CSMFO

YESTERDAY, TOMORROW AND FINANCE

2020 CSMFO ANNUAL CONFERENCE

JANUARY 28-31, 2020

DISNEYLAND CA

Transforming Local Government Finances Through Innovative Use of Special Taxes

Overview

- **Apply existing financing tools in a creative way to address policy goals**
  - Citywide Community Facilities District (CFD) for Services and Maintenance
    - City of Stockton
  - Pair land use policy with CFDs for transformative results
    - City of San Francisco CFD No. 2014-1 (Transbay Transit Center)
  - CFD Use Infrastructure Revenue Financing Districts (IRFDs) to fund affordable housing
    - San Francisco Treasure Island
  - Use a combination of CFDs and IFDs to address climate change and sea level rise
    - San Francisco Treasure Island
    - San Francisco Port Pier 70

City of Stockton: CFD Case Study (Services and Maintenance)

Case Overview

- **Why are we here?**
  - Stockton has approximately 6,000 residential units either underway or in the advanced planning stages.
  - With so many new units potentially being built in the near future, the City analyzed the fiscal impact of new residential development.
  - The City determined new residential development does not generate sufficient revenue to offset the cost of providing ongoing services and the continued maintenance of acquired facilities.

Residential Expense Overview

- **Residential Development Typically Results in Costs to Cities**
  - In a 2015 study on why home prices in California are among the highest in the nation, the California Legislative Analyst's Office stated:

> *"Many California cities and counties find that housing developments lead to more local costs than offsetting tax revenues. This is because these properties do not produce sales or hotel tax revenues directly and the state's cities and counties typically receive only a small portion of the revenue collected from the property tax."*

Source: California Legislative Analyst's Office: "California's High Housing Costs: Causes and Consequences" March 17, 2015

Residential Expense Overview

- **Why doesn't new residential development pay for itself?**
  - The small share of property tax directed to Stockton is the primary reason new residential development results in a net cost.
  - Stockton's share of property taxes was below the statewide average in the 1970s and was locked into place by Proposition 13 and associated state legislation that allocated property taxes.
  - The City's typical share of a property tax dollar is about 17 cents.
  - New development yields somewhere between 3 cents and 7 cents.
  - The City receives 20% of the County's share of property taxes for new development.
    - When County share is 32%, the City receives 6.4% (32%*20%).

General Cost Methodology

GF costs (police, fire, etc.) per person

Number of persons in development

Number of homes in development

GF cost per home

General Fund Revenue & Expenditures

- **General Fund Revenues**
  - Property Taxes
  - Sales and Use Tax
  - Utility Users Tax
  - Transient Occupancy Tax
  - In-Lieu of Motor Vehicle Fees
  - Licenses and Permits
  - Fines and Forfeitures
  - Charges for Current Services

- **General Fund Costs**
  - General Government – Charter Officers
  - Fire Department
  - Police Department
  - Public Works
  - Economic Development
  - Community Development
  - Community Services
    - Library
    - Recreation

Analysis Results

- **Cost Analysis**
  - The net cost of new residential development varies due to several factors including: density and types of homes, home prices, and property tax annexation rates.
  - Because revenues vary, the City analyzed multiple scenarios and the potential net cost is expressed as a range.
  - All scenarios showed net costs per residence per year ranging from $453 to $787 depending upon the assumptions used for home prices, the mix of proposed homes and density.
  - The analysis did not include costs outside of the General Fund.

Process Post-Analysis

- **Process Outline**
  - Staff presented analysis to Council in March 2018 and asked for guidance on a policy to authorize a services and maintenance CFD to address the unfunded costs.
  - Council requested staff to clearly identify what types of development would be subject to the policy.
  - Staff subsequently drafted a citywide Council policy that authorized a services and maintenance CFD and identified which developments are subject to the new policy.
  - Council adopted the policy in July 2018 that requires new development to annex into a services and maintenance CFD to ensure that adequate levels of services and maintenance of infrastructure are paid for by new development.
    - Council may waive or reduce the special tax (by 50 percent) on new residential development located in infill areas as defined in Municipal Code, or within state-designated disadvantaged areas.
  - Council subsequently created the CFD in spring 2019.
    - Two separate capital CFDs were formed during the formation process of the CFD. They were each required to have the same services and maintenance special taxes as if they annexed into the district.

