

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst
SUBJECT: February 2, 2011 Budget and Finance Committee Meeting

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Item 9
File 10-1557

Department:
Office of Economic and Workforce Development

EXECUTIVE SUMMARY

Legislative Objectives

- Ordinance creating Infrastructure Financing District No. 1 (Rincon Hill Area) and adopting an Infrastructure Financing Plan for the District, declaring that the City has the authority to issue bonds of up to \$22,000,000, as provided in the State Infrastructure Financing District Law. Separate resolutions are pending before the Board of Supervisors to: (1) propose formation of Infrastructure Financing District No. 1, adopt the Infrastructure Financing Plan, establish the aforesaid appropriations limit and calling for an election to establish the District, (2) approve the Infrastructure Financing Plan, (3) call for a special election for the Infrastructure Financing District, of District landowners, to approve creation of the District, approve the Infrastructure Financing Plan, establish the appropriations limit, issue bonds to acquire and/or build certain facilities, and pay for bond-related costs, (4) declare results of the aforesaid special election for the District, (5) establish intent to issue bonds for the District, and (6) authorize issuance of District bonds in aggregate principal amount of up to \$22,000,000, with a maturity date of up to 30 years, with Stone & Youngberg LLC appointed as placement agent/underwriter for the bonds.

Key Points

- The proposed ordinance would create the Rincon Hill Infrastructure Financing District. Approval of the Infrastructure Financing District is subject to an election of the property owners within the District, with each owner having one vote for each acre or portion of an acre. Approval of the Infrastructure Financing District requires two-thirds of all votes. An infrastructure financing district funds public facilities, such as parks and street improvements, by capturing Property Tax increment, which is Property Tax revenues based on increases in property values above the values that exist for properties within the District at the time the District is formed.
- High-density apartment and condominium development within the District, which includes 10 project sites comprised of 17 parcels in the Rincon Hill Area, an area roughly bounded by the Bay Bridge, Main Street, Folsom Street and Essex Street, is expected to generate Property Tax increment revenues, over the 30-year life of the District totaling \$256,594,871, in 2011 dollars. Of this amount, an estimated \$41,698,515 could be used by the District to pay for public facilities, while \$214,896,356 would accrue to the City's General Fund.
- Based on anticipated inflation in housing prices over the life of the District, and the annual two percent increase in assessed property values permitted by State law, the District would generate an estimated \$402,820,145 of Property Tax increment, of which a maximum cap of \$60,206,546 could be retained by the District to pay for public facilities and \$342,613,599 would accrue to the City's General Fund. All Property Tax increment revenues are subject to Board of Supervisors appropriation approval for allowable public facilities in the Rincon Hill area. The assumptions regarding tax increment to be generated appear reasonable, based on data reviewed by Budget and Legislative Analyst staff regarding housing prices in the area where the District is proposed, in comparison to the prices assumed for the new development within the District.

- Proposed public facilities in the Rincon Hill area include three parks, and pedestrian-friendly street and alley improvements. Cost of these facilities is estimated at \$31,922,311, in 2011 dollars, although estimated project costs could be as high as \$46,383,000, based on inflation and depending when the facilities are built. Of the estimated \$31,922,311 in project costs, \$15,422,311 could be financed by the Infrastructure Financing District tax increment revenues with the remaining \$16,500,000 projected to be financed by the Rincon Hill Infrastructure Impact Fee, previously approved by the Board of Supervisors in 2005 (File 05-0865). The District is being proposed because the Impact Fee revenue is now expected to be less than when originally approved by the Board of Supervisors and insufficient to pay expected public facilities' costs.

Fiscal Impacts

- The Infrastructure Financing District could issue bonds to pay for the District's \$15,244,311 share of the estimated construction costs of \$31,922,311 for the proposed Rincon Hill public facilities. These bonds would be backed by the District's tax increment revenues. Authorization is being requested for bonds with a principal value of up to \$22,000,000. According to the Office of Economic and Workforce Development, while current construction cost estimates to be paid by the Infrastructure Financing District for the public facilities are \$15,244,311, these costs could increase due to inflation to an estimated \$22,000,000. While File 10-1563 (see below) authorizes issuance of such bonds, the Board of Supervisors would need to approve the terms of issuance and corresponding legal documents in separate legislation. Tax increment revenues within the proposed District is expected to be sufficient to pay all debt service costs for bond issuances of up to \$22,000,000. In accordance with the California Government Code, Infrastructure Financing District bonds are not a debt of the City.
- A fiscal impact analysis prepared by a consultant, Keyser Marston Associates, Inc., as part of the legally required Infrastructure Financing Plan estimates that in every year of the District's existence, it will provide a net benefit to the General Fund, based on the Property Tax increment passed through to the General Fund, plus other City revenues generated from new residents who would move to the new housing within the District, net of the additional City costs resulting from new residents. The Budget and Legislative Analyst reviewed the assumptions used to estimate the additional non-Property Tax revenues and General Fund costs to be generated by new residents within the District and considers these assumptions reasonable. These assumptions were largely generated from other recent analyses of new development, including the proposed redevelopment of the Parkmerced neighborhood, and the proposed redevelopment of the Candlestick Point-Hunters Point Shipyard area.

Policy Considerations

Because the Rincon Hill Infrastructure Financing District would be the first such District formed in San Francisco, the Board of Supervisors is being requested, in addition to actions establishing the new District, to approve a series of policy guidelines to govern establishment of other such districts. These guidelines would include establishing such districts (i) where Property Tax increment revenues can be used to generate other non-City revenues, such as State and Federal grants; (ii) only where a net General Fund benefit over a district's life is likely; (iii) only in areas that do not have existing residents, and (iv) only in areas with identified existing infrastructure deficiencies. The proposed guidelines

further request that the City's Capital Planning Committee be directed to develop standards for determining when such deficiencies exist.

Recommendation

Approval of the proposed actions is a policy matter for the Board of Supervisors, for the following reasons:

- Approval would create the first Infrastructure Financing District in San Francisco. Creation of the District would result in up to a maximum of \$60,206,546 in Property Taxes, generated by increased assessed property values on new residential development within the District, being retained by the District, rather than accruing to the City's General Fund. Also, while the assumptions behind the estimated tax increment growth projections appear reasonable, they are nevertheless projections, reflecting the future performance of the real estate market.
- Approval of the District would envision construction of Rincon Hill area public facilities, such as parks and street improvements, using District tax increment, costing up to \$46,383,000, although District expenditures would still be subject to appropriation approval of the Board of Supervisors. While the basis for the estimated facilities' costs appear reasonable, they are nevertheless projections, reflecting estimates of future construction costs.
- Approval includes authorizing the issuance of up to \$22,000,000 in bonds backed by tax increment revenue from the District, although Board of Supervisors approval would be required for the terms of each bond issuance and the associated legal documents. Issuing the full \$22,000,000 would obligate the District to total cumulative debt service payments of up to \$54,427,470 from tax increment revenues.
- The proposed actions include Board of Supervisors approval of proposed policy guidelines governing the future use of Infrastructure Facility Districts within the City.

