



Placentia Enhanced Infrastructure Financing District Public Financing Authority

AGENDA REPORT

TO: PUBLIC FINANCING AUTHORITY

VIA: CITY ADMINISTRATOR

FROM: DIRECTOR OF DEVELOPMENT SERVICES

DATE: JANUARY 16, 2024

SUBJECT: **REVIEW THE PLACENTIA ENHANCED INFRASTRUCTURE FINANCING DISTRICT (PLACENTIA EIFD) AMENDED INFRASTRUCTURE FINANCING PLAN (IFP)**

FISCAL

IMPACT: REVENUE: Up to \$10 Million in Property Tax Increment Revenue Over Approximately 40 Years

EXPENSE: Not to Exceed \$10 Million to be Paid from Bond Proceeds

SUMMARY:

In 2019 the Placentia Enhanced Infrastructure Financing District ("Placentia EIFD") was formed as a partnership between the City of Placentia and the County of Orange. The Placentia EIFD was established as a means to fund critical infrastructure of communitywide and regional significance with a focus on the Old Town Placentia Revitalization Plan area, by providing a means to capture property tax increment revenue ("TI") generated by new development within the district.

On August 11, 2020 the City Council approved Resolution No. R-2020-52 which formally announced and set forth the EIFD Public Financing Authority (PFA) meeting and public hearing dates in order to comply with newly authorized EIFD legislation to achieve authorization to issue EIFD debt in the future. The governing Infrastructure Financing Plan (IFP) was approved by the Public Financing Authority (PFA) on May 13, 2021.

Unfortunately, since that time, a nascent EIFD bond market, the COVID pandemic, inflation, and related current economic conditions have contributed to delayed EIFD implementation and cost increases. As a result, the original Old Town Streetscape Master Plan cost estimate of approximately \$8 million is now approximately \$10.05 million (an increase of 25.6%). In addition, interest rates have risen, increasing cost of debt service (particularly to a "first-time" debt issuer). Updated analysis concluded that multiple debt issuances over 7-8 years would be needed to fund key projects, as only \$3-5M would be available in the initial EIFD debt issuance.

In addition, the City's goal is to install all aspects of the Old Town Streetscape Master Plan at one time (instead of in phases), which would better induce private investment to fulfil Tax Increment

(TI) and economic benefit projections. This one-time phase will also accelerate our efforts to meet regional housing needs, including affordable housing. Ultimately, this one-time phase will save the EIFD on construction costs. As a result, there is a need to amend the IFP at this time to achieve a single-phase EIFD financing to fund the targeted infrastructure improvements.

RECOMMENDATION:

It is recommended that the Public Financing Authority take the following actions:

1. Receive and file the draft Amended Infrastructure Financing Plan (IFP)

DISCUSSION:

The Placentia Enhanced Infrastructure Financing District (“Placentia EIFD”) was formed as a partnership between the City of Placentia and the County of Orange.

The Placentia EIFD is a governmental entity, separate and distinct from the City and the County, and is governed by the Placentia EIFD Public Financing Authority (“PFA”), which is comprised of two (2) members of the Placentia City Council, one (1) Orange County Supervisor, and two (2) members of the public appointed by the City Council and County Board of Supervisors.

The Placentia EIFD was established as a means to fund critical infrastructure of communitywide and regional significance with focus on the Old Town Placentia Revitalization Plan area, by providing a means to capture property tax increment revenue (“TI”) generated by new development within the district. EIFDs provide an opportunity for agencies to issue bonds for an array of public infrastructure projects as well as supporting economic development efforts. At the time of the prior district formation proceedings, it was assumed that the PFA would seek authorization to issue debt in the future pursuant to the requirements of the EIFD statute that were then in effect, which stipulated a 55% voter approval by the landowners or registered voters, as applicable, within the EIFD boundary.

On January 1, 2020, California EIFD legislation was revised to incorporate Assembly Bill 116 (“AB 116”), which modified both the process by which EIFDs are formed and the requirements to achieve approval to issue debt secured by EIFD revenues. The AB 116 process required three (3) public hearings to be held at least 30 days apart so that the PFA staff could present the EIFD Infrastructure Financing Plan (“IFP”) in a public forum and receive input from landowners and residents within the district. Landowners and registered voters would have the opportunity to protest the district formation at the last of the four (4) meetings and hearings. If there were no majority protest, the PFA would then be able to approve both district formation and future debt issuance by the EIFD with a majority vote of the PFA board, without a subsequent vote by the landowners or registered voters within the district.

On August 11, 2020 the City Council approved Resolution No. R-2020-52 which formally announced and set forth the future PFA meeting public meeting and hearing dates in order to comply with the updated EIFD statute and achieve authorization to issue EIFD debt in the future. The required public meetings and hearings were properly conducted between September 2020 and May 2021, and the IFP was approved (again) by the PFA on May 13, 2021.

Unfortunately, since that time, a nascent EIFD bond market, the COVID pandemic, inflation, and related current economic conditions have contributed to delayed EIFD implementation and cost increases. As a result, the original Old Town Streetscape Master Plan cost estimate of approximately \$8 million is now approximately \$10.05 million (an increase of 25.6%). In addition, interest rates have risen, increasing cost of debt service (particularly to a “first-time” debt issuer). Updated analysis concluded that multiple debt issuances over 7-8 years would be needed to fund key projects, as only \$3-5M would be available in the initial EIFD debt issuance.

