

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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February 18, 2016


TO: Members of the Board of Supervisors
FROM: Budget and Legislative Analyst's Office 
SUBJECT: February 23, 2016 Board of Supervisors Meeting

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	15-1117	Authorizing Execution of a Memorandum of Understanding Relating to Infrastructure Finance District No. 2	1

Items 31, 32 and 33 Files 15-1119, 15-1118 and 15-1117	Departments: Port, Controller, Treasurer-Tax Collector
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • 15-1119: Ordinance establishing a Port IFD and adopting an Infrastructure Financing Plan for the Port IFD and Sub-Project Area G-1; approving a Tax Administration Agreement; affirming the Planning Department’s determination under the California Environmental Quality Act (CEQA) and approving other related matters. • 15-1118: Resolution approving issuance of bonds in an amount not to exceed \$25,100,000 for the Port IFD with respect to Sub-Project Area G-1; approving an Indenture of Trust and a Pledge Agreement; and approving related matters. • 15-1117: Resolution approving a Memorandum of Understanding (MOU) between the Port, Controller and Treasurer-Tax Collector relating to Sub-Project Area G-1 of the Port Infrastructure Financing District (IFD), including procedures for administration of the IFD. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In 2012 the Board of Supervisors approved a Resolution of Intention to create a Port IFD and in 2015, amended this resolution to declare its intent to create Sub-Project Area G-1 and approved a Resolution of Intention to issue \$25,100,000 bonds for this Area. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The public infrastructure improvements to be funded with this Port IFD are: (1) \$1,271,000 for streets and sidewalks; (2) \$3,090,000 for Building 102 electrical; and (3) \$13,899,000 for Crane Cove Park. IFDs function similar to previous redevelopment project areas. • A combination of (a) funds loaned by the developer and the Port to be repaid by the Port IFD with allocated tax increment, (b) bond proceeds from the Port IFD from Sub-Project Area G-1 to be repaid from allocated tax increment, and (c) allocated tax increment on a pay-go basis would finance the costs of the improvements. One \$8.7 million bond in FY 2021-22 would yield \$7,832,000 of net proceeds, with annual interest of 6.5% and average annual debt service payments of \$666,400 over a 30-year term, or total debt service payments of \$20 million, including \$8.7 million principal and \$11.3 million interest. • Overall, a total \$49.2 million of tax increment funds is projected to be allocated from Sub-Project Area G-1, including \$35.4 million of General Fund revenues and \$13.9 million of ERAF revenues, assuming that 100% of the City’s General Fund portion and 100% of the ERAF portion of the tax increment is allocated to the Port IFD from Sub-Project Area G-1. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed ordinance (File 15-1119) to reiterate the City’s intent to create a Community Facilities District (CFD) to fund the ongoing operating and maintenance costs for Crane Cove Park and 20th Street, rather than relying on the City’s General Fund to support such additional costs. • Approval of the two proposed resolutions and one ordinance, as amended, are policy decisions for the Board of Supervisors. 	

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

California Government Code Section 53395 et seq. authorizes cities and counties to establish Infrastructure Financing Districts (IFD), subject to approval by the city council or county board of supervisors, to finance “public capital facilities of communitywide significance”. In addition, Section 53395.8 of the State Government Code specifically authorizes the establishment of an IFD by the Board of Supervisors on land under the jurisdiction of the Port of San Francisco to finance public improvement projects along the San Francisco waterfront, such as structural repairs and improvements to piers, seawalls, wharves and other maritime facilities, removal of bay fill, shoreline restoration, utility infrastructure, public open space improvements, as well as historic restoration and seismic and life-safety improvements to existing buildings. Section 53395.8(g) in the State Government Code also allows the Board of Supervisors to establish project areas within an IFD.

Background**Prior Resolutions of Intention for the Port IFD**

On March 27, 2012, the Board of Supervisors approved a Resolution of Intention¹, which initiated the State statutory requirements, to establish the City and County of San Francisco Infrastructure Financing District No. 2 on Port property (Port IFD). The Port IFD encompasses the entire 7-mile contiguous Port property and includes various specific project areas. On June 12, 2012, the Board of Supervisors approved a resolution² to amend the earlier Resolution of Intention to add Seawall Lot 351 as another project area. These resolutions designated the following project areas within the Port IFD, with the caveat that the City intended to establish additional project areas in compliance with State law:

- Project Area A: Seawall Lot 330;
- Project Area B: Piers 30-32;
- Project Area C: Pier 28;
- Project Area D: Pier 26;
- Project Area E: Seawall Lot 351;
- Project Area F: Pier 48;
- Project Area G: Pier 70; and
- Project Area H: Rincon Point-South Point Project Area.

The Port advises that the purpose of forming the IFD as a Port-wide district with multiple project areas is to preserve the flexibility of establishing separate tax increment financing plans for each major project on the Port with tax increment funds expended on public capital facilities throughout the Port’s jurisdiction, subject to Board of Supervisors approval.

