

Welcome

CDFA - Tax Increment Finance Coalition Webcast Series: The California TIF Experience

The Broadcast will begin at 1:00pm (EDT).



Tax Increment Finance Coalition *WEBCAST SERIES*

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The California TIF Experience

Erin Tehan

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Welcome

CDFA - Tax Increment Finance Coalition Webcast Series: The California TIF Experience

This Webcast is a listen-only event. Please make sure your computer speakers are turned on to hear the presentation.

You can also listen by telephone using the instructions provided in the email from GoToWebinar.

To ask a question, type your question into the Question box in the GoToWebinar control panel. The moderator will field your question to the appropriate panelist.

CDFA is recording this Webcast, and it will be available to view online at www.cdfa.net.



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The California TIF Experience

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The California TIF Experience

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CDFA Webinar Series

The California TIF Experience



September 29, 2011



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California Tax Increment Finance Overview



Introduction to California Redevelopment Finance

- **Tool used by California cities and counties to revitalize deteriorating and blighted areas within residential neighborhoods and business districts**
- **History:**
 - Community Redevelopment Act adopted in 1945
 - CA Constitutional amendment in 1952 facilitated development of first redevelopment project area
 - By 1975, 158 agencies established with a total of 202 project areas
 - Slow growth initially, but after the “taxpayer revolt” in 1978 led to the passing of Prop 13, growth accelerated
 - By 1990, there were 366 redevelopment agencies and 658 project areas
 - Today there are approximately 400 active redevelopment agencies in California



Underlying Structure

- Basic premise
 - Define a ‘project area’: generally urban and/or blighted
 - Calculate its assessed value (base value)
 - Use public funds to seed investment and redevelopment
 - Capture tax benefits of resulting property value increases
- Redevelopment powers
 - Eminent domain
 - Land assembly
 - Grants, loans, and investments to eliminate blight, improve affordable housing, etc.

