SESSION THREE

Current Applications of CFDs

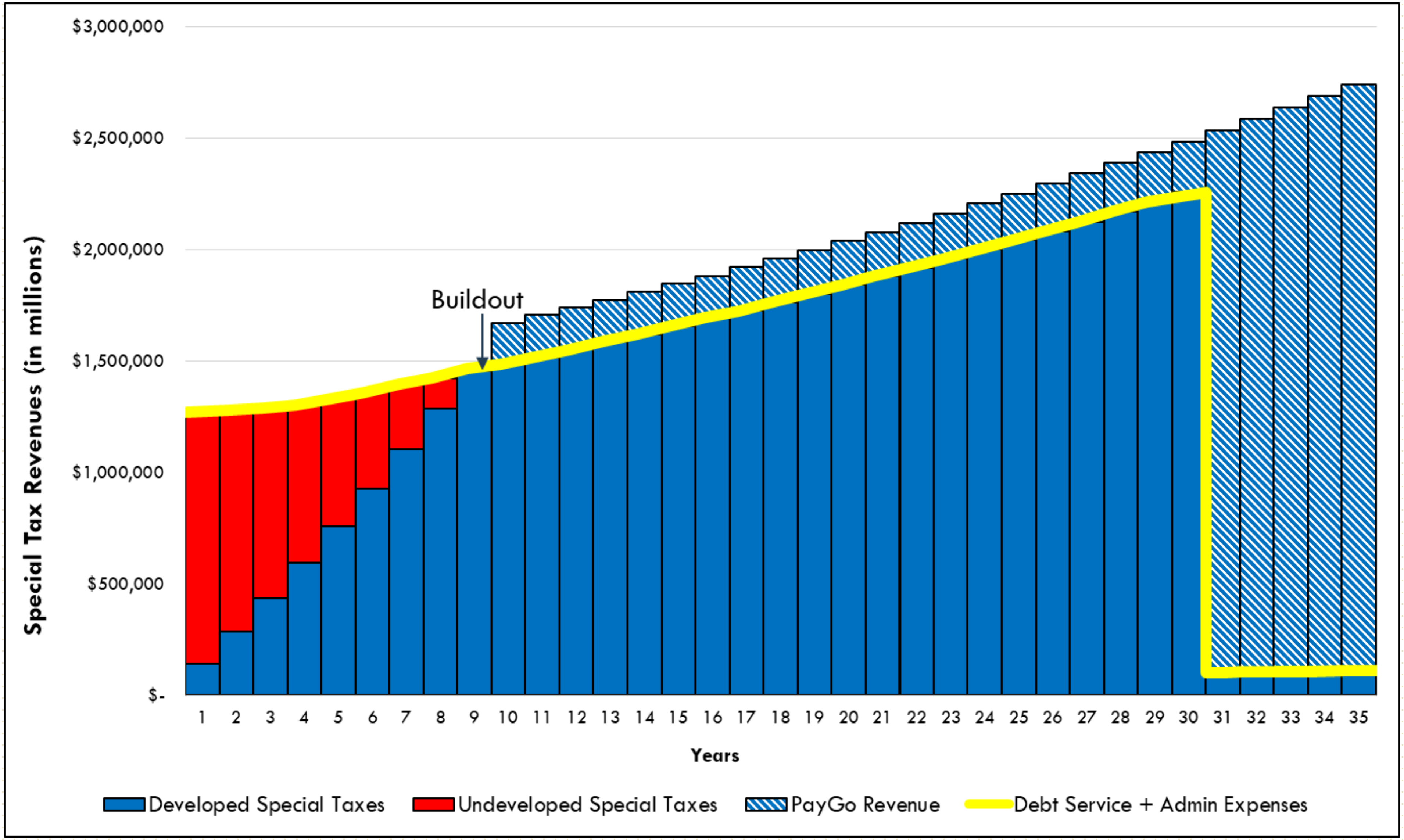
New Trends in Mello-Roos CFDs