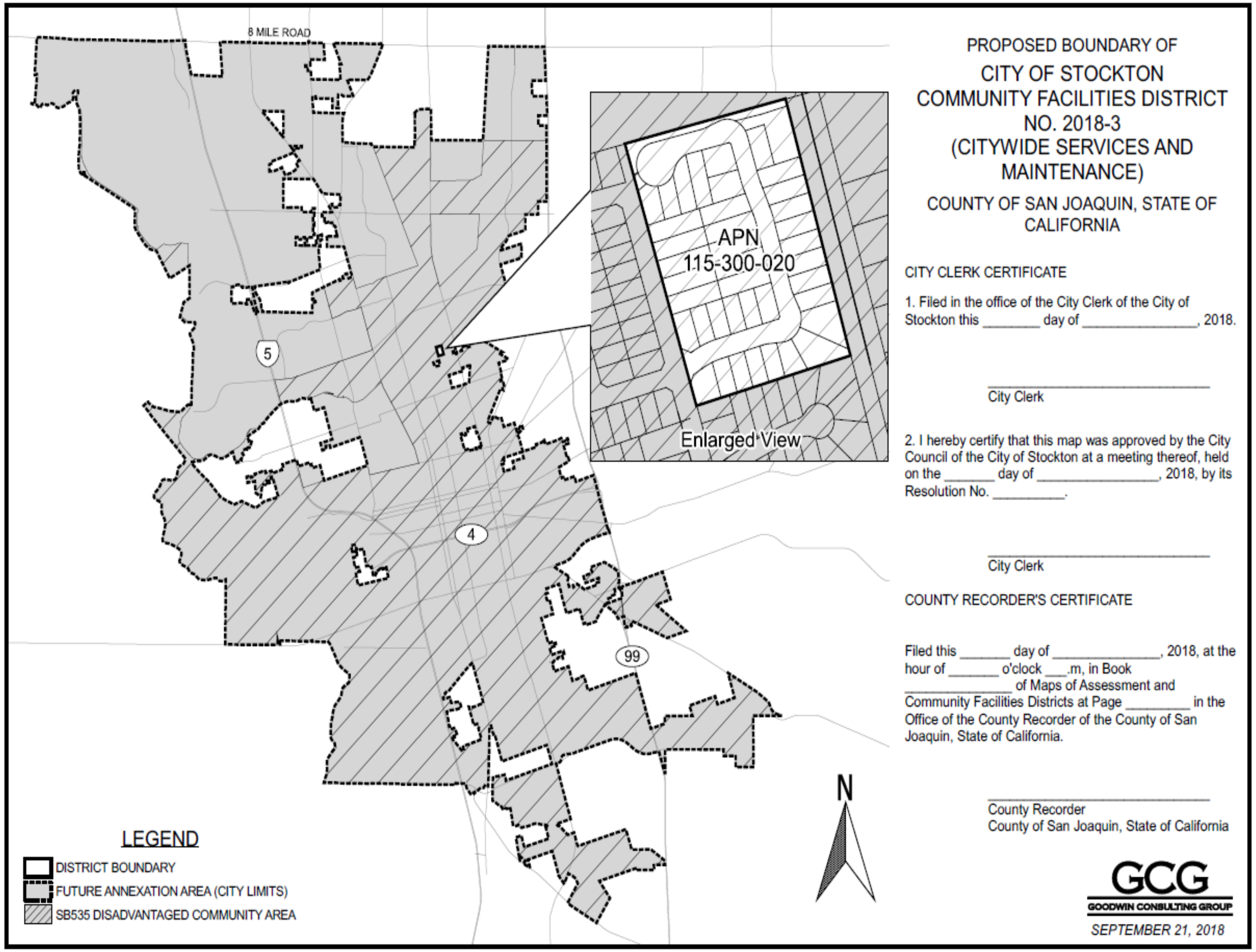
Meetings with Key Stakeholders

- **City Council Members and Local Stakeholders**
  - The City Manager and Municipal Advisor met with each member of the City Council individually to brief them in general on CFDs and the need for the services and maintenance special taxes.
  - City Council members were individually contacted by local developers and the Building Industry Association.
  - City staff met with several local developers interested in moving forward on residential projects.