MANDATE STATEMENT

Mandate Statement

California Government Code Section 53395 et seq., which became law in 1990, authorizes cities to establish Infrastructure Financing Districts (IFD) to finance the purchase, construction, expansion, improvement, seismic retrofit or rehabilitation of any real or other tangible property with an estimated life of 15 years or longer. Such Districts "shall finance only public capital facilities of communitywide significance." The definition of such public facilities includes parks, other open space and street improvements of the type to be financed by the District proposed in this action. The proposed improvements are among those listed in San Francisco Planning Code Section 418 et. seq., which created the Rincon Hill Community Improvements Fund, and established a Rincon Hill Community Infrastructure Impact Fee of \$11 per square foot charged

to developers on new residential development to pay for the proposed improvements. Because the current estimated cost of the proposed improvements now exceeds the estimated collections from the Impact Fee, an Infrastructure Financing District is being proposed to generate additional funds.

Background

The Rincon Hill Area Plan, which is part of the City and County of San Francisco General Plan that establishes overall development policies for the City, envisions development of higher-density housing in an area with a number of vacant parcels, and parcels that were previously underutilized with commercial and industrial uses. This area has been zoned as Downtown Residential to enable high-density residential development to occur. Policy 4.1 of the Rincon Hill Area Plan calls for a neighborhood park on the southeast corner of Harrison and Fremont Streets, and a smaller park space on Guy Place, while Policy 4.3 calls for creating additional public open space on Essex Street. In addition, Policy 4.2 calls for significantly widening Spear, Main and Beal streets in the area, to create new “living streets” for active and passive recreational use, by providing decorative paving, lighting, seating, trees and other landscaping. Various other plan policies call for traffic calming measures to emphasize pedestrian use in residential alleys within the area, and other pedestrian safety and streetscape improvements. Planning Code Section 418.1 established the Rincon Hill Community Improvements Fund, and a Community Infrastructure Impact Fee to pay for improvements described in the Area Plan, listing the improvements with costs in Section 418.1. The proposed Infrastructure Facilities District is expected to provide additional funding for these improvements.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would create Infrastructure Financing District (IFD) No. 1 (Rincon Hill Area) for the purpose of financing various public improvements associated with new high-density residential development of 10 project sites comprising 17 parcels in Rincon Hill, an area roughly bounded by the Bay Bridge, Main Street, Folsom Street and Essex Street. This ordinance, in addition to creating the proposed District, would adopt an Infrastructure Financing Plan for public facilities to be funded in part by District revenues, including three new parks, a “living streets” project to provide wider sidewalks, landscaping, benches and other pedestrian amenities on Spear, Main and Beale streets, other street improvements on First, Harrison and Fremont streets, and improvements to four alleyways, Guy Place, Grote Place, Zeno Place and Lansing Street. The ordinance would authorize the City, on behalf of the District, to issue bonds with a principal value of up to \$22,000,000, as permitted under State law governing infrastructure facilities districts.

In addition to this proposed ordinance, the Board of Supervisors is being requested to approve seven related resolutions on the Budget and Finance Committee calendar of February 2, 2011, taking the following actions:

- A resolution proposing formation of the District (File 10-1558). As required by State law, the Board on October 19, 2010 approved a prior resolution of intent to establish the district.

- A resolution approving the Infrastructure Financing Plan for the district. This plan, which was prepared by Keyser Marston Associates, Inc., includes the legal description of the district and a map of its boundaries, a description of the facilities to be financed in part by the District, findings that those facilities are of community-wide significance, projections of tax revenues to be received by the District, and the amount of those revenues that will be used to pay for District facilities, a financing plan for the facilities that includes issuing bonds against future District revenues, and analyses of the costs to the City of providing facilities and services within the District, as well as an analysis of tax, fee, charge and other revenues expected to be received by the City from development within the District (File 10-1559).
- Resolutions calling for a special election related to the District (File 10-1560) and declaring its results (File 10-1561). Because the proposed District has fewer than 12 registered voters, the election is of the landowners within the proposed District, with each owner having one vote for each of their acres or portion of an acre. Approval of the District requires two-thirds of all votes. Landowners will vote on forming the District, approving the Infrastructure Financing Plan, approving the issuance of up to \$22,000,000 in bonds. While State law normally requires 90 days to elapse between the Board of Supervisors resolution proposing District formation and the landowner vote, landowners are permitted to waive that requirement, permitting the landowner election to occur on the same day the Board of Supervisors takes action on the District. The proposed ordinance establishing the District states that the landowner vote and Board of Supervisors' approval of the required resolutions¹ would both occur on February 8, 2011.
- Resolutions declaring the Board's intention to issue up to \$22,000,000 of bonds on behalf of the proposed District (File 10-1562), and to authorize the issuance of the bonds (File 10-1563). In accordance with the California Government Code, Infrastructure Financing District bonds are not a debt of the City.
- A resolution adopting guidelines for the establishment and use of infrastructure financing districts (File 11-0036).

Description of Infrastructure Financing Districts and the Proposed Rincon Hill District

The California Government Code allows Infrastructure Financing Districts to finance public facilities, including parks, other open space and street improvements of the type to be financed by the District under the proposed ordinance (File 10-1557).

An Infrastructure Financing District, once created with specific boundaries, obtains revenue in the same manner as a redevelopment district. That is, assessed values on properties located within the District, and the Property Taxes derived from those values, are fixed, for the purposes of generating general discretionary Property Taxes, at the values that are in place at the time the District is formed. New Property Tax revenues, derived from increases in assessed values above

¹ These resolutions would approve the infrastructure financing plan (File 10-1559), propose formation of the infrastructure financing district (File 10-1558), declare the intention to issue bonds (File 10-1562), and call for a special election (File 10-1560).

the base value, flow to the District, rather than to discretionary Property Tax accounts. Those additional Property Tax revenues, known as tax increment, are then used to pay for the new public facilities the District was created to pay for.

The proposed Rincon Hill Infrastructure Financing District, as described in the Infrastructure Financing Plan, includes the following properties: 333 Harrison Street, 45 Lansing Street, One Rincon, 201 Folsom Street, 340/350 Folsom Street, 370-399 Folsom Street, 429 Beale/4330 Main Street, 325 Fremont Street, 333 Fremont Street and 525 Harrison Street. Each of the properties is proposed for high-density residential development. Except for 525 Harrison Street, the other properties have the proper zoning and land-use entitlements to be developed, according to the plan. Of the proposed projects, 333 Harrison Street, which is proposed for 326 apartment units averaging 587 square feet each, is the furthest along in preparations for development. The other projects would be developed with 1,000-square-foot condominiums. In total, the 10 projects are expected to add 2,541 housing units within the proposed District.

As previously described, Infrastructure Financing Districts are funded by Property Taxes that would otherwise accrue to other taxing entities. These taxes come from the base one percent Property Tax rate levied against the assessed value of properties within the City and County. According to the Infrastructure Financing Plan, diversions to the Rincon Hill Infrastructure Financing District would come only from the City's General Fund, which receives 56.59 percent of the Property Tax revenues obtained from the 1.0 percent rate. Other recipients of the 42.41 percent of the base 1.0 percent Property Tax, including the San Francisco Unified School District, the San Francisco Community College Fund, the Bay Area Rapid Transit District and the City and County Children's Fund, are not impacted by District formation.

