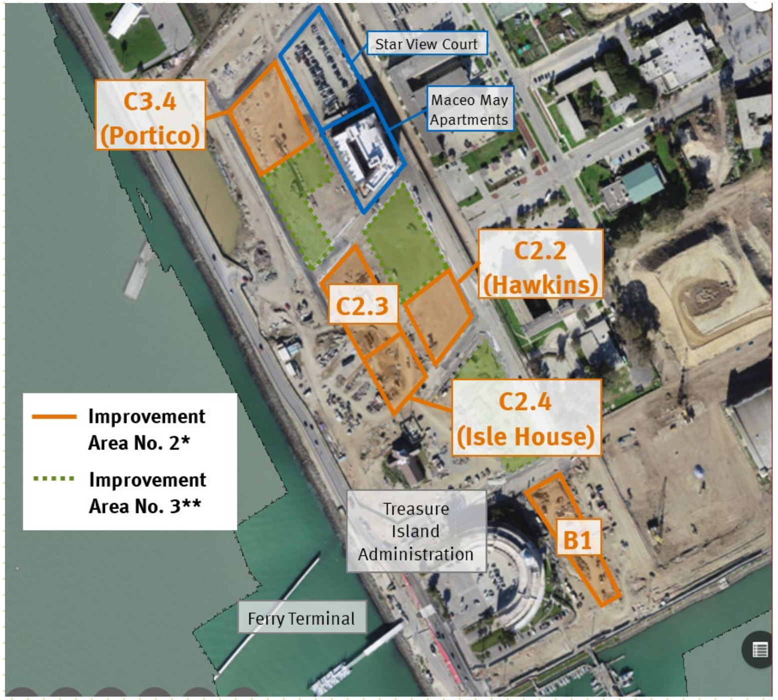
- $17 million inaugural sale in October 2020
- $40 million parity sale in July 2021
- 155 units completed or under construction

Development Status as of October 2020

Improvement Area No. 2

- $25 million sale in January 2022
- $17 million parity sale in December 2023
- 647 units completed or under construction

Aerial as of late 2021



SESSION FOUR

Legal, Legislative, and Regulatory Updates

Legislative Updates

Taxpayer Initiative and Government Accountability Act (the "Taxpayer Initiative 1")

- Would have required that certain information re proposed new taxes or charges be placed in the ballot measure, including the type and rate of the tax, the duration of the tax, the use and estimated annual amount of the revenue generated by the tax.
- Most CFD formation ballots do not contain all of the above information in the ballot measure itself.
- California Supreme Court directed Secretary of State to not place measure on November 2024 ballot.

Legislative Updates (cont. 2 of 2)

Local Taxpayer Protection Act to Save Proposition 13 (the "Taxpayer Initiative 2")

- Taxpayer Initiative 2 potentially on the November 2026 ballot.
- Amends Article XIII A the California Constitution.
- *California Cannabis Coalition v. City of Upland* re voter initiatives
- The Taxpayer Initiative 2 would require voter initiatives for new, increases in, or extensions of ad valorem and certain non-ad valorem taxes to be passed by 2/3 vote.
- Retroactive application; may invalidate voter approved taxes if not compliant with the taxpayer initiative 2.

Other Legislation

<u>Government Code Section 51179 – Fire Hazard Severity Zones</u>

(Gov't Code Section 54950 et. Seq)

- In 2024 and 2025, CalFIRE released updated maps identifying State Responsibility Areas and Local Responsibility Areas.
- Identified areas of moderate, high to very high fire hazard severity zones.
- Local agencies must designate by ordinance, the areas so identified by CalFIRE within 120 days of recommendation by CalFIRE.
- Local agency may not decrease the level of fire hazard severity zone designated by CalFire (but may adopt higher designation).
- Fuel modification and defensible space requirements.

Other Legislation (cont. 2 of 8)

<u>Governor Executive Order N-10-25 – Cancellation of Interest and Penalties on Property Taxes</u>

- Governor Executive Order suspending penalties and interest on late property taxes (including Mello-Roos special taxes) on specified ZIP codes affected by the Los Angeles area fires in January 2025.
- Currently in effect through April 2026.
- Risk factor for bondholders – could result in draws on reserve and default on bond payments.
- Similar exemptions could be applied in other areas affected by wildfires/natural disasters in the future.

Other Legislation (cont. 3 of 8)

<u>AB 1819 (Waldron) Enhanced Infrastructure Financing Districts</u>
(Civil Code Section 1103.2)

- Authorizes EIFDs in high or very high fire hazard severity zones to finance heavy equipment for vegetation clearance and firebreaks, undergrounding of local publicly owned electric utilities against wildfires, and equipment used for fire watch, prevention, and fighting.
- Prohibits use of bond proceeds for heavy equipment to be used for vegetation clearance and firebreaks and equipment used for fire watch, prevention, and fighting.
- Passed and currently in effect.

Other Legislation (cont. 4 of 8)

AB 1294 (Haney) Disclosure of Mello-Roos Taxes
(Gov't Code Section 65940.1)

- Requires that a city, county or special district post on its website a current schedule of fees, exactions and affordability requirements applicable to a proposed housing project.
- A Mello-Roos special tax that is levied on new housing units is included in the definition of "exaction."
- Currently in committee.

Other Legislation (cont. 5 of 8)

SB 390 (Becker) Special Legislation for San Mateo

(Gov't Code Section 53312.8)

- Existing law requires the consent of the landowner to include or annex property to a Mello-Roos district if the property is dedicated or restricted to agricultural, open-space or conservation uses (GC 53312.8).
- Development proposal is to construct/modernize public infrastructure in an area of South San Francisco (generally east of Hwy 101 along the waterfront).
- Certain properties (which may be developed) along portion of waterfront in South San Francisco have conservation easement on portions of the properties.
- In 2018, developer attempted to form a CFD. Certain property owners with conservation easement sued based on GC 53312.8 and prevailed.

Other Legislation (cont. 6 of 8)

SB 390 (Becker) Special Legislation for San Mateo (cont. 2 of 2)

(Gov't Code Section 53312.8)

- Question of Fairness – property owners with conservation easement (and therefore excluded from CFD) will benefit from public improvements but not required to pay special taxes
- SB 390 special legislation exempts property located on the regional shoreline of the County of San Mateo from GC 53312.8 if:
  - parcel has existing entitlements for development of commercial, residential, or industrial uses; or
  - parcel in the territory is already developed with commercial, residential, or industrial uses.
- Currently in committee.

Other Legislation (cont. 7 of 8)

New CEQA Exemptions Relating to Housing

- SB 1361 – Actions take by local agencies to approve a contract for providing services for people experiencing homelessness is exempt from CEQA. SB 1361 extends that exemption to providers with whom local governments contract.
- AB 3057 – Ordinances relating to certain approvals of ADUs are exempt from environmental review requirements under CEQA. AB 3057 extends those exemptions to junior ADUs.
- Both laws in effect as of January 1, 2025.

Other Legislation (cont. 8 of 8)

AB 707 (Durazo) Proposed Brown Act Amendments
(Gov't Code Section 54950 et. Seq)

- "Eligible legislative bodies" must allow public to attend meetings via 2-way telephonic or audiovisual platform (requirement until 2030).
- Requires agendas for eligible legislative bodies to be translated into all applicable languages (languages spoken jointly by 20% or more of the population in the city or county where the body is located and that speaks English less than "very well").
- Uniformly apply requirements for public and member attendance via teleconference (e.g. noticing, accessibility and public commenting provisions).
- Ability to limit/remove participation of a disruptive member of the public applies to virtual participants.
- Currently in committee.

SEC Updates

David Sanchez, SEC Director of the Office of Municipal Securities, Remarks at California *The Bond Buyer* Conference

- David Sanchez delivered remarks at the California Bond Buyer Conference on October 24, 2024.
- In these remarks, Mr. Sanchez highlighted areas of concern in the public finance market.
- Joint Powers Agencies:
  - Lack of oversight by public agency members.
  - Some appear to exist only to allow private sector participants to access lower cost tax-exempt market.
  - JPAs may have conflicts of interest and may need to disclose those conflicts consistent with obligations under federal securities laws.
  - JPAs being paid on a contingency basis and/or based on par amount could raise conflict of interest issues.
  - Could potentially void contracts under Government Code 1092.

SEC Updates (cont. 2 of 5)

David Sanchez, SEC Director of the Office of Municipal Securities, Remarks at California *The Bond Buyer* Conference (cont. 2 of 2)

- Climate and Environmental Risks.
  - "Silo effect" when compartmentalized organizational structure causes material facts known by one group/department to go undisclosed because the facts were not shared with other groups/departments.
    - Put in place disclosure policies/practices.
- Inconsistency in disclosure amongst issuers located within the same geographical area.
- Issuers should look to other local and regional agencies or similarly situated entities for their respective reports and disclosures on climate and environmental risks.

SEC Updates (cont. 3 of 5)

David Sanchez Remarks at SEC Compliance Conference (December 2023)

- Mentions the “emergence and reemergence of certain deal structures” that have come under scrutiny, including housing deals for essential workers and students, taxable forward refundings, and tenders.
- Mentions that “certain municipal entities have been ceding authority for issuing conduit bonds to privately-run entities that are the leading issues of defaulted bonds.”
- The SEC is also concerned with the number of municipal entities choosing to do negotiated sales as opposed to competitive sales.

