

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: GABE OSBURN, DIRECTOR
PLANNING AND ECONOMIC DEVELOPMENT
SUBJECT: DOWNTOWN ENHANCED INFRASTRUCTURE FINANCING
DISTRICT TAX PERCENTAGE COMMITMENT

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Departments of Planning and Economic Development and Finance that the Council, by resolution, set forth the maximum portion of the City's property tax increment to be included in the Downtown Enhanced Infrastructure Financing District's draft Infrastructure Financing Plan to fifty percent (50%) of the total property tax increment collected within the district's boundaries.

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 mixed-use development is desired. In April of 2023, the City Council adopted a Resolution of Intention to form the Downtown EIFD District (District) and adopted a Resolution to establish a Public Financing Authority (PFA) as the governing board of the District. The Planning and Economic Development Department is finalizing the draft Infrastructure Financing Plan (IFP), which is a requirement under the Government Code and must be adopted by the taxing entities and the PFA prior to adopting a Resolution of Formation and creating the District. The IFP must include, among other items, the maximum portion of the incremental tax revenue of the taxing entities to be committed to the District for each year during which the District will receive incremental tax revenue. Staff is recommending that the Council provide formal direction on the tax commitment to be included in the draft IFP, which will provide certainty through the IFP preparation and adoption processes.

The formation of an EIFD provides a financing tool that is available to support infrastructure project development that in turn supports private mixed-use development 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

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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).

Pursuant to the EIFD Law, proceedings for the establishment of an EIFD are instituted by Council adopting a Resolution of Intention (ROI) and by establishing a Public Financing Authority (PFA) as the governing board for the EIFD. On April 25, 2023, the City Council approved Resolutions No. RES-2023-076 and RES-2023-077 to establish the EIFD and PFA, respectively, including the following requirements per the EIFD Law.

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

During the April 25, 2023 City Council meeting, staff presented potential projects for the Downtown EIFD. The presented list included projects outlined in the Mendocino Avenue and Santa Rosa Avenue Corridor Plans, projects identified in the Downtown Station Area Specific Plan, the Downtown Pedestrian Access Improvement Plan and the 2010 placemaking guideline report and street furniture palette document. Specific improvements were identified to include Courthouse Square upgrades, reconstruction of streetscapes, lighting, sidewalk reconstruction, public parklets, plantings, additional wayfinding, ADA improvements, bike racks, intersection special paving and downtown entry monuments. Staff also identified alleyways and vest pocket areas for improvement, such as the reconstruction of Jeju Way and Comstock Mall with lighting, security features, plantings and plant structures, wayfinding and placemaking, and family friendly features. Improvements along the B Street corridor, Simon Mall, and Seventh Street linkage, along with Transit Mall upgrades and other regional transit needs were also identified.

Upon approval by City Council of the formation of the EIFD, staff engaged with representatives of the County of Sonoma to determine the members of the PFA and to establish a meeting schedule. The PFA's first meeting was held on September 14, 2023 and seven meetings have occurred since the inception.

On February 27, 2024, the Sonoma County Board of Supervisors established a policy setting the minimum requirements for the County's participation in an EIFD with one or more taxing entities. Sonoma County's EIFD policy lists the following minimum requirements:

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1. The City's contribution of property tax increment in percentage must be greater than or equal to the County's property tax increment contribution.
2. The County will not contribute 100 percent of its property tax increment.
3. A fiscal analysis must be conducted and must demonstrate a positive net impact to the County General Fund that is attributable to the tax revenue generated from the proposed EIFD and should account for avoided costs resulting from EIFD-funded projects.
4. In addition to supporting economic development, projects in the proposed EIFD must align with established Board strategic priorities in one or more of the following areas: a) affordable housing, b) climate adaptation and resilience, c) transit-oriented development, d) active transportation, or e) advancing racial and social equity.
5. An EIFD proposal must be consistent with Division 2 of Title 5 of the California Government Code (Section 53398.5 - 53398.88), which authorizes the formation of EIFDs.