The following Table 1, prepared by Keyser Marston Associates, Inc., shows the anticipated growth in assessed valuation within the District, the associated receipt of tax increment, and the amount of tax increment that will be used within the District, versus the amount that will pass through to the City's General Fund.

**Table 1
General Fund Tax Increment Distribution to IFD
Not Including Inflation**

Year	Assessed Value	Available Increment	IFD Increment	GF Increment
2010-11	142,425,000			
2011-12	142,425,000			
2012-13	142,425,000			
2014-15	242,425,000	565,900	565,900	0
2015-16	292,185,000	847,490	847,490	0
2016-17	546,035,000	2,284,027	1,611,405	672,622
2017-18	837,167,000	3,931,543	1,611,405	2,320,138
2018-19	1,117,612,000	5,518,579	1,611,405	3,907,174
2019-20	1,347,976,000	6,822,212	1,611,405	5,210,807
2020-21	1,686,006,000	8,735,122	1,611,405	7,123,717
2021-22	1,939,903,000	10,171,923	1,611,405	8,560,518
2022-23	2,160,263,000	11,418,941	1,611,405	9,807,536
2023-24	2,167,706,000	11,461,063	1,611,405	9,849,658
2024-25	2,167,706,000	11,461,063	1,611,405	9,849,658
2025-26	2,167,706,000	11,461,063	1,611,405	9,849,658
2026-27	2,167,706,000	11,461,063	1,611,405	9,849,658
2027-28	2,167,706,000	11,461,063	1,611,405	9,849,658
2028-29	2,167,706,000	11,461,063	1,611,405	9,849,658
2029-30	2,167,706,000	11,461,063	1,611,405	9,849,658
2030-31	2,167,706,000	11,461,063	1,611,405	9,849,658
2031-32	2,167,706,000	11,461,063	1,611,405	9,849,658
2032-33	2,167,706,000	11,461,063	1,611,405	9,849,658
2033-34	2,167,706,000	11,461,063	1,611,405	9,849,658
2034-35	2,167,706,000	11,461,063	1,611,405	9,849,658
2035-36	2,167,706,000	11,461,063	1,611,405	9,849,658
2036-37	2,167,706,000	11,461,063	1,611,405	9,849,658
2037-38	2,167,706,000	11,461,063	1,611,405	9,849,658
2038-39	2,167,706,000	11,461,063	1,611,405	9,849,658
2039-40	2,167,706,000	11,461,063	1,611,405	9,849,658
2040-41	2,167,706,000	11,461,063	1,611,405	9,849,658
Total		256,594,871	41,698,515	214,896,356

Source: Draft Infrastructure Financing Plan

The base value of Property Taxes within the District, prior to new development, is \$142,425,000, as shown at the top of the assessed value column of the table. In FY 2014-15, when the first new housing (325 Harrison apartments) enters the market, assessed values begin to rise. The additional tax increment revenue derived from the increased assessed values is shown in the second column. The third and fourth columns show how much of the tax increment is retained in the District, and how much accrues to the City’s General Fund. For the first two years, all the tax increment is retained in the District, to pay debt service on the District’s bonds, as discussed below. The amount of tax increment diverted to the District tops out at \$1,611,405 in FY 2016-17, and continues at that level until the District terminates in FY 2040-41. \$1,611,405 is estimated to be sufficient to pay the annual debt service on District bonds that will be sold to finance the actual construction of District public facilities. Assessed values on the District projects, based on the development of new housing, are projected to top out at \$2,167,706,000 in FY 2023-24, when the last of the newly developed units is sold. Over the life of the District, total tax increment revenues are estimated to be \$256,594,871, of which \$41,698,515, or 16.25

percent, is expected to be diverted to the District to pay for the proposed public facilities, while \$214,896,356, or 83.75 percent, will accrue to the City's General Fund.

This realization of Property Tax increment is based on a number of assumptions: (1) the first new units, the apartments at 333 Harrison Street, will come on the market in FY 2014-15, while the first condominiums, at 45 Lansing Street, will be sold starting in 2014, (2) starting in 2015, new condominium sales will occur at the rate of 259 to 384 units per year through 2021, with the last nine new units selling in 2022², and (3) sales prices per unit will range from a low of \$706,742, to a high of \$1,183,200, depending on the project. These assumptions were developed by Goodwin Consulting Group in a memorandum for the Mayor's Office of Economic and Workforce Development, and were also confirmed by property owners of the various projects. Based on information reviewed by the Budget and Legislative Analyst, these assumptions are reasonable.

Proposed Rincon Hill IFD Facilities

The proposed Infrastructure Financing Plan for the District includes 13 different public facilities projects. Mr. Joshua Switzky, Planning Department Lead Planner for the Downtown Neighborhoods Initiative, which includes the Rincon Hill Area Plan, advises that the proposed projects include the same projects described in Planning Code Section 418.1, which are also the projects envisioned in the Area Plan.³

Table 2, which follows, lists the proposed public facilities costs, the estimated funding to come from the District, and the funding to come from the Rincon Hill Infrastructure Impact Fee approved by the Board of Supervisors in 2005 (File 05-0865). Mr. Michael Yarne of the Office of Economic and Workforce Development advises that all expenditures of the District are subject to the annual appropriation approval by the Board of Supervisors.

² This estimate does not include any units at 525 Harrison Street, which is included in the proposed District, but does not yet have entitlements to residential development.

³ Two projects, a \$2,500,000 refurbishment of the Sailor's Union of the Pacific to serve as a community center for the Rincon Hill neighborhood, and a \$601,718 allocation for increased library services in the neighborhood, have not been included in the Infrastructure Financing Plan. Mr. Adam Vandewater, Capital Planning Program Director, advised that the community center project was removed because the facility would be leased rather than owned by the City, and it is not clear that Infrastructure Financing District revenues can be used on a leased property. Mr. Vandewater further reported that the library enhancements were removed because they were not considered to be capital improvements, and therefore also were determined not to be eligible for financing by District revenues.