- 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

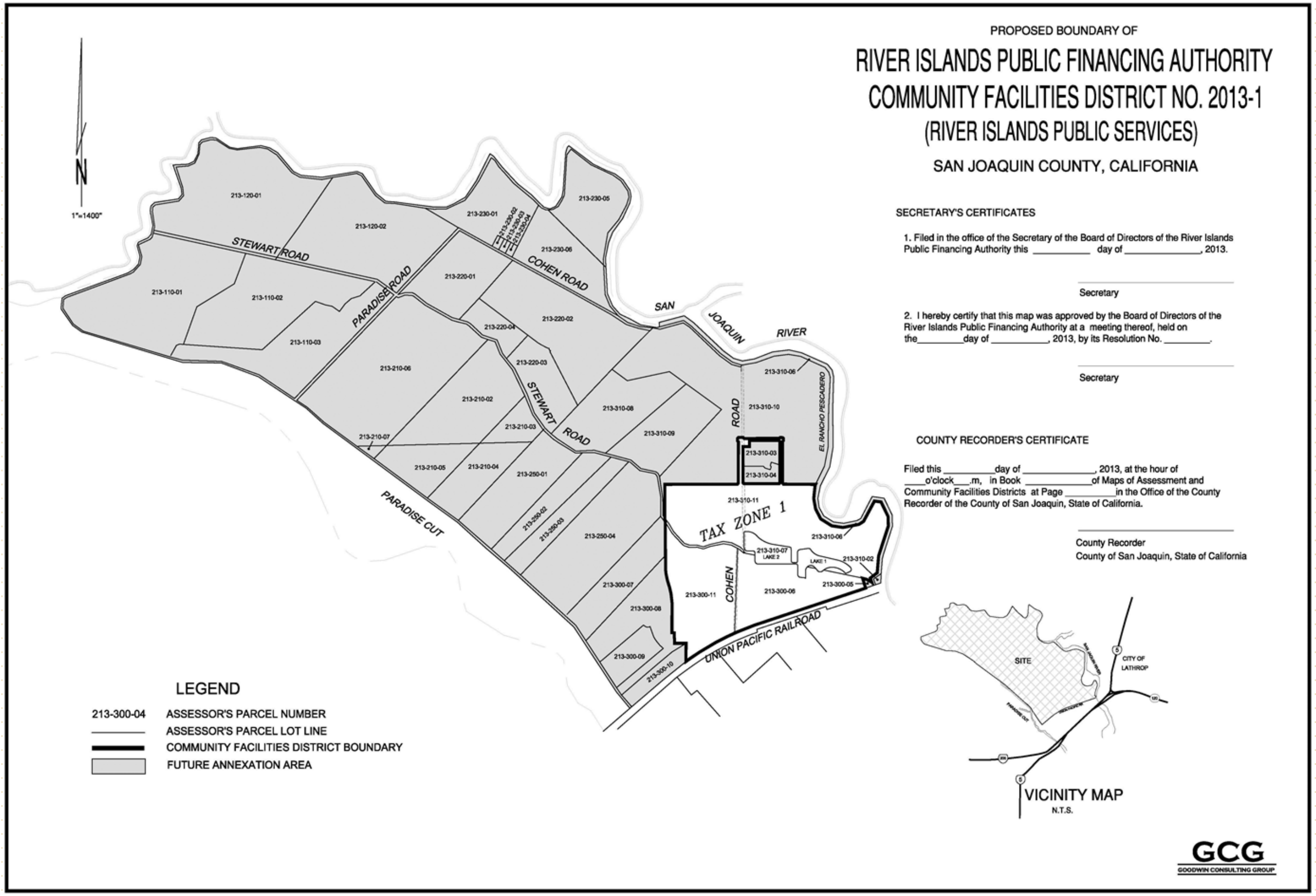
Transition of Facilities Tax to Services Tax