Primary Redevelopment Goals

Eliminate blight & reverse deterioration trends



Primary Redevelopment Goals

Assist in development, reconstruction and rehabilitation in underserved areas



Primary Redevelopment Goals

*Rehabilitate existing
low-income housing
stock*



*Create new housing
opportunities for low
income households*

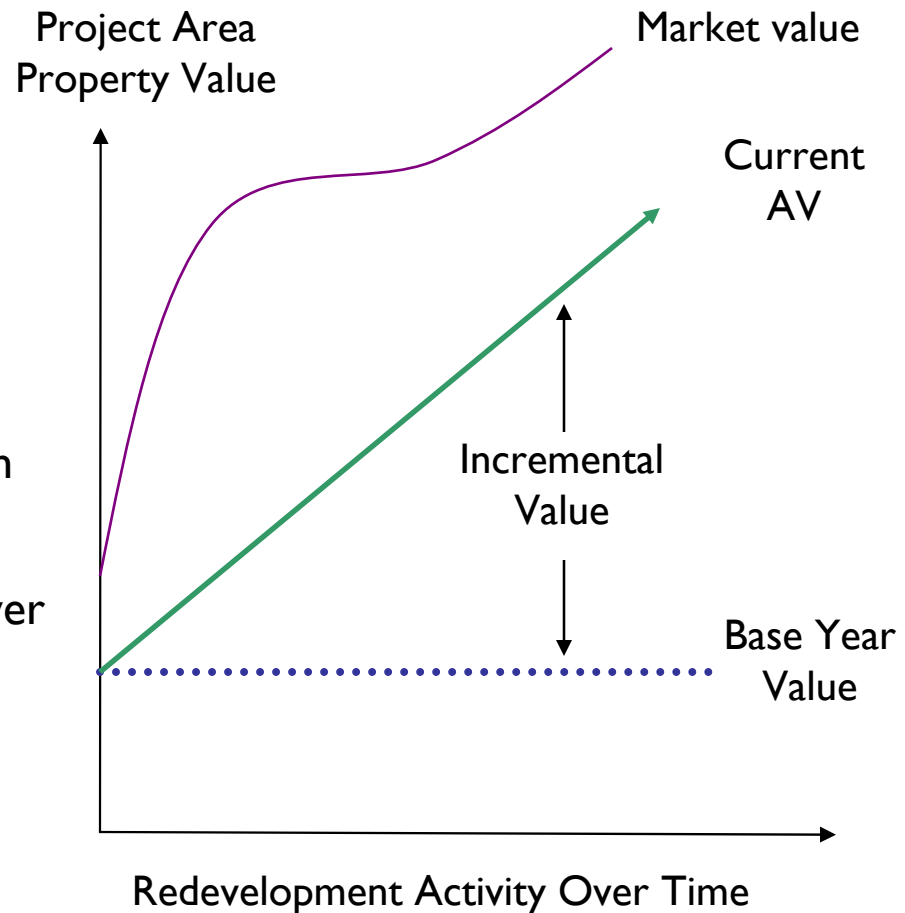
Primary Redevelopment Goals

*Attract private investment,
