



CDIAC

CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION

CURRENT TOPICS AND PRACTICES IN LAND-SECURED FINANCING

SESSION FOUR: Current Practices for Large, Long-term Projects

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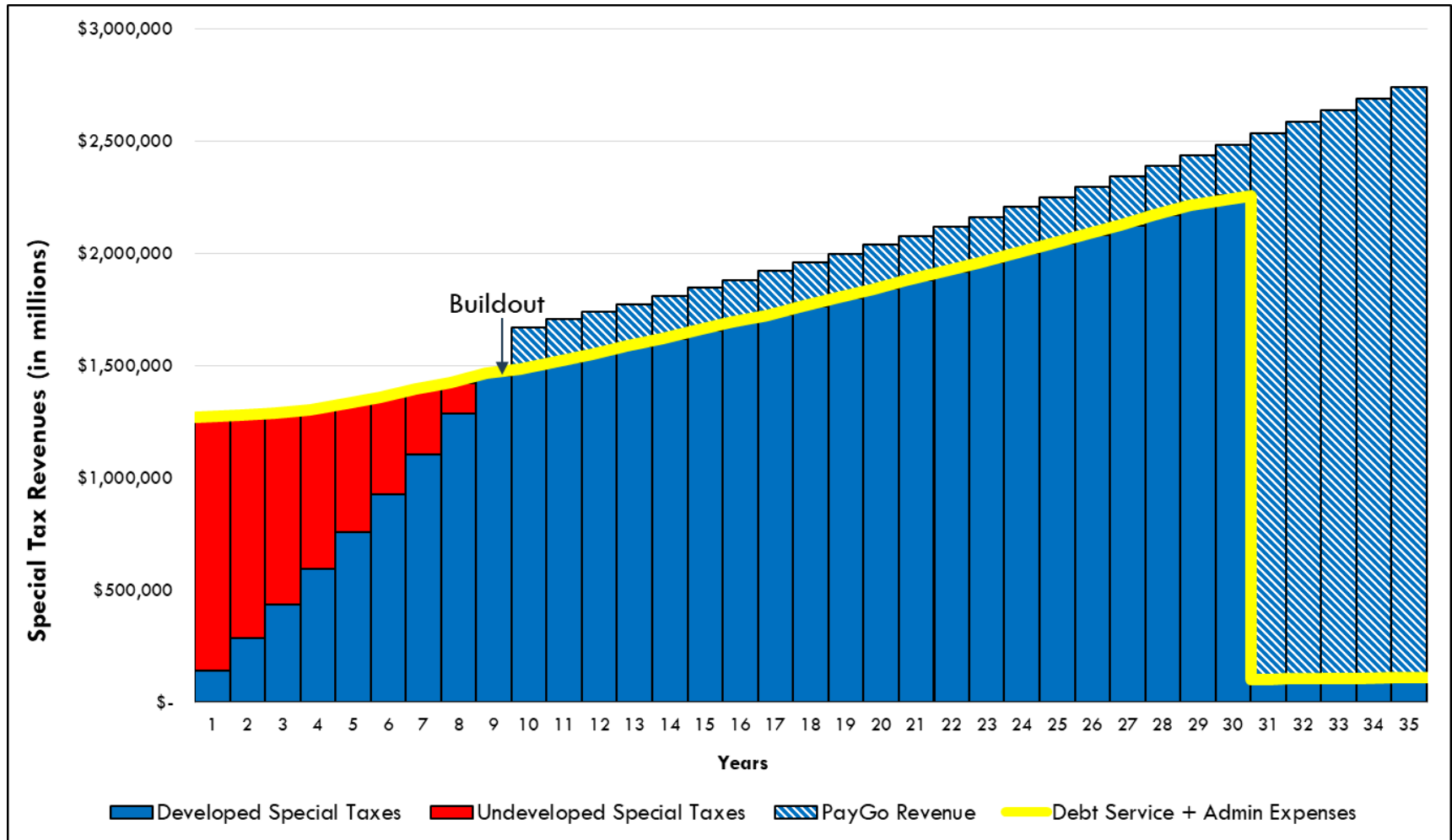
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Pay-As-You-Go Revenues (PayGo)

- PayGo = special tax revenues remaining after payment of debt service, administrative expenses, and replenishment of reserve fund
- Maximum special tax levied on Developed Property, not Undeveloped Property
- Little or no PayGo in initial years of development
- Available from 10% coverage, savings after refundings, and retirement of bonds

Pay-As-You-Go Revenues (PayGo)



Pay-As-You-Go Revenues (PayGo)

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)

