

File No. 100870

Committee Item No. 8

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Land Use and Economic Development Date August 9, 2010

Board of Supervisors Meeting Date _____

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| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Analyst Report |
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| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Department/Agency Cover Letter and/or Report |
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| <input type="checkbox"/> | <input type="checkbox"/> | Form 126 – Ethics Commission |
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OTHER

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Completed by: Alisa Somera Date August 6, 2010

Completed by: _____ Date _____

An asterisked item represents the cover sheet to a document that exceeds 25 pages.
The complete document can be found in the file.

1 [Establishing Area Plan Infrastructure Finance Committee]

2
3 **Resolution establishing an Area Plan Infrastructure Finance Committee to supervise a**
4 **consultant study to develop policy criteria and recommendations on the use of**
5 **Infrastructure Finance Districts (IFDs) in newly adopted Area Plans, including within**
6 **the Eastern Neighborhoods Area Plans, to determine the appropriate steps to form**
7 **IFDs, and to supervise the formation of a pilot Infrastructure Finance District (IFD) in**
8 **Rincon Hill.**

9
10 WHEREAS, The Board of Supervisors adopted the Eastern Neighborhoods Area Plans
11 (ENAP, Ordinance No. 297-08) which rezoned portions of the largely industrial neighborhoods
12 of the Mission, Eastern South of Market Area, Central Waterfront, and Showplace Square/
13 Potrero Hill to promote a balanced mix of residential and sustainable commercial development
14 along with a package of public benefits and infrastructure improvements; and

15 WHEREAS, An ENAP Needs Assessment was prepared which identified specific
16 demands for public infrastructure to accommodate projected new growth and the ENAP
17 impact fees were only projected to meet up to 50% of the projected cost of such new
18 infrastructure, the Board of Supervisors directed the Capital Planning Committee (CPC) to
19 establish a nine-member subcommittee called the Eastern Neighborhoods Infrastructure
20 Finance Working Group (ENIFWG) to recommend funding strategies for the ENAP
21 (Resolution No. 510-08); and

22 WHEREAS, The ENIFWG produced and unanimously approved on July 1, 2009, a
23 report entitled *Strategies for Funding the Public Improvements in the Eastern Neighborhoods*
24 *Area Plans* (the Strategies Report) that evaluated potential funding alternatives to meet
25 infrastructure needs in the ENAP, and which could be similarly applicable to other recently

1 adopted Area Plans, and made four recommendations to the Board of Supervisors on how the
2 City could move forward; and

3 WHEREAS the CPC reviewed and unanimously accepted the Strategies Report and its
4 four recommendations to the Board of Supervisors on July 6, 2009, which recommendations
5 included: (1) commissioning a consultant study to inform the formation of an IFD and CFD in
6 the ENAP, including determining the potential boundaries of the IFD and CFD, appropriate tax
7 rates, appropriate portion of tax increment, and the total estimated bonding capacity under a
8 variety of growth scenarios; (2) developing a clear statement of policy criteria to guide the use
9 of an IFD in the ENAP and (3) developing criteria for a potential future modified IFD tool; and

10 WHEREAS, The Board of Supervisors has also adopted comprehensive Area Plans in
11 Rincon Hill, Market and Octavia, Balboa Park and Visitacion Valley which have also rezoned
12 existing use districts to reduce land use conflicts and to encourage diverse housing affordable
13 to a range of incomes and commercial and mixed-uses along with a package of public
14 benefits and infrastructure improvements; and

15 WHEREAS, The City anticipates significant new housing units and other commercial
16 development within these Plan Areas, and this future development will impact each Plan
17 Area's neighborhood infrastructure by generating greater need for new investment in
18 recreation and open space facilities, transit and transportation improvements, streetscape
19 improvements and community facilities and other improvements identified in the public
20 benefits package for each Area Plan; and

21 WHEREAS, To ensure that new neighborhood infrastructure is provided concurrently
22 with the demands generated by new growth in both the ENAP and in each of the above listed
23 Area Plans, the lessons learned from the Strategies Report should be applied on a broader
24 policy basis; and

1 WHEREAS, Detailed recommendations on the development of an Infrastructure
2 finance district, including boundaries, revenue projections, and related infrastructure
3 improvements would prepare the City to pursue the establishment of an IFD which would
4 support growth in the Eastern Neighborhoods and move towards completing the Eastern
5 Neighborhoods priority projects identified by the Board of Supervisors; and

6 WHEREAS, A project sponsor on Rincon Hill, Harrison Fremont LLC, has recently
7 expressed interest in funding the formation of a pilot IFD in the Rincon Hill Area Plan to help
8 finance the acquisition and construction of a new public park located at 333 Harrison Street
9 but the City has not yet adopted clear policy parameters to guide the formation and
10 application of IFDs in new Area Plans; now, therefore, be it