SEC Updates (cont. 4 of 5)

David Sanchez Remarks at SEC Compliance Conference

(cont. 2 of 2)

- Discusses municipal advisor activity conducted by persons and entities who failed to register:
  - P3 advisors and other participants in P3 space.
  - Attorneys, particularly for private placements.
  - Non-bank participants in lease financings and private placements.
  - Charter school advisors.
  - Special tax consultants.
  - Vendors who embed financing in equipment sales.
  - State and local associations of governments that promote for compensation certain financing packages.
- Closed remarks by mentioning anti-fraud liability can include many members of the deal team, and stressing the importance of ensuring complete, fair and accurate disclosure.

SEC Updates (cont. 5 of 5)

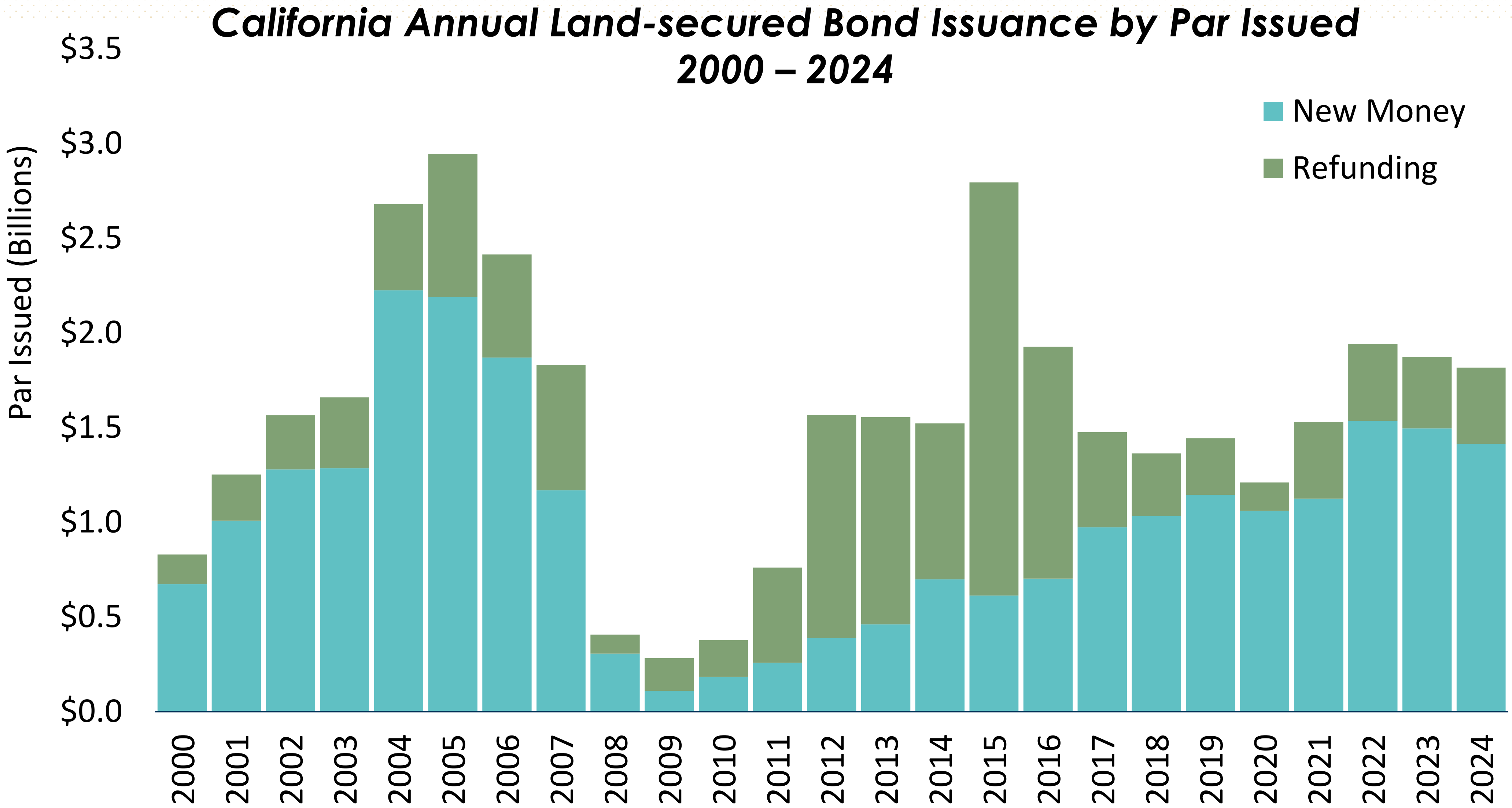
Recent Enforcement Actions

- Several SEC enforcement actions in 2024 and 2025 against Municipal Advisors for failing to register with the SEC and record-keeping deficiencies.
- SEC v. Randall et al. (April 2025) – SEC charged three Arizona individuals with fraud.
  - Alleged that individuals created false documents that were provided to investors in two bond offerings that raised $284 million to build a large sports complex.
  - Investors were to be paid from revenues of the sports complex and were given financial projections that showed healthy coverage. SEC alleged that fabricated or doctored documents formed the basis of projections.
  - Sports complex and generated far less revenue.
  - SEC seeks permanent injunction, disgorgement and civil penalties.
  - Case is ongoing.

SESSION FIVE

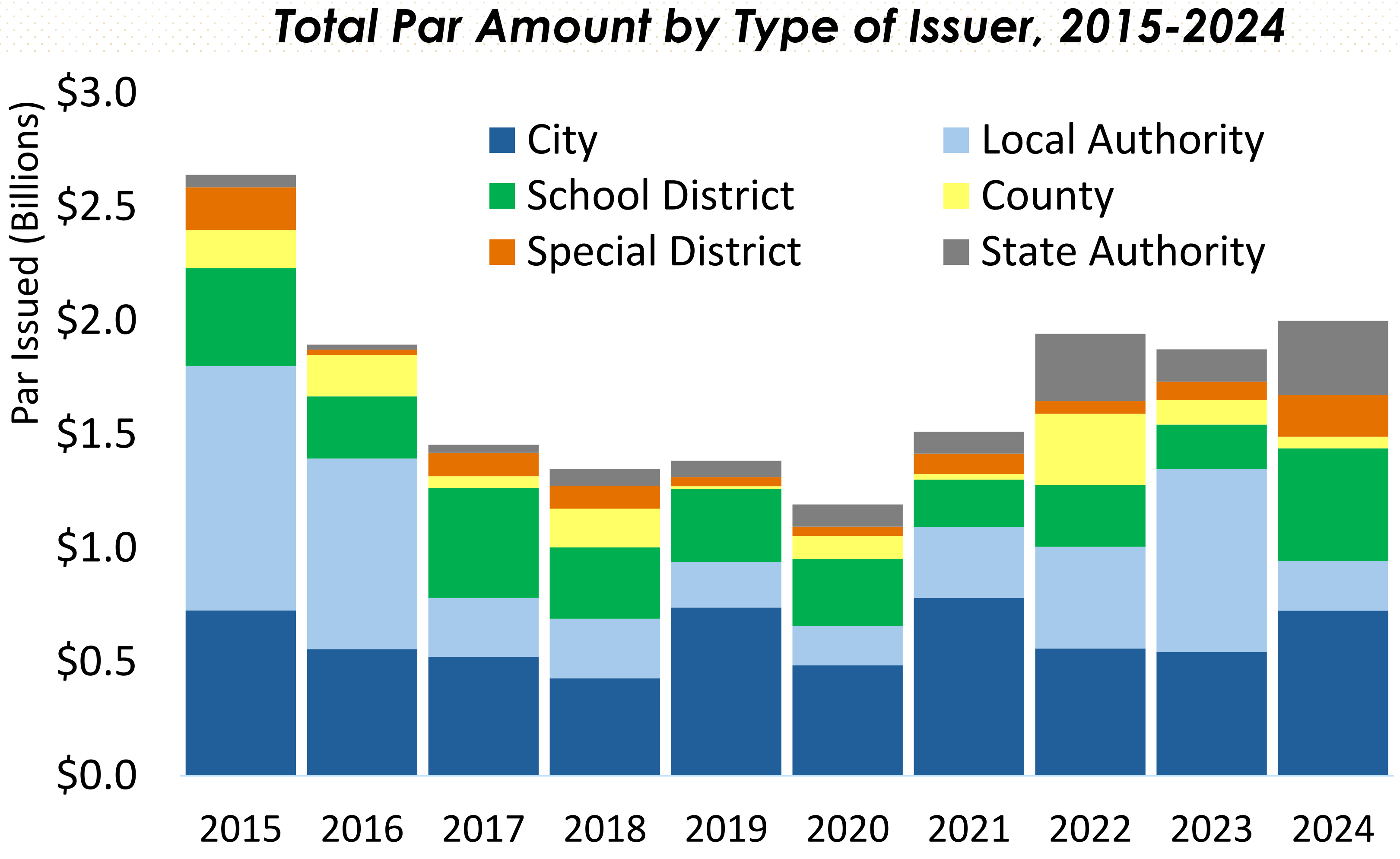
Land-Secured Financing Market Trends and Challenges