Table 2

Rincon Hill IFD Public Facilities Construction Costs, 2011 Dollars

Project	Construction Cost	Impact Fee Funding	IFD Funding
Living Streets			
Spear St. (Folsom-Harrison)	\$1,585,250	\$819,384	\$765,866
Main & Beale (Folsom-Harrison)	4,034,844	2,085,530	1,949,314
Main, Beale & Spear (Harrison-Bryant)	<u>5,924,406</u>	<u>3,062,206</u>	<u>2,862,200</u>
Subtotal-Living Streets	\$11,544,500	\$5,967,120	\$5,577,380
Other Streets			
First (Folsom –Harrison)	\$135,953	\$70,271	\$65,682
First (Harrison-end)	845,663	437,106	408,557
Fremont (Folsom-Harrison)	1,623,750	839,284	784,466
Harrison (Essex-First)	585,931	302,856	283,075
Harrison (First-Fremont)	672,938	347,828	325,110
Harrison (Fremont-Spear)	<u>1,523,813</u>	<u>787,628</u>	<u>736,185</u>
Subtotal-Other Streets	\$5,388,048	\$2,784,973	\$2,603,075
Alleys			
Guy Place/Lansing Street	\$1,381,000	\$713,811	\$667,189
Zeno Place/Grote Place	<u>330,563</u>	<u>170,861</u>	<u>159,702</u>
Subtotal-Alleys	\$1,711,563	\$884,672	\$826,891
Parks			
Rincon Hill Park	\$8,494,650	\$4,390,714	\$4,103,936
Essex Hillside	472,050	243,993	228,057
Guy Place Pocket Park	<u>4,311,500</u>	<u>2,228,528</u>	<u>2,082,972</u>
Subtotal-Parks	\$13,278,200	\$6,863,235	\$6,414,965
TOTAL-Public Facilities	\$31,922,311	\$16,500,000	\$15,422,311

Source: Draft Infrastructure Financing Plan

According to Planning Code Section 418.1 and the Rincon Hill Area Plan, which describe the proposed public improvements in more detail, the “Living Streets” projects would widen sidewalks to create new pocket park and plaza spaces for active and passive recreational use, and would include decorative paving, lighting, seating, trees and other landscaping. The other street improvements on First, Fremont and Harrison streets would widen sidewalks where feasible, and would separate Bay Bridge-bound traffic from local traffic and transit through physical design strategies, such as planted medians. The alley projects would implement streetscape improvements that prioritize pedestrian use of the entire right-of-way, because traffic volumes on these alleys are already low. A meandering streetscape would be provided with special landscaping and street furniture (such as benches), that would emphasize only very slow traffic speeds on the alleys. Finally, the parks projects include creation of a public park on a portion of the property at the southeast corner of Harrison and Fremont streets, now owned by CalTrans, a small pocket park on a privately-owned vacant lot on Guy Place, and creation of open space on a 25- to 35-foot-wide hillside area along Essex Street, which would also receive similar sidewalk

widening and installation of landscaping and street furniture as proposed on Spear, Main and Beale streets.

Increase in Current Cost Estimates Compared to 2005 Cost Estimates

As shown in Table 2 above, the total estimated cost of the proposed improvements is \$31,922,311, an increase of \$7,394,850 or about 30.1 percent higher than the cost (\$24,527,461) estimated by the Planning Department in 2005, when the Rincon Hill Area Plan was approved, and Section 418 et. seq. was adopted. According to the Infrastructure Financing Plan, the 2005 cost estimates were updated by the Planning Department in 2009, and the updated estimates were peer-reviewed by Webcor Construction, at the request of the Mayor's Office of Economic and Workforce Development.

While the current estimated public facility project costs are \$31,922,311, project delays or other contingencies could increase costs by an estimated 45.3 percent, according to the Infrastructure Financing Plan, which reflects expected inflation plus a 25 percent contingency. Therefore, total public facilities' costs could be as high as \$46,383,000.

Reduction in Expected Infrastructure Impact Fees

Table 2 above also shows that \$16,500,000 of the proposed public facilities' costs were expected to come from the Rincon Hill Community Infrastructure Impact Fee, which was approved by the Board of Supervisors at the same time it approved the Rincon Hill Area Plan (File 05-0865) while the remaining \$15,422,311 would come from the proposed Infrastructure Financing District. The Planning Department had previously estimated that the Infrastructure Impact Fee of \$11 per square foot charged to developers would generate an estimated \$23,199,000, based on development of 2,200 units in the Rincon Hill area with 2,109,000 square feet of occupied space. However, estimated Infrastructure Impact Fees available for the Rincon Hill Area public facilities are less than anticipated because (1) the Planning Code required transfer of \$6,000,000 to the South of Market (SOMA) Stabilization Fund⁴, and (2) \$1,928,000 in impact fees have been expended for appraisal, acquisition and design of public open space at 4-8 Guy Place.

Combined Use of Infrastructure Impact Fees and Infrastructure District Financing

Furthermore, Mr. Adam Vandewater, Capital Program Planning Manager, advised that the Impact Fee, as established in the Planning Code, cannot be used for existing infrastructure deficiencies in the Rincon Hill Area, but only for deficiencies created by the change in zoning from previous commercial-industrial uses to high-density housing. He said it was difficult to separate existing deficiencies from those that would be created solely by new housing, and therefore it was determined to use a combination of Impact Fee revenues and Infrastructure Financing District tax increment for all the projects. The Infrastructure Financing Plan notes that while all projects are shown as being funded 52 percent from Impact Fees and 48 percent from Infrastructure Financing District revenue, the actual portion of costs to be funded for each public facility may vary, based on the availability of funds from each source at the time of construction.

⁴ The SOMA Stabilization Fund provides affordable housing, small business rental assistance, rental subsidies and other assistance to SOMA residents.

FISCAL IMPACTS**Proposed Infrastructure Financing District Bonds**

In order to permit construction of the proposed public facilities as soon as possible, relative to the generation of District revenues, the Infrastructure Financing Plan for the Rincon Hill Infrastructure Financing District proposes to finance construction costs with bonds backed by future District tax increment revenues. The proposed actions to create the District include a declaration of the City's authority, as part of the ordinance creating the District, to sell bonds with a principal value of up to \$22,000,000. The Board of Supervisors is also being requested to approve a resolution of intention to issue bonds for the District (File 10-1562), and a resolution authorizing issuance of bonds for the District (File 10-1563). The latter resolution includes a specific statement that no bonds shall be issued until the Board of Supervisors has approved the terms of the sale to investors, and legal documents relating to the bonds, such as a bond prospectus and other disclosure documents, have been prepared and submitted to the Board of Supervisors for its approval.

Mr. Michael Yarne, of the Mayor's Office of Economic and Workforce Development, advises that the timing and amount of bonds actually sold will depend on the costs and timing of the proposed public facilities, which could vary from the timelines provided in the Infrastructure Financing Plan. As shown in Table 3 below, the current estimate of Infrastructure District Financing is \$15,771,584. According to Mr. Yarne, the Office of Economic and Workforce Development is requesting authorization to sell up to \$22,000,000 principal of bonds in case the bond issues need to be delayed, and therefore costs for the proposed facilities increase by inflation, or for other project cost contingencies. As shown in Table 3 below, the Office of Economic and Workforce Development has projected potential bond issuance costs of an estimated \$22,906,525 to account for potential inflation and other contingencies.

Mr. Yarne explained that because the ability to sell bonds was subject not just to the authority of the Board of Supervisors, but to a vote of the landowners within the District, any future changes in District financing would also be subject to a vote within the District. Mr. Yarne advised that to avoid such a complication, the decision was made to ask for a maximum bond authorization that is very likely to account for any contingencies in the public facilities' costs.

