

Santa Clara



City of Santa Clara, California

**DATE:** November 20, 2007**TO:** City Manager/Executive Director for Council/Redevelopment Agency Action**FROM:** Director of Finance/Treasurer for Redevelopment Agency**SUBJECT:** Tax Increment Study: Update for North of Bayshore Redevelopment Project Area and Municipal Bond Overview**EXECUTIVE SUMMARY:**

The May 1, 2007 meeting of the Council/Agency sitting as a "Committee of the Whole" was held to review and accept the Redevelopment Agency's Tax Increment Study for the City's two RDA Project Areas: the North of Bayshore and University (Downtown) Areas.

The purpose of the meeting on November 20, 2007 is twofold:

1. Review the Tax Increment Study Update for the North of Bayshore RDA Project Area with City Council/RDA Board of Directors, and to present additional information that has been developed since the May meeting.
2. Review the Municipal Bond Overview presentation with City Council.

The Tax Increment Study Update addresses the viability of tax increment revenue in the RDA North of Bayshore project area. The summary findings include details of the bonding capacity as follows:

- If the Stadium Project proceeds, it will be necessary for the RDA to adopt a minor plan amendment under SB211. This will trigger pass throughs of tax increment to the overlapping taxing entities; the impact of this reviewed.
- Using the Planning Scenario, which includes growth in development over this period of time, and by waiting to issue two series of bonds, the RDA can issue a total of \$65 million in new bonds. (In the May 2007 Tax Increment Study and using the Planning Scenario, the projection was for \$45.3 million of new bonds.)
- If the Stadium Project proceeds, under the current Planning Scenario, the 30% Affordable Housing Set Aside is reduced to 26% on average.
- The Affordable Housing Set Aside funds can be used to issue Affordable Housing bonds if needed, without having to adopt a minor plan amendment under SB211.
- Relevant facts are included related to moving forward with and without the stadium project and/or any sizeable new project.

The Municipal Bond presentation will include answers to several of the key characteristics and RDA and City responsibilities regarding bond issuance.

ADVANTAGES AND DISADVANTAGES OF ISSUE:

Reviewing the updated tax increment analysis of the new money bonding capacity in the North of Bayshore area allows Council/Agency to continue the process of evaluating the feasibility of a key project: the 49ers stadium financing in the North of Bayshore Project Area.

ECONOMIC/FISCAL IMPACT:

The cost of the Tax Increment Study Update will be approximately \$5,000 and was anticipated in the 2007-08 RDA budget and is not part of the funds appropriated for specialty consultants for the 49ers stadium study.

RDA Tax Increment Study Update for North of Bayshore Project Area
November 20, 2007

RECOMMENDATION:

That the Council/Agency refer the report titled "Tax Increment Study Update (North of Bayshore Project Area) November 2007" to the City Manager/Executive Director for inclusion in the set of recommendations to be developed for the stadium project in the RDA North of Bayshore Project Area.



Mary Ann Parrot
Director of Finance/Treasurer

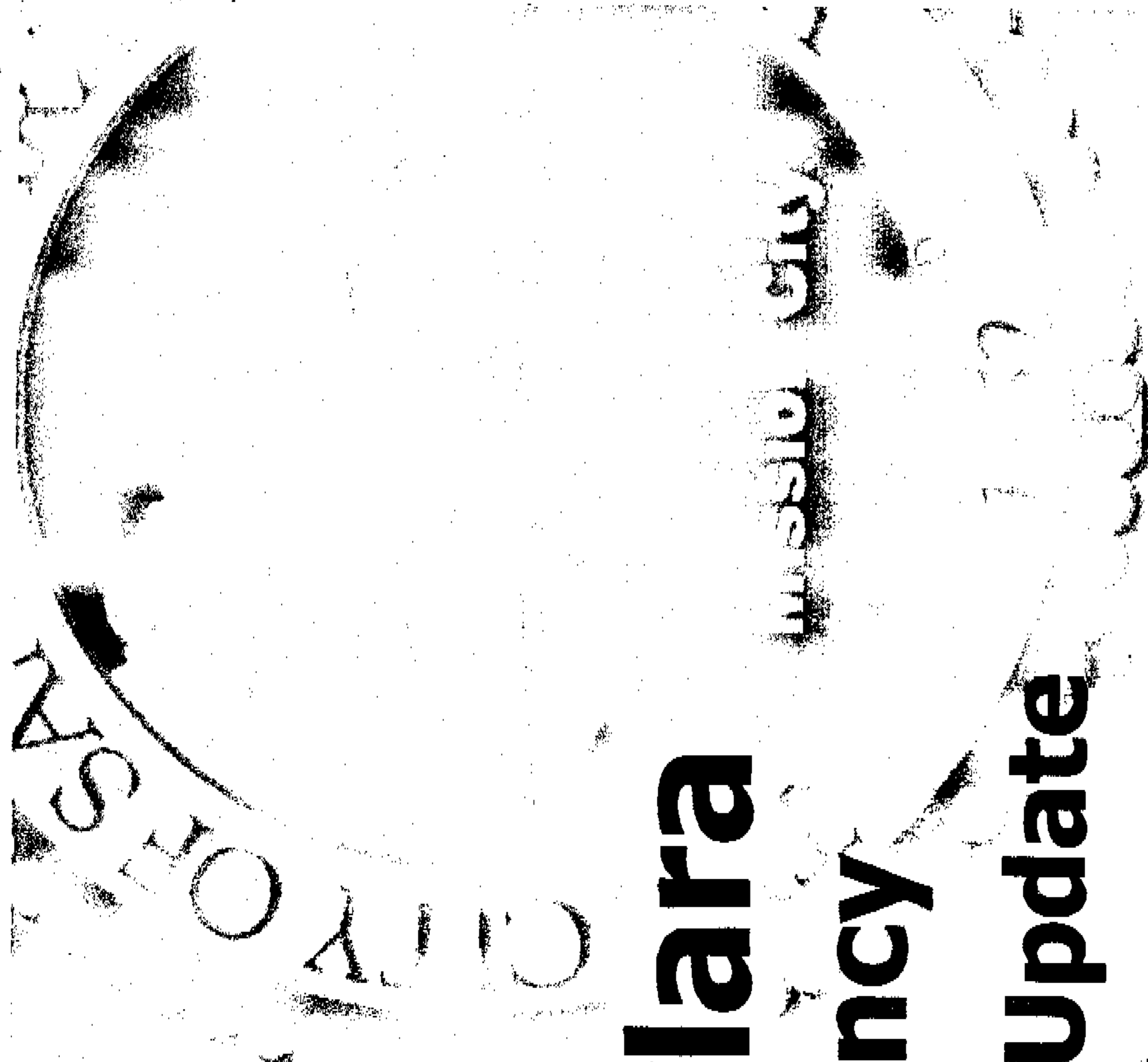
APPROVED:



Jennifer Sparacino
City Manager/Executive Director for Agency

11/30/07

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**City Of Santa Clara
 Redevelopment Agency
 Tax Increment Study: Update
 North of Bayshore RDA**

November 2007

RDA Summary

TI Study Summary
Total Tax
Increment
Summary Table
Opportunities
and Obstacles

Bayshore North Project Area

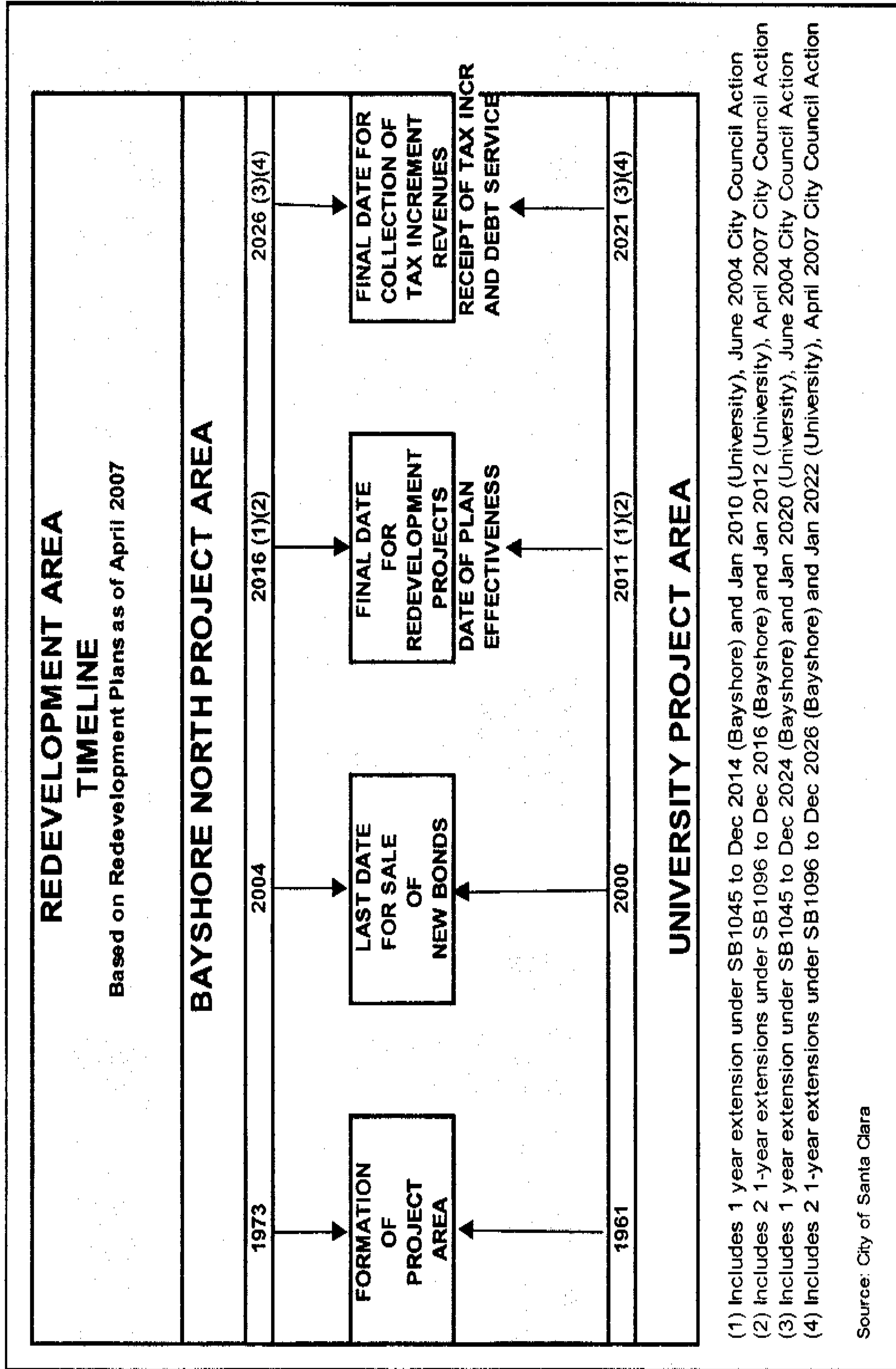
Map
Affordable Housing Set Asides
Extensions and Pass Throughs
Total Obligations

