

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: RAISSA DE LA ROSA, DEPUTY DIRECTOR
PLANNING AND ECONOMIC DEVELOPMENT
SUBJECT: RESOLUTION OF INTENTION TO ESTABLISH THE
DOWNTOWN ENHANCED INFRASTRUCTURE FINANCING
DISTRICT, AND RESOLUTION ESTABLISHING A PUBLIC
FINANCING AUTHORITY AND AUTHORIZING OTHER ACTIONS

AGENDA ACTION: RESOLUTIONS

RECOMMENDATION

It is recommended by the Planning and Economic Development Department that the Council: 1) adopt a Resolution of Intention to form the Downtown Enhanced Infrastructure Financing District; and 2) adopt a Resolution to establish a Public Financing Authority as the Governing Board of the District, and authorizing other actions.

EXECUTIVE SUMMARY

An Enhanced Infrastructure Financing District (EIFD) is a financing tool that supports public infrastructure and development that in turn supports and incentivizes private investment into specific areas where high density housing and mixed-use development is desired. The City's interest in exploring the potential of an EIFD was first raised in 2016 during the development of the City's Housing Action Plan, and was raised again following the 2017 Tubbs Fire event as a viable option to bolster and help perpetuate Santa Rosa's economic recovery. In 2022, interest turned to effort with the engagement of consultant services to help evaluate the opportunity and prepare the district formation elements. The Resolution of Intention (ROI) is the first step in establishing an EIFD and allows staff to proceed with evaluating the fiscal impacts, confirm eligible projects, and prepare an Infrastructure Financing Plan (IFP) for future Council consideration. At the same time as the ROI is adopted, the Council must also establish a Public Financing Authority (PFA) as the governing board for the EIFD.

BACKGROUND

On February 15, 2022, Council passed Resolution No. RES-2022-029 allocating \$80,000.00 of PG&E Settlement Funds in support of pursuing an EIFD. In August 2022,

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the City released a Request for Proposals (RFP) seeking consultant services related to the evaluation of EIFDs in Santa Rosa, and the development of the required Infrastructure Finance Plan. DTA, a public finance, assessment engineering, and development economics consulting firm, was selected to guide the City's efforts. In addition to DTA, the City previously engaged the services of independent financial consultant Robert Gamble (Gamble Strategies), the former Managing Director in the San Francisco office of municipal advisor PFM, as well as Chris Lynch of Jones Hall, who serves as bond counsel, disclosure counsel and underwriter's counsel in financings that include EIFDs. All consultants to the City have worked on numerous EIFDs in other jurisdictions and are well versed in the law and process.

Concurrent with the City's RFP process, a self-formed public advisory ad hoc committee consisting of members from the two downtown community benefit districts, the Downtown Action Organization and the Railroad Square Association, met with staff to voice strong interest and support of an EIFD formation.

Furthermore, EIFD presentations and discussions were held with both the Economic Development Subcommittee and the Renewal Enterprise District Board over the past few years; most recently on February 14, 2023, at the Economic Development Subcommittee, and on April 3, 2023, at the Renewal Enterprise District Board Meeting.

PRIOR CITY COUNCIL REVIEW

On October 27, 2020, the City Council conducted a study session to review infrastructure financing district information and to provide direction to staff. Presented and discussed were the legislative history, opportunities for investment, revenue sources, process of approval, plan requirements, and an overview of tax increment growth.

ANALYSIS

The formation of an EIFD provides a financing tool that is available to support infrastructure project development that in turn supports private development such as high-density housing and residential mixed-use projects. An EIFD is a type of special financing district that utilizes a portion of tax increment revenue from a specifically defined area to finance capital facilities or other specified projects of community-wide significance that provide benefits to the area within the EIFD or the surrounding community.

The California Legislature authorized the formation of EIFDs in 2014 through Senate Bill 628. The statutory framework for EIFDs, which has since been amended multiple times since 2014, is codified in Chapter 2.99 of Part 1 of Division 2 of Title 5 of the California Government Code (commencing with Section 53398.50) (EIFD Law).

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Pursuant to the EIFD Law, proceedings for the establishment of an EIFD are instituted by Council adopting a Resolution of Intention (ROI). In addition to stating the City's intent to form the EIFD, the ROI must:

1. Describe the boundaries of the proposed EIFD.
2. State the type of public facilities and development proposed to be financed or assisted by the EIFD.
3. State the need for the EIFD and the goals it proposes to achieve.
4. State that incremental property tax revenue from the City or other affected taxing entities may be used to finance the activities of the EIFD.
5. Select a time and place for a public hearing.

