Resolution of Intention to Form an

Enhanced Infrastructure Financing District (EIFD)

Presentation Overview:

- Introduction of Kosmont Companies
- EIFD Background
- Santa Cruz, Boundary Map & Analysis
- Key Takeaways & Next Steps

March 25th, 2025

Enhanced Infrastructure Financing District (EIFD)

Kosmont Companies

Joseph Dieguez – Senior Vice President

- Kosmont companies is an industry leader in economic development and real estate advisory services.
- City of Santa Cruz Economic Development & Housing Department contracted with Kosmont to assist with financial analysis.

CITY OF SANTA CRUZ

Enhanced Infrastructure Financing District (EIFD) Analysis Summary

Consideration of EIFD Resolution of Intention
March 25, 2025

Prepared by:
Kosmont Companies

Background

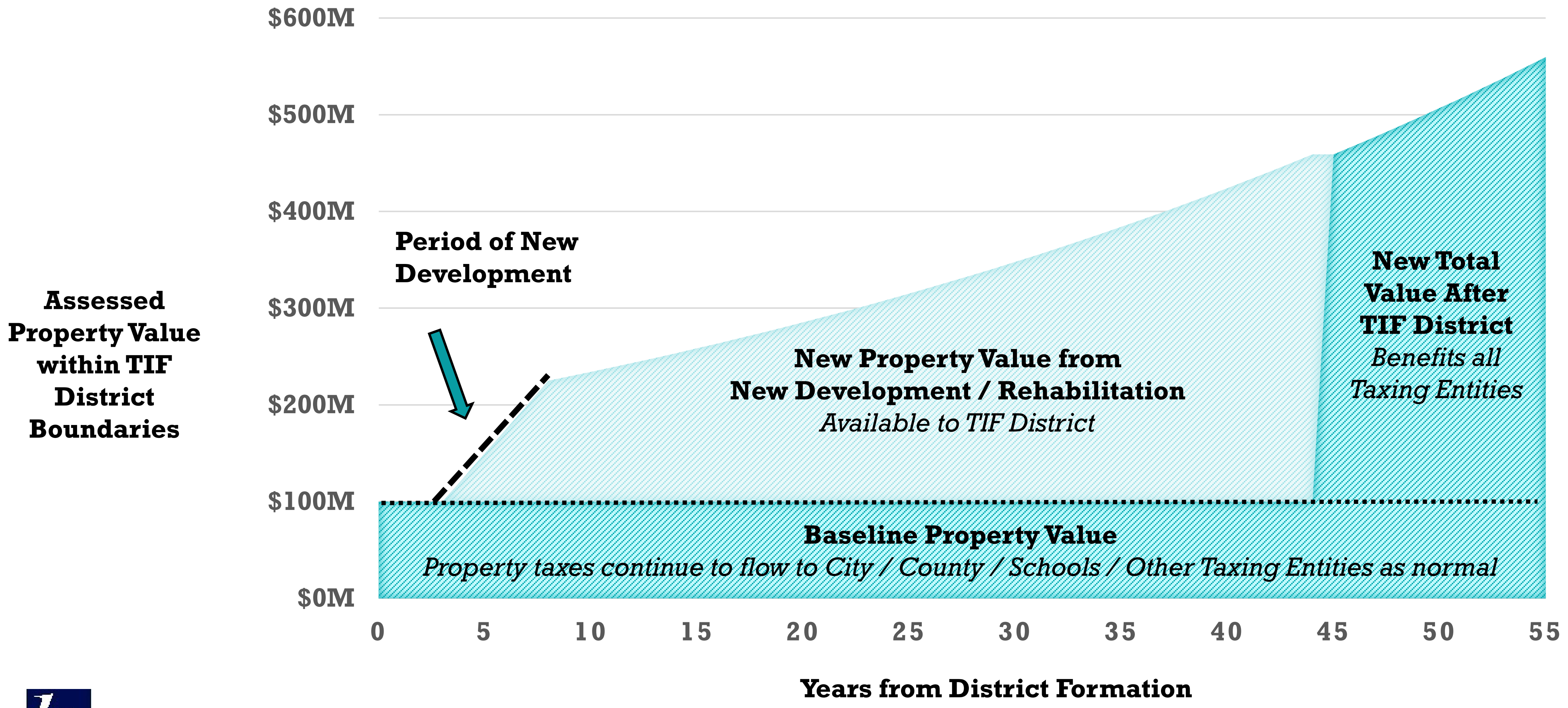
- The City of Santa Cruz Economic Development Department has evaluated the use of financing districts such as an Enhanced Infrastructure Financing District (EIFD) to capture value from potential new development (e.g., Downtown Plan Expansion) to fund critical infrastructure and community investment priorities without increasing taxes

