

Attachment A

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FORT ORD REUSE AUTHORITY BOARD REPORT

BUSINESS ITEM

Subject: Building Removal Financing Update

Meeting Date: July 12, 2019

Agenda Number: 8c

INFORMATION

RECOMMENDATION:

Receive a Building Removal Financing Update.

BACKGROUND/DISCUSSION:

At its October 2018 Meeting, the Fort Ord Reuse Authority ("FORA") Board asked staff to investigate the legality and feasibility of issuing debt against FORA's statutory share of the Property Tax Revenue stream provided to FORA by the State Legislature as codified in the State of California Health and Safety Code. This funding source gives authority to FORA to encumber the revenue stream necessary to issue bonds. This becomes critical given that a significant portion of the property tax revenue stream will default back to other agencies after FORA dissolution and will accrue to the former FORA jurisdictions to a lesser extent, a significant loss to the military base reuse financial resources. This desire to accomplish 'more bang for the buck' is at the crux of the Board decision to authorize further analysis by obtaining specialized financial expertise with NHA Advisors to answer basic questions about legality and feasibility of a Financial Plan to complete remaining building removal on former Fort Ord.

This effort came from a City of Seaside City Manager request to the Administrative Committee that it explore the idea of FORA jurisdictions cooperating to remove as much of the remaining blighted buildings as possible in an effort to attain economic development targets of FORA jurisdictions and establish a financially resilient community in the long run. FORA staff designed a conceptual plan, showing how to accomplish this by targeting its share of the property tax revenue stream and bringing in the financial expertise necessary to complete the remaining building removal, one of the remaining major impediments to reuse.

FORA and NHA have negotiated a scope of work and contract. Phase 1 of the scope was to confirm that the financing would be legal under current state law and FORA's statutory authority. Phase 2 is to prepare a Financial Plan for FORA Board review and approval. Phase 3 would be the Implementation phase, the actual financing itself, if that phase is authorized by the Board in the future. At its June 19, 2019 meeting, the Administrative Committee received a detailed quantitative analysis presentation from Principal Mark Northcross with NHA.

NHA completed its first milestone, a legal and financial feasibility memorandum (**Attachment A**) regarding FORA's statutory property tax authority. NHA's preliminary finding is that FORA would be able to issue bonds in a range of \$36.6 to \$25.5 million for building removal.

NHA's work has also resulted in a preliminary quantitative analysis, considering the net benefit to jurisdictions (**Attachment B**). Using the current market conditions scenario from the feasibility memorandum (\$36M in bond proceeds), NHA considered the net benefit to Cities of Marina, Seaside, and Del Rey Oaks and County of Monterey under 3 scenarios. City of Monterey was not included in this analysis because they did not form an RDA over their Fort Ord lands.

Scenario 1 assumed FORA took out a \$36.6 million bond and then dissolved on June 30, 2020. Scenario 2 assumed FORA dissolved on June 30, 2020 without taking out any bond. Scenario 3 assumed FORA took out a \$36.6 million bond and then dissolved on June 30, 2022. Scenarios 1 and 2 (bond issuance) showed that all three cities received a higher net benefit than Scenario 3 (no FORA bond issuance).

For the County of Monterey, NHA ran an additional assumption on residual allocation of property taxes for them. In addition to a 20% residual allocation for the County General Fund, NHA looked at what would happen if the County transferred 65.5% of its residual allocation to the Monterey County Regional Fire District. Looking at these two conditions within the 3 scenarios, the County received the highest net benefit under Scenario 1 with the 20% residual allocation and highest net benefit under Scenario 2 with the 65.5% revenue pays through to the fire district. The preliminary result is that bond issuance would likely be a net benefit to all three cities and a net benefit to the County under a lower residual allocation of 20%, scenario 1 or 3. This preliminary analysis underscores the importance of having accurate assumptions on what is each jurisdiction's residual allocation of property taxes.

The Administrative Committee met on July 3, 2019 and discussed the potential of bonding to cover the remaining building removal related obligations, which is the Administrative Committee's first priority for use of bond proceeds. The Administrative Committee also discussed other options for future evaluation of underlying contaminated, non-conforming structures. It's the Administrative Committee's intent to bring a recommendation to the Board in August.

FISCAL IMPACT:

Reviewed by FORA Controller 

Staff time to support the Administrative Committee is included in the approved annual budget. The Board's September 28, 2018 action resulted in an increase in consultant services by up to \$75,000, which was incorporated into the FORA mid-year budget update.

