



City of South San Francisco

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Staff Report

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TITLE

Report regarding a study session on the potential formation of an Eastern Neighborhoods Community Facilities District. (*Christina Fernandez, Deputy City Manager; Daniel Jacobson, Fehr & Peers; Noah Christman, Lighthouse Public Affairs; Susan Goodwin, Goodwin Consulting Group*)

RECOMMENDATION

It is recommended that the City Council receive a report on the potential formation of an Eastern Neighborhoods Community Facilities District and provide feedback and guidance on future efforts.

EXECUTIVE SUMMARY

What is a Community Facilities District (CFD)?

Mello-Roos Community Facilities Districts (CFDs) are a type of special tax district formed when property owners within a geographic area agree to impose a special tax on property in order to fund infrastructure improvements or services. These special taxes can then be used either for pay-as-you-go financing or to pay debt service on tax-exempt bonds issued against the anticipated revenue from the CFD. The only standard for the special tax is that it be reasonable and that it not be ad valorem (i.e., it cannot be based on property value).

CFDs require a two-thirds vote of property owners, so long as there are no more than 11 registered voters living within the proposed district. More than 11 registered voters living in the district requires a two-thirds vote of registered voters.

Is the Eastern Neighborhoods CFD the same as the 2019 East of 101 CFD/Industrial Area CFD? What's the difference?

While the purpose and goals to improve transportation infrastructure remains the same, the Eastern Neighborhoods CFD varies in the type and selection of projects in its portfolio. The 2019 CFD focused on longer term, large capital improvement projects focused on the commute experience of employees East of 101. While the Eastern Neighborhoods CFD remains focused on improving transportation, it targets projects that may be built relatively quickly for an immediate impact and improvement on the internal connectivity East of Highway 101.

Why do we need a CFD?

To date, the City has collected one time transportation impact fees in the amount of approximately \$32 million. These one-time funds have been crucial to the planning and development of transportation improvements but given several competing transportation needs, these one-time funds do not have the same impact and leverage as the bonding capacity of a CFD. The CFD allows property owners to have a voice and tax themselves for identified transportation improvements. It is a public financing mechanism, which allows the City to sell tax-exempt bonds. This allows the City to quickly implement, and scale identified transportation needs in our biotechnology and industrial core.

In 2019, the City anticipated employment growth of 55,000 workers by 2040, which was a near doubling of employment growth. Despite a global pandemic, the City's General Plan now estimates a near tripling of employment growth with 100,000 workers East of 101 by 2040. Existing infrastructure is insufficient to handle this growth and was largely built for lower intensity industrial uses. Employers and property owners have expressed a desire to modernize streets to provide world-class active transportation and transit infrastructure while proactively accommodating expected changes in land use.

Who pays for a CFD?

Property owners within the CFD boundaries will be provided the opportunity to vote on the formation of a CFD. If successful, these same property owners will be taxed based on the square footage of their buildings. Given the differences in industry types East of 101, the City anticipates a maximum special tax rate variation between land use class type. Those types include: (1) Office, R&D, Retail, Hotels & Other Commercial; (2) Warehouse and Industrial; and (3) Residential.

What is the benefit of forming a CFD?

There are many financial benefits to forming a CFD. The City may bond against CFD special tax revenues and have a much larger pot of funding to accelerate project delivery. This saves money in the long run given current construction costs and inflation rates. Additionally, the CFD allows flexibility to set different maximum special tax rates based on land use class. For instance, R&D/office may be able to charge their tenants higher rent prices meaning they may be able to afford a higher maximum special tax rate in contrast to Warehouse/Industrial land use types (which may need a lower tax rate). A CFD also allows property owners to have a direct say in the formation of a CFD. The formation of a CFD requires a 2/3-vote meaning at least 2/3 of property owners (based on square footage of the CFD) must vote in favor of taxing themselves in order for the City to form a CFD.