- Detailed analysis and outreach to date supports the viability of an EIFD to spur private sector investment and deliver positive "return on investment" for the City

- The first action to initiate formation of an EIFD is Council consideration of a non-binding Resolution of Intention (ROI)

- Potential next steps include preparation of an Infrastructure Financing Plan (IFP) and required public notices, meetings, and hearings, including future City Council approval

What is Tax Increment Financing (TIF) – Not a New Tax



Note: Illustrative.

EIFD Fundamentals

Long Term Districts	45 years from first bond issuance
Governance	Public Financing Authority (PFA) implements Infrastructure Financing Plan (IFP)
Approvals	Mandatory public hearings for formation with protest opportunity

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Types of Projects EIFD Can Fund
Partial List

Storm / Flood / Public Facilities

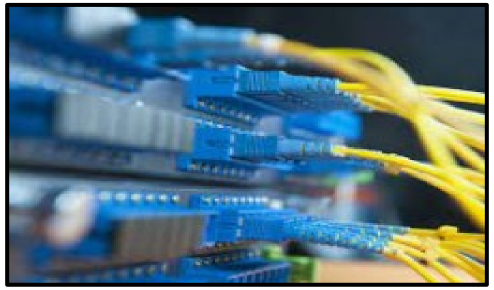
Roadway / Parking / Transit

Parks / Open Space / Recreation

Libraries & Childcare Facilities

Brownfield Remediation

Affordable Housing



Broadband

Wildfire Prevention / Other Climate Change Response

Small Business / Nonprofit Facilities

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Why are Public Agencies Authorizing Financing Districts?

1. Return on Investment: Private sector investment induced by district commitment accelerates growth of net fiscal revenues, job creation, housing production, essential infrastructure improvements

2. Ability to attract additional funds / other public money ("OPM") – tax increment from other entities (county, special districts), federal / state grants / loans (e.g., for transit-oriented development, water, housing, parks, remediation)

