SESSION TWO

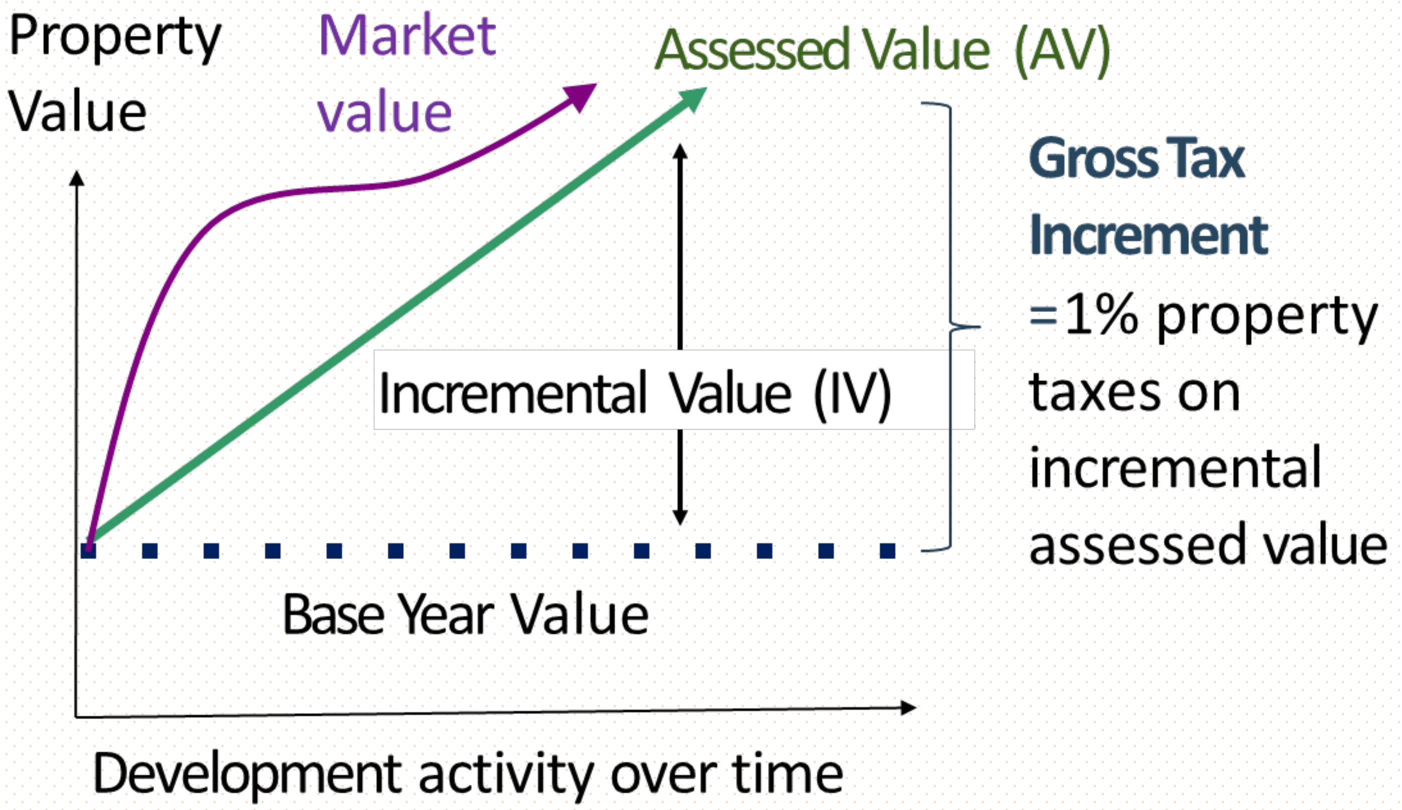
District Formation: Integration of Tax Increment and Land-secured Districts

PART A:

Infrastructure Finance Districts Primer

Infrastructure Financing Districts (IFDs)

- Special district to capture a <u>portion</u> 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