RE

well
firm

active
TOA

Redevelopment Area Timeline



(1) Includes 1 year extension under SB1045 to Dec 2014 (Bayshore) and Jan 2010 (University), June 2004 City Council Action
 (2) Includes 2 1-year extensions under SB1096 to Dec 2016 (Bayshore) and Jan 2012 (University), April 2007 City Council Action
 (3) Includes 1 year extension under SB1045 to Dec 2024 (Bayshore) and Jan 2020 (University), June 2004 City Council Action
 (4) Includes 2 1-year extensions under SB1096 to Dec 2026 (Bayshore) and Jan 2022 (University), April 2007 City Council Action

Source: City of Santa Clara

Tax Increment

- Property taxes generated by increases in assessed value of project area property above the base year value is paid to the agency as tax increment.
- The tax increment can be allocated and paid to the agency for a specified number of years. For North of Bayshore this is through December 2026.
- The tax increment is available to be used in the project area (or for projects that benefit the project area) and is not available for general government use (e.g., the General Fund).

Fiscal Limits RDA Funds

Allowed

1. Tax Increment can be pledged as security for bonds.
2. Tax increment bonds can be issued without vote of public (since it is not taxes, but increment).
3. Can be used to pay for relocation of existing businesses.
4. Provide loans for rehabilitation.
5. Pay for land for, and construction of, public improvements.
6. Pay for land, site clearance and site preparation for private development.
7. Must allocate 20% minimum to affordable housing initiatives. Current policy is for 30% and is reviewed on an annual basis.

Not Allowed

1. Cannot be spent outside redevelopment project area except for affordable housing and for public improvements that directly benefit the project area.
2. Cannot be used to pay for private improvements, except affordable housing.
3. Is not to be used for the construction or rehabilitation of city hall.
4. Cannot be used for on-going operations and maintenance costs.

Redevelopment Activities

- Construct public infrastructure
- Prepare site for development
- Buy and sell property
- Improve dilapidated facilities
- Mitigate environmental impacts
- Build affordable housing
- Eliminate "blight"
- Use of Tax Increment financing for all of the above