The ROI is the first step in establishing the EIFD. If approved, staff will proceed to evaluate the fiscal impacts, confirm eligible facilities, and prepare an Infrastructure Finance Plan (IFP) for future Council consideration. At the same time as the ROI is adopted, the Council must also establish a Public Financing Authority (PFA) as the governing board for the EIFD.

A summary of each of the requirements outlined above is provided as follows:

Proposed Boundaries

District creation with boundaries in the Downtown and Roseland areas were initially considered, either as one contiguous district or as two distinct districts. Upon analysis and discussion, pursuit of a single Downtown district was found to be the most immediately viable option, primarily due to substantial existing support from the Downtown area Community Benefit Districts, combined with the interest in forming within a base year that would capture the tax increment of currently active projects. The formation of a Roseland area district may be considered at a future date.

The proposed Downtown EIFD boundary (Attachment 1 –Santa Rosa Downtown EIFD Boundary Map; *figure 2 below*) considers the boundaries and formation intentions of the Railroad Square and Downtown Community Benefit Districts, as well as the boundaries of the Downtown Station Area Specific Plan and the Qualified Opportunity Zone (*figure 1*). Working with City staff, City consultants, and the Community Benefit Districts' EIFD ad hoc group, the map was fine-tuned to carve out low density residential built-out areas, while including all significant future development sites, including areas of potential conversion from public/institutional use, as well as commercial properties. In addition, the Roberts Road area was set aside for the more logical inclusion in a future Roseland EIFD.

Specifically, in reference to the Downtown Station Areas Specific Plan map, the five carve-out areas that are excluded from the EIFD boundary as proposed are:

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- West Third Street corridor – This area is already developed predominantly with residential; therefore, there is relatively modest opportunity for significant tax increment income through new development.
- Roberts Road area south of Highway 12 and west of Highway 101 – This area is better aligned with a potential future Roseland Area EIFD since it is the east anchor of the Sebastopol Road corridor. This corridor is the central Roseland axis which, in the past, has been part of Roseland study areas. Publicly desired infrastructure upgrades in the Roberts Road area as part of an EIFD formation process should be examined holistically within the rest of that corridor.
- Cherry Street Residential/Historic Neighborhood – This area is already developed with mostly low-density residential uses and, as an historic district, there is little opportunity for significant tax increment income through new development.
- The residential areas on either side of 101 from just below the College Avenue commercial corridor, to the railroad tracks (west), B Street (south), and North Railroad Square/Seventh Street (east) – This area is already developed predominantly with residential, therefore there is relatively little opportunity for significant tax increment income through new development.
- West End residential area – This area is already developed predominantly with residential; therefore, there is relatively little opportunity for significant tax increment income through new development.

