

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 INFRASTRUCTURE FINANCING PLAN

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Departments of Planning and Economic Development and Finance that the Council: 1) hold a noticed public hearing; and 2), by resolution, adopt the Draft Infrastructure Financing Plan of the City of Santa Rosa Enhanced Infrastructure Financing District (Downtown Business Corridor).

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. The goal of the proposed EIFD is to leverage future tax increment to fund projects that accelerate economic growth, create jobs, and serve as a catalyst for private sector investment and development, further improving the region's competitiveness for State and Federal grants within the EIFD while increasing economic mobility.

In April of 2023, the City Council adopted a Resolution of Intention to form the City of Santa Rosa Enhanced Infrastructure Financing District (Downtown Business Corridor) (District) and adopted a Resolution to establish the Downtown Business Corridor EIFD Public Financing Authority (PFA) as the governing board of the District. The Infrastructure Financing Plan (IFP) describes the boundaries of the District, the public facilities and other projects of community wide significance to be financed by the District, and the tax revenue allocated by the City of Santa Rosa (City) and the County of Sonoma (County) to the District.

The Draft IFP must be adopted by both the City and the County prior to the PFA's adoption of the IFP and formation of the District. The IFP was presented to the PFA on April 2, 2025. The PFA and City and County staff discussed revisions to the limitations on the methods for determining the EIFD funded improvements, including, among other factors,

DOWNTOWN ENHANCED INFRASTRUCTURE FINANCING DISTRICT TAX
INFRASTRUCTURE FINANCING PLAN
PAGE 2 OF 7

the proximity of the improvements to the EIFD, the economic impact of the improvements and the approval rights of the City and County. After hearing all written and verbal comments, the PFA opened the first public hearing required under EIFD law on May 8, 2025. The public hearing was continued to May 15, 2025, during which the PFA incorporated certain comments and modified the IFP.

BACKGROUND

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 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).

On April 25, 2023, Santa Rosa City Council passed Resolution No. RES-2023-076 for the purpose of initiating the process of analyzing and potentially forming the District in the downtown business corridor.

On the same date Council passed Resolution No. RES-2023-077 establishing the PFA. The PFA is the governing board of the District, and is the responsible authority for causing the preparation of the IFP, which describes, among other things, the allocation by the City and the County of certain incremental property tax revenue to the District, and the issuance by the District of bonds and other debt.

On October 19, 2023 the PFA, by Resolution PFA 23-005, directed City staff to prepare the IFP.

In the Resolution Establishing PFA, the City Council authorized City staff and other resources to assist the PFA in carrying out the formation and implementation of the District including contracting for consultant services. Additionally, in the Resolution Establishing PFA, the City Council authorized the City Manager to assign a "Designated Official" to prepare the IFP. Through a competitive RFP process, David Taussig and Associates, Inc., dba DTA, was selected for this purpose.

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 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.

DOWNTOWN ENHANCED INFRASTRUCTURE FINANCING DISTRICT TAX
INFRASTRUCTURE FINANCING PLAN
PAGE 3 OF 7

Project categories included: improving connectivity between Downtown and Railroad Square, improving and making more accessible existing public space, 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 25% of property tax increment collected within the District to the EIFD.

On November 19, 2024, the City Council approved Resolution No. RES-2024-183 committing 50% of the property tax increment collected within the District to the EIFD.

On April 2, 2025, the draft IFP was introduced to the PFA and comments from the public, City staff, County Staff and members of the PFA were reviewed.

The first public hearing required under EIFD law to be conducted by the PFA, opened on May 8, 2025, and was continued to May 15, 2025. During the first public hearing, the PFA is required to accept, reject or modify the PFA. At the May 15, 2025 continued public hearing, the PFA modified the IFP.

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.

Additional City Council review identified in the Background.

ANALYSIS

The primary goal of the EIFD is to provide a funding mechanism for economic development projects that enhance the quality of life within the EIFD boundary and create a more attractive environment for businesses and residents. The IFP focuses on supporting project types that catalyze private investment and increase growth in property taxes and retail sales.

DOWNTOWN ENHANCED INFRASTRUCTURE FINANCING DISTRICT TAX
INFRASTRUCTURE FINANCING PLAN
PAGE 4 OF 7

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 three 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, 2) the property tax increment that is attributable to the Vehicle License Fee (VLF) swap adopted in 2004, and 3) net available revenue distributed to the City from the Redevelopment Property Tax Trust Fund attributable to Redevelopment Agency Parcels located within the EIFD boundary.

The IFP, which is required to establish an EIFD under Section 53398.63 of the California Government Code, outlines the EIFD's investment program as well as the fiscal impacts to participating jurisdictions. 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 may be used to pay debt services on bonds issued by the EIFD. The IFP must be consistent with the City General Plan, and any specific plans located within the boundaries of the EIFD, and is required to include the following components:

- A map and legal description of the proposed EIFD;
- A description of the public facilities and other forms of development or public assistance to be undertaken within the EIFD;
- A finding that the facilities to be funded are of communitywide significance and provide significant benefits to an area larger than the EIFD;
- A financing section containing a series of elements, including projected EIFD tax revenues and construction revenues, a limit on revenues collected, the period of time the EIFD will be in existence (not to exceed 45 years after the approval of a bond measure or loan by the PFA) and an analysis of the fiscal impacts of the EIFD on the local public agencies participating in the EIFD;
- A plan for financing costs incurred for properties within the EIFD that qualify for the State's Transit Priority Project Program; and
- The EIFD's goals for each public improvement financed 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 by the PFA at which a draft IFP is presented. After which, the PFA must conduct one public hearing on the creation of the IFP and review and fine-tune the document. Once the PFA formally modifies the IFP, it must be distributed to the Council and the Board of Supervisors for approval by resolution by both bodies. Subsequently, at a second public hearing, the PFA can then approve the IFP and officially establish the EIFD.