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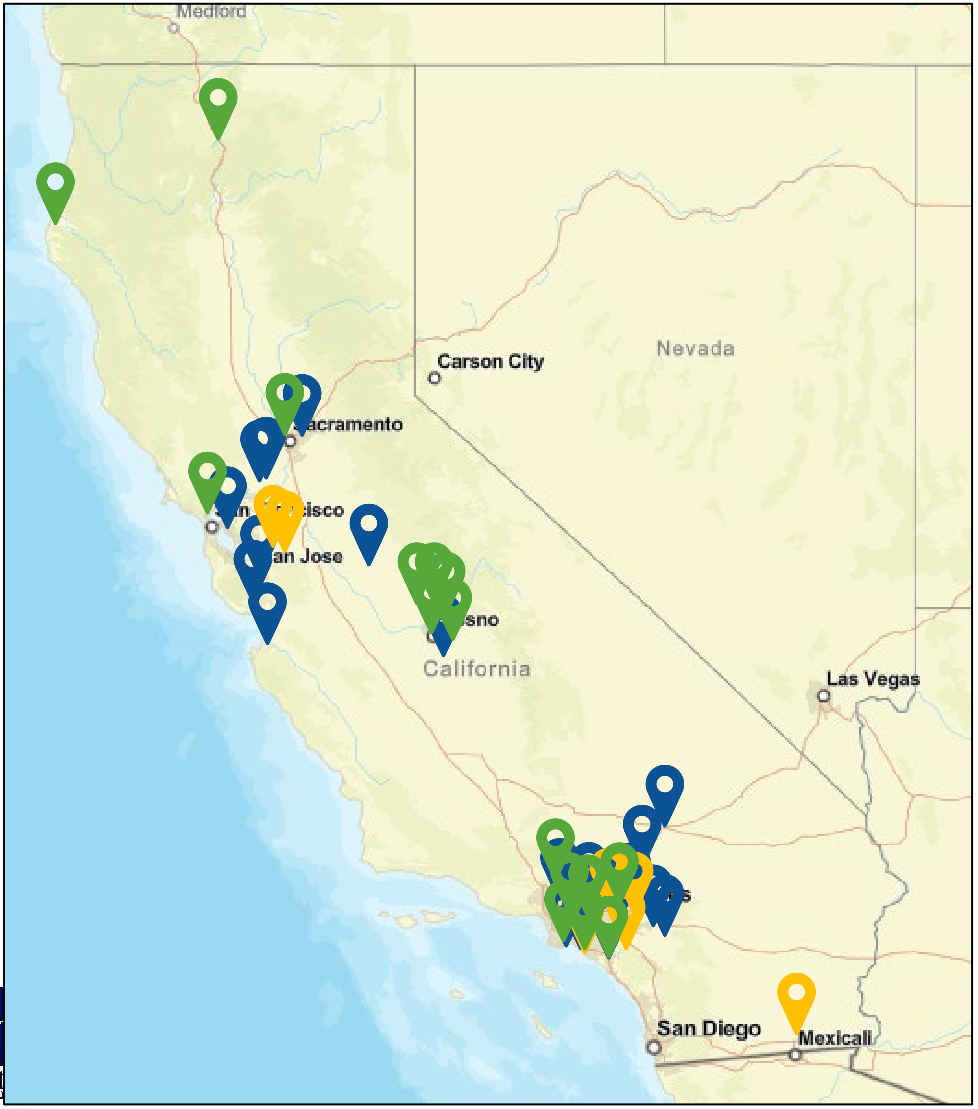
TIF Districts in Progress Statewide

(Partial List)