¹ This resolution was adopted as part of the Host and Venue Agreement and Disposition Development Agreement for the 34th America’s Cup held in San Francisco (File 12-0128; Resolution No. 110-12).

² File 12-0278; Resolution No. 227-12.

On November 17, 2015, the Board of Supervisors approved another amendment to the Resolution of Intention to create a new Sub-Project Area G-1, a smaller Historic Core district within Project Area G: Pier 70³. The proposed boundaries of the Port IFD and the eight Project Areas including Sub-Project Area G-1 are shown in the two attached maps. In accordance with these Resolutions of Intention to establish the Port IFD, the Executive Director of the Port was directed to prepare an infrastructure financing plan for the Port IFD and Sub-Project Area G-1, in compliance with State law. These prior Resolutions of Intention specified that the Board of Supervisors was not obligated to establish a Port IFD.

On November 3, 2015, the Board of Supervisors approved a separate Resolution of Intention to issue bonds not to exceed \$25,100,000 to finance public improvements in the Port IFD, to be secured with tax increment revenues generated in Sub-Project Area G-1⁴.

Lease Disposition and Development Agreement and Lease for Historic Core at Pier 70

In May 2014, the Port Commission approved a Lease Disposition and Development Agreement (LDDA) with Historic Pier 70, LLC (Orton) together with a 66-year lease with Orton. In July 2014, the Board of Supervisors approved the lease with Orton (Resolution No. 273-14). The LDDA and lease govern the development, rehabilitation and use of the 20th Street historic buildings at Pier 70, addressing eight historic structures, including two unreinforced masonry buildings, comprising a total of approximately 267,000 square feet of space for industrial, office and retail tenants. These buildings require, among other things, seismic upgrades, new electrical, fire safety, phone/data, water, sewer and gas services, asbestos and lead paint remediation and roof repairs estimated to cost \$109 million. At the time the LDDA and lease were approved, a portion of the public infrastructure improvements to support the rehabilitation of the historic buildings at Pier 70 were intended to be financed through the creation of an IFD. Under such an IFD, the City will allocate possessory interest tax payments, in lieu of property taxes, from Orton to fund specific infrastructure improvements within Sub-Project Area G-1 and in areas around Sub-Project Area G-1 within Pier 70.

DETAILS OF PROPOSED LEGISLATION

15-1117: The proposed resolution would approve a Memorandum of Understanding (MOU) between the Port, Controller and Treasurer-Tax Collector relating to Sub-Project Area G-1 of the Port IFD, including procedures for the administration of the Port IFD.

15-1118: The proposed resolution would approve issuance of bonds in an amount not to exceed \$25,100,000 for the Port IFD with respect to Sub-Project Area G-1; approve an Indenture of Trust and a Pledge Agreement; and approve other related matters.

15-1119: The proposed ordinance would establish the Port IFD, adopt an Infrastructure Financing Plan for the Port IFD and Sub-Project Area G-1 on behalf of the Port of San Francisco; approve a Tax Administration Agreement; affirm the Planning Department's determination

³ File 15-1006; Resolution No. 421-15.

⁴ File 15-1007; Resolution No. 416-15.

under the California Environmental Quality Act (CEQA); and approve other matters in connection therewith.

Although the eight Port IFD project areas listed above would be approved with the establishment of the Port IFD, tax increment revenues cannot be allocated to the Port IFD from a project area until the Board of Supervisors approves an appendix to the Infrastructure Financing Plan with respect to a specific project area. The proposed ordinance (File 15-1119) would approve an Infrastructure Financing Plan for the Port IFD and Appendix G-1 relating to Sub-Project Area G-1, which would permit tax increment revenues to be allocated from Sub-Project Area G-1.

The major public infrastructure improvements, costs and projected completion dates that would be financed by the Port IFD and through the related bonds using property tax increment generated from Sub-Project Area G-1 are shown in Table 1 below:

Table 1: IFD Facilities, Costs and Completion Dates

Facilities to be funded with IFD	Estimated Cost (2015)	Estimated Completion Date
Street and sidewalk improvements	\$1,271,000	FY 2016-17 – FY 2017-18
Building 102 electrical improvements	3,090,000	FY 2016-17
Phase 2 of Crane Cove Park	13,899,000	Dependent on funding availability
Total	\$18,260,000	

The majority of the funds would be for Phase 2 of Crane Cove Park, which the Port advises is a critical amenity for the new neighborhood to be developed at Pier 70. Over \$20 million from the 2008 and 2012 General Obligation Park Bonds previously approved by San Francisco voters has already been expended for Phase 1 improvements to Crane Cove Park. The Phase 2 improvements would include restoration of the historic cranes, adaptive reuse of historic Buildings 109 and 110, shoreline clean-up and sediment remediation, soil disposal, new pier overlook, shoreline landscaping, pathways, site interpretation and furnishings.