create jobs and increase sales tax
revenues for general governmental
use*



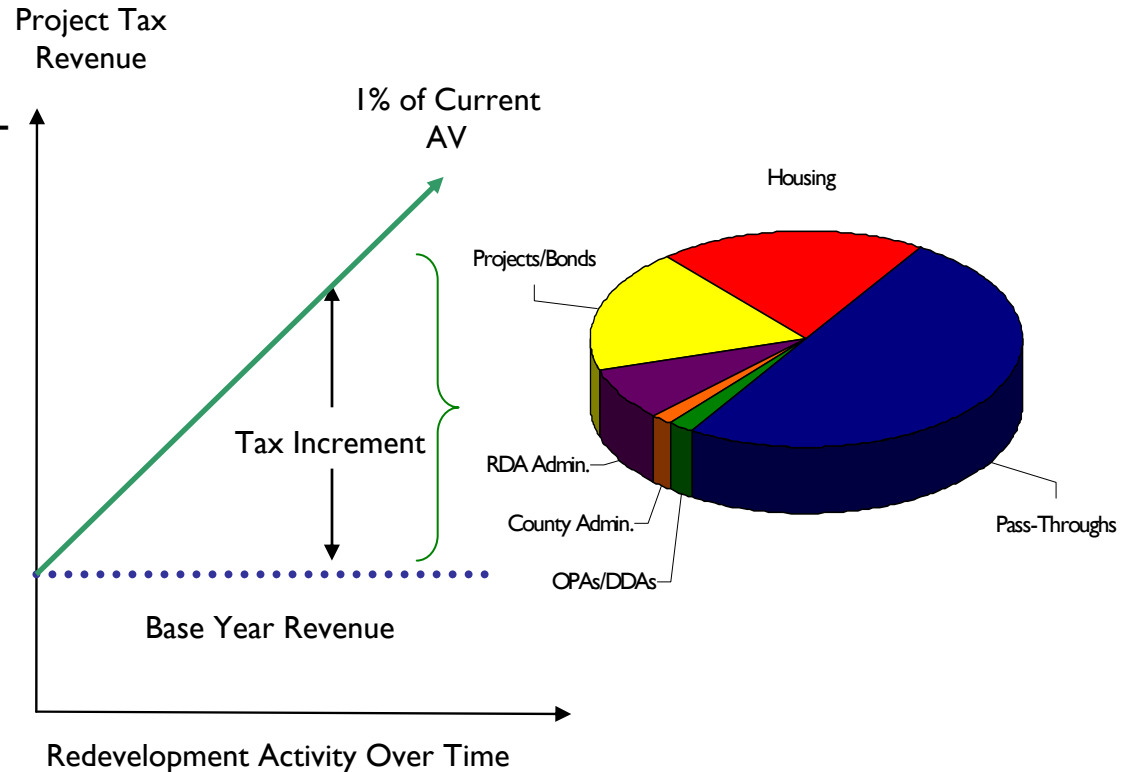
Key California Redevelopment Terms

- Project Area Value
 - Assessed values (AV) on tax roll
 - May be lower than “market value” due to Prop 13 limits on AV increases
- Base Year Value
 - Established at project area creation
- Incremental Value
 - Property assessed value growth over base year
- Tax Increment
 - ~1% of Incremental Value