11 RESOLVED, That the Board of Supervisors hereby directs the CPC to establish and
12 appoint a Chair for a new subcommittee called the Area Plan Infrastructure Finance
13 Committee (the "APIF Committee") to (1) manage and oversee a consultant study to inform
14 the formation of an IFD and CFD in the ENAP as recommended by ENIWWG; (2) develop a
15 clear statement of policy criteria to guide the use of IFDs in recently adopted Area Plans as
16 recommended by ENIFWG; (3) to review and supervise the formation of the proposed Rincon
17 Hill Pilot IFD based on the proposed IFD policy criteria; and (4) to provide such proposals or
18 recommendations within six (6) months of study initiation; and, be it

19 FURTHER RESOLVED, That the APIF Committee include representatives of relevant
20 City agencies and no more than four (4) members of the public; and, be it

21 FURTHER RESOLVED, That the representatives of City agencies shall at a minimum
22 include one representative from each of the following City departments or committee,
23 appointed by the head of each such department or committee: the Planning Department, the
24 Office of Economic and Workforce Development, the Mayor's Office of Public Policy and
25

1 Finance, the Controller's Office and the Capital Planning Committee and other implementing
2 agencies as deemed appropriate by the CPC; and, be it

3 FURTHER RESOLVED, That two of the four (4) members of the public on the APIF
4 Committee shall be "at-large" representatives, one representative from the ENAP CAC and
5 one representative from the Market & Octavia CAC, and be appointed by the President of the
6 Board of Supervisors; and, be it

7 FURTHER RESOLVED, That upon any resignation or vacancy of any position on the
8 APIF Committee, replacements shall be designated in the same manner as the original
9 appointments; and, be it

10 FURTHER RESOLVED, That the Chair of the APIF Committee shall convene the
11 public and private members of the APIF Committee separately or together as frequently as
12 necessary to complete the scope of work identified in this Resolution; and, be it

13 FURTHER RESOLVED, That the final consultant study, policy criteria and Rincon Hill
14 Pilot IFD be presented to the CPC for their review and approval prior to initiation of any IFD or
15 submission to the Mayor or Board of Supervisors.



SAN FRANCISCO PLANNING DEPARTMENT

July 26, 2010

Ms. Angela Calvillo, Clerk
Board of Supervisors
City and County of San Francisco
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San Francisco, CA 94102

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Re: **Transmittal of Planning Department Case Number 2010.0499U
Development Stimulus Part II
Board File Numbers 10-0870 and 10-0871
Planning Commission Recommendation:
Approval with Additional Modifications & Considerations**

Dear Ms. Calvillo,

On July 22, 2010 the San Francisco Planning Commission (hereinafter "Commission") conducted duly noticed public hearings at a regularly scheduled meeting to consider the proposed Resolutions and related joint community facilities agreement between ABAG and The City.

The two resolutions include:

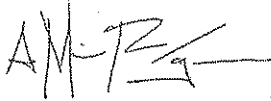
- **BF 100870 [Area Plan Infrastructure Finance Committee]** This proposed Resolution introduced by Supervisor Maxwell would establish an Area Plan Infrastructure Finance Committee to supervise a consultant study to develop policy criteria and recommendations on the use of Infrastructure Finance Districts (IFDs) in newly adopted Area Plans, including within the Eastern Neighborhoods Area Plans, determine the appropriate steps to form IFDs, and to supervise the formation of a pilot Infrastructure Finance District (IFD) in Rincon Hill.
- **BF 100871 [Resolution Approving Formation of a Community Facilities District and financing by the ABAG Finance Authority For Nonprofit Corporations in accordance with State law, and approving related agreement]** This resolution introduced by Mayor Newsom and Supervisor Dufty would approve the formation of a community facilities district and the issuance of special tax bonds by the ABAG Finance Authority For Nonprofit Corporations related to City fees and charges applicable to new development projects; make certain findings; approve the form of Joint Community Facilities Agreement; and granting general authority to City officials to take actions necessary or desirable to implement the purposes of this Resolution.

The proposed Resolutions have been determined to be categorically exempt from environmental review under the California Environmental Quality Act Section 15060(c)(2).

At the July 22 hearing, the Commission voted to recommend approval with additional modifications & considerations of the proposed Resolutions.

Please find attached documents relating to the Commission's action. If you have any questions or require further information please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'AM-Rodgers', with a horizontal line extending to the right.

