

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

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REVISED 9/7/2018

September 7, 2018

TO: Members of the Board of Supervisors

FROM: Budget and Legislative Analyst’s Office

SUBJECT: September 11, 2018 Board of Supervisors Meeting

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EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • File 18-0773 is an ordinance establishing three subproject areas - Subproject Area G-2, Subproject Area G-3, and Subproject Area G-4 - in Port Infrastructure Financing District (IFD) No. 2; and approving Appendix G-2 to the Infrastructure Financing Plan. ▪ File 18-0781 is a resolution approving the issuance of Port Infrastructure Financing District Bonds, and the Indentures of Trust and Pledge Agreements. The Port Infrastructure Financing District Bonds would be paid by incremental property tax revenue allocated to the IFD and generated within each of the subproject areas in amounts not-to-exceed (a) \$273,900,000 for Subproject Area G-2; (b) \$196,100,000 for Subproject Area G-3; and (d) \$323,300,000 for Subproject Area G-4. <p>The proposed resolution approves the sale of bonds in one or more series, but the bonds shall not be issued until the Board of Supervisors has approved the terms of the sale, and has approved the associated documents.</p> <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Port's IFD No. 2 provides for incremental property tax revenues generated by development on Port property (including bonds secured by these revenues) to be used for construction of public improvements. The Board of Supervisors formed Port IFD No. 2 in February 2016, and approved the agreement between the Port and Forest City to develop the Pier 70 Waterfront Site in October 2017. The three proposed IFD subproject areas – G-2, G-3, and G-4 – are for phase 1, 2, and 3 respectively of the development of the Pier 70 Waterfront Site. Property tax increment will be allocated to public improvements within the three subproject areas, as well as to Pier 70-wide improvements. • 100 percent of the City and the Educational Revenue Augmentation Fund (ERAF) share of property tax increment will be allocated to the subproject areas. The total limit on the property tax increment that can be allocated to the IFD from the subproject areas over their 45-year terms is \$3.0 billion. 20 percent of the property tax increment must be set-aside for shoreline restoration, removal of bay fill, public access to the waterfront, and/or environmental remediation of the waterfront. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed resolution (File 18-0781) authorizes the issuance of bonds in a not-to-exceed amount of \$793.3 million, which is 3x the anticipated bond issuance of \$216 million. According to the Port, this authorization accounts for property assessments that exceed projections, lower interest rates, and new waterfront projects. According to the Port's bond counsel, the proposed resolution limits the use of bonds to pay for the costs of public improvements described in the Infrastructure Financing Plan. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed ordinance and resolution. 	

MANDATE STATEMENT / BACKGROUND

Mandate Statement

California Government Code Section 53395.8 authorizes the establishment of an Infrastructure Financing District (IFD) on Port property. Section 53395.8(c)(3) designates the Board of Supervisors as the legislative body for the Port IFD.

Port IFD No. 2 and Pier 70

Pier 70 is an approximately 69-acre site on the Port's Central and Southern Waterfront, bounded by Mariposa, Illinois, and 22nd Streets. In 2014, Pier 70 was listed as the Union Iron Works Historic District on the National Register of Historic Places. Pier 70 includes the Ship Repair Facility¹, the Historic Core², Crane Cove Park³, Irish Hill⁴, and the Waterfront Site for mixed use development. On October 31, 2017, the Board of Supervisors approved several pieces of legislation to establish the Pier 70 Mixed-Use District Project, and provide for the development of the 28-acre Waterfront Site within Pier 70.

The Board of Supervisors formed the Port IFD No. 2 in February 2016 and adopted the Infrastructure Financing Plan (Ordinance 27-16).⁵ IFD No. 2 provides for project areas, including Project Area G on Pier 70. Project Area G currently has one subproject area – Subproject Area G-1 – covering the Pier 70 Historic Core. At that time, the Board of Supervisors approved the issuance of up to \$25.1 million in bonds to be repaid by the City's share of incremental property tax generated by development with the Pier 70 Historic Core (or Subproject Area G-1) to pay for street and sidewalk improvements, electrical improvements to Building 102, and improvements to Crane Cove Park. The Infrastructure Financing Plan provided for issuance of the bonds in FY 2021-22.

