Memorandum

To: **County of Sonoma**
Christel Querijero, Deputy County Administrator

From: **Kosmont Companies**
Joseph Dieguez, Senior Vice President

Date: March 14, 2025

RE: **Santa Rosa Enhanced Infrastructure Financing District**
Draft Infrastructure Financing Plan (IFP) Review and Comment

I. BACKGROUND

Kosmont Companies ("Kosmont") was tasked by the County of Sonoma ("County") to review the draft Infrastructure Financing Plan ("IFP") prepared at the direction of the Public Financing Authority ("PFA") of the City of Santa Rosa Downtown Enhanced Infrastructure Financing District (Downtown Business Corridor) ("EIFD").

The draft IFP will be presented to the PFA at a public meeting on April 2, 2025, with no action required to be taken by the PFA. County staff intends to separately present the draft IFP for initial review by the County Board of Supervisors on April 22, 2025, with no action required to be taken by the Board. The draft IFP may be modified until the first of two required PFA public hearings scheduled to occur on May 8, 2025. The final IFP would then be anticipated to be presented to Board of Supervisors for approval on June 3, 2025. Subject to County Board of Supervisors and City Council approval of the final IFP, the PFA would convene the final required PFA public hearing on June 26, 2025 to formally establish the EIFD.

While formal County feedback is not yet required by the EIFD statute (until May 8), it is generally helpful and productive to solicit feedback on the draft IFP as early as possible. Kosmont has reviewed the draft IFP and is categorizing our feedback into three main categories:

1. Projects eligible to be funded by the EIFD
2. Maximum tax increment exposure for the County
3. County General Fund fiscal impacts.

Overall, it is Kosmont's opinion that the draft IFP is consistent with the requirements in the EIFD statute, consistent with practices for other EIFDs across the state, fair with respect to City and County roles and impacts, and representative of a positive value proposition for the County General Fund (positive “return on investment”).

While there are no major “red flags”, Kosmont is suggesting County attention and consideration of revisions to several provisions of the IFP, listed immediately below and highlighted later in this memorandum:

a) **Prioritization framework**: County might consider language that prioritizes future allocations of EIFD revenue for projects within the eligible categories that meet certain conditions, such as projects that catalyze private sector investment or involve lower cost of capital (e.g., developer advances versus bonded indebtedness).
b) **City Council authority on project exploration:** As written, City Council directs the PFA on which specific projects should be explored for future funding to ultimately be approved by the PFA. This is not unprecedented, but the County should be aware of this City Council authority.
c) **Date-certain maximum EIFD lifetime**: County might consider a defined outside expiration date of the EIFD, beyond the slightly open-ended “45 years from bond issuance”, such as June 30, 2080 (earliest of these two options).

Kosmont has additionally suggested various “clean-up” revisions directly in the body of the draft IFP document in redline format, such as to require County Board of Supervisors’ approval to revise the approved EIFD project list and to enable the County to be reimbursed for certain administrative costs associated with the EIFD.

I. PROJECTS ELIGIBLE FOR FUNDING BY THE IFP

Section II of the draft IFP, including Table 2 on page 5 (pasted below for reference), describes the facilities to be financed by the EIFD.

Table 1: Prioritization of Public Capital Facilities and Affordable Housing Costs

Item	EIFD-Funded Improvements	Priority Program Project Percentages [1]	Estimated Cost
1	(a) Performing Arts/Sports Entertainment/Conference Center (b) Streetscaping Improvements (c) Placemaking Improvements	80%	$51,673,608
2	Affordable Housing	20%	$12,918,402
	Total	**100%**	$64,592,010

Note:
1. Revenue allocated to the EIFD will be used to fund the specified improvements according to the Priority Program Project Percentages above.

Kosmont would characterize this list of improvements as deliberately broad and flexible, which is consistent with practices of other EIFDs across the State. As Kosmont has shared with County staff and Supervisors in prior written and verbal communications, while some EIFDs have been very specific regarding targeted improvements, many other EIFDs with longer time horizons (e.g., 45+ years) have benefitted from flexibility, given the inherent nature of tax increment to need time to "ramp up" before there is significant revenue to expend.

If the County is comfortable with the categories of improvements in Table 2 and the additional descriptive language on pages 4-6 of the draft IFP (e.g., that affordable housing would be prioritized within or immediately adjacent to the EIFD boundary), then Kosmont is not suggesting any revisions to this Section. If the County would like to see certain types or characteristics of improvements explicitly prioritized in future years (e.g., projects that stimulate private sector investment, projects that leverage private sector advances versus bonded indebtedness), this type of language can be incorporated.

Importantly, this Section of the draft IFP includes the following provision: "Furthermore, all the improvements identified in Table 2 shall not receive funding until the City Council provides direction to the PFA to explore specific projects within these facility categories." This type of language is not unprecedented for EIFDs, given that the City is typically the entity that acquires public infrastructure improvements within City jurisdiction. However, the County should at least be aware that the City Council would be initiating the exploration and implementation of specific projects within the eligible categories. If the County is not comfortable with this approach, alternatives include (a) giving the County Board of Supervisors the same level of authorizing powers, or (b) removing this provision altogether, thereby allowing only the PFA itself to have such authorizing powers.