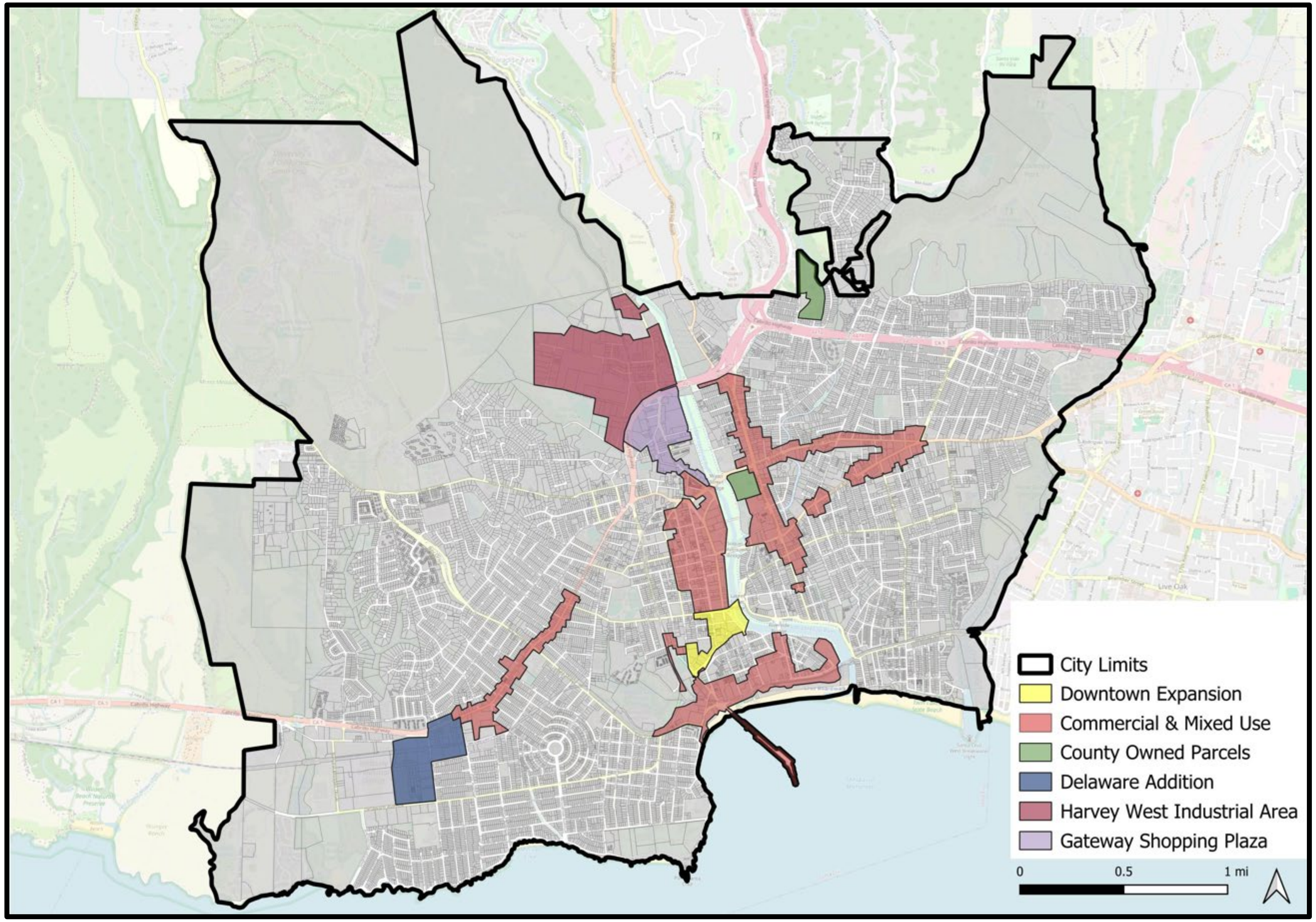


Jurisdiction	Purpose
Apple Valley	Industrial and housing supportive infrastructure
Banning	Downtown revitalization, industrial infrastructure
Barstow	Industrial and housing supportive infrastructure
Brentwood	Housing, employment, and transit-supportive infrastructure
Buena Park	Mall reimagination, housing-supportive infrastructure
Carson + L.A. County	Remediation, affordable housing, recreation
Citrus Heights	Mall reimagination
Covina	Downtown housing and blended use supportive infrastructure
Fairfield	Downtown, housing, and transit-supportive infrastructure
Fresno	Downtown, housing and transit-supportive infrastructure
Fresno County	Industrial and commercial supportive infrastructure
Humboldt County	Coastal mixed-use and energy supportive infrastructure
Indian Wells	Housing and tourism-supportive infrastructure
Imperial County	Industrial, renewable energy, and housing and infrastructure
La Verne + L.A. County	Housing and transit-supportive infrastructure
Long Beach	Economic empowerment and affordable housing
Los Angeles (Downtown, San Pedro, other)	Affordable housing and transit-supportive infrastructure
Los Angeles County Uninc. West Carson	Housing / bio-science / tech infrastructure
Madera County (3 Districts)	Water, sewer, roads and other housing infrastructure
Modesto + Stanislaus County	Downtown, housing, and recreation infrastructure
Mount Shasta	Rural brownfield mixed-use infrastructure
Napa	Downtown, housing, tourism supportive infrastructure
Oakland	Affordable housing and infrastructure
Ontario	Industrial and housing infrastructure
Palmdale + L.A. County	Housing and commercial infrastructure
Pittsburg	Housing, commercial, and tech park infrastructure
Placentia + Orange County	Housing and TOD infrastructure
Rancho Cucamonga	Blended use and connectivity infrastructure
Redlands	Education related and blended use infrastructure
Redondo Beach + L.A. County	Parks / open space, recreation infrastructure
Riverside	Affordable housing and infrastructure
Sacramento County (Unincorporated)	Industrial / commercial supportive infrastructure
San Jose	Affordable housing and TOD infrastructure
Sanger	Housing and commercial supportive infrastructure
Santa Cruz	Downtown and blended use infrastructure
Santa Fe Springs	Blended use infrastructure
Selma	Water, sewer, and other housing supportive infrastructure
Vacaville	Housing and business park infrastructure
Yucaipa	Housing and commercial infrastructure

