



THE CITY OF SAN DIEGO

## Report to the City Council

DATE ISSUED: November 23, 2016 REPORT NO: 16-107

ATTENTION: Infrastructure Committee  
Agenda of December 7, 2016

SUBJECT: Formation of an Enhanced Infrastructure Financing District ("EIFD") to  
Provide Funding for Otay Mesa Public Infrastructure

REFERENCE: Otay Mesa Community Plan Update, Process 5 (Report No. 14-002),  
dated March 3, 2014

### REQUESTED ACTION:

Forward to City Council the proposed formation of the Otay Mesa Enhanced Infrastructure Financing District, a separate and distinct governmental entity, to provide supplemental funding to projects identified in the Otay Mesa Public Facilities Financing Plan. The City Council will be requested to approve a resolution of intention to form the district and establish a Public Financing Authority as governing body of the proposed district.

### STAFF RECOMMENDATION:

Forward the item to City Council for consideration and approval.

### SUMMARY:

#### **I. BACKGROUND**

California Senate Bill 628, effective January 1, 2015, and California Assembly Bill 313, effective January 1, 2016, authorized the formation of an Enhanced Infrastructure Financing District ("EIFD"), which is intended to succeed the former Redevelopment financing mechanism and provide more flexibility than Infrastructure Financing Districts ("IFDs"). An EIFD is a governmental entity, separate and distinct from the city or county that establishes it, governed by a Public Financing Authority ("PFA"). EIFDs can aid local government entities in funding public capital facilities, or other specified projects of communitywide significance, primarily by capturing tax increment revenue ("TI") generated within the district. Each district can exist for up to 45 years commencing from the first successful bond issue election.

While no other cities in California have yet created an EIFD, many are currently in the process, including the City of Los Angeles, the City of West Sacramento, and the City of Yucaipa. The City of West Sacramento and the City of Yucaipa have made the most progress, with adoption of resolutions of intention to form a district and actions to create a PFA. West

Sacramento’s proposed district is broadly intended for infrastructure projects and is intended to be solely City-funded, while Yucaipa’s proposed district will provide funding for certain public facilities and infrastructure supporting a mixed use development and is intended to have other taxing entities participate.

The primary source of revenue available to an EIFD, like a Redevelopment project area, is TI. Essentially, the added improvements gained through EIFD funding would conceptually support future development and result in increased property values, which would generate increased property tax revenues from the base year (established from the most recent equalized tax roll prior to district formation). The increased revenue can then be leveraged for additional improvements through the issuance of bonds (subject to approval by 55% of registered voters within the district), and/or applied to fund improvements on a “pay-as-you-go” basis from the date of formation. Currently, cities in the County of San Diego receive 18.8% of the 1% property tax levy, with variation among specific tax rate areas (TRAs), including 16 within the proposed Otay Mesa EIFD boundaries where the City receives a range of 13.4% to 22.7%, including the Vehicle License Fee (VLF) off-set allocations (also referred to as Property Tax In Lieu of VLF) paid from the Educational Revenue Augmentation Fund (ERAF).

Unlike Redevelopment, other affected taxing entities are not required to forgo their TI for the district; participation is voluntary. Each tax sharing entity that chooses to join an EIFD has the option to allocate up to 100% of its portion of TI to the district. Under the EIFD law, school districts are precluded from participation. The table below shows the allocation of the 1% property tax levy for two TRAs in the Otay Mesa Community Plan area reflecting the City’s lowest and highest shares of the tax.

**Allocation of 1% Property Tax Revenue  
Sample Otay Mesa Planning Area TRAs  
(Low and High Range for City Share)**

Agency	Low	High
<b>City of San Diego<sup>(1)</sup></b>	<b>13.4%</b>	<b>22.7%</b>
County of San Diego	13.1%	15.5%
County Water Authority (CWA)	0.3%	0.1%
Otay Water District	1.2%	0.0%
Regional Occupation Centers	0.5%	0.5%
<b>Sub-Total</b>	<b>28.5%</b>	<b>38.8%</b>
<b>Educational Revenue Augmentation Fund (ERAF)<sup>(2)</sup></b>	<b>5.4%</b>	<b>8.3%</b>
<b>Schools</b>	<b>66.1%</b>	<b>52.9%</b>
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>(1)</sup> Includes VLF off-set allocation of 5.8% paid from ERAF.