California Land-Secured Bond Market



Source: Lipper, Thomson Reuters as 1/8/2025

Land-Secured Issuance by Type of Issuer



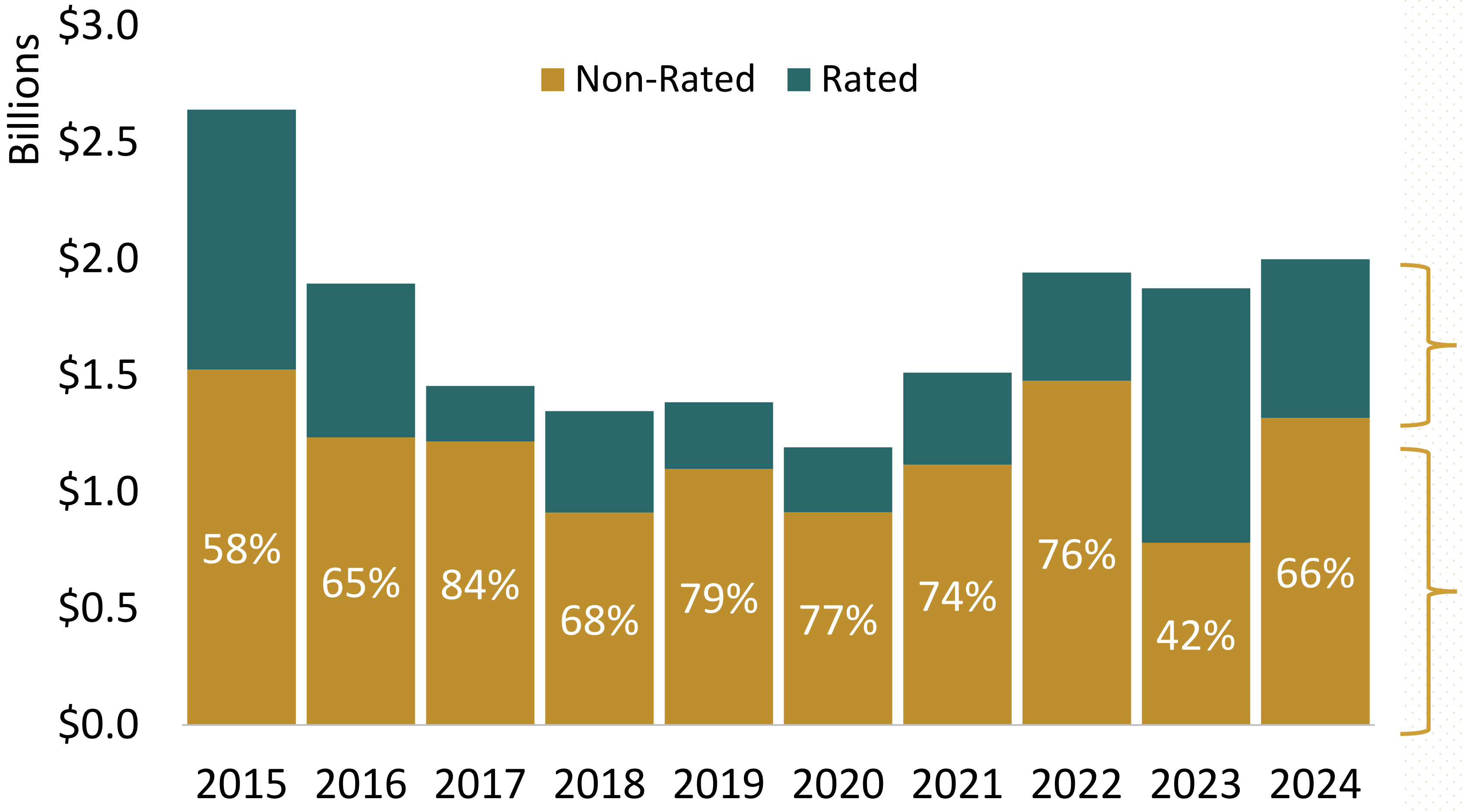
Increasing issuance through State Authorities

About 2/3 of issuance over decade was by cities and local authorities, dropped to half in 2022 and 2024

Source: Lipper, Thomson Reuters as 1/8/2025

Land-Secured Bond Sales: Rated or Non-Rated

Total Par Amount Issued With and Without Ratings, 2015-2024

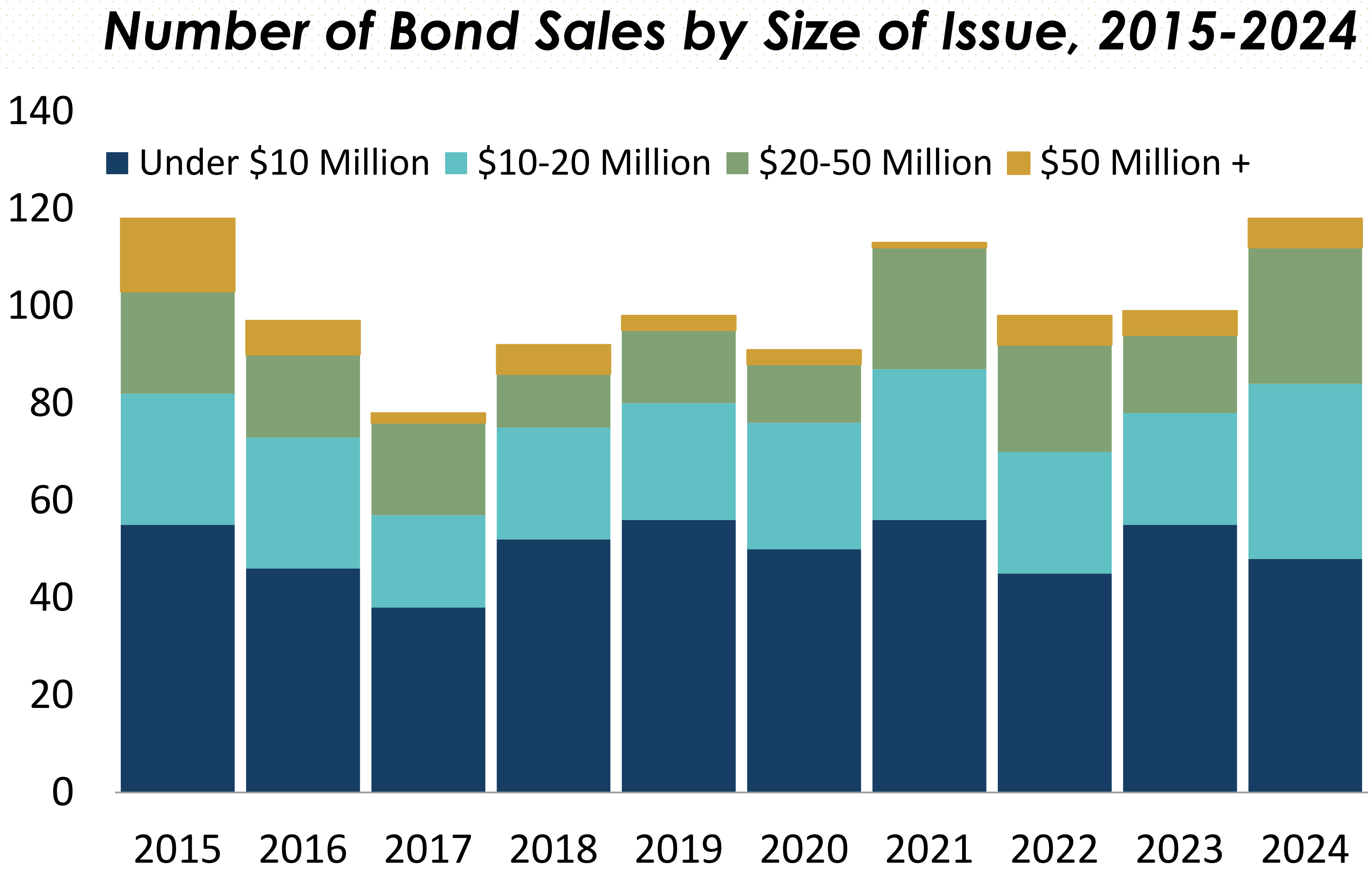


Investment grade credits are typically built-out, diversified residential districts