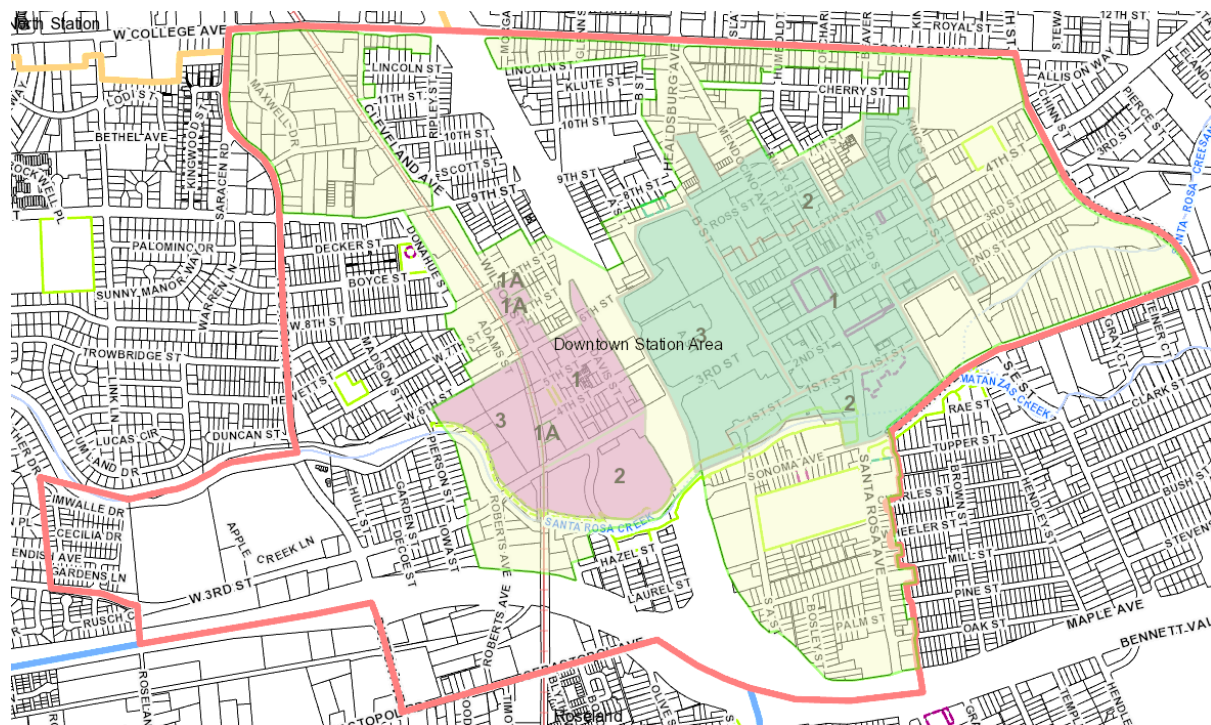


Figure 2

- Downtown Station Area Specific Plan
- Railroad Square Community Benefit District
- Downtown Community Benefit District
- EIFD Boundary