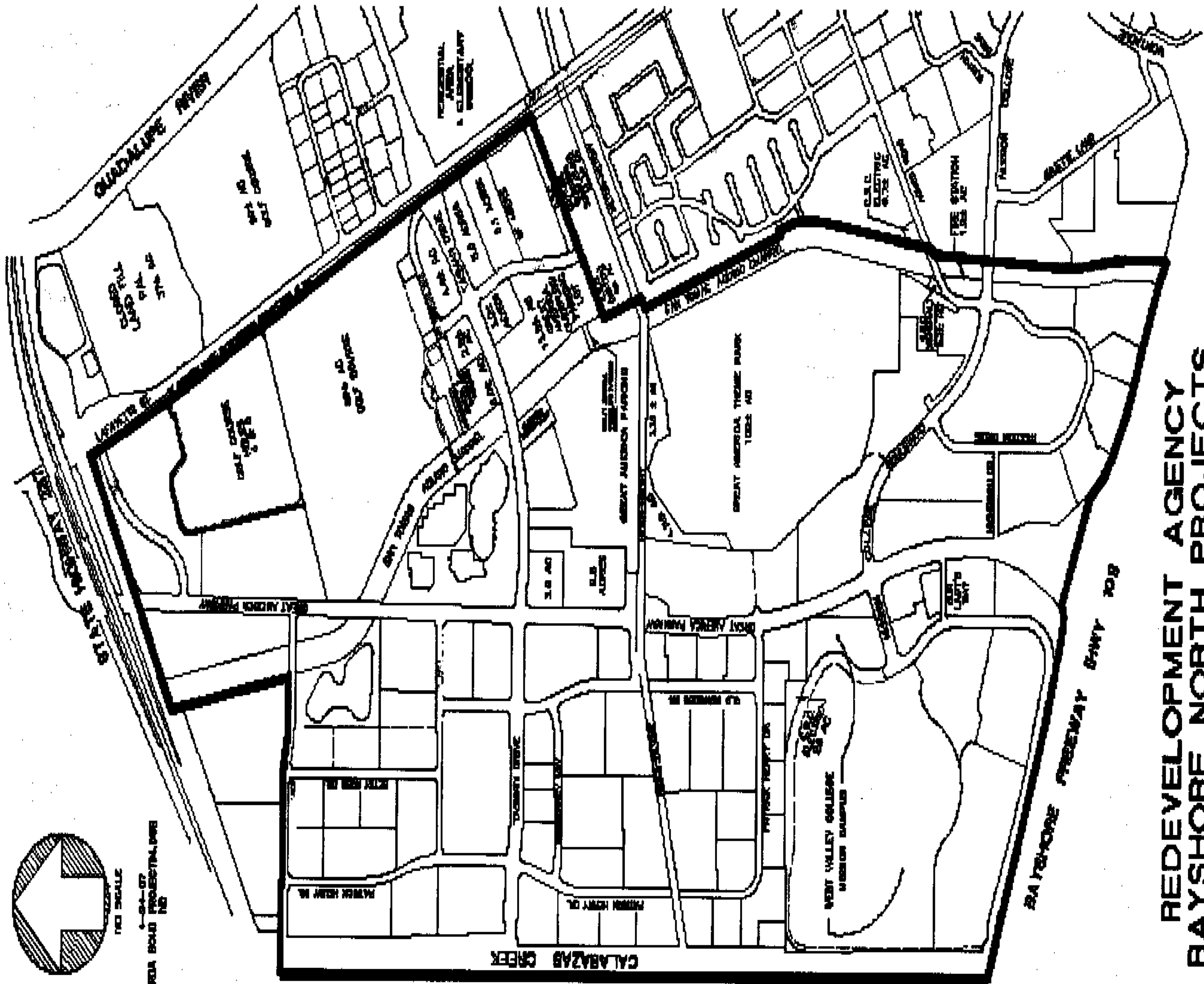
Redevelopment Tools

- Four powerful tools
 - Redistribute property tax revenues (tax increment)
 - Sell/lease property for private development
 - Eminent domain
 - Expired in 1998 in both project areas, North of Bayshore and University
 - Ordinance #1559, November 18, 1986
 - Issue Tax Increment Bonds

Bayshore North Project Area

- Map
- Tax Increment Projection Scenarios
- Affordable Housing Set-Asides
- Extensions
- Pass Throughs (including Basic Aid districts)
- Tax Increment Cap: Tax Increment Received to Date and Tax Increment to Be Received
- RDA Total Obligations

Bayshore North



**REDEVELOPMENT AGENCY
BAYSHORE NORTH PROJECTS**

DATE: APRIL 24, 2007

Tax Increment Projection Scenarios

- Base Case Scenario
 - No New Development
 - Growth in Real Property Assessed Values
 - Bayshore North 3.5%
- Planning Scenario
 - Incorporates potential future development
 - Bayshore North (office/commercial projects; excludes Stadium - impact not known)
 - Existing Real Property Assessed Value Growth
 - Bayshore North: 5%

Affordable Housing Set-Asides

- Requirement: RDA must use at least 20% of tax increment revenue "for the purpose of increasing, improving, and preserving the community's supply of low and moderate-income housing available at affordable housing cost." Code 33334.2
- Funds used for housing projects throughout the City
- Council policy for 10% discretionary set aside was adopted in 2002-03
 - This determination is made on an annual basis
 - Bayshore North additional 10% for housing, total 30% (total for 2007-08 is \$7.5 million)
 - For 2007-08, 20% is approximately \$5.0 million
 - For 2007-08, additional 10% equals \$2.5 million
 - University 20% - for 2006-07 \$100 thousand
- Since inception total affordable housing set aside has been \$109 million and has benefited 2,895 moderate- and low-income households

Affordable Housing Set-Asides

- Without the stadium project, the total housing set asides amount to \$202 million. This includes the 20% statutory through 2025-06 and 10% discretionary through 2015-16.
- With the stadium project, the total housing set asides amount to \$197 million. This includes the 20% statutory set asides through 2026 and 6% discretionary through 2015-16.
- The difference between the two scenarios is \$5 million.