Note: The provision of services and maintenance may pinch out the ability to charge a larger capital tax and thereby reduce the amount of bonds that may be issued to fund construction of public infrastructure

Future Development & City Boundary Map

- **Overview of Future Development**
  - The boundary map adopted on February 5, 2019 included a “future annexation area” for all subsequent new residential developments.
  - Parcels within the future annexation area can be annexed to the CFD with the unanimous approval of the owner or owners of each parcel or parcels at the time that parcel or those parcels are annexed, without any requirement for further public hearings or additional proceedings.
  - Future annexations into City limits will have simultaneous annexations into the CFD annexation area.



Special Tax Formula: Base Component

- **Special Tax Formula Overview**
  - Developed parcels in the proposed District will pay an annual special tax that includes a base component and covers administration expenses
  - The maximum allowable tax rates for the base component are outlined below and may rise at a rate of up to 4% per year*, with a supplemental component (next page) to maintain and replace the area-specific infrastructure the City requires as part of its development approvals

Tax Zone	Maximum Supplemental Component (Fiscal Year 2018-19)
Tax Zone 1	
Single Family Residential	$500
Multi-Family Residential	$330

*Actual escalation rate to be determined as part of the budget process each year

Special Tax Formula: Supplemental Component

- **Special Tax Formula Overview**
  - New development not covered by a separate capital CFD will be required to include a supplemental component to maintain and replace infrastructure put in place as a condition of development
  - This separate component is calculated based on the formula below, and rises at a rate of up to 2% per year*, however, it is not applied until the 31st year after annexation, when replacement and maintenance of area specific infrastructure is anticipated to be needed

Tax Zone	Maximum Supplemental Component (Fiscal Year 2018-19)
Tax Zone 1	
Single Family Residential	$360
Multi-Family Residential	$240

*Actual escalation rate to be determined as part of the budget process each year

Conclusion

- **Summary of Case Study**
  - Staff analyzed expected tax revenues from new residential development and determined those revenues were insufficient to cover the City's costs to serve and maintain that development.
  - Staff brought the issue to Council for a full and public discussion.
  - Numerous internal meetings/briefings and 4 public meetings occurred to bring the Council policy and accompanying CFD to fruition.
  - Establishing the Council policy was important to establish consistent business rules for future development.
  - Other costs such as roads, lighting, landscaping and storm basin maintenance are handled separately from the services CFD.

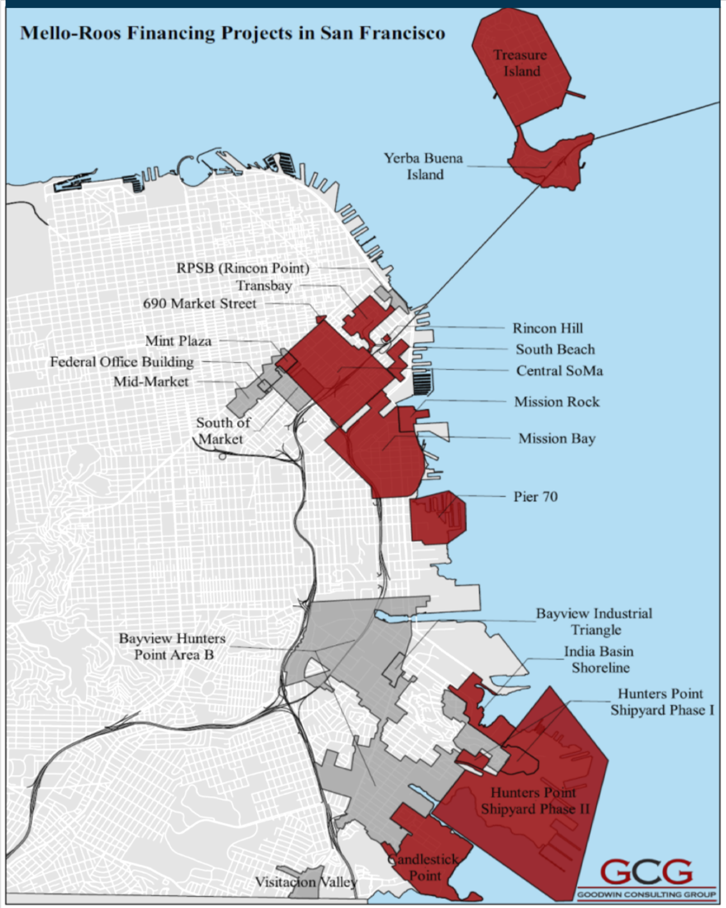
Development Related Infrastructure Financing Tools