Table 3

Two Bond Issuances Scenarios for Rincon Hill IFD

	2011 Cost Scenario	Inflated Cost Scenario
2014 Bond Sale		
Principal	\$5,400,619	\$5,729,517
Issuance Cost	<u>225,026</u>	<u>229,183</u>
Gross Bond Amount	\$5,625,645	\$5,958,700
2016 Debt Sale		
Principal	\$9,740,101	\$16,269,911
Issuance Cost	<u>405,838</u>	<u>677,914</u>
Gross Bond Amount	10,145,939	\$16,947,825
Total-Gross Bond	\$15,771,584	\$22,906,525
<hr/>		
Annual Debt Service-2014 Bonds	514,455	\$545,785
Cumulative Debt Service-2014 Bonds	13,890,285	\$14,736,195
Annual Debt Service-2016 Bonds	\$950,459	\$1,587,651
Cumulative Debt Service-2016 Bonds	<u>23,761,475</u>	<u>\$39,691,275</u>
Total-Cumulative Debt Service	\$37,651,760	\$54,427,470

Source: Draft Infrastructure Financing Plan

The resolution authorizing issuance of bonds (File 10-1563) names Stoneberg & Young LLC as placement agent and underwriter for the proposed bonds. Ms. Sesay reports that Stoneberg and Young was selected from a list of pre-approved firms developed by her office to serve in this role on City financing

The cumulative debt service for a bond issuance of \$15,771,584 would be approximately \$37,651,760 (shown in Table 3 above) and would be fully repaid by the expected Infrastructure Financing District Property Tax increment (shown in Table 1 above). However, the debt service costs of selling a full \$22,000,000 bond issue would result in cumulative debt service up to \$54,427,470 (as shown in Table 3 above).⁵ To address this issue, the Infrastructure Financing Plan includes a tax increment scenario that also takes inflation into account, and is shown in Table 4 below⁶.

⁵ The estimated cumulative debt service of \$54,427,470 is based on a bond issuance of \$22,906,525, which exceeds the proposed bond authority of \$22,000,000. Therefore, estimated cumulative debt service would be less than \$54,427,470.

⁶ The increase in assessed value shown in Table 4 below is based on an expected 3.0 percent annual increase in the price of homes that are sold in the District (comparable to the actual 3.5 percent increase in Financial District home prices in 2010, as reported by the Zillow Home Valley Index) and the 2.0 percent increase in assessed value allowable under State law.

Table 4
Tax Increment Distribution to IFD and General Fund
Including Inflation

Year	Assessed Value	Available Increment	IFD Increment	GF Increment
2010-11	142,425,000	0		
2011-12	142,425,000	0		
2012-13	142,425,000	0		
2014-15	248,515,000	600,363	600,363	0
2015-16	307,946,000	936,683	936,683	0
2016-17	600,919,000	2,594,615	2,346,780	247,835
2017-18	952,339,000	4,583,301	2,346,780	2,236,521
2018-19	1,306,017,000	6,584,767	2,346,780	4,237,987
2019-20	1,626,927,000	8,400,791	2,346,780	6,054,011
2020-21	2,090,893,000	11,026,379	2,346,780	8,679,599
2021-22	2,466,722,000	13,153,193	2,346,780	10,806,413
2022-23	2,818,322,000	15,142,897	2,346,780	12,796,117
2023-24	2,888,776,000	15,541,598	2,346,780	13,194,818
2024-25	2,950,430,000	15,890,499	2,346,780	13,543,719
2025-26	3,013,402,000	16,246,854	2,346,780	13,900,074
2026-27	3,077,719,000	16,610,825	2,346,780	14,264,045
2027-28	3,143,410,000	16,982,572	2,346,780	14,635,792
2028-29	3,210,505,000	17,362,263	2,346,780	15,015,483
2029-30	3,279,034,000	17,750,068	2,346,780	15,403,288
2030-31	3,349,027,000	18,146,159	2,346,780	15,799,379
2031-32	3,420,516,000	18,550,713	2,346,780	16,203,933
2032-33	3,493,532,000	18,963,913	2,346,780	16,617,133
2033-34	3,568,109,000	19,385,941	2,346,780	17,039,161
2034-35	3,645,824,000	19,825,735	2,346,780	17,478,955
2035-36	3,723,653,000	20,266,167	2,346,780	17,919,387
2036-37	3,803,145,000	20,716,011	2,346,780	18,369,231
2037-38	3,884,335,000	21,175,467	2,346,780	18,828,687
2038-39	3,967,261,000	21,644,741	2,346,780	19,297,961
2039-40	4,051,958,000	22,124,043	2,346,780	19,777,263
2040-41	4,138,465,000	22,613,587	2,346,780	20,266,807
Total		402,820,145	60,206,546	342,613,599

Source: Draft Infrastructure Financing Plan

Table 4, based on the increased assessed values that take into account inflation, also provides the total Property Tax increment that will be generated in the Infrastructure Facility District, and the proportion of the increment that will be retained within the District, versus that which will accrue to the General Fund. Over the life of the District, total tax increment of \$402,820,145, of which \$60,206,546 would be retained by the District, or approximately 15 percent of the total. This tax increment retention is sufficient to pay the bond service costs required for a full \$22,000,000 in District bonds, as shown in Table 3 above. According to the Infrastructure Financing Plan, the maximum allowable Infrastructure Financing District tax increment is \$60.2 million.

Other Fiscal Impacts of the Proposed District

State law requires that the Infrastructure Financing Plan for the Infrastructure Financing District include an analysis of the City's cost to provide facilities and services to the District while it is

being developed, and an analysis of revenues to be received as a result of the new development. The purpose of this analysis is to show the District's projected fiscal impact on the City.

Attachment I to this report is a table from the Infrastructure Financing Plan, showing the relevant revenues and costs. According to Attachment I, annual revenues exceed City costs beginning in FY 2013-14, when the first new housing units in the District are sold. In FY 2023-24, when all new housing in the District is anticipated to have been completed and sold, revenues attributable to District development are estimated to total \$18,188,000, versus expenses for services of \$7,149,000, for a net benefit to the General Fund of \$11,039,000. However, Attachment I does not account for the Property Tax increment revenue that is diverted to the District to pay for the new public facilities, as shown in Table 1 of this report. As shown in Table 1, \$1,611,000 is being diverted to the District. This diversion reduces the actual General Fund benefit in FY 2023-24 to approximately \$9,428,000.

Assumptions associated with these revenue and expenditure projections are discussed in Attachment II, prepared by the Budget and Legislative Analyst.

POLICY CONSIDERATIONS

Policy Guidelines for Infrastructure Financing Districts

The Rincon Hill Infrastructure Financing District is expected to be the first of a number of such districts in various parts of San Francisco. As in Rincon Hill, there are other areas, such as the Eastern Neighborhoods area south of Market Street, where potential addition of new housing requires infrastructure to serve the new residents who would live there.

In addition to the specific actions establishing the Rincon Hill Infrastructure Financing District, the Board of Supervisors is being requested in a separate resolution to adopt Policy Guidelines guiding the use of such districts (File 11-0036). The guidelines, which Budget and Legislative Analyst staff has received in draft form, were developed by the Area Plan Infrastructure Finance Committee, a staff-level committee created by Board of Supervisors resolution (Files 10-0870 and 10-0871). Mr. Adam Vandewater, Capital Program Planning Manager, advised that the staff-level committee was expected to include stakeholders from the Rincon Hill area. However, the draft policy guidelines specifically stated that stakeholder review had not occurred as of January 10, 2011, the date of the draft guidelines document.