- 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

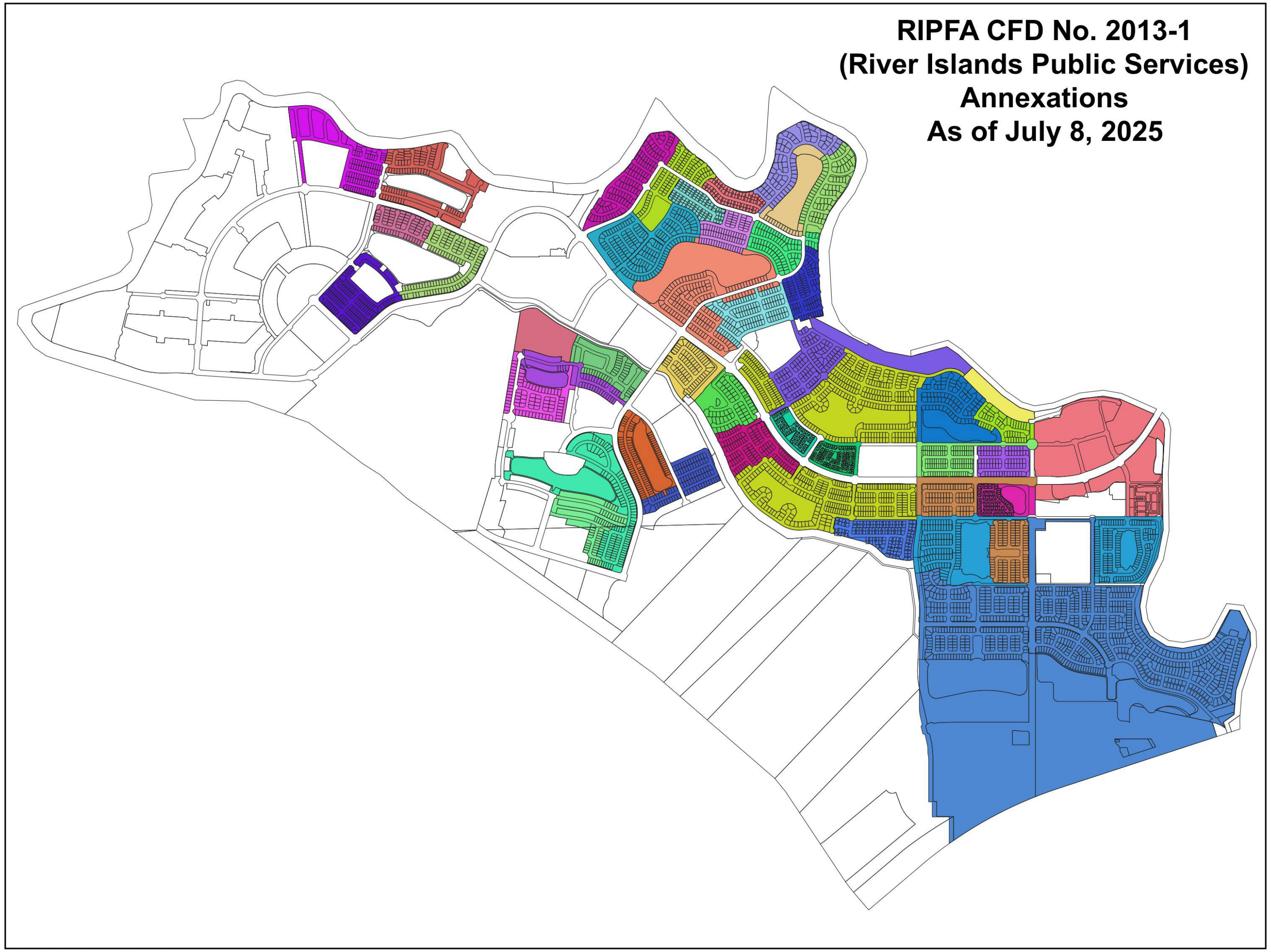
Annexable Services CFDs

- 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



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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