On April 30, 2024, the Sonoma County Board of Supervisors held a workshop at which City staff, along with the City's EIFD consultant, David Taussig and Associates (DTA), presented an overview of the proposed EIFD. City staff also presented general information about the EIFD IFP, the investment plan that must be approved by the PFA and each taxing entity represented on the PFA. City staff also shared with the Board potential public infrastructure projects that may be proposed for the Downtown EIFD. Project categories included: improving connectivity between Downtown and Railroad Square, improving and making more accessible existing public space (Comstock Mall), beautification of existing public right-of-way, affordable housing development, and large-scale development projects such as a conference center.

On August 20, 2024, the Sonoma County Board of Supervisors held a meeting to provide input on projects and project categories that the City had previously proposed, as well as the amount of County property tax increment to be committed to the District. The Board of Supervisors provided general support for the proposed project categories that were presented during the April 30, 2024 workshop and committed to a property tax allocation of twenty-five percent (25%) of the increment to the EIFD.

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.

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.

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On April 25, 2023, the City Council approved Resolutions No. RES-2023-076 and RES-2023-077 to establish the EIFD and PFA, respectively, including specific requirements consistent with EIFD law.

ANALYSIS

Under an EIFD, 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 (VLF) swap adopted in 2004.

The IFP, 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, will have the opportunity to review and approve the IFP and revisit 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 as you go basis, or it may be used to pay debt services on bonds issued by the EIFD.

EIFD Law requires that the IFP and formation of the EIFD occur through a defined process. A public meeting must 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 each 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 and the County each first approving the IFP.

Government Code Sections 53398.59 through 53398.74 identify the specific elements that must be included within any IFP. A critical component to the formation of the IFP is determining the maximum portion of the incremental property tax revenue of the taxing entities proposed to be committed to the District for each year during which the District will receive incremental tax revenue. The tax commitment affects the cash flow estimates and is a critical component to finalizing the financial section of the IFP and determining the fiscal impacts of the district upon each taxing entity.

The EIFD proposed for Downtown Santa Rosa is anticipated to support a range of placemaking and beautification improvements which will be outlined in the Infrastructure Financing Plan (IFP). While a singular specific project for the EIFD has not been identified at this time, the adoption of a generalized project approach within a high-

density commercial area such as Downtown Santa Rosa is expected to yield economic, social, and cultural benefits.

Economic Multiplier Effect and Value Generation

Public investments are known to boost economic benefits through the "multiplier effect," wherein each dollar spent generates additional economic activity. Exact multipliers vary depending on the specific project and the estimated return on the investment associated with the various project types that will ultimately be funded by the EIFD cannot be calculated at this point in time. EIFD funds allocated to general placemaking, and beautification could yield up to 1.5 times their economic value. For placemaking and beautification, this effect reflects both direct and indirect benefits, as investments in aesthetic and functional improvements often lead to increased foot traffic, tourism, and business activity.

Productivity of Investments in High-Density, High-Revenue Areas

Research supports that public investments in densely populated commercial zones typically produce a higher return per acre than those in low-density areas. In a concentrated commercial area like Downtown Santa Rosa, investments in pedestrian amenities, green spaces, and façade improvements can yield significant tax revenue on a per-acre basis. By improving the urban environment, these investments encourage the growth of small businesses, which collectively can generate more economic value than larger, single-use developments. Moreover, enhancements to smaller, high-density areas are adaptable over time, accommodating shifts in community needs and market conditions more effectively than large-scale developments.

