

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

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October 12, 2018

TO: Members of the Board of Supervisors
FROM: Budget and Legislative Analyst's Office
SUBJECT: October 16, 2018 Board of Supervisors Meeting

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Items 40, 41, 44 and 45 Files 18-0779, 18-0780, 18-0772 and 18-0782 <i>(Continued from September 11, 2018)</i>	Department: Port
EXECUTIVE SUMMARY	
Legislative Objectives	
<p>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</p>	
<p>File 18-0780 is a resolution approving the Infrastructure Financing Plan for the Infrastructure and Revitalization Financing District No. 2.</p>	
<p>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.</p>	
<p>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.</p>	
Key Points	
<ul style="list-style-type: none"> • 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	
<ul style="list-style-type: none"> ▪ 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	
<ul style="list-style-type: none"> ▪ 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.