Preliminary Analysis of Project Economics and Infrastructure Funding Alternatives

Nishi Property
Davis, California

Presented to:
Finance and Budget Commission
City of Davis

Presented by:
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Background

- Nishi Property is a 46-acre property located along Interstate 80; the subject of a joint planning effort of City of Davis, Yolo County and UC Davis

- Envisioned as part of overall planned mixed-use innovation district – mixture of research park development and high-density urban housing

- Public visioning process yielded a conceptual development framework plan

- Framework plan includes high-density residential (ownership/rental), office/research & development, and ancillary neighborhood retail uses

- Public infrastructure includes on-site detention basin, Putah Creek Parkway, parks/greenway, street system including extension of W. Olive Drive and grade-separated connection to UC Davis campus
Purpose of Analysis

• Overall purpose of the preliminary analysis is to present the estimated project economics of the proposed development in order to:

  - Determine overall project economic feasibility of the proposed land use components through development pro-forma/residential land value analysis
  - Establish estimated development/land values as a means to measure extent of supportable public infrastructure costs
  - Estimate total development cost of public infrastructure needed to serve proposed development
  - Estimate amount of public infrastructure supportable by established development/land values
  - Estimate ability to utilize certain infrastructure financing tools, and amount of funding that could be generated through such tools
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**Approach of Analysis – Project Economics**

- Estimated development pro-forma/residual land value analysis including:
  - total development costs – private development and public infrastructure
  - income producing sale prices/rents
  - financing terms/conditions
  - targeted return-on-investment thresholds

- Income producing components include: high-density residential units (ownership/rental); office and research & development space; and ancillary neighborhood retail space

- Estimated amount of supportable infrastructure cost evaluated in relation to estimated development/residual land value
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Nishi Property Refined Conceptual Development Plan
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Refined Conceptual Development Program (in acres)

- **Developable Area**
  - Residential – Ownership  
    - 210 units  
    - 4.1 acres
  - Residential Rental  
    - 440 units  
    - 6.9 acres
  - Office / Research & Development  
    - 325,000 SF  
    - 6.0 acres
  - Neighborhood Retail  
    - 20,000 SF  
    - NA
  - On-site Parking  
    - 13.1 acres
  - Subtotal  
    - 30.1 acres  
    - 64%

- **Non-Developable Area**
  - Detention  
    - 4.0 acres
  - Putah Creek  
    - 3.3 acres
  - Parks / Greenway  
    - 6.5 acres
  - Roads / Easements  
    - 3.0 acres
  - Subtotal  
    - 16.8 acres  
    - 36%

- **Total**  
  - 46.9 acres  
  - 100%
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Preliminary Finding - Development Project Value/ Residual Land Value

• Each of the proposed land uses yields an estimated positive net development project value:

$425,000 / unit for ownership housing
$285,000 / unit for rental housing
$350/ SF for office/research & development space
$370/ SF for neighborhood retail space

• Each of the proposed land uses yields an estimated positive net residual land value – with estimated values that equate to likely market value of vacant land in general Davis area:

$375,000 to $400,000/acre for ownership housing
$550,000 to $575,000/acre for rental housing/neighborhood retail
$240,000 to $265,000/acre for office/research & development
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Preliminary Finding - Public Infrastructure / Improvements

• Estimated cost of public infrastructure is +/- $24.4 million –
  Cost Per Acre (Gross) - $493,000
  Cost Per Square Foot (Gross) - $12
  Cost Per Building Square Footage - $22

• Extensive amount of public infrastructure is due to inclusion of W. Olive Drive ($1.4 million) and Grade-separated Connection ($13.5 million); represents 61% of total estimated public infrastructure cost

• Development pro-forma indicates +/- $15.3 million of total infrastructure cost is financially supportable by the proposed land uses; therefore the total cost of planned infrastructure is not fully supportable by the refined development program land uses
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Preliminary Finding – Public Infrastructure Costs