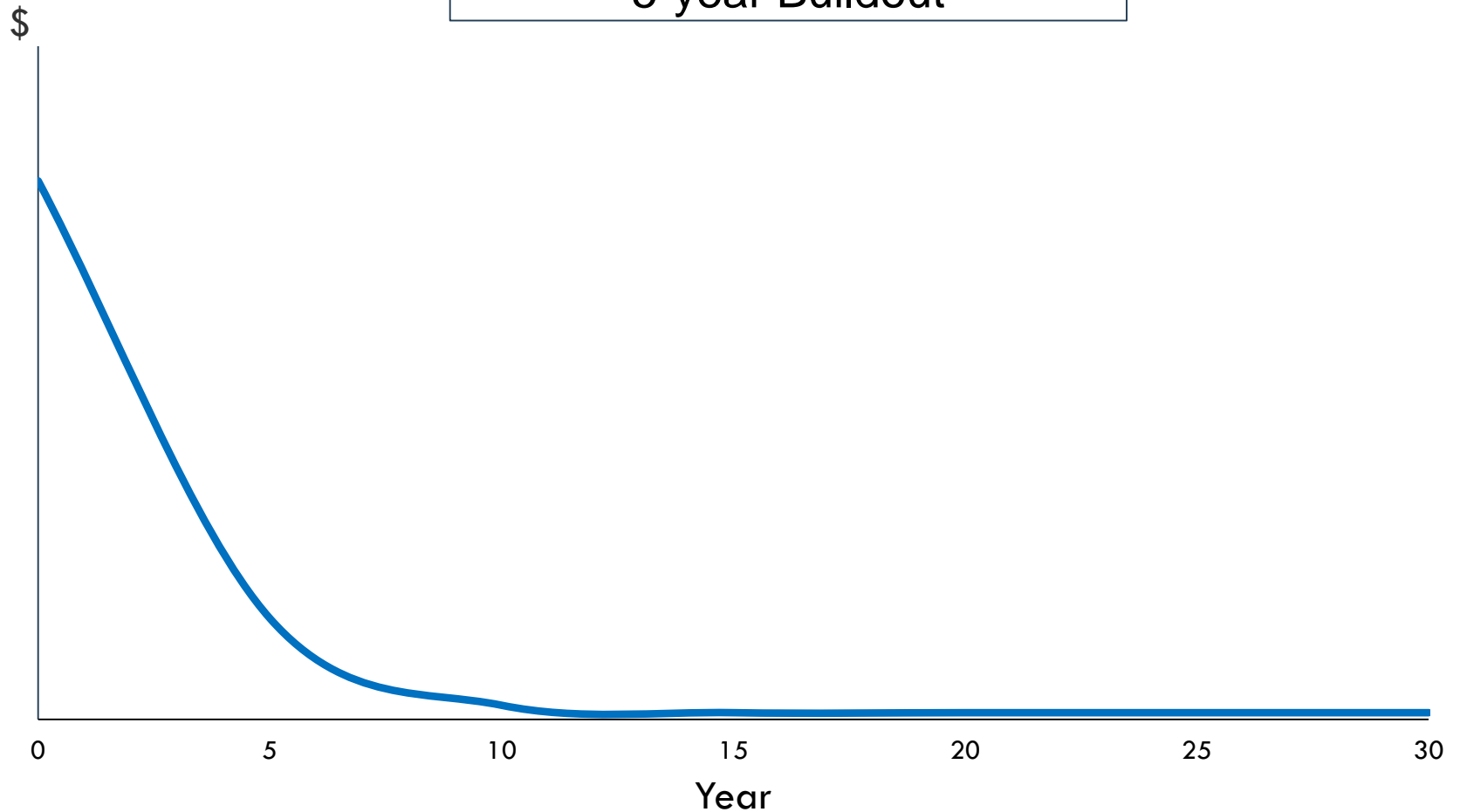
Pay-As-You-Go Revenues (PayGo)