AnMarie Rodgers
Manager of Legislative Affairs

cc: Supervisors Dufty and Maxwell

Attachments (one copy of the following):

Planning Commission Resolution No. 18150

Planning Commission Executive Summary for Case No. 2010.0499U



SAN FRANCISCO PLANNING DEPARTMENT

Planning Commission Resolution No. 18150 Resolutions Addressing Funding for Community Improvements in Area Plans HEARING DATE: JULY 22, 2010

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Project Name: Development Stimulus Part II
Case Number: 2010.0499U [Board File No's 10-0870 and 10-0871]
Initiated by: Mayor Newsom, Supervisors Dufty and Maxwell
Introduced: June 22, 2010
Staff Contact: AnMarie Rodgers, Manager Legislative Affairs
anmarie.rodgers@sfgov.org, 415-558-6395
Reviewed by: Sarah Dennis, Senior Planner
Recommendation: Recommend Approval with Modifications

RECOMMENDING THAT THE BOARD OF SUPERVISORS ADOPT TWO PROPOSED RESOLUTIONS AND A RELATED JOINT COMMUNITY FACILITIES AGREEMENT BETWEEN ABAG AND THE CITY OF SAN FRANCISCO THAT RELATE TO PROVISION OF COMMUNITY IMPROVEMENTS.

PREAMBLE

Whereas, on June 22, 2010, Mayor Newsom and Supervisors Dufty and Maxwell introduced two proposed Resolutions and a related Joint Community Facilities Agreement between ABAG and the City of San Francisco under Board of Supervisors (hereinafter "Board") File Numbers 10-0870 and 10-0871 which related to the provision of community improvements in area plans; and

Whereas, specifically the two proposed Resolutions would do the following:

- **BF 100870 [Area Plan Infrastructure Finance Committee]** This proposed Resolution introduced by Supervisor Maxwell would establish an Area Plan Infrastructure Finance Committee to supervise a consultant study to develop policy criteria and recommendations on the use of Infrastructure Finance Districts (IFDs) in newly adopted Area Plans, including within the Eastern Neighborhoods Area Plans, determine the appropriate steps to form IFDs, and to supervise the formation of a pilot Infrastructure Finance District (IFD) in Rincon Hill.
- **BF 100871 [Resolution Approving Formation of a Community Facilities District and financing by the ABAG Finance Authority For Nonprofit Corporations in accordance with State law, and approving related agreement]** This resolution introduced by Mayor Newsom and Supervisor Dufty would approve the formation of a community facilities district and the issuance of special tax bonds by the ABAG Finance Authority For Nonprofit Corporations related to City fees and charges applicable to new development projects; make certain findings;

approve the form of Joint Community Facilities Agreement; and granting general authority to City officials to take actions necessary or desirable to implement the purposes of this Resolution.

Whereas, on July 22, 2010, the San Francisco Planning Commission (hereinafter "Commission") conducted a duly noticed public hearing at a regularly scheduled meeting to consider the proposed Ordinance; and

Whereas, the proposed Resolutions has been determined to be categorically exempt from environmental review under the California Environmental Quality Act Section 15060(c)(2); and

Whereas, the Commission has heard and considered the testimony presented to it at the public hearing and has further considered written materials and oral testimony presented on behalf of the legislative sponsor, Department staff, and other interested parties; and

Whereas, the all pertinent documents may be found in the files of the Department, as the custodian of records, at 1650 Mission Street, Suite 400, San Francisco; and

Whereas, the Commission has reviewed the proposed Resolutions; and

MOVED, that the Commission hereby recommends that the Board of Supervisors recommends *approval with modification of the proposed Resolutions* and adopts this Resolution to that effect.

FINDINGS

Having reviewed the materials identified in the preamble above, and having heard all testimony and arguments, this Commission finds, concludes, and determines as follows:

1. The proposed Resolutions would assist funding the infrastructure needs that have been identified in recent community plan work.
2. Adoption of the proposed resolutions will address some of the recommendations from the ENIFWG report. Specifically, the reported recommended (among other recommendations) that the Board of Supervisors address the following issues that are addressed by the resolution:
 - Adopt by resolution a clear statement of policy criteria to guide the use of TIF outside of a redevelopment project area and the creation of a customized TIF tool through state legislation; **The APIF Committee would be tasked with developing this policy.**
 - Commission a consultant study to inform the formation of an IFD and CFD, including determining the potential boundaries of the IFD and CFD, the eligible infrastructure and services funded by the districts, the appropriate tax rates, the appropriate portion of tax increment, and the estimated bonding capacity. **The APIF Committee would be tasked with reviewing a consultant study, policy criteria and review of the Rincon Hill Pilot IFD prior to the final formation of any IFD.**
3. These proposed resolutions begin to address the infrastructure needs identified in the areas plans that are currently 70% unfunded;

4. **General Plan Compliance.** The proposed Resolutions are, on balance, consistent with the following Objectives and Policies of the General Plan:

Commerce & Industry Element POLICY 1.1:

Encourage development which provides substantial net benefits and minimizes undesirable consequences. Discourage development which has substantial undesirable consequences that cannot be mitigated.