Development-Related Infrastructure Financing Tools

- **Community Facilities District (CFDs)**
  - Historically used for “green field” subdivisions
  - Increasingly used for urban in-fill projects
  - Wider usage increases market acceptance

- **Infrastructure Financing Districts (IFDs)**
  - Similar to “old school” redevelopment
  - More limited revenue stream
  - Only share of 1% property tax revenues of city, county or special districts that opt in
  - Schools’ share of revenues are excluded
  - Works best in tandem with other tools, like a CFD

Illustrative Urban In-fill CFDs in San Francisco



Land Use Up-Zoning with a CFD

San Francisco's Original Transbay Terminal

- **Original Transbay Terminal**
  - Opened in 1939 to serve trains crossing the newly opened Bay Bridge and regional buses
  - Served as many as 26 million commuters annually at its peak in the 1940s
  - Damaged by the Loma Prieta earthquake in 1989
  - In 1999, San Francisco voters approved a proposition to build a new Transbay terminal and extend CalTrain tracks to it – at an expected cost of $621 million

East Bay Train Service

Original Transbay Terminal

San Francisco's Original Transbay Terminal

- **Three Components**
  - Build new terminal to replace original Transbay Terminal
  - Extend rail tracks from CalTrain terminus to the new terminal
  - Develop a new neighborhood around the new terminal
- **Transbay Joint Powers Authority (TJPA)**
  - Created in 2001 to execute the Transbay Program
  - Multi-agency collaboration
  - City, AC Transit, CalTrain, Caltrans
- **Plan of Finance**
  - Cost estimates have grown to > $6 billion
  - More than $2 billion invested to date
- **Federal, State, Regional and Local Funds**
  - ARRA grant and TIFIA loan
  - Caltrans land sale proceeds
  - Bridge tolls and regional sales tax revenues
  - Tax increment
  - *Special tax revenues*

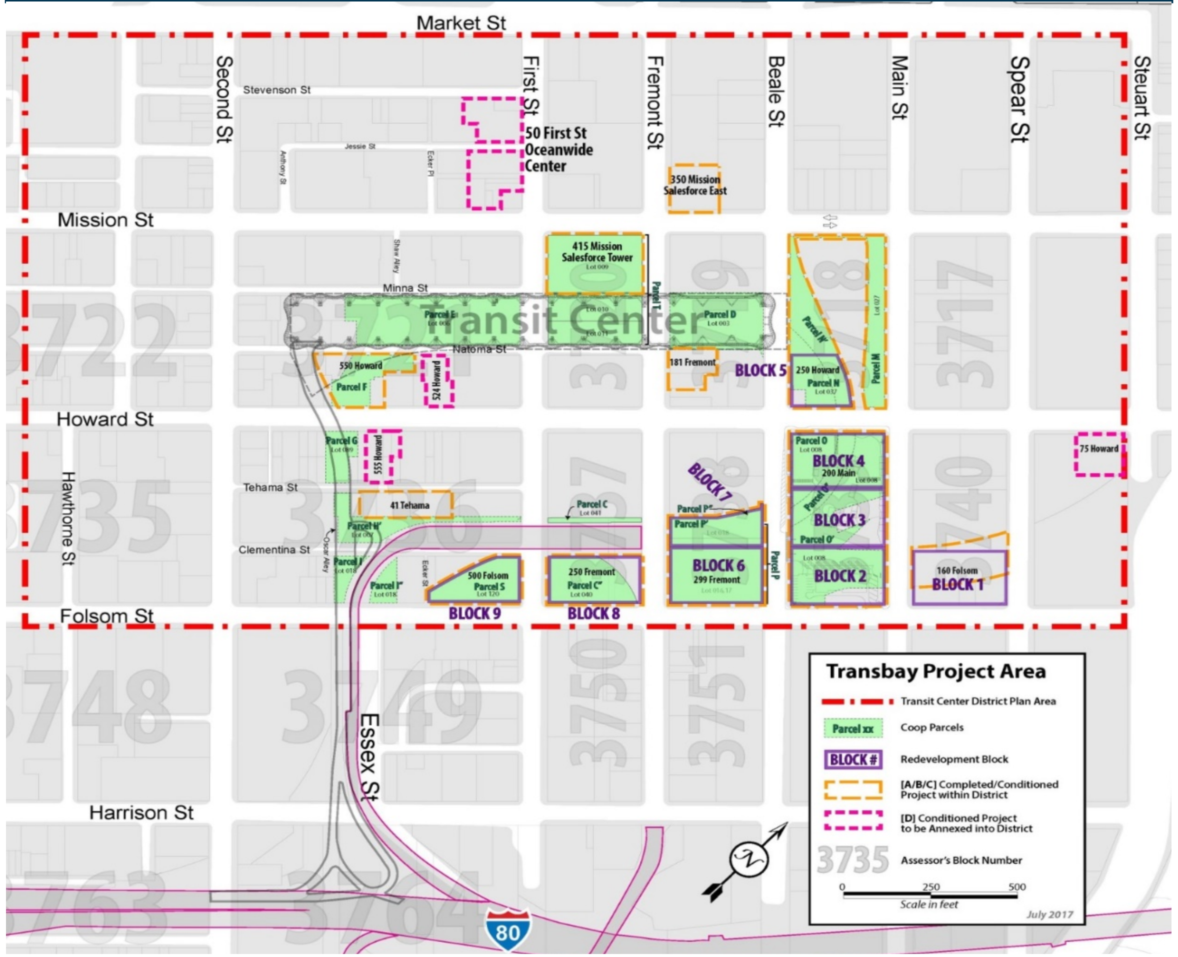
Side View Rendering of Salesforce Transit Center