Policy Considerations Related to PayGo

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

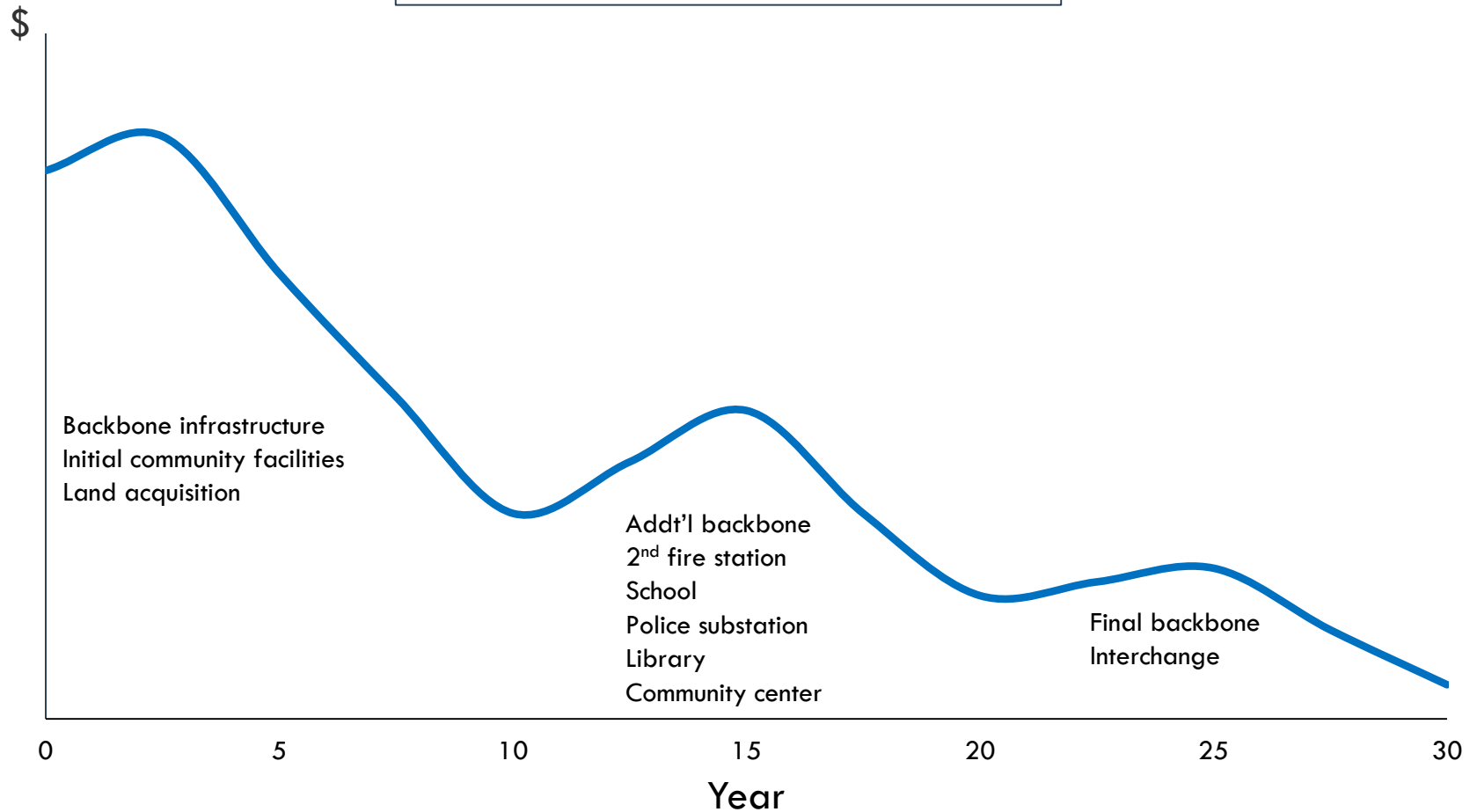
Public Facilities Costs

800-unit Residential Subdivision
5-year Buildout



Public Facilities Costs

Mixed-Use Master-Planned Community 25-year Buildout



Extended Term

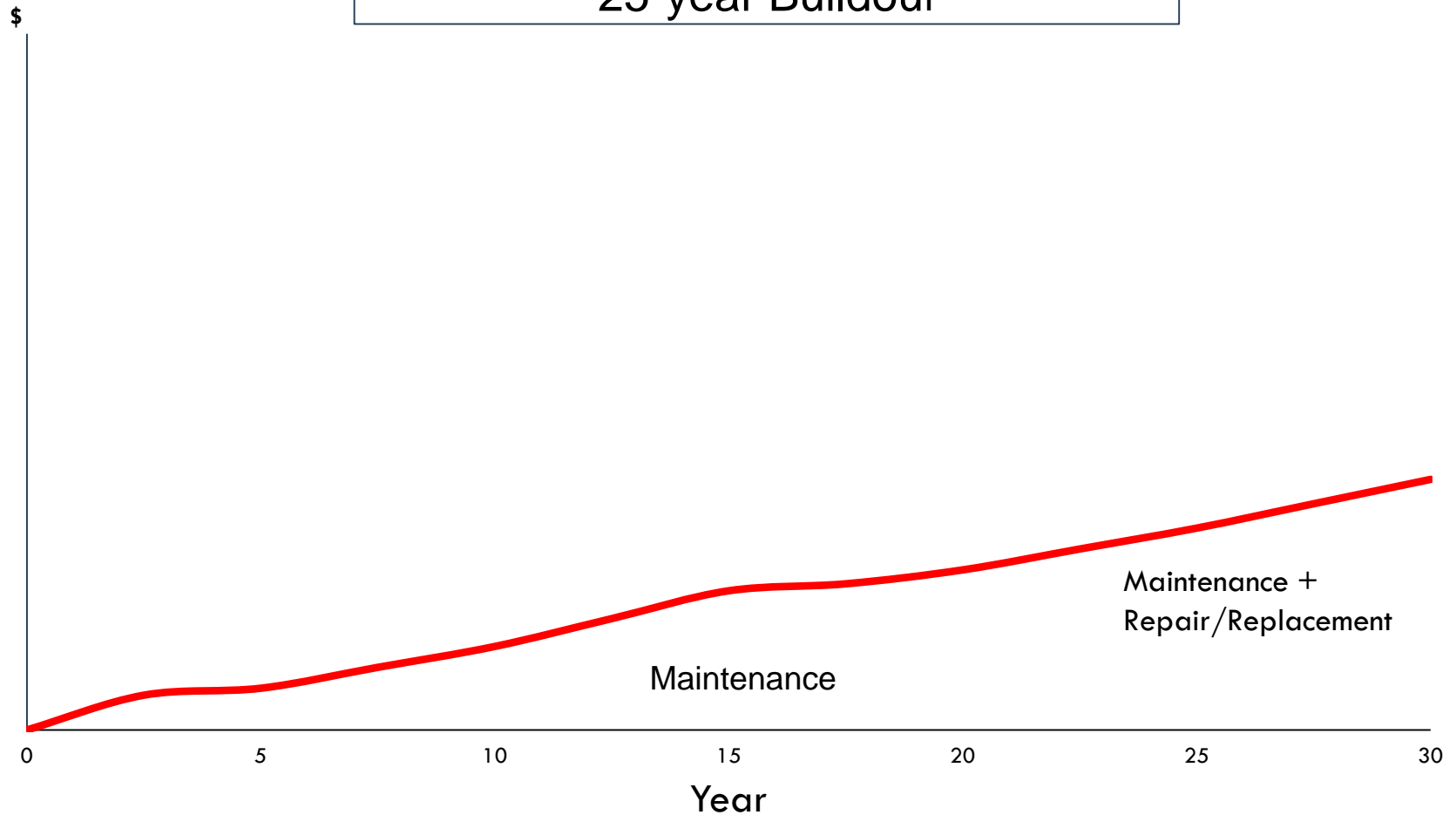
- Sunset date for special tax is well past anticipated retirement of initial bonds
 - Historically, CFDs with multiple bond issues had 40 to 45-year tax terms
 - Now, 60 to 100-year term of facilities special tax
- Useful only if facilities can be funded well into the future
 - PayGo or additional bond issues
 - After 30 years, “recycled bond capacity”
 - First tranche/second tranche bonds
 - Minimum term of 60 years if one bond issue in each tranche
- Impact on prepayment options in CFD

Transition of Facilities Tax to Services Tax

- Reserves capacity in initial years for infrastructure and community facilities
- Provides revenues in perpetuity for maintenance, repair & replacement, and public services
- Must transition to avoid 2% cap on escalation and requirement for a sunset date
- Cannot fully prepay facilities special tax