Commerce & Industry Element OBJECTIVE 2:

Maintain and enhance a sound and diverse economic base and fiscal structure for the city.

Recreation and Open Space Element Introductory Text

Maintaining the City's existing open space system is a continuing challenge. Maintenance continues to be a problem due to rising costs and limitations on staffing and equipment. In addition, many of the parks are old and both park landscapes and recreation structures are in need of repair or renovation. Heavily used parks and recreation facilities require additional maintenance. However, the number of recreation facilities has increased and their use intensified, often without a corresponding increase in the budget necessary to maintain facilities and offer the desired recreation programs.

Recreation and Open Space Element POLICY 2.1

Provide an adequate total quantity and equitable distribution of public open spaces throughout the City.

Recreation and Open Space Element POLICY 2.7

Acquire additional open space for public use.

Recreation and Open Space Element POLICY 4.4

Acquire and develop new public open space in existing residential neighborhoods, giving priority to areas which are most deficient in open space.

Community Facilities Element Objective 3

Assure that neighborhood residents have access to needed services and a focus for neighborhood activities.

Community Facilities Element Policy 3.1

Provide neighborhood centers in areas lacking adequate community facilities.

Community Facilities Element Policy 3.4

Locate neighborhood centers so they are easily accessible and near the natural center of activity.

Community Facilities Element Policy 3.6

Base priority for the development of neighborhood centers on relative need.

Community Facilities Element Objective 8

Assure that public school facilities are distributed and located in a manner that will enhance their efficient and effective use.

Transportation Element POLICY 1.1:

Involve citizens in planning and developing transportation facilities and services, and in further defining objectives and policies as they relate to district plans and specific projects.

Air Quality Element POLICY 3.1

Take advantage of the high density development in San Francisco to improve the transit infrastructure and also encourage high density and compact development where an extensive transportation infrastructure exists.

Air Quality Element POLICY 3.4

Continue past efforts and existing policies to promote new residential development in and close to the downtown area and other centers of employment, to reduce the number of auto commute trips to the city and to improve the housing/job balance within the city.

Air Quality Element POLICY 3.6

Link land use decision making policies to the availability of transit and consider the impacts of these policies on the local and regional transportation system.

Urban Design Element POLICY 3.9

Encourage a continuing awareness of the long-term effects of growth upon the physical form of the city.

5. The proposed Resolutions are generally consistent with the eight General Plan priority policies set forth in Section 101.1 in that:

- A) The existing neighborhood-serving retail uses will be preserved and enhanced and future opportunities for resident employment in and ownership of such businesses will be enhanced:
The proposed Resolutions would not significantly impact existing neighborhood-serving retail uses or opportunities for employment in or ownership of such businesses.
- B) The existing housing and neighborhood character will be conserved and protected in order to preserve the cultural and economic diversity of our neighborhoods:
The proposed Resolutions will help fund infrastructure needs of new development and therefore help to preserve the quality of existing public resources as new development occurs.
- C) The City's supply of affordable housing will be preserved and enhanced:
The proposed Resolutions do not affect affordable housing supply.

- D) The commuter traffic will not impede MUNI transit service or overburden our streets or neighborhood parking:
The proposed Resolutions will help fund future infrastructure needs, including MUNI transit service and therefore help to preserve the quality of existing transit service as new development occurs.
- E) A diverse economic base will be maintained by protecting our industrial and service sectors from displacement due to commercial office development. And future opportunities for resident employment and ownership in these sectors will be enhanced:
The proposed Resolutions would not adversely affect the industrial or service sectors or future opportunities for resident employment or ownership in these sectors.
- F) The City will achieve the greatest possible preparedness to protect against injury and loss of life in an earthquake.
Preparedness against injury and loss of life in an earthquake is unaffected by the proposed amendments.
- G) That landmark and historic buildings will be preserved:
The proposed Resolutions will not affect landmark and historic buildings.
- H) Parks and open space and their access to sunlight and vistas will be protected from development:
The proposed Resolutions will help fund future infrastructure needs, including parks and open space, and therefore help to preserve the quality of existing transit service as new development occurs.