67% of land-secured issuance in last decade was sold without rating

Source: Lipper, Thomson Reuters as 1/8/2025

Land-Secured Issuance by Size of Bond Sale



5% of issues and 1/3rd of par > $50 million

19% of issues and 1/3rd of par between $20-$50 million in size

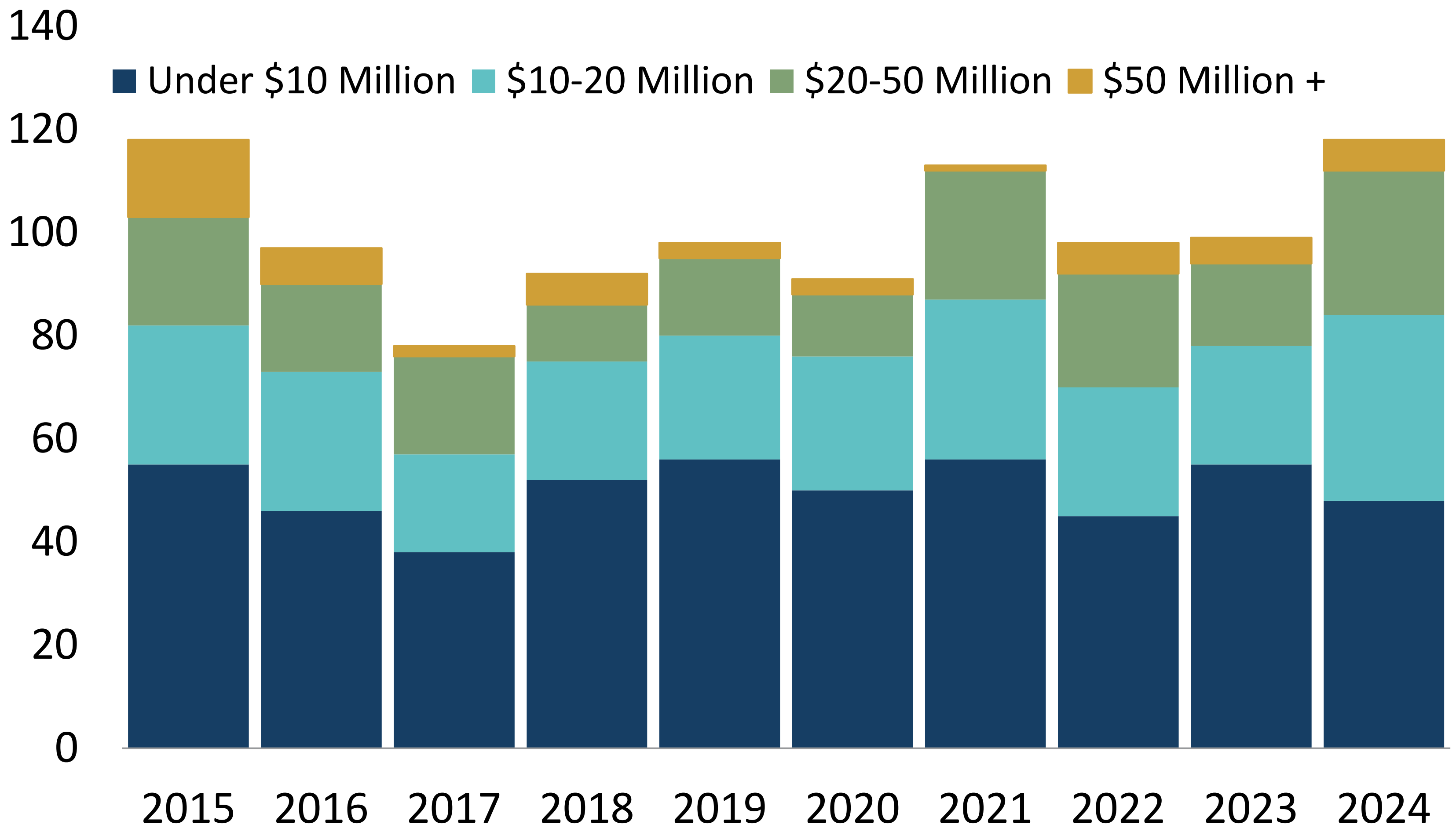
76% of issues and 1/3rd of par less than $20 million in size

About half of issues less than $10 million

Source: Lipper, Thomson Reuters as 1/8/2025

Land-Secured Issuance by Size of Bond Sale

Number of Bond Sales by Size of Issue, 2015-2024



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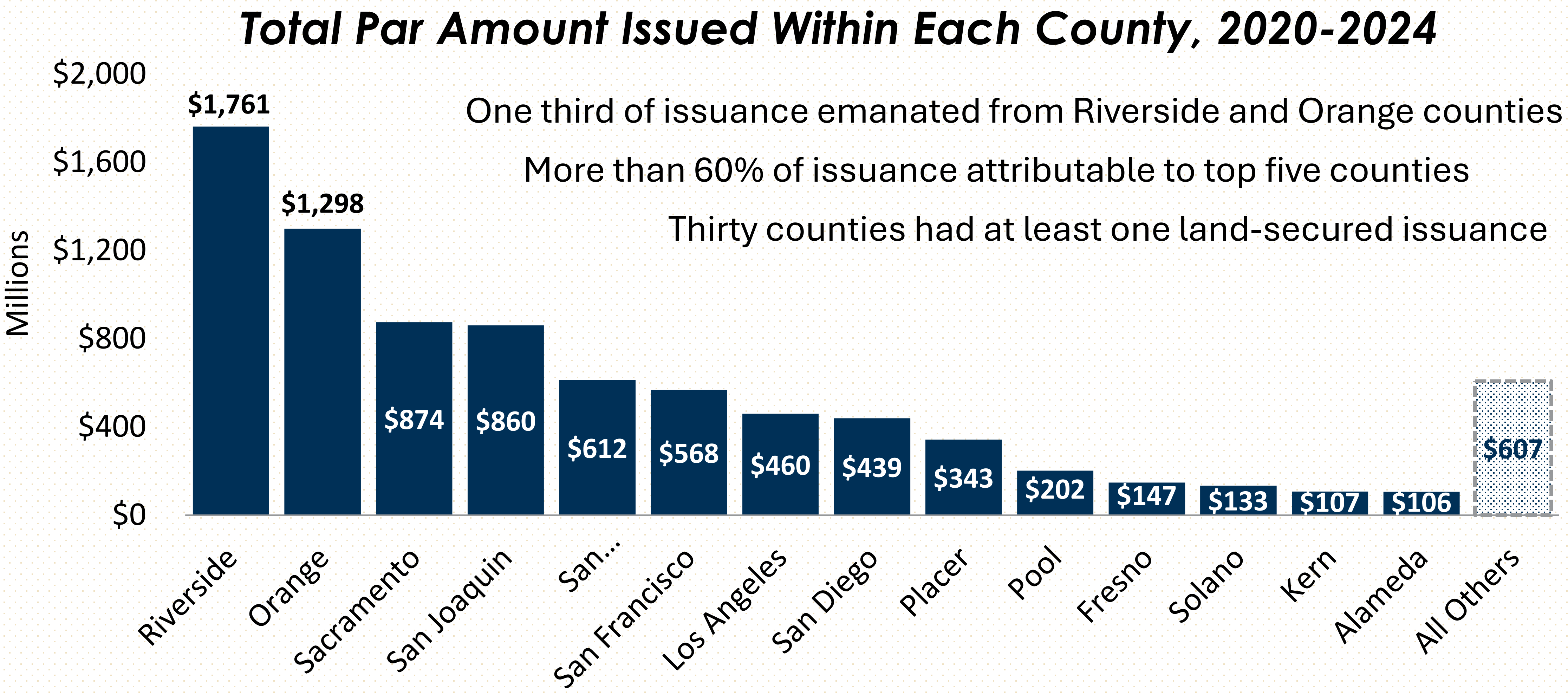
Source: Lipper, Thomson Reuters as 1/8/2025

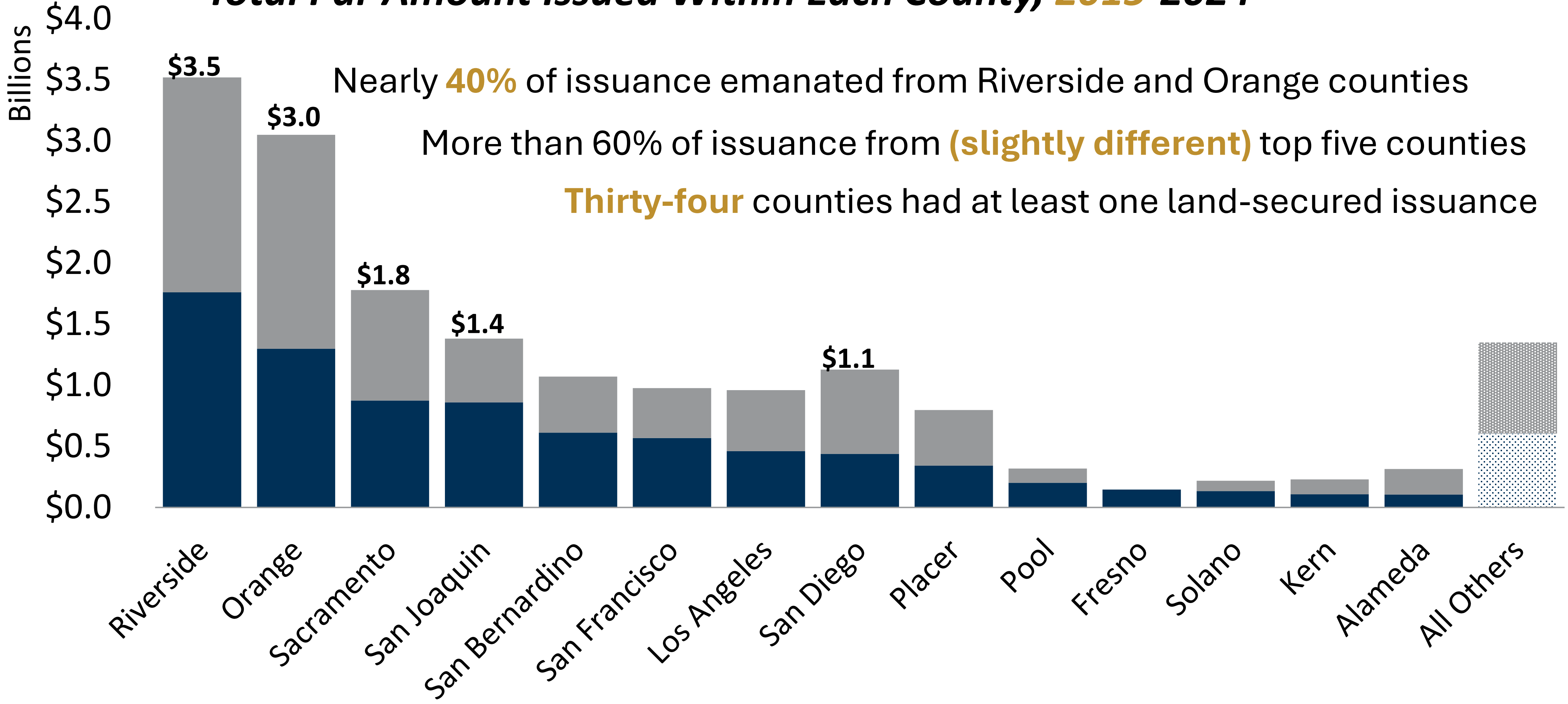
Land-Secured Bond Sales by County–Last 5 Years