COORDINATION:

NHA, County of Monterey, Cities of Seaside, Monterey, Del Rey Oaks, and Marina, Administrative Committee

Prepared by  FORA
Jonathan Brinkmann

Reviewed by  FORA
Michael A. Houlemard, Jr.

FEASIBILITY MEMORANDUM

July 3, 2019

To: Michael A. Houlemard, Jr., Executive Officer, Fort Ord Reuse Authority

From: Mark Northcross, Principal, NHA Advisors

RE: FORA - Feasibility Memorandum for Remediation Bond Issuance

LEGAL AUTHORITY FOR FORA BOND ISSUANCE

The law firm of Stradling Yocca Carlson & Rauth, retained as counsel to NHA Advisors has concluded that Fort Ord Reuse Authority (“FORA”) has the authority to issue bonds with terms that extend beyond its June 30, 2020, dissolution, subject to the following conditions:

- ✓ Bonds must be issued under the authority of the Mark-Roos Act
- ✓ Tax increment revenues pledged to the bonds are subject to the limitation of the project areas from which the tax increment revenue originates

The Marks-Roos Act poses some special requirements on the issuance of FORA remediation bonds. For issuers that are not JPA’s, such as FORA, the Marks-Roos Act can be interpreted as requiring the local agencies where bond proceeds will be spent to hold a noticed public hearing and make a finding that the proposed financing will create a “significant public benefit” within the meaning of Government Code Section 6586.

Table 1 below shows the time limits on the ability of the originating project areas for FORA’s tax increment to use that tax increment to pay debt service. With the exception of the Marina Airport project area, we believe that tax increment from FORA project areas can be used to pay debt service through 2048.

Table 1: FORA Component Redevelopment Project Area Plan Limits

Project Area	Successor Agency	Year Project Area Formed	Final Year to Receive Tax Increment to Repay Debt
Marina Airport	City of Marina	1997	2045
Marina Project 3	City of Marina	1999	2048
Seaside Fort Ord	City of Seaside	2002	2048
Del Rey Oaks Fort Ord	City of Del Rey Oaks	2003	2048*
Fort Ord East Garrison	County of Monterey	2002	2048*

**We have not received Redevelopment Plans for these project areas to date, final year is estimated*

PLEGGED REVENUES FOR DEBT SERVICE

Table 2 details actual tax increment received by FORA from the five source project areas for FY 2018-19. FORA is expected to receive over \$2.6 million in tax increment revenues, as provided for in its authorizing statute, in FY 2018-19. The Marina 3 project area, the Seaside Fort Ord project area, and the County of Monterey East Garrison project comprise nearly all of the tax increment revenue.

Table 2: Recognized Obligation Payment Schedule (ROPS)-Based Revenues for FORA (FYE 2018-19)

Project Area	Marina Airport	Marina Project 3	Seaside Fort Ord	Del Rey Oaks Fort Ord	Fort Ord East Garrison	Total
ROPS A	\$14,437	\$334,699	\$347,983	\$3,317	\$226,640	\$927,076
ROPS B	\$21,707	\$678,582	\$520,457	\$4,820	\$475,337	\$1,700,903
Total	\$36,144	\$1,013,281	\$868,440	\$8,137	\$701,977	\$2,627,979
Revenues as % of Total	1.38%	38.56%	33.05%	0.31%	26.71%	100.00%

CREDIT CONCERNS WITH FORA BOND ISSUE

The credit rating for a bond issue secured by tax increment is determined by three basic factors:

- ❖ Diversity and quality of tax base
- ❖ Coverage ratio given annual revenues and annual debt service
- ❖ Volatility, incremental assessed valuation as a per cent of total valuation.

FORA's credit quality is strongest in the volatility category, since assessed valuation was very small in each of the three main project areas at the time of project area formation. Coverage ratio is something that FORA itself can determine through how it sizes the proposed bond issue. The diversity and quality of the tax base then becomes the key credit concern for a FORA bond issue.

The biggest concern is concentration of taxpayers in a project area, indicating that a high percentage of the revenues to pay debt service come from a small number of taxpayers. Table 3 below shows concentration information available for two of the three main project areas. The Marina Project 3 project area has a very high concentration of taxpayers by standards of credit rating agencies, largely because of the great success of the "Dunes on Monterey Bay" shopping center in securing large retail anchors for the shopping center. Over 40% of tax increment revenue from this project area would be lost if the top three taxpayers simultaneously became delinquent in their property tax payments for a year or more. While this scenario is unlikely, it is the metric that bond investors use in evaluating credit. The concentration for the top 3 taxpayers in Seaside Fort Ord Project Area is below 15% and not a major concern. We believe that East Garrison project area should not be a credit concern since it is primarily single family residential.