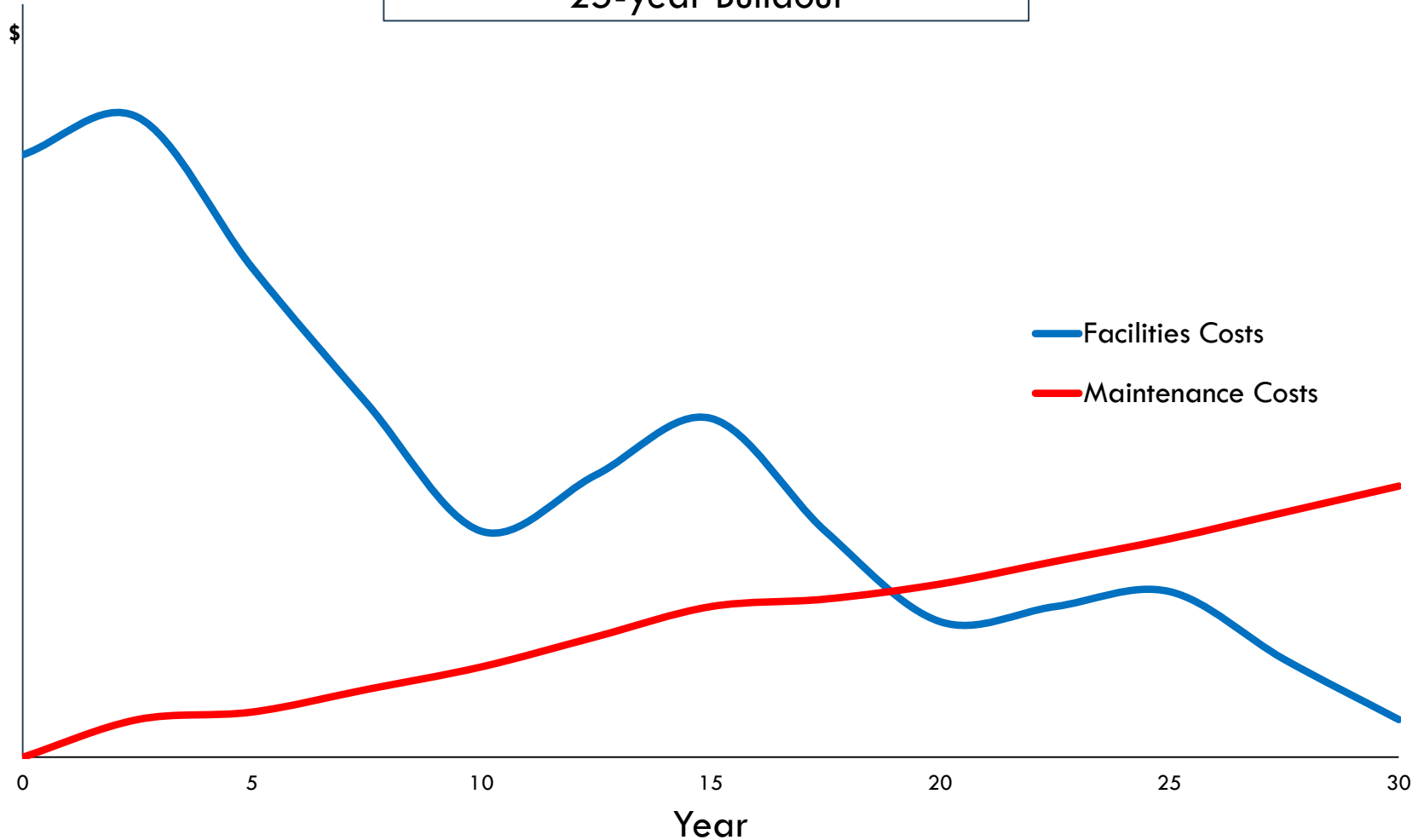
Maintenance and Public Services

Mixed-Use Master-Planned Community
25-year Buildout



Public Infrastructure and Service Costs

Mixed-Use Master-Planned Community
25-year Buildout



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



Treasure Island: Case Study of a Modern CFD



Treasure Island: Case Study of a Modern CFD



Treasure Island: Case Study of a Modern CFD

- Served as a U.S. Navy station in 1940s; Navy shut down operations in 1997
- To be developed with 8,000 residential units, 25% of which are below market rate units
- Will begin with development of approximately 275 townhomes on Yerba Buena Island
- 240,000 sq ft of retail, office, and commercial uses
- Ferry terminal and 400-slip marina
- Preservation of historical buildings

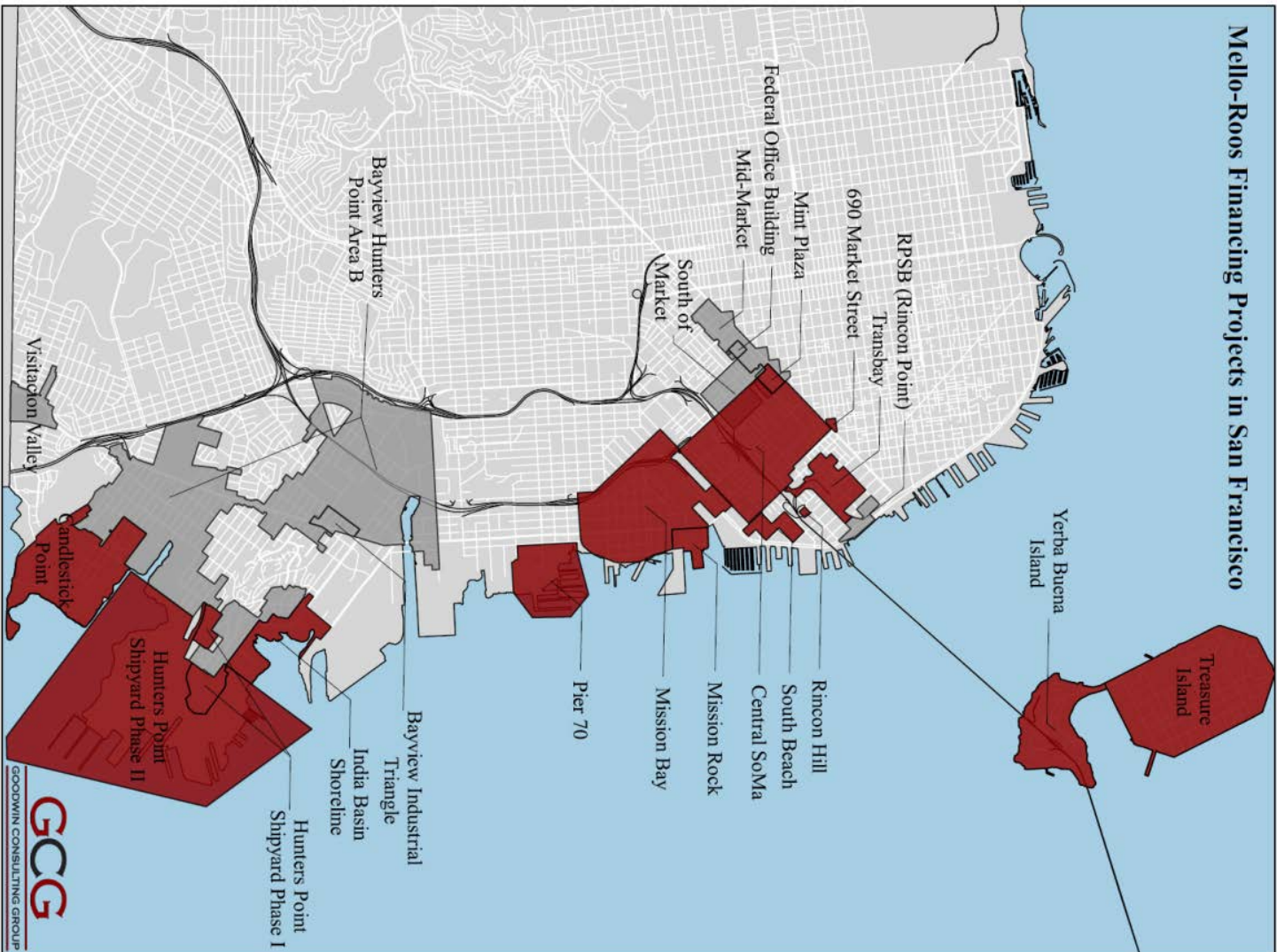
Treasure Island: Case Study of a Modern CFD