The proposed guidelines noted above include "threshold guidelines" that must be satisfied for an Infrastructure Financing District to be formed by the Board of Supervisors, and "strategic criteria" that may be considered when deciding whether to form such a District. The proposed guidelines are listed in Attachment III.

SUMMARY

- The Rincon Hill Area Plan, which is part of the City's General Plan, provides for high-density housing in an area with vacant parcels or underutilized commercial and industrial

parcels. In 2005 the Board of Supervisors approved the Rincon Hill Infrastructure Impact Fee, which assessed developers \$11 per square foot for new residential development to pay for public improvements. Because the current estimated cost of the proposed public facilities, to be included under the proposed Rincon Hill Infrastructure Financing District, now exceeds the estimated collections from the Impact Fee, an Infrastructure Financing District is being proposed to generate additional funds.

- The California Government Code authorizes cities to establish Infrastructure Financing Districts (IFD) to finance public capital facilities, including parks, and other open space and street improvements. The proposed ordinance (File 10-1557) would establish the Rincon Hill Infrastructure Financing District. Under the Infrastructure Financing District, incremental Property Tax revenues resulting from increased Property Tax assessments would be used for public facilities. Approval of the Infrastructure Financing District is subject to an election of the property owners within the District, with each owner having one vote for each acre or portion of an acre that they own. Approval of the Infrastructure Financing District requires two-thirds of all votes.
- The Infrastructure Financing Plan provides for public facilities, including street and park improvements, with estimated costs of \$31,922,311. These estimated costs would be paid by Impact Fee revenues (\$16,500,000) and the Infrastructure Financing District Property Tax increment revenues (\$15,422,311). File 10-1563 would authorize the Infrastructure Financing District to issue up to \$22,000,000 in bonds, secured by Property Tax increment revenues, to pay for the public facilities. Under California Government Code, the City is not responsible for the bonded indebtedness of the Infrastructure Financing District.

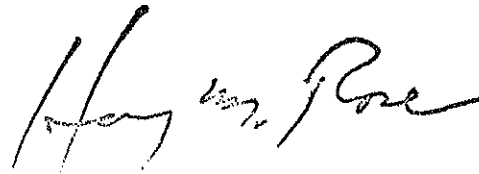
RECOMMENDATION

Approval of the proposed actions is a policy matter for the Board of Supervisors, for the following reasons:

- Approval would create the first Infrastructure Financing District in San Francisco. Creation of the District would result in up to a maximum of \$60,206,546 in Property Taxes, generated by increased assessed property values on new residential development within the District to be retained by the District rather than accruing to the City's General Fund. Also, while the assumptions behind the estimated tax increment growth projections appear reasonable, they are nevertheless projections, reflecting the future performance of the real estate market.
- Approval of the District would envision construction of public facilities in the Rincon Hill area, using District tax increment, costing up to \$46,383,000, although any District expenditures for public facilities would still be subject to appropriation approval of the Board of Supervisors. While the basis for the estimated facilities' costs appear reasonable, they are nevertheless projections, reflecting estimates of future construction costs.
- Approval includes authorizing the issuance of up to \$22,000,000 in bonds backed by tax increment revenue from the District, although actual issuance of the bonds would require

separate approvals by the Board of Supervisors. According to the Office of Economic and Workforce Development, expected bond issuances to pay for public facilities are \$15.4 million with total estimated cumulative debt service of \$37.6 million. Issuing the full \$22,000,000 would obligate the District to total debt service payments of \$54,427,470 from tax increment revenues.

- The proposed actions include Board of Supervisors approval of proposed policy guidelines governing the future use of Infrastructure Facility Districts within the City.



Harvey M. Rose

cc: Supervisor Chu
Supervisor Mirkarimi
Supervisor Kim
President Chiu
Supervisor Avalos
Supervisor Campos
Supervisor Cohen
Supervisor Elsbernd
Supervisor Farrell
Supervisor Mar
Supervisor Wiener
Clerk of the Board
Cheryl Adams
Controller
Greg Wagner

Table 2
 Estimated General Fund Revenue - Project Area
 Fiscal Impact Analysis
 Rincon Hill Infrastructure Finance District
 San Francisco, CA

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Calendar Year												
	Fiscal Year												
	Measure ¹												
Occupied Housing Units ²	310	491	434	491	675	991	1,255	1,532	1,857	2,162	2,405	2,414	2,414
Residents/Service Population ³	434	594	434	594	1,076	1,616	2,097	2,595	3,227	3,694	4,122	4,137	4,137
Baseline AV ('000s)	\$142,425	\$142,425	\$142,425	\$142,425	\$142,425	\$142,425	\$142,425	\$142,425	\$142,425	\$142,425	\$142,425	\$142,425	\$142,425
Incremental AV ('000s)	\$100,000	\$149,760	\$403,610	\$694,742	\$694,742	\$976,166	\$1,205,551	\$1,549,591	\$1,737,477	\$2,017,897	\$2,025,281	\$2,025,281	\$2,025,281
General Fund Revenues ('000s)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
GF Revenues Inflation Factor	\$806	\$806	\$806	\$806	\$806	\$806	\$806	\$806	\$806	\$806	\$806	\$806	\$806
Property Tax Revenue	\$806	\$806	\$806	\$806	\$806	\$806	\$806	\$806	\$806	\$806	\$806	\$806	\$806
Existing													
Property Tax Increment (100% to GF)													
Property Tax in Lieu of VLF													
Property Transfer Tax Revenues ⁴	\$80	\$80	\$80	\$80	\$80	\$80	\$80	\$80	\$80	\$80	\$80	\$80	\$80
Sales Tax Revenue from Residents													
Telephone Users and Access Line Tax													
Licenses, Permits and Franchise Fees													
Fines, Forfeitures, and Penalties													
VLF and Sales Tax Reassignment to H&W													
Total General Fund Revenue	\$886	\$986	\$994	\$2,265	\$4,319	\$6,737	\$8,991	\$11,349	\$13,885	\$16,089	\$18,053	\$18,153	\$18,153
General Fund Expenses ('000s)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
GF Expenses Inflation Factor	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225
Police Protection	\$115	\$115	\$115	\$115	\$115	\$115	\$115	\$115	\$115	\$115	\$115	\$115	\$115
Fire Protection	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9
911 Service													
Public Works													
Citywide													
New Infrastructure - Rincon Hill ⁵	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Human Welfare and Neighborhood Development													
Recreation and Parks													
Libraries													
General Administration and Finance													
Contingency													
Total General Fund Expenses	\$102	\$102	\$102	\$102	\$102	\$102	\$102	\$102	\$102	\$102	\$102	\$102	\$102
Net General Fund Surplus (Gap)	\$886	\$886	\$894	\$2,265	\$4,319	\$6,737	\$8,991	\$11,349	\$13,885	\$16,089	\$18,053	\$18,153	\$18,153

Actual amounts may vary.
¹ Unless otherwise noted see Table A - 6 for revenue assumptions and Table A - 11 for expense assumptions.
² See Table A - 1 for development program.
³ See Table A - 3. Since project does not include commercial spaces, resident population and services population are the same.
⁴ See Table A - 10.
⁵ See Table A - 14.

