


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

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October 28, 2016

**TO:** Budget and Finance Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** November 2, 2016 Budget and Finance Committee Meeting

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<b>Item 3</b> <b>File 16-1116</b>	<b>Department:</b> Treasure Island Development Authority (TIDA)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution approves the Infrastructure Financing Plan for the Yerba Buena Island and Treasure Island Infrastructure and Revitalization Financing District (IRFD).</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The IRFD may use property tax increment financing to pay for public facilities, such as roads, sidewalks and parks. Under the 2011 Disposition and Development Agreement between the Treasure Island Development Authority (TIDA) and the developer, Treasure Island Community Development, LLC (TICD), TICD pays the costs of constructing public facilities and is reimbursed by the IRFD for qualified costs.</li> <li>• Development of Yerba Buena Island and Treasure Island will take place in four major phases between 2016 and 2029; each major phase consists of sub-phases and project areas within the sub-phases. The proposed IRFD initially will consist of five project areas on Yerba Buena Island and the southwestern portion of Treasure Island. Other project areas will be annexed to the IRFD at a later date.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Estimated property tax increment generated by these five projects over 43 years areas is \$1.2 billion. The Office of Public Finance, under separate legislation, will issue up to \$780 million in bonds to reimburse TICD for public improvements (associated with the development of the five project areas) and finance the development by TIDA of 196 affordable housing units. Debt service on the bonds is paid with the property tax increment.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• The Treasure Island Development Project provides for 27.2 percent of housing to be affordable to moderate and low income households (307 inclusionary below market rate housing units financed by TICD and 1,866 units financed by TIDA through the IRFD and other sources). The estimated cost of the 1,866 affordable housing units is \$968 million in current dollars. According to the Office of Public Finance, federal Low-Income Housing Tax Credits and other non-project sources will cover approximately \$449 million of the cost, resulting in a funding need of \$519 million for all 1,866 units. While project funds, including property tax increment, will fund an estimated \$138 million, the Treasure Island Development Project has an estimated affordable housing funding shortfall of \$381.4 million.</li> <li>• Because the Infrastructure Financing Plan does not identify all of the financing necessary to construct all 1,866 affordable housing units to be delivered by TIDA, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approval of the proposed resolution is a policy matter for the Board of Supervisors.</li> </ul>	

## MANDATE STATEMENT

A city, county, or city and county may establish an Infrastructure and Revitalization Financing District under California Government Code Section 53369 *et seq.* An Infrastructure and Revitalization Financing District is a legally constituted government entity established for the sole purpose of financing public facilities.

## BACKGROUND

The Treasure Island Development Project is an ongoing project to transition Treasure Island and a portion of Yerba Buena Island from a former military base to a new San Francisco residential and commercial development. The project includes the development of 8,000 new housing units (including affordable housing units), 300 acres of parks and open space, 551,000 square feet of retail and office space, up to 500 hotel rooms, and public infrastructure and community facilities.

The Treasure Island Development Authority (TIDA) selected Treasure Island Community Development, LLC (TICD), following a competitive process, in March 2003 to serve as the developer to the Treasure Island Development Project to develop public infrastructure and sell or ground lease parcels to private developers to construct housing, commercial and public facilities. The Board of Supervisors previously approved in 2011 the Development Agreement between the City and TICD (File 11-0226) and the Disposition and Development Agreement between TIDA and TICD (File 11-0291) and other related documents.

### **Yerba Buena Island and Treasure Island Infrastructure and Revitalization Financing District**

Included in the Disposition and Development Agreement approved by the Board of Supervisors in 2011 was the Financing Plan, which obligated the City to provide funding for certain public improvements by:

- Forming Infrastructure and Revitalization Financing District(s), or IRFD(s), to reimburse TICD for qualified project costs through incremental property tax revenue derived in the project area;
- Forming Community Facilities District(s), or CFD(s), to reimburse TICD for qualified project costs, to pay for certain public services necessary to ensure that the shoreline and facilities will be protected should sea levels rise, and to pay for ongoing park maintenance by imposing a special assessment on properties within the CFD; and
- Issuing bonds and other debt for the IRFD(s) and CFD(s).