- Total infrastructure costs = more than \$800 million
- Actual cost of Sea Level Rise improvements is unknown
- CFD is in addition to tax increment financing through an Infrastructure and Revitalization Financing District
- Ongoing maintenance of parks, infrastructure, and Sea Level Rise improvements
- No CFD or IRFD bonds sold yet

Treasure Island: Case Study of a Modern CFD

- Developer anticipating 8 improvement areas
 - IA1 and initial CFD boundaries = development areas on Yerba Buena
 - Future improvement areas to be established when property from the Future Annexation Area annexes into CFD
- Financing Plan provided for 999 year facilities special tax term; set at 100 years for first IA, then transition to services special tax
- PayGo: first 42 years = acquisition of infrastructure from developer Years 43-100 = facilities and improvements selected 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

Active or Proposed CFDs in San Francisco



Alternate Approaches to CFD Formations

□ **San Mateo Bay Meadows**

- ▣ One master developer
- ▣ Moderately sized project
- ▣ One issuer, one CFD, one tax formula
- ▣ ***Sequential bond issues*** as values increased and infrastructure was completed

□ **Rancho Mission Viejo**

- ▣ One master developer
- ▣ Very large project with long build-out
- ▣ Multiple issuers, multiple CFDs, multiple tax formulas
- ▣ ***Sequential CFDs*** as values increased and infrastructure was completed

Case Study: San Mateo Bay Meadows



Case Study: San Mateo Bay Meadows

□ **Overview**

- ▣ 170-acre site, former thoroughbred racetrack
- ▣ Midway between San Francisco and Silicon Valley
- ▣ Walking distance to CalTrain station
- ▣ Wilson Meany Sullivan/ Stockbridge Capital

□ **Large development plan**

- ▣ 1,066 residential units
- ▣ 802,000 sq ft class A office
- ▣ 85,000 sq ft retail
- ▣ Private high school campus – Nueva

Case Study: San Mateo Bay Meadows



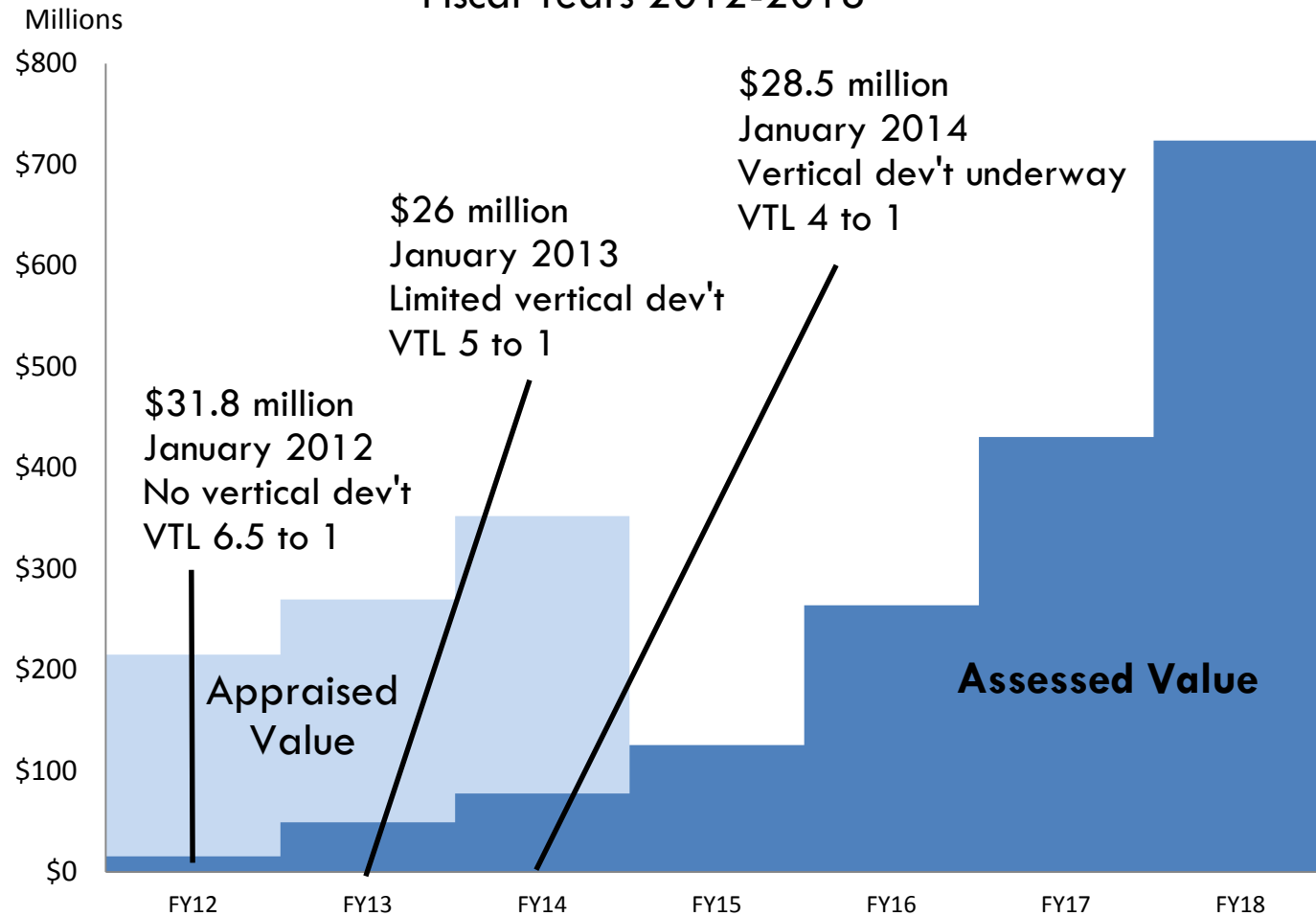
San Mateo Bay Meadows CFD

- **CFD No 2008-1 (Bay Meadows)**
 - ▣ Originally formed in 2008
 - ▣ Maximum bond authorization of ***\$120 million***
 - ▣ Change proceedings conducted in 2011
 - ▣ RMA changed and maximum bond authorization lowered to ***\$92 million***