Source: Lipper, Thomson Reuters as 1/8/2025

Land-Secured Bond Sales by County - Last 10 Years

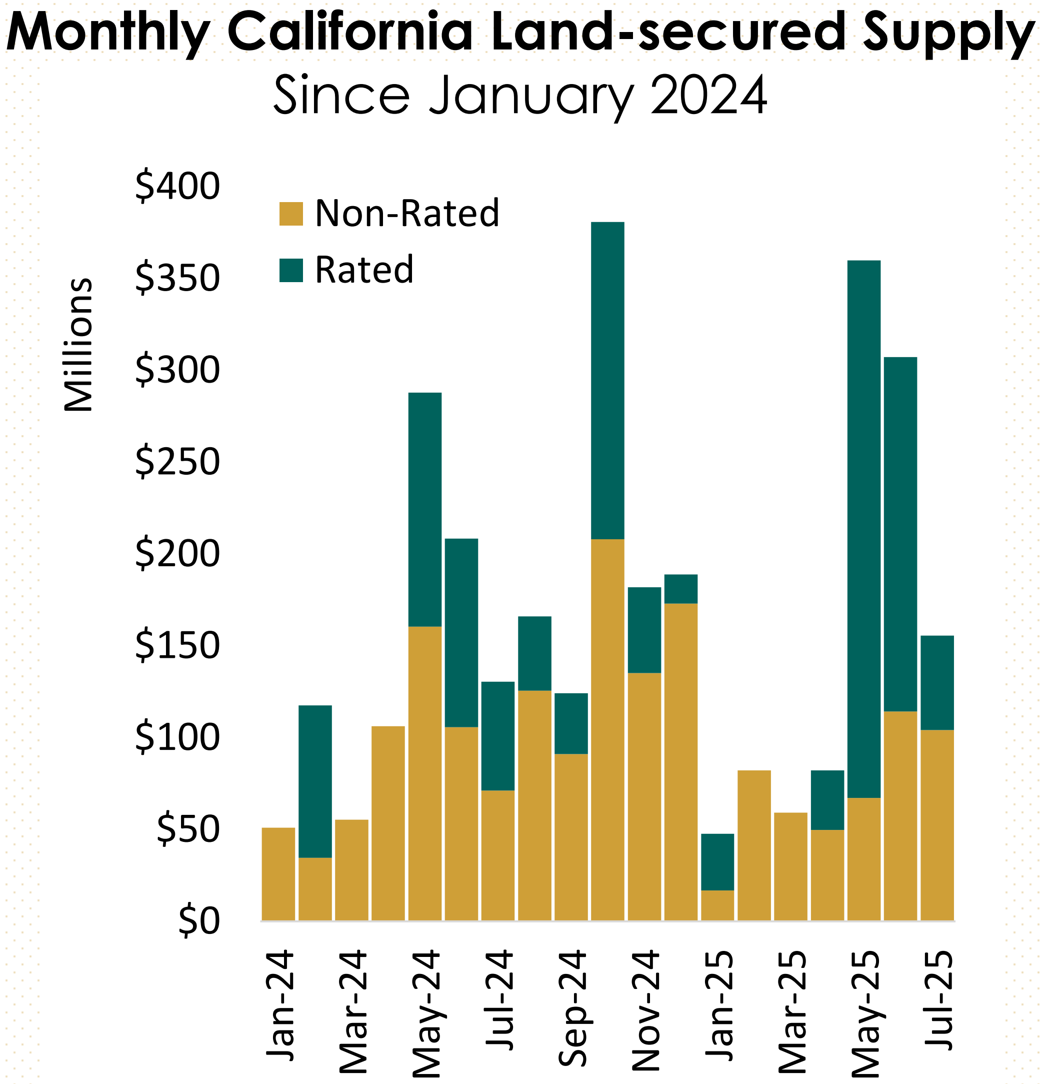
Total Par Amount Issued Within Each County, 2015-2024



Source: Lipper, Thomson Reuters as 1/8/2025

California Land-Secured Volume in 2025 YTD

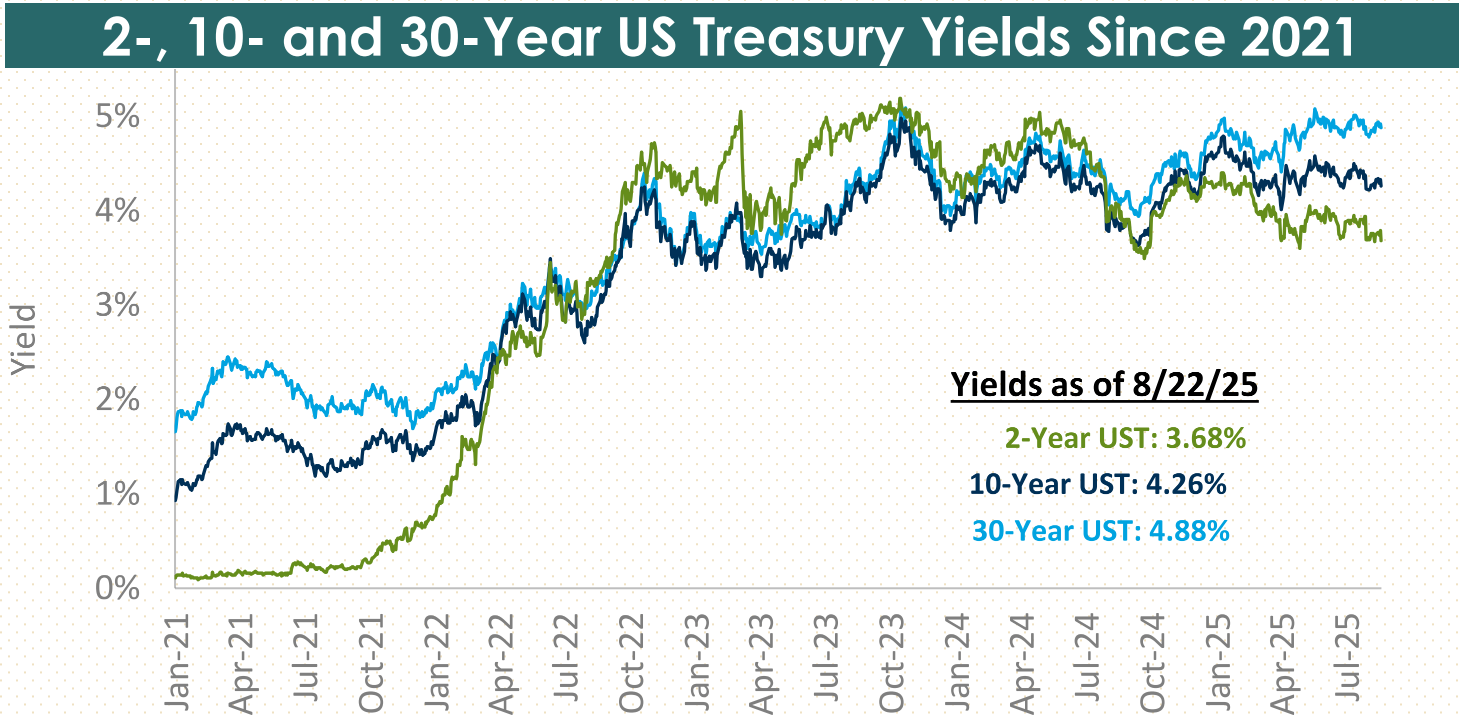
- **Lagging new issue volume**
  - 65 sales topping $1 billion through end of July
  - Average par: $16.8 million
  - Average rated par: $28.6 million
  - Average non-rated par: $11.2 million
- **Dominated by rated refundings**
  - Average monthly volume down nearly 10% from 2024
  - *Non-rated* average monthly volume down 38% from 2024



Source: TM3. As of August 22, 2025

Federal Reserve Policy And Interest Rates

- **Shifting expectations of Fed rate moves amid "sticky" Inflation, economic resilience, geopolitical conflicts, recent political pressure**

