



# AGENDA REPORT

Finance Department

<b>DATE:</b>	January 25, 2022
<b>TO:</b>	Mayor Butt and Members of the City Council
<b>FROM:</b> <i>(List all relevant/responsive staff persons)</i>	Anil Comelo, Interim Deputy City Manager Belinda Brown, Director of Finance Joe Leach, PE, Director of Public Works Lina Velasco, Director of Community Development
<b>Subject:</b> <i>(This will appear on the agenda)</i>	Study Session for the Potential Formation of a Community Facilities District for Point Molate
<b>FINANCIAL IMPACT:</b>	A Fiscal Impact Study was prepared on behalf of the developer, and the Study was peer reviewed by the City's consultant. The Study projects a positive long-term impact of the development. However, adverse fiscal impacts in the short term are possible.
<b>PREVIOUS COUNCIL ACTION:</b> <i>(List all dates items were heard or council action took place)</i>	Approved consultant team for Community Facilities District formation at meeting of November 23, 2021.
<b>STATEMENT OF THE ISSUE:</b>	As a condition of the Disposition and Development Agreement for the Point Molate Mixed-Use Development Project, it is prudent and necessary to identify, quantify, and study the potential impacts on the City, the community of Richmond, and the future homeowners/taxpayers in the development area of using the tax-exempt financing mechanisms authorized under a Community Facilities District (the Mello Roos Act) to fund a major portion of the infrastructure required by the development entitlements of the project.

<p><b>RECOMMENDED ACTION:</b>  (This will appear on the agenda)</p>	<p>RECEIVE information and quantitative analysis regarding the potential formation of a Community Facilities District for the Point Molate development project; and after deliberation, CONSIDER providing any policy direction, as needed, regarding formation of a Community Facilities District for the Point Molate development project – Finance Department (Belinda Brown 510-620-6740).</p>
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**DISCUSSION:**

The formation of land-secured financing districts, as permitted by State law, are utilized to finance the construction, development, and operation of the master infrastructure, offsite improvements, and master developer amenities in connection with various projects and the development of a property.

During the entitlement phase of land use planning, a Fiscal Impact Study<sup>1</sup> was prepared by EPS on behalf of the developer, and the Study was peer reviewed<sup>2</sup> by the City’s consultant. These studies were reviewed by the City Council prior to the granting of development entitlements in September 2020. The EPS study projects a positive long-term impact of the development. However, adverse fiscal impacts in the short term are possible. This short-term impact has the potential to occur should operating costs exceed the tax revenues derived from the project before the project is completely built out. Please see additional details following on page 4 under Answers to Council questions - Fiscal Impact of Point Molate.

Also during the entitlement phase of the land use planning and/or project planning for Point Molate, the City was asked and agreed to include provisions in its Disposition and Development Agreement (“DDA”) and its Development Agreement (“DA”) to cooperate with developers in the formation of these financing districts, including landscape and lighting maintenance districts, community facilities districts, benefit assessment districts, geologic hazard abatement districts, and tax-exempt financing mechanisms.

The City is obligated under the terms of its DDA and its DA to work with Winehaven Legacy LLC, aka SunCal, to form a Community Facilities District (“CFD”) for the potential Point Molate project.

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<sup>1</sup> *Richmond Point Molate Fiscal and Economic Impact Analysis*, prepared for Winehaven Legacy LLC by Economic Planning Systems, Inc. (“EPS”) and submitted on June 17, 2020.

<sup>2</sup> *Peer Review of Winehaven Prepared Fiscal Impact Analysis for Proposed Point Molate Mixed-Use Development Project*, prepared for City of Richmond by BAE Urban Economics Inc. (BAE) and submitted on June 29, 2020.

As noted previously, one mechanism of land-secured financing is the CFD. On November 23, 2021, the City Council authorized the City to assemble a team to study the proposed project and develop the various quantitative analysis and legal documents that are necessary for the formation of a Community Facilities District. The City Council and team have identified policy questions that the Council is being asked to consider.