DETAILS OF PROPOSED LEGISLATION

File 18-0773: The proposed ordinance establishes three subproject areas - Subproject Area G-2, Subproject Area G-3, and Subproject Area G-4 - in Port Infrastructure Financing District No. 2; and approves Appendix G-2 to the Infrastructure Financing Plan.

File 18-0781: The proposed resolution approves the issuance of Port Infrastructure Financing District Bonds, and the Indentures of Trust and Pledge Agreements. The Port Infrastructure

¹ The Port issued a Request for Proposals in July 2017 to select a new operator for the ship repair facility.

² The Historic Core of the Union Iron Works Historic District consists of the Bethlehem Steel Main Office Building and Powerhouse, the Union Iron Works Administration building, and the Union Iron Works Machine Shop and Foundry. The Board of Supervisors approved a 66 year lease with Orton Development, Inc., in 2014 to rehabilitate the five buildings. Rehabilitation of these historic buildings (except for the Powerhouse) is anticipated to be completed and the buildings ready for occupancy between fall 2017 and late 2018.

³ Crane Cove Park is a 9-acre waterfront park; construction of phase 1 of the park, which is partially funded by 2008 Clean and Safe Neighborhood General Obligation Bonds, is expected to be completed in March 2018.

⁴ Irish Hill Park is a 1.5 acre site adjacent to Illinois Street planned for open space. Irish Hill is a contributing resource to the Historic District.

⁵ Infrastructure Financing District No. 1 was Rincon Hill Area, authorized by the Board of Supervisors in 2011.

Financing District Bonds would be paid by incremental property tax revenue allocated to the IFD and generated within each of the subproject areas in amounts not-to-exceed:

- \$273,900,000 for Subproject Area G-2;
- \$196,100,000 for Subproject Area G-3; and
- \$323,300,000 for Subproject Area G-4.