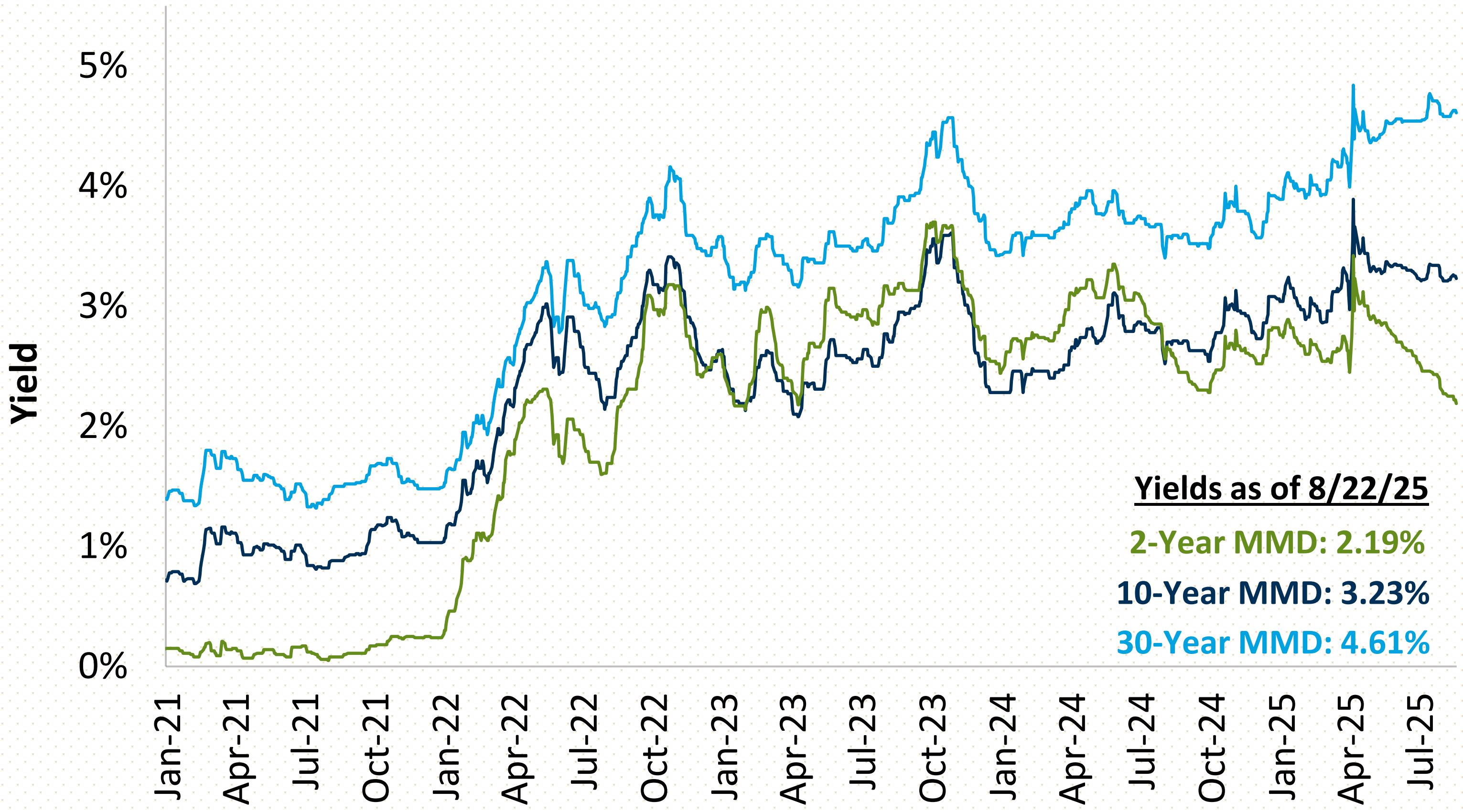


- Fed rate hikes from March 2022 through July 2023 totaled 5.25%
- Three rate cuts totaling 1.00% from Sept. to Dec. 2024
- Next meeting in mid-September

Source: TM3, US Treasury. As of August 22, 2025

Recent Tax-Exempt Interest Rate Trends

AAA-Rated Municipal Market Data (MMD) Index Since 2021

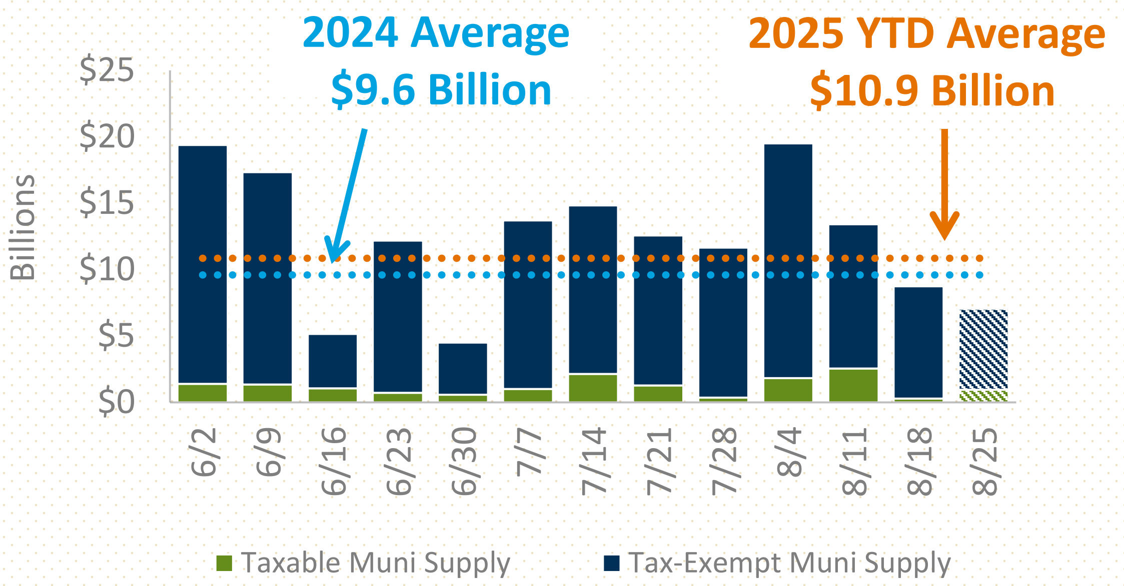


Source: Thomson Reuters, As of August 22, 2025

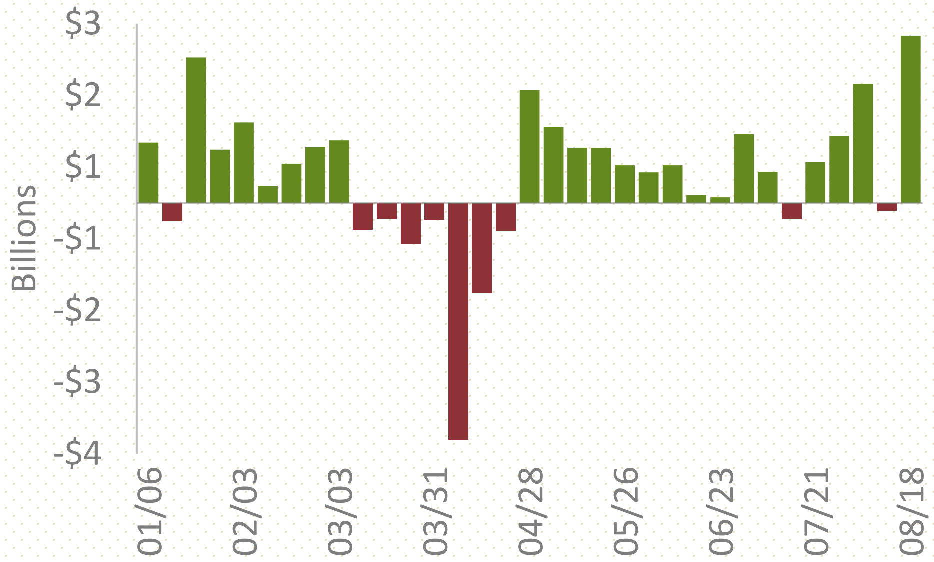
New Issue Supply vs. Investor Demand

- **Elevated supply in 2025 year-to-date**
  - Well above record-setting 2024 weekly pace, but lower land secured volume
- **Variable investor demand**
  - Reinvestment of principal and coupon payments augment fund flows and other sources
  - Stressed brightline credits weighing on bond funds