RDA Extensions (completed)

ERAF extensions (total 3 years)

- Approved by RDA Board
- June 2004 and April 2007 extend by three years
- Extended plan effectiveness date to December 28, 2016 (North of Bayshore)
- No new projects after 2016; can collect increment and pay existing obligations
- Project plan terminates December 28, 2026

RDA Extension (option) and Pass Throughs

Minor SB211: State law January 1, 2002

- Extends the time limit for incurring debt to December 28, 2016
- Adoption by ordinance only; requires no other action
- Required for investment in stadium
- Triggers Statutory "Pass Through" payments: Other taxing entities receive 25% of net tax increment after housing set aside generated from assessed value growth.
- Triggers pass through payments to school districts which are "basic aid" (next chart)

Basic Aid School Districts

- School districts whose share of local property taxes exceeds the statewide guaranteed amount ("revenue limit") are allowed to keep the extra revenue
- These districts are called "basic aid" districts because they only receive this minimal allocation of state funds
- In the relatively rare situation where a redevelopment project area overlaps a basic aid district, these districts get special treatment
- When the time limit for debt is extended under SB211, it triggers a pass through of most of their share of the property taxes to keep school districts relatively whole
- This reduces the amount of property tax deemed increment and available to the redevelopment agency

Taxing Entities Who Would Receive Pass Throughs

- City of Santa Clara
- Santa Clara County
- Santa Clara Unified School District (basic aid)
- West Valley Mission Community College District
- Santa Clara County Office of Education (basic aid)
- Santa Clara Valley Water District (5 districts)
- Bay Area Air Quality Management
- Santa Clara Bridge District
- El Camino Hospital (North of Bayshore)

Total Pass Through Payments - SB 211

Net Present Value of Cumulative Payments North of Bayshore

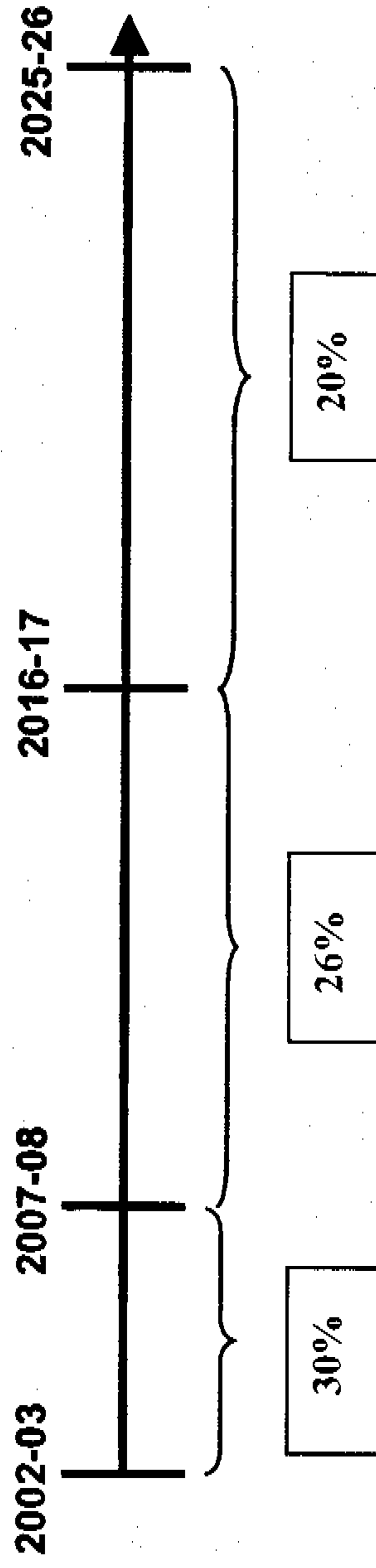
Payments Required With SB 211 (\$Millions)	Statutory	Basic Aid	Total
County	\$16.0	-	\$16.0
City of Santa Clara	\$4.5	-	\$4.5
Santa Clara Unified Schools	\$19.3	\$49.2	\$68.6
West Valley Mission Community College	\$5.6	-	\$5.6
County Office of Education	\$2.0	\$5.6	\$7.6
SCV Water Districts	\$1.2	-	\$1.2
Other Agencies	\$0.1	-	\$0.1
Total (\$Millions) – Net Present Value	\$48.8	\$54.8	\$103.6
Total (\$Millions) – Nominal Value	\$98.5	\$107.5	\$206.0

Note: amounts are the net present value of projected payments through the tax increment receipt limit of the project area using a discount rate of 6% per year. Payments are projected to start in 2008-09 and continue through the 2026 tax increment receipt limit. Totals do not add due to rounding.

Annual payments to the 13 entities would average \$5.8 million per year (net present value) or \$11.4 million per year (nominal value).