Under the proposed resolution (15-1117), the Board of Supervisors would:

- Approve a Memorandum of Understanding (MOU) between the Controller, Treasurer-Tax Collector and the Port Commission to implement the provisions of Appendix G-1 to the Infrastructure Financing Plan for the Port IFD, which would commit the City's Controller and Tax Collector to allocate specified tax increment revenues to the Port IFD from Sub-Project Area G-1 for expenditure on specific Port public infrastructure projects and uses shown in Table 1 above. The MOU also provides for the cooperation of the Controller and Treasurer-Tax Collector regarding one or more Community Facilities Districts (CFD) for the facilities and ongoing services specified in Sub-Project Area G-1. A CFD is a special taxing entity, which is formed by a two-thirds vote of the property owners within the CFD to levy special taxes and issue debt to pay for capital improvements and/or maintenance costs. According to Ms. Elaine Forbes, Deputy Director of Finance and Administration for the Port, the CFD is being proposed as additional protection for the Port to insure that sufficient revenues are collected to

repay any bonds that may be issued, while waiting for sufficient tax increment revenues to accrue from the Port IFD and to pay for ongoing maintenance and operating costs for public infrastructure. The creation of any CFD for the Port would be subject to future Board of Supervisors approval. Under the proposed resolution, the Controller and Treasurer/Tax Collector, with consultation of the City Attorney, may modify or change the MOU if such changes do not materially increase the City's obligations.

Under the proposed resolution (15-1118), the Board of Supervisors would:

- 1- Authorize the issuance of one or more series of bonds, with maturity dates not to exceed 30 years from their date of issuance, not to exceed a total of 45 years as permitted by IFD law, to be secured by tax increment funds allocated to the Port IFD from Sub-Project Area G-1 and other sources (most likely special taxes levied in the CFD) that could potentially be identified by the Board of Supervisors to finance the cost of the public facilities.
- 2- Authorize the issuance and sale of IFD bonds for a maximum aggregate principal amount of \$25,100,000, excluding refinancing and/or refunding of the bonds, related reserve funds and the costs of issuance, to pay for the estimated 2015 cost of \$18,260,000 for the public infrastructure improvements shown in Table 1 above. The Board of Supervisors could increase this maximum aggregate principal amount by adopting a subsequent resolution, in compliance with IFD law. As estimated by the Port, incremental property tax revenues available from Sub-Project Area G-1 would be approximately \$49.2 million over the 45-year term (which includes property tax revenues that would otherwise be allocated to the City's General Fund and be allocated to ERAF⁵), such that the principal and interest debt service costs on the proposed bonds would be less than or equal to this level of incremental property tax revenues.

The Port does not plan to sell bonds until FY 2021-22, when Sub-Project Area G-1 is projected to generate sufficient incremental property tax revenues to pay debt service. The Port is requesting that the Board of Supervisors approve the issuance of IFD bonds now so that the bond authorization can be part of the judicial validation process discussed below. The bonds would not be issued by the Port IFD until the Board of Supervisors, in its capacity as the legislative body of the Port IFD, reviewed the related documentation and approved the terms for the actual sale of the specified amount of IFD bonds.

- 3- Approve an Indenture of Trust and Pledge Agreement which outlines the basic terms for the future IFD bonds regarding tax increment pledges, security and repayment of bond principal, interest and total debt. As no California jurisdiction has previously issued IFD bonds, these agreements provide the framework for a future IFD bond issuance. A resolution approving the final Indenture of Trust, Pledge Agreement and issuance of IFD bonds would be subject to future Board of Supervisors approval.
- 4- Authorize the Director of the Controller's Office of Public Finance and the City Attorney, to initiate a judicial validation action with respect to the Port IFD, Sub-Project Area G-1

⁵ ERAF is the State Educational Revenue Augmentation Fund.

and the proposed bonds. The requested judicial validation action will allow bond counsel to render an unqualified validity opinion that is required by the capital markets as to the Port IFD and the bonds.

- 5- To comply with reimbursement rules under Federal tax law, declare the intent to pay certain cost of the facilities prior to the date of issuance of the bonds and use a portion of the bond proceeds to reimburse the expenditures for the facilities paid before the bonds are sold. The sources and uses of the bonds are summarized below in Table 2, which indicates that both Orton, the developer of the Pier 70 Historic Core, and the Port anticipate expending funds for the infrastructure improvements, to be partially reimbursed by the bonds.

The proposed ordinance (15-1119) would:

- Establish the proposed Port IFD. The Port IFD would encompass only Port property and include project areas approved by the Board of Supervisors that encompass various development projects. IFDs function similar to previous redevelopment project areas. According to the Port, approving the proposed Port IFD will enable the Port to fund new infrastructure needed to support development of Port property, including streets, utilities and parks and assist in financing the Port's 10-Year Capital Plan by capturing and bonding against property tax increment generated in specific Port IFD areas or subareas.
- Adopt an Infrastructure Financing Plan for the Port IFD, which describes how property tax increment from Sub-Project Area G-1 would be allocated to the public facilities identified above in Table 1. On November 4, 2015, Keyser Marston Associates, Inc. under contract to the Port for \$63,253 submitted a Fiscal and Economic Impact Analysis: Pier 70-Historic Core, which is the basis for the Port's Infrastructure Financing Plan for the Port IFD and Sub-Project Area G-1. As noted above, the Board of Supervisors can only allocate property tax increment after approving an Infrastructure Financing Plan for a specific Project Area.