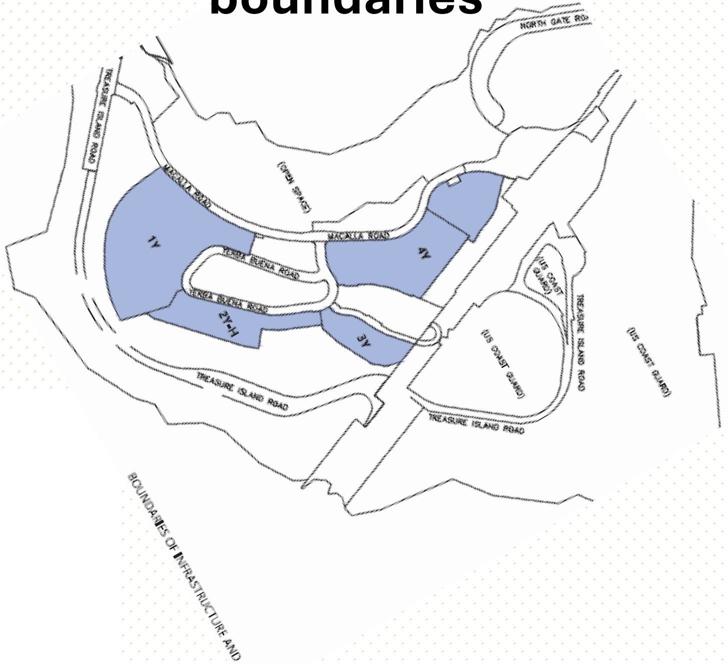
BOUNDARIES OF INFRASTRUCTURE AND REVITALIZATION FINANCING DISTRICT NO. 1

- 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

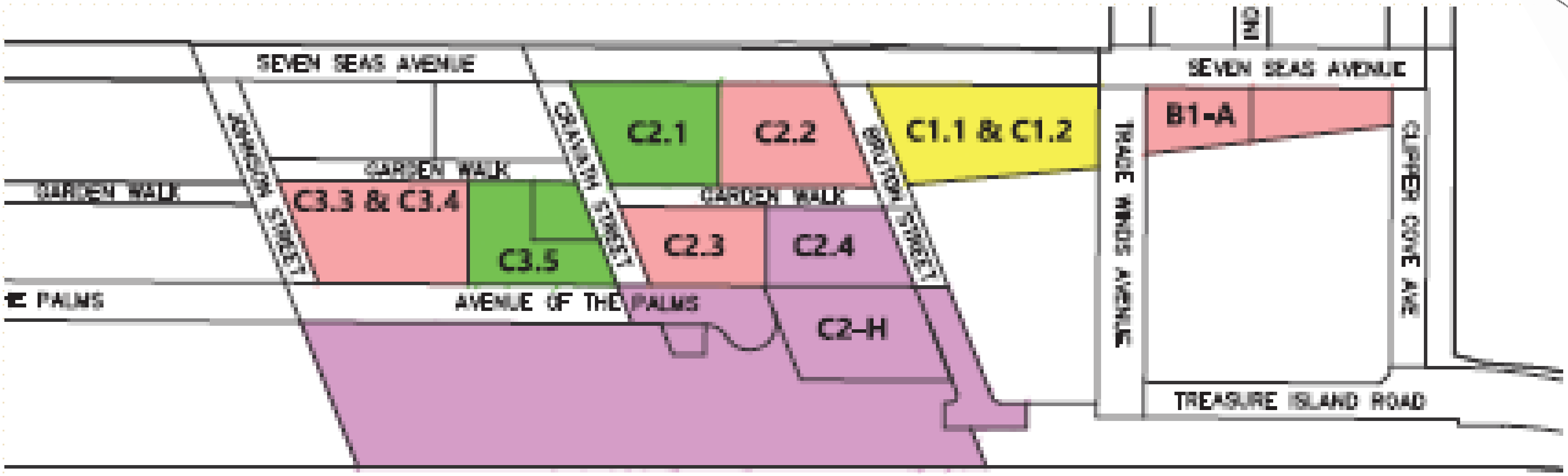
Treasure Island IRFD: Project Areas

- 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



BOUNDARIES OF PROJECT AREA B
BOUNDARIES OF PROJECT AREA C
BOUNDARIES OF PROJECT AREA D
BOUNDARIES OF PROJECT AREA E

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 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 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

