

THE BOND BUYER

Atlanta 'Gulch' to get a lift with \$1.9 billion of municipal bonds

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For decades, 40 acres of southern downtown Atlanta known as the Gulch remained an undeveloped plot, serving as a railroad yard, then a parking lot convenient for tailgaters attending nearby sports venues.

The terrain, about 40 feet below surrounding streets and buildings, made it difficult to attract a developer until now.

The city has approved an incentive package with \$1.9 billion in bond financing to support a \$5 billion development proposal by the Los Angeles, California-based developer CIM Group.

CIM will purchase parcels from various owners in the Gulch, install a platform to raise the property to the adjacent street level, and build a mixed-use development of new offices, housing, retail shops, restaurants, hotels and city parks.

On Nov. 5, the City Council authorized the development agreement and bond documents. The Downtown Development Authority, also known as Invest Atlanta, voted Nov. 8 to be the conduit issuer of the bonds.

“We have established a new model for leveraging land development to achieve both economic growth and community good,” Mayor Keisha Lance Bottoms said after the council voted. “Never in the history of our city has a single development deal been negotiated in a way that will have such far-reaching, generational impact.”

Atlanta will receive multiple concessions from the deal, including hundreds of affordable housing units, funds for other economic development projects, and new fire and police stations.

CIM, which has negotiated with the city since 2016, thanked the mayor, city council, the state of Georgia and the community for supporting the Gulch development proposal, a company spokesperson said in a statement Tuesday.

“This is a rare opportunity to rebuild an entire urban area that has been in great distress for generations,” the spokesperson said. “Our core values as an organization are integrity, discipline and respect and we pledge to uphold these principles as we develop the Gulch and build a new environment that connects communities together.”

The bonds will initially be placed with the developer, although eventually the debt is expected to be refinanced in the public bond market, according to Douglass Selby, a partner with Hunton Andrews Kurth LLP who is bond counsel for the DDA.

The bonds will be validated in the Superior Court of Fulton County.

Up to \$1.25 billion of the debt supporting the project will be secured by collections in the Gulch Enterprise Zone from the state’s 4% sales and use tax and a 1% local option sales tax.

The other component of the deal involves tax increment financing from the overlapping Westside Tax Allocation District No. 1, which will provide up to \$40 million of bonds and up to \$625 million on a pay-as-you-go basis.

The Georgia Legislature set the stage for the Gulch project to receive the largest portion of its incentives in March 2017 by passing HB 342, amending the state’s enterprise zone law.

The Senate voted 35-12 in favor and the House 149-19. Gov. Nathan Deal signed it into law the next month.

The amendments provide for sales and use taxes collected in certain enterprise zones to be used as security for revenue bonds to finance development or infrastructure costs over 30 years.

The changes only apply to a redevelopment project with a minimum capital investment of \$400 million in an area certified as chronically underdeveloped for 20 years or more – a description that targets the Gulch.

The large incentive plan approved by the state and the city recognizes that the Gulch is a hole that has existed in downtown Atlanta for the last 40-50 years because of its difficult elevation, according to city officials.

The largest portion of the incentive package will come from sales taxes collected in the Gulch Enterprise Zone.

CIM is required to begin construction in 18 months and must incur expenses first before the company can request the payment of expenditures on a draw-down basis. Initially, the city will pay for qualified costs by placing the bonds directly with CIM.

"Each of the development agreements contain limits on the amount of bonds which are permitted to be issued, such that the TAD bonds may be issued up to 12.5% of project costs and the EZ bonds may be issued only up to 20% of project costs," Selby said.

"The bonds are limited obligations and only entitle the holder to receive payments if, and to the extent that tax increment or infrastructure fees are generated by the new development," he said.

The deal allows revenues to be leveraged up to \$1.25 billion to finance eligible infrastructure costs on a draw-down basis. After CIM incurs qualified expenses then the city will issue bonds secured by infrastructure fees collected in the enterprise zone.

The debt is similar to compound interest bond with interest compounding semi-annually and paid at maturity in 30 years, although the bonds are subject to a turbo redemption, a structure designed to avoid default.

The Westside Tax Allocation District incentives will be paid over the next 20 years, with the bonds and cash coming from incremental increases in property taxes that are collected in the Gulch after the base or initial collection year.

Once the project stabilizes and sales taxes are generated in the area, sales tax and TAD bonds may be eligible to be sold in the public markets. At that point, the developer would come back to the city and an offering would be prepared.

In addition to the new development, the city negotiated a number of benefits that will be paid by CIM.

Those include making 200 workforce/affordable housing units available for sale or lease, providing \$28 million to fund affordable housing efforts across the city and \$12 million for an economic development fund managed by Invest Atlanta.

CIM will also build police and fire stations, an office for lease by Invest Atlanta, and a warehouse for the city.

“The Gulch project will help to jump start redevelopment for the southern end of downtown that has been devoid of good retail, restaurants and office space,” said Atlanta City Councilwoman Clea Winslow. “We must have more balanced growth in the city of Atlanta. I believe this project will provide just that – a much-needed economic shot in the arm that we desperately need.”