**City Council Questions.** At their November 23, 2021, council meeting, members of the Council directed staff to address certain policy questions related to the formation of a CFD for Point Molate:

- What impact will the proximity of the project to the nearby Chevron Richmond Refinery have on the price of the proposed for-sale units in Point Molate?
- What impact will the combined tax rates, including those levied under the authority of the proposed CFD, have on the price of for-sale units in Point Molate?
- Is there a market for units in Point Molate at the sales prices proposed in the financing plan contained in the DDA?
- Are the assumptions behind the Fiscal Impact Study done at the time of the DDA still correct?

The purpose of this Study Session is to:

1. answer those questions,
2. describe their potential impact on the proposed structure of the CFD, and
3. outline the remaining process for forming a CFD.

**Answers to the November 23, 2021, questions from Council.** The City retained Integra Realty Resources to prepare estimates of the sales prices for both the for-sale units and the rental units in Point Molate, giving particular effect to (1) the proximity to the Chevron Richmond Refinery, (2) the likely CFD taxes, and (3) market demand in the Bay Area for such units. Integra is a national real estate appraisal firm with extensive California experience in preparing valuation estimates for CFD-financed real estate projects. Here is a summary of their analysis:

**Proximity to the Chevron Richmond Refinery.** Integra reviewed the actual home sales history for units in four Bay Area neighborhoods with oil refinery exposure (1) near the Phillips 66 refinery in Rodeo, (2) near the Shell refinery in Martinez, (3) on the south side of the Chevron refinery in Richmond, and (4) on the east side of the Chevron refinery in Richmond. This history was used to establish a data set of comparable property sales, with adjustments for age, size, and waterfront location for the Integra analysis.

**Impacts of CFDs on home pricing.** Integra interviewed developers of current projects in the Bay Area with CFDs to determine the impact of the CFD lien on home pricing. While the developers confirmed the trade-off between a CFD lien and a lower home sales price, developers also reported both the preference of homebuyers and merchant-builders for units with a lower home

sales price, even though it may be subject to a CFD lien. The interviewed developers reported that, without the CFD lien, merchant-builders must sell the units at a higher sales price to pay for the costs of infrastructure and impact fees that are not financed through a CFD, and that homebuyers in today’s market prefer a lower purchase price, even if it means higher taxes.

**Affordability of homes in Point Molate.** Integra analyzed the ability of households within a 7-mile radius of Point Molate to afford a home in Point Molate. Their analysis indicated that in total, about 17% of households within a 7-mile radius could afford to buy a new home in Point Molate.

**Fiscal Impact of Point Molate.** The assumptions behind the Fiscal Impact Study were reexamined, particularly with respect to the projected operating costs of Public Safety services. The combined costs of staffing and operating the proposed combined police and fire station in Point Molate projected by the Fiscal Impact Study done in 2020 were estimated to be \$5.2 million per year. City staff has done a detailed analysis of the costs to staff and operate the proposed combined police and fire station in Point Molate. The updated staff analysis indicated an annual cost of \$5.355 million per year. The Fiscal Impact Study projected an annual surplus of between \$1.3 million and \$9 million per year, depending on what is built in Point Molate.

However, the staff analysis also indicated a cost of about \$1.7 million to acquire police and fire rolling stock for the new station. In addition, this equipment will need to be replaced over time.

While the Fiscal Impact Study shows a surplus at build out, the question remains: What is the potential fiscal impact of a fully staffed police and fire station *prior* to build out? This cost may result in an interim negative fiscal impact on the City’s General Fund. In addition, there needs to be adequate funding for both the acquisition and replacement of police and fire rolling stock.