Tax Increment Revenues

- Tax increment revenues:
 - ~ 1% of the incremental value
- Housing set-aside (20%):
 - ~20% of tax increment revenues set-aside for affordable housing
- Non-Housing Revenues (80%)
 - Pass-Through Payments by Formula
 - School Districts
 - College Districts
 - County Services (library / fire)
 - Water / Flood Control Districts
 - County Administrative Costs
 - RDA Administrative Costs
 - Optional DDA or OPA payments to developers
 - Infrastructure Projects / Bonds



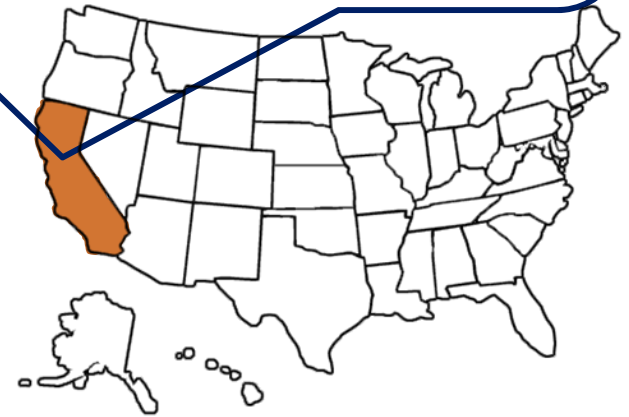
The California TIF Experience

John Shirey

City Manager

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Sacramento, CA



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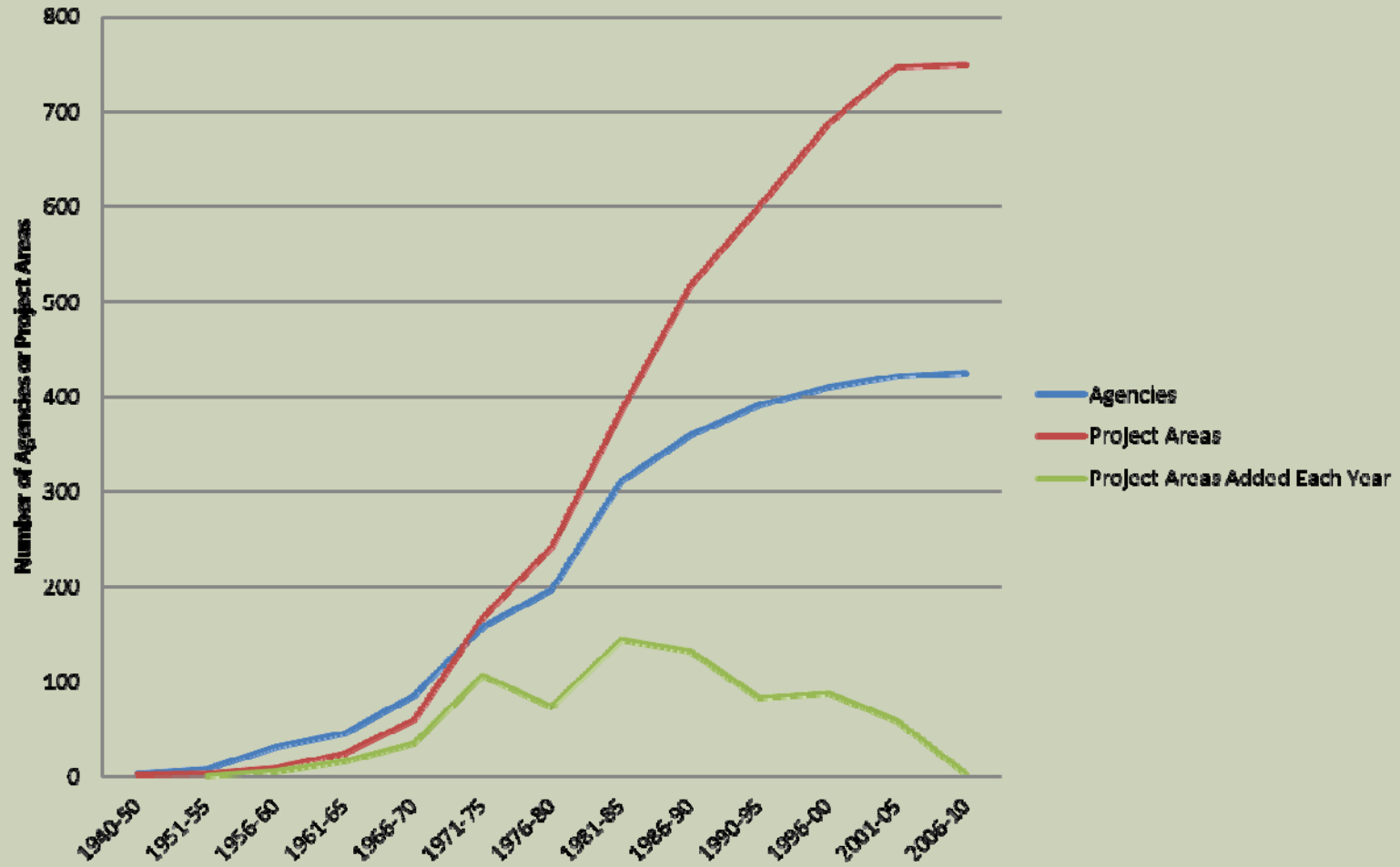
HISTORY OF REDEVELOPMENT IN CALIFORNIA

