

VII. FINANCING STRATEGY

The WIP's locational attributes are strong enough to overcome major constraints through the application of tax increment, land secured financing, City tax revenue, and a multitude of other public financing and grant funds totaling \$47 million over the next decade.

This chapter presents an approach toward combining private investment with publicly available resources to facilitate development of new industrial and manufacturing product within the WIP. Initially, the project financial gap is discussed in terms of the overall project as well as individual phases. A discussion of project sources and uses of funds ensues.

ESTIMATION OF PROJECT FINANCIAL GAP

A successful redevelopment project must present a plausible risk/reward environment to landowners, developers, and end-users. Redevelopment is a complicated, risky process that involves time-consuming entitlement actions, such as negotiation of development rights and cost sharing provisions. It involves the demolition of older facilities and their replacement by newer buildings that must satisfy updated building codes. The cost of architectural and other site planning fees, infrastructure design and installation, building construction, marketing, and other obligations can be onerous, even on a clean, graded building pad. When the real and perceived threats of liquefaction and contamination are factored in, public subsidy requirements are all but assured.

Predevelopment costs are often cash-funded, including the securing of entitlements, conducting soil investigations, and obtaining favorable financing terms for construction. For brownfield project developers, this is a very risky period, as substantial funds must be expended in an uncertain environment.

Some proportion of the WIP's property owners and members of the regional development community will express a desire to work collaboratively with the CRA. The participation rate is likely to be higher if sufficient incentives are put in place to address the "unknowns." The CRA can reduce costs and uncertainty through the provision of subsurface data, infrastructure maps, and other information compiled as a part of this Economic Adjustment Strategy. Subsequently, a cost-effective means must be found to initiate site preparation and backbone infrastructure installation.

This section explores the components of WIP development, and compares the asset value to development costs. Probable types and magnitudes of required subsidies are then identified.

LIGHT INDUSTRIAL/MANUFACTURING PRO FORMA

EPS has estimated specific private-sector costs and revenues to evaluate whether sought-after manufacturing and light industrial development types can be developed in the context of Wilmington Industrial Park.

If developer or property owner returns are reduced because of factors specific to Wilmington, property owners will not be compelled to take risks associated with redeveloping land. Such factors include problematic soil conditions, the presence of blight, and the magnitude of acquisition, relocation, and parcel assembly needed to attract development of any scale.

Global Assumptions & Methodology

This analysis uses a pro forma methodology whereby land costs, construction costs, developer returns, and other items are deducted from estimated asset value to derive residual project value. For each phase of development, it identifies the likely subsidy required to cover development costs and satisfy minimum developer returns. The following provides a summary of major assumptions made in the financial analysis (see **Table 10**):

1. **Land costs** are assumed to be \$15 per square foot. This is a conservative estimate falling within the \$15-\$20 per square foot land value range discussed in the market Study (*Volume II*). This amount assumes land that is generally clean – reflecting situations where, in most cases, responsible parties agree to fund soil clean-up prior to the transaction or, alternatively, the agency relies on the Polanco Act’s cost recovery provisions to recover cleanup costs later. Using the lower end of the market value range is consistent with the fact that the extraordinary costs of foundations in some areas will reduce the amount that purchasers are willing to pay. It should be noted that some users will be willing to pay more for land. For example, truck parking uses often are not required to address subsurface soil contamination. Without the need to spend funds on clean-up, they are willing and able to pay more for the land. Certain industrial owner-users interested in the area’s proximity to the Port may also be willing to pay more relative to speculative developers.
2. **Building sale values** are assumed to be \$92.50 per square foot. This is consistent with market sales comparables associated with owner-user product, such as the Carson Town Center project. Sale values, at this time, exceed the capitalized value of light industrial rental product. A premium exists in the market for ownership opportunities, driven by low interest rates and the strong desire among many owner-users to find a central location along the coast.
3. **Floor-area ratios** in the project are expected to average 0.45, reflecting the development prototypes described in **Chapter V**.

4. **Building shell construction** costs are estimated to be \$32 per square foot of building. For purposes of comparison, the CSU Long Beach project is coming in at \$28.50 per square foot for shell construction and related costs. Tenant improvements (office finish-outs) are assumed to be \$25 per square foot, and are applied to 10 percent of the 1.2 million square feet included in the phasing strategy.
5. **Soil stability** is a key factor affecting feasibility. Geotechnical analysis conducted for this effort finds that, on average, properties included within the phasing strategy may incur extraordinary costs of \$3.75 per square foot of building for soil compaction and foundation development, if the need for piles or stone columns can be avoided.⁵ Proposed development at the Eubank and E Street entrances may require more expensive subsurface improvements. If piles are deemed necessary, and users are unwilling to pay cost premiums, it is recommended that other strategies be taken into consideration, including use of screening walls, landscaping, truck parking, and other land uses not incorporating the types of structures requiring piles or stone columns. It should be noted that certain owner-user manufacturing or other projects may recognize that the advantages of being located in this area outweigh the costs of pile driving. This may be the case with certain Port relocation projects. Simply stated, where the development of a project in the WIP reflects a strategic business decision rather than a real estate investment decision *per se*, extraordinary foundation-related costs may be less of a factor.
6. **Active oil well abandonment** is assumed to cost \$160,000 per well, based on information developed by the project geotechnical consultant. In addition, it will likely be necessary to compensate well owners for lost income from abandoned wells (mineral rights would remain with their present owners). Based on internal consulting team experience, this amount can vary between \$50,000 and over a million dollars per well; however, qualitative information reviewed indicates values in Wilmington are likely on the lower end of the spectrum due to relatively poor quality of oil paired with relatively high well operating costs. For this analysis, it is assumed that the closure of wells on the WIP property would result in lost income of \$100,000 per well (net present value) in addition to the cost of physically abandoning each well. If values are materially higher, other approaches to development, such as reduced building densities, may need to be considered. This judgment must be made on a case-by-case basis.
7. **Soil remediation** costs for non-oil contaminants are assumed to be \$2.86 per square foot of affected land, based on geotechnical data prepared under this study. Oil related contamination is estimated to cost \$4.15 per square foot of affected land. These cost assumptions incorporate some cost savings as a result

⁵ This estimated cost is a blend of three stabilization/foundation techniques: 1) removal/replacement; 2) rammed aggregate piers; and 3) MSE composite raft foundations. See Volume III of this report for additional information.