Affordable Housing Set Asides and Stadium

- With stadium project, affordable housing set asides are reduced in order to support bonds and cash needed for the stadium project
- Average until 2025-26 is 22%
- Present value of existing and additional set asides is \$20 million



RDA Total Obligations

- RDA will receive tax increment to retire existing obligations
- Total Obligations through 2025-26
 - Outstanding Bonds \$ 202
 - Outstanding Loans 13
 - Cooperation Agreement 360
 - Administrative Reimbursement 58
 - Total Obligations \$ 633

Excludes Statutory and Discretionary Housing Set Asides, County Administration Fees
Source: City of Santa Clara RDA Statement of Indebtedness filed with Santa Clara County
Controller's Office for 2007-08

RDA Tax Increment Cap

- Resolution #1560 of Nov 25, 1986 declaring \$1.2 billion as total tax increment to be received in North of Bayshore Project Area (cap)
- To date (FY 2006-07) \$347 million
- Additional tax increment to be received (Planning Scenario) is \$872 million, includes 20% statutory housing set aside (\$625 million after set asides and administrative fees)
- With Stadium, cap is reached in January 2026; projection is for RDA to forego 1 year of tax increment through December 2026.

Tax Increment Study Assumptions

- Maximize the amount of money (bonds) to borrow
- Bond payments made only from tax increment
- No City obligations (General Fund, Utility, other)
- Affordable housing set-asides averages 26% (from 2007-08 through 2015-16)
- Affordable housing set-asides will be statutory 20% for 2016-17 through 2025-26

Tax Increment Study Assumptions

- Includes Minor amendment to extend debt incurrence limits (SB 211)
 - Adoption of ordinance only
 - Debt repayment to 2026 for Bayshore North
 - Triggers statutory pass-throughs (taxing entities), including basic aid payments to Santa Clara Unified School District and Santa Clara County Office of Education
- In order for the RDA to issue additional bonds, the Agency must adopt a Minor plan amendment under SB211

Tax Increment Study Summary

Description	Bayshore North
Annual Tax Increment (2009 Projection)	\$25.7 million
Tax Increment Cap (Cumulative)	\$1.2 billion
	Average 22% Housing
TI Available for Bonds	\$17.5 million
New Money Bonds*	\$65 million*
Term	2026
Max Annual Debt Service	\$17.5 million
Coverage	1.25x

* Net of additional funding requirements. Two bond issues: 2009 and 2012. Original issue was \$45.3 million (May 2007 Tax Increment Study)
 Source: Keyser Marston Associates (KMA), September 2007

Tax Increment Study Opportunities and Obstacles

Bayshore North Project Area

- Strong Near Term Growth Potential
 - Assessed Valuation Tied to Real Estate Market
 - Market Gaining Strength: Declining Vacancy, Rising Rents and Sales Prices
 - \$65 million in bonding in two pieces: 2009 and 2012 (assumes average 22% affordable housing set aside)
- Affordable Housing Set-Aside (2007-08 Projection)
 - Use for affordable housing anywhere in City (not exclusive to Bayshore North and University Project Areas)
 - Can be used to bond for affordable housing projects without adopting SB211 minor plan amendment

RDA Summary

- Recommendation: do not proceed with ordinance for Minor Plan Amendment under SB211 unless and until required for future projects
- North of Bayshore new money bonding \$65 million, assuming average 22% affordable housing set aside
- Affordable housing set aside can be bonded without adopting SB211 minor plan amendment; relevant for Downtown Revitalization Project