• Estimated public infrastructure cost is $24.4 million (including direct/indirect costs)
  Detention $ 1.2
  Putah Creek 1.9
  Parks / Greenway 3.8
  Roads 2.6
  W. Olive Drive Extension 1.4
  Grade-separated Connection 13.5
  Total $24.4

• Infrastructure improvements to be publicly owned / operated

• Project may be able to support approximately $15.3 million based on estimated development / residual land values; therefore a funding shortfall of +/- $9.1 million
Infrastructure Funding Alternatives Analysis

• Project may not be able to fully support infrastructure required to serve proposed development; use of certain financing tools may be sufficient to fill infrastructure funding gap, including:

  Community Facilities District (CFD)
  • Annual tax levied each property within CFD along with property taxes
  • Special tax revenue used to support bond debt service or pay-as-you-go basis
  • Assumed 30-year bond duration and debt service coverage period for initial CFD bond(s)

  Infrastructure Financing District (IFD)
  • Property tax increment created by new development within boundaries of IFD
  • Revenue can be used to support debt service on tax allocation bonds issued through IFD
  • Assumed 30-year bond duration and debt service coverage period for initial IFD bond(s)
Community Facilities District (CFD) and Infrastructure Financing District (IFD) Revenue

- Current annual tax/assessment burden is estimated to be 1.26% of assessed value for ownership housing, and 1.37% of assessed value for multi-family rental housing

- Assumed that effective tax rate (ETR) for new development in Davis would be 1.70% of assessed value; CFD special tax rates do not represent a significant portion of the entire effective tax rate burden

- Deducting existing burdens (1.26% or 1.37%) from the 1.70% ETR leaves capacity for annual special tax of $1,885/ownership housing unit and $949/unit of multi-family rental housing unit; estimated total amount of annual special tax revenue for CFD would be +/- $899,000 (including $0.25/SF on non-residential uses)

- Property tax assumed to be split 15% City / 85% County, leaving City with approximately 2.1% of basic property tax revenue; estimated total amount of annual property tax revenue for IFD would be +/- $70,000
Community Facilities District (CFD) and Infrastructure Financing District (IFD) Revenue Funding Capacity

**CFD**

- A CFD structure including use of debt service coverage revenue and an extended term probably not necessary for Nishi Property development

- An initial CFD bond of $13.7 million could be supported – leaving $11.2 million in net proceeds (after reserve funds, capitalized interest, and issuance costs)

- Applying annual debt service coverage could yield an additional $2.4 million over 30-0year bond term

- Initial bond cycle could therefore generate +/- $13.6 million in infrastructure funding
Community Facilities District (CFD) and Infrastructure Financing District (IFD) Funding Capacity (Continued)

IFD

• IFD financing assumes County’s share of property tax revenue would not be included; City’s share of property tax would only produce a minimal amount of bonding capacity

• Estimated IFD annual revenue could support tax allocation bond of $770,000 – leaving +/- $680,000 after bond related costs

• Applying annual debt service coverage could yield an additional $400,000 over 30-year bond term

• Initial bond cycle could therefore generate +/- $1.1 million in infrastructure funding

• Formation of IFD is not likely on its own – therefore would have to be combined with other bond financing
Summary of Conclusions

• Proposed land uses could generate positive net development/residual land values

• Estimated public infrastructure cost is $24.4 million

• Amount of supportable public infrastructure by planned land uses is $15.3 million; estimated shortfall in public infrastructure funding is +/- $9.1 million

• CFD and IFD represent financing tools that could be used to fund the estimated public infrastructure cost shortfall ($9.1 million)

• CFD and IFD could potentially generate $13.6 million and $1.1 million, respectively, in net proceeds (including the use of debt service coverage)

• Simplified CFD bond financing alone, producing $11.2 million available for infrastructure, could provide more than enough money to cover estimated $9.1 million funding gap
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Questions by
Finance & Budget Commission