- **Additional bonds test (ABT) written for phased bond issuance**
 - ▣ City compliance with covenants, no master developer tax delinquencies
 - ▣ Reserve fund deposit
 - ▣ Maximum annual taxes $\geq 110\%$ aggregate debt service
 - ▣ Maximum annual taxes $> 100\%$ aggregate debt service + admin. expenses
 - ▣ Aggregate value-to-lien on ***Undeveloped Property*** of at least 3-to-1

Bay Meadows: Three Bond Sales

Bay Meadows CFD Property Values
Fiscal Years 2012-2018



Source: Urbics and Official Statements

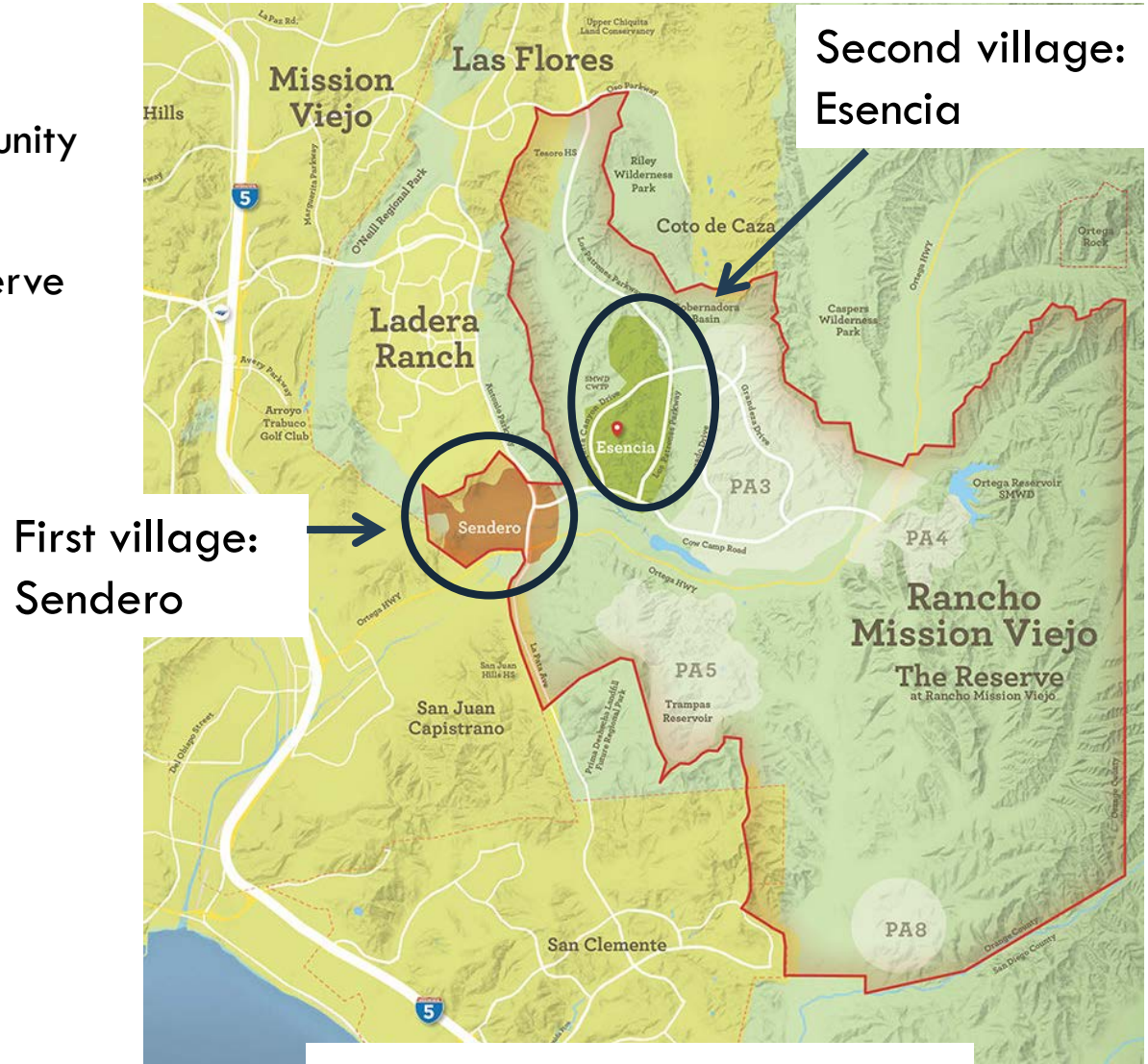
Bay Meadows Today



Source: Wilson Meany

Case Study: Rancho Mission Viejo

- **Overview**
 - ▣ Master planned community
 - ▣ 22,000 acres
 - ▣ ~75% for habitat reserve
 - ▣ Long term build-out
 - ▣ Phased development



Source: ranchomissionviejo.com

Rancho Mission Viejo



Source: ranchomissionviejo.com

Rancho Mission Viejo CFD Structures

- **One project, one master developer, four distinct CFDs (so far)**
 - ▣ Enables separate tax formulas for each phase
 - ▣ Facilitates changes in development plan and product mix
 - ▣ Maximizes tax capacity as home prices escalate
 - ▣ Insulates merchant builders from exposure to others' delinquencies

- **Santa Margarita Water District formed first CFD**
 - ▣ CFD No. 2013-1 (Village of Sendero)

- **Orange County formed subsequent CFDs**
 - ▣ CFD No. 2015-1 (Village of Esencia)
 - ▣ CFD No. 2016-1 (Village of Esencia)
 - ▣ CFD No. 2017-1 (Village of Esencia)

First Village: Sendero



First Village: Sendero

□ Development Plan

- 655 market rate homes
- 286 age-qualified homes
- 286 apartments
- Retail center

CFD No 2013-1 (Village of Sendero) Eligible Facilities

<u>Public Facilities</u>	<u>Estimated Amount</u>
Santa Margarita Water District	\$ 35,689,349
Orange County Fire Authority	2,570,106
Orange County	32,928,250
Contingency	500,000
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	\$ 71,687,705

□ Infrastructure Budget

- \$260 million total
- \$175 million spent to date
- \$72 million eligible for reimbursement