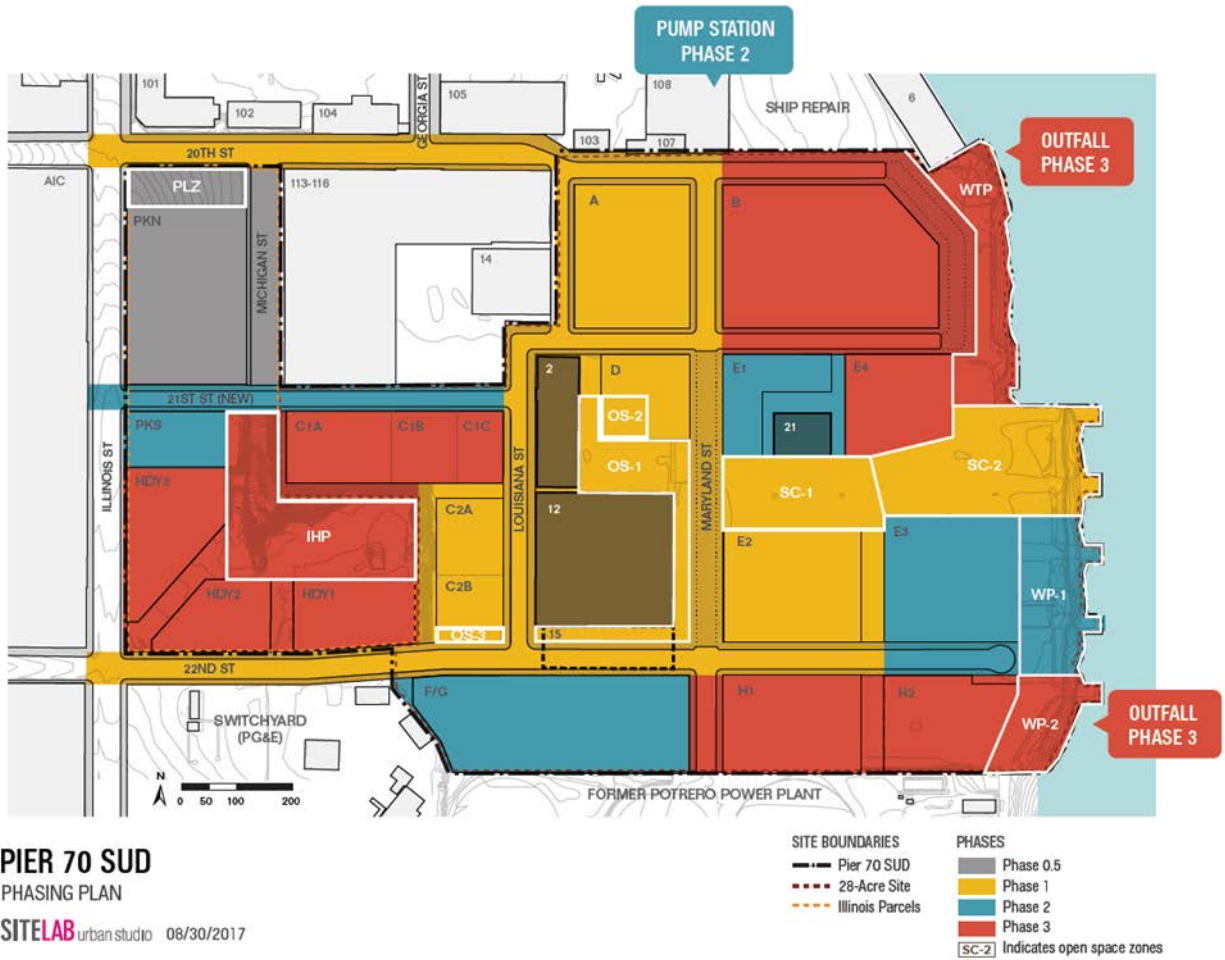
According to the proposed resolution, the Board of Supervisors may increase the maximum amount of the bonds by adopting a resolution. The bonds may be issued on behalf of the IFD or may be issued on behalf of a special tax district to be established at a later date.

The proposed resolution approves the sale of bonds in one or more series, but the bonds shall not be issued until the Board of Supervisors has approved the terms of the sale, and has approved the associated documents.

Subproject Areas

The Board of Supervisors approved the intent to establish the three IFD Subproject Areas G-2, G-3, and G-4 in July 2018. The three subproject areas encompass the 28-acre Waterfront Site project within the Union Iron Works Historic District, bounded by Illinois Street on the west, the Bay on the east, 20th Street on the north, and 22nd Street and the former Potrero Power Plant on the south, as shown in Exhibit 1 below.

Exhibit 1: Proposed Waterfront Site Project



The project is divided into three phases.

- Subproject Area G-2 incorporates phase 1 development. Phase 1 extends from approximately 2018 to 2021.
- Subproject Area G-3 incorporates phase 2 development from approximately 2022 to 2024.
- Subproject Area G-4 incorporates phase 3 development from approximately 2025 to 2028.

Public Improvements and Facilities to be Funded by the IFD Subproject Areas

Forest City is responsible to develop (or cause to be developed) horizontal infrastructure for the 28-acre Waterfront Site, subject to reimbursement with IFD tax increment and proposed Community Facilities Districts (CFD) assessments, including bonds issued against the IFD tax increment and CFD assessments. Horizontal infrastructure work consists of:

- Demolition and abatement
- Site grading, drainage, and utility infrastructure
- Geotechnical improvements for seismic stability
- Low pressure water system and non-potable water system
- Pedestrian, bicycle, and transportation access
- Auxiliary Water Supply System (AWSS)
- Combined sewer and storm water system

Infrastructure work in each of the phases consists of the following improvements within the respective subproject areas: demolition and abatement of existing structures; earthwork, soil disposal, and retaining walls; work on AWSS, low pressure water, reclaimed water, and combined sewer/storm water systems; street, park and open space improvements; and historical building rehabilitation.