- **1945: Legislature passed Community Redevelopment Act**
- **1951: Community Redevelopment Law was put in State Code**
- **1952: Voters approve use of tax increment financing in State Constitution**
- **1976: 20% set-aside for Low and Moderate Income Housing Required**
- **1994: Redevelopment Reform Act (AB 1290)**

HISTORY OF REDEVELOPMENT IN CALIFORNIA

- **2004: Proposition 1A Approved**
- **2008: AB 1389 \$350 Million Take**
CRA vs. Genest I Declared Unconstitutional
- **2009: AB x4 26 \$2.05 Billion Take**
CRA vs. Genest II
Superior Court Decision May 2010
Appellate Decision Expected in 2011
- **2010: Proposition 22 Passed by Voters Protecting Tax Increment**
- **2011: League, CRA File Lawsuit in State Supreme Court to Overturn Unconstitutional Redevelopment Elimination Legislation (AB 1X 26/27)**

NUMBER OF CALIFORNIA AGENCIES AND PROJECT AREAS HAS PEAKED



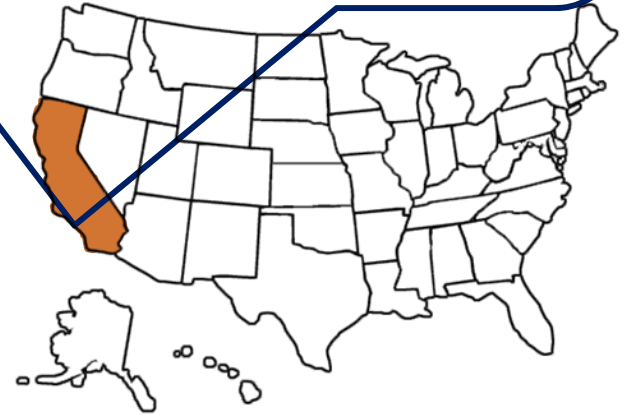
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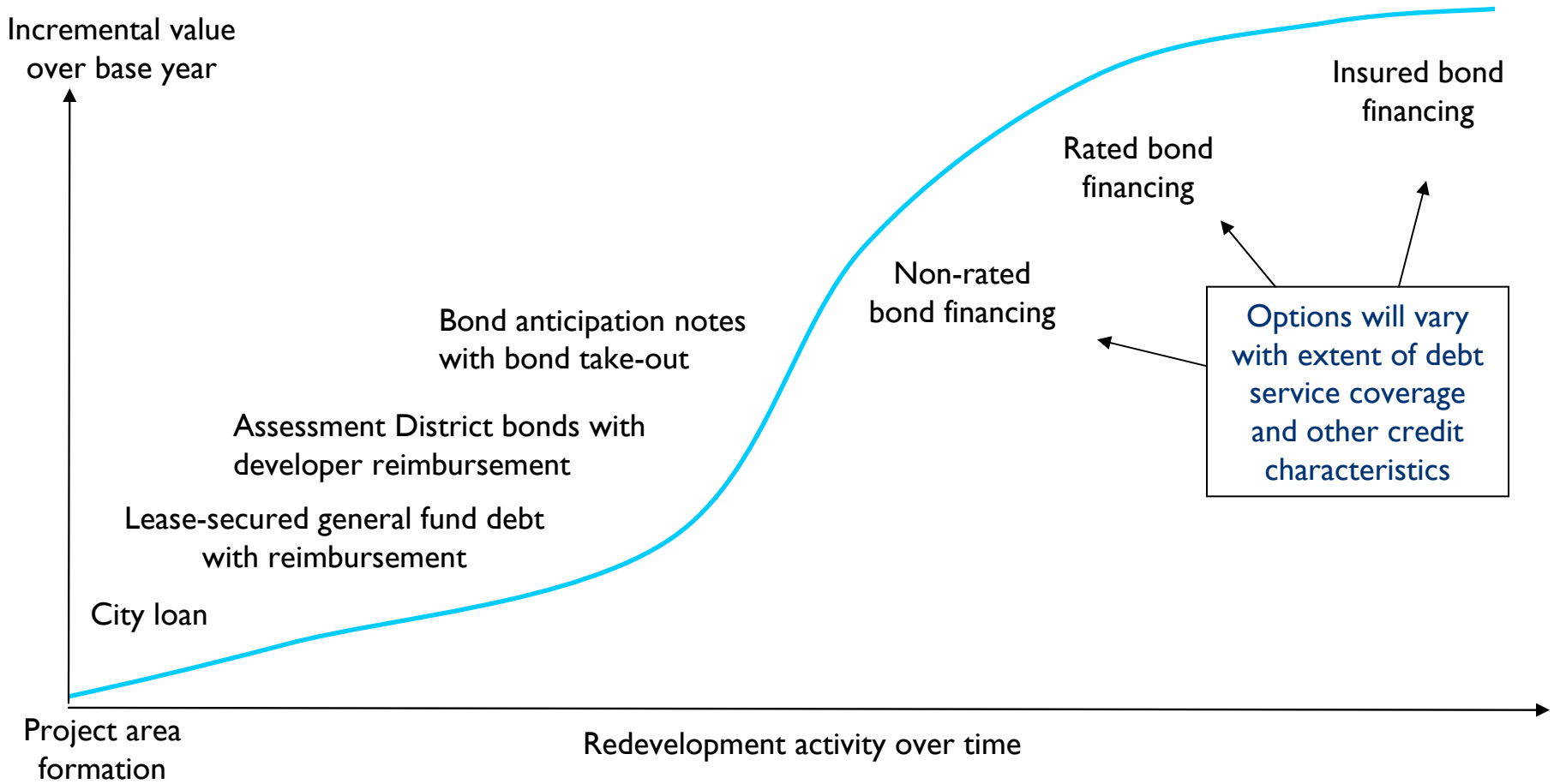


The Market for California Tax Allocation Bonds

50+/- Years Later

Redevelopment Financing Options

Cost effective financing options increase as project area matures and credit strength improves





Bonding Capacity Considerations

- **Debt Service Coverage**

- Legal documents usually provide investors with a minimum required debt service before additional bonds can be issued
- 125% debt service coverage is fairly typical

