2.23 FISCAL AND ECONOMIC ISSUES

2.23.1 FISCAL AND ECONOMIC EFFECT OF GEOTECHNICAL STABILIZATION

Comment

Moreover, although it is generally true that every engineering problem has an engineering solution, such as the complete replacement of the poor, sand-based fill that constitutes the majority of Treasure Island itself, it is not true that the cost and the damaging impact to the surrounding environment is justified. Not only will this mitigation burden and improvement cost have to be subsidized by a variety of public-financing mechanisms, but the enduring effect of building something where it should not be built will endure for generations to come. The DEIR wholly and completely fails to analyze and propose acceptable mitigation measures to address this problem, including how such is not to become a future environmental problem and a burden on the taxpayers of San Francisco. (Nick S. Rossi, Esq., representing Kenneth and Roseanna Masters) [19.10]

Response

The Proposed Project does not include replacing the existing sand-based fill on Treasure Island, although some fill would be imported to raise the ground level in some portions of the island for protection against flooding and sea level rise (see EIR Chapter II, Project Description, p. II.74, and Section IV.N, Geology and Soils, p. IV.N.22).

The project sponsors have evaluated several approaches to geotechnical stabilization. The approach selected, described on EIR pp. II.73-II.75 and pp. IV.N.21-IV.N.22, requires improving the entire development area prior to construction of individual buildings to limit the potential for differential settlement. This approach is intended in part to avoid more expensive long-term maintenance costs. It instead requires considerable initial capital costs.

The overall financing structure for the Proposed Project had been a Redevelopment Plan that would use tax increment financing for infrastructure and affordable housing. Since the Draft EIR was published in July 2010, there has been discussion at the State level in Sacramento of eliminating redevelopment agencies as part of reducing the state’s budget shortfall. Because of uncertainties regarding the status of redevelopment agencies and redevelopment funding, the project sponsors are no longer considering financing infrastructure improvements as part of a Redevelopment Plan. Instead, financing for infrastructure is proposed to be obtained using an Infrastructure Financing District (“IFD”) mechanism rather than tax increment financing available with a Redevelopment Plan.

The initial capital costs of the Proposed Project would be paid for, in general, from three sources: private capital; bonds supported by incremental tax revenues generated solely by development within an Infrastructure Financing District or Districts; and bonds supported by a community
facilities district assessed solely on market-rate homes in the Project Area. Private capital and community facilities district assessments on market-rate homes are separate from financing under the IFD. Private capital has no taxpayer burden because the financial investment capital is from non-public parties. The use of IFD financing relies on incremental tax revenues generated within the district. The IFD financing
mechanism does not increase property taxes paid by individual property owners within a redevelopment project area or the city at-large.

The last source, the community facility district (“CFD”), would impose a tax assessment on property owners within the Project Area to pay for infrastructure and public improvements, including the geotechnical improvements. The CFD tax assessment secures the debt issued in order to finance the public improvements authorized within the district. The CFD tax assessment reflects the cost of the improvements constructed for the benefit of both the properties within the assessment district and the public at-large. Properties located outside of the district do not pay the assessment. Homeowners who choose to purchase a home in the area would have full knowledge of this assessment (see the response in Section 2.23.2, Economic Effects, below, for a brief discussion of how this assessment would be applied to existing residents and households in affordable units). The community facility district assessment appropriately asks residents within the assessment district to help pay (over a long time period) for the infrastructure from which they benefit. This mechanism avoids asking San Francisco taxpayers who own property outside the Project Area to contribute to infrastructure within the Project Area. Thus, implementation of the Proposed Project using these three sources for initial capital costs would not burden future generations of taxpayers throughout the City.

In summary, the Proposed Project is depending on two public financing mechanisms, an Infrastructure Financing District and a Community Facility District, both of which are paid for using tax proceeds generated from development within the Project Area. The infrastructure being proposed as part of the Project, however, would also benefit people who do not pay those taxes. For example, the Proposed Project’s construction would generate jobs, many of which would be targeted to San Franciscans; also, non-residents would be provided use of the new public open spaces.