Phase I (Subproject Area G-2) is from approximately 2018 to 2021. Phase II (Subproject Area G-3) is from 2022 to 2024. Phase III (Subproject Area G-4) is from 2025 to 2028.

Additional Pier 70-wide work to be funded by the proposed IFD subproject areas, subject to Board of Supervisors approval, include improvements to Irish Hill Park, rehabilitation of Buildings 106 and 111, shipyard electrical work and improvements, improvements to Crane Cove Park not funded by general obligation bonds, and public realm improvements.

Port IFD Guidelines

The Board of Supervisors approved guidelines in 2013 for establishment of the Port IFD (File 13-0264). These guidelines include (among other provisions):

- The Infrastructure Financing Plan to be developed by the Port must include a projection of revenues to the City's General Fund that will be generated by the project area.
- If the State's IFD law allows allocation of the State share of property tax increment to a waterfront district, then the City must allocate to the waterfront district the share of City property tax increment that maximizes the State allocation.
- Property tax increment allocated to public improvements should be sufficient to attract developer equity and market rate development in the project area.
- Property tax increment in excess of the allocation to public improvement in the project area will be allocated to the City's General Fund.

- Annual property tax increment will be allocated to maintain public infrastructure and improvements only if other sources are not available or sufficient.

Proposed Infrastructure Financing Plan Provisions

Approval of the proposed ordinance (File 18-0773) approves Appendix G-2 of the Infrastructure Financing Plan for Subproject Areas G-2, G-3, and G-4, which includes:

- The property tax increment would be allocated to the IFD from each subproject area for 45 years beginning in the fiscal year in which the property tax increment generated by the subproject area equals at least \$100,000.
- The amount of the property tax increment in each year would be the difference between the assessed taxable property value in FY 2015-16 and the assessed taxable property value in the tax year.
- The entire City and the Educational Revenue Augmentation Fund (ERAF) share of property tax increment generated in the subproject areas will be allocated to the subproject areas.
- The total limit on the property tax increment that can be allocated to the IFD from the subproject areas over their 45-year terms is \$3.0 billion, of which \$845 million is the limit on the ERAF share and \$2.15 billion is the limit on the City’s share, as shown below. These limits reflect projected total property tax increment plus a contingency factor of approximately 90 percent to account for variables such as higher assessed values of taxable property due to resales.

Subproject Area	City Share	ERAF	Total
G-2	\$747,000,000	\$293,000,000	\$1,040,000,000
G-3	553,500,000	217,000,000	770,500,000
G-4	855,000,000	335,000,000	1,190,000,000
Total	\$2,155,500,000	\$845,000,000	\$3,000,500,000

- 20 percent of the property tax increment must be set-aside for shoreline restoration, removal of bay fill, public access to the waterfront, and/or environmental remediation of the waterfront in accordance with California Government Code. The 20 percent allocation requirement applies to IFD Project Area G as a whole. Because the Infrastructure Financing Plan for IFD Subproject Area G-1 (covering the Historic Core of the Union Iron Works Historic District), approved by the Board of Supervisors in February 2016, allocates 64 percent of the property tax increment to Crane Park and other waterfront projects, the Port may allocate less than 20 percent of property tax increment generated by Subproject Areas G-2, G-3, and G-4.

- Bonds issued by the IFD and secured by the City's share of the property tax increment must be repaid within 45 years. The IFD cannot issue new bonds secured by the ERAF share of the property tax increment after 20 years.

FISCAL IMPACT

Sources and Uses of Funds

Estimated sources and uses of funds are \$1.0 billion (2017 dollars), as shown in Exhibit 2 below.

