File Nos. 110036 Committee Item Nos. 5
Board Item No.

COMMITTEE/BOARD OF SUPERVISORS

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Board of Supervisors Meeting **Date**

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☒	☐	Draft Guidelines for the Establishment and Use of IFDs
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Completed by: Alisa Somera **Date** January 21, 2011
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.

[Adoption of Guidelines for the Establishment and Use of Infrastructure Financing Districts]

Resolution adopting guidelines for the establishment and use of Infrastructure Financing Districts in the City and County of San Francisco.

WHEREAS, Government Code Section 53395 et seq. (IFD Law) authorizes certain public agencies, including the City and County of San Francisco, to establish an infrastructure financing district (IFD) to finance purchase, construction, expansion, improvement, seismic retrofit, or rehabilitation of real or other tangible property with an estimated useful life of 15 years or longer (and related planning and design work), and such facilities must have communitywide significance and provide significant benefits to an area larger than the area of the IFD; and

WHEREAS, The Board may from time to time consider the adoption of IFDs in accordance with the IFD Law; and

WHEREAS, On October 19, 2010, the Board of Supervisors adopted its "Resolution of Intention to Establish Infrastructure Financing District" (Original Resolution of Intention to Establish IFD), as amended on January 4, 2011, stating its intention to form the "City and County of San Francisco Infrastructure Financing District No. 1 (Rincon Hill Area)" as a pilot IFD pursuant to the IFD Law; and

WHEREAS, A document setting forth proposed Policy Criteria Guidelines for the Establishment and Use of Infrastructure Financing Districts (the "Guidelines") within the City and County of San Francisco is on file with the Clerk of the Board of Supervisors in File No. 110036, which is hereby declared to be a part of this Resolution as if set forth fully herein; now, therefore, be it

RESOLVED, That this Board of Supervisors hereby finds that the Guidelines will ensure that a rational and efficient process is established for the formation of IFDs and are hereby adopted by the Board of Supervisors; and, be it

FURTHER RESOLVED, That this Resolution and the Guidelines shall be effective from and after the date of adoption of this Resolution.

APPROVED AS TO FORM:

DENNIS J. HERRERA
City Attorney

By: _____
MARK D. BLAKE
Deputy City Attorney

DRAFT BOS Policy Guidelines
Guiding the Use of Infrastructure Finance Districts in San Francisco
01/10/11

This memorandum presents the preliminary draft policy recommendations of the Area Plan Infrastructure Finance (APIF) Committee to guide the use of future Infrastructure Finance Districts (IFDs) in San Francisco. This memorandum has not been reviewed by any public stakeholders, as those individuals were not appointed to the APIF Committee as of the date of this memorandum. The APIF Committee seeks to incorporate any input these groups might have as the policy-making process moves forward.

The Guidelines are organized into two sets of criteria: (1) proposed minimum "Threshold Criteria" that must be satisfied for an IFD to be formed by the Board of Supervisors (BOS) and (2) "Strategic Criteria" that may be considered when deciding whether to form a future IFD.

These policy guidelines would not apply to any existing Redevelopment Area (IFD law prohibits it) or to any property owned or managed by the Port of San Francisco. The Port of San Francisco has over $1 billion deferred maintenance needs and plans to apply different IFD policies to assist in its capital repair and maintenance efforts, and the IFD law contains provisions unique to land under Port jurisdiction.[1]

Under the IFD law, IFDs can be used to finance the purchase, construction, expansion, improvement, seismic retrofit or rehabilitation of any real or other tangible property with an estimated useful life of 15 years or longer (and related planning and design work). The facilities do not need to be included in the IFD, and must have communitywide significance and provide significant benefits to an area larger than the area of the IFD. The facilities must be in addition to those provided in the IFD before the IFD was created and may not supplant facilities that are already available within the IFD was created, but may supplement those facilities to serve new development.

The IFD law states that the area of the IFD should be substantially undeveloped, and that the creation of the IFD should not ordinarily lead to the removal of existing dwelling units. The IFD law imposes certain relocation requirements if any dwelling units are proposed to be removed or destroyed in the course of private development or public works construction within the area of the IFD.

Threshold Criteria:

1. **Limit to areas that are rezoned as part of an Area Plan or Development Agreement approved by the BOS and also adopted as a Planned Priority Development Area (PDA) by the Association of Bay Area Governments (ABAG).** Priority Development Areas (PDAs) are locally-identified, infill development opportunity areas within existing

[1] The Port plans to independently utilize state IFD law to finance capital improvements that address this need. Planned projects will preserve important historic resources and generate economic activity far in excess of the value of the IFD. The Port's proposed use of IFD law more closely resembles a traditional Redevelopment Tax Increment Finance (TIF) "pump-priming" strategy where increment revenues are used on the front-end to build infrastructure that will attract new private investment to create jobs, small business opportunities, serve as regional assets and attract visitors and residents to the waterfront. Accordingly, the Port's IFD policy would not necessarily be predicated on up-zonings that result in net fiscal benefits to the General Fund.