<sup>(2)</sup> ERAF reflected as net of 5.8% VLF off-set allocated to City (see footnote 1).

Source: County of San Diego Auditor & Controller

EIFD funding sources can be combined with other revenue streams, such as Facilities Benefit Assessments (FBAs) and Developer Impact Fees (DIFs).

## II. DISCUSSION

### Proposed Otay Mesa EIFD

The Otay Mesa Community Planning Area is a developing area of the City with approximately 9,300 acres. Land use designations in Otay Mesa include residential, commercial, industrial, open space, parks, and institutional. The area is bounded by the Otay River Valley and the City of Chula Vista on the north, the International Border on the south, Interstate 805 on the west, and the County of San Diego on the east. Otay Mesa contains the most significant remaining area of undeveloped land in the City with industrial zoning. It is envisioned as a major employment center, and has an important economic role in the region due to activities generated at the Otay Mesa Port of Entry and base-sector industries, such as transportation logistics, warehousing, manufacturing and service firms. Otay Mesa is also envisioned to include two new residential village areas, known as the Central Village and the Southwest Village, which are expected to drive much of the future residential growth. The Specific Plan for the Central Village, currently under development and expected to be finalized in 2017, envisions a community of 229.2 acres with up to 4,485 residential dwelling units, parks, open space, a school, and up to 139,700 square feet of commercial development.

Otay Mesa is also the home of the newly established Cross Border Facility, which now provides the San Diego region with direct access to Tijuana's General Abelardo L. Rodriguez International Airport. Lastly, Otay Mesa is the location of San Diego's Brown Field Municipal Airport, a site of extraordinary development potential as a business hub. In summary, the development potential associated with the Cross Border Facility, Brown Field, the prime industrial lands, and the planned residential village areas make Otay Mesa the City's prime location for establishing an EIFD.

After considering community input, City Council approved the updated Otay Mesa Community Plan and the Otay Mesa Public Facilities Financing Plan and Facilities Benefit Assessment, Fiscal Year 2014 ("PFFP") on March 25, 2014. The PFFP, which was subsequently amended via City Council action on July 16, 2015, details the specific public infrastructure projects and funding necessary to support the Community Plan and the contemplated future development. The majority of project costs in the PFFP are to be funded through Facilities Benefit Assessments and Developer Impact Fees (together, "DIFs"); however, after accounting for DIFs, the PFFP reflects a funding gap of approximately \$510 million between identified sources and the total plan costs of \$1.2 billion (in 2014 dollars). The gap stems from new growth in the community occurring prior to the PFFP update, precluding some public infrastructure costs from being incorporated into the DIF, since costs attributable to existing development cannot be charged to new development.

*As noted below, while an EIFD is not expected to close the entire PFFP funding gap, it can be used as an effective tool to address a meaningful portion of the gap, and thereby assist with implementation of existing approved plans. To maximize the amount of EIFD revenue that could be generated to close the PFFP financing gap, it is proposed (1) the district boundary comprise the entire Otay Mesa Community Plan area and (2) 100% of the City's TI (net of Proposition H) generated within the boundary be allocated to the EIFD.*

EIFD Projects/Otay Mesa Public Facilities Financing Plan (PFFP)

A significant portion (approximately 75%) of the infrastructure costs identified in the Otay Mesa PFFP are associated with transportation projects. The remainder is divided among parks, police facilities, fire facilities, libraries, and water/sewer projects. A breakdown of the project categories and funding costs, as set forth in the Otay Mesa PFFP, is provided in the following table.