Comment

Recommendation: ...

- The City should evaluate ground leases rather than title conveyance as a way to generate a sustainable revenue stream to support island amenities such as adequate transit and maintenance of open space and infrastructure resources. (Jennifer Clary, President, San Francisco Tomorrow) [38.14]
Response

The comment suggests that long-term ground leases would provide a long-term revenue stream to support project amenities. The project sponsors have indicated that the Proposed Project is economically viable if sufficient up-front capital is generated to support the public infrastructure construction (construction of public infrastructure would be one of the early construction activities of the Proposed Project), and if a sustainable source of revenues is generated to support long-term maintenance.

Fee title transfers convey ownership of a particular piece of property with all of its property rights, whereas a ground lease is a rental interest where the land is retained by the original owner and use of the land is subject to the conditions of the lease. Generally, people are willing to pay more to own something outright than to rent it. In addition, development of ground leased parcels is significantly more difficult to finance, and has become increasingly so in the current economic environment. Because of these constraints, fee-title transfers are the most feasible way to solve both the short-term and long-term financial requirements of the project. In the short term, fee-title transfers of market rate lots create a source of capital that can be used to fund both construction of public infrastructure and other associated public benefits, such as affordable housing, transit, parks, and open space. Over the long term, the higher prices paid for condominiums built on fee-title ownership sites result in more property taxes being paid, which in turn sustain long-term island maintenance, including the support of the transit system. The Infrastructure Financing District funding mechanism enables the Proposed Project to capture such property tax increments for the short-term and long-term financial needs of the Islands.

Ground leases, in contrast, would not provide adequate short-term financial benefits or long-term maintenance funding. In the short term, a typical ground lease would generate very little money to support infrastructure construction since leases pay small amounts of money every year rather than a large sale payment. It is possible that ground leases could be pre-paid in order to turn this annual stream of payments into an upfront source of capital. This approach to financing would provide more limited amounts of capital than selling property, and lending institutions would require the borrower to maintain a much higher stake in property to be leased in comparison to for-sale property; as a result, less up-front financing is available for leased property than for-sale property, which in turn results in less up-front money, lower property values, and lower property tax revenues. Because property on leased land has a lower value, such upfront capitalizing of a ground lease provides less total dollars than an outright sale. These upfront financing structures would also mean that there would be no long-term ground lease revenues to pay for operating costs, defeating the aim of the commentor’s proposal. Therefore, over the long-term, property on leased land has a lower value (since the land is being borrowed, not owned) and therefore generates less tax proceeds on both a short- and long-term basis.


2.23.2 ECONOMIC EFFECTS

Comments

Finally, although economic impacts are generally not evaluated in an environmental impact report (as here), this Project should include a thorough analysis of funding sources to determine if the Project can remain revenue neutral. The analysis should review the relocation of residents if they would not be able to afford the rental rates. Prior to the decision-making process, it is important to know: 1) if San Francisco residents will be burdened by the costs and 2) if affordable rates can be guaranteed for TI/YBI residents. The rate structure may limit the ability of middle- to low-income residents to remain on TI/YBI. Once the rates are established, an analysis could be conducted for the Population and Housing sections, respectively. Until then, it is unknown if the rental rates are acceptable to support middle- to low-income residents.

The financial burden on qualified, affordable income residents, and the distorting demographic effect (such as on the Project’s and surrounding communities’ traffic, water supplies, habitats and wastewater systems) was not studied in the DEIR - i.e., it is unlikely they can afford to be burdened with any of the anticipated items, such as: (a) reclamation district assessments, (b) street and lighting district assessments, (c) parks district assessments, (d) sewer district assessments, (e) water district assessments, and (f) public transportation fees such as the ferry service (unless such is heavily subsidized). (Nick S. Rossi, Esq., representing Kenneth and Roseanna Masters) [19.32]