Weekly New Issue Municipal Supply Since June



Weekly Municipal Fund Flows in 2025

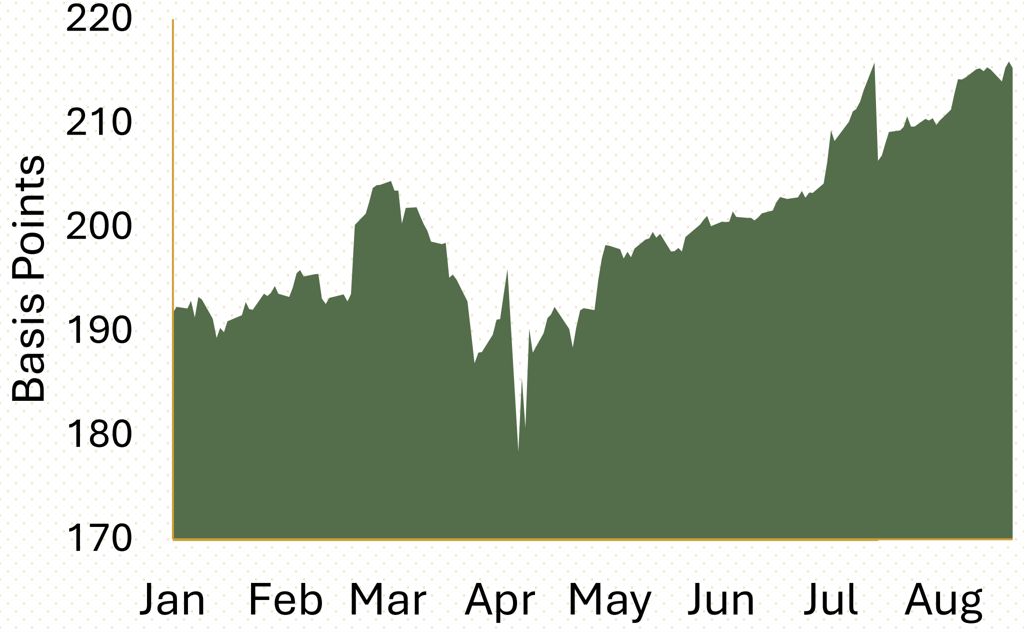


Sources: Lipper, TM3, SIFMA, IHS Markit, Bloomberg. As of August 22, 2025

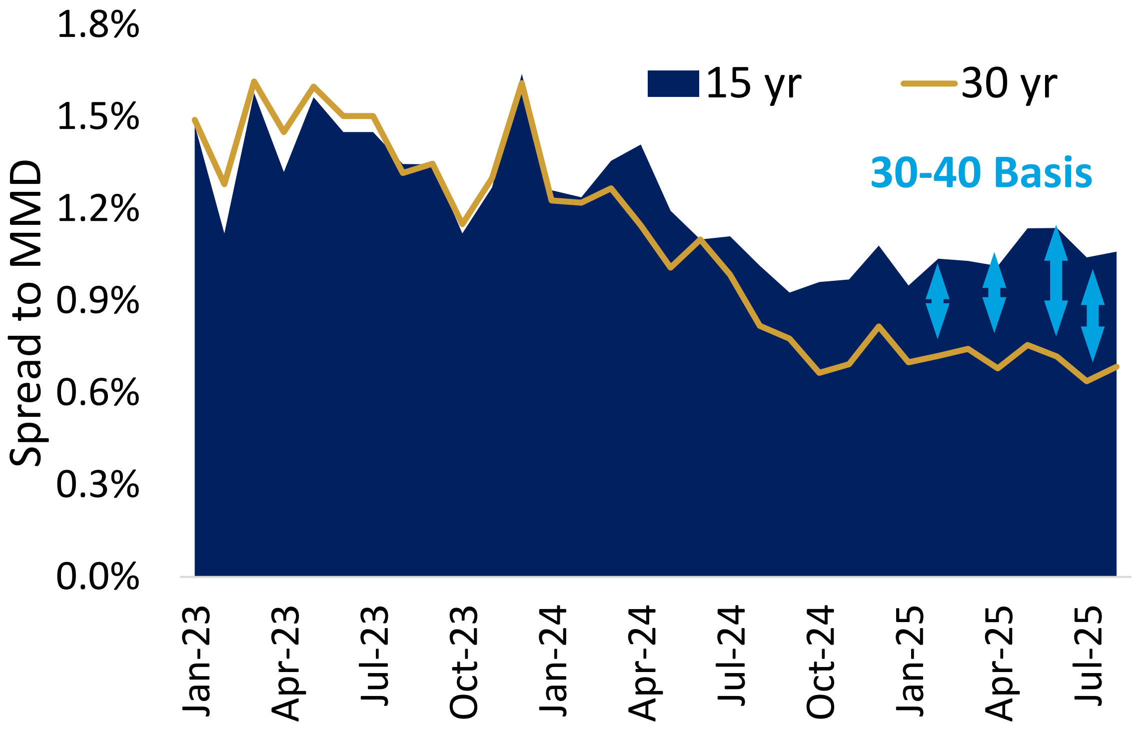
Illustrative Land-Secured Credit Spreads

- **California non-rated land-secured credits preferred in high yield sector**
  - Spreads narrowed for strong land-secured credits* on long end

National High Yield Credit Spreads



Select California Land-secured Credit Spreads

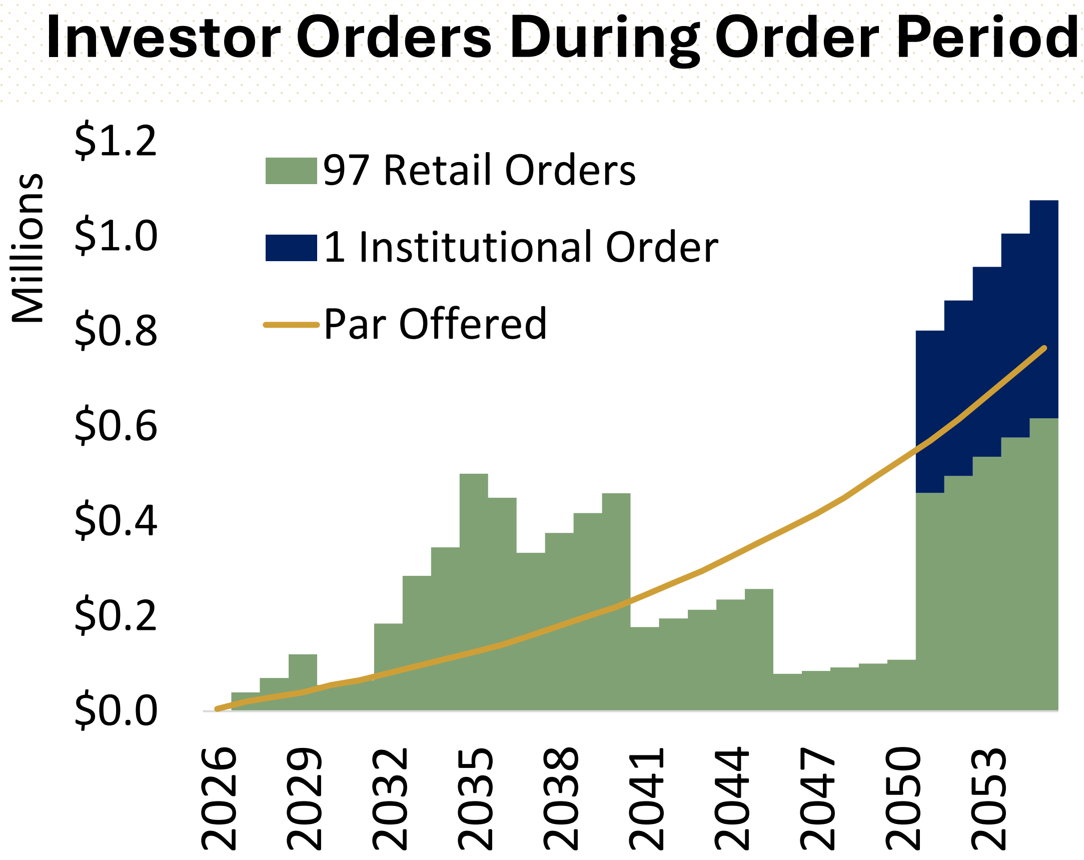


- *Source: Lipper, Thomson Reuters, SIFMA, IHS Markit, Bloomberg. As of 8/21/25*
- *Bloomberg Muni HY Index VS AAA Muni Index*

**Value-to-Lien ratios between 6:1 and 15:1*

Recent Pricing: El Dorado County Heritage 11

- **Carson Creek Heritage 11**
  - Active adult community
  - 409 single family homes planned
    - 156 completed, 87 under construction
- **$8.6 million sale on August 6th**
  - Value-to-lien ratio over 14-to-1
  - Additional bonds expected
- **Strong demand from retail**
  - Only 1 modest institutional order due to tight credit spreads (+70 bps to AAA MMD on long maturities)
- **Arbitrage yield of 5.2%**



Investor Demand in Varying Market Conditions

San Francisco Mission Rock

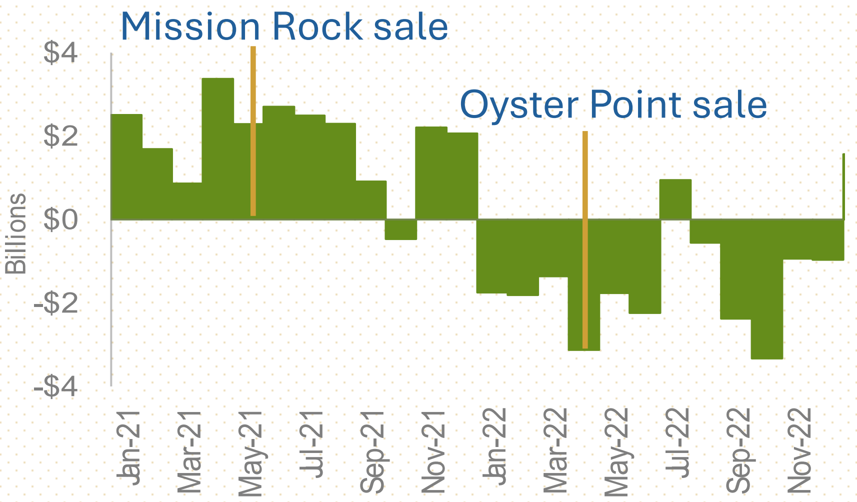
- **First of four-phases, mixed-use campus**
  - 4 planned buildings, 2 had started construction
- **$43.3 million May 2021 bond sale**
  - Value-to-lien 3.5-to-1
  - Rates near historic lows, flush high yield funds
  - 30+ institutions placed orders totaling $920 million
  - Arbitrage yield of 2.53%