**Otay Mesa PFFP Project Categories**

<b>Project Category<sup>(1)</sup></b>	<b>Estimated Cost<sup>(2)</sup></b>	<b>% of Total</b>
Transportation	\$936,885,000	75%
Parks	\$222,438,000	18%
Police	\$19,400,000	2%
Fire	\$16,900,000	1%
Library	\$21,000,000	2%
Water/Sewer	\$30,915,000	2%
<b>Total</b>	<b>\$1,247,538,000</b>	<b>100%</b>

<sup>(1)</sup> Project funding years range from 2014 through 2062

<sup>(2)</sup> In 2014 dollars

Source: Otay Mesa PFFP, 2014

The estimated timing of funding (i.e., DIF, private, and other public agency) reflected in the PFFP ranges from 2014 through 2062. A copy of the Otay Mesa Project Summary contained in the Otay Mesa PFFP, which includes additional project detail, is provided under Attachment 1.

It is anticipated that EIFD funds would be applied to specific PFFP projects as needed and in accordance with the capital improvement program established for the Otay Mesa PFFP identified projects. The EIFD funds could be used to accelerate the timing of construction for individual projects, which are currently programed to receive DIF funds that have a long collection horizon of up to 50 years, and also facilitate economic development through the accelerated provision of the needed infrastructure. With the additional funds generated through the EIFD, projects of high community interest such as parks and La Media Road improvements could potentially be among the projects accelerated. Prospectively, it is envisioned that, similar to DIF funds, Public Works would incorporate the EIFD revenue into the planning and timing of Otay Mesa PFFP capital improvements following the City's capital budget process which is subject to City Council input and approval.

Proposition H Impact

A legal analysis on the impact of Proposition H (Charter Amendment Regarding Creation of an Infrastructure Fund) on EIFDs is contained in a City Attorney's Office issued memorandum titled "Impact of Proposition H on Formation of Enhanced Infrastructure Financing Districts and Community Revitalization and Investment Authorities and Negotiation of Economic Development Incentive Agreements," dated September 12, 2016. The City Attorney's Office concluded that EIFDs formed after July 1, 2017 would be subject to Proposition H, meaning that 50% of property tax increment generated over the five year

period specified in Proposition H (Fiscal Year 2018 to Fiscal Year 2022) would not be available for the EIFD. Formation of the Otay Mesa EIFD is expected to be completed in the first quarter of Fiscal Year 2018. As such, the proposed district would be subject to Proposition H, resulting in the district receiving 50% of TI in Fiscal Years 2018 through 2022.

#### Preliminary Projected Tax Increment and Bonded Indebtedness

Keyser Marston & Associates (“KMA”) was selected by the City through a competitive process as an economic/fiscal consultant to assist with the planning and establishment of an EIFD within the Otay Mesa Community Plan Area. KMA is currently working on IFDs and EIFDs with several other California municipalities, including San Francisco, Riverside and Indio. Services provided by KMA include feasibility analysis and assistance with development of the Infrastructure Financing Plan (“IFP”), which is required by the EIFD law and includes a description of the district boundaries, the eligible projects, the plan for financing identified improvements, and the fiscal impact. Development of the IFP is currently in process, and a draft IFP will be included with the first City Council action on the proposed EIFD (the resolution of intention to form the district and establish the PFA).

Based on preliminary analysis conducted by KMA, it is estimated that the Otay Mesa EIFD could generate approximately \$328,000 in gross TI in year 1 (assumed as Fiscal Year 2018) following formation, growing to approximately \$42 million by year 45 of the district (assumed as Fiscal Year 2062). These figures are net of Proposition H revenue in the affected fiscal years (Fiscal Years 2018 through 2022). This TI cash flow can supplement existing Otay Mesa DIF revenues through pay-as-you-go project funding and support debt service for bonds issued to finance project construction.

Based on preliminary TI projections, the total amount of construction proceeds that could be generated for projects through bonding is estimated to be approximately \$158 million, assuming six series of bonds issued between Fiscal Years 2021 and Fiscal Year 2037, timed according to TI’s capacity to support debt service. The bond issuance estimates assume debt service coverage ratios of 150%, with excess TI in each year available for pay-as-you-go funding. This excess funding is estimated to total \$629 million, and, in conjunction with construction bond proceeds of \$158 million, \$787 million of gross funds could be generated for EIFD projects.