- **Cash Flow Needs**

- Must also provide for adequate cashflow for all obligations, in addition to bonds
- Other obligations might include senior and subordinate pass thru payments, housing set-aside, agency administration costs and subordinate debt obligations

- **Interest Rates**

- Depend on credit rating and market conditions
- Higher rates will reduce capacity

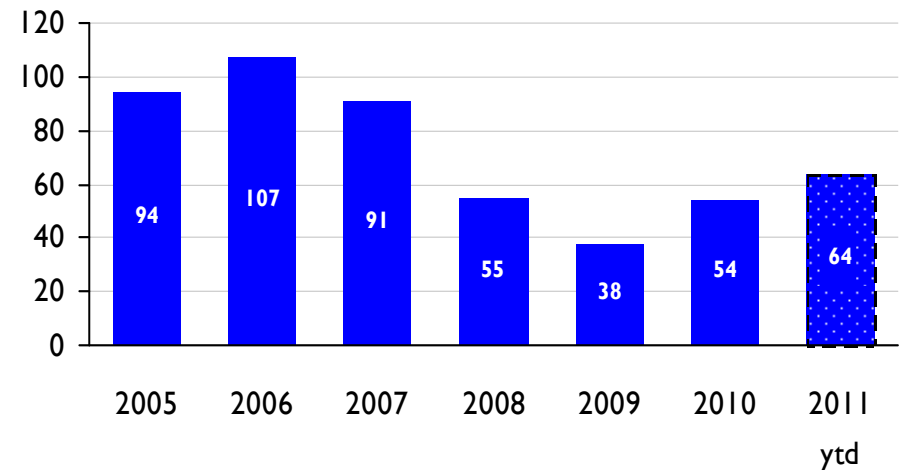
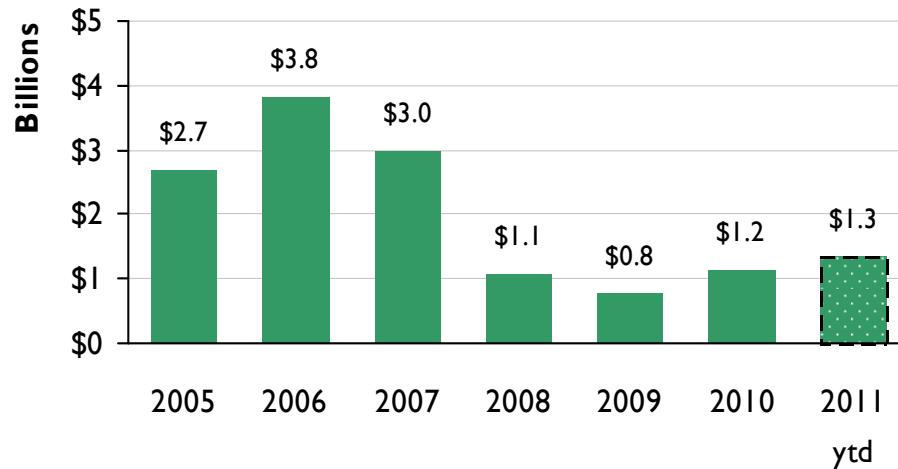
- **State Takes**

- State has raided redevelopment agency revenues to balance its own budget

Recent Redevelopment Market Activity

- **Active TAB Issuance from Exploding Real Estate Values 2002-2005**
 - 80% drop from 2006 peak to 2009 low, modest rebound in 2010
 - Issuance accelerated in wake of Governor's Budget proposal to eliminate RDAs
 - Marked increase in first half of 2011 as agencies rushed to market ahead of pending legislation