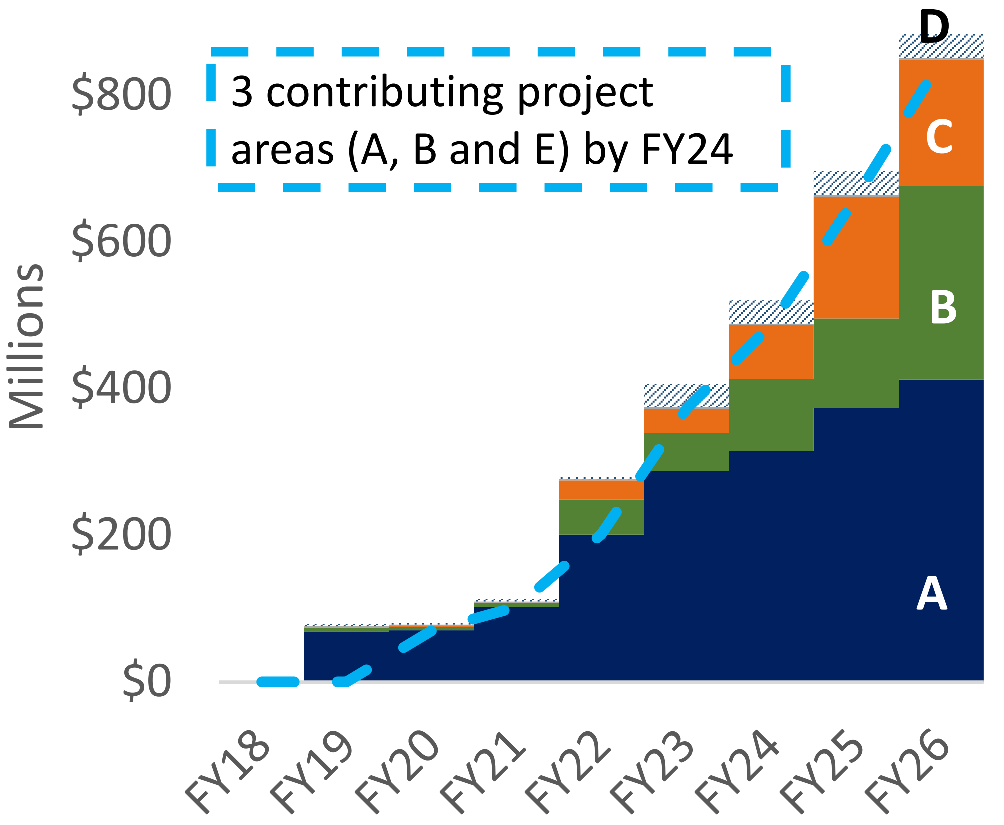
New Development on Treasure Island

- **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

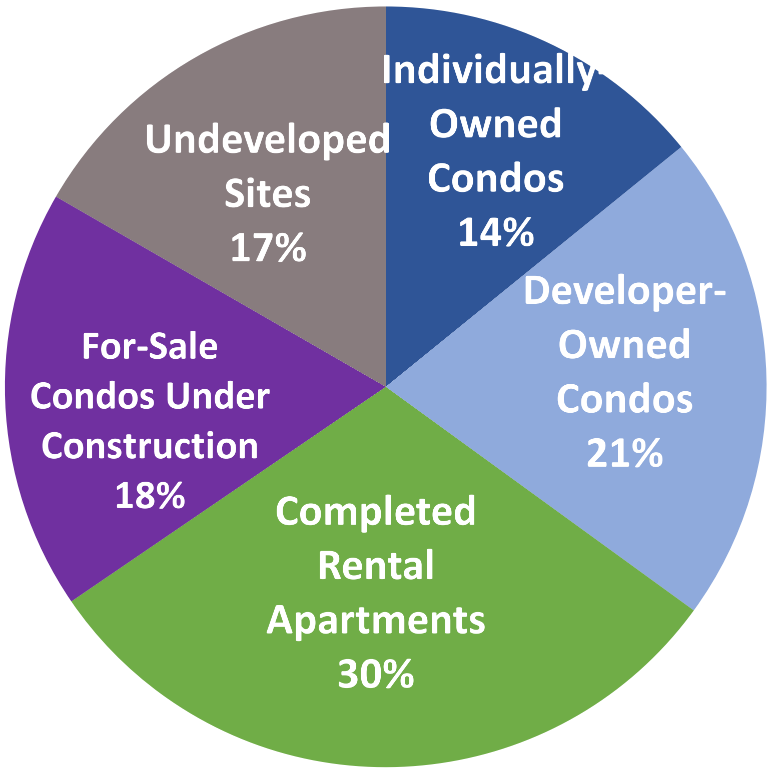
Treasure Island Incremental Value