Fully Formed | **In Formation Process** | **Under Evaluation**

Potential Enhanced Infrastructure Financing District (EIFD) Boundary

Downtown + Mixed-Use Corridors + County-owned Opportunity Sites



- Approx. 543 acres (~5% of City-wide acreage)
- Approx. $1.9B in existing assessed value (~15% of City-wide A/V)

All six subareas proposed for inclusion

Source: City of Santa Cruz; Santa Cruz County Auditor-Controller (2025)

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Example Potential Community Investments to Receive EIFD Funding

a) Affordable housing

b) Housing-supportive infrastructure Downtown (e.g., utility capacity enhancement)

c) Housing-supportive infrastructure along other key corridors within the City (e.g., Soquel, Mission, Ocean)

d) Library improvements

e) Recreational and entertainment infrastructure and facilities

f) Infrastructure to support recreational and entertainment facilities Downtown

g) Riverwalk improvements

h) Roadway / sidewalk / streetscape improvements (e.g., street realignment)

i) Other public amenities (e.g., parks, public plazas, pedestrian infrastructure)

j) Climate resilience investments Citywide (e.g., sea-level rise, flood control)

EIFD Revenue and Bonding Capacity Scenarios

EIFD Revenue Allocation Scenario	Year 5 Accumulated Revenue + Bonding Capacity*	Year 10 Accumulated Revenue + Bonding Capacity*	50-Year Present-Value @ 3% Discount Rate	50-Year Nominal Total
A) City 25%	$6,306,000	$16,295,000	$44,684,000	$108,424,000
B) City 50%	$13,256,000	$33,234,000	$89,367,000	$216,847,000
C) City 75%	$20,206,000	$50,174,000	$134,051,000	$325,271,000

City allocation includes allocation from both AB8 + MVLF in-lieu.
** Bonding capacity assumes Year 5 is first bond issuance for EIFD. "Year 5 means fifth year of revenue following district formation. Net proceeds shown. Bondable revenue assumes $25,000 admin charge, 150% debt service coverage. 6.5% interest rate; 30-year term. Proceeds net of 2% underwriter's discount, estimated reserve fund (maximum annual debt service), costs of issuance estimated at $350,000.Source: Kosmont Financial Services (KFS), registered municipal advisor.*

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Public Agency and Community Return on Investment
Net of Public Agency Financing District Participation

- Housing: **3,100+ units**, including **600+ affordable units**
- Revitalized Downtown Plan Expansion Area, connectivity between neighborhoods, public realm amenities, quality of life
- <u>Job creation, wages:</u>
  - **20,400+ temporary construction-related jobs*** in City and County, ~**$1.5B** related new wage income
  - **Approx. 779 permanent jobs** in the City and County, related **~$41M** in new annual wage income
- <u>Acceleration of development and related fiscal revenues:</u>
  - **$54 million** in present value **fiscal benefit** for <u>CITY</u> general fund over 50 years, net of tax increment contribution to TIF district and net of estimated fiscal expenditures (50% City TIF allocation scenario)
  - **$18 million** in present value new sales tax funding for Metropolitan Transit District
  - **$9 million** in present value new sales tax funding for Santa Cruz Public Libraries
- **Attract other funding**