Several resolutions and an ordinance authorizing various steps in the establishment of an IRFD on Yerba Buena Island and Treasure Island, including the issuance of bonds, are pending before the Board of Supervisors.<sup>1</sup>

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<sup>1</sup> Files 16-1035, 16-1036, 16-1037, 16-1116, 16-1117, 16-1118, and 16-1120

**DETAILS OF PROPOSED LEGISLATION**

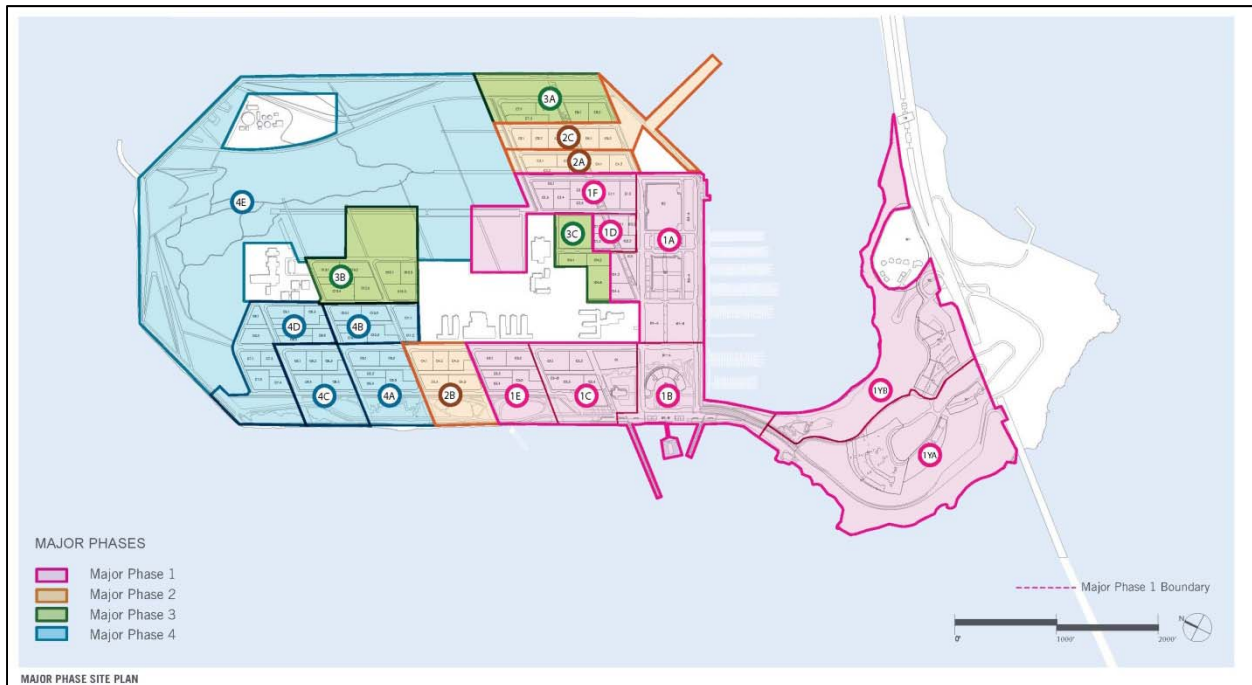
The proposed resolution approves the Infrastructure Financing Plan for the Yerba Buena Island and Treasure Island IRFD and the project areas within the IRFD. If the proposed resolution is approved, the IRFD and associated debt would then be the subject of public hearings before the Board of Supervisors and further Board of Supervisors legislative actions in order to formally establish the IRFD and issue bonds.

**Proposed Boundaries of the IRFD**

*Overview of Treasure Island Development Project*

TIDA has divided development of Treasure Island and Yerba Buena Island into four major phases, shown in Figure 1 below.