□ All parcels owned by home builders

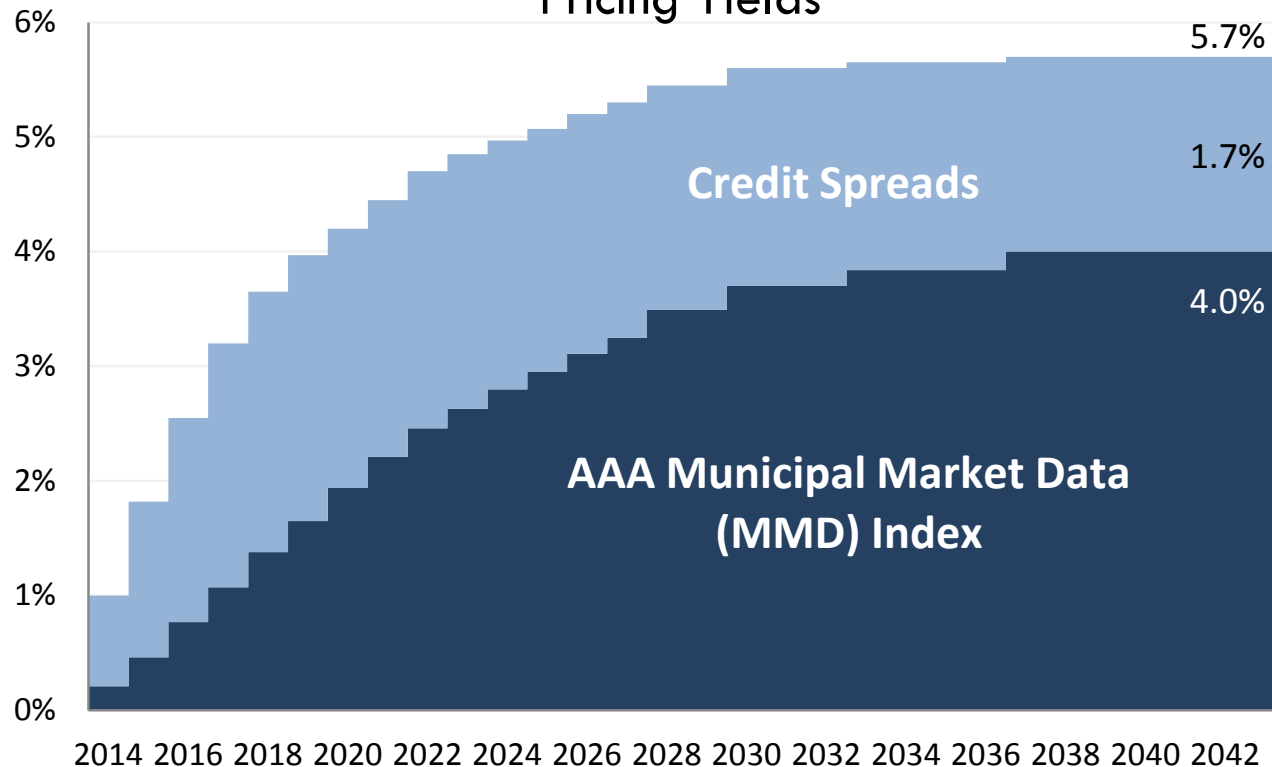
- Sea Country, TriPoine, William Lyon, Standard Pacific, Ryland, Shea Pulte, Meritage
- Model homes open and home construction underway

First Bond Sale: Sendero

- Appraised value of \$225.3 million
 - ▣ VTL 3.92 to 1

\$57 million 2013 Special Tax Bonds

Pricing Yields



Source: 2013 Official Statement

Second Village: Esencia

- ❑ **CFD No. 2015-1 (Village of Esencia)**
 - ❑ 522 market-rate homes
 - ❑ 318 age-qualified homes

- ❑ **CFD No. 2016-1 (Village of Esencia)**
 - ❑ 605 market-rate homes
 - ❑ 288 age-qualified homes

- ❑ **CFD No. 2017-1 (Village of Esencia)**
 - ❑ 628 market-rate homes
 - ❑ 124 age-qualified homes

Second Village, Third Phase: Esencia



Aerial View

Orange County CFD No. 2017-1 (Esencia)
Improvement Area No. 1



Orange County CFD No. 2017-1 (Esencia)

□ Diversity of builders

- ▣ New Home Company
- ▣ Meritage
- ▣ CalAtlantic Group
- ▣ William Lyon
- ▣ Pulte

CFD No 2017-1 (Village of Esencia)

Eligible Facilities

<u>Public Facilities</u>	<u>Estimated Amount</u>
Santa Margarita Water District	\$ 20,000,000
Orange County	90,000,000
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	\$ 110,000,000