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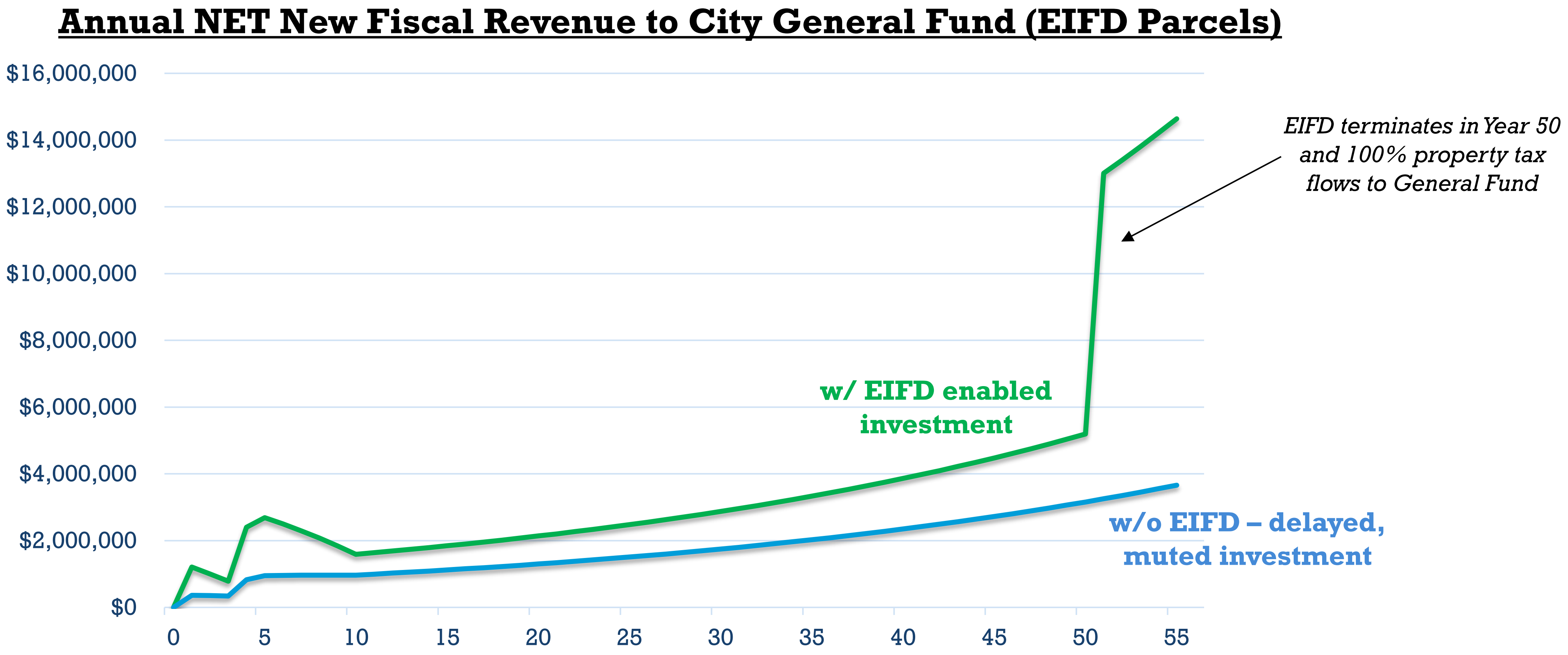
* Construction job-years, where one job-year is defined as one year of employment for one individual

Fiscal Return on Investment for City of Santa Cruz

Net Fiscal Impact – EIFD (50% Scenario) vs. "Do-Nothing" Scenario



- **$54M** in <u>cumulative</u> net fiscal benefit to City over 50 years (present-value discounted at 3%), further improves drastically after year 50

Potential EIFD Formation Schedule

Target Date	Task
Q3 2024 – Q1 2025	a) Discussion among City staff and Council, County staff and Board of Supervisors, other stakeholders b) Determination of boundaries, projects, governing Public Financing Authority (PFA) Board makeup
March 2025	c) City Council considers Resolution of Intention (ROI) to form EIFD and establish PFA Board
April 2025	d) PFA directs the preparation of draft Infrastructure Financing Plan (IFP)
May 2025	e) Distribute draft IFP to property owners, affected taxing entities, City Council, planning commission
June 2025	f) PFA holds an initial public meeting to present the draft IFP to the public and property owners
August 2025	g) City Council considers resolution approving IFP and tax increment revenue allocation
Aug / Sept 2025	h) PFA holds first public hearing to hear additional comments and take action to modify or reject IFP
October 2025	i) PFA holds second public hearing to consider oral and written protests and take action to terminate proceedings or adopt IFP and form the district by resolution

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Key Takeaways

- Not a new tax
- EIFD revenue comes from new development and growth of property values
- Revenues must be used for public improvements and community amenities
- EIFD formation requires a transparent, public process

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Next Steps

- Address questions and receive feedback from City Council
- City Council consideration of non-binding Resolution of Intention (ROI)
- Appoint EIFD Public Financing Authority (PFA) members
- Staff and consultants to prepare draft Infrastructure Financing Plan (IFP) for future City Council and public consideration

THANK YOU

Questions?