Kemper Marston Associates, Inc.
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Revenue Projections

Occupied Housing Units/Household Size—The projections assume that initial development of housing will be on the schedule discussed earlier in this report, and that once built, there will be a stable 5 percent vacancy rate for the homes. This assumption was taken from a January 2011 analysis prepared by CB Richard Ellis Consulting for the Mayor's Office of Economic Development analyzing the impact of redevelopment of the Parkmerced neighborhood, which used an internal model and information from developers. Given the limited housing supply in San Francisco, and its affluence, which has left the City less affected by real estate downturns than other areas of California, this assumption is reasonable. The projections also assume an average household size of 1.71 residents per household for the Rincon Hill developments. This assumption was obtained from Claritas, a market research firm, based on average household size data for existing condominium units in the South of Market and South Beach areas. Based on its source, this assumption is reasonable.

Property Tax Revenues—The projections were previously discussed in this report, and are based on estimates of housing prices for the new developments that are reasonable. Property tax revenues in the attachment also include the base level of property taxes for land within the District, prior to any development, which amounts to \$806,000 per year.

Property Tax in Lieu of Vehicle License Fees—These are payments the City receives from the State under a formula relating to growth in assessed value relative of all property in the City, relative to its value in FY 2004-05. The formula provides \$1.07 to the City for every \$1,000 of growth in assessed values. This assumption is reasonable.

Property Transfer Tax—This tax is collected on real estate transactions, at rates ranging from \$6.80 to \$15 for every \$1,000 of the sales price of real estate, depending on the total cost of the sale. The amounts projected assume that the 333 Harrison Street apartment complex will be sold every 20 years, while the condominium units in the other projects will sell every seven years. These assumptions were based on information from the California Association of Realtors that the average home turnover in California is five years. A more conservative figure was used because of the current high rate of foreclosures. The 20 year turnover for 333 Harrison is based on its being a rental project, which tends to have a much lower turnover rate. These assumptions are reasonable.

Sales Tax from Residents—New residents in the District are expected to generate sales tax through purchases at existing San Francisco retailers. Each new household is assumed to generate \$19,840 in taxable sales annually. This assumption is based on the Parkmerced study, which found that each household generated \$24,800 in annual taxable sales, 80 percent of which occurred within the City. This estimate was in turn based on a retail spending model developed by CB Richard Ellis and other expenditure-survey based information whose source was not provided in that study. Because the assumptions of the CB Richard Ellis model were not described in their study, the reasonableness of this assumption cannot be evaluated.

Telephone Users and Access Line Tax—These taxes are levied against residential and commercial users. The Access Line Tax pays for emergency communications and 9-1-1- service.

Based on the FY 2010-11 City budget, these revenues amount to approximately \$80.56 per resident, and were therefore projected from within the District based on the growth in new residents, and the assumed household size of 1.71 residents per household. This methodology was adopted from the Parkmerced study, and appears reasonable.

License, Permits and Franchise Fees—The FY 2010-11 budget includes \$23,242,394 of these revenues, or about \$28.69 per resident based on the City's resident population of 810,000. New revenues from within the District were projected based on the growth in new residents. This methodology was adopted from the Parkmerced study, and appears reasonable.

Fines, Forfeitures and Penalties—The FY 2010-11 budget includes \$3,794,036 of these revenues, or \$4.68 per resident. New revenues from within the District were projected based on the growth in new residents. This methodology was adopted from the Parkmerced study, and appears reasonable.

Realignment Revenues for Health and Welfare Costs—The City is assumed to receive \$56.15 per resident in realignment vehicle license fees, and \$120.85 per resident in realignment sales taxes. These revenues are transferred to the City from the State by formula. The per resident estimates were taken from the Parkmerced study. That study in turn from a June 2010 study by Economic and Planning Systems, Inc. that assessed the fiscal and economic impact of phase two of the Candlestick Point-Hunters Point Shipyard Phase II Development Project. The EPS study, while indicating that its total estimated of realignment revenue was based on per capita amounts, did not provide an explanation of the basis for the per capita amounts used, therefore, the reasonableness of this assumption cannot be evaluated.

Expenditure Projections

Police Protection—Policing costs from District development were assumed based on a cost of \$519.19 per new resident. This figure is in turn based on the Police Department 2010-2011 budget of \$446,541,021, or \$196,368 per officer, for a department of 2,274 officers. The cost projection further assumes 0.00264 new officers are needed per new resident. This is based on the Environmental Impact Report for the Parkmerced project, which estimated 36 new officer would be needed to serve 13,616 residents. This estimate assumed that the City would continue to provide police resources based on one officer for every 600 individuals served, including residents or daytime workers. The Parkmerced EIR noted that this assumption for that project was fairly conservative, probably overstating the number of officers needed, and therefore, the estimate is assumed to be reasonable for the Infrastructure Financing District developments.

Fire Protection—Fire protection costs are based on the 2010-2011 Fire Department budget of \$290,919,514, or \$265.63 per new resident. The additional costs are based on the growth in new residents. This methodology was adopted from the Parkmerced study, and is considered reasonable.

9-1-1 Service—These costs are based on a cost of \$20.62 per new resident, and were adopted from the Parkmerced study, which in turn derived them from the Candlestick Point-Hunters Point Shipyard analysis. That study by Economic and Planning Systems, Inc. found that the

average San Francisco resident made 1.18 calls to 9-1-1 annually. The increased costs are based on growth in new residents in the District, which will increase the volume of calls, thereby requiring additional dispatcher and supervising dispatcher staff. This assumption is reasonable.

Public Works—These costs are based on an adjusted Department of Public Works FY 2010-2011 budget of \$26,079,793, which accounts for non-General Fund revenues received by the Department. The adjusted costs amount to \$23.83 per new resident. The increased costs are based on growth in new residents in the District. This methodology was adopted from the Parkmerced study, and is considered reasonable. Also included as public works costs are the costs of maintaining the new infrastructure associated with the Infrastructure Financing District, as described earlier in this report. That cost, estimated to be \$1,087,412 per year, was based on a cost analysis prepared by MJM Management Group, which was included separately in the Infrastructure Financing Plan, and also reflects an actual market bid submitted by Trimacs Maintenance and Landscape Construction, Inc. to provide maintenance at Rincon Hill Park. Based on providing a specific analysis, these assumptions are reasonable.

Human Welfare and Neighborhood Development—These costs are based on a cost of \$104.28 per new resident. The assumption is that, because residents in the District are expected to be affluent, their use of such programs would be limited. Therefore, the per capita cost is based on dividing only 10 percent of the budget of \$844,636,855 for these services across the entire City population of 810,000. This assumption was adopted from the Parkmerced study, and is reasonable.

Libraries—These costs are based on a cost \$60.44 per new resident, based on a 2010-2011 library budget of \$84,544,033, less revenues of \$48,953,205 that come from other sources. This assumption was adopted from the Parkmerced study, and is reasonable.