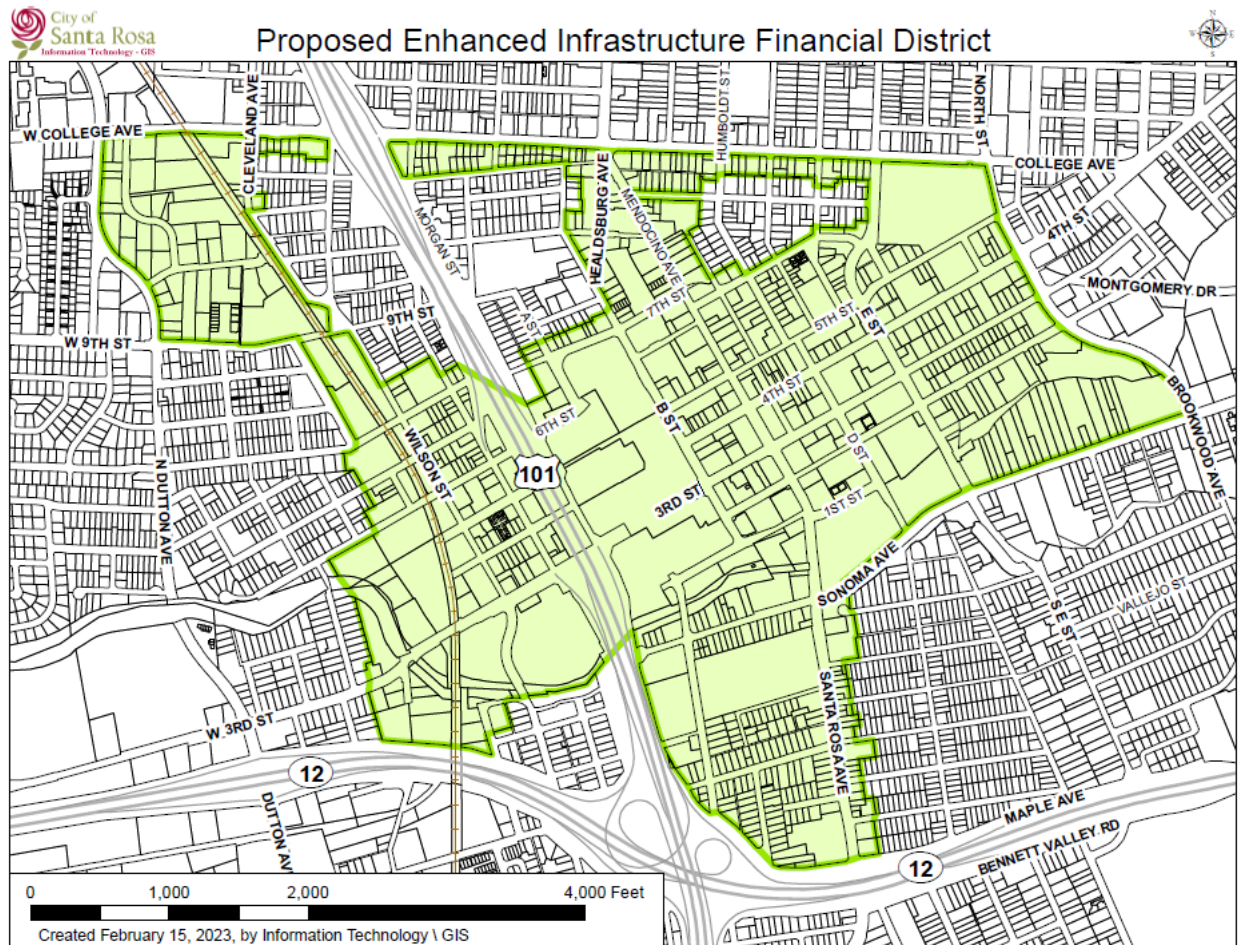


Figure 2

Public Facilities to be Considered for Financing

EIFDs are a tool to support infrastructure improvements such as public safety or transit facilities, streets, parking, wayfinding and signage, parks and open space, lighting, pedestrian connectivity improvements, and other types of mixed-use and housing-supportive infrastructure. Eligible projects also include affordable housing, childcare facilities, and libraries. The list of proposed potential projects for the Downtown EIFD are recommended to include projects outlined in the Mendocino Avenue and Santa Rosa Avenue Corridor Plans, as they may be amended from time to time; projects identified in the Downtown Station Area Specific Plan, as it may be amended from time to time, projects identified in the Downtown Pedestrian Access Improvement Plan, as it may be amended from time to time, a 2010 placemaking guideline report and street furniture palette document. As such, improvements may include Courthouse Square upgrades, reconstruction of streetscapes, lighting, sidewalk reconstruction, public parklets, plantings, additional wayfinding, ADA improvements, bike racks, intersection special paving, downtown entry monuments, etc.; alleyway and vest pocket area

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reconstruction such as the reconstruction of Jeju Way and Comstock Mall with lighting, security features, plantings/plant structures, wayfinding and placemaking, and family friendly features; B Street corridor / Mall / Seventh Street linkage; Transit Mall upgrades and other regional transit needs.

Projects will be identified through the IFP process, which includes three public hearings held by the PFA and a defined period during which written feedback will be accepted. The IFP must be reviewed and approved by City Council and the County Board of Supervisors prior to being formally adopted by the PFA.

Value of EIFDs

EIFDs are a method for local agencies acting individually or collectively (i.e. with the County) to capture a portion of revenues resulting from economic growth within a specified boundary and invest it back into that area in a variety of activities that will provide a communitywide benefit, thereby acting as an incentive for additional economic investment. There are no new taxes with EIFDs, nor do they encumber existing revenue sources that are currently flowing to the City or County; instead, an EIFD leverages incremental property tax revenues that are generated by increased assessed values in the EIFD's boundaries. EIFDs provide a financing tool that can complement other public financing programs existent in the Downtown, including Opportunity Zones, development impact fees, land-secured financing districts, and federal and state grants and loans that can be used to fund public infrastructure.

The economic development encouraged by EIFDs is reflected through increased local employment and locally generated profits, as well as greater amounts of property, sales, and transient occupancy taxes that can directly benefit the General Fund. In addition, EIFDs are beneficial to district property owners because they ensure a portion of their ad valorem property taxes will be retained locally and utilized on local infrastructure.

Should the City decide to pursue the sale of bonds, they are secured solely by the EIFD's tax increment revenues. These bonds are not secured by the City's General Fund.

Use of Incremental Tax Revenue

Property taxes provide the primary means for capturing economic growth. The concept of tax increment relies on an underlying assumption that infrastructure investments will produce sufficient economic activity to generate property tax revenue that will be sufficient over time to finance the investment. EIFDs have access to two primary streams of property tax increment from taxing entities that voluntarily choose to participate in the EIFD: 1) the portion of local property tax revenues generated by the 1% general ad valorem tax, and 2) the property tax increment that is attributable to the Vehicle License Fee swap adopted in 2004.