Exhibit 2: Sources and Uses of Funds

	2017 Dollars
Sources	
Annual Tax Increment	\$596,720,000
Bond Proceeds	137,429,000
Developer Capital	133,832,000
Advances of Land Proceeds	164,931,000
Total Sources	\$1,032,912,000
Uses	
Bond Debt Service	\$253,893,000
Interest on Advanced Funds	22,975,000
Repayment Developer Capital	121,166,000
Repayment Advances of Land Proceeds	101,663,000
Subproject Areas Public Improvements	287,909,000
Pier 70 Wide Public Improvements	53,041,000
Sea Level Rise Protection	130,379,000
Educational Revenue Augmentation Fund ⁶	61,886,000
Total Uses	\$1,032,912,000

Source: Infrastructure Financing Plan

Timing of Sources and Uses

The developer, Forest City, will contribute capital to pay for project costs, prior to property tax increment and other project funds becoming available. The Infrastructure Financing Plan assumes that the developer will contribute \$133.8 million in developer capital through FY 2028-29.

Beginning in FY 2018-19, the Infrastructure Financing Plan assumes that proceeds from the sale of land or prepayment of ground leases will become available to begin paying for project costs, including repayment of the developer capital.

⁶ The \$61.9 million allocation to ERAF is the estimated amount of ERAF tax increment that is not needed to pay ERAF-secured debt.

Beginning in FY 2019-20, the Infrastructure Financing Plan assumes that the Port will begin issuing bonds, secured by property tax increment generated by Subproject Area G-2. Bond proceeds will be a source of funds to pay for public project costs.

Estimates of Annual Property Tax Increment Generated by Subproject Areas G-2, G-3, G-4

Incremental property taxes generated by development of Subproject Areas G-2, G-3, and G-4 depend on the assessed value of this development. A report prepared by Berkson Associates for the Port in August 2017 estimates that development in Subproject Areas G-2, G-3, and G-4 will have an assessed value of \$1.7 billion (2017 dollars), resulting in annual property tax increment of \$17 million (based on 1.0 percent property tax rate), of which 90 percent⁷ equals \$15.6 million (2017 dollars). The actual assessed value and associated property taxes will depend on the mix of residential and commercial properties, and when each of these properties is completed and enrolled in the City's tax rolls.

The Infrastructure Financing Plan⁸ estimates that Subproject Areas G-2, G-3, and G-4 would begin to generate incremental property taxes (which would be allocated to the IFD) in FY 2023-24, FY 2028-29, and FY 2029-20 respectively. However, according to the plan, the actual commencement date for when property tax increment would be allocated to the IFD would depend on the fiscal year in which each subproject area generated property tax increment of \$100,000 or more.⁹

Bond Issuance

The proposed resolution (File 17-0879) provides for the intent to issue bonds, secured by property tax increment. The bond authorization would be for up to \$793.3 million, including

- \$273.9 million for Subproject Area G-2;
- \$196.1 million for Subproject Area G-3; and
- \$323.3 million for Subproject Area G-4.

According to the Infrastructure Financing Plan, the Port anticipates issuing IFD bonds for Subproject Areas G-2, G-3, and G-4 of up to \$216 million¹⁰. The Port is requesting bond authorization of up to \$793.3 million, or more than 3x the anticipated bond issuance, to account for (a) property assessments that exceed projections, (b) issuance of additional bonds to pay for sea level rise and other projects, and (c) interest rates that are lower than the underwritten level. 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.

⁷Based on approximately 65 percent City share and 25 percent ERAF share

⁸ The Infrastructure Financing Plan for Subproject Areas G-2, G-3, and G-4 was prepared by the Port's consultant, Century Urban, and submitted to the Port in October 2017.

⁹ The Berkson report estimated annual property tax increment of \$15.6 million (2017 dollars).

¹⁰ The Infrastructure Financing Plan assumes an interest rate of 7 percent, a term of 30 years, issuance costs/reserves of 13 percent, and an annual debt service cover ratio of 1:1 to 1:3. Estimated net loan proceeds to be applied to projects is \$169.6 million. The amount of \$216 million is included on Table 4, page 37 of the Infrastructure Financing Plan.

According to the Port’s bond counsel, the proposed resolution limits the use of bonds to pay for the costs of public improvements described in the Infrastructure Financing Plan, as noted below:

- Bond authorization for Subproject Area G-2 is 273.9 million and the estimated cost of facilities in Appendix G-2 for Subproject Area G-2 is \$141.3 million;
- Bond authorization for Subproject Area G-3 is \$196.1 million and the estimated cost of facilities in Appendix G-3 for Subproject Area G-3 is \$72.97 million; and
- Bond authorization for Subproject Area G-4 is \$323.3 million and the estimated cost of facilities in Appendix G-3 for Subproject Area G-3 is \$46.3 million.