In current dollars, approximately \$81 million in bond proceeds and \$107 million in pay-as-you-go funding could be generated through the EIFD, for a total of approximately \$188 million in 2016 dollars. This would provide a significant contribution toward closing the \$510 million (in 2014 dollars) PFFP gap described above. These preliminary numbers are based on development assumptions contained in the PFFP, City Development Services, SANDAG, broker data/interviews, and other third party data sources accessed by KMA. Actual TI revenue streams are subject to changes in the types and timing of development, and the real estate market.

#### Initial Steps to Form EIFD

In consultation with the City Attorney’s office, acting as EIFD formation counsel, and based on state law (Government Code commencing with Section 53398.50) the initial proceedings to form the Otay Mesa EIFD include City Council approval of a resolution: (1) stating the City Council’s intention to form the EIFD (the Resolution of Intention, or ROI); (2) creating the Public Financing Authority; and (3) establishing the criteria for the PFA’s public members,

and directing the City Clerk to notice the vacancies. These initial steps, including the ROI, provide the framework for forming the district and constitute the start of the public notification process.

a. Resolution of Intention to Form the District (ROI)

The City Council ROI action would:

- Designate the boundaries of the proposed district
- Identify the types of public facilities and development proposed to be financed by the district
- State the need for the district and the goals to be achieved
- Identify the tax increment from the City that may be used for the district
- Set a time and place for a public hearing on the proposed EIFD to be conducted by Public Financing Authority
- Direct the City Clerk to mail the ROI to each landowner within the district, each affected taxing entity, and the PFA
- Accept and file a draft IFP

b. Public Financing Authority (PFA) Creation

Along with approval of the ROI, City Council must create the PFA. As described above, the PFA is the governing body for the EIFD. The PFA membership consists of three members of City Council and two members of the public. Under the EIFD law, the City Council is responsible for naming the City Councilmembers and public members to the PFA. The PFA, as a local public agency, is subject to the Ralph M. Brown Act and will be authorized and directed to adopt rules, regulations, and procedures pursuant to those and other applicable laws as the PFA deems necessary to perform its functions.

c. Public Member Criteria and Direction to Notice Vacancies

The City Council will establish the application criteria for public members to be named to the PFA, and direct the City Clerk to notice the public member vacancies. It is anticipated the proposed criteria may include that public members have knowledge, experience, or an educational background in development or finance, and have a stakeholder interest in the Otay Mesa community, such as residency, land ownership, and/or ownership of a business that owns or leases property in the Otay Mesa area.

Public Financing Authority Role and Process

Once City Council creates the PFA and selects its members, the PFA becomes the governing board of the EIFD, responsible for administering the district. At its first meeting, the PFA will approve an initial organizational resolution and direct the City Engineer or designee to prepare/finalize the IFP.

The PFA must ensure the IFP is made available for public inspection and direct the distribution of the IFP, along with any reports required by CEQA pertaining to the proposed public facilities, to each landowner in the district, the legislative body of each affected taxing entity, and the Planning Commission. (The City Council, as a participating affected taxing entity, must then review the IFP and approve it by resolution.)

No sooner than 60 days after the IFP has been mailed to each affected taxing entity, the PFA conducts a noticed public hearing on the EIFD (the date and time having been set by City Council at the time of the ROI), during which it considers any oral and written objections. PFA will have the opportunity to amend the IFP as necessary (but only to eliminate or reduce the size and cost of the proposed facilities, the amount of proposed debt, or the portion, amount, or duration of committed TI), based on input from City Council. The PFA may then pass a resolution to adopt the IFP and form the EIFD.

Following formation of the EIFD, the PFA could initiate proceedings to issue bonds by passing a resolution of intention to issue bonds and calling for an election. Currently, there are approximately 7,100 registered voters within the district. After a successful election with at least 55% approval, PFA can adopt a resolution to issue bonds, thereby allowing the financing of Otay Mesa PFFP projects with bonds.

