

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

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November 3, 2017

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: November 9, 2017 Budget and Finance Committee Meeting

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Items 7 & 8 Files 17-0878 and 17-0879	Department: Port
EXECUTIVE SUMMARY	
Legislative Objectives	
<ul style="list-style-type: none"> • File 17-0878 is a resolution establishing the City’s intent to establish three subproject areas in Port Infrastructure Financing District (IFD) No. 2 – Subproject Areas G-2, G-3, and G-4. • File 17-0879 is a resolution stating the City’s intent to issue bonds, paid by incremental property tax revenue allocated to the IFD and generated within each of the subproject areas. • Approval of these two resolutions does not obligate the Board of Supervisors to establish the IFD subproject areas or issue bonds, which will be subject to future Board of Supervisors approval. 	
Key Points	
<ul style="list-style-type: none"> • The Port’s IFD No. 2 provides for incremental property tax revenues generated by development on Port property (including bonds secured by these revenues) to be used for construction of public improvements. The Board of Supervisors formed Port IFD No. 2 in February 2016, and the agreement between the Port and Forest City to develop the Pier 70 Waterfront Site in October 2017. The three proposed IFD subproject areas – G-2, G-3, and G-4 – are for phase 1, 2, and 3 respectively of the development of the Pier 70 Waterfront Site. Property tax increment will be allocated to public improvements within the three subproject areas, as well as to Pier 70-wide improvements. • 100 percent of the City and the Educational Revenue Augmentation Fund (ERAF) share of property tax increment will be allocated to the subproject areas. The total limit on the property tax increment that can be allocated to the IFD from the subproject areas over their 45-year terms is \$3.0 billion. 20 percent of the property tax increment must be set-aside for shoreline restoration, removal of bay fill, public access to the waterfront, and/or environmental remediation of the waterfront. 	
Fiscal Impact	
<ul style="list-style-type: none"> • The proposed resolution to issue bonds (File 17-0879) would authorize the issuance of bonds in a not-to-exceed amount of \$793.3 million, which is 3x the anticipated bond issuance of \$216 million. According to the Port, this authorization accounts for property assessments that exceed projections, lower interest rates, and new waterfront projects. • While the proposed resolution states that the Board of Supervisors intends to authorize the issuance and sale of bonds in the maximum not-to-exceed amount of \$793.3 million, according to the Port’s bond counsel, the proposed resolution limits the use of bonds to pay for the costs of public improvements described in the Infrastructure Financing Plan. 	
Recommendation	
<ul style="list-style-type: none"> • Approve the proposed resolutions. 	

MANDATE STATEMENT / BACKGROUND

Mandate Statement

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

Port IFD No. 2 and Pier 70

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

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

DETAILS OF PROPOSED LEGISLATION

File 17-0878: The proposed resolution establishes the City's intent to establish three subproject areas - Subproject Area G-2, Subproject Area G-3, and Subproject Area G-4 - in Port Infrastructure Financing District No. 2. According to the proposed Resolution of Intent, the Board of Supervisors resolves to take the following actions:

- (1) Conduct proceedings to establish the three subproject areas on the 28-acre Waterfront Site within the Union Iron Works Historic District;

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

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

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

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

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

- (2) Direct the Port Executive Director to prepare an Infrastructure Financing Plan for each subproject area;
- (3) Declare the Board's intent to use incremental property tax revenue allocated by the City to the IFD and generated within the subproject areas to finance public facilities; and
- (4) Hold public hearings and take other actions necessary to establish the three subproject areas.

The Resolution of Intent does not obligate the Board of Supervisors to establish each of the IFD subproject areas, which will be subject to future Board of Supervisors approval by ordinance.

While the proposed resolution directs the Port Executive Director to prepare an Infrastructure Financing Plan for each subproject area, the Port has submitted the proposed Infrastructure Financing Plan for Subproject Areas G-2, G-3, and G-4. The proposed resolution does not provide for approval of the supplemental Infrastructure Financing Plan, which will be subject to approval when the Board of Supervisors considers the future ordinance establishing the three IFD subproject areas.