- of using soil replacement/compaction techniques to resolve liquefaction threat and contamination issues simultaneously. For this analysis, it is assumed that in most cases (75 percent of the time), responsible parties fund soil remediation prior to purchasing the property for purposes of redevelopment. Therefore, 25 percent of the estimated remediation costs are included as a cost in the pro forma, reflecting situations where costs cannot be recovered.
8. **Other assumptions** germane to this analysis include soft costs at 22 percent of total hard costs, an average demolition cost of \$20,000 per building (about \$5/square foot), and a required developer return of 12 percent on total project costs. This latter assumption is estimated to be the minimum that a rational developer would accept in this market.

Table 10
Pro Forma Assumptions
Wilmington Industrial Park Economic Adjustment Strategy

Item	Assumption	Per
Land		
% Developable		
Status 1	100%	
Status 2	100%	
Status 3	0%	
Average Land Acquisition Cost	\$15.00	land sqft
Average Demolition Cost	\$20,000	structure
Direct Costs		
Site work		
Site Assessment	\$0.69	land sqft
Active Oil Well Abandonment	\$160,000	active well
Oil Well Valuation	\$100,000	active well
Soil Remediation - Oil [1]	\$4.15	land sqft
Soil Remediation - Other	\$2.86	land sqft
Soil Contamination Cost Recovery [2]	75%	of soil remediation
Subsurface - Foundation	\$3.75	varies per location
Shell/Core	\$32.00	bldng sqft
Tenant Improvements	\$25.00	TI sqft
Tenant Improvement Buildout %	10%	
Indirect Costs		
Architecture & Engineering	5%	direct costs
Testing & Inspections	\$2.00	bldng sqft
Legal/Acctng/Title	\$0	bldng sqft
Insurance	2%	direct costs
Title/Escrow	\$0.10	bldng sqft
Property Tax During Const.	1%	land acquisition
Lease Term for Commission	5	years
Leasing Commission	5%	gross lease
Financing Costs	80%	of total direct & indirect costs
Interest Rate	8%	per annum
Project Revenue		
Rental Rate PSF - Annual	\$7.80	bldng sqft
Vacancy %	5%	
Operating Expense %	5%	
Sale Price PSF	\$92.50	
Cap Rate	8.25%	
Other		
FAR	0.45	
Required Developer Return	12.00%	as % of total costs

"assumptions"

[1] Based on discussions with the project geotechnical engineer, certain cost savings may be achieved through techniques resulting in solutions to soil stability and contamination issues. This figure incorporates a 30 percent reduction from **Table 4** in the *Geotechnical and Environmental Evaluation (Volume III)*.

[2] Assumes that, in most cases, current property owners clean sites prior to land transaction, or that the CRA is able to recover clean-up costs through Polanco Act cost recovery provisions.

Source: Diaz, Yourman, and EPS

FINANCIAL FEASIBILITY RESULTS

The financial analysis is presented from two perspectives. First, a developer pro forma is depicted, illustrating likely revenues and returns faced by a private sector developer constructing buildings for sale on the site. This approach assumes that property is serviced by backbone infrastructure and that tenant relocation has been accomplished. Second, a CRA funding strategy is presented, including a comprehensive approach to funding developer subsidies and other major obligations, including relocation and backbone infrastructure, through offsetting revenue sources including tax increment, land-secured debt, and grant funds.

Table 11 presents the developer proforma for each phase and the project as a whole. Results are summarized below. A complete model printout including block-specific information is included in **Appendix A**.

Developer Cash Flow

- **Phase I.** This phase includes the development of 337,000 square feet of space on 17.2 acres. Total Phase I building development costs, exclusive of developer profit, are projected to be approximately \$32.1 million⁶, as opposed to net sale proceeds of only \$29.6 million, contributing to a deficit of \$2.45 million. Adding the required developer return of \$3.8 million results in a required infusion of \$6.3 million.

Extraordinary soil improvement costs (foundations and remediation) amount to about \$4.1 million. Strategic reduction to these costs through the application of grant funds is critical. Another major variable is the cost associated with shutting down the six active wells in this phase; in particular, significant mineral resource values, known only by conducting a discounted cash flow analysis for each oil well, could require an amended approach to parcel development.

There are generally two options available in dealing with active oil wells in the path of development: 1) oil well abandonment and 2) building around the active wells. An illustrative analysis of Block 28 is shown by **Table 12**. From a developer's perspective, the two options may be relatively similar when measured by financial return. Leaving the oil wells in place and building around them requires a reduction in density to 0.25 and results in a \$2.1 million project gap after accounting for projects costs and developer profit. Abandoning oil wells results in a \$2.4 million project gap when development occurs at maximum densities (0.45 FAR). However, from the CRA's perspective, additional jobs, assessed value, and City revenue are key performance criteria. When these factors are taken into consideration, all other things being equal, it is better to abandon the well in order to maximize developed building space within the

⁶ All figures are expressed in constant dollars unless otherwise indicated.

WIP. It should be noted that this decision must be made on a case-by-case basis depending on development requirements, parcel configuration, and productivity of the oil well(s) under consideration.