The bond authorization under the proposed resolution may also be applied to Pier 70-wide projects, in addition to the projects in the three subproject areas, subject to future Board of Supervisors approval.

POLICY CONSIDERATION

According to the Infrastructure Financing Plan, bonds may be issued by the IFD or by CFDs formed within the Pier 70 IFD Subproject Areas G-2, G-3, and G-4. While the proposed legislation states the City’s intention to issue IFD bonds, the Infrastructure Financing Plan assumes that IFD or CFD bonds may be issued, and that property tax increment will be used to repay the bonds. The type of bond to be issued will be determined based on market conditions at the time of issuance. The Infrastructure Financing Plan provides for bonds to be issued in FY 2019-20, although Subproject Area G-2 may not generate property tax increment until FY 2023-24 to secure the bonds. Legislation to approve formation of CFDs within the three Pier 70 subproject areas has not been introduced.

RECOMMENDATION

Approve the proposed ordinance and resolution.

<p>Items 17, 18, 21 and 22 Files 18-0779, 18-0780, 18-0772 and 18-0782</p>	<p>Department: Port</p>
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EXECUTIVE SUMMARY

Legislative Objectives

File 18-0779 is a resolution (a) proposing adoption of the Infrastructure Financing Plan and formation of the City and County of San Francisco Infrastructure and Revitalization Financing District (IRFD) No. 2 (Hoedown Yard); (b) providing for the future annexation of property into the Infrastructure and Revitalization District subject to conditions set forth in the Infrastructure Financing Plan; (c) providing for the Board of Supervisors to establish by ordinance the date on which the allocation of tax increment shall begin; (d) setting the annual appropriations limit at \$91.9 million, which will be submitted to the qualified electors; and (e) providing for the proposition to establish the IRFD, the proposition to approve the Infrastructure Financing Plan, and the appropriations limit to be submitted to the qualified voters

File 18-0780 is a resolution approving the Infrastructure Financing Plan for the Infrastructure and Revitalization Financing District No. 2.

File 18-0772 is an ordinance creating the City and County of San Francisco Infrastructure and Revitalization Financing District (IRFD) No. 2 (Hoedown Yard) to finance the construction of affordable housing within Pier 70 and Parcel K South.

File 18-0782 is a resolution authorizing issuance of IRFD bonds, paid by incremental property tax revenue allocated to the City and generated within the Hoedown Yard, in amounts not-to-exceed \$91,900,000. The proposed resolution approves the sale of bonds in one or more series, but the bonds shall not be issued until the Board of Supervisors has approved the terms of the sale, and has approved the associated documents.

Key Points

- The City has an option to purchase the Hoedown Yard, adjacent to Pier 70 and owned by PG&E, or sell the option to purchase to a third party, but the City has not exercised that option. In order for the proposed IRFD to be formed on the Hoedown Yard, PG&E will need to vote in favor of the IRFD.
- The Infrastructure Financing Plan assumes that the Hoedown Yard will be developed with condominium units, which will generate property tax increment revenue to fund affordable housing development. According to the Plan, 323 housing units would be developed, affordable to households with income at 60 percent of the Area Median Income.
- The Board of Supervisors approved legislation establishing the Board’s intent to form an Infrastructure and Revitalization Financing District (IRFD) and issue bonds in July 2018.

Fiscal Impact

- The requested authorization of \$91.9 million is more than four times the anticipated bond issuance of \$22.2 million. The Port is requesting a higher bonding cap to allow for flexibility if the project generates more incremental property tax revenues or the cost of funds is lower than projected.

Recommendation

- Approve the proposed ordinance and resolutions.

MANDATE STATEMENT

California Government Code Section 53369 authorizes the Board of Supervisors to establish an Infrastructure and Revitalization Financing District (IRFD) on Port property and to act as the legislative body for the IRFD.