File 17-0879: The proposed resolution states the City's intent to issue bonds, paid by incremental property tax revenue allocated to the IFD and generated within each of the subproject areas in amounts not-to-exceed:

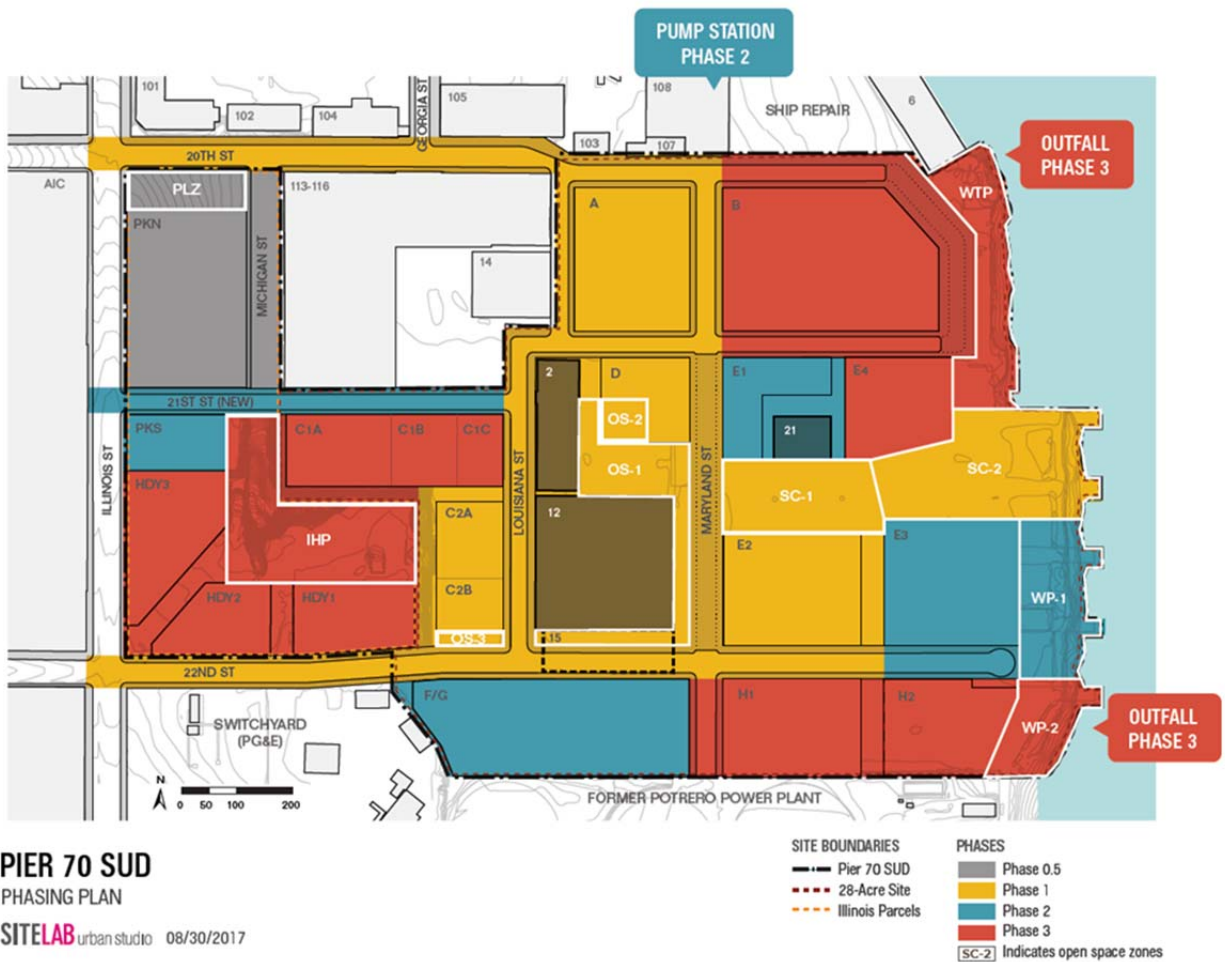
- \$273,900,000 for Subproject Area G-2;
- \$196,100,000 for Subproject Area G-3; and
- \$323,300,000 for Subproject Area G-4.

According to the proposed resolution, the intent is to pay directly for some of the costs of public facilities in each of the subproject areas and to use a portion of the bond proceeds to reimburse these costs. Approval of the proposed resolution does not obligate the Board of Supervisors to issue the bonds, which will be subject to future Board of Supervisors approval.

Subproject Areas

IFD Subproject Areas G-2, G-3, and G-4 encompass the 28-acre Waterfront Site project within the Union Iron Works Historic District, bounded by Illinois Street on the west, the Bay on the east, 20th Street on the north, and 22nd Street and the former Potrero Power Plant on the south, as shown in Exhibit 1 below.

Exhibit 1: Proposed Waterfront Site Project



The project is divided into three phases.