This ordinance would approve the Infrastructure Financing Plan for Sub-Project Area G-1, specifying FY 2015-16 as the base year, such that 100% of the property tax increment generated in this area could be allocated for Port infrastructure improvements in FY 2016-17. Given the time lag between construction of the public infrastructure and availability of tax increment funds, tax increment funds would be (1) used directly to fund infrastructure improvements; (2) repaid to Historic Pier 70, LLC for infrastructure funds advanced prior to the issuance of the bonds, (3) repaid to the Port for funds advanced prior to the issuance of the bonds, and (4) repaid as bond interest and redemption on bond issuances. The tax increment limit for Sub-Project Area G-1 would be initially established at \$64,000,000, which reflects the total \$49,220,000 tax increment projected to be generated by Sub-Project Area G-1 plus a 30% contingency of \$14,780,000. The Port advises that this tax increment limit of \$64,000,000 is reasonable because: (a) additional improvements that are not currently known may be made to the leasehold over the 45-year term; (b) the leasehold may be sold multiple times over the 45-year term, significantly increasing its value; and (c) specific subtenants may construct

or install significant tenant improvements, equipment and fixtures that further increase the tax roll.

- Approve a Tax Administration Agreement between the City acting on behalf of the Port Commission and a corporate trustee to be identified in the future by the Port's Executive Director for the administration and disposition of tax increment revenues allocated to Port IFD from Sub-Project Area G-1.
- Find that adoption of the ordinance, establishment of the Port IFD, and approval of the Infrastructure Financing Plan are not projects under the California Environmental Quality Act (CEQA) because they do not result in a physical change in the environment.
- Affirm the Planning Department's CEQA findings that the proposed Sub-Project Area G-1 projects (Orton and Crane Cove Park projects) are within the scope of the Eastern Neighborhoods Rezoning and Area Plans, for which the Planning Commission previously certified a Final Environmental Impact Report.
- Approve other matters, including appointing the Port Commission to act as the agent of the Port IFD with respect to Sub-Project Area G-1 to (1) disburse tax increment funds, (2) enter into acquisition agreements regarding public facilities, (3) determine in collaboration with the Office of Public Finance the amounts of bonded indebtedness to incur, (4) direct the disbursement of debt proceeds, (5) incur Qualified Port Benefit Costs⁶, and (6) prepare annual statements of indebtedness, as required by IFD State law.

FISCAL IMPACT

Rationale for IFD/CFD

The Port IFD and/or CFD with the related allocated tax increment and special taxes are being proposed as the primary financing mechanisms to fund the public improvements because the Port does not generate sufficient revenues to complete all of the Port's capital improvements for the rehabilitation and development at Pier 70⁷. The primary argument for using this financing mechanism is that the resulting property tax increment would not occur, but for the public and private investment. Pursuant to IFD law, IFDs use incremental property tax revenue that would otherwise accrue to the City's General Fund to finance necessary infrastructure improvements. As noted above, the City will allocate to the Port IFD possessory interest taxes, in lieu of property taxes, from Orton, the developer, to fund the capital infrastructure improvements within Sub-Project Area G-1 and in areas around Sub-Project Area G-1 within Pier 70. The proposed resolution (15-1118) approving the issuance of \$25.1 million in bonds

⁶ Qualified Port Benefit Costs are expenses incurred by the developer to perform Port Benefit Tasks that are authorized to be reimbursed as defined in the LDDA. Port Benefit Tasks are activities undertaken by the developer on the Port's behalf at the request of the Port, Building 102 Electrical Work as specified in the LDDA and activities outside the scope of the developer's specified obligations when requested by the Port.

⁷ The Port's overall Ten-Year Capital Plan identifies \$1.62 billion of capital projects to be completed over the next ten years. However, the Port also projects approximately \$609.4 of various funding sources, leaving an unfunded backlog of approximately \$1.01 billion of capital projects.

states that the subject bonds are not a debt of the City, but rather a debt and liability of the Port IFD as specified in the Indenture of Trust.

If the proposed legislation is approved, the Port plans to introduce similar IFD legislation to use tax increment funds for the (a) Pier 70 Waterfront site for the Forest City development project and (b) Seawall Lot 337 for the Giants development project within the next 1-2 years.

Sources and Uses of Funds

The proposed sources and uses of funding are shown in Table 2 below.