**Figure 1: Treasure Island Development Project Major Phases**

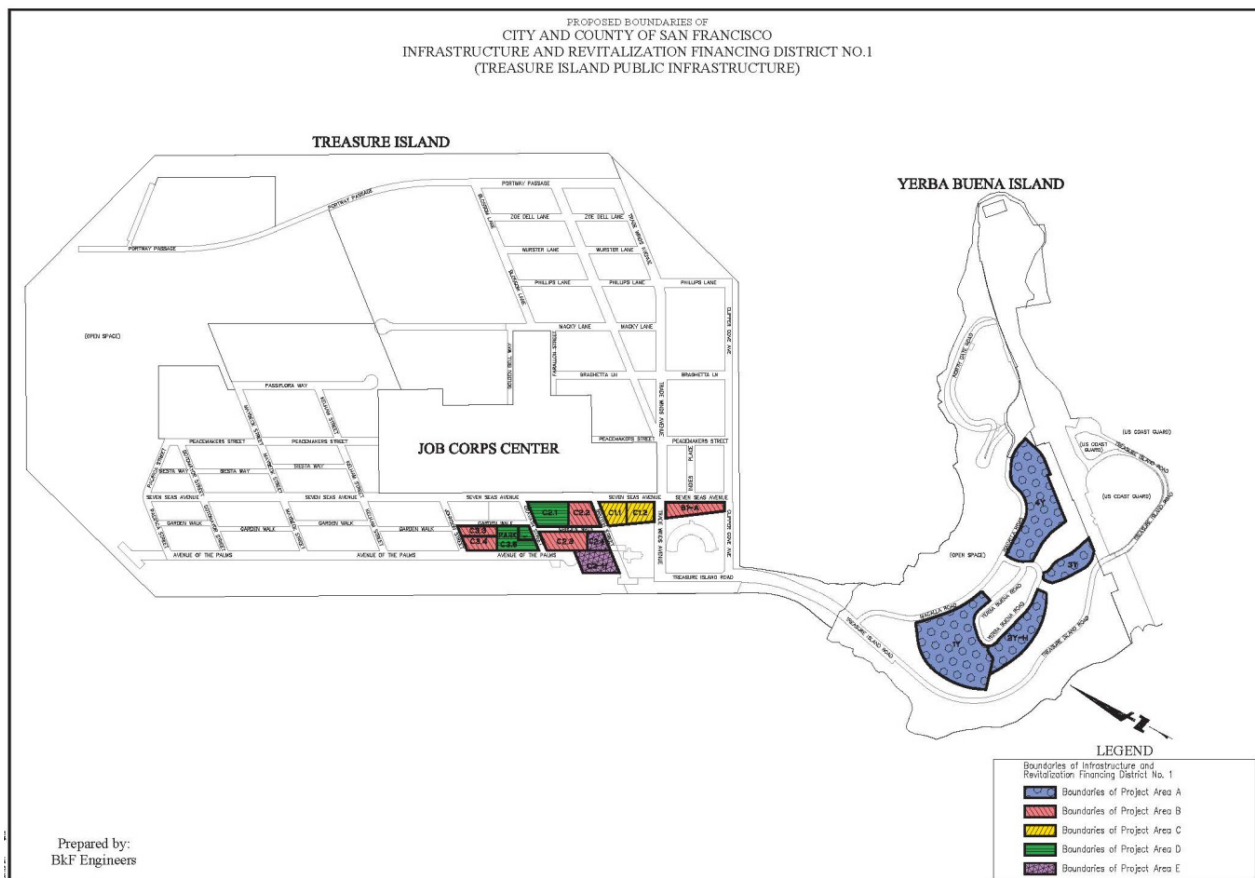


Source: TIDA, Major Phase Application for Major Phase 1

*Initial Project Areas to be Included in the Proposed IRFD*

Treasure Island Development Major Phase 1 consists of a portion of Yerba Buena Island and parcels on the southern and western edge of Treasure Island, as shown in Figure 1 above, and is divided into four stages: Yerba Buena Island and Treasure Island Stages 1, 2, and 3. Two of the four stages, Yerba Buena Island and Treasure Island Stage 1, are included initially in the IRFD. These two stages consist of five project areas—A, B, C, D, and E—and are shown in Figure 2 below. As additional parcels become available for development, they will be annexed into the IRFD, subject to Board of Supervisors approval.

**Figure 2: Map of Proposed Boundaries of Project Areas within IRFD**



Source: TIDA

*Project Areas A, B, C, D, and E Development*

As noted above, the first two development stages—Yerba Buena Island and Treasure Island Stage 1—comprise the initial area of the IRFD. The developer will finance and construct market rate and inclusionary below market rate housing and hotel rooms, as shown in Table 1 below. TIDA will construct affordable housing units, financed by the IRFD.