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Staff Recommendation:

1) Adopt a resolution declaring intention to establish the Santa Cruz Enhanced Infrastructure Financing District (EIFD) and establishing the Santa Cruz EIFD Public Financing Authority (PFA);

2) Appoint three members of the City Council to the Public Financing Authority Board, and appoint one member of the City Council as alternate Board member;

3) Authorize the City Manager, or designee, to execute a contract amendment with Kosmont & Associates, Inc. dba, Kosmont Companies, in an amount not to exceed $53,154, with the total contract amount not to exceed $150,000, for supporting the implementation phase of the EIFD; and

4) Adopt a resolution amending the Fiscal Year 2025 budget to appropriate funds in the amount of $54,000 for the implementation phase of the EIFD.

Disclaimer

The high-level analyses, projections, assumptions, rates of return, and any examples presented herein are for illustrative purposes and are not a guarantee of actual and/or future results. Project pro forma and tax analyses are projections only. Actual results may differ from those expressed in this analysis.

Discussions or descriptions of potential financial tools that may be available to the Client and public agencies are included for informational purposes only and are not intended to be to be "advice" within the context of this Analysis.

Municipal Advisory activities are conducted through Kosmont Companies' affiliate, Kosmont Financial Services, which is Registered as a Municipal Advisor with the SEC and MSRB.

APPENDIX

Mechanics of TIF / EIFD

Private property investment or new development

Increased property tax revenue from new property value

Deposited in separate EIFD fund

Funds pay for public improvements

Future Development Assumptions

Absorption Assumed over ~10+ Years

Area	# SF or Units	Estimated AV Factor	Estimated Total AV at Buildout
Residential (Rental)	2,382 units	$500K per unit	$1.191 billion
Residential (For Sale)	79 units	$900K per unit	$71 million
Residential (Affordable)	675 units	Tax-exempt	$0
Hotel	401 rooms	$500K per room	$201 million
Commercial / Retail / Office	75,115 SF	$375 PSF	$28 million
Industrial / Flex	126,445 SF	$200 PSF	$25 million
Total New Development Assumed within EIFD Study Area			**$1.516 billion**

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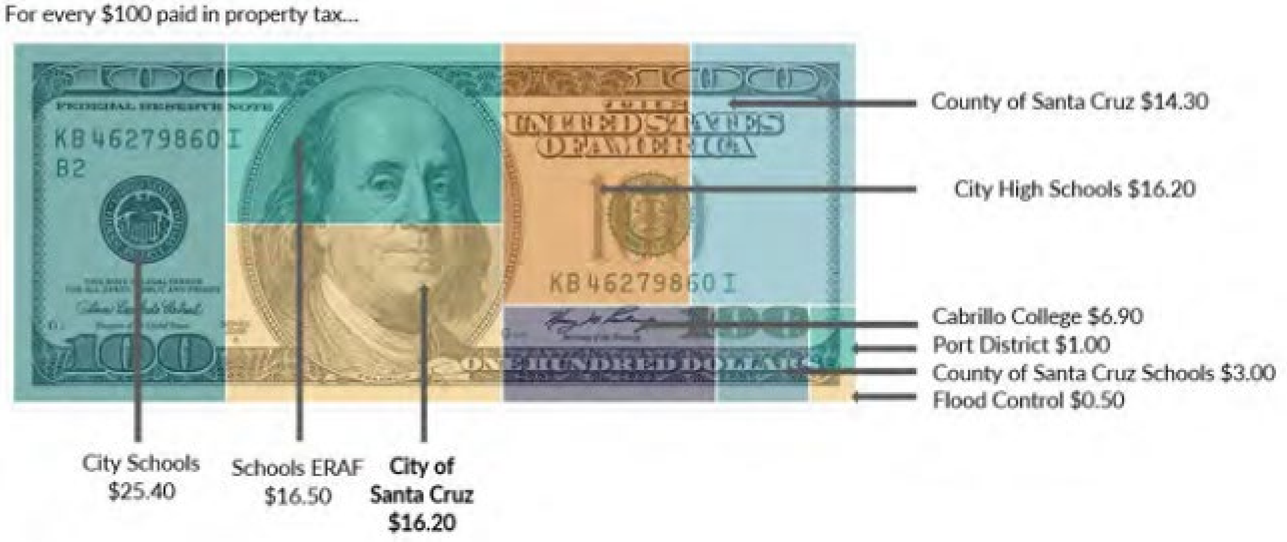
Note: AV at buildout values in current 2025 dollars
Sources: Discussion with City staff; CoStar (2024-2025)