BACKGROUND/DISCUSSION

In 2018 and 2019, the City of South San Francisco underwent an extensive master transportation planning effort, providing two master documents titled Active South City (Active SSF) and Mobility 20/20. Active SSF focused on the internal connectivity, namely bicycle and pedestrian

improvements whereas Mobility 20/20 focused on transportation improvements necessary to improve and remain economically competitive East of Highway 101. Both master planning efforts informed the Shape SSF 2040 General Plan efforts updating zoning and growth expectations for the area, which took place between 2019 and 2022.

In 2019, informed by the Mobility 20/20 master plan, the City began outreach in pursuit of the formation of a Community Facilities District East of Highway 101. This CFD was commonly known as the East of 101 CFD as the focus of the transportation improvements was East of Highway 101, benefiting both the biotechnology cluster and industrial core.

During this time, the City also participated in the Oyster Point Mobility Vision Plan, an employer led effort, which provided Oyster Point property owners the opportunity to give their feedback on necessary transportation improvements East of Highway 101. These meetings provided the City the opportunity to hear directly from Oyster Point property owners on their industry's transportation needs. These meetings coupled with the City's transportation planning laid the groundwork for a new iteration of a Community Facilities District renamed the ***Eastern Neighborhoods Community Facilities District***.

Over the past two years, the Oyster Point Mobility Steering Committee has done extensive analysis and refreshed the City's original 2019 portfolio of projects to reflect the current and future needs East of Highway 101. The City has taken these considerations into account in updating the Eastern Neighborhoods CFD portfolio list.

Transportation Solutions

The City hired transportation consultant, Fehr & Peers, to assist in master transportation planning efforts spanning multiple years. City staff and Fehr & Peers have worked closely in identifying potential transportation solutions that help meet the current and future needs east of 101. These solutions are based on these efforts, as well as input from the Oyster Point Mobility Vision Plan.

Unlike the 2019 CFD, the Eastern Neighborhoods CFD focuses on complete streets and corridor planning is in the process of preparing conceptual designs and cost estimates for all potential projects. Major infrastructure projects, such as the Utah Avenue Overcrossing, are being pursued separately and are not part of the Eastern Neighborhoods CFD.

Potential projects take into account balancing a multimodal approach while considering the level of impact, the complexity of implementation, cost and funding, and other supportive transportation services. In aggregate, identified projects have the potential to improve internal connectivity with new street connections, stronger Transportation Demand Management (TDM) programs, and walking/bicycling investments.

The City is currently drafting designs for all major street corridors East of 101. This effort identifies key changes to improve safety, access, throughput, and connections. It also achieves the buildout of the General Plan, Active South City Plan, and Oyster Point Mobility Vision Plan. A \$150M to \$180M CFD would cover most of the transportation projects envisioned in the General Plan and identified via stakeholder input, including the modernization of Oyster Point, East Grand,

Gateway, Forbes, South Airport, Utah, access to Caltrain, new streets and trails, and more.

In preparation for the Eastern Neighborhoods CFD, the City has prepared conceptual designs for complete streets improvements throughout the East of 101 area. These improvements include 8.6 miles of improvements to streets and trails, 30 intersections, and 6 new trails and streets. (*Figure 1*)