BACKGROUND

The Hoedown Yard comprises two parcels owned by the Pacific Gas and Electric Company (PG&E) totaling approximately 3 acres adjacent to the 28-acre Pier 70 Waterfront Site. The Board of Supervisors approved an option agreement between the City and PG&E in 2014 (File 14-0750) in which the City could exercise the option for approximately \$8,283,726, or sell the option through a competitive sale to a third party. The sale of the Hoedown Yard option to a third party is subject to future Board of Supervisors approval.

The Board of Supervisors approved several pieces of legislation to establish the Pier 70 Special Use District Project, which includes the Hoedown Yard, in October 2017.

DETAILS OF PROPOSED LEGISLATION

File 18-0779 is a resolution (a) proposing adoption of the Infrastructure Financing Plan and formation of the City and County of San Francisco Infrastructure and Revitalization Financing District (IRFD) No. 2 (Hoedown Yard); (b) providing for the future annexation of property into the Infrastructure and Revitalization District subject to conditions set forth in the Infrastructure Financing Plan; (c) providing for the Board of Supervisors to establish by ordinance the date on which the allocation of tax increment shall begin; (d) setting the annual appropriations limit at \$91.9 million, which will be submitted to the qualified electors; and (e) providing for the proposition to establish the IRFD, the proposition to approve the Infrastructure Financing Plan, and the appropriations limit to be submitted to the qualified voters.

File 18-0780 is a resolution approving the Infrastructure Financing Plan for the Infrastructure and Revitalization Financing District No. 2.

File 18-0772 is an ordinance creating the City and County of San Francisco Infrastructure and Revitalization Financing District (IRFD) No. 2 (Hoedown Yard) to finance the construction of affordable housing within Pier 70 and Parcel K South.

File 18-0782 is a resolution authorizing issuance of IRFD bonds, paid by incremental property tax revenue allocated to the City and generated within the Hoedown Yard, in amounts not-to-exceed \$91,900,000.

According to the proposed resolution, the Board of Supervisors may increase the maximum amount of the bonds by adopting a resolution. The bonds may be issued on behalf of the IFD or may be issued on behalf of a special tax district to be established at a later date.

The proposed resolution approves the sale of bonds in one or more series, but the bonds shall not be issued until the Board of Supervisors has approved the terms of the sale, and has approved the associated documents.

The Board of Supervisors approved legislation establishing the Board's intent to form an Infrastructure and Revitalization Financing District (IRFD) and issue bonds in July 2018.

Hoedown Yard

The Hoedown Yard is bounded by Illinois Street on the west, 22nd Street on the south, Irish Hill and Parcel K South on the north, and the Waterfront Site on the east, as shown in Exhibit 1 below.

Exhibit 1: Hoedown Yard Site



The Infrastructure Financing Plan assumes that the Hoedown Yard will be developed with 330 condominium units, within 349,353 gross building square feet, which will generate property tax increment revenue under the IRFD to fund affordable housing development on the Waterfront Site and Parcel K South. Because affordable housing will not be developed on the Hoedown Yard site, the condominiums will also be assessed a 28 percent in-lieu fee payable to the Mayor's Office and Housing and Community Development (MOHCD) for development of affordable housing outside of the Pier 70 Special Use District.

Affordable Housing to be Funded by the IRFD

According to the Infrastructure Financing Plan, 323 affordable housing units would be developed as follows:

- 105 below market rate units on a portion of Parcel C-2 (Parcel C2A), affordable to households with income at 60 percent of the area median income. The projected development costs are \$32 million to \$33 million.
- 138 below market rate units on Parcel C1B, affordable to households with income at 60 percent of the area median income. The projected development costs are \$43 million.
- 80 below market rate units on Parcel K South, affordable to households with income at 60 percent of the area median income. The projected development costs are \$25 million

Proposed Hoedown Yard Infrastructure Financing Plan Provisions

The proposed Hoedown Yard Infrastructure Financing Plan contains the following provisions:

- The property tax increment would be allocated to the IRFD for 40 years beginning in the fiscal year in which the property tax increment generated by Hoedown Yard equals at least \$100,000.
- The amount of the property tax increment allocated to the IRFD in each year would be 64.59 percent of the revenue generated by the 1.0 percent tax rate on the incremental assessed property value.
- The total limit on the property tax increment that can be allocated to the IRFD over the 40-year term is \$315.8 million. This limit reflects the projected total allocated tax increment of \$157.9 million plus a contingency factor of 100 percent to account for variables such as higher assessed values of taxable property due to resales.