Table 2: Sources and Uses of Funds

<u>Sources of Funds</u>	<u>2015-16 Dollars</u>	<u>Nominal Dollars⁸</u>
Developer Loan-Street Improvements	\$746,000	\$783,000
Port Loan-Building 102 and Sidewalk Improvements	3,110,000	3,203,000
Port Loan-Street Improve. w/ developer reimbursements	504,000	526,000
IFD or CFD Bond Proceeds	6,559,000	7,832,000
Allocated General Fund Tax Increment	16,816,000	35,354,000
Allocated ERAF Tax Increment	<u>6,596,000</u>	<u>13,866,000</u>
Total Tax Increment	<u>23,412,000</u>	<u>\$49,220,000</u>
Total Sources	\$34,331,000	\$61,564,000
<u>Uses of Funds</u>		
Phase 2 Crane Cove Park	\$13,899,000	31,490,000
Streetscape Improvements	1,271,000	1,329,000
Bldg. 102 Electrical Improvements	3,090,000	3,183,000
Repay Developer Loan	806,000	887,000
Repay Port Loans	3,999,000	4,684,000
Bond Debt Service	<u>11,267,000</u>	<u>19,991,000</u>
Total Uses	\$34,331,000	\$61,564,000

As shown in Table 2 above, a combination of (a) funds loaned by the developer and the Port, which would be repaid by the Port IFD with allocated tax increment⁹, (b) bond proceeds from the Port IFD or CFD from Sub-Project Area G-1, which would be repaid by the Port IFD with allocated tax increment, and (c) allocated tax increment from the Sub-Project Area G-1 which would be used on a pay-as-you-go basis to finance the costs of the improvements. One bond for \$8.7 million is anticipated to be issued in FY 2021-22¹⁰, and to yield approximately \$7,832,000 of net proceeds for the improvements, to retire the outstanding loans and

⁸ Nominal dollars reflect the future inflated amounts for each of the sources and uses of funds, because the IFD will have a 45-year term and the costs and tax increment revenues will increase over time.

⁹ In accordance with the LDDA, the Port will request the developer to advance approximately \$746,000 for street improvements, and the developer will be repaid with interest, estimated at 4.5% annually, by FY 2019-20. The Port will advance approximately \$3.1 million for Building 102 electrical improvements and a sidewalk on the north side of 20th Street, to be repaid with interest at 4.4% annually, by FY 2021-22. In accordance with the LDDA, the developer will reimburse the Port for approximately \$504,000 of streetscape improvements, which are owed to the Port for transaction expenses.

¹⁰ The Port currently anticipates one bond issuance for \$8.7 million in FY 2021-22. If two bond issuances up to the maximum of \$25.1 million are issued, the first would occur in FY 2021-22 and the second would be in FY 2052-53.

contribute to the development of Phase 2 of Crane Cove Park¹¹. The one \$8.7 million bond is projected to have an annual interest rate of 6.5% and result in average annual debt service payments of \$666,400 over a 30-year term, or total debt service payments of \$20 million, including \$8.7 million of principal and \$11.3 million of interest.

Property Tax Allocation

Although the Port anticipates one \$8.7 million bond, the proposed resolution (15-1118) sets a maximum principal bond amount of \$25,100,000, which reflects the total bonding capacity of the available tax increment from the Port's IFD from Sub-Project Area G-1, assuming (a) robust growth assumptions (30% higher than the actual projections), (b) more than one bond is issued over the 45-year term and (c) interest rates are lower than current levels. According to the Port, the Port is requesting a higher bonding cap to allow for flexibility should the project generate more incremental property tax revenues or the cost of funds is lower than projected and given that all future bond issuances would require separate Board of Supervisors approval. As noted above, this assumes 100% of the City's General Fund portion and 100% of the Educational Revenue Augmentation Fund (ERAF)¹² portion of the tax increment are allocated to the Port IFD for Sub-Project Area G-1. Under State law, the amount of ERAF's share of tax increment allocated to the Port IFD for the Pier 70 Project Area must be proportional to the City's share of tax increment allocated to the Port IFD for the Pier 70 Project Area; the Board of Supervisors determines this allocation by approving the subject Infrastructure Financing Plan for the Port IFD and Sub-Project Area G-1 and issuance of debt.

For every \$1.00 of Property Taxes (not including property taxes designated for debt service on General Obligation bonds), \$0.65 is allocated to the City's General Fund, \$0.25 is allocated to ERAF, and \$0.10 is allocated to the other taxing entities (San Francisco Unified School District, Community College District, BART and the Bay Area Air Quality Management District). As shown in Table 3 below, 89.92% of incremental property taxes collected would be available to be allocated to the Port IFD.

Table 3: Share of Gross Property Tax Increment

City Share of Tax Increment Generated at Pier 70	64.59%
State of California ERAF Share of Tax Increment Generated at Pier 70	25.33%
Total Allocated Tax Increment to Pier 70 IFD	89.92%

After the Orton project is complete and its value is fully reflected on the property tax roll, the Port IFD is projected to be eligible to receive approximately \$720,000 of incremental possessory interest taxes annually from Sub-Project Area G-1, which would increase over time. The Port IFD could receive incremental tax revenues from Sub-Project Area G-1 up to 45 years from the date the Port IFD receives \$100,000 in incremental tax revenues, in accordance with State law.