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

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

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

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

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

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

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

Port IFD Guidelines

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

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

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

Proposed Infrastructure Financing Plan Provisions

The proposed Infrastructure Financing Plan for Subproject Areas G-2, G-3, and G-4 contain the following provisions, which must be included in the financing plan to be prepared by the Port:

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

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

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

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

FISCAL IMPACT

Sources and Uses of Funds

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

Exhibit 2: Sources and Uses of Funds

	2017 Dollars
Sources	
Annual Tax Increment	\$596,719,493
Bond Proceeds	137,428,825
Developer Capital	133,832,094
Advances of Land Proceeds	164,931,373
Total Sources	\$1,032,911,784
Uses	
Bond Debt Service	\$253,892,744
Interest on Advanced Funds	22,974,947
Repayment Developer Capital	121,166,407
Repayment Advances of Land Proceeds	101,662,800
Subproject Areas Public Improvements	287,908,679
Pier 70 Wide Public Improvements	53,041,434
Sea Level Rise Protection	130,378,925
Educational Revenue Augmentation Fund ⁶	61,885,847
Total Uses	\$1,032,911,784

Source: Infrastructure Financing Plan

Timing of Sources and Uses

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

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

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

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

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

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

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

Bond Issuance

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

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

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

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

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

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

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

The proposed resolution states that the Board of Supervisors intends to authorize the issuance and sale of bonds for each subproject area in the maximum not-to-exceed amounts noted above, but that the resolution does not obligate the Board of Supervisors to issue bonds. According to the Port's bond counsel, the proposed resolution limits the use of bonds to pay for the costs of public improvements described in the Infrastructure Financing Plan, as noted below:

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

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

POLICY CONSIDERATION

As noted in the Budget and Legislative Analyst's report to the October 19, 2017 Budget and Finance Committee, IFD and IRFD bonds are a new debt instrument. Whether investors will be interested in purchasing these bonds is not known, especially if the credit markets are tight at the time that the City is ready to issue the bonds.

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

RECOMMENDATION

Approve the proposed resolution.

<p>Items 9, 10 and 11 Files 17-0880, 17-0881 and 17-0882</p>	<p>Department: Port</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <p><u>17-0880</u> is a resolution establishing the City’s intent to establish Infrastructure and Revitalization Financing District (IRFD) to finance the construction of affordable housing within Pier 70 and Parcel K South. <u>17-0881</u> is a resolution directing the Port Executive Director to prepare an Infrastructure Financing Plan for the IRFD. <u>17-0882</u> is a resolution stating the City’s intent to issue bonds in amounts not-to-exceed \$91,900,000. Files 17-0880 and 17-0881 are resolutions of intent, and do not obligate the Board of Supervisors to establish the IRFD or issue bonds.</p> <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Hoedown Yard is a 3 acre property owned by PG&E and adjacent to Pier 70. 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. 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. • The proposed resolution states that the Board of Supervisors intends to authorize the issuance of bonds secured by the Hoedown Yard IRFD property tax increment in the maximum not-to-exceed amount of \$91.9 million. 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. The Budget and Legislative Analyst recommends amending the proposed resolution to specify that the authorized facilities are the facilities listed in Attachment I of the Infrastructure Financing Plan. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The Port anticipates issuing IRFD bonds of up to \$25.5 million, which is more than three times the requested bond authorization of up to \$91.9 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. • According to the proposed resolution, the estimated cost of the facilities to be funded by the proposed IRFD will be \$315.8 million. However, this is the limit of property tax increment allocation. Therefore, the proposed resolution should be amended to state that the estimated cost of the facilities is \$91.9 million rather than \$315.8 million <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend File 17-0882 to (a) specify that the authorized facilities to be funded by IRFD property tax increment and bonds secured by the property tax increment are the facilities listed in Attachment I of the Infrastructure Financing Plan; and (b) state that the estimated cost of the facilities is \$91.9 million rather than \$315.8 million. • Amend File 17-0880 and 17-0882 to state that the Port will submit a date for the special landowner election prior to Board of Supervisors approval of the proposed resolutions. • Approve the proposed resolutions, pending submission by the Port to the Board of Supervisors of a date for the special landowner election. 	

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.

On October 31, 2017, the Board of Supervisors approved several pieces of legislation to establish the Pier 70 Special Use District Project, which includes the Hoedown Yard.