Qualified affordable renters benefiting from restricted affordable rents cannot (logically or lawfully), through the rent structure or any other assessment, be charged or otherwise burdened with the costs noted in subclauses (a) through (f), above. Thus, if the Project and its developer are not required to underwrite these costs at the time of implementation and for the life of the Project, then such costs and burdens will necessarily fall to the property owners and the San Francisco taxpayers; the Project’s developers will have made the profit and left the burden to those who remain. They will make their money under the guise of creating a civic asset for the benefit of all San Franciscans, while leaving the future costs to those supposed taxpayer beneficiaries and property owners. (Nick S. Rossi, Esq., representing Kenneth and Roseanna Masters) [19.35]

Response

The comment correctly states that direct economic impacts of a proposed project are not a subject addressed in an EIR. Economic and social effects are not considered significant environmental effects of a project (see State CEQA Guidelines Section 15131(a)). The EIR does discuss affordable housing in Section IV.C, Population and Housing.

The EIR describes a transition housing program for existing residents in EIR Chapter II, Project Description, on pp. II.28-II.29, and in Section IV.C on pp. IV.C.13-IV.C.14. The intent of this program is to avoid displacing existing residents who reside on the Islands as of the date the Disposition and Development Agreement (“DDA”) is approved and who continuously remain residents in good standing during project construction and development. As stated on EIR pp. IV.C.13-IV.C.14, “The new housing would be leased to the existing residents eligible for...
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transitional housing at a price no greater than their rent at the time of DDA approval, plus annual adjustments for inflation. Depending upon the income of the household, the housing may be leased at rents lower than the household’s rent at the time of DDA approval, plus annual adjustments for inflation.”

Treasure Island Development Authority ("TIDA") staff have held a series of community meetings to present an update of the Proposed Project, and to introduce the proposed transition housing program for existing residents of Treasure Island. In June 2010, TIDA staff released draft rules and regulations for transition housing for residents of the rental units of the Villages at Treasure Island. In December 2010, TIDA staff held a second series of community meetings to present changes to the transition housing rules and regulations. In January 2011, the Draft Transition Housing Rules and Regulations were published and presented to the Citizen's Advisory Board and TIDA Board for their comments. TIDA will not approve the program unless and until the EIR is certified and the Proposed Project is approved.

The comment expresses concern about the impacts of potential fees and other financing mechanisms on affordable housing. The affordable housing that is proposed as stand-alone housing to be developed by TIDA or designees (including the Treasure Island Homeless Development Initiative, which is expected to provide an expanded number of units affordable to very low income residents) would not be subject to the community facilities district ("CFD") assessments that are described above in the response in Subsection 2.23.1, Fiscal and Economic Effect of Geotechnical Stabilization. Inclusionary affordable housing that is constructed as part of buildings with market-rate housing would be subject to the CFD assessments. Those assessments would be taken into account, along with other costs, in determining the overall affordable rental or sales rate to be paid by the household; therefore, the total payment by a household determined eligible for affordable housing would not be increased because of the CFD assessments.

The comment lists a number of potential special districts that might be used for funding infrastructure, including reclamation districts, street and lighting districts, park districts, sewer assessment districts, and water districts. The Proposed Project does not propose to use these types of districts; see the response in Subsection 2.23.1, above for a brief discussion of the infrastructure funding that is proposed. San Francisco does not typically establish the types of special districts listed in the comment as funding mechanisms for infrastructure improvements, unlike most California cities and counties. Instead, an Infrastructure Financing District will be implemented. The funding mechanism and cost to property owners and San Francisco residents are discussed in the response in Subsection 2.23.1, above. Infrastructure in the City is constructed, operated and maintained by various City departments from property taxes and other sources of revenue in the City’s General Fund and from bond funds.
In conclusion, the mechanism(s) that might be used to finance the proposed infrastructure may have implications for who bears the cost of the infrastructure. The selection of a particular financing mechanism does not affect the infrastructure itself, nor does it affect the environmental impacts associated with construction or maintenance of that infrastructure. Therefore, the analysis of the Proposed Project’s potential impacts included in the EIR is not dependent on any particular financial structure.