Municipal Bonds: Creative Applications of Traditional Financing Tools to Promote Economic Growth and Resiliency

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1. Identify local economic development and environmental policy goals
   - Job creation, affordable housing, infrastructure, transportation, sustainability and resilience

2. Apply existing financing tools in a creative way to address policy goals
   a. Pair land use policy with Community Facilities Districts (CFDs) for transformative results
      o City of Fremont CFD No. 2 (Warm Springs Public Facilities)
      o City of San Francisco CFD No. 2014-1 (Transbay Transit Center)
   b. Use Infrastructure Revenue Financing Districts (IRFDs) to fund affordable housing
      o San Francisco Treasure Island
   c. Use a combination of CFDs and IFDs to address climate change and sea level rise
      o San Francisco Treasure Island
      o San Francisco Port Pier 70
   d. Regional partnerships

3. Emerging financing tool of C-PACE
   a. Promotes the funding of renewable energy, energy/water efficiency and seismic improvements
I. Development Related Infrastructure Financing Tools
Development-Related Infrastructure Financing Tools

• **Community Facilities Districts (CFDs)**
  – Historically used for “green field” subdivisions
  – Increasingly used for urban in-fill projects
  – Wider usage increases market acceptance

• **Infrastructure Financing Districts (IFDs)**
  – Similar to “old school” redevelopment
  – More limited revenue stream
  – Only share of 1% property tax revenues of city, county or special districts that opt in
  – Schools’ share of revenues are excluded
  – Works best in tandem with other tools, like a CFD

**Illustrative Urban In-fill CFDs in San Francisco**

Source: Goodwin Consulting Group
II. Transit Oriented Development Project
City of Fremont’s Warm Springs

• From General Motors to Tesla . . .
  – GM cars were manufactured here from 1962 to 1982
  – From 1984 to 2010, a joint venture of GM and Toyota, NUMMI, built Toyota Corollas and Tacomas
  – In 2010, Tesla took over the vacant plant

• BART Extension to Warm Springs
  – Planning began in 1991

• Warm Springs/South Fremont Community Plan
  – Began in 2010
  – Focused on 879 acres in the vicinity of both
  – Goal was transformation of large, vacant parcels and underutilized industrial land into an “Innovation District”
Warm Springs/South Fremont Community Plan

Plans envision 20,000 jobs and 4,000 new residents in the area

BART System Map

Rendering of Community Plan area

Warm Springs/South Fremont BART station opened in March 2017
Lennar is developing one of several residential projects underway in the Plan area

- 958 attached for-sale residential units and 1,256 multi-family rental units
- A new public elementary school and a 4-acre joint-use park
- At least 750,000 sq.ft. commercial space

A CFD was formed on just the for-sale residential units

→ Much like a typical green field CFD but in a denser “TOD” context

Raised $17 million to fund infrastructure, primarily streets
• **CFD was formed in 2017**
  – Property owners approved the special tax, eligible facilities, maximum bonded debt
  – Maximum annual special tax of $1,080 to $2,285 per home
  – City promises to foreclose if property owners don’t pay their special taxes
  – Home price range: ~$875,000 to nearly $1.4 million

• **2019 Special Tax Bonds**
  – $16.6 million par
  – Construction underway on 271 of 958 homes
    ▪ 36 homes were sold
    ▪ 91 sales were pending
  – Value-to-lien> 18-to-1
  – 30 year term
  – Non-rated interest rates
    ▪ 2.80% tax yield
    ▪ 3.91% to maturity
III. Land Use Up-Zoning with a CFD
San Francisco’s Original Transbay Terminal

- Opened in 1939 to serve trains crossing the newly opened Bay Bridge and regional buses
- Served as many as 26 million commuters annually at its peak in the 1940s
- Damaged by the Loma Prieta earthquake in 1989
- In 1999, San Francisco voters approved a proposition to build a new Transbay terminal and extend CalTrain tracks to it – at an expected cost of $621 million
San Francisco Transbay Program