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

Incremental Value by Project Area



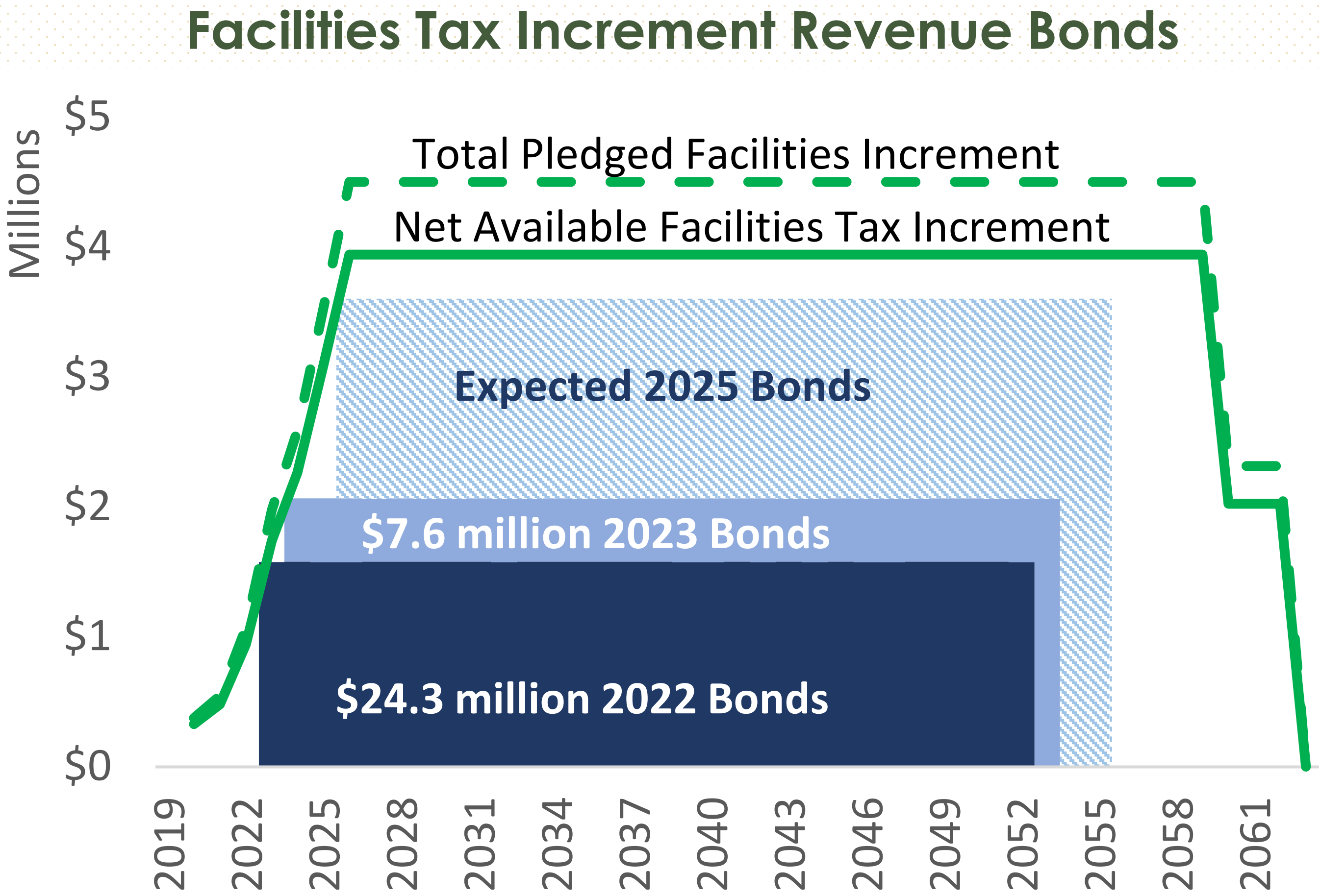
Incremental Value by Development Status



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:

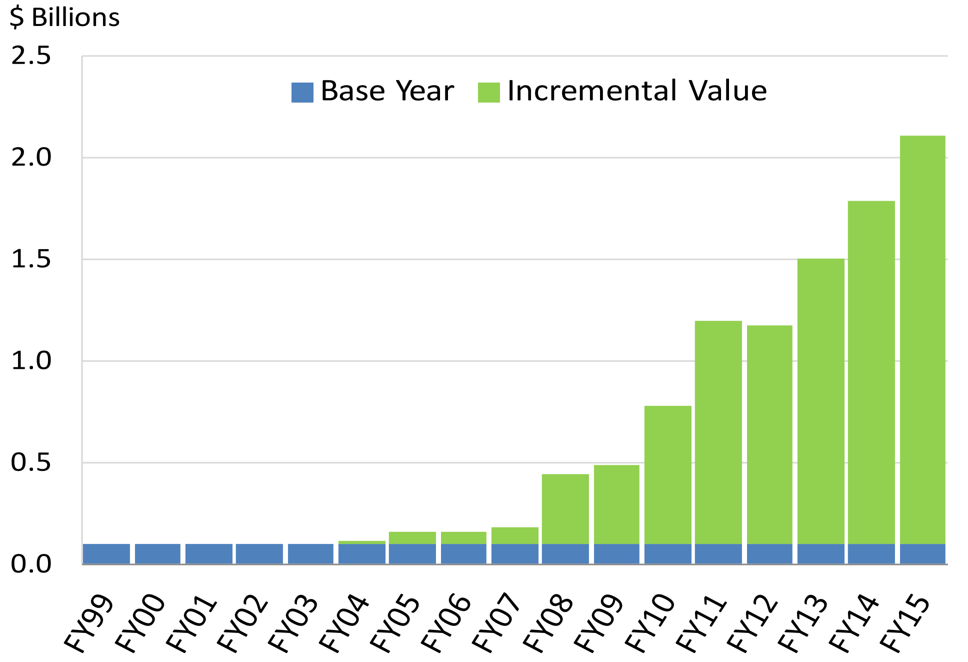
IFD Applications and Alternatives

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

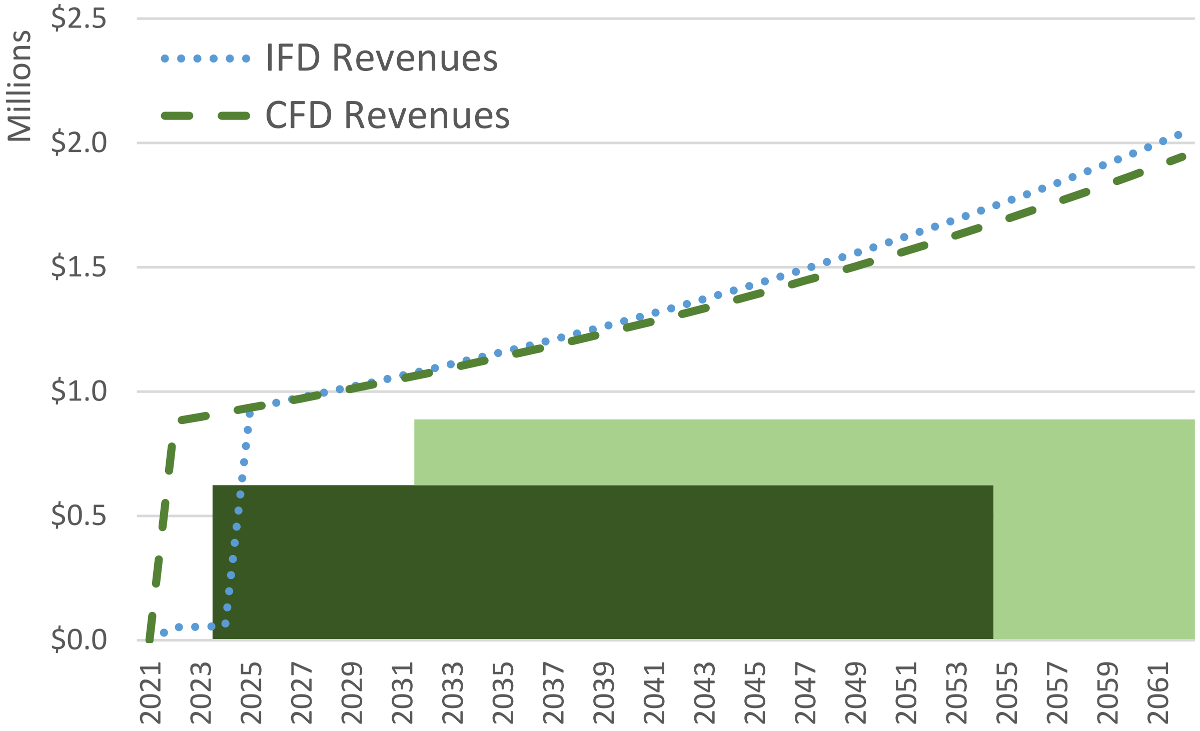
Pairing IFD with a CFD to Mitigate Challenges