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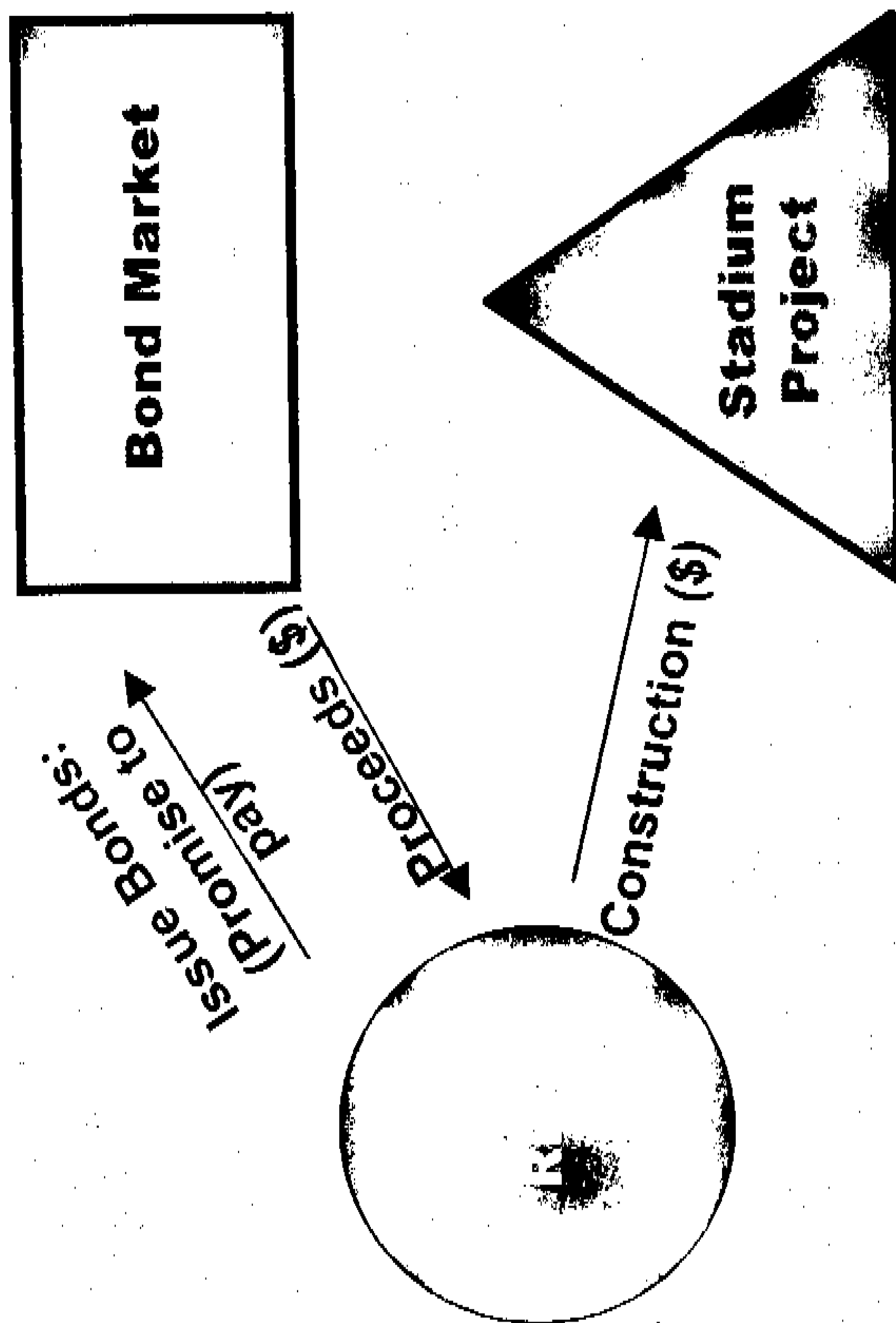
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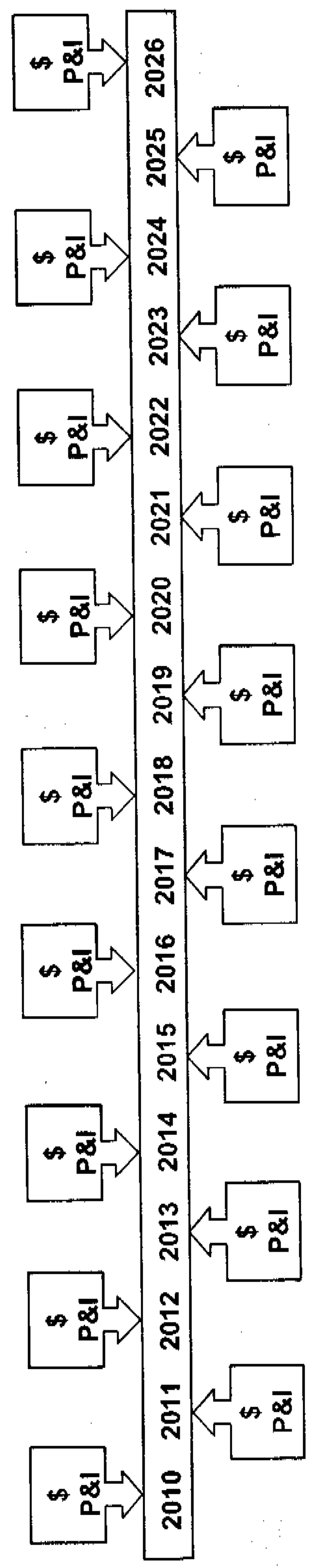
Municipal Bonds

What is a Bond?

- A promise by state or local governmental units to repay an amount of money borrowed
- Like a home mortgage, bond issues are "amortized", periodically paying interest to date and a portion of principal
 - For bonds, principal is paid by retirement of each year's specific maturity.



RDA pays principal and interest



Example Total Debt Service

- Paid by RDA tax increment
- Total debt service (principal + interest) is "level" or about the same each year
- Total debt service paid (principal + interest) is more than the principal of the bonds
- Average interest rate of various maturities is 4.77%

	Principal	Interest	Total	Total Outstanding
Beg. Bal.				\$ 50,000,000
2009	\$ 1,990,660	\$ 2,274,853	\$ 4,265,513	48,009,340
2010	1,879,410	2,386,106	4,265,516	46,129,930
2011	1,969,240	2,296,270	4,265,510	44,160,690
2012	2,062,980	2,202,535	4,265,515	42,097,710
2013	2,161,170	2,104,337	4,265,507	39,936,540
2014	2,264,480	2,001,033	4,265,513	37,672,060
2015	2,373,400	1,892,111	4,265,511	35,298,660
2016	2,488,040	1,777,476	4,265,516	32,810,620
2017	2,609,200	1,656,309	4,265,509	30,201,420
2018	2,737,310	1,528,197	4,265,507	27,464,110
2019	2,872,540	1,392,974	4,265,514	24,591,570
2020	3,015,590	1,249,921	4,265,511	21,575,980
2021	3,166,670	1,098,840	4,265,510	18,409,310
2022	3,326,270	939,240	4,265,510	15,083,040
2023	3,494,580	770,931	4,265,511	11,588,460
2024	3,672,100	593,406	4,265,506	7,916,360
2025	3,859,380	406,129	4,265,509	4,056,980
2026	4,056,980	208,529	4,265,509	-
Totals	\$ 50,000,000	\$ 26,779,197	\$ 76,779,197	



Why Do Cities Issue Bonds?

