OLYMPIA WORKING GROUP SUMMARY
FINANCE

Date: June 21, 2021

Time: 4:00 p.m. – 5:45 p.m.

Attendees: Jared Henderson, Steven Shields, Wendy Thomas, Tami Moody, Chase Andrizzi, Alan Rae, Blake Thomas, Justun Edwards, Jonathan Bowers, Justin Sorenson, D.A. Davidson representatives, Olympia Development Team

This meeting focused on the function of public infrastructure districts (PIDs) and to see if they are useful within Olympia. Representatives from the D.A. Davidson company presented an overview of PIDs and answered the group's questions during the meeting. The company underwrites special district bonds and help cities and counties understand the special infrastructure districts in their respective states and if/how to best use them. Utah's version of special infrastructure districts are PIDs, made allowable in 2019 by Senate Bill 228.

It was noted that PID bonds don't make sense in every situation but do in some scenarios. There are multiple ways to collect revenue to repay the bond: the PID can levy a tax, impose an assessment, or charge fees. A PID is formed through the City Council's approval of a Governing Document. The PID exists until the bond is paid back. D.A. Davidson stated the Governing Document can define what is being financed, establish a debt limit, cap the maximum mill rate for a property tax (state statute requires no more than 15 mills, though D.A. Davidson typically sees significantly less than that), and establish reporting requirements for property buyers. The group feels it is critical to notify property buyers that they would be buying into a PID area. D.A Davidson noted an example from a PID in the state that requires a bright-colored piece of paper that says the buyer is about to buy property within the PID area that requires a tax to be paid above the rest of the city.

D.A. Davidson further explained that PIDs are governed by a board with members initially approved by the City. The Governing Document will specify how the board will transition to elected positions like other local governing bodies. That board oversees budgeting, facilitates audits, and refinances the bond if they choose. D.A. Davidson stated that, often, interest rates are higher up front before growth occurs, but once development starts to take place, risk decreases for bondholders and the bond can be refinanced to a lower interest rate, resulting in a savings to the districts. Savings can result in a lower tax rate (most often scenario) or allow the extra funds to go toward other and/or nicer infrastructure (such as a community pool). The PID board has the authority to decide. The Governing Document can likely use if-then statements to force the rate to come down. It was noted that while the rate or fee can decrease, it cannot increase beyond what was initially approved in the Governing Document. A change in the tax/fee rate or debt limit in the Governing Document must come before the City Council for approval.

The group acknowledged that an advantage of a PID is that it pays for infrastructure and identified amenities up front and spurs development. It was also noted that there is reduced risk to property owners such that the bondholders (not the City or property owners) assume risk if there is insufficient revenue to repay the bond, and that there is no statutory remedy to require additional taxes or fees of the PID or property owners. The point was made that PIDs do not affect the City's credit rating or bonding capacity.

D.A. Davidson confirmed that once the bond has been repaid, the PID is terminated, and the board cannot borrow more money under that PID.

The Finance group is working with other groups to create a list of infrastructure projects to be built. It will analyze the best way to pay for that infrastructure and if necessary, use the best combination of PID bond revenue (whether taxes, assessment, or fees) and/or developer impact or contract fees. Anything that is paid for by a PID cannot also be covered by an impact fee—property owners don't pay twice for the same piece of infrastructure. For example, if a PID was to pay for transportation infrastructure only, a road impact fee cannot also be charged, but a park fee can.

It was noted that PIDs can help pay for infrastructure needs for proportional impact outside the PID boundary, but only for eligible infrastructure. The Governing Document is able to not only specify, but prioritize the upgrades to eligible infrastructure. It was noted that an advantage of PIDs is that if the development falters, the City is not on the hook with piecemeal infrastructure. With a PID, it is done up front and the risk is with bondholders.

One concern with PIDs that was brought up is the fact that home prices are market-driven. Typically, builders are charged development fees, which are ultimately wrapped up into the home price. If there is a PID and impact fees aren't charged up front, the home price still likely wouldn't go down. In this case with a tax-based PID bond, the homebuyer still pays the full market price of the home plus the PID tax. Noted were the ideas that a savvy homebuyer in a less-hot market may be able to negotiate the price down, as well as the advantage of amenities and infrastructure being in place when the community is built (rather than waiting for revenues to build those facilites), but still the buyers may get impacted on both the front and back end of buying.

The group discussed a fee-based PID bond, repaid by a contract fee from the developer on the front end of construction. That scenario would allow some infrastructure to be funded up front but avoids a long-term property tax on homeowners. D.A. Davidson noted that the bonding capacity for a fee-based PID would be less than a limited property tax PID, but could still be beneficial and realistic. D.A. Davidson has done an analysis of Olympia and can show different bonding capacities for 2, 4, 6, 7, and 8 mills, as well as a fee-based structure.

It was reaffirmed that a special assessment area (SAA) is not an option as a funding mechanism. The Olympia team said the property owner would not be willing to pledge property as collateral.

A question was asked about forecasting inflation for contract fees. One option is to base the rates on the year the PID was approved plus whatever inflation or deflation has occurred in the time since then, using one or more of several metrics (like Consumer Price Index, Engineering News-Record, etc.). On top of that, the fee could be structured in tranches, where a certain number of homes are subject to the certain set fee, and the next set is subject to the adjusted rate, etc. The adjustments can also be included as part of the periodic four-year review of the MDA.

D.A. Davidson mentioned right now is the most issuer-friendly market they have seen and costs are very low to go longer into the future for bonds to increase capital.

It was noted that PIDs can pay for administrative costs as well. D.A. Davidson builds in every bond plan a certain amount to ensure the district can operate.

The group discussed what infrastructure items would be covered by a PID and which would be removed and covered via impact or contract fees to the City. The group suggested for the PID: roads, water, parks and park strips, and stormwater. The City would separately charge impact/contract fees for police and fire services.

A question was asked about how to deal with projects that are factored into the initial fee calculation but are ultimately paid for by other sources like state funds. D.A. Davidson suggested including all eligible projects in the Governing Document and if they're covered by other sources, just move down the list to the next project.

It was noted that typically, funds need to be spent within three years, so if PIDs are used, multiple PIDs would need to be used that trigger at different points as different infrastructure is needed. The group also expressed the need to draft documents to ensure that Olympia-generated funds are kept to Olympia-related projects.