**Table 1: Initial Development on Yerba Buena and Treasure Island Stage 1**

Development	Market Rate Units	Inclusionary Below Market Rate Units <sup>a</sup>	Affordable Housing Units <sup>b</sup>	Hotel Rooms
Yerba Buena Island (Project Area A)	285	15	0	50
Stage 1 (Project Areas B, C, D, E)	1,825	96	196	200
<b>Total</b>	<b>2,110</b>	<b>111</b>	<b>196</b>	<b>250</b>

Source: Infrastructure Financing Plan

<sup>a</sup> Inclusionary below market rate units are financed by the developer, and would be sold to households with income up to 120 percent of the Area Median Income.

<sup>b</sup> Affordable housing units are financed by TIDA through the IRFD and other sources, and on average are affordable to households at 50 percent of the Area Median Income.

### **Details of the Infrastructure Financing Plan**

The Infrastructure Financing Plan is specific to Project Areas A, B, C, D, and E of Yerba Buena Island and Treasure Island Stage 1. The Infrastructure Financing Plan includes:

- The proposed boundaries of the IRFD, which incorporates Project Areas A, B, C, D, and E, as shown in Figure 2 above.
- A description of the proposed public facilities improvements to be funded by the IRFD, including the proposed location, timing, and costs of improvements. These improvements are for the Treasure Island Development Project as a whole and are not specific to Project Areas A, B, C, D, and E.
- A finding that the public facilities improvements are of community-wide significance;
- A financing section, discussed in detail in the fiscal impact section of this report; and
- A plan providing for the replacement of housing occupied by low- and moderate-income families proposed to be removed or destroyed over the course of development or construction within the IRFD, as discussed further below.

The Infrastructure Financing Plan includes all the required information specified in California Government Code Section 53369.14.

### **Public Improvements Financed by the IRFD**

#### *Developer-Financed Public Improvements*

The 2011 Disposition and Development Agreement between TIDA and the developer, TICD, detailed TICD's responsibility for constructing public facilities infrastructure to support housing and commercial development on Yerba Buena Island and Treasure Island, including site acquisition by TICD, and phasing of construction of the public improvements to correspond to the major phases of the development project.

Public improvements to be constructed by TICD consist of:

- Strengthening the perimeter of Treasure Island;
- Stabilization of the soil and raising the level of Treasure Island;
- Infrastructure, including roads, streets, sidewalks, curbs, storm drains, water and recycled water facilities, fire stations and auxiliary water supply systems, and other public infrastructure;
- Landscaping, open space and parks, and shoreline improvements;
- Ferry Terminal; and
- Improvements specific to the development of housing, hotels, and commercial space.

These public facilities improvements are for the Treasure Island Development Project as a whole and have estimated costs in current dollars of \$1.9 billion, including contingencies<sup>2</sup>. TICD

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<sup>2</sup> The public improvements defined in the Infrastructure Financing Plan are not specific to any project area; therefore, the public improvement costs cannot be allocated to specific project areas.

will be responsible for the construction and related costs of these improvements, and will be reimbursed for the costs by the IRFD.<sup>3</sup>

#### *Affordable Housing Financed by the IRFD*

The Treasure Island Development Project provides for the construction of 1,866 total units of affordable housing by TIDA (of which 196 units are part of Treasure Island Stage 1), with estimated costs in current dollars of \$968 million to be paid by the IRFD and other sources. 70 of the 196 units to be constructed as part of Treasure Island Stage 1 will replace 70 existing, vacant affordable housing units scheduled for demolition, for a net increase of 120 affordable housing units.

#### *Improvements Financed by Other Public Funds*

In addition to public improvements financed by the IRFD, the City is responsible for constructing a wastewater treatment plant on Treasure Island at an approximate cost of \$65 million in current dollars, funded by the San Francisco Public Utilities Commission's Wastewater Enterprise.

TIDA will have ongoing responsibility for public assets, such as parks and open space, historic buildings and piers, including the costs of capital improvements. These public assets will be included in the City's 10-year Capital Plan. According to Mr. Robert Beck, Treasure Island Director, TIDA may use IRFD funds to pay for these capital improvements if IRFD funds are available after the developer, TICD, has been fully reimbursed for public facilities infrastructure which they constructed, and the affordable housing has been fully funded.