- Not enough cash on hand
 - Large project
 - Can't pay-as-you-go
 - Desire to spread cost over useful life so that cost is paid by both current and future users
- Most municipal bonds are tax-exempt, meaning no income tax is paid on interest income to investors
 - Results in investors' willingness to accept lower rates
 - Complex tax rules govern tax-exemption. Some stadium-related bonds might be taxable



Different Types of Financing

< Higher Rated		Types of Financing			Lower Rated >	
Bond Type	General Obligation	Lease Revenue (or Certificates of Participation)	Enterprise Revenue (e.g. Electric System)	Redevelopment (Tax Allocation)	Stadium Authority Revenue Bonds (Project Finance)	
Source of Repayment	Property taxes	General Fund	Utility fees	Incremental property taxes	Specific/identified revenues	
Revenue Pledge	"Full faith and credit" of issuer. Secured by supplemental property tax levy	Lease payments for use of an asset (usually leased-back from issuer-created third party). Paid from annual general fund appropriations	Net revenues of the utility. Pledge to raise rates in order to maintain debt service coverage ("rate covenant")	Secured by tax increment, the share of the 1% property tax attributable to growth in assessed values after formation of the project area	Limited obligations expected to be secured from admission fee and naming rights revenues	
Vote Requirements	2/3rds voter approval; Schools may be 55%	Typically no public vote required	Typically no public vote required. (Santa Clara City Charter allows revenue bonds for electric without election)	No public vote required	No public vote required	



Bond Financing for Stadium

Bonds Issued by RDA

- Tax Exempt
- Tax Allocation Bonds
- Term to Maturity: 2026

Bonds Issued by Stadium Authority

- Taxable
- Revenue Bonds: 2 Bond Issues
- Admission Fee Bonds
- Naming Rights Bonds
- Per 49ers Proposal in April 2007: \$185 million



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The Key Players: Finance Team

Player	Role	Specific Parties for Stadium Financing
The Issuer	The borrower, with the legal power to issue bonds.	The Redevelopment Agency for tax allocation bonds, a newly created Stadium JPA for project revenue bonds (admission tax and naming rights).
The Investor	The lender, individual and institutional investors in municipal securities.	Individuals, mutual funds, hedge funds, trusts and insurance companies.
Underwriter	Purchases the bonds for resell to investors. Underwriting can be by competitive or negotiated sale.	Decision as to method of sale will be made closer to time of issuance. Municipal underwriters include Morgan Stanley, Citi, Merrill Lynch, and many other national and regional firms.
Bond Counsel	Drafts legal documents, renders opinions as to enforceability and tax-exempt interest.	Jones Hall is the City's bond counsel.
Disclosure Counsel	Drafts the official statement.	Jones Hall is expected to serve in this role as well.
Financial Advisor	The issuer's consultant in developing plan of finance and executing it with a bond issue.	KNN Public Finance is the City's financial advisor.
Rating Agencies	Assigns a rating to assist the market in judging relative credit quality.	Moody's Investors Service, Standard & Poor's Corporation, Fitch Ratings.



Structuring the Bond Deal

- Like a home mortgage, the costs of issuance are added to the principal amount of the loan
 - True costs of funds accounts for interest and amortization of upfront costs of issuance
 - Costs of Issuance can range from 1% to 3% of principal amount. Estimated at high-end for stadium financings
 - Cost of issuance includes underwriter's discount, bond insurance, and other costs of issuance (e.g. bond and disclosure counsel, financial advisor and bond rating)

Sample Bond Issue	
Estimated Sources And Uses of Funds	
Source of Funds	
Bond Proceeds	\$50,000,000
Use of Funds	
Costs of Issuance	\$1,500,000
Project Funds	48,500,000
	<u>\$50,000,000</u>



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Sample Sequence for Bond Issuance

- Drafting of documents
 - Official statement, indentures, trust agreements, bond authorizing resolutions, other agreements among parties involved
 - This takes 3-12 months depending on the complexities of the project and negotiations with other parties
- Staff secures ratings, finalizes insurance policy for bonds
- City Council/RDA Board adopts authorizing resolutions
- Staff goes into the marketplace to price and sell the bonds
 - During the sale, the interest rate on the various maturities will be determined by the marketplace, and the price per bond will be set
- After the sale, staff returns to City Council with a report on the success of the sale
- The bond issue is closed
 - City executes documents, the bond proceeds are transferred to construction accounts established by the City. This is similar in many ways to a mortgage closing for a private individual



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