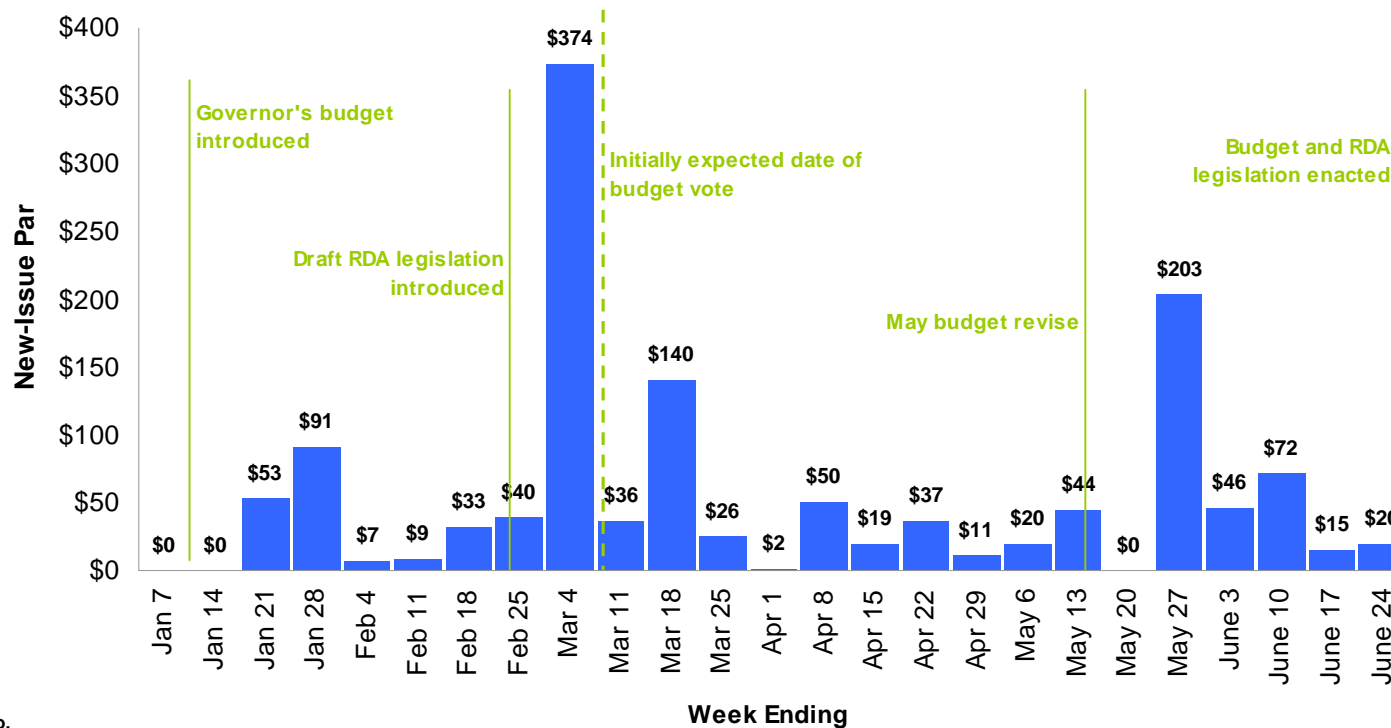
Annual California Tax Allocation Bond Issuance



2011 Issuance Volume

- **TAB issuance in 2011 has been concentrated**
 - “TAB-alanche” in March included 28 financings for over \$575 million of par (nearly half of total year-to-date TAB issuance)

2011 California Tax Allocation Bond Financings By Week
 (\$ in millions)



Source: Ipreo.

The California TIF Experience

Audience Questions



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Upcoming Events at CDFA

Intro Tax Increment Finance WebCourse

November 8-10, 2011

Daily: 1-5 pm (EST)

Intro Revolving Loan Fund WebCourse

December 13-15, 2011

Daily: 1-5 pm (EST)

Fundamentals of Economic Development Finance WebCourse

January 24-26

Daily: 1-5 pm (EST)

Register online at www.cdfa.net



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Next Webcast

Thursday, December 8, 2011 @ 1:00pm Eastern

CDFA - Tax Increment Finance Coalition Webcast Series: The White Elephant Mall

Nearly every community in the country has a white elephant mall sitting empty. These once vibrant economic engines have become a plague on the local economy but offer one of the prime opportunities for redevelopment and reinvestment. This webcast will explore the white elephant mall and how communities are using TIF to put these important assets back to work.



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