- **Phase IA.** This phase includes the development of 169,000 square feet of space on 8.6 acres. Development costs are estimated to be \$96.50 per square foot, or \$16.3 million, as opposed to net sale proceeds of \$14.8 million, resulting in a deficit of \$1.5 million. Including developer profit of 12 percent, the required project subsidy is \$3.4 million. This scenario assumes that soil borings show that workable foundation techniques are possible, as opposed to the use of piles or stone columns. If these latter techniques are required, no speculative development will pencil out, and the CRA must wait for an owner-user willing to pay the premium of at least \$25 per square foot associated with these approaches. The premium associated with using piles or columns would exceed \$2.4 million. As it is, the phase has difficulty due to over \$2 million in assumed soil stabilization and clean-up costs. Additional due diligence in this area will be critically important in formulating development prospects.
- **Phase II.** Phase II involves the development of 206,000 square feet on 10.5 acres of mostly cleared land. Development costs, exclusive of developer profit, are \$19.8 million (\$96/square foot), as opposed to potential net sale value of \$18.1 million. Including an allowance for developer return, a subsidy of \$4.1 million would be necessary to facilitate development. Major cost items include extraordinary foundational work and soil remediation - contributing \$2.5 million in costs. The southern tip of this area may be subject to liquefaction, recalling the discussion on the topic within the Phase IA section above. If liquefaction is not a factor, and offsetting funds can be applied to remediation, this property has the ability to generate a tax increment surplus that may be applied to subsequent development projects.
- **Phases IIA and IIB.** These phases involve the development of about 303,000 square feet of space on 15.4 acres of land. The main challenge on these parcels is on the CRA's side of the ledger in the relocation of salvage yards and other tenants. Required developer subsidies are estimated to be \$3.3 million and \$2.1 million for 9-acre Phase IIA and 6-acre Phase IIB, respectively.
- **Phases III and IIIA.** This phase, with 247,000 square feet of space developed on 12.6 acres, has relatively high development costs, despite the lack of liquefaction threat in this area. This is due to the five active oil wells in the phase, in addition to other contamination and required demolition of existing structures. Net sales revenue of \$21.6 million is eclipsed by \$24.8 million in costs plus a \$3 million developer return, requiring a subsidy of about \$6 million.
- **Total Project.** From the perspective of a developer provided with cleared, accessible land (i.e., previous tenants have been relocated and backbone infrastructure is in place), the overall project requires an infusion of \$25.3 million,

as estimated net project value of \$110.8 million is eclipsed by projected costs of \$121.6 million and required developer returns of \$14.6 million (**Table 13**).

This \$25.3 million infusion, when combined with relocation and infrastructure improvements, creates a total public financing and grant funding target of \$47.3 million. The following section provides a road map for closing this gap.

**Table 11
Developer's Pro Forma - Sale Option
Wilmington Industrial Park Economic Adjustment Strategy**

Item	Total	Phase 1	Phase 1A	Phase 2	Phase 2A	Phase 2B	Phase 3	Phase 3A
Blocks in Phase		18, 27, 28, 34, 36	38, 45, 53, 54	11, 14, 32	10, 15, 31	30, 9	19, 20	21, 25
Total Building Sqft	1,260,902	337,164	168,618	205,662	178,575	124,136	132,427	114,320
Total Land Sqft	2,802,005	749,253	374,706	457,027	396,834	275,857	294,283	254,045
Total Acres	64.33	17.20	8.60	10.49	9.11	6.33	6.76	5.83
SALE PROCEEDS								
Total Square Feet	1,260,902	337,164	168,618	205,662	178,575	124,136	132,427	114,320
Sale Price PSF	\$92.50	\$92.50	\$92.50	\$92.50	\$92.50	\$92.50	\$92.50	\$92.50
Gross Sale Proceeds	\$116,635,000	\$31,188,000	\$15,597,000	\$19,024,000	\$16,518,000	\$11,483,000	\$12,250,000	\$10,575,000
Less Cost of Sale (5%)	\$5,832,000	\$1,559,000	\$780,000	\$951,000	\$826,000	\$574,000	\$613,000	\$529,000
Net Sale Proceeds	\$110,803,000	\$29,629,000	\$14,817,000	\$18,073,000	\$15,692,000	\$10,909,000	\$11,637,000	\$10,046,000
PROJECT COST								
Land								
Land Acquisition	\$42,031,000	\$11,239,000	\$5,620,000	\$6,855,000	\$5,953,000	\$4,138,000	\$4,414,000	\$3,812,000
Demolition	\$760,000	\$280,000	\$220,000	\$0	\$20,000	\$40,000	\$100,000	\$100,000
Total Land Cost	\$42,791,000	\$11,519,000	\$5,840,000	\$6,855,000	\$5,973,000	\$4,178,000	\$4,514,000	\$3,912,000
Direct Costs								
Sitework								
Site Assessment	\$1,934,000	\$518,000	\$259,000	\$315,000	\$274,000	\$190,000	\$203,000	\$175,000
Soil Remediation [1]	\$4,911,000	\$1,314,000	\$657,000	\$801,000	\$696,000	\$484,000	\$516,000	\$445,000
Oil Well Abandonment	\$2,400,000	\$960,000	\$160,000	\$320,000	\$160,000	\$0	\$480,000	\$320,000
Oil Well Valuation	\$1,500,000	\$600,000	\$100,000	\$200,000	\$100,000	\$0	\$300,000	\$200,000
Subsurface - Foundation	\$10,505,000	\$2,809,000	\$1,404,000	\$1,714,000	\$1,488,000	\$1,034,000	\$1,103,000	\$953,000
Shell/Core	\$40,349,000	\$10,788,000	\$5,396,000	\$6,582,000	\$5,715,000	\$3,972,000	\$4,237,000	\$3,659,000
Tenant Improvements	\$3,151,000	\$844,000	\$421,000	\$513,000	\$447,000	\$310,000	\$331,000	\$285,000
Total Direct Costs	\$64,752,000	\$17,833,000	\$8,397,000	\$10,445,000	\$8,880,000	\$5,990,000	\$7,170,000	\$6,037,000
Indirect Costs								
Architecture & Engineering	\$3,542,000	\$973,000	\$460,000	\$572,000	\$488,000	\$329,000	\$391,000	\$329,000
Permits/Fees/Testing/Inspections	\$2,522,000	\$675,000	\$337,000	\$411,000	\$357,000	\$248,000	\$265,000	\$229,000
Legal/Accounting/Title	\$317,000	\$85,000	\$42,000	\$51,000	\$46,000	\$31,000	\$33,000	\$29,000
Insurance	\$1,062,000	\$292,000	\$139,000	\$171,000	\$147,000	\$98,000	\$117,000	\$98,000
Title/Escrow	\$128,000	\$35,000	\$17,000	\$21,000	\$17,000	\$13,000	\$14,000	\$11,000
Property Tax During Const.	\$39,000	\$11,000	\$5,000	\$6,000	\$5,000	\$4,000	\$4,000	\$4,000
Financing Costs	\$6,415,000	\$658,000	\$1,048,000	\$1,275,000	\$1,095,000	\$750,000	\$858,000	\$731,000
Total Indirect Costs	\$14,025,000	\$2,729,000	\$2,048,000	\$2,507,000	\$2,155,000	\$1,473,000	\$1,682,000	\$1,431,000
Total Project Costs	\$121,568,000	\$32,081,000	\$16,285,000	\$19,807,000	\$17,008,000	\$11,641,000	\$13,366,000	\$11,380,000
Per Sqft Building	\$96.41	\$95.15	\$96.58	\$96.31	\$95.24	\$93.78	\$100.93	\$99.54
PROJECT SUMMARY								
Sale Proceeds less Project Costs	(\$10,765,000)	(\$2,452,000)	(\$1,468,000)	(\$1,734,000)	(\$1,316,000)	(\$732,000)	(\$1,729,000)	(\$1,334,000)
Developer Profit at 12%	(\$14,589,000)	(\$3,850,000)	(\$1,954,000)	(\$2,377,000)	(\$2,041,000)	(\$1,397,000)	(\$1,604,000)	(\$1,366,000)
Required Subsidy	(\$25,354,000)	(\$6,302,000)	(\$3,422,000)	(\$4,111,000)	(\$3,357,000)	(\$2,129,000)	(\$3,333,000)	(\$2,700,000)