6. The proposed Resolutions is exempt from CEQA per CEQA Guidelines Section 15060(c)(2).
7. The Commission therefore recommends *approval with modifications and consideration to additional issues described below:*

Recommended Modifications for BF 100870 [Area Plan Infrastructure Finance Committee]

- **Seek additional funding to extend Pilot Program to Eastern Neighborhoods.** In addition to the pilot IFD proposed for Rincon Hill, it is important that the Infrastructure Finance Committee be tasked with development of an IFD for the Eastern Neighborhoods Plan Area. Funding for this additional study should be identified in the short term by the APIF Committee, as the Eastern Neighborhoods has an existing infrastructure deficit that the City could address by establishing an IFD.
- **Ensure that the Committee Studies the Long-term Effects on the General Fund.** Capturing an increment of new increases in property values for the specific benefit of a limited geographic area necessarily diverts that revenue from the General Fund over a 30-year time period. While a significant amount of this new tax increment is made possible by increases in zoned development potential and other improvements generated by the area plans, only a *portion* of the net increase in property tax revenues should be diverted towards area plan

needs, thereby enabling continued revenue to flow to the General Fund to fund needed Citywide services. To ensure this flow continues, the Committee should carefully study the effect of various "pass-through" schemes on General Fund revenues to ensure that City services, as a whole, are well-funded.

Recommended Modification and Additional Considerations for BF 100871 [Formation of a Community Facilities District and financing by the ABAG Finance Authority For Nonprofit Corporations in accordance with State law, and approving related agreement]

- **Ensure that all tax-exempt bond monies derived from the Citywide CFD program can be used for all neighborhood infrastructure plan activities, including administration of the community improvements programs, and monitoring and reporting.** It is expected that staff, in consultation with the City Attorney, will review the fees proposed to be financed under the program prior to any bond issuance. This review should include consideration of both issues: 1) that all bonds authorized shall be only for those purposes permitted by the Communities Facilities Act of 1982, as the same may be amended from time to time and 2) that the City maintains enough impact fee income to fund the provision of identified projects that may not be eligible for funding through CFD monies.

There are two points that, while not modifications, should be noted by the Commission:

1. **Does the financial burden shift from land owner to resident?** Experts do not agree on which party (land owner, developer, or homeowner) absorbs the costs of impact fees. Factors that influence which party carries the burden include: the elasticity of land prices, market demand for housing, how long an impact fee has existed, and other development financing trends. From a policy perspective, ideally land owners absorb the added costs of impact fees, as land values in San Francisco have risen over 300% in recent years. If developers or homeowners absorb the added cost, new development may be stalled or delayed. By amortizing the payment of impact fees over a 30-year period, it is possible that a Citywide CFD could shift the financial burden of impact fees away from landowners and towards future homeowners. But viewed as a stimulative policy, this would help spur development.
2. **The proposed Citywide Infrastructure Impact Fee CFD does not create a new funding source for public infrastructure; it merely finances the costs of existing infrastructure impact fees.** The proposed program would allow developers to finance the cost of the City's existing impact fees with a new CFD 30-year property tax assessment instead of financing these fees privately. For instance if a development owes \$2.5 million in impact fees, a developer could opt into the CFD and ABAG would then issue a bond for \$2.5 million based on increased property tax assessments for the subject property. ABAG would pay the City the \$2.5M when the impact fees were otherwise due. ABAG, not the City, would then be responsible for servicing the bonds by collecting principal and interest payments for the bond issuance from the future property owners of the development subject to the CFD. Over time ABAG re-coups more than \$2.5 million to cover both the cost of the bond and interest. Accordingly, this is not an additive funding source. The ENIFWG report also proposes CFDs as an additive source of funding - but

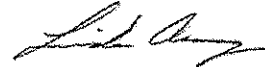
**Resolution No. 18150
Planning Commission Hearing: July 22, 2010
Resolutions Concerning Community Improvement Funding**

**CASE NO. 2010.0499U
Board File No. 100870 and 100871**

that would be in addition to impact fees and existing property taxes. Such a CFD would need to be approved by 2/3 of the voters and would be in addition to the proposed Citywide Infrastructure Impact Fee CFD.

I hereby certify that the Planning Commission ADOPTED the foregoing Resolution on July 22, 2010.