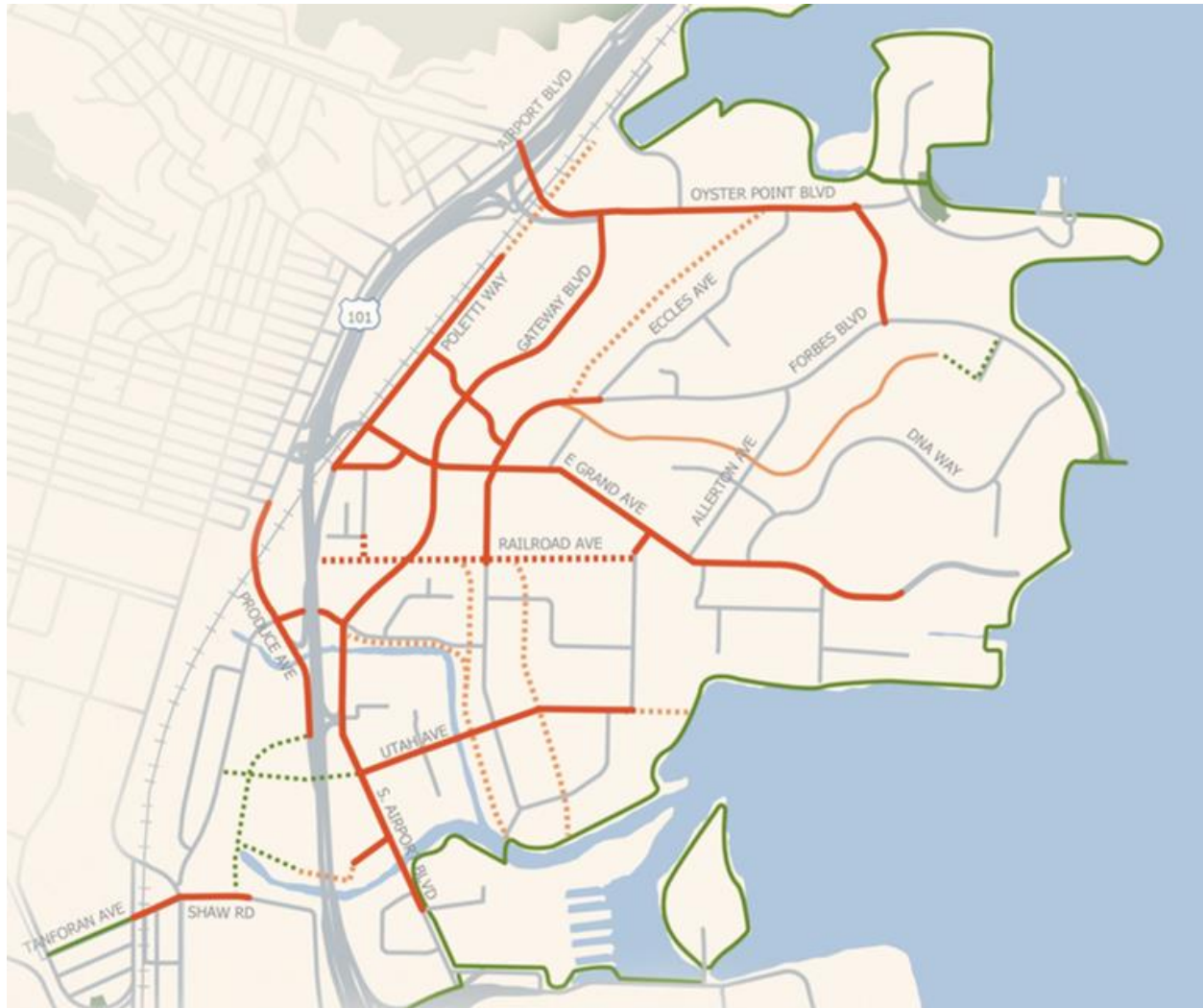
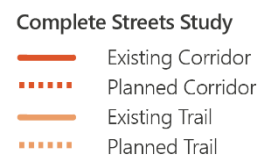


Figure 1 – Study Corridors



As identified in the City’s transportation planning efforts, improving bicycle and pedestrian facilities is a key goal for the East of 101 area. The current bike facility study underway identifies

5.4 miles of new separated bikeways and trails and 6 bikeway connections across Highway 101. (Figure 2)



Figure 2 – Bicycle Facilities

- Not Included in Study**
 - Existing/Planned Bike Lane (Class II)
 - Existing/Planned Shared-Use Trail
- Complete Streets Study**
 - Bike Lane (Class II)
 - Shared-Use Trail (Class I)
 - Separated Bike Facility (Class I or IV)