Qualitative Socio-Economic and Cultural Impacts

Beyond measurable economic returns, the proposed EIFD improvements can deliver a range of qualitative benefits that may enrich the Downtown Santa Rosa community. Investments in landscaping, public art, and façade upgrades can elevate the area's aesthetics, creating a more inviting environment that enhances both visitor experience and community pride. New parks, public spaces, and pedestrian-friendly areas may provide residents with additional recreational opportunities, contributing to a higher quality of life and well-being. By transforming public spaces into welcoming gathering points, these EIFD investments can foster community interactions, building a sense of belonging and civic pride. Additionally, improvements that celebrate Santa Rosa's cultural history and architectural heritage may reinforce the city's unique identity, making Downtown an attractive destination for residents and visitors alike. In this way, the EIFD's focus on placemaking has the potential to add economic value while enhancing the social and cultural fabric of the community.

While the EIFD's IFP may result in strategies which are broad as opposed to specific, general investments in placemaking and beautification are expected to yield both

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economic and socio-cultural value within the EIFD area. Leveraging the economic multiplier effect, enhancing Downtown's density, and focusing on projects with high community impact will allow these funds to support the sustainable growth and vibrancy of Downtown Santa Rosa, delivering measurable returns and qualitative benefits to the community. These investments align with best practices in economic development and councils adopted Economic Development Strategy, which emphasizes efforts to support economic vibrancy and resiliency as well as bolstering business and commerce for the downtown.

FISCAL IMPACT

An EIFD would be funded by the increase of property taxes and VLF received after the fiscal year in which the EIFD is formed and will be placed into a separate fund rather than the General Fund. The amount transferred is a product of the increase in property tax and VLF growth within the district, and the established percentage of that growth to be dedicated to the EIFD.

Property taxes and VLF are a critical source of revenue for the General Fund comprising 26.9% of ongoing operational revenue. This revenue, like all General Fund revenue, provides a citywide benefit and can be budgeted according to need and City Council policy. The City's financial forecasts and structure are based on growth assumptions of our revenues. City facility needs, existing infrastructure or operational impacts would not be addressed from the district's funding.

Immediate impacts to the General Fund are not predictable as they will result from the timing of development and property tax growth within the EIFD. Per the consultant's growth projections as of Fiscal Year 2023-24, the long-term impact to the General Fund will be approximately \$44,653,000 through the life of the EIFD, ending in the year 2070.

An EIFD is formed for the purpose of issuing debt to finance capital projects. Unlike the former Redevelopment Agency process, the debt is not issued upfront but gradually over time. Debt issuance is based on actual revenues received by the district and therefore a lead time is required for increment revenue to build. Per DTA's report as of Fiscal Year 2023-24, the district could expect to issue bonds and use cash on hand totaling \$4,536,000 in 2034 if the district does not do any spending until then. The net present value of that amount today is \$3,631,000. The total principal of debt and pay as you go amounts projected to be spent by the district through the year 2070 is \$44,653,000 or a net present value of \$20,242,000.

Total increment dollars redirected from the City's General Fund to the EIFD through 2070, assuming a 50% tax increment commitment from the City, would be \$44,559,000, and the increment contributed from the County would be \$24,966,000 for a combined contribution of \$69,525,000 plus \$8,433,000 in administrative costs for a total contribution of \$77,958,000. The difference in combined contribution of \$77,958,000 and the projected principal and pay as you amount to be financed and spent by the

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district of \$44,653,000 is borrowing expense of interest, issuance costs and total administration cost. Projected tax increment and bonded indebtedness is shown in Attachment 1.

The maximum recommended increment growth from the City to be included in the draft IFP and dedicated to the District is 50%. If the City were to dedicate over 50% increment growth, the gross dollars from the City funding the district would be less than the total capital projects being created.

ENVIRONMENTAL IMPACT

Pursuant to California Environmental Quality Act (CEQA) Guidelines Section 15378, the Council finds that the proposed action is not a “project” subject to the CEQA because it does not have a potential for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. In the alternative, the proposed action is exempt from CEQA pursuant to CEQA Guidelines Section 15061(b)(3) because it can be seen with certainty that there is no possibility that the project may have a significant effect on the environment.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Attachment 1 – Projected Tax Increment and Bonded Indebtedness
- Resolution

PRESENTER

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