South San Francisco Oyster Point

- **First of four-phases, life-sciences campus**
  - 3 planned buildings, *completed and fully leased*
- **$19.7 million April 2022 bond sale**
  - Value-to-lien 57-to-1
  - Sharply rising interest rates amid inflation
  - 6 institutions + 121 retail, $66 million in orders
  - Arbitrage yield of 3.87%

Mission Rock as of March 2021

High Yield Fund Flows 2021-2022



Source: Lipper

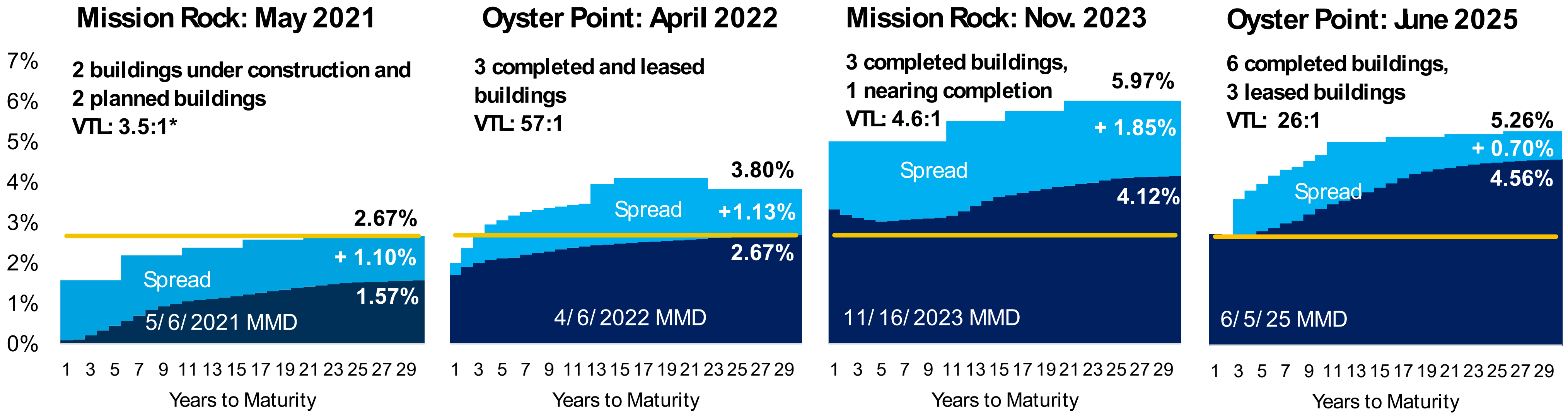
Oyster Point as of April 2022

Credit Spreads in Varying Market Conditions

- **Mission Rock $45.9 million <u>2023</u> sale**
  - 10 institutions placed $220 million in orders
  - Arbitrage yield of 5.83%
- **Oyster Point $28.7 million <u>2025</u> sale**
  - 10 institutions, $228 million in orders
  - 148 retail investors, $15.2 million in orders
  - Arbitrage yield of 5.20%

Mission Rock as of 2023

Oyster Point as of 2025

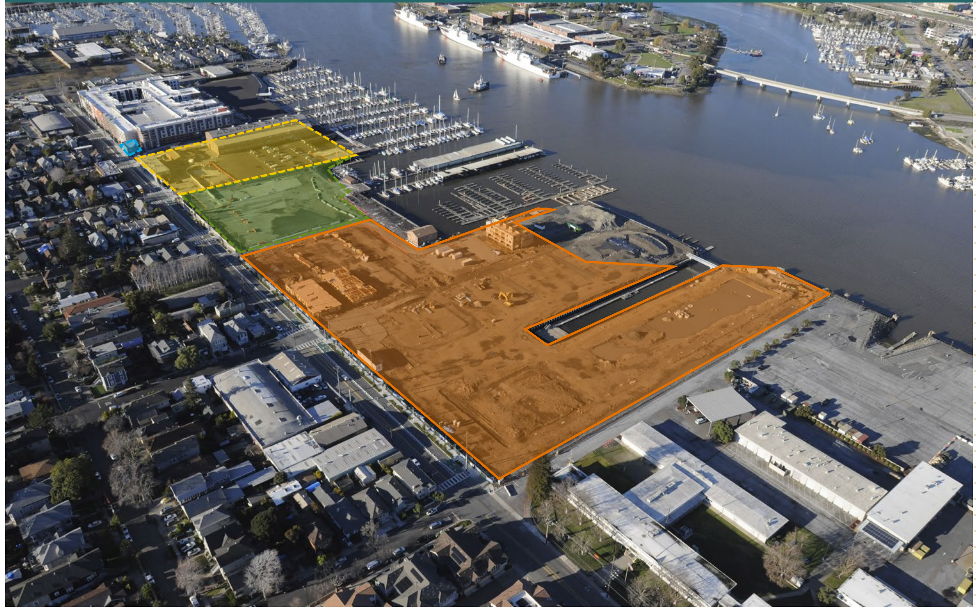


* Included planned 2021 B&C sales;
Yellow line indicates final maturity yield for May 2021 Mission Rock Sale

Climate Change and Perceptions of Risk

- **Interest had been growing in “ESG”**
  - Environmental, Social and Governance
    - “Green Bonds” or “Social Bonds”
  - Heightened scrutiny and potential political backlash?
- **Risks associated with climate change**
  - Wildfire, flooding, sea level rise
  - Availability and cost of insurance
  - Property tax payments post-disaster
    - Altadena Library CFD

Alameda Marina CFD Reuse of Dry Dock



- $17.5 million 2023 Special Tax Bonds
- Sold as self-designated “Green Bonds”
- Proceeds used for sea wall rebuild, protect against sea level rise of up to 7 feet

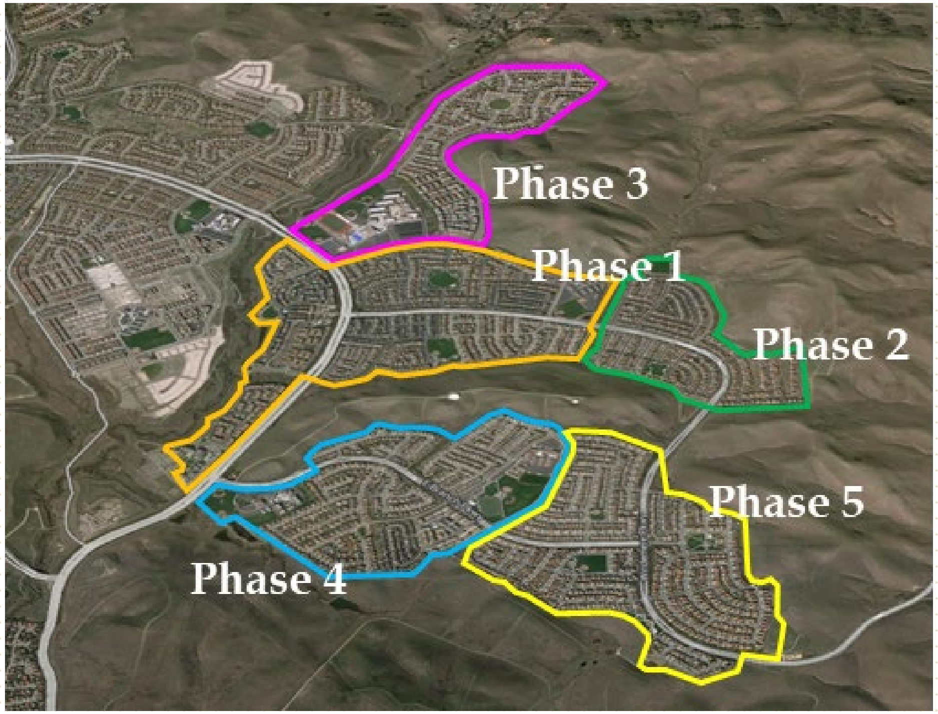
Real Estate Market Trends and Challenges

- **Impact of mortgage rates on affordability and pace of home sales**
  - Projects with standing inventory, higher-paced sales with cash purchases
  - Incentives: price cuts, interest rate buydowns, partial special tax prepayments
  - Shift in investor focus from value-to-lien to sales momentum
- **Return of the land banks**
  - Some builders sell lots to real estate investment firms to repurchase over time as a form of financing construction costs
- **Shifting patterns of development and product mix**
  - "Active adult" developments
  - Build-to-rent single family homes
  - Urban infill and denser developments vs. traditional suburban subdivisions

Evolution of a CFD: Size, Scale and Land Use

Traditional CFD: Windemere

- Suburban subdivision
- 3,280 single-family homes and 597 condos
- Phased bond sales, *development* risk diminished over time as homes built and sold



Modern CFD: Brooklyn Basin

- Urban in-fill
- 3,700 residential units in four phases
- Bonds secured by special tax levy on *completed* buildings
- No development risk but *concentration* risk

Regulatory Fine Print

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