Linda Avery



Commission Secretary

AYES: Olague, Antonini, Borden, Lee, Moore, Sugaya

NAYS:

ABSENT: Miguel

ADOPTED: July 22, 2010



SAN FRANCISCO PLANNING DEPARTMENT

Executive Summary Resolutions Addressing Funding for Community Improvements in Area Plans HEARING DATE: JULY 22, 2010

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Project Name: Development Stimulus Part II
Case Number: 2010.0499U [Board File No's 10-0870 and 10-0871]
Initiated by: Mayor Newsom, Supervisors Dufty and Maxwell
Introduced: June 22, 2010
Staff Contact: AnMarie Rodgers, Manager Legislative Affairs
anmarie.rodgers@sfgov.org, 415-558-6395
Reviewed by: Sarah Dennis, Senior Planner

Recommendation: Recommend Approval with Modifications

PROPOSED RESOLUTIONS AND JOINT COMMUNITY FACILITIES AGREEMENT

The Planning Commission will consider two proposed Resolutions and a related Joint Community Facilities Agreement between ABAG and the City of San Francisco as described below. In addition to these two Resolutions the Commission may consider similar proposals related to the provision of community improvements in area plans. The two resolutions include:

- **BF 100870 [Area Plan Infrastructure Finance Committee]** This proposed Resolution introduced by Supervisor Maxwell would establish an Area Plan Infrastructure Finance Committee to supervise a consultant study to develop policy criteria and recommendations on the use of Infrastructure Finance Districts (IFDs) in newly adopted Area Plans, including within the Eastern Neighborhoods Area Plans, determine the appropriate steps to form IFDs, and to supervise the formation of a pilot Infrastructure Finance District (IFD) in Rincon Hill.
- **BF 100871 [Resolution Approving Formation of a Community Facilities District and financing by the ABAG Finance Authority For Nonprofit Corporations in accordance with State law, and approving related agreement]** This resolution introduced by Mayor Newsom and Supervisor Dufty would approve the formation of a community facilities district and the issuance of special tax bonds by the ABAG Finance Authority For Nonprofit Corporations related to City fees and charges applicable to new development projects; make certain findings; approve the form of Joint Community Facilities Agreement; and granting general authority to City officials to take actions necessary or desirable to implement the purposes of this Resolution.

BACKGROUND

What is a Community Facilities District? In 1982, the Mello-Roos Community Facilities Act of 1982 (CA Government Code §53311-53368.3) was created to provide an alternate method of financing public improvements and services. The Act allows any county, city, special district, school district or joint

powers authority to establish a Mello-Roos or Community Facilities District (CFD) which allows for financing of public improvements and maintenance, repairs, and services. The services and improvements that Mello-Roos CFDs can finance include streets, sewer systems and other basic infrastructure, police protection, fire protection, ambulance services, schools, parks, libraries, museums and other cultural facilities. CFDs cannot finance infrastructure for childcare facilities, administration of programs, and monitoring and reporting. By law, the CFD is also entitled to recover expenses needed to form the CFD and administer the annual special taxes and bonded debt. If there are less than 12 registered voters within a proposed CFD, the special tax may be approved by a 2/3 vote of property owners in the district. Property owner votes are weighted based on the ownership of land area in the district. **Simply put, property owners agree to impose a new property tax assessment for a period of 20-30 years and a public entity (in this case, ABAG) issues tax-exempt bonds supported by the increased assessment revenues to fund public infrastructure. The Mayor's resolution seeks Board authorization to allow a future property owner or group of property owners to request that ABAG form an Infrastructure Impact Fee CFD in the future. It does not create the CFD—this work would be completed by the property owner(s) and ABAG. Other property owners could then annex into such a Citywide CFD at later points in time, based on their individual circumstances and needs.**

What is an Infrastructure Finance District? Infrastructure Finance Districts (IFDs) are another means for funding public improvements. (CA Government Code §53395) Similar to redevelopment tax increment law, when an IFD is formed, a "base year" property assessed valuation is set. As property values rise over time within the IFD boundaries and associated property tax revenues rise, a portion of this new increment of property value over the base year may be diverted from the General Fund and directed instead toward specific public infrastructure projects in and around the district, instead of to the General Fund, while the original base year property tax revenues would continue to flow to the General Fund. IFDs may be used to finance the construction of public infrastructure such as roads, transit, water systems, sewer projects, flood control, childcare facilities, libraries, parks, and solid waste facilities. IFDs cannot pay for maintenance, repairs, operating costs, and services. To form an IFD, a city or county must develop an infrastructure plan, send copies to every landowner, consult with any affected agencies, and hold a public hearing. Similar to a CFD, if there are less than 12 registered voters within a proposed IFD, the district may be approved by a 2/3 vote of property owners in the district. IFDs may be non-contiguous. Property owner votes are weighted based on ownership of land area in the district. **Simply put, an IFD allows a portion of incremental new property tax revenues above a baseline to be pledged to tax-exempt bonds that can be used to fund specific public infrastructure improvements. IFDs essentially replicate tax increment financing outside of the redevelopment process.**

The Way It Is Now Summary:

In the past several years, the Department has adopted a number of new area plans. These plans include a wide variety of open space, pedestrian improvements, transit improvements and economic development initiatives. Most of the plans include a set of impact fees designed to help pay for these improvements. Monies collected from impact fees are projected to provide for only approximately 30-50% of the needed public improvements.