Transbay CFD Leverage Land Use Up-Zoning

- **Transit Center District Plan**
  - City approved in 2012
  - Shapes growth near new terminal
  - Eliminated certain density caps
  - Increased height limits

- **CFD No. 2014-1**
  - City formed in 2014
  - Special taxes levied only upon *completed* buildings
  - Each taxed for up to 30 years
  - “Future annexation area” covers Transit Center District Plan area
  - Projects using density bonuses *must* annex into the CFD

CFD No 2014-1 Boundaries and Future Annexation Area



Transbay Skyline

Transbay Skyline

1980s vs 2017

Transit Center

The Salesforce Transit Center is Now (Re)Opened

View of Salesforce Transit Center

Salesforce Park

Transbay CFD Financings

- **Two rounds of taxable financings issued to date**
  - Nearly $400 million sold out of $1.4 billion total bond authorization
  - Bond proceeds split by TJPA and the City for costs of new terminal and neighborhood
  - Additional sales expected as development proceeds
- **Each sale included a "Green Bonds" series**
  - Certified by the Climate Bonds Initiative (CBI) under the Low Carbon Transport Criteria
- **Drone video link:**

https://clients.dronebase.com/v/613fc617f267dfff817ea9f46844712b

A Drone Video Highlighted Location

Green Bonds Overview

- **“Green Bonds” are used to fund climate-related or environmentally beneficial projects**
  - i.e. Clean transportation, renewable energy, sustainable water management
- **Large and growing global market**
  - Over $10 billion of municipal “green bonds” were issued in 2017
- **Growing political support with the Green Bond Pledge**
  - Focuses on environmental impacts of infrastructure investments and capital projects
- **Symbolic or impactful**
  - Helps raise awareness, pricing benefit seen principally in taxable markets to date

Major Green Bond Investors

Green Bond Pledge Signatories

Development Projects Using Infrastructure Financing Districts

Aerial View of San Francisco Treasure Island

Treasure Island Development Authority (TIDA) guides redevelopment of former naval base

- **Yerba Buena Island**
  - 150 acre natural island, anchors Bay Bridge
- **Treasure Island**
  - 400 acre man-made island
  - Hosted 1939 International Golden Gate Exhibition
  - Naval Station from 1941 to 1997

Treasure Island Development Plan

- **Multi-phased development over 15-20 years**
  - Up to 8,000 homes, including 25% affordable
  - 240,000 sf commercial/retail/office and 500 hotel rooms
  - Ferry terminal, 400 slip marina, 300 acres of parks and open space

Rendering of Planned Development

Treasure Island Rendering

- **Additional points**
  - Treasure Island Community Development (TICD) is developing Treasure Island
  - Signed a Development Agreement (DDA) with the City and TIDA in 2011