Table 3: Concentration of Taxpayer Sensitivity for FORA

Project Area	FY for Most Recent Data	Incremental Assessed Valuation	Combined Assessed Valuation of Top 3 Taxpayers	Top 3 Taxpayers as % of Incremental Valuation
Marina Project 3	2017-18	322,398,824	130,213,459	40.4%
Seaside Fort Ord	2014-15	371,584,046	53,746,536	14.5%

Bond investors typically want to know how much money would be available to pay debt service in the event the largest taxpayers in a redevelopment project area all became delinquent. Table 4 below provides analysis of the total available tax increment revenues excluding revenue from the top three taxpayers in both the Marina Project 3 and Seaside Fort Ord project areas. If the top three taxpayers in both project areas became delinquent at the same time for one year or more, FORA tax increment revenues would decrease from about \$2.6 million per year to about \$2.1 million per year.

Table 4: Maximum Annual Debt Service Excluding Revenue from Top 3 Taxpayers for Marina Project 3 and Seaside Fort Ord Project Area

% Loss from Top 3 Marina Project 3 Taxpayers	40.4%
Net Marina Project 3 Tax Increment Revenues	\$604,028
% Loss from Top 3 Seaside Fort Ord Taxpayers	14.5%
Net Seaside Fort Ord Tax Increment Revenues	\$742,827
Tax Increment Revenues from Other Project Areas	\$746,258
Total Adjusted Tax Increment Revenues	2,093,113

PROBABILITY OF TAXABLE INTEREST RATES

The intended use of the proceeds of any FORA bond issue is for removal of buildings within the FORA jurisdiction. While the bulk of such buildings are now located on land owned by public entities, it is very likely that after removal of the buildings, such land will be sold to private entities for development. Under Federal tax law, **any bonds issued for remediation of land that is subsequently sold to private entities must be sold with taxable interest rates.** The intent to ultimately sell the land to private entities is the key determining factor regarding tax categorization of the bonds. To the extent that bond proceeds are used for building removal on land intended for long term public use, such as a roadway or a park, that portion of the bond issue can be sold with tax exempt interest rates. At present, taxable interest rates are between 1% and 1.5% higher than tax exempt interest rates.

BONDING CAPACITY SCENARIOS

As noted above, FORA can control the coverage ratio for its bond issue through a legal covenant made at the time of bond issuance. Table 5 below shows maximum annual debt service ("MADS") for three different coverage ratios. The scenarios take into consideration the FY 2018-19 tax increment revenues as shown on Table 2 and an estimated \$150,000 per year reduction on tax increment revenues as a result of the 2012 amendments to the Implementation Agreements. In addition, this analysis includes no explicit set aside of tax increment revenue for funding the continued FORA operations.

Table 5: Maximum Annual Debt Service Scenarios

FY 2018-19 Combined FORA Tax Increment	\$2,627,979
Estimated Implementation Plan Amendments set-aside	\$150,000
Net FY 2018-19 combined FORA Tax Increment	\$2,477,979
MADS at 1.10x coverage	\$2,252,708
MADS at 1.15x coverage	\$2,154,764
MADS at 1.25x coverage	\$1,982,383

Table 5 shows that, depending on the coverage ratio (calculated as net revenues available for debt service divided by debt service), MADS for a FORA bond issuance ranges from \$1.98 million up to \$2.25 million

per year. Fiscal Year 2019-20 estimates a combined FORA tax increment of approximately \$3 million, which was used in the Most Optimistic scenario discussed below.

With respect to the credit concern about taxpayer concentration, the coverage ratio is the most effective way of mitigating this risk. A higher the coverage ratio places lower limits on debt service to account for the concentration risk. As can be seen, use of a 1.25x coverage ratio results in MADS of \$1.98 million, which is lower than the \$2.1 million per year figure that would result if the top three taxpayers in both Marina Project 3 and Seaside Fort Ord projects areas became delinquent.

As single-family residential development takes place in these two project areas, taxpayer concentration will decline. In addition, a baseline 2% annual growth in assessed valuation will increase the amount of potential tax increment revenues that are “immune” to a loss of major taxpayers. **Consequently, we believe that the 1.15x coverage ratio, resulting in maximum annual debt service of \$2.15 million per year, is a reasonable assumption.** Should FORA issue bonds in FYE 2020, an optimal case scenario would be for the preliminary estimates for FY 2019-2020 to show that \$2.15 million annual debt service figure is sustainable for a 1.15x coverage ratio.