The Board of Supervisors directed the City's Capital Planning Committee to establish the Eastern Neighborhoods Infrastructure Finance Working Group (ENIFWG¹) to recommend funding strategies for the remaining 50-70% of the funds needed to implement the plans. The ENIFWG produced a July 2009 report that provides an overview of several strategies for funding the considerable set of infrastructure projects recommended in the Eastern Neighborhoods Plans. The ENIFWG's recommendations included study and formation of Community Facilities Districts and Infrastructure Finance Districts.

The Way It Would Be Summary:

- **BF 100870 [Area Plan Infrastructure Finance Committee]** This proposed Resolution introduced by Supervisor Maxwell would direct the Capital Planning Committee to establish an Area Plan Infrastructure Finance Committee (APIF Committee). This committee would
 1. manage and oversee a consultant study to inform the formation of an IFD and CFD in the Eastern Neighborhoods as recommended by ENIFWG;
 2. develop a clear statement of policy criteria to guide the use of IFDs in recently adopted Area Plans as recommended by ENIFWG;
 3. review and supervise the formation of the proposed Rincon Hill Pilot IFD based on the proposed IFD policy criteria; and
 4. provide such proposals or recommendations within six (6) months of study initiation.

The Committee would be composed of no more than four members of the public (including one member from the Market & Octavia CAC and one from the Eastern Neighborhoods CAC) and one representative each from the Planning Department, the Office of Economic and Workforce Development, the Mayor's Office of Public Policy and Finance, the Controller's Office and the Capital Planning Committee and other implementing agencies.

- **BF 100871 [Resolution Approving Formation of a Community Facilities District and financing by the ABAG Finance Authority For Nonprofit Corporations in accordance with State law, and approving related agreement]** This resolution introduced by Mayor Newsom and Supervisor Dufty would allow the ABAG Finance Authority for Nonprofit Corporations to form a citywide community facilities district and ultimately issue of special tax bonds to cover the costs related to City infrastructure impact fees for new development projects. Proceeds from the sale of the bonds would be used to pay the City's existing and future infrastructure impact fees at the regular collection time so that the provision of neighborhood infrastructure is not delayed. It is important to emphasize that from the City's perspective, all impact fees are paid when otherwise due. The CFD program is merely a financing mechanism for paying impact fees and not a means to "defer" or delay fee payment. In addition, the CFD program is entirely optional. If the resolution is approved by the Board of Supervisors, individual property owners would still need to apply to ABAG to form or "annex" into the Citywide CFD after it is formed. To provide

¹ The working group includes representatives from the Planning Department; the Office of Economic and Workforce Development; the Mayor's Office of Public Policy and Finance; the Controller's Office, Office of Economic Analysis; Department of Public Works, Division of Finance and Budget; Office of the City Administrator, Capital Planning Program; and the public.

the Board with some discretionary control over this future financing program, the Mayor's Office has proposed that the total amount of CFD-backed bonds issued could not exceed \$75,000,000.

Process Clarifications: Under a CFD program, the project sponsor must pay all impact fees when otherwise due; the City would have no involvement in the process other than collecting its fees and verifying how they are spent. All developments would be eligible to annex into CFDs. However due to the fixed costs associated with annexing into a CFD, it is estimated that only large projects with more than \$2 million worth of impact fees would be likely to participate.

REQUIRED COMMISSION ACTION

As Board Resolutions, there is no legal requirement for the Commission to render advice or take action on these measures. However, the Mayor's Office of Economic Development specifically requested review by the Commission. Accordingly, the proposed Resolutions are before the Commission so that it may recommend adoption, rejection, or adoption with modifications to the Board of Supervisors.

RECOMMENDATION

The Department strongly recommends that the Commission recommend *approval with modifications* to the proposed Resolutions and adopt the attached Draft Resolution to that effect.

Recommended Modifications

BF 100870 [Area Plan Infrastructure Finance Committee]

- **Seek additional funding to extend Pilot Program to Eastern Neighborhoods.** In addition to the pilot IFD proposed for Rincon Hill, it is important that the Infrastructure Finance Committee be tasked with development of an IFD for the Eastern Neighborhoods Plan Area. Funding for this additional study should be identified in the short term by the APIF Committee, as the Eastern Neighborhoods has an existing infrastructure deficit that the City could address by establishing an IFD.
- **Ensure that the Committee Studies the Long-term Effects on the General Fund.** Capturing an increment of new increases in property values for the specific benefit of a limited geographic area necessarily diverts that revenue from the General Fund over a 30-year time period. While a significant amount of this new tax increment is made possible by increases in zoned development potential and other improvements generated by the area plans, only a *portion* of the net increase in property tax revenues should be diverted towards area plan needs, thereby enabling continued revenue to flow to the General Fund to fund needed Citywide services. To ensure this flow continues, the Committee should carefully study the effect of various "pass-through" schemes on General Fund revenues to ensure that City services, as a whole, are well-funded.

