

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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Nishi Property

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

Preliminary Analysis of Project Economics and Infrastructure Funding Alternatives
Nishi Property

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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Nishi Property

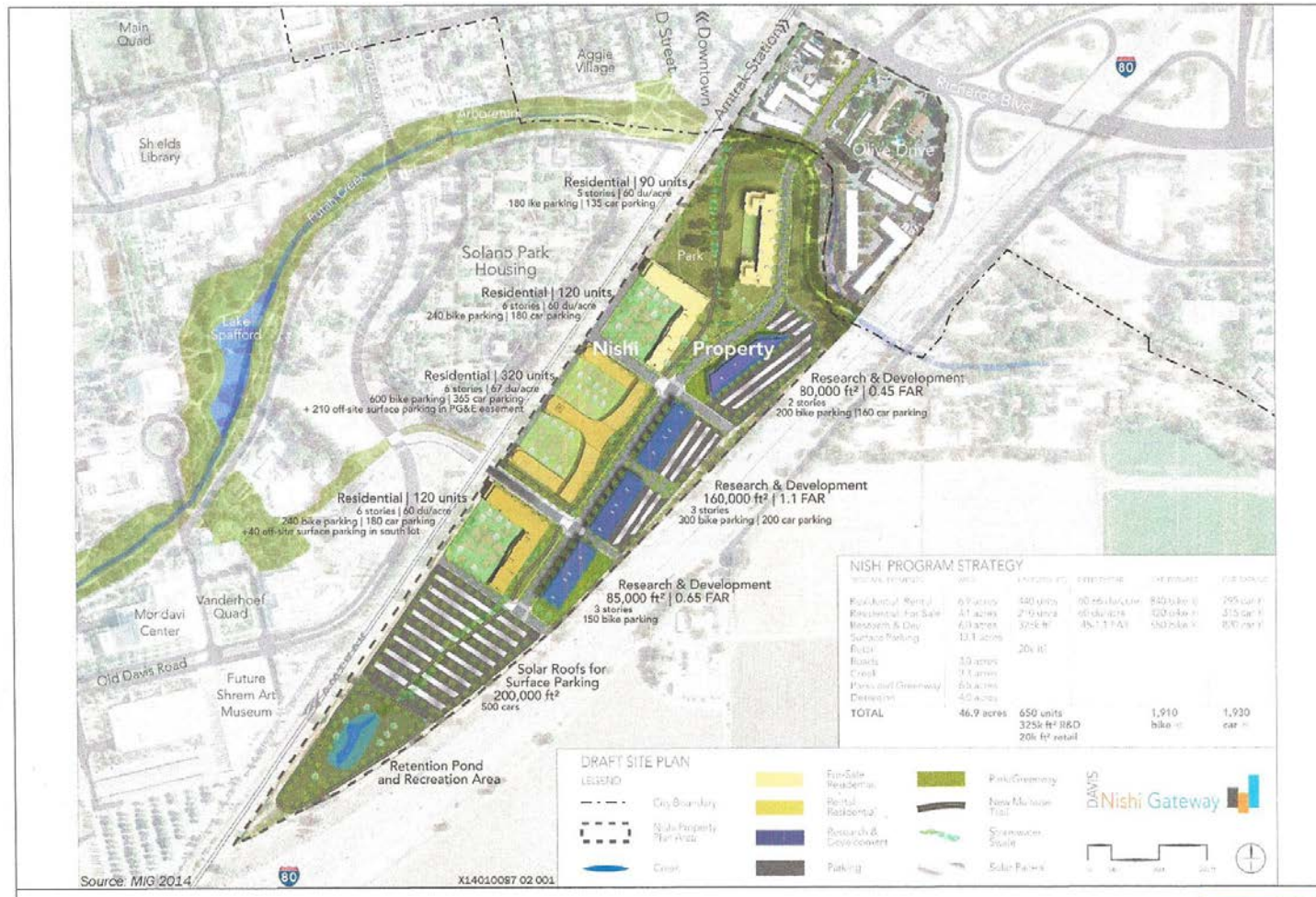
Approach of Analysis – Project Economics

- 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

Preliminary Analysis of Project Economics and Infrastructure Funding Alternatives

Nishi Property

Nishi Property Refined Conceptual Development Plan



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Nishi Property

Refined Conceptual Development Program (in acres)

• <u>Developable Area</u>			
Residential – Ownership	210 units	4.1	
Residential Rental	440 units	6.9	
Office / Research & Development	325,000 SF	6.0	
Neighborhood Retail	20,000 SF	NA	
On-site Parking		<u>13.1</u>	
Subtotal		30.1	64%
• <u>Non-Developable Area</u>			
Detention		4.0	
Putah Creek		3.3	
Parks / Greenway		6.5	
Roads / Easements			<u>3.0</u>
Subtotal		16.8	36%
• Total		46.9	100%

Preliminary Analysis of Project Economics and Infrastructure Funding Alternatives
Nishi Property

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

Preliminary Analysis of Project Economics and Infrastructure Funding Alternatives
Nishi Property

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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Nishi Property

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	<u>13.5</u>
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

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Nishi Property

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)

Preliminary Analysis of Project Economics and Infrastructure Funding Alternatives
Nishi Property

**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

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Nishi Property

**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

Preliminary Analysis of Project Economics and Infrastructure Alternatives
Nishi Property

**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

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Nishi Property

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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Nishi Property

**Questions by
Finance & Budget Commission**