[1] For purposes of this analysis, it is assumed that 75% of costs will be the responsibility of the landowner and 25% of the buyer.
Source: Diaz, Yourman and EPS

Table 12
Wilmington Industrial Park Economic Adjustment Strategy
Block 28 Comparison

Item	Oil Well Abandonment w/ Max density	Reduced Density w/ Oil Wells Left in Place
Developable Land Sqft	144,614	144,614
FAR	0.45	0.25
Estimated Building Sqft	65,076	36,154
<u>PROJECT COST</u>		
Land	\$2,169,000	\$2,169,000
Site Work	\$2,246,000	\$1,206,000
Shell/Core & Tenant Improvements	\$2,245,000	\$1,247,000
Indirect Costs	\$1,037,000	\$709,000
Total Project Costs	\$7,697,000	\$5,331,000
<i>Total Project Costs per Building Sqft</i>	<i>\$118.28</i>	<i>\$147.45</i>
<u>PROJECT REVENUE</u>		
Annual Gross Rental Income	\$508,000	\$282,000
Less Vacancy	(\$25,000)	(\$14,000)
Effective Income	\$483,000	\$268,000
Less Operating Expense	(\$24,000)	(\$13,000)
Net Operating Income	\$459,000	\$255,000
<u>CAPITALIZED VALUE</u>		
	\$5,564,000	\$3,091,000
Less Project Costs	(\$7,697,000)	(\$5,331,000)
Less Developer Profit @ 12% of Costs	(\$923,640)	(\$639,720)
Residual Value (Required Funds)	(\$3,056,640)	(\$2,879,720)
<u>ECONOMIC COMPARISON</u>		
Estimated Employment	87	48
Estimated Assessed Value	\$6,979,433	\$3,877,463
Estimated Annual City Revenue	\$165,828	\$92,127

"block28"

[1] Assumes all status 2 properties require demolition.

Source: Stewart Title, Diaz Yourman & Associates, and EPS

PROJECT-WIDE FUNDING STRATEGY

The CRA must be very judicious in its investment decisions. As described elsewhere in this report, it is strongly recommended that major funding decisions be made in conjunction with specific development concepts, to ensure that spending decisions are synchronized with market and financial goals of developers and/or end users.

Optimally, the private sector would be responsible for all site development costs, including parcel assembly, on-site infrastructure remediation, and vertical development. However, as discussed in the developer pro forma analysis above, developers and owner-users interested in building in the WIP will not be able to shoulder all the costs, and are under pressure to realize market-rate returns from development. The CRA will need to subsidize developers where unusual costs negate realization of competitive returns. Based on the analysis, foundational costs in liquefaction areas, and the costs associated with oil well modifications are the most likely sources of development cost overruns. The following section provides a description of major sources of revenue available to the project from a variety of sources, followed by specific recommendations on how to match sources and uses.

SOURCES OF FUNDS

Land Sale Revenue

This is not expected to be a significant source of revenue to the CRA. First, it is highly recommended that the CRA avoid taking title to property unless absolutely necessary through the eminent domain process. Second, even if the CRA does acquire significant property, it is likely a better strategy for the CRA to pass the property through at the price of acquisition, compared to an approach where the CRA attempts to improve the property itself and sell it to a developer or end-user at a higher price. The CRA may want to consider transactions with developers that provide discounted up-front consideration to facilitate development by reducing risk to the developer, while putting in assurances for up-side revenue sharing.