• **Three components**
  – Build new terminal to replace original Transbay Terminal
  – Extend rail tracks from Caltrain terminus to the new terminal
  – Develop a new neighborhood around the new terminal

• **Transbay Joint Powers Authority (TJPA)**
  – Created in 2001 to execute the Transbay Program
  – Multi-agency collaboration
    ▪ City, AC Transit, CalTrain, Caltrans

• **Plan of Finance**
  – Cost estimates have grown to > $6 billion
  – More than $2 billion invested to date

• **Federal, state, regional and local funds**
  – ARRA grant and TIFIA loan
  – Caltrans land sale proceeds
  – Bridge tolls and regional sales tax revenues
  – Tax increment
  – *Special tax revenues*
Transbay CFD Leverages Land Use Up-zoning

- **Transit Center District Plan**
  - City approved in 2012
  - Shapes growth near new terminal
  - Eliminated certain density caps
  - Increased height limits

- **CFD No. 2014-1**
  - City formed in 2014
  - Special taxes levied only upon *completed* buildings
  - Each taxed for up to 30 years
  - “Future annexation area” covers Transit Center District Plan area
  - Projects using density bonuses *must* annex into the CFD
Transbay Skyline 1980s vs. 2017

Source: SFGate
The Salesforce Transit Center is Now (Re)Opened

View of Salesforce Transit Center

Salesforce Park
Transbay CFD Financings

• **Two rounds of taxable financings issued to date**
  – Nearly $400 million sold out of $1.4 billion total bond authorization
  – Bond proceeds split by TJPA and the City for costs of new terminal and neighborhood
  – Additional sales expected as development proceeds

• **Each sale included a “Green Bonds” series**
  – Certified by the Climate Bonds Initiative (CBI) under the Low Carbon Transport Criteria

A Drone Video Highlighted Location
“Green Bonds” are used to fund climate-related or environmentally-beneficial projects
  – i.e. Clean transportation, renewable energy, sustainable water management

Large and growing global market
  – Over $10 billion of municipal “green bonds” were issued in 2017

Growing political support with the Green Bond Pledge
  – Focuses on environmental impacts of infrastructure investments and capital projects

Symbolic or impactful?
  – Helps raise awareness, pricing benefit seen principally in taxable markets to date

Source: Climate Bonds Initiative
IV. Development Projects Using Infrastructure Financing Districts
Aerial View of San Francisco Treasure Island

Treasure Island Development Authority (TIDA) guides redevelopment of former naval base

Yerba Buena Island
• 150 acre natural island, anchors Bay Bridge

Treasure Island
• 400 acre man-made island
• Hosted 1939 International Golden Gate Exhibition
• Naval Station from 1941 to 1997
• Multi-phased development over 15-20 years
  – Up to 8,000 homes, including 25% affordable
  – 240,000 sf commercial/retail/office and 500 hotel rooms
  – Ferry terminal, 400 slip marina, 300 acres of parks and open space
Treasure Island Community Development (TICD) is developing Treasure Island
Signed a Development Agreement (DDA) with the City and TIDA in 2011
• **Huge Infrastructure Needs**
  – Over $800 million of infrastructure needs
  – Additional sea level rise projects expected
  – Using *both* CFDs and IFDs *additively*

• **CFD formed in 2017**
  – Multiple improvement areas anticipated
  – Facilities special tax term of 100 years in first improvement area, then transitions to a service tax
  – Pay-Go tax capacity for capital in first 42 years, sea level rise thereafter

• **IFD formed in 2017**
  – Using an Infrastructure and Revitalization Financing District (IRFD) form of IFD
  – Staggered project areas with separate tax collection start thresholds
  – Net tax increment shared by TICD for capital and TIDA for affordable housing
San Francisco Port Pier 70

• Redevelopment of former shipyard
  – At least 1,100 residential units
    ▪ 30% affordable
  – Up to 2 million sq.ft. commercial
  – 9 acres of new parks
  – Historic renovations

• **Owned by the Port of San Francisco**
  – Purchased from Bethlehem Steel in 1982
Pier 70 Infrastructure Finance Plan

• **Infrastructure financing district formed**
  – Used Port’s own IFD statute
  – Will capture future tax increment from growth

• **Multiple CFDs will be formed**
  – Residential condominium projects
  – Leasehold interests on Port-owned land
  – Used as source for up-front financings

• **Intertwined cash flows**
  – Tax increment will be used to *reduce* the Special Tax levy in the future
  – Port shares equity interest in project
V. Emerging Financing Tool: Commercial PACE
What is PACE?