Rendering of Planned Development and Ferry Terminal and Historic Administration Building

San Francisco Treasure Island Finance Plan

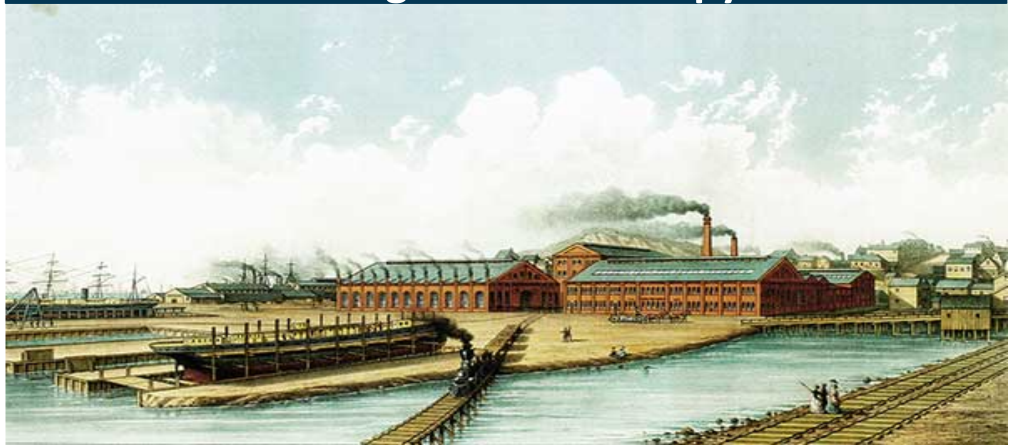
- **Huge infrastructure needs**
  - Over $800 million of infrastructure needs
  - Additional sea level rise projects expected
  - Using ***both*** CFDs and IFDs *additively*
- **CFD formed in 2017**
  - Multiple improvement areas anticipated
  - Facilities special tax term of 100 years in first improvement area, then transitions to a service tax
  - Pay-Go tax capacity for capital in first 42 years, sea level rise thereafter
- **IFD formed in 2017**
  - Using an Infrastructure and Revitalization Financing District (IRFD) form of IFD
  - Staggered project areas with separate tax collection start thresholds
  - Net tax increment shared by TICD for capital and TIDA for affordable housing

San Francisco Port Pier 70

- **Redevelopment of former shipyard**
  - At least 1,100 residential units
  - 30% affordable
  - Up to 2 million sq.ft. commercial
  - 9 acres of new parks
  - Historic renovations
- **Owned by the Port of San Francisco**
  - Purchased from Bethlehem Steel in 1982

Historic Shipyard Building

Rendering of Historic Shipyard



Pier 70 Infrastructure Finance Plan

- **Infrastructure financing district formed**
  - Used Port's own IFD statute
  - Will capture future tax increment from growth
- **Multiple CFDs will be formed**
  - Residential condominium projects
  - Leasehold interests on Port-owned land
  - Used as source for up-front financings
- **Intertwined cash flows**
  - Tax increment will be used to *reduce* the Special Tax levy in the future
  - Port shares equity interest in project

View of Downtown SF from Pier 70

Rendering of Planned Pier 70 Development

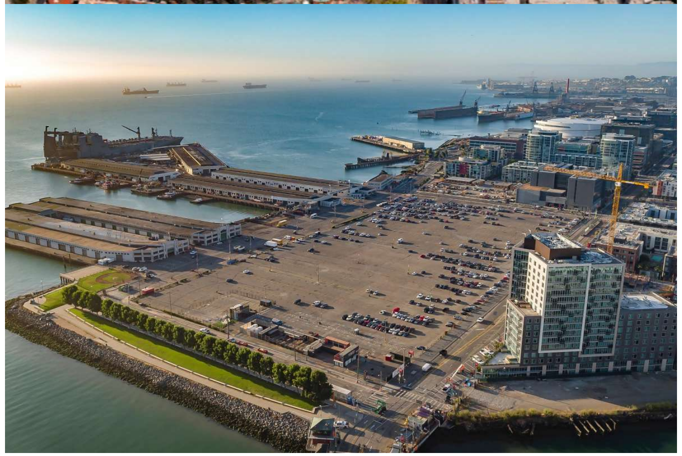
Mission Rock

- **Redevelopment of the parking lot across from the baseball park**
  - Partnership between the Port of San Francisco, the Giant's and developer Tishman Speyer