General Administration and Finance—These costs are based on a cost of \$25.99 per new resident, and include costs for elections, Assessor/Recorder functions, and other administrative services. These assumptions were adopted from the Parkmerced study, which in turn derived them from the Candlestick Point-Hunters Point analysis. The latter study determined that on average, 72 percent of new San Francisco residents are eligible to register to vote, and about 80 percent of those registered do vote, resulting in a need for one polling place per 800 new residents, at a cost of \$20,000 annually per polling place. Assessor/Recorder costs in the Candlestick Point/Hunters Point study were provided by City department staff. The other administrative costs, including the City's 3-1-1 information services, costs of the Board of Supervisors, City Attorney, City Planning and other departments, were estimated by City staff for the Candlestick Point/Hunters Park study by City staff. Additional costs for the Rincon Hill District are based on growth in new residents. Based on the source and the analysis provided, these assumptions are reasonable.

Contingency—The Rincon Hill Infrastructure Financing Plan did not include analysis of costs in some areas, such as transportation. As a result, the analysis included an additional contingency factor amounting to 20 percent of all the other costs that were analyzed for each year. Since this is a gross-level contingency estimate, not based on any specific analysis, it cannot be determined whether this assumption is reasonable.

Draft Guidelines for Establishing Infrastructure Finance Districts in San Francisco**Threshold Criteria:**

1. **Limit to areas that are rezoned as part of an Area Plan or Development Agreement approved by the BOS and also adopted as a Planned Priority Development Area (PDA) by the Association of Bay Area Governments (ABAG).** Priority Development Areas (PDAs) are locally-identified, infill development opportunity areas within existing communities. They are generally areas of at least 100 acres where there is local commitment to developing more housing along with amenities and services to meet the day-to-day needs of residents in a pedestrian-friendly environment served by transit. To be eligible to become a PDA, an area has to be within an existing community, near existing or planned fixed transit or served by comparable bus service, and planned for more housing. Designation of PDAs expresses the region's growth priorities and informs regional agencies, like the Metropolitan Transportation Commission (MTC), which jurisdictions want and need assistance. Planned PDAs are eligible for capital infrastructure funds, planning grants, and technical assistance. Linking creation of future IFDs to areas designated as PDAs will allow the City to leverage the increment generated by an IFD to increase its chances to receive matching regional, state or federal infrastructure and transportation grants.¹
2. **Limit to areas where an Area Plan, or other rezoning, results in a net fiscal benefit to the General Fund as determined by the Controller's Office.** Specifically, the City must demonstrate that the change in General Fund revenue projected to result from the Area Plan or other rezoning, less the change in General Fund cost projected to result from the Area Plan or other rezoning, exceeds zero. As a general rule, this would mean that use of IFDs would be limited to areas that received substantial & quantifiable upzoning, based on actual net increases in height, bulk, and density that result in greater developable FAR than the previous "baseline" zoning, or through liberalization of land use and permitting provisions that increase the certainty of entitlements and the value of property.
3. **In general, restrict the maximum increment available to an annual average of 33-50% over the 30-year term of the IFD, and in no event allow the annual average increment over the life of the IFD to exceed the projected net fiscal benefit over the life of the IFD.** This maximum average cap would include annual pay-as-you-go monies and bond service payments or some combination of both. The maximum average increment cap may be increased to 50% to fund neighborhood infrastructure that also provides clear citywide benefits, like an extension or upgrade of a MUNI light rail line or the development of a City-serving park. In any event, this policy would guarantee that an IFD diversion should always be less than the net fiscal benefit, guaranteeing that there is at least some again to the General Fund in all circumstances. This policy would not prevent the "front-loading" of increment in the beginning years of an IFD to allow for bonding and the acceleration of construction of neighborhood-serving infrastructure, especially since accelerating delivery of infrastructure should have a correspondingly positive effect on property tax revenues for the General Fund.
4. **Limit to areas with documented existing infrastructure deficiencies.** Because the City has not developed universally-applied and objective citywide standards for assessing the

¹ One source of capital funding for Planned PDAs is through *Transportation 2035*, the regional transportation plan, which doubles funding to \$2.2 billion for the Metropolitan Transportation Commission's (MTC's) Transportation for Livable Communities Program. MTC recently approved expanding the program eligibility for the TLC program; eligible program categories now include streetscapes, as well as non-transportation infrastructure improvements, transportation demand management, and density incentives.

sufficiency (or deficiency) of existing neighborhood-serving infrastructure, BOS-adopted planning documents (like Area Plans) that qualitatively and/or quantitatively describe such deficiencies will suffice until new citywide standards are adopted at a later date. After the adoption of a new IFD policy, the Capital Planning Committee should be tasked with developing a systematic and quantitative set of criteria or standards for assessing existing neighborhood infrastructure deficiencies in the following areas: (i) neighborhood parks & open space improvements; (ii) “Better Streets” streetscape & pedestrian safety improvements; (iii) bicycle network improvements; (iv) transit-supportive improvements; (v) publicly-owned community center and/or child-care facilities. Furthermore, the CPC would need to adopt citywide standards to avoid the use of IFD funds for “gold-plated park benches,”—for facilities that far exceed citywide norms for cost and quality.

5. **Limit use of IFD monies to individual infrastructure projects where a source of long-term maintenance funding is identified.** Within an IFD, limit expenditure of IFD monies to projects that have identified a separate source of funding for ongoing maintenance and operations. In some cases this could be through public-private agreements, such as a Master HOA agreeing to maintain a public park or a Community Benefit District agreeing to fund long-term maintenance, or via the creation of a new supplemental property tax assessment district, like a Mello-Roos Community Facilities District.

Strategic Criteria:

- **In general, limit IFDs to parcels without any occupied residential use.** The City may want to exclude parcels that contain existing occupied residential structures. This is because IFD law requires an actual voter-based election if there are 12 or more registered voters within the proposed boundaries of an IFD. If there are less than 12 registered voters, the law only requires a weighted vote of the property owners, which, in general, should reduce the complexity and time required for forming a district. On the other hand, there may be circumstances where a voter-based election may be both desirable and manageable.
- **Use IFDs strategically to leverage non-City resources.** As noted in Threshold Criteria #1 above, IFDs should be used as a tool to leverage additional regional, state and federal funds, thereby serving a purpose beyond earmarking General Fund resources for needed infrastructure. In particular, IFDs may prove instrumental in securing matching federal or state dollars for transportation projects.
- **For future IFDs in newly rezoned areas, require that “best-practices” citizen participation procedures be put in place to help City agencies prioritize implementation of IFD-funded public facilities.** This could be achieved through existing CACs or new public stakeholder groups.
- **If the BOS adopts zoning that restricts or limits the development potential of a given area, thereby limiting, reducing, or eliminating the net General Fund benefit derived from rezoning, other social policy objectives might nevertheless dictate that revenues be spent on supportive infrastructure. In these cases, the BOS should appropriate funds for these purposes through the budget process, or issue General Fund-backed debt instruments, such as Certificates of Participation, in lieu of establishing an IFD.**
- **Develop an annual evaluation process, with specific quantitative and qualitative criteria for monitoring the performance of the Pilot IFD.**