Tax Increment

Tax increment revenue will be a critical component of the project. The financial analysis corresponding with the phasing strategy indicates that approximately \$10 million in net tax increment bonding capacity will be generated in ten years, presuming that market support and CRA actions support that rate of development. In addition, the 25 percent housing setaside funds should be used to relocate any residences affected by the phasing strategy, as well as to improve housing conditions for the local Wilmington labor force. It is estimated that another \$10 million of such funds will be generated in the next decade. **Tables 14 and 15** detail the tax increment estimates for the WIP.

City Revenue Sharing

As discussed in this report, as well as in the Market Analysis in *Volume II*, the project is very well located in the regional market relative to the Port, regional transportation systems, and the existing manufacturing base. Moreover, the nature of the manufacturing development that would normally occur in this area would be very beneficial to the City General Fund, but for the extraordinary soil and other problems that have hindered development to date.

The challenge for nearly all projects is funding the initial phases of development. This is particularly true for the WIP, where years of deferred road maintenance, law enforcement, and other public services have contributed to the overall level of blight.

The CRA has little available tax increment from this project area or other financial resources to seed development. Although the City, through the Mayor's Office, has been instrumental in securing State and federal funds once users are in tow, the phasing strategy focuses initially on some of the more difficult areas in order to elevate the ultimate level of investment in the park. This will require an early-term investment in the park, perhaps before specific end users are identified.

As a result of the conditions outlined above, this project is an excellent candidate for market intervention in the form of City revenue sharing, derived from business license fees, utility user taxes, and other annual revenues that would be generated by new manufacturing development in the WIP. A bilateral agreement to share fiscal revenue 50/50 between the CRA and the City for 10 years could generate \$4.0 million each to the project and the City over the next decade. An up-front contribution of this magnitude would catalyze project initiation and create the preconditions necessary to initiate and sustain redevelopment through completion. This source, as a component of the overall sources and uses of funds strategy, is discussed later in this chapter. **Tables 16** and **17** present potential revenue sharing scenarios between the CRA and the City.

Responsible Party Remediation/Fund Recovery

Each oil well located within the WIP, active or inactive, is expected to have created some degree of soil contamination in its periphery. Estimated remediation costs are approximately \$100,000 per well. As there are 19 well sites located within the phasing strategy area, the anticipated cost is \$1.9 million. Legally, the contaminating parties are responsible for remediation. In reality, some of these parties are no longer in existence, or may not be responsive to clean-up requests. This analysis assumes that 75 percent of these costs are recovered by the CRA. This assumption is also applied to properties with other types of contamination.

Land-Secured Financing

The Mello-Roos Community Facilities Act of 1982 (the “Mello-Roos Act”) provides for a very powerful and flexible land-secured financing mechanism: a public agency may levy a special tax on real property for the purposes of constructing public facilities.

The Act allows a public agency to use the proceeds of the special tax levy to construct eligible facilities, or the public agency may use the special tax proceeds to pay principal and interest on bonds issued by the Community Facilities District (“CFD”). Proceeds of the special tax levy may also be used to fund maintenance of facilities constructed with proceeds of the special tax or bonds issued by a CFD. Other public services, such as landscape and open space maintenance, may be funded with the special tax of a CFD. Importantly, a district may also pay for contaminated soils remediation, as well as work deemed necessary to bring real property, including privately owned property, into compliance with seismic safety standards or regulations by local building officials.

Table 18 shows an estimate of the land secured financing capacity associated with lands included in the WIP phasing strategy. As shown, it is estimated that CFD bond proceeds of approximately \$10 million could be issued to fund local infrastructure, soil improvement, and clean up within the WIP.

The formation of a CFD starts with the introduction of the Resolution of Intention (“ROI”) to form a CFD before the governing board. The ROI has three components:

1. **Rate and Method of Apportionment of Special Tax** (the “Tax Formula”). For this analysis, an effort was made to ensure that special taxes would not exceed 1.5 percent special tax rate in industrial districts.
2. **Authorized Facilities and/or Services.** A broad spectrum of infrastructure capital improvement, maintenance, landscaping, soil remediation, and seismic projects are applicable.

3. **CFD Boundary Map.** The District may annex individual phases of the WIP as development proceeds. The area included in the CFD does not need to be contiguous.

The Tax Formula sets the maximum annual special tax that may be levied against real property, defines the period over which the special tax is authorized to be collected, prescribes the process of allocating the special tax levy to land uses on an annual basis, and sets the manner of collection of the special tax. The special tax is typically placed on the regular secured property tax roll of the county, but may be collected separately by the public agency. Major considerations include:

- With debt proceeds of \$10 million, the total tax rate (property taxes, overrides, and special taxes combined) would be approximately 2.25 percent -- a net increase of 1.15 percent.
- Land owners stand to benefit substantially from reinvestment of low interest (presently 5.75 to 6.25 percent per annum), tax exempt CFD bonds.
- The CFD debt service payments could translate to about \$0.03 per square foot of building per month.
- Asset value, as security, is not a constraint in this case, as the calculated value to lien ratio for an issuance of \$10 million is about 10:1.
- The CRA should seek to consolidate ownership and structure deals with affected property owners and/or the development community that provide for Mello-Roos financing as an implementation mechanism. This approach is imperative given the required 2/3 approval requirement.⁷

⁷ The law requires that more than 2/3 of the voters must approve the formation of the CFD. If less than 11 registered voters reside in the proposed boundaries of the CFD, then a landowner election is conducted where each land owner receives one vote for each acre of land, or portion thereof.