DETAILS OF PROPOSED LEGISLATION

File 17-0880: The proposed resolution establishes the City's intent to establish Infrastructure and Revitalization Financing District (IRFD) No. 2 (Hoedown Yard) to finance the construction of affordable housing within Pier 70 and Parcel K South. According to the proposed Resolution of Intent, the Board of Supervisors resolves to take the following actions:

- (1) Conduct proceedings to establish an infrastructure and revitalization financing district on the land commonly known as Hoedown Yard;
- (2) Declare the Board's intent to use incremental property tax revenue allocated to the City and generated within the Hoedown Yard to finance affordable housing and related facilities located within the Waterfront Site and Parcel K South; and
- (3) Hold public hearings and take other actions necessary to provide notice of the intent to establish the infrastructure and revitalization financing district.

The Resolution of Intent does not obligate the Board of Supervisors to establish the IRFD, which shall be subject to future Board of Supervisors approval.

File 17-0881: The proposed resolution directs the Port Executive Director to prepare an Infrastructure Financing Plan for Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard).

File 17-0882: The proposed resolution states the City's intent to issue 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 intent is to pay for some of the costs of affordable housing and related facilities prior to the issuance of the bonds, and to use a portion of the

bond proceeds to reimburse costs of developing the affordable housing and related facilities that are incurred prior to issuance of the bonds.

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 367 condominium units, within 384,365 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

The formation of the Hoedown Yard IRFD will provide a funding source for the development of 327 affordable housing units and supporting infrastructure and amenities within the Waterfront Site and Parcel K South of the Pier 70 Special Use District.

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.

Bond Issuance

The proposed resolution (File 17-0882) provides for the intent to issue bonds, secured by property tax increment. The bond authorization would be for 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.

The proposed resolution states that the Board of Supervisors intends to authorize the issuance and sale of bonds for Hoedown Yard in the maximum not-to-exceed amount of \$91.9 million, but that the resolution does not obligate the Board of Supervisors to issue bonds. 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. The Budget and

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.

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.

Legislative Analyst recommends amending the proposed resolution to specify that the authorized facilities are the facilities listed in Attachment I of the Infrastructure Financing Plan.⁴

According to the proposed resolution, the Board of Supervisors estimates that the cost of the facilities to be funded by the proposed IRFD will be \$315.8 million (in 2017 dollars). However, this is the limit of property tax increment allocation. Therefore, the proposed resolution should be amended to state that the estimated cost of the facilities is \$91.9 million (equal to the maximum not-to-exceed bond authorization) rather than \$315.8 million.

POLICY CONSIDERATION

As noted in the Budget and Legislative Analyst's report to the October 19, 2017 Budget and Finance Committee, IRFD bonds are a new debt instrument. Whether investors will be interested in purchasing these bonds is not known, especially if the credit markets are tight at the time that the City is ready to issue the bonds. The Infrastructure Financing Plan assumes that the first bonds will be issued in FY 2023-24, although Hoedown Yard may not generate property tax increment until FY 2024-25 to secure the bonds.

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 November 1, 2017. It is not known when the City will either purchase the Hoedown Yard or sell the option to purchase it to a third party. As a result, it is not known who would develop Hoedown Yard or when they would develop it, which could affect the ability to generate property tax increment.

According to Files 17-0880 and 17-0882, the Board of Supervisors will call a special landowner election for October 24, 2017 to consider the proposed formation of the IRFD and issuance of bonds. Because the actual date of the election is not known, the proposed resolution should be amended to state that the Port will submit a date for the special landowner election prior to Board of Supervisors approval of the proposed resolutions.

RECOMMENDATIONS

1. Amend File 17-0882 to specify that the authorized facilities to be funded by IRFD property tax increment and bonds secured by the property tax increment are the facilities listed in Attachment I of the Infrastructure Financing Plan.
2. Amend File 17-0882 to state that the estimated cost of the facilities is \$91.9 million (equal to the maximum not-to-exceed bond authorization) rather than \$315.8 million.
3. Amend File 17-0880 and 17-0882 to state that the Port will submit a date for the special landowner election prior to Board of Supervisors approval of the proposed resolutions.

⁴ Attachment I of the Infrastructure Financing Plan lists residential buildings and supporting infrastructure and amenities on Parcel C2A, Parcel K South, and Parcel C1B. According to Attachment I, "the timing, affordability levels, costs, and unit counts are preliminary and may change; no amendments of this IFP shall be required...as long as the facilities meet the requirements of California Government Code Section 53369.3(c)."

4. Approve the proposed resolutions, pending submission by the Port to the Board of Supervisors of a date for the special landowner election.