#### **Finding of Community-wide Significance**

According to the Infrastructure Financing Plan, the public improvements funded by the IRFD will substantially benefit the City as a whole, as well as Yerba Buena Island and Treasure Island. Commercial and hotel development is intended to draw new visitors to Treasure Island. Housing development on Yerba Buena Island and Treasure Island is intended to absorb a portion of the City's population growth.

### **FISCAL IMPACT**

#### **The Disposition and Development Agreement's Financing Plan**

The 2011 Disposition and Development Agreement between TIDA and TICD, as previously approved by the Board of Supervisors, provided for the formation of the IRFD and an infrastructure financing plan specific to the project areas within the IRFD. The Infrastructure Financing Plan being considered by the Board of Supervisors in this resolution is specific to Project Areas A, B, C, D, and E.

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<sup>3</sup> According to the Disposition and Development Agreement between TIDA and TICD, TICD is to be reimbursed by the IRFD for "qualified project costs". For example, a project must have a useful life of more than 15 years in order for the costs to be "qualified".

The 2011 Disposition and Development Agreement also provided for the issuance of bonds by the IRFD to finance the infrastructure costs. The issuance of \$780,000,000 in IRFD bonds is being considered by separate action of the Board of Supervisors.<sup>4</sup>

### The Proposed Infrastructure Financing Plan

The Infrastructure Financing Plan:

- Defines the property tax allocation to the IRFD,
- Estimates the property tax increment generated by Project Areas A, B, C, D and E, and
- Estimates public infrastructure and affordable housing costs for the Treasure Island Development Project as a whole (but not specifically for Project Areas A, B, C, D, and E) to be paid by the IRFD.

#### *Property Tax Rate*

Prior resolutions approved by the Board of Supervisors pledged all of the City's share of the property tax increment generated by the Treasure Island Development Project to the IRFD. The City's share of the 1.0 percent property tax rate (which does not include debt service on general obligation bonds) is shown in Table 2 below, of which 0.468 percent is allocated to public infrastructure projects, 0.099 percent is allocated to affordable housing, and 0.08 percent is conditional, depending on whether this amount is necessary to pay debt service on any bonds issued by the IRFD.

**Table 2: Share of Property Tax Rate Pledged to IRFD**

<b>Property Tax Revenue Recipient</b>	<b>Share of Total Property Tax Rate</b>
Infrastructure and facilities projects	0.468
Affordable housing	<u>0.099</u>
Subtotal, Treasure Island Development Project	0.567
Conditional City increment	<u>0.080</u>
Total, City share	0.647
Other tax entities' share <sup>a</sup>	<u>0.353</u>
<b>Total Property Tax Rate</b>	<b>1.000</b>

<sup>a</sup> BART, Community College District, San Francisco Unified School District, Bay Area Air Quality Management District, and Education Revenue Augmentation Fund

<sup>4</sup> File 16-1121, pending before the Board of Supervisors, authorizes issuance of not-to-exceed \$780 million in IRFD bonds.



*Estimated Property Tax Increment Generated by Project Areas A, B, C, D, E*

According to the Infrastructure Financing Plan, Project Areas A, B, C, D, and E are expected to generate approximately \$1.9 billion in property tax increment over 43 years from FY 2018-19 through FY 2061-62, of which \$1.2 billion is pledged to the IRFD as shown in Table 3 below.

**Table 3: Estimated Property Tax Increment Pledged to IRFD  
FY 2018-19 through FY 2061-62<sup>5</sup>**

<b>Allocation</b>	<b>Amount</b>
Public Improvements	\$891,690,000
Affordable Housing	<u>189,146,000</u>
Subtotal	\$1,080,836,000
Conditional City increment	152,499,000
<b>Total</b>	<b>\$1,233,335,000</b>

Source: Infrastructure Financing Plan

*Debt Issuance*

Public improvements and affordable housing in Project Areas A, B, C, D, and E will be financed by proceeds from bonds issued by the IRFD and secured by the property tax increment. As noted above, legislation authorizing the IRFD to issue up to \$780 million in bonds is pending before the Board of Supervisors. According to Ms. Nadia Sesay, Director of the Office of Public Finance, no bonds will be issued until funding is needed to reimburse TICD and property tax increment revenues are sufficient to pay debt service on the bonds.