DOWNTOWN ENHANCED INFRASTRUCTURE FINANCING DISTRICT TAX
INFRASTRUCTURE FINANCING PLAN
PAGE 5 OF 7

The PFA meeting to introduce the IFP was conducted on April 2, 2025. Members of the PFA, the City and the County proposed certain changes to the draft IFP. During the first PFA public hearing conducted on May 8, 2025 and continued to May 15, 2025, the PFA elected to modify the IFP. Modifications to the draft IFP are summarized below:

- Provided a single project category titled “Placemaking” to include all placemaking and streetscaping projects.
- Added additional clarity regarding the need to fund projects that catalyze private development and materially increase economic activity within the EIFD including but not limited to, increasing employment, retail and restaurant sales, property taxes, commercial occupancies, private investment or other appropriate measures.
- Identified the need for County approval for any future changes to the project categories eligible for EIFD funding.
- Required PFA to consult with County Auditor-Controller-Treasurer-Tax Collector (ACTTC) staff on financing terms, prior to PFA approval to issue EIFD bonds
- Added explicit language that EIFD will not fund or reimburse projects already underway.
- Added limitations on the methods for determining the improvements financed by the District, including, among other factors, the proximity of the improvements to the District, the economic impact of the improvements and the approval rights of the City and County.
- Modified of the project categories to blend the Placemaking and Performing Art/Sports Entertainment projects under a total 80% funding allocation and allocate 50% of the total amount collected within the category to placemaking projects during the first 10 years.
- Prohibited the issuance of bonds during the first 10 years for placemaking projects.
- Provided for the City, PFA and County to revisit the funding allocation at the end of the first 10 years during which the EIFD receives revenue and if a Performing Arts/Sports Entertainment project is available to be funded during the first 10 years.
- Added miscellaneous corrections to provide additional clarity.

After the PFA adopts the IFP and forms the District, the EIFD law authorizes the City and the PFA to bring a judicial validation action in Sonoma County Superior Court under

DOWNTOWN ENHANCED INFRASTRUCTURE FINANCING DISTRICT TAX
INFRASTRUCTURE FINANCING PLAN
PAGE 6 OF 7

Code of Civil Procedure Section 860 et seq. for the purpose of confirming the validity of the creation of the District and the adoption of the IFP, including the division of taxes thereunder. The proposed resolution authorizes the City Attorney to initiate a judicial validation action following approval by the PFA to support an unqualified bond counsel opinion and the marketing of bonds to be issued by the PFA.

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 at the end of EIFD term in 2025 dollars, the estimated annual recurring impact to the General Fund will be approximately \$955,316. The EIFD analysis estimates that the City General Fund will receive a total of \$36,279,636 in property tax increments and \$16,423,741 in VLF increments 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, the district could expect to issue \$4,430,000 of bonds in 2034, generating \$3,925,372 in bond proceeds. Combined with \$2,281,867 of cash on hand if the district does not do any spending until then, a total of \$6,207,239 is anticipated to be available for reimbursing the EIFD facilities in 2034. The net present value of that amount today is \$4,901,964. The total bond proceeds and pay-as-you-go amounts projected to be spent by the district through the year 2070 is \$64,592,011 or a net present value of \$28,811,960.

Total increment dollars redirected from the City's General Fund to the EIFD through 2070 would be \$52,703,377 and the increment contributed from the County would be \$30,012,221 for a combined contribution of \$82,715,598. The difference in combined contribution of \$82,715,598 and the projected principal and pay-as-you-go amount to be

DOWNTOWN ENHANCED INFRASTRUCTURE FINANCING DISTRICT TAX
INFRASTRUCTURE FINANCING PLAN
PAGE 7 OF 7

financed and spent by the district of \$18,123,587 is borrowing expense of interest, issuance costs and total administration cost. Projected tax increment and bonded indebtedness is shown in Attachment I.

The maximum incremental growth from the City to be included in the draft Infrastructure Financing Plan is 50%. If the City were to dedicate over 50% increment growth, the gross dollars from the City funding the district is less than the total capital projects being created.

ENVIRONMENTAL IMPACT

The proposed action is not a “project” under the California Environmental Quality Act because it does not involve any commitment to a specific project which may result in a potentially significant physical impact on the environment, as contemplated by Title 14, California Code of Regulations, Section 15378(b)(4). Future actions, such as the approval of infrastructure improvements using funding from the EIFD, will be subject to environmental review in accordance with CEQA.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Attachment 1 – Correspondence
- Resolution/Exhibit A – Draft Enhanced Infrastructure Financing Plan

PRESENTER

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Planning and Economic Development