Table 6 below shows bonding capacity for FORA under three different scenarios. As noted above, we believe that Scenario 2 is moderately conservative and a reasonable assumption at this point in our analysis. All three scenarios assume final maturity of the bonds in September 1, 2047 (FYE 2048). The September 1, 2047 final maturity date in all scenarios is a conservative assumption. In theory, a September 1, 2048 final maturity date could be used, but the 2047 date gives one more year to receive tax increment to address in shortfalls or delinquencies in prior years. The scenarios are summarized below:

1. **Scenario 1 – Most Optimistic:** Assumes a coverage ratio of 1.5x on assumed \$3 million in tax increment in combined FORA tax increment for FY 2019-20, and an all-in interest rate of 3.60% assuming current market rates, with about 80% of the bond issue sold on a taxable basis, and 20% sold on a tax-exempt basis. Net bond proceeds available for project funding are \$36.6 million. This scenario assumes an A- underlying rating, bond insurance, and a surety bond on the bonds.
2. **Scenario 2 – Moderately Conservative:** Assumes 1.15x coverage ratio and an interest rate of 5.0% assuming 100% of the bonds are sold on a taxable basis at conservative market rates. Net bond proceeds available for project funding total \$29.5 million.
3. **Scenario 3 – Conservative:** Assumes 1.25x coverage ratio and an interest rate of 5.5%. All bonds are assumed to be sold on a taxable basis at an interest rate 0.5% over conservative market. Net bond proceeds available for project funding total \$25.5 million.

Table 6: Bonding Capacity by Scenario

Scenario	Coverage Ratio	Estimated Interest Rate	Tax Status	Likely Rating	Net Bond Proceeds for Projects
1 – Current Market Conditions with Bond Insurance and a Surety Bond	1.5x	3.60%	80% Taxable and 20% Tax Exempt	A- (AA after Insurance)	\$36,607,000
2 - Moderately Conservative	1.15x	5.00%	Fully Taxable (Current Market)	BBB	\$29,463,000
3 - Conservative	1.25x	5.50%	Fully Taxable (Current Market + 0.5%)	BBB/A-	\$25,455,000

All scenarios assume 9/1/2047 final principal payment

Table 7 below allocates bond proceeds based on each project area's share of the total FORA tax increment (TI) revenue. Under this assumption, Marina would receive between \$10 and \$12.5 million in net bond proceeds, Seaside would receive between \$8.4 and \$10.4 million in net proceeds, Monterey County would receive between \$6.8 and \$8.4 million in net proceeds, and Del Rey Oaks would receive less than \$100,000 in all three scenarios.

Table 7: Allocation of Net Proceeds for Projects Based on Source of Tax Increment

Scenario	Marina Airport	Marina Project 3	Seaside Fort Ord	Del Rey Oaks Fort Ord	Fort Ord East Garrison	Total
1 - Most Optimistic	\$503,475	\$14,114,716	\$12,097,122	\$113,346	\$9,778,339	\$36,607,000
2 - Moderately Conservative	\$405,220	\$11,360,174	\$9,736,321	\$91,226	\$7,870,058	\$29,463,000
3 - Conservative	\$350,096	\$9,814,792	\$8,411,841	\$78,816	\$6,799,455	\$25,455,000

Based on our analysis, the proceeds in Table 7 above represents funding that would not be available to the cities of Marina, Seaside, Del Rey Oaks, and Monterey County if FORA dissolved without issuing bonds. After dissolution of redevelopment agencies, it is very uncommon that a successor agency has the ability to issue new debt. Based on our analysis, none of the successor agencies for FORA jurisdictions can issue debt secured by FORA's tax increment revenue stream. Upon dissolution, the FORA tax increment revenue stream becomes subject to residual allocation under the redevelopment dissolution statute. Consequently, funding from a potential FORA bond issue is very likely an irreplaceable opportunity.

SUMMARY OF KEY ASSUMPTIONS AND TAKE-AWAYS

In conclusion, **we believe that FORA has very significant bonding capacity, capacity that is lost to FORA member jurisdictions if the bonds are not issued prior to FORA dissolution.** The biggest constraint on the ability of FORA to issue bonds, however, is not the credit concerns outlined in this memo, but the current reliance of FORA on tax increment revenue to fund operations. Should FORA receive legislative authority to extend its sunset, it appears likely that an allocation of a portion of tax increment to fund operations would be necessary and will need to be included in future bonding scenarios.