**Implications of Integra Study for the CFD formation process.** The Integra study, which factors in to the comparables Point Molate’s proximity to the Chevron Richmond Refinery, calculates higher estimated home sales prices than were used by the financing plan in the DDA adopted in September 2020. A comparison by home product type is shown below:

	PRODUCT TYPE		
	Single Family Homes	Low-Rise Homes	Mid-Rise Condominiums
<b>Financing Plan in DDA</b>	\$1,400,000	\$1,175,000	\$1,250,000
<b>Integra Valuation Study</b>	\$2,000,000	\$1,440,000	\$1,485,000

Since the total combined annual tax on a given for-sale unit is determined by the combined tax levy for *all* purposes, including the CFD’s purposes, and the tax rate is

effectively capped at 2% of assessed valuation, Integra's projection of higher estimated home sales prices potentially puts additional annual revenue from the CFD at a higher level.

The financing plan in the DDA assumed that the debt service required for the envisioned CFD bonds would be approximately \$7 million per year; the financing plan also assumed about \$1.1 million per year for maintenance of infrastructure. Consequently, the total annual CFD taxes needed were about \$8.1 million per year. Taxing developed property in Point Molate at levels consistent with the Integra study would generate about \$10.2 million per year. The question is, where does this potential extra money go? Here are the possibilities being negotiated with SunCal:

- Cover interim operating costs for the new police and fire station prior to Point Molate build out
- Cover more *infrastructure maintenance costs* within Point Molate
- Fund additional City services or new facilities that benefit the entire community
- Fund *additional infrastructure projects* for SunCal in Point Molate

**Risk Mitigation of the downward movement of Sales Prices.** The structure of the special tax formula for the CFD (also called the "Rate and Method of Apportionment" or "RMA") will need to address the risk that the actual sales price points for each new project or subdivision in Point Molate may be less than those estimated at the time of CFD formation. The Rate and Method of Apportionment can address this risk through special provisions requiring a recalculation of the maximum tax rates *at the time of recording* of a final map for each subdivision.

**The CFD negotiation process with SunCal.** The City's CFD formation team is negotiating the provisions of the CFD with SunCal's team at this time. There are two key negotiating points that need to be resolved:

1. Allocation of the potential marginal increase in annual special tax revenue from Point Molate resulting from higher for sales prices, as broadly described above.
2. Prioritization and sequencing of the capital projects for Point Molate, including the police and fire station.

These issues will be addressed and reflected in two documents that will be brought before Council for approval: 1) the Rate and Method of Apportionment, and 2) the Acquisition Agreement. The Rate and Method of Apportionment will address the allocation of special tax revenues. The Acquisition Agreement will address the prioritization and sequencing of capital projects for Point Molate.

**Proposed schedule for CFD Formation.** At present, the City's CFD formation team intends to bring the Resolution of Intent, which establishes initial approval for the basic CFD formation documents, including the Rate and Method of Apportionment, to the City Council for consideration and approval at their meeting of February 15,

2022. The City's CFD formation team also intends to present the Acquisition Agreement for consideration and approval at the same meeting.

If Council approves the Resolution of Intent on February 15, 2022, the Council would then hold a public hearing to receive public comments and to consider final approval of the CFD formation; this is proposed to be calendared for March 22, 2022. Formation of the CFD by March 22, 2022, meets the deadline for CFD formation set forth by the DDA and the Amended Judgment of the federal U.S. District Court.

**POLICY SYNERGIES:**

As reflected in Richmond's Revenue Generation and Cost Recovery Policies, the City Council has identified the need to consider the potential formation of benefit assessment districts including landscape and lighting maintenance districts and community facilities districts to support the City's revenue generation and cost-recovery policies (see Strategic Priority 1A). Formation of a Point Molate CFD is constant with this Policy.

**DOCUMENTS ATTACHED:**

- Attachment 1 - Presentation: *Informational slide deck addressing policy questions on Point Molate Community Facilities District* by NHA Advisors, LLC
- Attachment 2 - Valuation Study dated December 20, 2021, for Potential Sales Prices of Residential Units in Point Molate by Integra Realty Resources