Multimodal transportation connectivity is emphasized in all of the City’s transportation planning goals. Those include improvement of transit facilities and prioritization of buses and shuttles along key transit routes such as Oyster Point, East Grand, Gateway, and South Airport. This effort includes the creation of 1.6 miles of transit only lanes, 24 bus stop upgrades and access improvements, and access improvements at regional transit hubs such as the South San Francisco Caltrain Station and the South San Francisco Ferry Terminal. (Figure 3)



Figure 3 – Transit Facilities

In identifying key corridors for study, two high priority corridors were identified by transportation planners as well as by the Oyster Point Mobility Vision Plan. Those corridors include the Oyster Point Boulevard Corridor and the East Grand Avenue Corridor. Improvements to both corridors will serve cars, transit, bicycles, and pedestrians.

In addition to corridor wide improvements, other high priority projects include road paving East of Highway 101, key intersection improvements, Caltrain Access Improvements, and Rails to

Trails improvements. As cost estimates are being finalized, further refinement of the project list may be necessary.

Outreach & Engagement

Over 260 property owners, representing nearly 1,035 acres are located within the Eastern Neighborhoods CFD. In an effort to foster healthy business relationships and in the spirit of collaboration, the City continues to reach out to stakeholders of all industry types in the East of 101 area. The City has retained Lighthouse Public Affairs to assist in this effort given their expertise in public and business engagement initiatives.

Lighthouse Public Affairs has prepared an outreach and engagement plan which has been developed in conjunction with the City's existing outreach and engagement efforts. The first step in the outreach plan is to provide each property owner within the East of 101 area with a letter detailing the City's efforts in improving transportation by forming a CFD. This letter also informs property owners of a dedicated website for this initiative, www.ssf-cfd.com.

In late March to mid-April 2024, engagement efforts will include door knocking, emails, calls, and other one-on-one outreach methods. In mid-April 2024, the City will host five to six community town halls and in late April to early May 2024 will continue with one-on-one follow ups with property owners.

In May 2024, the City will evaluate feedback to identify gaps within our CFD to ensure that the proposal will meet the needs of property owners East of 101 and will garner sufficient support to be successful. In late May 2024, the City will host another five to six community town halls and in late May to early June 2024, the City will again follow up with property owners and stakeholders. In mid to late June 2024, the City will again reevaluate feedback from the second round of engagement to ensure that the City will have enough support to move forward successfully.

Financing

CFDs provide flexibility in the types of improvements to be funded. The CFD may fund any public improvement with a useful life of five years or longer. CFDs may also fund public services. These improvements do not need to be located within the CFD boundaries; however, it is the intention to invest CFD bond proceeds back into the East of 101 area. There is no benefit finding required and tax-exempt bonds may be sold to fund improvements. Portions of the special tax may transition to fund the repair and replacement of facilities once all the bonds have been paid off.

The financial model will be dependent upon the estimated cost estimates as well as the property owner and stakeholder feedback received during the outreach process. The maximum tax rate will vary based on land use. The land use types include (1) Office, R&D, Retail, Hotels, other commercial, (2) Warehouse & Industrial, and (3) Residential. The amount of net construction proceeds that can be generated will be influenced by the fluctuations in interest rates.

A special tax lien must be recorded against parcels in the CFD by the middle of July of a fiscal year in order to make the County's property tax rolls in August of that fiscal year. The property owner's first payment would then be due in December and the second payment would be due in April of that fiscal year.

Formation of a CFD

Pursuant to the Mello-Roos Community Facilities Act of 1982 ("Mello-Roos Act"), a CFD is a defined geographic area in which the City is authorized to levy annual special taxes to be used to either finance directly the costs of specified public improvements and/or public services, or to pay debt service on bonds issued to finance the public improvements, as well as to pay costs of administering the CFD. CFD formation can be initiated either by a local agency or via a written petition from the registered voters or owners within a proposed district.