□ 4 homes sold at time of sale

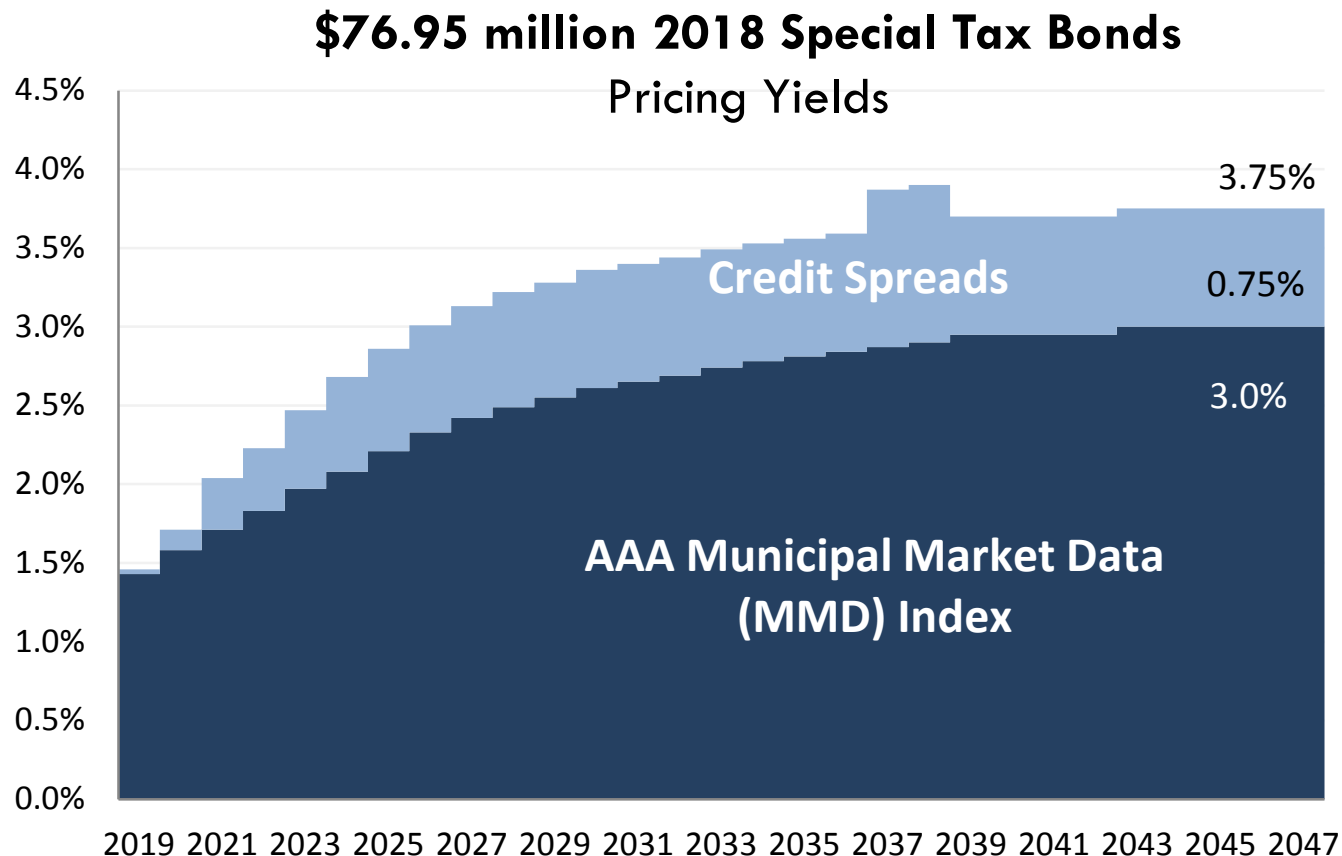
□ Extensive bond marketing effort

- ▣ Leveraged investor familiarity with earlier phases of project
- ▣ Investor site tour
- ▣ Used a drone video to provide a “virtual tour” of project and its environs

Fourth Bond Sale: Esencia

□ Appraised Value of \$240 million

▣ VTL 3.09 to 1

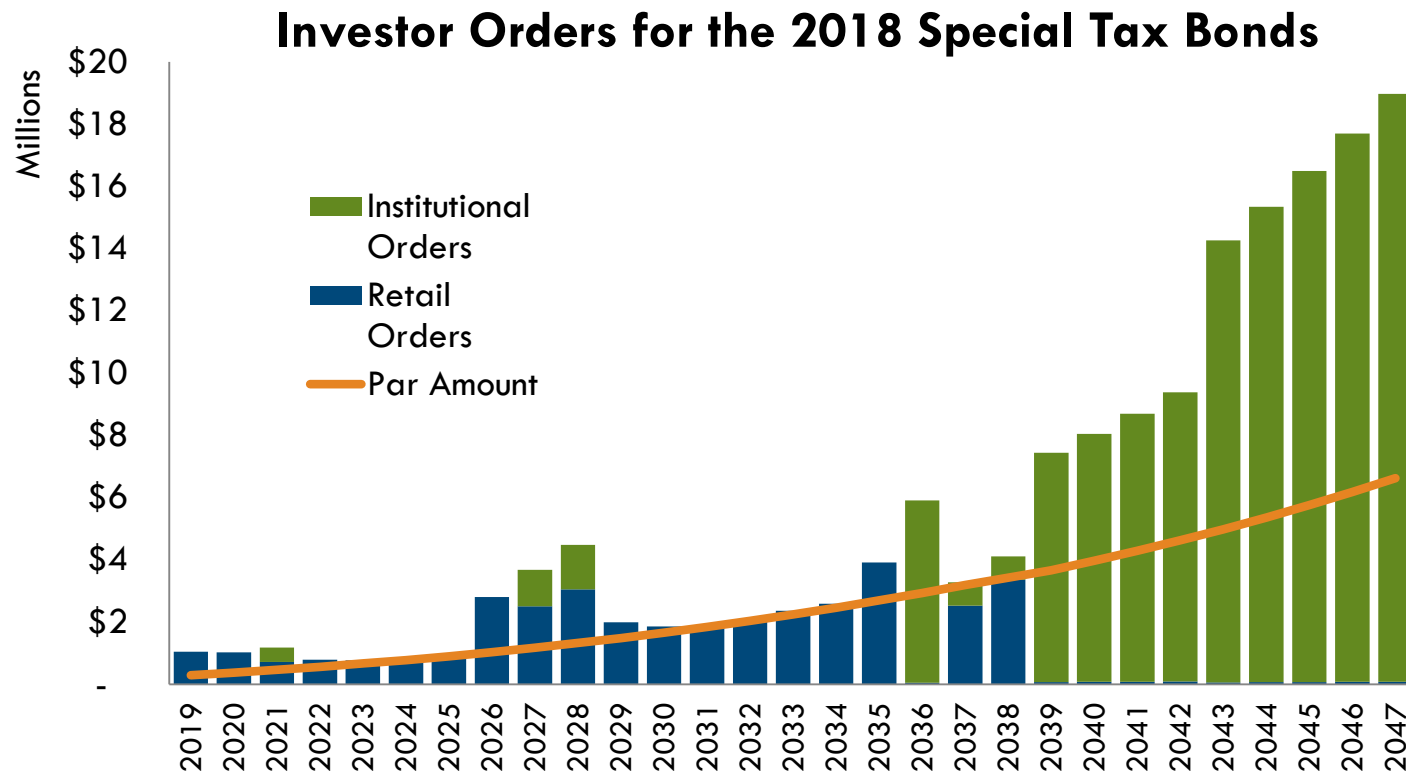


Source: 2018 Official Statement

2018 Bond Sale: Esencia

□ Deep, diverse order book

- ▣ 13 institutions placed orders totaling \$126 million
 - High yield bond funds, insurance company and money managers
- ▣ 98 separate orders totaling \$38 million from individual “retail” investors



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