## **POLICY CONSIDERATION**

### **Developer Responsibility for Public Improvements**

The Infrastructure Financing Plan estimates that construction of public improvements for the Treasure Island Development Project as a whole will cost \$1.9 billion in current dollars. These public improvements are to be constructed between 2016 and 2029. As noted above, the Infrastructure Financing Plan does not provide a cost estimate for the construction of public improvements that is specific to the Project Areas A, B, C, D and E.

The developer, TICD, will be reimbursed by the IRFD bond proceeds for the qualified project costs to construct public improvements as the costs are incurred. Neither TIDA funds nor the City's General Fund will be used to reimburse TICD for TICD's costs. According to the 2011 Disposition and Development Agreement:

"The Developer acknowledges that in no event may the City's General Fund or any of Authority's general funds be obligated to finance the Qualified Project Costs other than as set forth in this Financing Plan without City's or Authority's express written consent, as applicable."

<sup>5</sup> Estimates in Table 3 are in *nominal* dollars (i.e., the actual dollar value in the year in which property tax increment was generated by the project areas).

### Affordable Housing Funding Shortfall

The Housing Plan in the 2011 Disposition and Development Agreement stated that at least 25 percent of housing on Yerba Buena Island and Treasure Island will be affordable to moderate and low income households. The Treasure Island Development Project provides for 27.2 percent of housing to be affordable to moderate and low income households, as shown in Table 4 below.

**Table 4: Total Treasure Island Development Project Housing Units**

Type of Housing	Number of Units	Percent
Inclusionary Below Market Rate <sup>a</sup>	307	3.8%
Affordable <sup>b</sup>	<u>1,866</u>	<u>23.3%</u>
Subtotal	2,173	27.2%
Market Rate	<u>5,827</u>	<u>72.8%</u>
Total	8,000	100.0%

Source: Infrastructure Financing Plan

<sup>a</sup> Inclusionary below market rate units are financed by the developer, and would be sold to households with income up to 120 percent of the Area Median Income.

<sup>b</sup> Affordable housing units are financed by TIDA through the IRFD and other sources, and on average are affordable to households at 50 percent of the Area Median Income.

The Infrastructure Financing Plan estimates that the cost of construction of the 1,866 affordable housing units is \$968 million in current dollars but does not identify funding sources to pay the \$968 million cost. According to Ms. Sesay, federal Low-Income Housing Tax Credits and other dedicated non-project sources will cover approximately \$449 million of the cost, resulting in a funding need of \$519 million for all 1,866 units. While project funds, including property tax increment, will fund an estimated \$138 million, the Treasure Island Development Project has an estimated affordable housing funding shortfall of \$381.4 million, as shown in Table 5 below.

**Table 5: Financing for TIDA Affordable Housing <sup>6</sup>**

Source of Funds	Amount
Affordable housing funding need	(\$519,000,000)
<b>Project-generated revenue</b>	
Property Tax Increment	70,905,000
TICD Subsidy (per Disposition and Development Agreement)	65,484,000
Job Housing Linkage Fee	<u>1,184,000</u>
Subtotal: Project-generated revenue	\$137,573,000
<b>Funding Shortfall</b>	<b><u>(\$381,427,000)</u></b>

Source: Office of Public Finance

<sup>6</sup> Estimates in Table 5 are based on the *present* value of costs and revenues (i.e., these are current dollars in which costs and revenues in future years are discounted to determine the value in the present year). The estimated \$70.9 million in property tax increment allocated to affordable housing is based on the present value of property tax increment generated by Project Areas A, B, C, D and E. Available property tax increment will likely be higher when additional project areas are annexed to the IRFD at a future date.

**Summary**

The proposed Infrastructure Financing Plan conforms to California Government Code requirements, and provides for the developer, TICD, and not the City to incur the risk of constructing public infrastructure. Under the 2011 Disposition and Development Agreement and Infrastructure Financing Plan, the developer, TICD, incurs the costs to develop public infrastructure on Yerba Buena Island and Treasure Island and may be reimbursed from the IRFD to the extent authorized under IRFD law and subject to available IRFD funds. Neither TIDA nor the City's General Fund is obligated to reimburse the developer for these costs in the event that these costs exceed the available IRFD funds.

However, because the Infrastructure Financing Plan does not identify all of the financing necessary to construct all 1,866 affordable housing units to be delivered by TIDA, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors.

**RECOMMENDATION**

Approval of the proposed resolution is a policy matter for the Board of Supervisors.