Key Assumptions of Our Analysis	Conclusions, Takeaways, and Next Steps
Financing will Require Taxable Bond Issue	• Remediation/infrastructure on property for long-term public ownership can be financed with tax-exempt status, reducing borrowing costs
Rating Agencies Require Coverage Ratio that Mitigates Concentration Risk	• If concentration risk in Marina Project 3 Project Area decreases in FYE 2020 estimates, bonding capacity increases
Maximizes Revenue Capacity, Adjusting for Credit Concerns	• Future analysis needs to include explicit set aside for future operating revenue in the event of FORA extension
Proceeds Allocated Based on Project Areas' Portion of Total TI Revenue	• Marina, Seaside, and Monterey County get significant funding for projects that would not otherwise be available

NHA Advisors, LLC is registered as a Municipal Advisor with the SEC and Municipal Securities Rulemaking Board (“MSRB”). As such, NHA Advisors, LLC has a Fiduciary duty to the public agency and must provide both a Duty of Care and a Duty of Loyalty that entails the following.

Duty of Care

- a) exercise due care in performing its municipal advisory activities;
- b) possess the degree of knowledge and expertise needed to provide the public agency with informed advice;
- c) make a reasonable inquiry as to the facts that are relevant to the public agency’s determination as to whether to proceed with a course of action or that form the basis for any advice provided to the public agency; and
- d) undertake a reasonable investigation to determine that NHA Advisors, LLC is not forming any recommendation on materially inaccurate or incomplete information; NHA Advisors, LLC must have a reasonable basis for:
 - i. any advice provided to or on behalf of the public agency;
 - ii. any representations made in a certificate that it signs that will be reasonably foreseeably relied upon by the public agency, any other party involved in the municipal securities transaction or municipal financial product, or investors in the public agency securities; and
 - iii. any information provided to the public agency or other parties involved in the municipal securities transaction in connection with the preparation of an official statement.

Duty of Loyalty

NHA Advisors, LLC must deal honestly and with the utmost good faith with the public agency and act in the public agency’s best interests without regard to the financial or other interests of NHA Advisors, LLC. NHA Advisors, LLC will eliminate or provide full and fair disclosure (included herein) to Issuer about each material conflict of interest (as applicable). NHA Advisors, LLC will not engage in municipal advisory activities with the public agency as a municipal entity, if it cannot manage or mitigate its conflicts in a manner that will permit it to act in the public agency’s best interests.

Development and Property Tax Revenue Projections
 Summary of Scenarios for FORA Member Jurisdiction RDAs

Highest present value scenario shown in red

	Marina	Seaside	Del Rey Oaks	Monterey County
SA Share of Residual Allocation	20.0%	20.0%	20.0%	20.0%

Scenario 1: 2020 Dissolution with Bond Issue					
	Marina	Seaside	Del Rey Oaks	Monterey County (General Fund)	Monterey County (MC Regional FD)*
Net bond proceeds	14,617,262	12,096,968	113,344	9,778,215	-
PV of increased revenues received by General Fund, after debt service	3,034,254	3,355,301	1,605,594	29,993,855	23,740,713
Total Benefit	17,651,515	15,452,269	1,718,938	39,772,069	23,740,713

Scenario 2: 2020 Dissolution with No Bond Issue					
	Marina	Seaside	Del Rey Oaks	Monterey County (General Fund)	Monterey County (MC Regional FD)*
Net bond proceeds	-	-	-	-	-
PV of increased revenues received by General Fund	4,348,662	4,443,080	1,615,786	39,289,001	31,326,753
Total Benefit	4,348,662	4,443,080	1,615,786	39,289,001	31,326,753

Scenario 3: Extension Through 2022 with Bond Issue					
	Marina	Seaside	Del Rey Oaks	Monterey County (General Fund)	Monterey County (MC Regional FD)*
Net bond proceeds	14,617,262	12,096,968	113,344	9,778,215	-
PV of increased revenues received by General Fund, after debt service	2,874,530	3,193,960	1,562,178	28,656,675	22,585,978
Total Benefit	17,491,791	15,290,928	1,675,523	38,434,890	22,585,978

Scenario 4: Extension Through 2022 with No Bond Issue					
	Marina	Seaside	Del Rey Oaks	Monterey County (General Fund)	Monterey County (MC Regional FD)*
Net bond proceeds	-	-	-	-	-
PV of increased revenues received by General Fund, after debt service	4,033,303	4,152,939	1,571,163	36,907,416	29,273,779
Total Benefit	4,033,303	4,152,939	1,571,163	36,907,416	29,273,779

*Pursuant to an agreement with East Garrison Fire Department whereby the County transfers 65.5% of all property taxes received to the fire department.

FORA Share of Allocation Available After Debt Service (available for budget)	FYE 2021	FYE 2022
	2,444,349	2,906,885

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