- **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

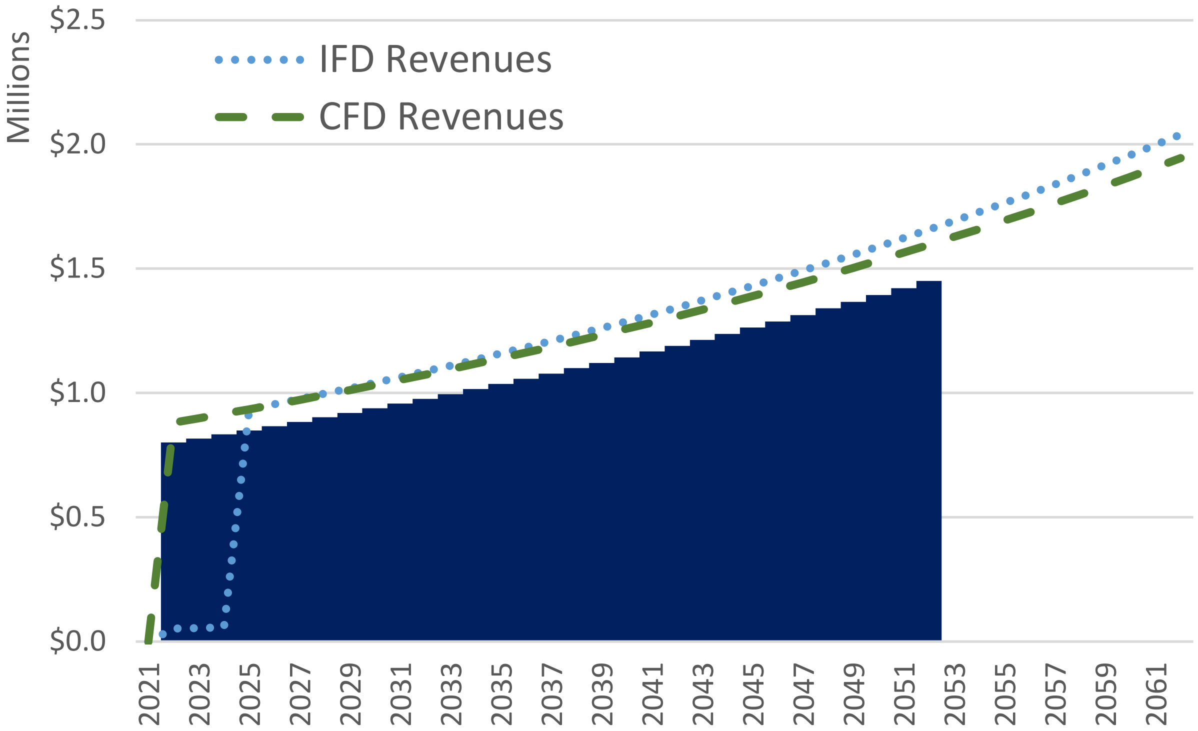
Same revenues leveraged through tax increment bonds vs special tax bonds

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 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 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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