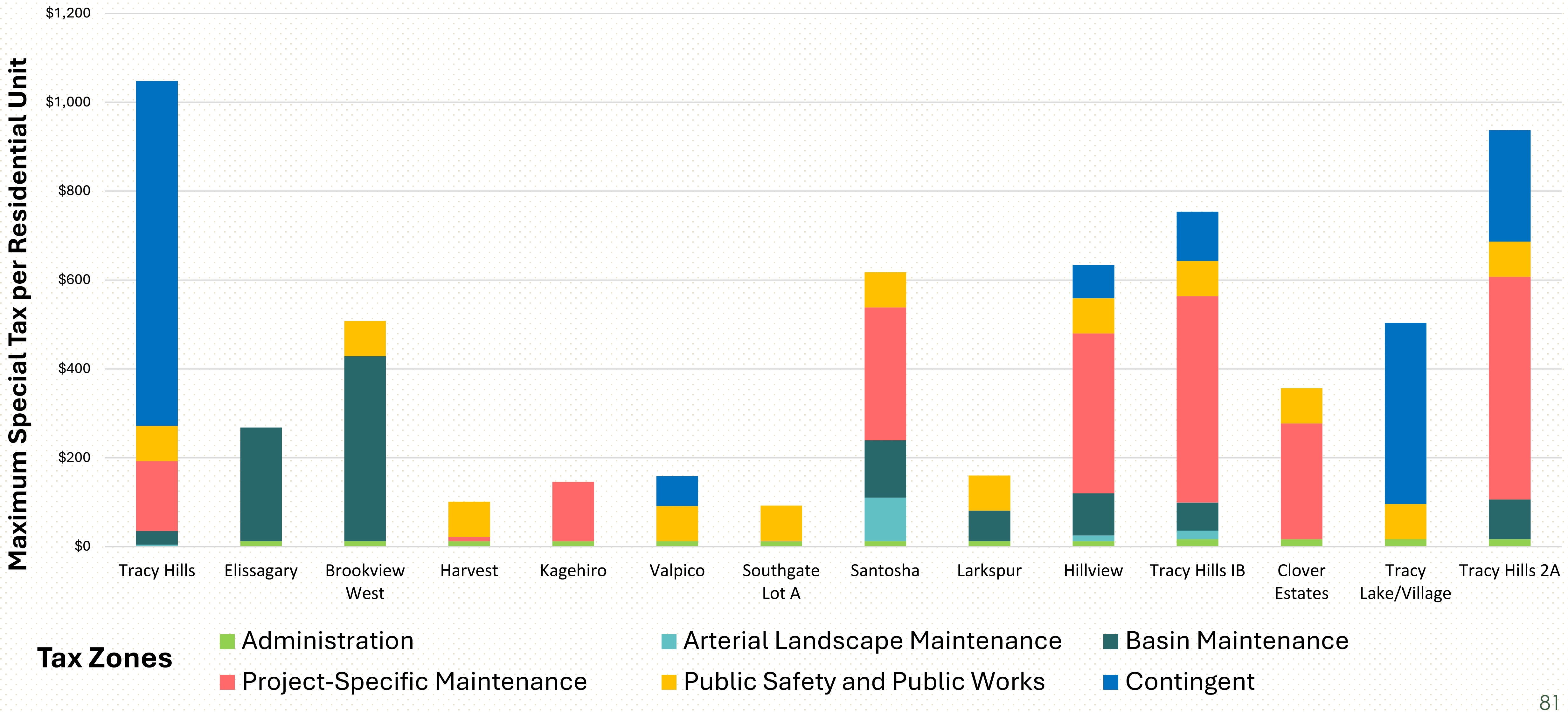
Case Studies

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