BF 100871 [Formation of a Community Facilities District and financing by the ABAG Finance Authority For Nonprofit Corporations in accordance with State law, and approving related agreement]

- **Cap the amount of area plan impact fees to ensure that all tax-exempt bond monies derived from the Citywide CFD program can be used for all neighborhood infrastructure plan activities, including administration of the community improvements programs, and monitoring and reporting.** While the definitions of CFDs would indicate that not all infrastructure identified in the Community Improvements programs can be funded by CFDs, the Planning Department would like to discuss this issue with the City Attorney's Office and counsel for ABAG. One issue to determine is if revenues derived from the CFD program can cover *all* intended neighborhood infrastructure impact fee uses prior to Board approval of the Resolution and related Joint Community Facilities Agreement. Any restrictions on the use of such funds must be made clear in the Agreement. If necessary, this Agreement should be modified to limit the use of CFD financing to only the portion of the fees that can legally be paid by CFD funding.

There are two points that, while not modifications, should be noted by the Commission:

1. **Does the financial burden shift from land owner to resident?** Experts do not agree on which party (land owner, developer, or homeowner) absorbs the costs of impact fees. Factors that influence which party carries the burden include: the elasticity of land prices, market demand for housing, how long an impact fee has existed, and other development financing trends. From a policy perspective, ideally land owners absorb the added costs of impact fees, as land values in San Francisco have risen over 300% in recent years. If developers or homeowners absorb the added cost, new development may be stalled or delayed. By amortizing the payment of impact fees over a 30-year period, it is possible that a Citywide CFD could shift the financial burden of impact fees away from landowners and towards future homeowners. But viewed as a stimulative policy, this would help spur development.
2. **The proposed Citywide Infrastructure Impact Fee CFD does not create a new funding source for public infrastructure; it merely finances the costs of existing infrastructure impact fees.** The proposed program would allow developers to finance the cost of the City's existing impact fees with a new CFD 30-year property tax assessment instead of financing these fees privately. For instance if a development owes \$2.5 million in impact fees, a developer could opt into the CFD and ABAG would then issue a bond for \$2.5 million based on increased property tax assessments for the subject property. ABAG would pay the City the \$2.5M when the impact fees were otherwise due. ABAG, not the City, would then be responsible for servicing the bonds by collecting principal and interest payments for the bond issuance from the future property owners of the development subject to the CFD. Over time ABAG recoups more than \$2.5 million to cover both the cost of the bond and interest. Accordingly, this is not an additive funding source. The ENIFWG report also proposes CFDs as an additive source of funding - but that would be in addition to impact fees and existing property taxes. Such a CFD would need to be approved by 2/3 of the voters and would be in addition to the proposed Citywide Infrastructure Impact Fee CFD.

BASIS FOR RECOMMENDATION

The proposed Resolutions would assist funding the infrastructure needs that have been identified in recent community plan work.

Adoption of the proposed resolutions will address some of the recommendations from the ENIFWG report. Specifically, the reported recommended (among other recommendations) that the Board of Supervisors address the following issues that are addressed by the resolution:

- Adopt by resolution a clear statement of policy criteria to guide the use of TIF outside of a redevelopment project area and the creation of a customized TIF tool through state legislation; **The APIF Committee is tasked with developing this policy.**
- Commission a consultant study to inform the formation of an IFD and CFD, including determining the potential boundaries of the IFD and CFD, the eligible infrastructure and services funded by the districts, the appropriate tax rates, the appropriate portion of tax increment, and the estimated bonding capacity. **The APIF Committee is tasked with reviewing a consultant study, policy criteria and review of the Rincon Hill Pilot IFD prior to initiation of any IFD.**

These proposed resolutions begin to address the infrastructure needs identified in the areas plans that are currently 50-70% unfunded.

ENVIRONMENTAL REVIEW

The proposed amendment is exempt from environmental review under Section 15060(c)(2) of the CEQA Guidelines.

PUBLIC COMMENT

As of the date of this report, the Planning Department received no letters in support or opposition of the proposed Resolutions.

RECOMMENDATION: Recommendation of Approval with Modifications