FISCAL IMPACT**Sources and Uses of Funds**

Estimated sources and uses of IRFD funds are approximately \$88 million (2017 dollars), as shown in Exhibit 2 below.

Exhibit 2: Sources and Uses of Funds

	2017 Dollars
Sources	
Annual Tax Increment	\$70,170,000
Bond Proceeds	18,263,000
Total Sources	\$88,433,000
Uses	
Bond Debt Service	\$33,158,000
Affordable Housing	18,969,000
General Fund ^a	36,306,000
Total Uses	\$88,433,000

^a Excess tax increment is allocated to the General Fund

Source: Infrastructure Financing Plan

Timing of Sources and Uses

Beginning in FY 2023-24, the Infrastructure Financing Plan assumes that the Port will begin issuing IRFD bonds, secured by property tax increment generated by Hoedown Yard development, as discussed further below. Bond proceeds will be a source of funds to pay for affordable housing and related facilities and to re-pay bond debt. Excess tax increment revenue would be allocated to the City's General Fund.

Estimates of Annual Property Tax Increment Generated by Hoedown Yard

Incremental property taxes generated by development of Hoedown Yard depend on the assessed value of the development. A report prepared by Berkson Associates for the Port in August 2017 estimates that development of Hoedown Yard will result in total assessed value of \$225 million (2017 dollars), resulting in annual property tax increment of \$2.25 million (based on 1.0 percent property tax rate), of which 65 percent¹ equals \$1.46 million (2017 dollars). The actual assessed value and associated property taxes will depend on the number of residential properties and when each of these properties is completed and enrolled in the City's tax rolls.

The Infrastructure Financing Plan² estimates that Hoedown Yard would begin to generate incremental property taxes (which would be allocated to the IRFD) in FY 2024-25 and FY 2026-27, to coincide with the expected completion of two phases of development. However, according to the plan, the actual commencement date for when property tax increment would be allocated to the IRFD would depend on the fiscal year in which Hoedown Yard generated property tax increment of \$100,000 or more.

¹ Based on approximately 64.59 percent City allocation share.

² The Infrastructure Financing Plan for Hoedown Yard was prepared by the Port's consultant, Century Urban, and submitted to the Port in October 2017.

Bond Issuance

The proposed resolution (File 18-0782) authorizes the issuance bonds, secured by property tax increment, up to \$91,900,000. According to the Infrastructure Financing Plan, the Port anticipates issuing IRFD bonds for Hoedown Yard of up to \$22.2 million³. The requested bond authorization of up to \$91.9 million is more than four times the anticipated bond issuance to account for (a) property assessments that exceed projections and (b) interest rates that are lower than the underwritten level. 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.

According to the Port's bond counsel, the proposed resolution limits the use of bonds to pay for the costs of authorized facilities, including acquisition, improvements, and associated costs.

POLICY CONSIDERATION

As noted above, Hoedown Yard is currently owned by PG&E and the City has an option to purchase the property or sell the option to purchase to a third party, but the City has not exercised that option as of September 2018. In order for the proposed IRFD to be formed on the Hoedown Yard, PG&E will need to vote in favor of the IRFD.

RECOMMENDATION

Approve the proposed ordinance and resolutions.

³ The Infrastructure Financing Plan assumes an interest rate of 7 percent, a term of 30 years, issuance costs/reserves of 13 percent, and an annual debt service cover ratio of 1.1:1 to 1.3:1. Estimated bond proceeds to be applied to affordable housing and debt service totals \$22.2 million.