• **Property Assessed Clean Energy**

• **Programs established to finance the installation of distributed generation renewable energy, energy efficiency, water efficiency, fire prevention and seismic improvements that are permanently fixed to real property**
  
  – Voluntary contractual assessments and the issuance of bonds under the Improvement Bond Act of 1915
  
  – Public agency with PACE Program enters into a contract with an owner of real property, located within the program’s boundaries
  
  – Public agency provides financing, typically through third parties, for the installation of the PACE improvement(s) in exchange for the property owner’s agreement to pay an assessment, which is secured by a property tax lien, to finance the installation
Policy Goals

• **Policy goals**
  – Increase energy and water efficiency
  – Decrease utility costs for property owners
  – Promote resiliency
  – Increase investment in local economy
  – Reduce greenhouse gas emissions

• **National effort that started in California**
  – Building upgrades supported by PACE financing have resulted in an estimated 9.1 million metric tons of avoided CO₂ emissions¹

Commercial PACE Overview

• Commercial PACE offers certain property owners/developers long-term, off-balance sheet financing for eligible improvements
  – Rationale behind program was to lower burden of prohibitively high upfront costs of green or resilient improvements
  – 20-30 year terms
  – Fixed rate

• Lower cost of capital compared to other financings like mezzanine debt

• Capitalized interest for up to 2-years

• Private capital provided and repaid by property owner through the property tax bill

• Can increase net operating income of property if efficiency cost savings outweigh financing costs

• Sample list of improvements:

  **Energy Efficiency Measures**
  - Air filtration and sealing
  - Electric vehicle plug-in station
  - Green roof
  - HVAC duct zoning control systems
  - Insulation
  - Lighting
  - Skylights
  - Tankless Water Heater

  **Water and Solar**
  - Cooling condensate reuse
  - Drip irrigation systems
  - Filter upgrades
  - Permanent rainwater cisterns
  - Photovoltaic electric systems
  - Rainwater harvesting systems
  - Recycled water source
  - Solar thermal systems

  **Resiliency (Fire and Seismic)**
  - Brace frames
  - Dual-paned tempered glass
  - Fire-resistant roofing
  - Foundation connection systems
  - Ignition resistant walls
  - Irrigation
  - Masonry reinforcement
  - Related “soft” costs
• **Benefits of PACE financing to Commercial Real Estate Owners**
  
  – Cost of PACE financing, and the benefits generated, can be shared with tenants under most lease forms, thus eliminating the split incentive issue that derails so many energy efficiency projects
  
  – 100% of project costs, including soft costs such as development fees, can be financed through PACE, which removes the requirement for out-of-pocket expenses for owners
  
  – PACE is strictly property-based financing secured by a lien on the property. As a result, the owner of the property is not personally obligated to repay the tax assessment

• **Project Details**
  – Greyhound Lofts
  – 102-unit multifamily new-construction housing development in Oakland, CA
  – In close proximity to the city center and several transportation hubs

• **Credit Attributes**
  – $10 million in PACE financing as part of $52 million total capital stack
  – PACE Financing funded:
    ▪ Roofing & Insulation
    ▪ HVAC Systems
    ▪ Energy Efficient LED Lighting
    ▪ Water Efficiency
    ▪ Seismic Measures
  – Project goal of obtaining LEED Silver or Gold certification

• **Financing Terms**
  – 25 year term
  – Non-Recourse, Off-Balance Sheet Financing
  – Privately placed with Twain Financial Partners
  – Closed in December of 2018