In addition, the City’s goal is to install all aspects of the Old Town Streetscape Master Plan at one time (instead of in phases), which would better induce private investment to fulfil Tax Increment (TI) and economic benefit projections. This one-time phase will also accelerate our efforts to meet regional housing needs, including affordable housing. Ultimately, this one-time phase will save the EIFD on construction costs. As a result, there is a need to amend the IFP at this time to achieve a single-phase EIFD financing to fund the targeted infrastructure improvements.

Amended Infrastructure Financing Plan

The Amended Infrastructure Financing Plan (“IFP”) prepared by Kosmont for the Placentia EIFD includes tax increment revenue projection updates, caps to the maximum tax increment revenue authorization, and analysis of the fiscal impacts of participation in the EIFD for the City and County. The PFA is responsible for final adoption of the Amended IFP for the Placentia EIFD, and the draft Amended IFP is a proposal that is provided for the PFA to consider.

The key changes in the Amended IFP:

- a) Recalibration of the duration (term) of tax increment allocation:
 - Increase City maximum term from 20 to 40 years
 - Could end earlier if interest rates level out prior to bond issuance
 - Increase County maximum term from 20 to 25 years, with option to extend to 30 only if needed
 - Provides adequate time for County to contribute its full share of tax increment (i.e., \$3.547 million)
 - Additional 5 years only triggered if tax increment receipt levels perform worse than suboptimal projections
 - EIFD to terminate upon extinguishment of all EIFD debt, even if repaid early
- b) Increase City’s maximum dollar allocation from \$9,100,000 in tax increment up to \$24,000,000 in increment (more likely \$17-19M over 33-35 years needed), could be as low as \$12M over 30 years in best-case interest rate scenarios
 - Amount projected to enable full repayment of various financing structures evaluated, even under severely adverse issuance conditions
- c) Limitation / focus on use of funds: EIFD tax increment limited to repayment of IFP projects costs & associated debt; excess amount would flow to General Funds of City and County

Projected Tax Increment Analysis Updates

Kosmont prepared updated tax increment analysis to determine district revenue potential based on planned/proposed projects and future development potential. Actual TI revenues are subject to changes in the types and timing of development and the real estate market.

Development Type	Sq. Ft./Units	Assessed Value Factor (2023\$)	Estimated AV (2023\$)
Residential	1,600 units	\$250K per unit	\$400 million
Commercial	9,203 SF	\$250 PSF	\$2.3 million
Industrial	41,875 SF	\$150 PSF	\$6.3 million
Hotel	116 rooms	\$250K per room	\$29 million
TOTAL			\$438 million

Based on this analysis, the City's contribution is capped at 50% of its share of property tax increment (~6.8 out of 13.6 cents on the dollar) within the district boundary for a maximum of \$24,000,000 total over the approximately 40-year district lifetime. The County's contribution is capped at 50% of its share (~2.9 out of 5.9 cents) within the district boundary for a maximum of \$3,547,000 total over approximately 25 years.

While the Placentia area would benefit from a new dedicated revenue source for infrastructure improvements, formation of the Placentia EIFD would result in a reallocation of property tax increment revenue from the City's General Fund. Once the Placentia EIFD terminates, TI revenue would no longer be allocated to the Placentia EIFD and will flow back into the City's General Fund.

Financial Implication of Establishing Placentia EIFD

Kosmont concluded several regional financial implications for the establishment of the Placentia EIFD, including providing essential regional transportation infrastructure improvements, improved regional competitiveness for Federal/State grant funds and supports County's Comprehensive Economic Development Strategy (e.g. job creation, quality of life improvement, promotion of environmental sustainability). Locally, based on Kosmont gross economic impact analysis, approximately 5,000+ construction jobs will be created, 1,170+ permanent jobs will be created, \$690+ million in economic output from construction, and \$196+ million in annual ongoing economic output. The resulting overall establishment of the Placentia EIFD will have created an acceleration of development and related fiscal revenues in the amount of approximately \$59 million in net fiscal impact to the City and \$50 million in net fiscal benefit to the County over 50 years.

Community Participation and Public Outreach Efforts

There are a number of steps in the Placentia EIFD process that require public outreach and participation. This regular meeting was posted on the City's EIFD website at www.placentia.org/EIFD and mailed to all property owners and/or property occupants within the boundaries of the EIFD area. There are three forthcoming Public Hearings to be held by the PFA, each to be announced with mailing and newspaper notices at least 10 days in advance. The draft IFP will remain available for public inspection on the EIFD website at www.placentia.org/EIFD and

on file in the office of the City Clerk located at 401 East Chapman Avenue, Placentia, California. Stakeholders will have the opportunity to voice their opinion to the PFA at the Public Hearings. Additionally, the issuance of bonds by the Placentia EIFD will involve public outreach.

FISCAL IMPACT:

As described above, preliminarily, it is projected that approximately \$10 million could be generated in net bond/loan proceeds over the approximately 40-year term of the proposed Placentia EIFD, to help fund core public infrastructure needed to support Placentia's growth. Placentia's contribution is capped at 50% of its share of property tax increment (~6.8 out of 13.6 cents on the dollar) within the district boundary for a maximum of \$24,000,000 total over the approximately 40-year district lifetime. The County's contribution is capped at 50% of its share (~2.9 out of 5.9 cents) within the district boundary for a maximum of \$3,547,000 total over approximately 25 years.

Prepared by:



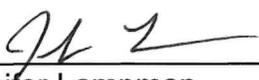
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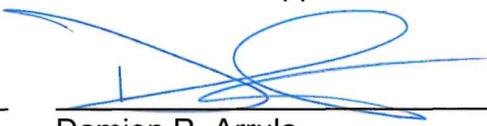
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Attachment:

1. Placentia Enhanced Infrastructure Financing District's Amended Infrastructure Financing Plan