¹¹ Phase II of Crane Cove Park is projected to have a shortfall of \$5 million to \$10 million, which will require cutbacks in the final design and/or philanthropic funding efforts to complete.

¹² ERAF redirects one-fifth of statewide property tax revenue from cities, counties and special districts to school and community college districts, which is deposited into a countywide fund for all State schools and community colleges. Diversion of ERAF for the subject Port IFD from Sub-Project Area G-1 will result in a loss of revenues for the State, but according to the Port, will not affect funding levels for the San Francisco Unified School District.

Incremental property tax revenues available from Sub-Project Area G-1 are estimated to be approximately \$49.2 million over the 45-year term. The estimated 2015 cost is \$18.26 million for the specified public infrastructure improvements, with a maximum aggregate principal issuance amount of \$25,100,000 of bonds. The Port estimates that total principal and interest debt service costs on the anticipated \$8.7 million bonds, at a 6.5% interest rate would be approximately \$20 million, which is significantly less than the projected \$49.2 million of estimated incremental property tax revenue to be collected over the 45-year term of the Port IFD for Sub-Project Area G-1.

Impact on the Property Tax Revenues to the City's General Fund

Overall, a total \$49.2 million of tax increment funds is projected to be available to be allocated from Sub-Project Area G-1, including \$35.4 million of General Fund revenues and \$13.9 million of ERAF revenues, as summarized above in Table 2, including debt service costs, if the proposed legislation is approved. If the Port could fund the subject improvements without the use of tax increment funds, the City's General Fund would otherwise receive approximately \$35.4 million of property tax revenues. However, as noted above, the Port is proposing to capture up to 100% of the City's General Fund share of tax increment in order to capture up to 100% of the State's share of ERAF because the Port does not have sufficient funds or other sources of revenues to fund its capital backlog and infrastructure improvements.

Others Costs, Revenues and Net Impacts on the General Fund

Upon completion in FY 2018-19, excluding the revenues that the project will generate in possessory interest taxes, the Orton project is also anticipated to generate between \$264,000 to \$425,000 of annual revenue to the City's General Fund, based on varying assumptions of new gross receipts taxes, sales taxes, motor vehicle in-lieu fees, utility user taxes and other taxes.

As noted in Table 4 below, the Infrastructure Financing Plan for the Port IFD also estimates that the annual operating cost to the City's General Fund, including police, fire and emergency medical services, will be approximately \$91,000 annually when the project is completed in FY 2018-19.

Table 4: Estimated General Fund Impacts

Revenues and Costs Post Construction (FY 2018-19)	Low Revenue Scenario	High Revenue Scenario
Annual Tax Revenues after FY 2018-19	\$264,000	\$425,000
Annual General Fund Costs for Police & Fire	(91,000)	(91,000)
Net Annual General Fund Benefit	\$173,000	\$334,000
Total IFD Term (45 Years) Net Present Value	\$5,117,000	\$8,041,000

As summarized in Table 4 above, beginning in FY 2018-19, the Orton project is therefore estimated to generate an annual net surplus of \$173,000 to \$334,000 for the City's General Fund. Over the term of the IFD, the City would receive between \$5,117,000 and \$8,041,000 of General Fund revenues on a net present value basis as shown in Table 4 above. This does not

include the \$35.4 million of General Fund property tax revenues that could be allocated to the Port IFD from Sub-Project Area G-1, and would not be available to the City's General Fund until approximately FY 2062-63.

Other Maintenance and Operating Expenses

The projected annual costs of \$91,000 shown in Table 4 above do not include the estimated \$400,000 annual cost to operate and maintain Crane Cove Park nor the costs for the Department of Public Works or the Port to maintain 20th Street, which the Port anticipates will be 100% funded from a maintenance special tax to be levied through a CFD to be formed by the City in the future. The Port advises that the lease between the Port and Orton includes a statement of the City's intent to form a maintenance CFD, which would levy special taxes on property owners in this area to pay for such ongoing maintenance costs.

The Board of Supervisors should therefore amend the proposed ordinance (File 15-1119) to reiterate the City's intent to create a CFD to fund the ongoing operating and maintenance costs for Crane Cove Park and 20th Street, rather than relying on the City's General Fund to support such additional costs. In addition, construction and maintenance costs for a public plaza within the Historic Core leasehold will be fully funded by the developer.