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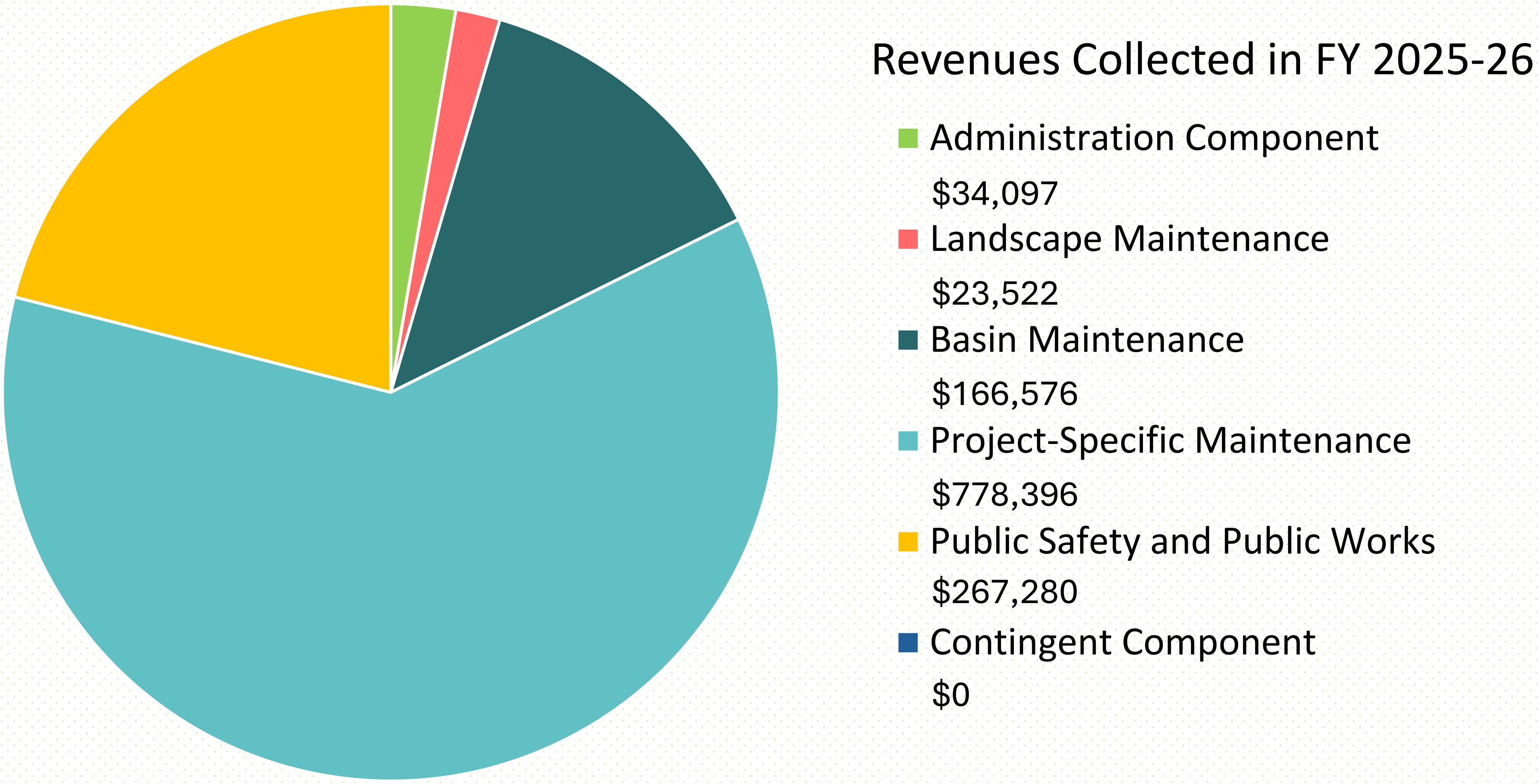