Property Tax Revenues Available to EIFD

- Primary non-school recipients and potential contributors of property tax are **City of Santa Cruz** and **County of Santa Cruz**
- City share varies by area and averages ~**16% each** of every $1 collected in property taxes within the EIFD Study Area
  - City additionally receives equivalent of ~**6%** of property tax in lieu of MVLF, also available to EIFD
- County General Fund share varies by area and averages ~**14%**
  - County additionally receives property tax in lieu of MVLF, also available to EIFD, but not incorporated into this analysis to be conservative
- School-related entities <u>cannot</u> participate

<u>Sample Property Tax Distribution</u>



As counties tend to rely more heavily on property tax revenue sources generated by new development within incorporated jurisdictions, it is Kosmont's experience that it is not reasonable to assume allocation of property tax in lieu of MVLF by the County. As cities benefit from additional non-property tax revenue sources (e.g., sales tax, transient occupancy tax) from new development, it is Kosmont's experience that it is reasonable for cities to consider contributing property tax in lieu of MVLF.
Tax Rate Area (TRA) weighted average distributions for EIFD Study Area shown. Post-ERAF (Education Revenue Augmentation Fund) distribution.
Parcels within former Redevelopment Agency Project Areas are subject to RPTTF revenue flow until expiration of ROPS obligations.
Source: Santa Cruz County Auditor Controller (2025); City of Santa Cruz FY24 Budget

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Estimated Fiscal Impacts
Net of City 50% EIFD Allocation

	Annual Stabilized	Year 0-50 Present Value @ 3.0%	Year 0-50 Nominal Total
City of Santa Cruz			
Estimated Fiscal Revenues (Net of EIFD Allocation)	$22,113,800	$549,782,500	$1,371,548,100
Estimated Fiscal Expenditures	($20,257,000)	($495,886,800)	($1,247,203,000)
Estimated Net Fiscal Impact to City	**$1,856,800**	**$53,895,700**	**$124,345,100**

Note: Assumes 10 to 20-year absorption and 50-year financing district duration. Assumes installation of necessary public infrastructure.

Source: Kosmont Companies (2025)

Financing Districts work better with a Multi-Agency Partnership & Attract Other Funding

- Ideal strategy includes City and County partnership
- District which involve a City / County joint effort are more likely to win state grant funding sources
- Districts explicitly increase scoring for CA state housing grants (e.g., IIG, AHSC, TCC)

Other Public Sources

- *Cap-and-Trade / HCD grant & loan programs (AHSC, IIG,TCC,CERF)*
- *Prop 68 parks & open space grants*
- *Prop 1 water/sewer funds*
- *Caltrans ATP / HSIP grants*
- *Federal EDA / DOT / EPA funding*
- *Federal ARPA, Invest Act, IIJ Act*

Other Private Sources

- *Development Agreement / impact fees*
- *Benefit assessments (e.g., contribution from CFD)*
- *Statewide Community Infrastructure Program (SCIP) pooled financing*
- *Private investment*

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