POLICY CONSIDERATION

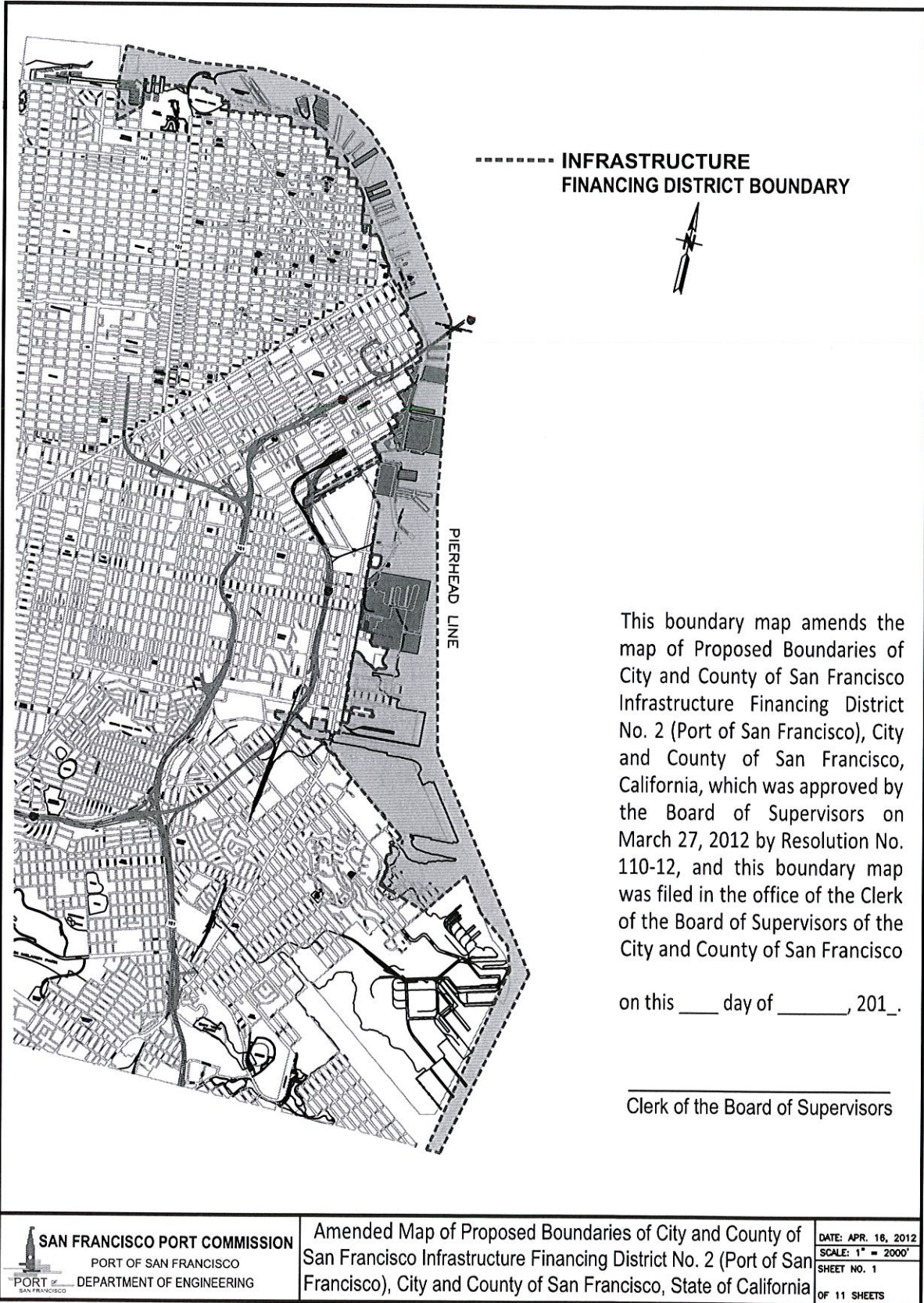
The Infrastructure Financing Plan for Sub-Project Area G-1 provides that the Board of Supervisors would approve the following limitations on the allocations of tax increment from Sub-Project Area G-1 to the Port IFD:

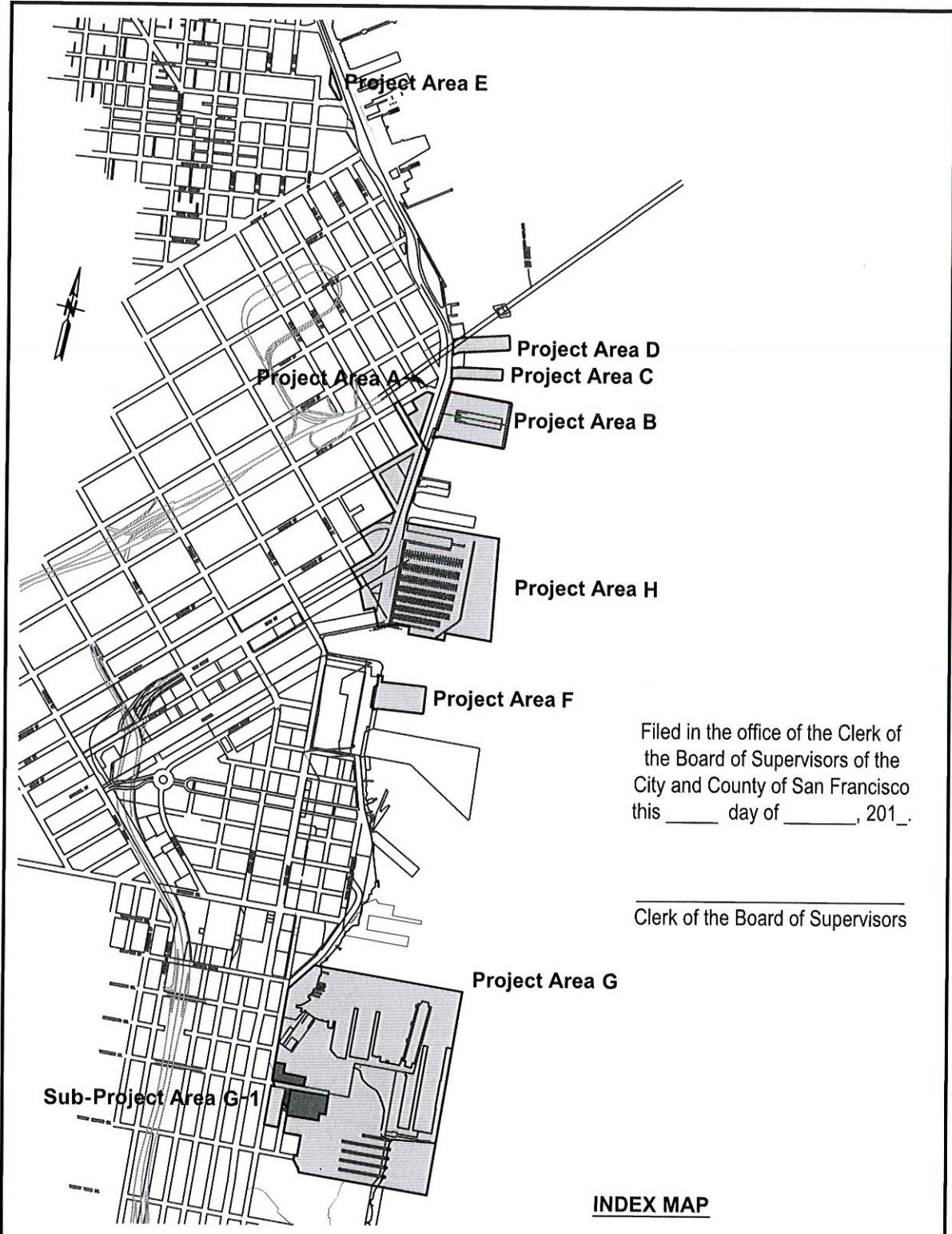
1. The Board of Supervisors retains the discretion to make budgetary appropriations to the Port IFD from the General Fund share of tax increment from Sub-Project Area G-1, such as the discretion to repay the Port or Historic Pier 70, LLC for their payment of infrastructure costs or to pay infrastructure costs funded on a pay-as-you-go basis.
2. The Board of Supervisors retains the discretion to approve the future issuance of IFD bonds, agreements or obligations for Sub-Project Area G-1.
3. The Board of Supervisors commits to allocate to the Port IFD all of the City's General Fund share of the tax increment from Sub-Project Area G-1 that is necessary to repay bonds or related agreements or contractual obligations that the Port IFD or the Port is obligated to satisfy with such tax increment, that have been approved by the Board of Supervisors.
4. The Board of Supervisors retains the discretion to amend the Infrastructure Financing Plan for Sub-Project Area G-1 at any time to reallocate tax increment from Sub-Project Area G-1 among the projects, or to fund new projects within Pier 70.

The portion of the ERAF share of the tax increment from Sub-Project Area G-1 committed to the Port IFD will be equal to the portion of the City's General Fund share of the tax increment from Sub-Project Area G-1 allocated to the Port IFD.

RECOMMENDATIONS

1. Amend the proposed ordinance (File 15-1119) to reiterate the City's intent to create a Community Facilities District (CFD) to fund the ongoing operating and maintenance costs for Crane Cove Park and 20th Street, rather than relying on the City's General Fund to support such additional costs.
2. Approval of the two proposed resolutions and one proposed ordinance, as amended, are policy decisions for the Board of Supervisors.





Filed in the office of the Clerk of
the Board of Supervisors of the
City and County of San Francisco
this ____ day of _____, 201_.

Clerk of the Board of Supervisors

INDEX MAP

SAN FRANCISCO PORT COMMISSION
PORT OF SAN FRANCISCO
DEPARTMENT OF ENGINEERING

Proposed Boundaries of City and County of San Francisco
Infrastructure Financing District No. 2 (Port of San Francisco),
City and County of San Francisco, State of California

DATE: DEC. 09, 2011
SCALE: 1" = 2000'
SHEET NO. 1
OF 10 SHEETS