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Property tax growth relies on improvements or changes in ownership to drive up the assessed value of land, and therefore increased revenues. Increment also depends not just on economic activity, but on the share of the property tax contributed by participating jurisdictions. Cities receive a small share of the property tax compared with counties, so acting alone would generate little increment for investment. Hence, while either a city or a county can independently initiate proceedings to set up an EIFD, for Santa Rosa it is most beneficial to form an EIFD in partnership with the County in order to derive an adequate amount of increment to invest in projects identified in the Infrastructure Financing Plan.

An Infrastructure Financing Plan (IFP), to be prepared in accordance with EIFD Law, outlines the EIFD's investment program as well as the fiscal impacts to participating jurisdictions. Council, and the Board of Supervisors should they choose to participate, will have the opportunity to review and approve the IFP and the proposed use of incremental property tax revenue prior to formation of the EIFD. Incremental property tax revenue allocated to an EIFD may be used to pay for public capital facilities or other specified projects on a pay-go basis or it may be used to pay dept services on bonds issued by the EIFD.

Establishing a Public Financing Authority (PFA)

Section 53398.51.1(b) of the EIFD Law requires that a PFA be established at the same time Council adopts the Resolution of Intention. The five-member PFA will serve as the governing board of the EIFD and is to consist of two (2) members of Council, two (2) members of the public, and one (1) member of the County Board of Supervisors should the County agree to participate. If the County does not participate, the fifth member of the PFA will be a third member of the Council. A public meeting will be held at which a draft IFP will be presented, after which the PFA will conduct two public hearings on the formation of the EIFD, and review and fine-tune the IFP. Once completed, the IFP will be distributed to Council, the County, and other interested parties as identified in EIFD Law, with the City and County approving the IFP by resolution. Subsequently, at a third and final public hearing, the PFA can then approve the IFP and officially establish the EIFD. The PFA cannot establish the EIFD without Council first approving the IFP. An overview of the estimated process timeline is as follows:

4/25/23	CITY COUNCIL: Resolution of Intention & Resolution establishing the PFA
5/9/23	CITY COUNCIL: PFA Appointments made
week of 6/26	Public meeting to present draft IFP; open public comments
8/2/23	PFA holds first public hearing

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9/6/23	PFA holds 2nd public hearing
10/10/23	CITY COUNCIL + BOS meetings to approve Resolutions approving IFP
10/18/23	PFA holds 3rd public hearing to approve the IFP and adopt Resolution of Formation
Nov. 2023	Request for Jurisdictional Boundary Change with the State Board of Equalization

FISCAL IMPACT

The creation of an EIFD will not decrease the amount of Property Tax revenue the General Fund receives. Instead, the Property Tax generated within the EIFD boundaries will be frozen at the amount in the assessment roll that was last equalized prior to formation of the EIFD, creating a base year. The City and the County will allocate to the EIFD (i) incremental tax revenue generated by application of the 1% general ad valorem tax to increases in assessed value in the EIFD above the EIFD's base year values and (ii) the property tax increment that is attributable to the Vehicle License Fee swap that corresponds to the increase in the assessed valuation of taxable property in the EIFD. These funds may be used to pay for improvements on a pay-go basis, or to pay back bonds issued against the tax increment revenue. It should be noted that bond investors are expected to require approximately 125% minimum debt service coverage generated by the tax increment to support the bonds, and this may take up to five years to generate. The City has no additional financial obligation if the incremental property tax revenue generated is insufficient to cover the cost of the proposed improvements or bond debt service.

ENVIRONMENTAL IMPACT

This action is exempt from the provisions of the California Environmental Quality Act (CEQA) under CEQA Guidelines Section 15061(b)(3) and 15378 in that there is no possibility that the implementation of this action may have significant effects on the environment, and no further environmental review is required.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

On February 14, 2023, the Economic Development Subcommittee, the purpose for which is to provide preliminary guidance to staff on complex issues related to Council goals, was provided an overview of the EIFD formation process, potential eligible public improvements, and the proposed Downtown EIFD boundary map. The Subcommittee was supportive of staff moving forward with the attached map (Attachment 1), and to

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bring the item to the full Council for consideration.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Attachment 1 –Santa Rosa Downtown EIFD Boundary Map
- Resolution of Intention – Santa Rosa Downtown EIFD
- Exhibit A – Description of Facilities
- Exhibit B – Downtown SR EIFD Map
- Resolution – Santa Rosa Downtown EIFD Public Financing Authority

PRESENTER

Raissa de la Rosa, Deputy Director Planning and Economic Development