EIFD Key Steps and Targeted Legislative Timeline

The following provides a timeline of the key steps involved in forming the proposed Otay Mesa EIFD:

<u>Targeted Date</u>	<u>Action</u>	<u>Responsible Party</u>
• Early Feb. 2017	Pass ROI to form EIFD and establish PFA	City Council
• Feb.–Mar. 2017	Notice and review applications for PFA public membership	City Clerk
• April 2017	City Council approval of PFA membership	City Council
• May 2017	Inaugural meeting of the PFA. Direction to create/finalize IFP, and mail IFP along with any required CEQA Reports	PFA
• June 2017	Adopt resolution approving the IFP	City Council
• July 2017	Public hearing, followed by resolution to adopt IFP and form district	PFA
• TBD	Resolution of intention to issue bonds	PFA
• TBD	Mailed ballot election on bond issuance	City Clerk/ Registrar of Voters
• TBD	If 55% voter approval, resolution to issue bonds	PFA

**III. CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):**

*Goal 2:* Work in partnership with all of our communities to achieve safe and livable neighborhoods

*Objective 3:* Invest in infrastructure

*Goal 3:* Create and sustain a resilient and economically prosperous City

*Objective 1:* Create dynamic neighborhoods that incorporate mobility, connectivity, and sustainability

**IV. FISCAL CONSIDERATIONS**

As described above, preliminarily, it is projected that \$188 million in current dollars could be generated through a combination of bond proceeds and pay-as-you-go funding over the 45 year term of the proposed EIFD, to help fund the Otay Mesa PFFP funding gap identified above (\$510 million in 2014 dollars). Supplementing DIFs and other PFFP funding sources with EIFD revenues would help pay for core public infrastructure needed to support Otay Mesa growth. While the Otay Mesa area would benefit from the infrastructure improvements, the formation of the EIFD would result in a reallocation of TI (i.e., the City's share of taxes levied on property within the district boundaries on that portion of the taxable valuation over and above the taxable valuation of the base year property tax roll) from the General Fund to pay for the Otay Mesa infrastructure improvements. It is anticipated that incremental TI from future development will be approximately \$328,000 in year 1 (assumed as Fiscal Year 2018) increasing to approximately \$42 million by year 45 of the district (assumed as Fiscal Year 2062). These TI projections are based on various assumptions made on future growth and residential, commercial, and industrial development in the area. Once the EIFD has terminated, the property tax increment revenue allocated to the EIFD will flow back into the City General Fund. The property tax generated up to the taxable valuation of the base year tax roll will continue to flow to the City General Fund.

**Infrastructure Financing Plan**

As described above, the IFP must include a financing plan, which is currently under development. The draft IFP will be included in the materials docketed for City Council consideration pertaining to the City Council ROI and PFA establishment actions.

**V. PREVIOUS COUNCIL and/or COMMITTEE ACTION**

Eligible projects that would receive funding through the proposed EIFD are included in the Otay Mesa PFFP, which was approved and subsequently amended by City Council on March 25, 2014 and July 16, 2015, respectively, following community input (Resolution Nos. 308811 and 309815).

**VI. COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS**

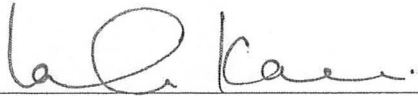
There are a number of steps in district formation that require public outreach and participation. Outreach will occur in the mailings pertaining to the ROI, the draft IFP and required CEQA reports, and Notice of Public Hearing. Stakeholders will have the opportunity to voice their opinion to the PFA at the Public Hearing. Additionally, the issuance of bonds



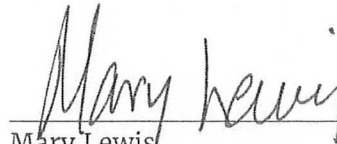
will involve an election process following all outreach required by the applicable elections law.

**VII. KEY STAKEHOLDERS AND PROJECTED IMPACTS**

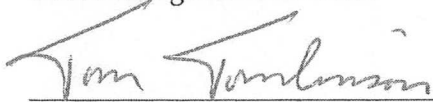
Landowners, businesses, and residents in the district will receive the benefit of improved infrastructure in their community. This infrastructure is expected to help improve property values and transportation in the Otay Mesa community, providing an economic benefit without increasing taxes or fees.



Lakshmi Kommi  
Debt Management Director



Mary Lewis  
Chief Financial Officer



Tom Tomlinson  
Assistant Director, Planning Department



David Graham  
Deputy Chief Operating Officer  
Neighborhood Services

Attachment:

Otay Mesa Project Summary-Table 6 of Otay Mesa PFFP