Grant Funds

The following section identifies and briefly discusses the broad range of grant funds, low-interest loans, and other City, State, and federal policy-based funding sources for which the WIP should qualify for funding:

Environmental Protection Agency (EPA) Assessment Grants: Up to \$200,000 is available per site for brownfield Phase I or Phase II assessment, the development of cleanup plans, outreach to stakeholders and community involvement, as well as the purchase of environmental insurance. Funds can be used for petroleum contaminated sites as well. The federal Environmental Protection Agency (EPA) is a major potential source of funding for brownfields assessment and cleanup as well as potential funds to generally improve the feasibility of redevelopment at the WIP. As a result of federal legislation passed in January 2002, the EPA is now providing brownfields funds for petroleum contaminated sites in addition to expanding funding options for cleanup. In general, there are three sources of funds available through the EPA for brownfields on a per site basis. It should be noted that the phasing strategy proposed in this report creates an estimated three separate sites that could be created over time for funding:

- Assessment grants for petroleum other contamination (up to \$200,000 - with additional funds available for more complicated sites)
- Grants to capitalize a revolving loan fund (RLF), including petroleum contaminated sites (up to \$1,000,000). Funds from the RLF can be attached to fund clean up.
- Cleanup grants, including petroleum contaminated sites (up to \$200,000).
- *EPA Cleanup Grants:* Up to \$200,000 available per site for brownfields cleanup. Funds can be used for petroleum contaminated sites as well. These grants require a 20 percent local match. The EPA Region 9 Brownfields Coordinator has indicated interest in discussing with the CRA their eligibility for EPA funds and the application process.

Other major sources of grant funding and low interest loans include:

- **Economic Development Administration (EDA) Economic Adjustment Program (Title IX):** Funds available to communities that experience sudden and severe economic dislocation or long-term economic deterioration. Economic adjustment funds can be used for design and implementation of redevelopment strategies. As of 2001, the average grant made under Title IX was \$281,000.
- **EDA Public Works and Development Facilities Programs (Title I):** Grant funds are available to eligible organizations located within an EDA-designated Redevelopment Area or Economic Development Center. Funds can be used to fund roads, water and sewer facilities, port improvements, and other

infrastructure enhancements. The average grant awarded in 2001 under Title I was \$1.0 million.

- ***Housing and Urban Development (HUD) Section 108 Loan Guarantees:*** Communities that participate in the CDBG program are eligible to receive Section 108 loan guarantee funds in return for pledging future CDBG allocations as collateral. The Section 108 loan guarantee funds can be used to acquire and redevelop brownfield sites within blighted communities. In 1999, the Section 108 program administered \$1.26 billion in loan guarantee funds.
- ***HUD Brownfield Economic Development Initiative (BEDI):*** HUD BEDI grants are part of HUD's Economic Development Initiative (EDI), which provides financial assistance to recipients of Section 108 guaranteed loans. The BEDI program targets grants to brownfield redevelopment. In 1999, the average BEDI award was \$1.1 million. The CRA is currently a recipient of BEDI funds.
- ***HUD Community Development Block Grant (CDBG):*** The Los Angeles CDGB entitlement can be used to fund brownfields redevelopment at the WIP.
- ***Army Corps of Engineers Cost-Shared Services:*** Provides technical assistance to assess and cleanup brownfields sites.
- ***U.S. Department of Transportation Federal Highway Administration (FHWA):*** Through their Transportation and Community and System Preservation Pilot Program (TCSP), the FHWA awards grants for planning transportation improvements either through improved streets and highways as well as transit. The program is authorized to award a total of \$120 million between 1999 and 2003.
- ***State of California Infrastructure Economic Development Bank (CIEDB or the State Infrastructure Bank):*** Through the Infrastructure State Revolving Loan Fund (ISRLF), the State Infrastructure Bank provides low-interest loans to any local government, including redevelopment authorities for infrastructure improvements. Improvements to streets and highways, drainage, environmental mitigation measures, port facilities, and other infrastructure projects are considered eligible activities under ISRF. Loan amounts range from \$250,000 to \$10 million per request, and interest rates were estimated at 3.19 percent as of September, 2002.

Funds available to the private sector include:

- ***Small Business Administration (SBA) Section 504 Financing:*** SBA 504 financing is a type of second mortgage that can be used to support up to 40 percent of project costs with private lenders and either business owners or the public sector financing the remaining costs. Funds can be used for land, building, and

machinery acquisition as well as construction and renovation of existing facilities. A typical Section 504-supported loan is \$300,000.

- **SBA Section 7(a) and Low-Doc Programs:** The SBA Section 7(a) program is a loan guarantee available to small businesses in order to improve credit. The Low-doc (low documentation) program expedites the SBA approval process for loan guarantees under \$100,000.
- **EPA Brownfields Revolving Loan Fund:** Through a local organization, EPA funds can be funneled to the private sector via a revolving loan fund (RLF) capitalized by the EPA. These funds can be lent out at reduced rates to eligible parties and can also be made available as grants. The CRA would administer these funds.
- **Targeted expensing of cleanup costs (through 12/31/03):** This tax incentive can be used to enhance a project's cash flow. It allows taxpayers to fully deduct environmental cleanup costs for properties in targeted areas.
- **Industrial development bonds:** IDBs are a financing option that can assist the CRA in effectively targeting manufacturing firms for the WIP as identified in the market study. Eligible manufacturing companies can use the proceeds from bond sales to construct facilities and acquire property. The State of California offers IDBs through the California Industrial Development Financing Advisory Committee.
- **California Pollution Control Financing Authority (CPCFA) Cal ReUSE Program:** The CPCFA administers the California Recycle Underutilized Sites (Cal ReUSE) program which provides forgivable loans to fund site assessment as well as technical assistance and the development of cleanup plans. \$10 million in loan funds was made available as of May 2002. The Cal ReUSE program provides a maximum loan amount of \$125,000 per site.