In any case, the PFA would ultimately have the decision-making authority to disburse funds for actual projects, so long as they are consistent with the eligible categories approved in the IFP.

II. MAXIMUM TAX INCREMENT EXPOSURE FOR THE COUNTY

As expected, based on prior County direction to the City and the PFA, the maximum portion of County incremental tax revenue allocation to the EIFD is **25%** of the County's share of (a) the 1% ad valorem ("AB8") property tax (County share is approximately 19.8 cents per dollar) and (b) the County share of residual revenues from the Redevelopment Property Tax Trust Fund ("RPTTF") each period after Successor Agency obligations are paid. This compares to the maximum City allocation of 50%, which additionally includes the City's share of incremental property tax in lieu of motor vehicle license fees ("MVLF"), which is not included for the County.

The maximum dollar amount of the County allocation is set at **$100 million** in the draft IFP. This compares to the City's maximum allocation of $200M. While the projections only estimate a total County allocation of approximately $30 million in actuality, it is typical practice to set a maximum at a much higher amount to provide security to potential future EIFD bondholders that there is sufficient "runway" to be repaid. For reference, the projected total City allocation is approximately $53 million.

The maximum duration of the City and County allocations of tax increment to the EIFD is **45 years from the first approval to issue debt** by the EIFD. While the draft IFP assumes for its projections that approval to issue debt will occur in 2025, Kosmont believes it is more likely that approval to issue debt will not occur until three to five years after the EIFD is formed, potentially 2028-2030. This would mean that the total duration of the City and County allocations of tax increment to the EIFD could be 48 to 50 years after formation.

While this timing is typical practice for EIFDs across the State, the County could also consider identifying a date-certain maximum duration, such as "…and in no case later than June 30, 2080" as an example. This is not required, but it is something Kosmont has incorporated for other EIFDs.

III. FISCAL IMPACT ANALYSIS AND COUNTY ALLOCATION

Fortunately, in terms of process, Kosmont has previously had the benefit of evaluating and providing written and verbal feedback to the County regarding the General Fund Fiscal Impact Analysis component of the draft IFP. Previous analysis led to the suggestion that the County allocation be reduced from 50% of County tax increment to 25% of County tax increment, which is the level now reflected in the draft IFP.

Kosmont still finds that there are some assumptions in the general fund fiscal impact analysis that could be considered aggressive and other assumptions that could be considered conservative, and these are noted for reference below. Overall, however, Kosmont agrees with the primary finding of the analysis that the County's participation in the EIFD at the 25% allocation level **supports a positive General Fund Fiscal Impact**, with sufficient "buffer" to account for future uncertainties.

The level of fiscal surplus seems to allow capacity for the County's existing policy of setting aside a portion of growth above budget assumptions for deferred infrastructure maintenance, while still supporting a County position as an economic development partner to the City. Overall, the terms of the City / County partnership in the draft IFP aligns with city / county EIFD partnerships elsewhere in the State (e.g., in the Counties of Los Angeles, Orange, and San Joaquin).

For reference only, examples of assumptions in the fiscal impact analysis that could be considered aggressive:

a) Static representation of county revenues and expenditures: As County revenues and expenditures are shown at buildout and stabilization of new development within the EIFD boundary, this point-in-time representation of the revenue/expenditure profile essentially assumes equivalent annual growth / escalation rates for County revenues and expenditures. A more conservative approach could assume all or some categories of County expenditures growing at a faster rate than County revenues.
b) County expenditure categories and discounts in Attachment 1-B: This is an area where there is much room for subjectivity. Discounts are meant to represent economies of scales and acknowledgement that certain costs are not 100% variable (i.e., some costs are fixed). Ultimately, the County's Chief Financial Officer would need to be satisfied with the treatment of the different categories. As an example, Kosmont observed an assumption that Sheriff's Office costs are 100% allocated to unincorporated jurisdiction and thus not showing an increased cost as a result of future development within the EIFD. Kosmont often finds that there are services provided by a sheriff's office, such as detention services, that also apply in incorporated jurisdictions, and so we would expect that a minority share of this relatively larger expenditure category would still apply.
c) General government expenditures are estimated as a share of non-general government expenditures, which is typical. However, general government expenditures are discounted at 25% beyond the discounts already applied to the non-general government categories (i.e., discount on top of discount).

For reference only, examples of assumptions in the fiscal impact analysis that could be considered conservative:

a) Low valuations assumed at $200,000 per unit and $225 per non-residential square feet: These seem to be based on existing averages, which usually do not accurately represent new development valuations.
b) Fiscal revenues focus only on property tax and a small amount of new investment income (not including other potential revenues, such as court fines, public safety sales tax, etc.).
c) Property tax in-lieu of motor vehicle license fees (MVLF) does not seem to be evaluated, which would accrue to the benefit of the County General Fund, since these revenues are not proposed to be allocated to the EIFD.
d) Similarly to how Kosmont could point out that some of the County expenditures are being too highly discounted (to acknowledge fixed costs), arguments can be made that other categories could be more highly discounted.