City staff has engaged the services of Goodwin Consulting Group, Inc. (GCG) to serve as special tax consultant in the formation of the CFD. In coordination with City staff, GCG will confirm property ownership and land use information within the City and compile a summary of the taxable square footage in and expected in the CFD. Additionally, GCG will take on the role of Special Tax Consultant and prepare the "Rate and Method of Apportionment of Special Tax" (RMA) as part of the CFD formation process.

As part of the first legislative action required to form the CFD, a Rate and Method of Apportionment of the Special Tax (RMA) report is required. The report will calculate the annual levy by the proposed CFD needed to pay for public facilities and services and must be included in the resolutions to be adopted by the City Council as part of the CFD formation process. The RMA will be prepared by GCG.

The process of establishing a CFD requires at least four City Council meetings:

Meeting Number One: Adoption of two resolutions: a Resolution of Intention (ROI) setting forth the City's intention to establish the CFD, designating the name of the CFD, identifying the services and facilities to be funded by the CFD, stating the City's intention to levy a special tax annually on property within the CFD to pay for these services and facilities, and approving the RMA that details how the special tax will be levied on properties within the CFD and sets the maximum special tax rates that can be levied within the CFD. The ROI also sets the date for the required public hearing (30 to 60 days later) on the matters set forth in the ROI. The second resolution, a Resolution of Intention to Incur Indebtedness, sets forth the Council's intention to issue bonds supported by the special taxes. This resolution also sets a public hearing for the same date.

Meeting Number Two: Hold the noticed public hearings at a City Council meeting. Following the public hearings, the City Council is presented with two resolutions: a resolution forming the CFD, and a resolution calling the special tax election (90 to 180 days later) by the landowner voters within the CFD.

Between meeting number two and meeting number three, ballots will be distributed to owners of property within the CFD. The materials distributed will include information about the proposed uses of the special tax revenue, the proposed tax rates, the requirements for approval of the CFD, and the method and deadline for returning ballots.

Meeting Number Three: Opening and counting of ballots. If the CFD gains the required number of votes for passage, the City Council will adopt a Resolution Confirming Results of Special Election and introduce an ordinance ordering the levy of special taxes within the CFD.

Meeting Number Four: Hold a second reading to adopt the special tax ordinance ordering the levy of special taxes within the CFD. After formation of the CFD, a special tax is levied annually on taxable properties that are located within the boundaries of the CFD.

Next steps

The City has kicked off the outreach and engagement process with the mailing of a letter to all property owners, generating awareness around the CFD. The City will continue to promote the CFD website and will begin its next phase of outreach which includes door knocking, emails, calls, and other individualized outreach.

Simultaneously, the financing team will commence preparation of the formation documents including the RMA, the List of Authorized Facilities and Services, Map of CFD Boundaries and Future Annexation Area, and Resolutions for adoption by Council.

The transportation planning team will finish finalizing the cost estimates and conceptual designs for all projects on the project list. The City will then use the cost estimates to inform future determinations around the maximum tax rate for each land use type.

Staff anticipates coming back to Council in June 2024 with the results of outreach efforts.

FISCAL IMPACT

Without firm maximum tax rates for each land use, which will not be finalized until staff have met with stakeholders during the outreach process, it is unknown how much a CFD would ultimately generate. City staff anticipates having a better understanding of this amount following an extensive stakeholder engagement process occurring now through June 2024.

RELATIONSHIP TO STRATEGIC PLAN

The potential formation of an Eastern Neighborhoods Community Facilities District meets Strategic Plan Goal #5 – Economic Vitality.

CONCLUSION

It is recommended that the City Council receive a report on the potential formation of an Eastern Neighborhoods Community Facilities District and provide feedback and guidance on future efforts.