ASSIGNMENT OF SOURCES TO SPECIFIC USES

As discussed at the outset of this chapter, there is an estimated \$47 million in costs to be funded through various sources. EPS researched and identified federal, state, and local grants and low-interest loans, as well as financing mechanisms such as land secured debt, tax increment financing, and industrial development bonds (IDB) in order to meet the feasibility requirements of developing the WIP. The following discussion describes the process of allocating funding sources to the appropriate costs.

Table 19 represents one method for balancing the funding sources with the appropriate costs, and provides the CRA with an example for how to achieve feasibility at the WIP in the long term. The estimates of funds available from federal and state sources in **Table 19** are based on information from the funding sources. In some cases the amount available represents a maximum amount that could be awarded; in others cases it

represents the average award given by that source. The following costs were targeted to receive funding from available sources:

- Land acquisition
- Site assessment
- Soil remediation
- Subsurface improvement (liquefaction)
- Construction
- Backbone infrastructure
- Relocation

Site assessment costs were considered a candidate for public funding because of the potential for EPA and HUD BEDI grant funds available for assessment. Soil remediation costs to be subsidized by public dollars include 25 percent of total soil remediation costs net of potentially responsible parties funding the cleanup costs (75 percent of total costs). Public funding for subsurface improvements, backbone infrastructure, and business relocation is recommended due to the magnitude of these costs.

The partial funding of land acquisition and construction costs with public dollars is recommended due to the availability of funding to cover some of these costs, thereby filling the entire funding gap of \$47 million.

Relocation

The most significant cost associated with redevelopment at the WIP requiring public funding of some type is the relocation of existing businesses in the WIP to other locations. Where eminent domain is used, the CRA is responsible for paying fair market value for the land and building assets, locating a suitable relocation site for affected businesses, funding the costs of the move, and (where applicable) paying for any business interruption and/or lost market share incurred as a result of the action. This assumes that nearly every property in the WIP results in significant relocation costs. It is possible that as development unfolds and market appreciation motivates owners to sell and redevelop without CRA assistance, relocation costs will be lower than shown in the latter phases of development. **Appendix A** shows individual block relocation assumptions.

As shown, \$20.7 million is the cost estimate associated with business relocation, extrapolating from past CRA experiences, principally the Juanita's Foods expansion. Because many federal and State funds do not consider relocation an eligible project component, TIF funds and City business license fees are needed to cover the majority of the relocation expenses. In addition, HUD Section 108 loan guarantees were assumed to cover \$8.8 million of the relocation expenses.

Soil Remediation

The soil remediation costs include both cleanup costs associated with oil well contamination as well as other contamination. The costs reflected are net of funds

recouped from responsible parties. It is assumed that 75 percent of costs associated with soil remediation will be covered by responsible parties.

Groundwater mitigation is a regional problem and has not been included in this estimate. However, to the extent that a more comprehensive approach to this issue can be developed similar in nature to that used in other California cities, there may be a need for funding ongoing groundwater monitoring.

Public financing is expected to fund the entire \$4.9 million in soil remediation costs. These costs are allocated between a Mello-Roos financing mechanism, the EPA, and HUD.

Based on the anticipated value of the property, almost \$10 million in funding is available to the WIP in land secured debt. Mello-Roos funds are provided through the formation of a Community Facilities District (CFD) and are often used to fund infrastructure improvements. Eligible activities under the Mello-Roos Act include site remediation and subsurface improvements needed to improve seismic stability. As a result, the Mello Roos funds are distributed between the soil remediation and subsurface improvement costs.

Additional soil remediation funds were identified through the EPA in the form of EPA cleanup grants and an EPA capitalized revolving loan fund (RLF). This analysis assumes that the CRA will receive EPA Cleanup grants in each of the three development phases, for a total of \$600,000 from EPA for soil remediation.

An EPA funded revolving loan fund (RLF) is identified as a site cleanup funding source. It is recommended that the CRA apply to the EPA for funds to capitalize a RLF. Amounts up to \$1 million are available needed for this purpose. Once created, an RLF can fund brownfields cleanup projects and funds can be disbursed as grants or low-interest loans, so long as 60 percent of the EPA funds are directed toward loans. An RLF offers a source of cleanup funds that are available in the long-term, as loan amounts are repaid and interest is accrued.

Subsurface Foundation Improvements

Many areas of the WIP, especially in Phases 1A and 2, require subsurface foundation improvements to resolve liquefaction concerns. Total costs associated with subsurface improvements are estimated to be \$10.5 million, of which public funding sources have been identified to fund these costs in their entirety.

The primary source of funds for subsurface improvements is through land secured debt (\$9.0 million). TIF funds are also allocated to subsurface improvements in the amount of \$1.4 million.

Backbone Infrastructure

The development strategy employed in this analysis avoids the relocation of utilities to the degree possible. By leaving utilities in place, protected by easements, the costs of redevelopment can be reduced. Although buildings cannot typically be placed over utility easements, the development prototypes discussed earlier in the report provide excellent yields, with an average FAR of 0.45, and the smaller buildings are appropriate given the market forces described in the Market Analysis in *Volume II*. The undergrounding of utilities is not recommended as a major priority given the industrial image of the area.

Total capital improvements are estimated to be \$2.8 million, including \$1.6 million for major backbone improvements assumed to be funded by the CIP, and \$1.2 million for smaller, localized street, irrigation and landscaping improvements requiring other funding sources. **Chapter VI** provides a phase-specific description of the individual projects. It is recommended that the CRA apply for a loan from the State Infrastructure Bank to cover the costs of backbone infrastructure.