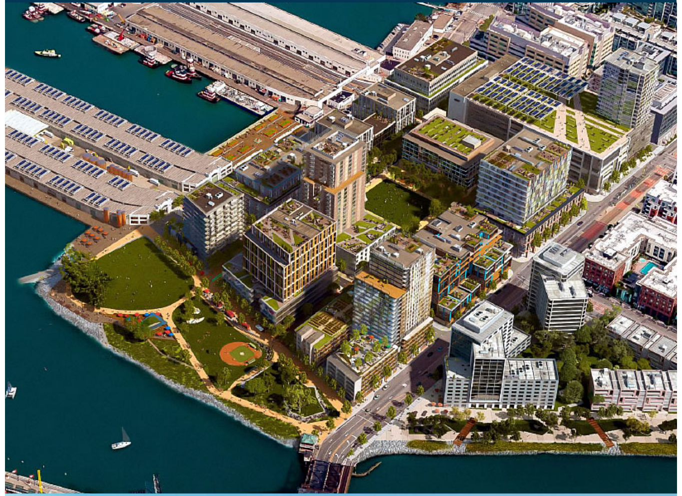
GIANTS TISHMAN SPEYER PORT OF SAN FRANCISCO

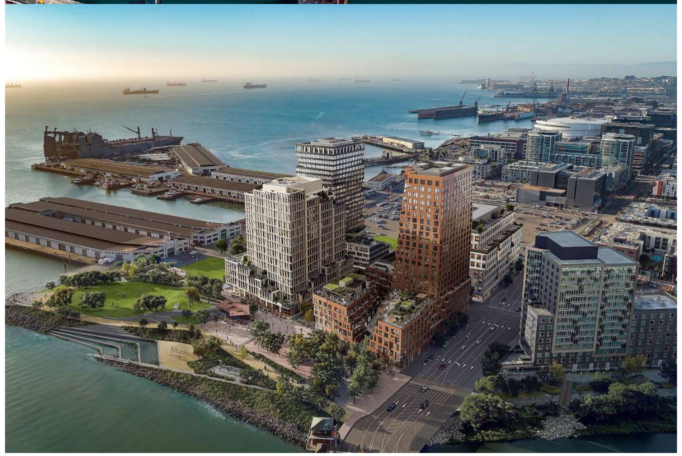
- **New 28 acre mixed-use neighborhood**
  - 8 acres of new parks and open space
  - Approx. 1,200 new rental homes, 40% affordable to low and middle income individuals and families
  - Sea level rise resiliency and adaptation features
  - Historic rehabilitation of Pier 48
  - Job preservation and creation
  - Public waterfront access improvements along Blue Greenway trail

Mission Rock Site Today



Renderings of Planned Development





Mission Rock Infrastructure Financing Plan

- **Infrastructure anticipated to be delivered in 4 phases, linked closely to vertical construction**

Excess Land Proceeds → $ → Port | Mission Rock

Developer Return (18%) → $ → Mission Rock

Port Return (10%) → $ → Port

Revenue-Sharing Maximization Strategy
- Limit Developer Capital
- Maximize Public Financing
- Tax-Exempt Debt
- Port Capital

PREDEVELOPMENT

Phase 1

Phase 2

Phase 3

Phase 4

Qualified Project Costs

$ Land Value

$ Port Equity

$ Developer Equity

Community Facilities District (CFD)

Early CFD Bonds ← $ ← Development & Office Special Tax

Shoreline Special Tax

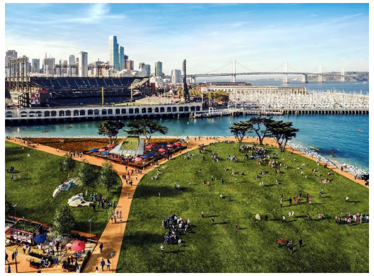
Services Special Tax

Later IFD Bonds ← $ ← Net Incremental Property Taxes

Tax Increment Offset of CFD Tax *(Commercial Only)* → $ → Development & Office Special Tax

Infrastructure Financing District (IFD)

Sea Level Adaptation - Site Grade Change



End of Session