Treasure Island: Case Study of a Modern CFD

- 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>

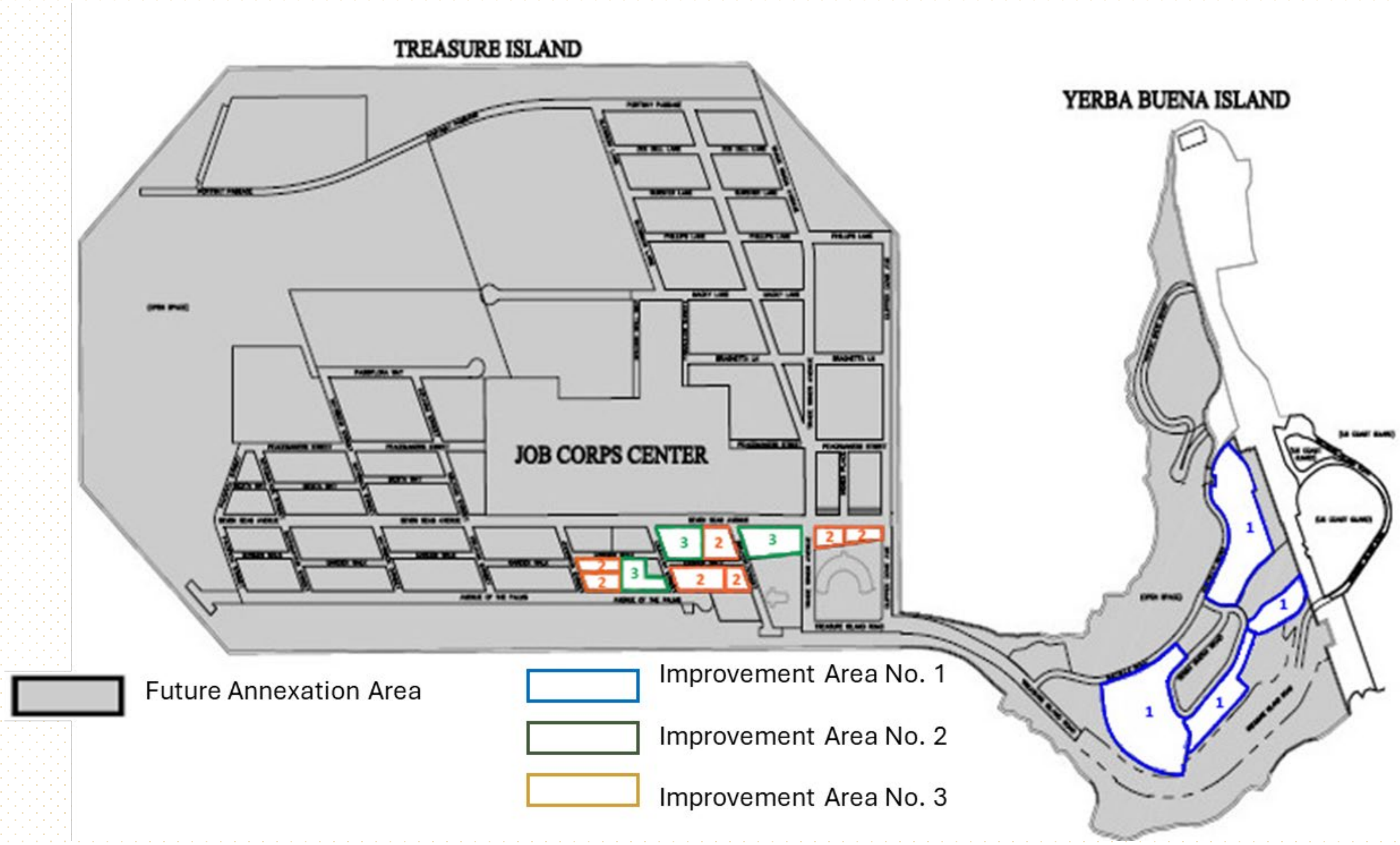
- Up to 8,000 homes, 25% below market
- 240,000 sq ft of retail, office, and commercial uses
- Ferry terminal and 400-slip marina
- Parks and open space

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

Improvement Area No. 2

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

Development Status as of October 2020

Aerial as of late 2021