According to the project engineer, the following segments costing \$1.6 million are appropriate for inclusion in the City CIP as near-term improvements supporting Phase I and II projects⁸:

1. "G" Street from Pioneer to Alameda, including an Alameda intersection upgrade (preliminary estimate of \$650,000 plus dedicated land on the south side).
2. Eubank & Alameda intersection upgrade (\$325,000) to accommodate traffic growth. The existing railroad crossing in this area is sufficient.
3. Enhancement of the Eubank Corridor (\$275,000) from Anaheim to Alameda.
4. Completion of Quay from "G" Street to Harry Bridges Boulevard (improvements to both sides of street), with a signal at "E" Street (\$335,000).

Site Assessment

Approximately \$1.9 million in site assessment costs are anticipated over the course of redevelopment at the WIP. All of the site assessment costs are expected to come from public financing mechanisms and/or grants. Recommended funding for site assessment is split relatively evenly between tax increment financing, EPA assessment grants, and HUD BEDI grants. The analysis assumes that the WIP will receive an EPA assessment grant in the amount of \$200,000 in each of the three phases of development. An additional funding source that could cover the costs of site assessment is the City of Los Angeles through the proposed City revenue-sharing approach.

⁸ See **Appendix A** for civil engineering analysis providing additional detail regarding programmed capital improvements.

Building Construction

Construction costs are generally assumed to be the responsibility of private debt and equity sources. However, in order to improve overall project feasibility due to limited funding sources applicable to soil remediation and subsurface improvements, construction costs may need to be reduced through public financing sources.

Industrial development bonds (IDBs) are a potential funding source that may be applied to reduce construction costs. As shown in **Table 19**, \$5.9 million in IDB funding was assumed as a means to lower construction costs and improve overall project feasibility.

IDBs are tax-exempt financing mechanisms that allow manufacturing firms to borrow funds at low-interest rates in return for a letter of credit from a bank. Funds from IDBs can be used for land acquisitions and capital costs. This funding source is targeted toward manufacturing-based projects by legal statute.

Land Acquisition

Every effort should be made to avoid the unnecessary use of eminent domain, with the goal of having private development interests purchase properties directly from present owners without CRA involvement. To the extent that CRA intervention is necessary, developer advances should be sought as specified by specific contractual agreements. The CRA should not come “out of pocket” for parcel acquisition and assembly if unusual or problematic site conditions can be mitigated with public funding sources.

Accordingly, the majority of land costs are assumed to be the responsibility of private debt and equity sources in this analysis. However, in order to improve overall project feasibility, \$2.1 million in land acquisition costs are shown to be funded through public financing sources. This report identifies HUD Section 108 loan guarantees as a possible source of funds for land acquisition.

Additionally, industrial development bonds can cover the cost of land acquisition, so long as no more than 25 percent of the bonding capacity is applied to land costs. This offers the CRA another option for land acquisition.

Oil Well Acquisition and Abandonment

Analysis conducted for this strategy indicates that the choice between closing oil wells versus building around them depends on specific site character and other variables. Key variables include the placement of wells, required reductions of building density, and the value of affected oil resources. Immediate discussions with well owners/operators should be initiated to determine the viability of existing wells. If well values are sufficiently high as to require an approach of building around the wells, subsequent evaluations will need to focus on how to develop buildings effectively given potential irregular building pad areas, and whether access easements can be used for parking. In some cases, discussions with these entities may lead to innovative solutions that achieve both the ability to develop and the ability to continue pumping. For example, the

adoption of slant drilling techniques with pumps located on non-strategic areas may be a workable approach.

It was assumed that all costs associated with oil well acquisition and abandonment are covered by private debt and equity. If public financing mechanisms are sought to cover these costs, possible sources include TIF and City Revenue Sharing.

Developer Return and Indirect Costs

No public funds were allocated to indirect costs. These costs are expected to be funded through private debt and equity. The delivery of the public financing and grant sources described above will provide minimum required developer returns of 12 percent on total costs.

PHASE I SOURCES AND USES

In addition to identifying potential funding sources for project components affecting the entire redevelopment of the WIP, a sources and uses table for Phase I of the redevelopment is provided in **Table 20**. A sources and uses component for Phase I assists in redevelopment planning by identifying the immediate costs to be funded and the sources of funds to apply for or use in Phase I.

Overall, \$17.1 million in funds were identified as requiring public financing and grant funding sources for this initial phase. The following section highlights key points regarding funding of Phase I WIP redevelopment.

- Soil remediation, subsurface improvements, site assessment, backbone infrastructure, and relocation costs for Phase I are funded in their entirety through public financing and grant funds.
- According to the sources and uses model outlined in **Table 20**, EPA assessment, cleanup, and RLF funds are required to fund site assessment and cleanup at the WIP. This requires that the CRA apply for grants under through EPA during Phase I.
- In Phase I, the \$3.7 million from HUD Section 108 funds are applied to cover land costs and soil remediation costs. These funds can be derived from existing 108 sources awarded to the CRA, or they can be derived from applications to receive additional 108 financing.

Similar to the total project model, the CRA should apply for a State Infrastructure Bank loan during Phase I to cover the backbone infrastructure component of initial WIP redevelopment.

OPERATIONS AND MAINTENANCE FUNDING

Once the above-referenced capital improvements are put in place, it will be critical to ensure that a comprehensive maintenance program is established and operational. For roads and basic utilities, the City and utility providers are responsible for maintenance. The fact that the phasing strategy will improve the quality of roadbeds, reduce public safety costs to the City, and reduce the public road mileage should reduce present service costs incurred by the City. However, the strategy greatly increases the amount of landscaping and street lighting, meaning it may be necessary to use either property assessments (e.g., Landscape and Lighting District) and/or CFD special taxes to augment funds targeted to these specific maintenance requirements.