communities. They are generally areas of at least 100 acres where there is local commitment to developing more housing along with amenities and services to meet the day-to-day needs of residents in a pedestrian-friendly environment served by transit. To be eligible to become a PDA, an area has to be within an existing community, near existing or planned fixed transit or served by comparable bus service, and planned for more housing. Designation of PDAs expresses the region's growth priorities and informs regional agencies, like the Metropolitan Transportation Commission (MTC), which jurisdictions want and need assistance. Planned PDAs are eligible for capital infrastructure funds, planning grants, and technical assistance. Linking creation of future IFDs to areas designated as PDAs will allow the City to leverage the increment generated by an IFD to increase its chances to receive matching regional, state or federal infrastructure and transportation grants.[2]

2. **Limit to areas where a rezoning results in a net fiscal benefit to the General Fund as determined by the Controller's Office.** Specifically, the City must demonstrate that any added General Fund costs generated by the new service population projected to result from the growth supported by a rezoning are offset by greater General Fund revenues, resulting a net fiscal benefit or surplus.[3] As a general rule, this would mean that use of IFDs would be limited to areas that received substantial & quantifiable upzoning, based on actual net increases in height, bulk, density that result in greater developable FAR than the previous "baseline" zoning, or through liberalization of land use and permitting provisions that increase the certainty of entitlements and the value of property.

3. **In general, restrict the maximum increment available to an annual average of 33-50% over the 30-year term of the IFD, and in no event allow the annual average increment over the life of the IFD to exceed the projected net fiscal benefit over the life of the IFD.** This maximum average cap would include annual pay-as-you-go monies and bond service payments or some combination of both. The maximum average increment cap may be increased to 50% to fund neighborhood infrastructure that also provides clear citywide benefits, like an extension or upgrade of a MUNI light rail line or the development of a City-serving park. In any event, this policy would guarantee that an IFD diversion should always be less than the net fiscal benefit, guaranteeing that there is at least some again to the General Fund in all circumstances. This policy would <u>not</u> prevent the "front-loading" of increment in the beginning years of an IFD to allow for bonding and the acceleration of construction of neighborhood-serving infrastructure, especially since accelerating delivery of infrastructure should have a correspondingly positive effect on property tax revenues for the General Fund.

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

[3] The total increment available for an IFD would be limited to that portion of the property tax available for the General Fund, and then again only that portion that represents a net surplus after accounting for any projected net new General Fund costs associated with an increase in the service population. The total property tax rate, inclusive of voter approved overrides is 1.16%. Given that the override portions are restricted for indebtedness, the portion of property taxes that is available for general city expenditures is the 1% base levy applied to properties' assessed value, including land and improvements. Of this portion, approximately 56.59% is allocated to the General Fund. The remaining 43.41% that would be "passed-through" to Property tax revenues is allocated to agencies that provide services, as follows: Education Revenue Augmentation Fund 25.33%; San Francisco Unified School District 7.70%; City and County Children's Fund 3.00%; City and County Library Protection Fund 2.50%
City and County Open Space Fund 2.50%; San Francisco Community College Fund 1.44%; Bay Area Rapid Transit District 0.63%; Bay Area Air Quality Management District 0.21%; County Office of Education 0.10%.

4. **Limit to areas with documented existing infrastructure deficiencies.** Because the City has not developed universally-applied and objective citywide standards for assessing the sufficiency (or deficiency) of existing neighborhood-serving infrastructure, BOS-adopted planning documents (like Area Plans) that qualitatively and/or quantitatively describe such deficiencies will suffice until new citywide standards are adopted at a later date. After the adoption of a new IFD policy, the Capital Planning Committee should be tasked with developing a systematic and quantitative set of criteria or standards for assessing existing neighborhood infrastructure deficiencies in the following areas: (i) neighborhood parks & open space improvements; (ii) "Better Streets" streetscape & pedestrian safety improvements; (iii) bicycle network improvements; (iv) transit-supportive improvements; (v) publicly-owned community center and/or child-care facilities. Furthermore, the CPC would need to adopt citywide standards to avoid the use of IFD funds for "gold-plated park benches,"—for facilities that far exceed citywide norms for cost and quality.
5. **Limit use of IFD monies to individual infrastructure projects where a source of long-term maintenance funding is identified.** Within an IFD, limit expenditure of IFD monies to projects that have identified a separate source of funding for ongoing maintenance and operations. In some cases this could be through public-private agreements, such as a Master HOA agreeing to maintain a public park or a Community Benefit District agreeing to fund long-term maintenance, or via the creation of a new supplemental property tax assessment district, like a Mello-Roos Community Facilities District.

Strategic Criteria:

- **In general, limit IFDs to parcels without any occupied residential use.** The City may want to exclude parcels that contain existing occupied residential structures. This is because IFD law requires an actual voter-based election if there are 12 or more registered voters within the proposed boundaries of an IFD. If there are less than 12 registered voters, the law only requires a weighted vote of the property owners, which, in general, should reduce the complexity and time required for forming a district. On the other hand, there may be circumstances where a voter-based election may be both desirable and manageable.
- **Use IFDs as a strategy to leverage additional non-City resources.** As noted in Threshold Criteria #1 above, IFDs should be used as a tool to leverage additional regional, state and federal funds, thereby serving a purpose beyond earmarking General Fund resources for needed infrastructure. In particular, IFDs may prove instrumental in securing matching federal or state dollars for transportation projects.
- **Consider adopting a limited policy of "overriding considerations" for situations where the BOS may have adopted zoning that purposely restricts or limits the economic "highest and best" use of a given area, thereby limiting or reducing the net General Fund benefit derived from a rezoning, but where other social policy objectives might dictate that some IFD revenues be spent on supportive infrastructure.**